New Jersey Senate

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September 8, 2020

Stephen M. Sweeney
Senate President
935 Kings Highway, Suite 400
West Deptford, NJ 08086

Paul A. Sarlo
Chairman, Budget Committee
496 Columbia Blvd., 1st Floor
Wood-Ridge, NJ 07075

Dear Senate President Sweeney and Chairman Sarlo:

The Republican members of the Senate Budget and Appropriations Committee are submitting this letter as preliminary suggested changes to the Governor's proposed Fiscal Year 2021 State Budget. We reserve the right to share additional suggested changes throughout the budget process and request that the Senate President formally accept such changes and recognize them as he is authorized to do pursuant to Joint Rule 42 -- notwithstanding today's deadline for the submission of budget resolutions that was communicated less than two weeks ago.

The budget resolutions process and today's deadline for budget changes are as unreasonable and unacceptable as this year's budget process – the least transparent, fair, or reasonable process in more than a century. The process in place this year sends a clear message that at precisely the time transparency and thoughtful budgeting are needed most, the Governor and Democrat majority are pushing transparency, public participation, and alternative views to the side.

We worked with the Governor and Democrat Majority to extend the 2020 Fiscal Year by three months and give the Governor an extra 6 months (from February until August 25) to propose the FY 2021 budget -- as sought by the Governor. Despite being the only state in the country that changed its fiscal year and significantly delayed the Governor's responsibility to present a 2021 budget proposal, the Governor's FY 2021 budget proposal looked like a homework assignment thrown together at the last minute despite plenty of time to get the job done.

- The Governor submitted only a high-level budget summary less than two weeks ago, and his Department of Treasury failed to produce for public consumption (for the first time in memory) a complete user friendly proposal with supporting explanations, program information, and supporting appendices.

- There has been no full public accounting by the Administration for how more than $5 billion of federal COVID 19 funds that pass through the State Budget will be spent. The

Legislature is complicit in this debacle because the 2020 budget, through a single sentence, gave the executive branch the authority to spend the federal money the way it wants without any legislative oversight.

The Governor's failure to present a complete and transparent budget by August 25 has had ripple effects.

- The nonpartisan Office of Legislative Services (OLS) -- for the first time in as long as anyone can remember – is unable to produce department-by-department analysis. OLS has only recently begun submitting written questions to departments and responses will be so delayed as to be meaningless for the purpose of meaningfully vetting the proposed budget.
- Claiming there is no time, the Democratic Majority eliminated any opportunity for the public to address the Senate Budget Committee in an open public forum.
- In lieu of every commissioner and key authority head publicly appearing before the Senate Budget Committee to discuss their proposed budgets and answer tough questions (as has occurred for as long as anyone can remember), only the Commissioners of the Departments of Corrections, Education, and Labor will do so.
    - The Departments of Human Services, Health, and Children and Family Services that provide critical services (needed now more than ever) will not appear before the committee to explain their budgets and answer questions.
    - The Economic Development Authority which has been left without adequate funding and support to assist the business and nonprofit community struggling to survive shutdowns, will also not appear before the Senate Budget Committee.
    - The Department of Veteran's Affairs will not appear to discuss whether their proposed budget is adequate to address the failure to protect veterans in its care from COVID 19.
    - The higher education community -- whose finances have been ravaged by COVID 19 -- will not be having a discussion with the committee about related financial impacts and suggestions to address them.

Though the details of the Governor's budget proposal have only been sporadically shared behind closed doors and in a piecemeal fashion – we know the Governor's FY 2021 budget proposal is fundamentally and structurally broken.

- The revenue projections lack credibility. They remain based in large part on the same assumptions in a panicked and outdated May revenue forecast that predicted cataclysmic revenue losses – disproved by actual revenues collected though the end of August.
- It proposes no solutions to the reality that New York is increasingly imposing income taxes inappropriately on people who live in New Jersey and rarely, if ever, step foot in New York. This deprives the State of up to $1 billion in revenue while simultaneously forcing New Jersey residents to pay more in income taxes (due to New York's relatively higher rates) than they should.
- $4 billion of unnecessary deficit financing largely supports things unrelated to address COVID 19: a portion to fund an increase in pension prefunding contributions (pension bonds); a portion to fund what is referred to in Orwellian doublespeak as a "surplus"; and

a portion to fund massive new government programs and spending increases that are unrelated to COVID 19.

- Federal funds meant to help struggling businesses and nonprofits continue be hoarded, unaccounted for, and left out of reach from the businesses, nonprofits, and people who desperately need help.
- Taxes and fees are being increased by more than $1 billion while people and businesses are already struggling to make ends meet in a pandemic. On top of the dramatic payroll tax increase and health insurance tax already enacted or being implemented this year, the budget seeks to establish $1.024 billion of new destructive taxes and fees ($1.019 billion of tax and fee increases listed on page 25 of the budget summary and another $5 million increase on motor vehicle registrations fees tucked away on page 30.) These taxes and fees are not just on the wealthiest who already pay the highest taxes in the country. Despite the rhetoric, some of these taxes are incredibly regressive and fall hardest on middle and lower-income people. There are increases on businesses that will hurt employment. There are increases on HMOs that will make health care even more unaffordable. There are new taxes and fees on sportsmen and sportswomen. There is a massive tax increase on gas that will hit essential workers and businesses particularly hard, necessitated in large measure by the governor's executive actions keeping drivers off the roads and artificially reducing gas consumption. There is an enormous tax increase on smokers – perhaps the most regressive tax of all. And finally, adding insult to injury, motorists waiting in record lines and being exposed to COVID 19 risk at Motor Vehicle Agencies are being charged an extra $5 million in registration fees.
- Equally troubling, there are revenues and savings that this budget could have included, but that are gone forever, because we have a Governor who ignored our earlier calls in April for common sense action.
    - Furloughs could have been implemented for nonessential employees when they weren’t working anyway and they could have been structured such that federal benefits would have paid full unemployment benefits. Instead, delay and indecision resulted in far more limited furloughs being implemented only after employees were able to return to work as services finally started opening. It inconvenienced the public as MVC lines ran rampant and other pent-up service needs were delayed. And it will cost State taxpayers more because the federal government would not pay 100% of unemployment benefits.
    - Instead of holding firm with State employee union leaders and securing a true pay freeze while more than 1 million private sector employees lost their jobs and millions more saw reduced incomes, the Governor agreed to give 4% salary/step increases to State employees – even to nonessential employees who had been paid while unable to work for months. An additional 2% (cost of living adjustment) salary increase that would have been payable this year will merely be deferred and will double up cost of living adjustments in the future. We believe that most good, caring public employees would have accepted a true freeze to help their neighbors and friends.
    - The opportunity to gain revenue by thoughtfully reforming executive orders that closed businesses so they could more quickly and safely reopen is largely gone – though not entirely. Consider:
        - Main Street businesses were shuttered for months despite offering similar products as Walmart and Home Depot that were left open. Small business

customers were funneled into corporate competitors that became overly crowded despite the need to socially distance. Small business owners and their employees suffered through a lack of trust and guidance and because of slow reopenings permitted only by the Governor himself. Some businesses closed forever. Employees that lost their jobs were left stranded waiting for unemployment benefits that, in some cases, still hasn't arrived.

    - Restaurants and gyms were shuttered until last week. Science showed reasonable restrictions and measures could have allowed them to reopen more quickly -- like they did in Pennsylvania and other states without COVID 19 spikes.
    - Our neighbors of Pennsylvania and New York quickly distributed large amounts of federal funds to businesses and nonprofits to keep them viable and help them open safely. In comparison, Governor Murphy hoarded the money while business support programs went dry. He has yet to spend more than $400 million of a $2.4 billion block grant received 5 months ago.
  - In April, early in the local school budget process -- we urged the governor to save in excess of $100 million by capping aid increases to schools by 2% and retaining discretionary funding for schools whose aid was being cut. It made no sense for unsustainable dramatic increases towards ordinary programming to move forward and for disruptive decreases to take place during a crisis that was changing the educational paradigm. The Governor ignored that advice and directed schools to adopt budgets based on unsustainable promises of aid increases as high as 44%. The ability to restrain increases is now behind us as budgets were adopted and teachers were hired based on these on these promises.

This badly broken budget cannot be fixed with tinkering around the margins and a resolution here and there. That would be nothing more than moving deck chairs around the deck of the Titanic. So, for now, we offer the following fundamental overhaul. It is in lieu of submitting dozens of traditional budget resolutions that change this line item or that one -- a process that is as nonsensical and unrealistic as the Governor's proposed budget and this broken budget process.

In summary, the overhaul would:

- **Eliminate approximately $4 billion of deficit bonds and approximately $1 billion of destructive tax and fee increases.**
- **Fix a revenue forecast hopelessly mired in outdated and panicked doomsday assumptions that has been discredited and disproven by actual collections and clear trends.**
- **Require aggressive action to ensure taxes ceded to New York are kept right here in New Jersey.**
- **Require transparency, accountability, and quick use of more than $5 billion of federal CARES Act funds with proper oversight.**
- **Set aside $500 million of unspent federal CARES Act funds and $75 million of State funds for additional assistance to businesses, nonprofits, and governmental**

agencies. Funds would be set aside to help those that have suffered from COVID 19 closure orders, or whose service demands are needed more now than ever and have been underfunded in the proposed budget. The State funds would help address needs that cannot be funded with CARES Act funds, and would be focused on restoring penny wise-pound foolish reductions in the proposed budget for things like mental health services, colleges and university services, hospitals, and other services and service providers.

- **Establish a permanent tax incentive for additional contributions to NJ charitable organizations after October 1, 2020 which is sound public policy and will quickly assist a sector that New Jersey citizens need now more than ever.**
- **Establish a surplus bigger than the surplus proposed by the Governor in his original 2020 budget address. It would not be as big as the proposed FY 2021 budget… but it also wouldn't be a "fantasy" surplus built with deficit bonds.**

Revenue	
+$2 Billion	**Correct Discredited Forecast (Including and assumption of new deductibility of charitable contributions.)**
+$1 Billion	**Recapture NY Taxes on NJ Residents**
- $1.024 Billion	**No New Taxes or Fees**
-$4.00 Billion	**No Deficit Bonds**
Spending	
-$450 Million	**Eliminate Most New/Increased Non-COVID Spending**
-$600 Million	**Increase Spending on Pension Prefunding Only Enough to Maintain 70% Payment**
+75 Million	**Establish Funding to Restore Certain Reductions**
Language	
Neutral	**Language to End Unilateral Governor Ability to Spend Federal Funds without Oversight and Require $500 Million for Business and Nonprofit support.**
Closing Surplus	**$1.19 Billion**

PROPOSED CHANGES

1. **(+$2 Billion) Adjust the discredited and grossly pessimistic revenue forecast upward by $2 billion to recognize reality.**

A reasonable estimate after reviewing actual collections and trends, and informally consulting (on an unpaid basis and free of bias) with former State Treasurers and a former New Jersey Chief Economist, it is more than reasonable to believe sales tax revenue from existing taxes is approximately $600 million below the mark, and revenue from the current income tax is off by another $1.5 billion. If the extent to which the Governor's May forecast though the current date is any indication, the Governor's 2021 revenue may miss the mark by far more than that.

In May the Governor released a revenue forecast that claimed the state would lose $10 billion of revenue due to COVID 19 though the end of 2021. Actual revenue collections and clear trends have proven that revenue forecast grossly underestimated actual revenues in the three months that followed. It is likely the forecast overstated revenue losses by as much as $5 billion. The Treasurer only recently admitted that the revenue impact of COVID 19 overstated revenue losses through June 30, 2020. However, the revenue forecast for 2021 remains based largely on the same obviously unrealistic, and already disproved, doomsday assumptions embedded in the May forecast.

- Sales Tax - The Governor's May forecast assumed sales tax revenues would decline by more than 30% for the ensuing months and that collections would continue to be significantly depressed through 2021. Despite depressed collections for sales in April and May, actual monthly revenue collections from sales rebounded in June 2020 (received by the State in July) compared to the previous June -- declining by only 3% (1/10 the projected decline.)   Collections for sales in July 2020 (collected by the State in August) continued the trend and increased by almost 3% over the previous July.

  The extent to which the May forecast missed the mark was staggering. The economy has more fully opened than expected in the May forecast, and it continues to open more fully every day.

  Current trends in the sales tax are likely to be bolstered due to strong growth in home purchases – which generally triggers purchases of expensive taxable items associated with home furnishing and improvement.

  Notwithstanding clear real-time improvements and trends, the Administration's sales tax revenue forecast for 2021 continues to assume steep losses. In fact, it assumes a $200 million drop in collections from amounts collected **2 years ago --** in 2019. The Executive has provided no actual trend information to support such a doomsday forecast and there is every reason to believe sales tax collections -- barring a second wave of COVID 19 and another round of overly restrictive business closings -- will be somewhat similar to how 2020 sales taxes were tracking as of the February 2020 budget address. This would result in an approximately $600 million increased projection for 2021 sales tax collections.

- Income Tax – Similar to the Governor's botched May sales tax estimate the Governor's income tax forecast also assumed a doomsday scenario that isn't materializing. The income tax forecast was premised on more than 10% losses in future periodic income tax withholdings by employers and huge losses due to reductions in capital gains and a faltering stock market.

  The impact of COVID 19 on income tax withholdings have turned out to be far less severe than forecast, and the stock market has recovered much of its the losses from early in the onset of COVID 19. In fact, periodic income tax withholdings for the past two periods compared to the same two periods the prior year increased - a clear trend of improvement from April and May. Other unduly pessimistic assumptions about final payments which are heavily influenced by the markets, ignore the reality that the stock market has almost fully recovered from the darkest days of COVID 19, and that, in any event, the spring 2020 sell-off will likely result in large capital gains due to a significant run-up in the markets over several years.

Despite clear evidence that the May revenue forecast was wildly wrong and overly pessimistic, the Governor continues to embrace its doomsday assumptions. The 2021 estimate continues to assume significant withholding decreases and disastrous losses due to spring 2020 market losses. In fact, it assumes that income taxes will decline by more than 10% from 2020.

We believe an estimate of income tax collections similar to 2020 collections with a 2% growth rate is not only likely, but potentially understated given what will be collected from capital gains taken from the spring sell-off. This would result in an approximately $1.5 billion increased projection for the 2021 income tax collections.

- New Charitable Deduction – For many years, there has been overwhelming bipartisan support to establish a tax incentive to donate to New Jersey nonprofit organizations. It is sound public policy. It encourages private support for a sector that provides services to those in need and that plays an important part in our economy. These organizations are more in need than ever and we propose finally enacting tax benefits for contributions made after October 1 under the standards and limitations set forth in Senate Bill 2360 -- though made permanent.

  Nonprofit hospitals, food pantries, home care nursing services, organizations that support the disability community, visiting nurse associations, are all providing more help than ever at exactly the time economic uncertainties are impacting fundraising. Nonprofit educational institutions, museums, theaters, and other organizations that are important parts of our communities and economic engines are suffering considerably.

  Enacting permanent tax benefits effective October 1 will have a quarter year impact for CY 2020 income tax liabilities supporting 2021 and a likely impact of $100 million of lost revenue. The loss of revenue could grow to just less than $400 million annually according to the Office of Legislative Services which establishes these estimates at the high end of a suggested range. Though this would challenge the 2022 budget, it should be noted that together with the other proposed changes set forth herein, it would be a fraction of the more than $5 billion of one-shot revenues and future budget cliffs the Governor admits his budget includes.

  It has been the right public policy for a long time to finally extend these tax benefits to encourage charitable giving. The help is needed more than ever.

2. **($1B) Aggressively pursue at least $1 billion of income tax revenue that is ceded to New York which has been inappropriately taxing our residents who work from home at higher rates and keeping all the money.**

New York State has been inappropriately taxing New Jersey residents' income when they work almost exclusively from home for New York corporations. It's basically "theft" and New Jersey sits back and watches it happen. A large portion of the approximately $3 billion of taxes New York collects from New Jersey residents should not be collected by New York. The money should be collected by New Jersey -- and at lower rates.

Traditionally, many of these employees commuted to New York as a rule, and only worked from home as an exception. The old paradigm of New York collecting taxes from income earned in New York made some sense. However, with technology changes over several years, many such workers now rarely step foot in New York -- if they even have office space there at all. The problem has recently exponentially increased as employees are directed by their employers to stay away from New York offices due to COVID 19. New York corporations are realizing more and more that they can function fine -- sometimes even better -- under the arrangement where their employees' offices are really their homes, or even a satellite office, in New Jersey. But they just keep taxing our residents anyway.

It's not fair or reasonable. The employees aren't putting a demand on New York government services or expenses. To the contrary, these folks work from New Jersey and receive New Jersey services.

In many instances, the continued taxation of New Jersey based employees by New York corporations on the premise they earn income in New York isn't even legal. In many cases, it may violate New York's own source allocation rules. Furthermore, New York's position may violate the United States Constitution.

New Jersey should have a plan of action to address this unfair, and almost certainly unlawful, practice. Our Division of Taxation should be warning New York corporations to stop allocating New Jersey employees to New York offices for tax purposes when they aren't stepping foot in the city to work and are even discouraged from doing so. New Jersey should assist New York corporations to set up legal offices in New Jersey -- if that is even needed -- to help them allocate their employees to New Jersey where it would benefit their, and their employees', bottom lines. And New Jersey should intervene with aggressive legal assistance should New York continue to tax our people at higher rates than they would pay in New Jersey.

However, when the Administration was asked in April what they were doing about it, they bluntly stated they weren't doing anything and didn't want to discuss it. Frankly speaking, not pursuing this policy strips our treasury of revenue and shortchanges New Jersey taxpayers who would pay less in taxes, and is akin to financial malpractice.

3. **($600M) Increase the public employee pension payment modestly instead of by more than $1 billion so that we fund no less than 70% of the actuarially recommended**

contribution. Scheduled increases to 80%, 90%, and 100% would be delayed one year to 2022, 2023, and 2024 once COVID 19 financial impacts have receded.

Though gradually increasing pension payments to the point of reaching the full actuarially recommended amount is essential, so is conserving resources to meet otherwise unmet essential needs without making the economy worse though destructive deficit financing and tax/fee increases.

It is fair to characterize a portion of the $4 billion in deficit bonds advanced by Governor Murphy as nothing more than "pension bonds" to allow for the increase from 70% to 80% of the actuarial recommended contribution. Without issuing the debt, the recommended pension payment at 80% of the actuarially recommended contribution could not responsibly be met. Effectively the State is borrowing money to invest it to pay benefits that won't come due for many years.

It simply doesn't make sense to borrow today and saddle taxpayers with 35 years of debt at taxable interest rates as high as 6 or 7% to make prepayments into a trust account to pay future benefits. The investment earning may or may not meet or exceed the high interest rates on debt. It is gambling by another name, and foolish. It's also deficit financing and arbitrage.

Pension bonds were issued in 1997 with bipartisan concerns expressed at the time and constant condemnation afterwards. Today, we are still paying off the pension bonds. Governor Murphy is proposing the very thing that he has criticized for years.

We are mindful of the rating agencies desire to see continued progress towards reducing pension underfunding. We do not recommend falling backwards on progress for that reason and we reiterate our support of returning to the scheduled increases once COVID 19 is passed. But we also know that rating agencies have warned of the evils of deficit financing. It is our belief that deficit financing to make a payment with unsustainable resources will be no more favorably received by rating agencies than pausing scheduled increase for a year with a commitment to returning to them as COVID 19 recedes. And we strongly believe our plan is more prudent. It avoids the high interest costs associated with deficit financing and eliminates the risky arbitrage on the investment side of the equation.

Finally, it should be noted that implementing reasonable reforms could be enacted to show the rating agencies and financial marketplace that progress on addressing pension imbalances continues even in the “pause year.” To that end a prospective shift to defined contribution plans for new employees and ending grandfathered abuses like end-of-career pension boosts and full-time pension credit for as little as $1,500 work per year could be enacted.

($450M) Eliminate approximately $450 million of new programs and increases in discretionary spending that is unrelated to COVID 19:

The Governor’s budget proposal puts forward new spending programs and increased spending that has absolutely nothing to do with COVID 19. This is inappropriate as the suffering from COVID 19 is considerable and resources must be conserved to combat it.

It's not only unwise policy to borrow money to create new programs and expand others that are unrelated to COVID 19, it almost certainly violates the Supreme Court's recent ruling in the borrowing case. They expressly put restrictions on how debt can be used. It can only be used to sustain the government's ability to continue functioning and offering services. But the new programs and increases aren't related to either. It is virtually impossible without disclosure, transparency, and a proper vetting of the Governor's proposed budget to identify all new programs and spending increases that he is proposing. Some new programs and increased spending are embedded in larger line items and can't be readily identified. Examples of misplaced program creations and spending increases that are readily apparent and have nothing to do with COVID 19, include, but aren't limited to:

- $100 million in interest payments on $4 billion of deficit borrowing. (The actual increase in spending p[roposed by the Governor for debt service on new deficit borrowing is listed by Governor Murphy in his budget proposal as $350 million, though this is so ridiculous, we believe it is in error or represents something else since the $350 million amount has not been explained.)
- $60 million for a new program of grants for water infrastructure improvements to private property in select areas of the State when there are federally supported programs that could more reasonably provide assistance when necessary.
- $40 million (increasing to $80 million next year) for a new program called "Baby Bonds" to deposit $1,000 in taxpayer money into a State savings account for every baby borne in the coming year with the money becoming available once that child reaches 18 years old in 2039(?). Meanwhile, the State can't prefund existing out-year pension liabilities.
- $5 million to newly increase spending on a new voting system where many polling places are closed and replaced with requirements to vote by mail.
- $5 million to newly subsidize a favored park community Center in Weequahic - outside of any fair process for supporting similar projects.
- $4 million to newly subsidize a favored golf course and its programs in Essex County – outside of any fair process for supporting similar projects.
- $3.5 million to newly subsidize programs in Hudson County - outside of any fair process for supporting counties with similar services.
- $3 million to newly subsidize a favored camp refurbishment in Irvington - outside of any fair process for supporting similar projects.
- $1 million to newly subsidize a favored Woodbridge nonprofit called Acacia – outside of any fair process for supporting similar projects.

5. (-$4 billion) Elimination of $4 billion of proposed deficit financing.

Without any doubt, the revenue impacts of COVID 19 are substantial. Despite the Governor's discredited past claims that impacts would be $30 billion, $20 billion, $10 billion or $7 billion (depending on which day it was and how much borrowing authority or federal funds he was trying to get officials to approve), we now know that State budget revenue losses have been grossly overstated and are much closer to $5 billion. On the spending side, the impacts have been substantial as well.

However, Federal funds from the CARES Act and related federal emergency measures have sent more than $9 billion of funds to New Jersey. $5 billion of those funds pass through New Jersey's budget.

The Federal relief mostly covers new expenses. And although there are restrictions on funds being used to displace lost revenue, some of the federal funds have the equivalent budgetary relief. This is because they displace or lessen the need for state subsidies. For example:

- Dozens of State line items are being reduced (with disingenuous public claims the reductions are "spending cuts" or "difficult" or "painful") when all that is happening is spending goes on as it was envisioned, but instead of being enabled with a state appropriation, it is enabled with increased federal funds that flow through the State budget. It's a technical budget display issue where spending ordinarily displayed and "booked" as part of the $40 billion appropriation of state revenues moves "below the line" to an additional approximately $20 billion of federally supported funds that pass though the State budget.
- More than $4 billion of CARES Act does not touch the State budget and directly go to third party recipients that otherwise rely at some level on State appropriations. Federal funds supporting New Jersey Transit (NJT) are an example. The funding support from the Federal Government is so extensive, the Governor has reduced NJT's State subsidy by $206 million from what was proposed in February.

For these reasons, this real crisis is manageable without resorting to deficit financing.

6. (-$1.024 billion) Elimination of all new taxes and fees

Taxes and fees are being increased while people and businesses are already struggling to make ends meet in a pandemic. On top of the dramatic payroll tax increase and health insurance taxes already enacted and being implemented this year, this budget seeks to establish $1.024 billion of new destructive taxes and fees ($1.019 billion of tax and fee increases listed on page 25 of the budget summary and even another $5 million increase on motor vehicle registrations fees tucked away on page 30 of the budget summary.)

The tax increases are not just on the wealthiest who already pay the highest taxes in the country. Despite the rhetoric, some of these taxes are incredibly regressive and fall hardest on middle and lower-income people.

- There are increases on businesses that will hurt employment.
- There are increases on HMOs that will make health care even more unaffordable.
- There are new taxes and fees on sportsmen and sportswomen.
- The Governor's extended lockdown kept drivers off the roads and artificially reduced gas consumption. The Governor still went forward with a massive tax increase on gas penalizing essential workers and businesses particularly hard (not considered part of budget tax increases).
- There is an enormous tax increase on smokers – perhaps the most regressive tax of all

- Finally, adding insult to injury, motorists waiting in record lines and being exposed to COVID 19 risk at Motor Vehicle Agencies are being charged an extra $5 million in registration fees.

7. (Neutral - Language) Restrict (by changing budget language) the Governor's current ability to unilaterally decide how to spend more than $5 billion of federal CARES Act funding, and require at least $500 million of those funds to support/sustain businesses and nonprofits so they can open more quickly and fully;

The current (and past) budgets contain a single sentence that allows the governor to unilaterally decide how to spend federal emergency money. The Governor has not disclosed how he intends to spend the more than $5 billion received from the CARES Act and similar federal enactments. In fact, he has only provided an outline of how a $2.4 billion portion of the funds will be spent - and despite receiving the money almost 5 months ago, he has spent less than $400 million.

The single sentence in the budget giving him unilateral authority should be replaced with a requirement that the Governor present a spending plan by October 1 and receive an affirmative vote of a majority of JBOC members for that plan to be authorized. Furthermore, the new language should REQUIRE the spending plan to contain at least $500 million for EDA to provide grants (in excess of what they have made available thus far) to small business support organizations, small businesses, and nonprofit organizations that have lost revenue sources due to COVID 19 impacts and that are in danger of permanently closing or making destructive staffing cuts that would threaten their continued viability.

8. (+$75 million) State Discretionary Fund (with bipartisan legislative input oversight) to support economic development and public service delivery though government agencies, nonprofits, and the private sector suffering revenue losses or experiencing increased service demands and that are otherwise underfunded in the proposed 2021 budget and ineligible for CARES Act funding.

The proposed budget clearly underfunds certain service needs and delivery organizations – astoundingly while borrowing billions to increases a fake "surplus" and for new or increased spending not related to COVID 19 -- like Baby Bonds.

In the short time this budget has been available for review, we have heard compelling arguments of penny wise/pound foolish reductions where there is a need for restoration of funding. Some examples include:

- mental health services;
- drug treatment services;
- services for the disability community;
- community college and private higher education

We will likely hear other convincing stories on funding needs as we attempt to learn more during this truncated budget process. So we recommend that $75 million in State funds be set aside for the purpose of addressing these needs though an allocation process whereby the Joint Budget

Oversight Committee develops a plan in the beginning of the fiscal year by unanimous vote of its members, for submission to the Executive Branch.

All of these would result in a real surplus of more than $1 billion.

The Governor disingenuously claims that his proposed 2021 budget increases the surplus to a record level of $2.239 billion when it is based on $4 billion of debt. Without the borrowing and using all his revenue assumptions, his proposed budget has a deficit of approximately $1.761 billion.

Deficit borrowing at high, taxable interest rates over 35 years so the Governor can make a slippery claim to have a surplus is incredibly reckless. If a normal person was struggling to make ends meet and truly needed to resort to a credit card to buy food or other necessities, would they dig their hole deeper by also taking out an expensive cash advance -- just so they could falsely boast they have savings? That's precisely what Governor Murphy proposes.

Deficit financing to pay operating expenses is bad. Deficit financing for the Orwellian purpose of claiming through doublespeak that you have a record surplus is incredibly disingenuous and an extreme disservice to taxpayers.

The changes above leave a real surplus of $1.19 billion. The Governor will claim we have reduced his proposed surplus. It's just not true. The "surplus" he claims exists in his proposed budget is nothing more than deficit papered over with deficit bonds.

These are the fundamental changes needed to fix a fundamentally broken budget proposal. We, and our colleagues, reserve the right to offer additional suggestions for change and improvement after we have heard from the public and after the vetting process – inadequate as it is – concludes.

Sincerely,

Steven V. Oroho

Senator Steven Oroho
Republican Budget Officer

Samuel D. Thompson

Senator Samuel Thompson
Member, Budget Committee

Senator Declan O'Scanlon
Member, Budget Committee

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