State of New Jersey

Department of the Treasury

For Immediate Release:
April 6, 2009

For Information Contact:
Tom Vincz
(609) 633-6565

Treasurer Rousseau Addresses Senate Budget and Appropriations Committee on FY 2010 Budget

TRENTON – State Treasurer David Rousseau delivered the following remarks on the FY 2010 State Budget to the Senate Budget and Appropriations Committee today.

Testimony of State Treasurer
David Rousseau
Senate Budget and Appropriations Committee
April 6, 2009

Madame Chair. Distinguished members of the Senate Budget and Appropriations Committee.

Good afternoon.

I am joined today by Charlene Holzbaur, the Director of the Office of Management and Budget, and key members of Treasury Department staff.

Four weeks ago, Governor Corzine delivered his budget message for FY 2010 and today marks the beginning of the next significant step in the journey of a state budget.

The budget can be described in many different ways.

If you look the word up in Webster's dictionary, you'll find that "budget" is a noun, a verb and an adjective.

It's referred to as a "financial plan" or a "fiscal blueprint."

One word commonly associated with a budget is "balance."

Within the document, you will find account "balances."

And fundamentally, the budget is a "balance sheet" (and a pretty thick one).

When we fill in this balance sheet, we make statements far beyond the simple basic entries of revenues and expenses.

Our entries reflect values, and the choices we make to uphold these values through fiscal policy.

Never in New Jersey history has it been more challenging to balance the needs of our state with the financial resources available to us.

The global economic crisis has spawned an imposing decline in State revenues, which requires us in FY 10 to reduce our year-to-year appropriations by $3.4 billion, or over ten percent. For context, that amount is nearly six times greater than the $600 million year-to-year reduction from FY 08 to FY 09, which – until now -- was the largest decrease of its kind in State history.

With tax dollars at such a premium, we absolutely have to make sure we can fund New Jersey's most fundamental needs. And although the state is swamped by the same economic tsunami sweeping through our nation and our world, the Governor has found the high ground.

His plan does the right thing by putting core needs of working families at the top of the budget priority list. This budget provides education and health care for children; maintains public safety; protects those hit hardest by the economy; and continues the commitment to providing the greatest level of property tax relief to New Jerseyans.

In order to meet those core needs, we had to meet head on the daunting challenge of closing a $7 billion shortfall for FY 10.

The $7 billion shortfall represents the difference between base revenues of $28.5 billion – which is the same amount of revenue in the FY 06 budget – the year before Jon Corzine became Governor – and a baseline budget of about $35.5 billion.

We believe we took the right approach to closing this shortfall because $4 billion – or more than one half – of our solutions are in the form of spending cuts.

There are 2,400 line items in the budget. We made reductions to or eliminated about 850 of them. That's more than one third of the items.

During this administration we have resized state government.

We have eliminated two departments.

We have 4,200 fewer employees in state government and nearly 3,000 fewer in state authorities.

We are achieving more than $420 million in savings through a combination of a proposed salary freeze and proposed employee furloughs.

We cut the operational costs of State government by more than $380 million.

We're cutting expenses by closing office leases, renegotiating contracts and suspending purchases.

We are doing a better and more cost efficient job of sharing services and supplies.

We're cutting the size of the motor pool, cutting up gas credit cards, buying less and purchasing smarter.

We are shaving utility costs with greener technology and conservation, and avoiding expenses by refurbishing and redeploying furniture, computers and phones.

With far less revenues available to support spending, we have no choice but to spend less.

Cutting spending doesn't sit well with people and organizations that depend on our financial support, but we believe we've made the right choices to spread the sacrifice fairly, while also funding priorities sufficiently.

We did not take a meat axe to this budget. We took a scalpel to make sure core priorities are maintained.

With more than one-half of the shortfall offset by cuts, New Jersey has received well-timed and valued help from President Obama and the members of Congress who voted for the federal recovery act. We have leveraged the benefit of approximately $2.2 billion in federal funding to provide budget relief.

About one-half of these funds are going into classrooms in New Jersey. Most of the remaining funds are being applied to help New Jersey meet its funding needs for children and at-risk populations through the safety net programs in Medicaid.

The cutting of about $4 billion in spending and the assistance from the federal government brought us to within $1 billion of balancing the budget.

As the gap narrowed, so too did our reasonable options.

We cut right to the tipping point – where further reductions would have undermined our commitment to funding the right needs of our citizens. Only after reaching that point did we entertain the thought of raising additional revenues to get to the finish line.

The revenues we proposed are largely targeted and temporary. They serve as a bridge to help New Jersey maintain balance as the economy recovers and revenues normalize.

The one-year increase in the top income tax rate affects only the wealthiest one percent of New Jersey taxpayers.

The one-year suspension of the property tax deduction for households with income over $150,000 helps us to further close the gap, while at the same time preserving the deduction next year for more than 86 percent of all tax filers.

Our revenue solutions and cuts, however, still do not give us the discretion to assign absolutes to all funding priorities. It's a balancing act to fund even the most critically important policy goals, and we've made it clear to all stakeholders in the budget that bringing fiscal stability to our finances requires a sharing of the burden.

For example, we've asked Medicaid participants for a $2 prescription co-pay, capped at $10 per month, to help the state offset a sizable budget expenses. At the same time, we're not seeking to eliminate member eligibility for these medicines.

We're not able to fund the homestead rebate program at last year's funding levels – when we had $4 billion more in recurring revenues at our disposal. At the same time, we're keeping large homestead rebate checks in the hands of two thirds of the working families who received them last year and all senior citizens. As well, we're fully funding and expanding the senior freeze program for added relief for middle-income seniors.

In total, nearly two million households will continue to receive rebates.

Legendary football coach Tom Landry once commented that "setting a goal is not the main thing. It's deciding how you will go about achieving it and staying with that plan." In budgeting, as in the game of football, how we go about funding our priorities, and sticking to our Xs and Os, involves a whole new layer of tough choices. But by making these choices, we do the right thing, which is to get the greatest mileage possible out of the resources available to us for the priorities most important for New Jersey.

To a large extent, our game-plan options have been pre-set….and our budgeting choices already made for us, making a complex balancing job all the more difficult to execute.

The budget proposal before you contains $29.8 billion in revenues and $29.8 billion in expenditures. But as we describe how both sides of the balance sheet would unfold in the fiscal year ahead, we are mindful of how past decisions have shaped today's choices.

We continue to make cash payments into the pension system, and with the FY 10 appropriation, this administration will have contributed $3.4 billion into the system through its first four budgets. That's greater than the amount contributed over the previous 14 years combined.

We can't turn back the clock, but we can wonder aloud: how much less pressure would we be facing in a year like this had past administrations made regular contributions to the pension system.

Debt service remains a large component of appropriations for FY 10, totaling $2.9 billion. A large chunk of this cost – nearly $400 million -- is to meet obligations for the 1997 pension bond and the cigarette and motor vehicle deficit bonds from 2004.

We can't turn back the clock but we can wonder aloud: How much easier it would be to retain critical services to vulnerable residents, education and public safety if we did not have that bill to pay in this budget, and if we did not have to allot about $1.4 billion over the last four years for this purpose.

Much discussion has surfaced over the $150 million payment we are making to the Unemployment Insurance Fund to avoid the triggering of a $350 million increase in employer contribution rates this summer. While we can't avoid some increase – like we were able to do last year with a $270 million cash infusion, we can wonder aloud:

How much more flexibility we would have if the UI fund balance had not been drawn down by $5 billion over the last 20 years, and this administration had about $400 million more in resources to use for today's priorities.

When we turn the clock back, we take note that many of these decisions were made in times when the economy was flourishing, jobs were growing and revenues were strong.

So, while we don't know all the thinking behind these past decisions, we do know they resulted more from fiscal expediency than from the kind of financial emergency that faces us today.

The Governor has made it clear that we are doing many things in this budget that he would not have done in other circumstances.

However, our actions come at a time of growing unemployment, decreasing tax revenues and general economic instability. These decisions come as our state and our nation face the most severe economic downturn since the Great Depression. And, they come because citizens expect us to carefully balance the responsibility to budget prudently AND to govern compassionately during these times.

I will also emphasize that our actions come after we spent three years rebuilding a fiscal foundation. Over this time, we reduced reliance on one-time revenues by 96 percent as compared to earlier this decade, enacted a no-tax budget that contained the largest year to year reduction in spending in state history, and made historic investments in our educational system and property tax relief.

Wall Street has commended our efforts to date, and our approach to balancing the budget in these historically difficult times. After reviewing our financials, S and P has re-affirmed our bond rating and stable outlook. In its just-released rating report, S&P said "it expects that the state will continue to pro actively manage its budget to offset declining revenues during a difficult economic environment. While the state's debt burden is above average, it has leveled off in recent years."

Despite this fiscal emergency, and in fact because of it, we are undeterred and resolute to building upon our efforts to relieve the property tax burden in New Jersey.

More than half of the budget, inclusive of federal stimulus, is in the form of relief to property tax payers.

Over the past month there has been much debate on the reductions made to select property tax relief programs, yet very little mention about the programs that have been preserved and have actually increased in this budget.

The bottom line is that taxpayers, who have gotten a level of property tax relief unrivaled by any previous administration, will continue to get welcomed relief from the FY 10 budget.

The largest property tax relief program we have is provided through the 35 percent of the budget that supports K-12 education and offsets what would otherwise be raised through local taxes.

This budget increases direct aid to schools by over $300 million and does not reduce aid to any district like many States have proposed.

This increase in aid follows the nearly $600 million increase in aid in the current year that limited the overall increase in school tax levies to 2.65 percent - the lowest in over a decade. This increase in aid was also one of the reasons why the average local property tax bill grew by only 3.7 percent in 2008. This again is the lowest increase in a decade.

We are mindful that 55 percent of the local property tax bill is used to support schools and in many working class suburban areas, the percentage can reach 70 percent.

Every dollar we add through the state budget is one less dollar that needs to be raised at the local level, shielding senior citizens and working families from the impact from school taxes.

Although we could not maintain municipal aid at the current levels we were able to minimize the overall reduction and substantially minimized the reduction in those areas least able to absorb it.

The actions necessary to solve the $7 billion shortfall did require some temporary adjustments to the direct property tax relief programs. However, the funding that remains is targeted at those homeowners that need the relief the most – senior citizens on fixed incomes and working families.

Let me repeat again – Nearly two million households will continue to receive rebates this year.

Over the four years of this Administration, more than $7 billion will have been provided in direct property tax relief. This is 40 percent more than the previous four years and more than double the amount under the Whitman/DiFrancesco administration.

Senior citizens with incomes below $100,000 will continue to receive an average homestead rebate check of nearly $1,300. Those eligible for the senior freeze will receive, on average, another $1,300. This is a total of $2,600 for these two programs alone. Adding the benefit for the property tax deduction or the veterans' deduction can bring this total easily over $3,000.

During the four years of this administration, a senior with a taxable income of $50,000 will have received nearly $9,000 in rebates and senior freeze benefits. For comparison purposes, this is more than double the $4,000 benefit from these programs during the 2002 to 2005 period, and around four times the amount received during the 1998 to 2001 period.

Over 500,000 non-senior homeowners will continue to receive rebates of as much as $1,400 with the average rebate of around $800. If we look back to the beginning of this decade the average rebate for non-seniors was less than $250.

During the four years of this Administration, a non-senior homeowner with income of $50,000 will have received over $3,100 in rebates. This amount is 70 percent greater than the $1,800 that same homeowner received from 2002 to 2005 and almost four times the amount provided from 1998 to 2001.

Even for a homeowner with an income of $75,000 who will receive a temporary reduction in rebates for the current year, the amount received over the last four years will still be nearly $3,100; substantially more than the amount provide during previous four year periods and nearly four times the amount received in the 1998 to 2001 period.

Finally, for the homeowner with an income of $100,000 who will temporarily lose a rebate this year, the homeowner still will have received nearly $2,000. That's more than the previous four years and more than double the amount received from 1998 to 2001.

The bottom line is that property tax relief has been and continues to be a priority for this administration. The reforms enacted with the Legislature have finally brought property tax growth under control and direct relief has further enabled our citizens to better manage these costs.

Let me repeat again. Last year we limited the overall growth in property taxes to 3.7 percent – the lowest increase in nearly a decade.

Like any family struggling to make ends meet in the worst economic downturn in 70 years, the State is meeting its priorities by making the right choices for working families in New Jersey. We're tightening our belt, bringing in extra revenue and tapping some emergency reserves to balance our budget. It's hard, but it's our constitutional obligation, and we know how much more difficult it would be had we not progressively reduced our recurring expenses over the first three years of this administration and met the challenge of reducing our structural problem.

We were also the first state to respond – in October – to this economic downturn with an economic recovery and assistance plan of our own.

Through policies to create and retain jobs, reward businesses that invest and expand, and improve the tax climate for business, we've laid a tremendous foundation for New Jersey's strong economic recovery.

In his budget address, the Governor outlined even more actions we can take to strengthen our economy, including expanding the urban transit hubs, RADs and brownfield site remediation.

Because of those right choices, when the global and national economies turn, as they inevitably will, New Jersey will be in a better position than its neighbors and competitors. The end result will be what we all seek: even greater prosperity for our great state.

Before I move on to taking your questions, I would like to take a few moments to comment on the revenue estimates that David Rosen provided you this morning.

First, let me say that I have the utmost respect for David and his staff and during this period of economic upheaval the OLS staff and I have continued a dialogue on the State revenue picture. This dialogue has been part of the relationship that has developed between OLS and the Treasurer's office over the past eight years and I hope that cooperative dialogue continues even after I have left Treasury.

As David pointed out, OLS had an additional six weeks of revenue data to examine as they prepared their estimates. The OLS now projects that the State could have $600 million less in revenue than the amount projected in the Governor's budget message. Statistically that represents approximately one percent of the total revenue over the two year period – a relatively unremarkable difference from a statistical point of view but clearly an impact on the budget if the estimates become a reality.

For reference the $605 million is actually less of a difference then the $625 million difference in FY 2008.

More than half of the difference is reflected in the most volatile of our taxes – the income tax and the corporate business tax. And the majority of that difference is in the current year estimates for these taxes.

When I come back before you at the end of May we will know the actual numbers for these taxes and we will have a better idea on the state of the economy.

If the collection data and the economic forecast warrant a reduction in our revenue estimates be assured that just like last year when we adjusted our revenues downward we will do so again. I can guarantee you that this Administration will not ignore the information presented by the professionals in the Department of Treasury and the OLS.

This Administration continues to work to find every dollar of savings we can and we will not shirk away from our responsibility to provide additional recommendations to balance the FY 09 and FY 10 budgets if further revenue reductions are warranted.

Thank you.

I would be happy to respond to questions from the committee at this time.

##