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At Issue

Fiscal Responsibility Sweeps Trenton

Is a new wave of fiscal responsibility sweeping Trenton? Only time will tell for sure, but this spring, something rare has happened. The Governor and Legislature cut spending. They cut spending in real terms, not theoretical cuts to projected spending levels. This spring, the Governor proposed and the Legislature passed a state budget that appropriates \$32.9 billion in Fiscal Year 2009, an unprecedented \$600 million less than the \$33.5 billion budget enacted last year.

It represents a spending cut of 1.8 percent. That may not seem like much to private-sector businesses, where market conditions sometimes require very deep cuts to operational spending. But when it comes to state government, any reduction in spending is a big deal. In Trenton, spending usually goes up every year, often by a lot. In fact, this is only the fourth time in more than 50 years that spending has decreased. So measured against history, a cut of \$600 million is a big deal.

The fiscal restraint goes beyond just the spending level. The budget commits \$650 million to reducing the more than \$30 billion in outstanding state debt New Jersey still has. Normally, that money would have been used to increase spending. Legislators also voted to place before the voters in November a constitutional amendment to close a loophole that allowed the state to borrow billions in bonded debt without first getting voter approval.

Finally, the budget does not increase taxes. In fact, Corzine and the Legislature took swift legislative action to replenish an Unemployment Insurance (UI) fund that was running out of money, thereby avoiding an automatic \$350 million payroll tax on employers. Ironically, the trust fund was depleted because of years of fiscal irresponsibility by past administrations. Since 1993,

past Governors and Legislatures had diverted nearly \$5 billion in UI contributions as one-time gimmicks to balance their budgets. While Corzine is the first governor in recent memory not to divert UI contributions, he is nonetheless left with the fallout of the past policies.

Legislators also passed modest reductions to public employee benefits. They voted to increase the retirement age for newly hired workers to 62 from 60 and required that they make at least \$7,500 a year to join the state and teachers' pension systems (current law is \$1,500 and \$500 respectively). They also voted to eliminate the Lincoln's birthday paid holiday.

Certainly, there are major flaws in this budget. While legislators did not increase taxes, they did delay the phase-out of an energy tax. The "temporary" transitional energy facilities tax (TEFA) was supposed to be reduced in 2009 and eliminated at the end of 2010. Legislators extended it to 2014, which adds \$62 million to the budget revenue. And even as they were closing the voter-approval-for-debt loophole, they passed one more bond issue (\$3.9 billion for school construction) before it can take effect.

While we don't agree with all of the budget's priorities, all-in-all this is the most fiscally responsible budget to come out of the State House in a long time. The question is whether it's a real commitment to fixing New Jersey's deep financial problems, or just a one-year wonder. Already, next year's budget has a structural budget deficit of more than \$1 billion, and the pressures that push legislators to increase spending will be magnified, as the Governor and all 80 seats of the General Assembly will be up for election.

There is no question that New Jersey took a big step down the road to fiscal stability. Only time will tell how long the journey lasts. ❧