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# At Issue

## NJ Unemployment Trust Fund Almost Broke from Diversions

**O**n March 31, the US government notified New Jersey that the balance in its Unemployment Insurance (UI) Trust Fund was insufficient to meet its unemployment claims and that employers' payroll taxes would rise automatically on July 1 to make up the shortfall. This is a prime example of the serious consequences of New Jersey's short-sighted budget policies.

The balance in the UI fund collapsed from a high of \$3.1 billion a few years ago to less than \$1 billion on March 31 thanks to the state's taking \$4.7 billion of UI fund revenues over 15 years to pay its other bills. With the fund currently paying out \$2.1 billion per year in jobless benefits, the balance is too low for the fund to remain solvent. Without a cash infusion, employers' UI taxes would have to be increased by at least \$350 million on July 1.

Fortunately, Governor Jon Corzine has stepped in. He immediately pledged to rescue the fund, proposing to pump \$260 million into the fund from a current-budget surplus. NJBIA supports legislation sponsored by Senator Barbara Buono, chairwoman of the Senate Budget and Appropriations Committee, to make this happen.

This is the right thing to do. Clearly, imposing a massive tax hike on employers in the middle of a serious economic downturn is not good public policy. When New Jersey is already losing jobs (10,500 private-sector jobs were lost in the first quarter), a UI fund that cannot meet its obligations to the unemployed is unacceptable.

If New Jersey's UI fund was working as originally intended, we would not be in this mess. Over the

years, employers have paid more than enough to cover unemployment benefit claims and still leave a big balance. The problem is that too few of those payments have actually made it into the UI fund. Over the past 15 years, Governors and legislators of both parties have diverted nearly \$5 billion in UI taxes to shore up the state budget. That's right; the UI fund could have a surplus of at least \$5 billion right now if the diversion had never taken place.

The diversion of UI funds to pay for other, unrelated state expenses has been a bipartisan affair going back to 1993. Ironically, Jon Corzine is the first Governor since 1993 not to approve UI fund diversions, but he's the one who's got to clean things up.

The UI fund crisis clearly illustrates the danger of state government's reliance on revenue diversions and other dubious tactics to solve budget problems that should have been addressed with spending cuts. The budget holes filled by the UI diversions should have been addressed by reducing the size and scope of government.

To his credit, Corzine has made a commitment to cut spending in the upcoming fiscal year and to enact a budget without most of the one-shot revenue gimmicks used in the past. Due to negotiated public-employee raises and other contractual or statutorily mandated set spending increases, the state must make \$2.7 billion in spending cuts in order to spend less in the coming fiscal year than it did in the past year.

To be sure, legislators have their own ideas about what the budget should look like. But it is critical that, whatever they choose to spend money on, they stay within the funding limits Corzine has outlined. To resort to the budget gimmicks of the past would simply compound the State's ongoing fiscal problems. ❧