

REPUBLICAN RESPONSE TO THE FY 2010 BUDGET

Introduction

Republican members of the Senate and General Assembly cannot support Senate Bill No. 2010 and Assembly Bill No.4100, the state budget being sent to Governor Jon S. Corzine. This budget grossly understates actual spending while overstating the state's fiscal health. It is more comparable to the balance sheets of Enron, than an honest budget of a fiscally-sound organization.

This plan falls far short of alleviating the state's current fiscal problems and just continues the unsustainable spending and misplaced priorities of the past seven years. Not only does it raise taxes by more than \$1 billion, it places the state on course for more increases in the future. Democrats have already increased more than 100 taxes since taking control of Trenton.

Finally, this budget does nothing to address unemployment, economic growth, or property taxes, which continue to be the highest in the nation. This budget only places the state on the brink of bankruptcy. Consider that the following issues that remain unaddressed:

- More than \$10 billion of federal funds, including \$2.5 billion from the one-time federal bailout are used to accommodate current year spending, with no plans for future years when these funds run out.
- The Unemployment Compensation Fund will end FY 2010 with an expected \$1.6 billion deficit and no plan for solvency.
- The School Development Authority will proceed with school construction projects despite the lack of resources to repay the debt.
- The state's retirement systems are underfunded by billions of dollars and are on course for insolvency.
- The Transportation Trust Fund Authority will soon have no money to leverage additional capacity. Debt payments have been back-loaded, tying up necessary resources for years into the future.
- Miscellaneous authorities, including the Turnpike Authority, are being used to assume payment of state expenses. Tolls and other fees have been increased to pay for costs previously assumed by the State.

As in past years, Republicans have proposed budget savings – nearly \$800 million this year. Recommendations include substantially reducing the politicized and discredited Special Municipal Aid Program, reforming procurement by eliminating the overuse of nonpublic bidding, requiring Abbott districts to contribute toward their own school construction projects, and many other proposals – some even supported by Democrats who are being ignored by their own leaders.

More important than yearly budget savings is the need for reform. To avoid financial collapse, we must impose structural change that will bring about sound budgeting practices. The governor and the Legislature must be willing to impose reform that will grow the economy and expand our tax base. These changes will also bring transparency to government and its budget process so the public can finally participate and be empowered to offer constructive ideas for improvement.

A. STRUCTURAL BUDGET AND GOVERNMENTAL REFORMS

Fiscal responsibility has taken a backseat to the preservation of political power. Governor Corzine and his fellow Democrats just won't cut spending as deeply and as broadly as they should. A May 17 *Courier News* editorial observed: "Instead, they continue to reach for a variety of 'creative' maneuvers to close deficits and cover shortfalls, preserving favored programs and protecting constituencies who can vote them into another four years of power in November."

This budget reuses just about every gimmick that placed New Jersey in this poor financial situation, only with increased recklessness. It uses one-time revenues at record levels, diverts dedicated funds from multiple accounts, skips pension payments, postpones debt service payments, and pushes school aid payments into the next fiscal year. It even adds a new gimmick by skipping a 3.5 percent pay raise for employees this year, which has locked the state into a 7 percent pay raise next year.

The state's penchant for recycling poor fiscal policy can only be broken by empowering people and giving taxpayers the ability to put constraints on how their hard-earned money is spent. That is why we want to submit to the voters a series of amendments to the state Constitution. These amendments would require the budget to accurately reflect all state spending, limit recurring spending to recurring revenue, cap state budget growth to the rate of inflation and require either a two-thirds vote of the Legislature or voter approval to raise or create new taxes.

We have supported these reforms for years. We hoped the monumental financial challenges confronting state government this year would have convinced Governor Corzine and the Democrats to at least give these proposals the hearing they deserve. Much to our dismay, reform went ignored. As the *Courier News* editorial stated, "Republicans have been offering ideas for years but because they're Republicans they're automatically wrong in Democrats' eyes. And so practical proposals are dismissed."

The irresponsible spending of the Democrats will continue without the following structural changes:

1. Constitutional amendment to require all state spending be accurately reflected in the state budget

Nearly one-third of state spending occurs outside of what is traditionally thought of as the state budget, such as federal funds, including the one-time stimulus, and dedicated revenue such as the motor vehicle fees that fund the Motor Vehicle Services Commission.

2. Constitutional amendment to require state spending to match recurring revenue

This constitutional amendment, sponsored by Sen. Steven V. Oroho and Assemblymen Richard Merkt and Gary Chiusano, would impose constraints on a governor's budget proposal to improve management of the state's finances. The amendment would prohibit the budget message from including a request for aggregate spending in an amount exceeding a certified estimate of recurring revenue. This proposal was set forth in Governor Corzine's Executive Order No. 103, which he suspended less than a year after signing it.

3. Legislation requiring bills with fiscal impact to identify offsetting funding

This legislation, sponsored by Assembly members Declan O'Scanlon, Alex DeCroce, Caroline Casagrande and 11 others, would establish a "pay-as-you-go" requirement. Any bill having a fiscal impact would have to identify sufficient reductions in spending elsewhere or increased revenue to offset the costs added by the legislation.

4. Constitutional amendment to establish a two-year budget process for better planning

A two-year budget cycle would allow for more strategic planning towards the effort in balancing the state's needs with its ability to pay for them. The current process does very little to encourage long-range, planning. A two-year process would not only allow for longer-term planning, but also allow for a careful performance evaluation of programs and agencies. Currently 23 states utilize some level of biennial budgeting.

5. Constitutional amendment to establish elected, independent State Auditor

An elected State Auditor would be an independent officer overseeing the systematic, efficient and coordinated oversight of the financial and programmatic functions of the state and its political subdivisions. The current structures of the State Auditor and the Inspector General have not allowed either to perform independently. The powers and duties of the State Comptroller, the Inspector General and the State Auditor would be consolidated within the new State Auditor's office.

6. Reforming procurement to provide more competition and fewer bidding exemptions

About 40 percent of the state purchasing contracts are granted without publically advertizing bids. Most recently, the contract allowing for a \$2 billion line of credit was awarded without public advertisement. About 90 percent of the amount spent by the state Attorney General's office on state contracts is accomplished outside of the public bidding process - a \$29-million contract for Motorola Communications to upgrade equipment, for example. Greater competition and fewer waiver contracts would save taxpayers money and restore public confidence in government.

7. Suspend civil service work rules for more efficient use of state labor force

To provide necessary services with a smaller workforce, department heads must have flexibility to assign staff based on need as if they were running a business. For example, business groups recently questioned the need to hire additional employees to handle the increased workload associated with unemployment claims instead of reassigning existing underutilized employees.

8. Suspend state hiring freeze for federally-funded positions

Existing state employees should be moved into vacant federally-funded positions if they have the necessary skills.

9. Permit the involuntary furlough of state employees as an alternative to layoffs

The emergency rules adopted by the Civil Service Commission, now scheduled to be repealed by Governor Corzine, must be codified so governors may have more flexibility to manage the state's workforce.

10. Strengthen the state spending cap and eliminate most cap exclusions

The spending cap only applies to increases in the direct state services portion of the budget, which accounts for just \$6 billion of the amount appropriated in the budget. The cap needs to be expanded to all spending except for programs that provide tax relief. In addition, the increase in state spending should be tied to the rate of inflation and population growth, or 4 percent, whichever is less.

11. Merge the departments of Community Affairs and State and consolidate similar programs spread throughout state government

The departments should be consolidated because they each oversee a myriad of community-oriented grant programs. The Secretary of State, as a constitutional officer, would be in charge of the combined department.

12. Require the budget to identify where the school funding falls short of the formula

Governor Corzine touts his new school funding formula as one that helps all children and communities equally, but does not mention that the budget will underfund the formula. Virtually every school district in the state is receiving less than what the one-year-old formula requires. For transparency and honesty with the public, governors must be required to acknowledge where the budget does not follow the statutory formula. Legislation is being drafted that would require the governor, as part of every budget, to identify underfunding by district and on a per-student basis. This requirement would put additional pressure on a governor to honor the statutory formula approved by the courts.

13. Universal and immediate ban on dual-office holding

Dual-office holding continues to pose obvious conflicts such as a legislator who sits on a budget committee while serving as mayor of a municipality that receives large grants from one of the state's aid programs that provides funding for cities, without oversight or objective criteria.

B. REFORMING THE PROCESS FOR IMPOSING TAXES AND ISSUING DEBT

Over the past seven years, more than 100 taxes and fees have been raised or implemented with little public debate. Many of these taxes have been destructive, contributing to the high rates of unemployment and increased cost-of-living in New Jersey. The process by which taxes are increased should be changed to foster significant public debate and consensus about these important public policy decisions.

Additionally, the state has frequently issued debt in a manner that calls for little or no repayment in early years followed by tremendous increases in the future. This practice allows politicians to spend far more today than future generations can afford to repay.

To slow the imposition of taxes and debt that have long-term implications, Republicans propose:

1. A constitutional amendment to require voter approval for increases to broad-based income, gas or sales taxes.
2. A constitutional amendment to require a two-thirds vote of the Legislature for any other tax or fee increase.
3. Rules for the issuance and restructuring of state debt and debt service payments

Governor Corzine has routinely issued debt while pushing back repayment for as long as 20 years in certain cases such as funding for transportation projects. This back-loaded debt is similar to the home mortgages that collapsed the financial industry. Most recently, as part of this budget, Governor Corzine has proposed restructuring current debt so that he can skip a more than \$400 million debt service payment in the coming fiscal year in return for making much higher payments for the next 30 years.

C. EMPLOYEE BENEFIT REFORM

The recent bankruptcies of General Motors and Chrysler have brought attention to the fiscal realities surrounding legacy costs and employee benefits. New Jersey has some similarities with these failing companies. When General Motors experienced a declining sales base, it was required by its collective bargaining agreement to operate plants at 80 percent capacity and pay health and retirement benefits to any laid-off auto worker.

If New Jersey were a business, it would be on the verge of bankruptcy. Yet recent negotiations with state employee bargaining units resulted in more benefits for unions and less flexibility for the state in managing its workforce and labor costs. The following structural reforms need to be implemented:

1. Require additional cost-sharing of employees enrolled in the State Health Benefits Program. Base cost-share on a percentage of health benefit costs as opposed to percentage of salary.
2. Return the retirement calculation for future employees from years of service divided by 55 to years of service divided by 60.
3. Raise the minimum salary for pension eligibility to \$15,000 to eliminate pension benefits for part-time employees.
4. Eliminate the Sick Leave Injury program, which provides full pay for state workers instead of the 70 percent offered from workers' compensation. New Jersey is one of only four states that provide a sick leave at full wages in addition to workers' compensation.
5. Reform tuition reimbursement policy so that state workers can only recoup tuition costs for classes directly related to their jobs. Reimbursement should be limited to the amount it would cost at Rutgers University. Employees who receive tuition reimbursement should be required to remain in state service for at least two years.

D. ECONOMIC DEVELOPMENT REFORMS

New Jersey will never have a stable revenue base to support its budget and appropriate services without expanding the number of businesses and jobs in the state . An economic growth agenda is a fundamental component of putting our finances on a path to recovery.

National surveys have shown that New Jersey – due to its high taxes and stifling regulatory climate – is one of the least desirable states in the nation for businesses.

However, Democrats have increased spending by \$11 billion and more than doubled the state’s debt to \$38 billion since taking control of state government. In a desperate but unsuccessful attempt to finance their spending spree, the last three Democratic governors increased 104 taxes. They raised the income sales, corporate business, and realty transfer taxes. They raised taxes on health insurance, hotels and tires. They created new taxes on gyms, parking and surgery. And they tried to hide countless other tax increases by raising “user fees” on tolls, motor vehicle fees and business filing fees. All of these acts took money from businesses and the consumer.

This year, Governor Corzine and the Democrats are again raising taxes. They want to raise the state income tax to 10.75 percent for those with taxable income more than \$1 million. For taxable income between \$500,000 and \$1 million, the rate will rise to 10.25 percent, and a new marginal rate will be established for taxable income between \$400,000 and \$500,000. In addition, there are proposals to increase the tax on health maintenance organizations (HMOs) and the insurance premium tax.

Democrats have also placed additional regulatory burdens on businesses. Hundreds of new rules have been created through the rule-making process. They imposed additional health insurance mandates and reporting requirements. They created a paid leave requirement. They even established a perverse and prohibitively expensive subsidized housing requirement which punishes municipalities that add business.

Earlier this year, New Jersey’s jobless rate surpassed the national average. Through April 2009, it has experienced 15 consecutive months with private-sector job loss. The national recession is not the only culprit; high taxes and excessive red tape under Democratic control are costing us jobs and revenue. As a result, unemployment rates are worse here than in surrounding states, including New York, Pennsylvania, Delaware, and Connecticut.

A 2009 study conducted by the American Legislative Exchange Council ranks New Jersey 48th in terms of our economic outlook largely because of tax policy and high business costs. Our state’s tax policies also put us at the bottom of The Tax Foundation’s 2009 Business Tax Climate Index and the Small Business and Entrepreneurship Council’s Business Tax Index of 2008.

Republicans understand that access to good-paying jobs is vital for New Jersey residents, and a sound economy and healthy budget. To generate essential economic growth, Republicans propose to:

1. Support uniform reductions in income and corporate tax rates

The income and business tax rates in New Jersey are among the highest in the nation and are damaging the economy by causing high-income earners to migrate from, or avoid, New Jersey. Those who claim cuts in income tax and business tax rates are not possible, fail to understand that it is precisely these high rates that contribute to New Jersey's ailing economy and state budget woes. If New Jersey is going to change its earned reputation as one of the worst places in the country to operate a business, these taxes will have to be reduced. Republicans believe the cuts they have offered should be embraced and that the savings should provide at least a minimal decrease in taxes to signal our intent to provide further cuts as our economy and financial situation recovers.

2. Business growth and stabilization

When the state awards an incentive for a business to locate in New Jersey, an agreement should be signed that allows the business to operate for 10 to 15 years under the regulations in place at the time the incentive is awarded, unless regulations are repealed or amended, to make it easier to do business in New Jersey.

3. Suspend mandates, such as Paid Family Leave, which hamstring businesses.

4. Promote Economic Development

Legislation sponsored by Sen. Tom Kean would establish various programs for sustainable growth and enhanced revenue by providing technical and other assistance to small and large businesses, women- and minority-owned businesses and manufacturers.

It would also establish: an Office of Economic Research within the Economic Development Authority (EDA) to encourage better planning for the state's economic development programs, an Internet-based New Jersey network so that businesses can list goods and services that are available from in-state companies, manufacturing resource centers at institutions of higher education, an export trade assistance section in EDA, a program for regional development partnerships, a program to help take technology from concept to practical application, a revamped and better integrated tourism program, and a program for the development of "boutique" agriculture for the production of specialty agriculture products, which could be produced year-round.

5. Consolidate economic recovery zones and business benefit programs into the EDA.
6. Affordable housing reform

One of the regulatory structures most damaging to our economy is the state's attempt to require municipalities to build affordable housing. Policies in place actually penalize towns that create jobs by forcing extraordinarily expensive and community-altering subsidized housing developments into their neighborhoods. The requirement perversely forces communities that are creating jobs, to add hundreds, if not thousands, of new subsidized housing whether they want it or not. The policy actually punishes job creation. Many municipalities find the prospect of destroying open space and paying for subsidized housing so onerous that they quietly refuse to pursue corporate expansions in their communities.

E. TRANSPARENCY REFORMS

Governor Corzine often challenges those who oppose his policies to come up with alternatives. Republicans consistently offer proposals, but the governor has made it difficult to obtain the information necessary to develop contrasting ideas.

Governor Corzine has been sued several times to force disclosure of public information. Early in his term, a private citizen (David Robinson) sued to obtain applications for grant funding pertaining to an unlawful slush fund. Members of the General Assembly were forced to litigate in order to obtain a report on Corzine's monetization plan that cost taxpayers \$800,000. Education advocates sued to obtain studies justifying the administration's new school funding formula. Members of the Senate went to court to obtain documents showing what funds the governor had impounded when revenues declined precipitously.

The lack of transparency was particularly striking during committee meetings to review the governor's budget proposal. Several of his departments appeared before budget committees without the facts supporting the governor's spending plan. Virtually every commissioner asked for more time to research the facts or was simply at a loss to explain how, why or by whom, a spending decision had been made.

For example, the decision to close 18 schools for profoundly disabled students was described as a policy decision rather than a spending decision even though it was reached without input or comment from parents or educators. The affordable-housing plan was developed and released without consultation with the Department of Environmental Protection (DEP) or other pertinent agencies. No explanation was provided in response to a special \$30 million appropriation to the University of Medicine and Dentistry other than "they need it." The administration could not explain how unwarranted higher education special line items had survived the governor's "scrubbing" process. When questioned about recent new hires and dramatic pay raises, commissioners responsible for the decisions could not explain them.

Finally, the Corzine administration forces the public to formally request and pay a high price to obtain documents and information that could easily be provided simply by making them available on the internet in a user-friendly format. More than a dozen states have accessible, user-friendly sources of information to track state revenues and expenditures. New Jersey is not one of them.

To afford the public the opportunity and their democratic right to be more involved in the decision-making of government, Republicans propose:

1. The Transparency in Government Act

This act, sponsored by Sen. Joseph Pennacchio, would create a single, searchable website for data and information on the state's annual revenues, expenditures and debt.

2. Strengthen the Open Public Records Act (OPRA) to make it clear that all publicly-funded studies and reports are public documents, increase public membership on the Government Records Council (GRC) and provide stricter punishments for noncompliance.

During the past three years, the power of OPRA has been eroded in several ways. The governor has repeatedly refused to turn over documents to the public even though these items were funded by taxpayers and contained information that would foster debate on public policy.

In addition to numerous important documents withheld from the public, the GRC – the agency that enforces OPRA - is controlled by department heads, many of whom lead agencies that have violated the spirit of the public records act themselves.

Legislation will be sought to substantially restrict government's ability to withhold so-called advisory documents. The legislation would require release of all publicly-funded studies, reports or other documents created by independent consultants. It would also limit GRC members to be private citizens.

F. BUDGET REDUCTIONS - \$783.2 Million

As in past years, Republicans have submitted a budget resolution calling for additional savings in the budget by equally spreading budget reductions among all segments of New Jersey. These savings, which target common sense efficiencies, fairer education funding and bidding reform, should be redirected to more pressing priorities.