

Funding New Jersey's Future: Crafting Sound Economic Policy in a Fiscal Crisis

Date:

February 25, 2009

The participants in the first discussion on the state of New Jersey's budget were:

- R. David Rousseau, Treasurer, State of New Jersey
- Hon. Louis A. Greenwald, (D-6) Chairman, Assembly Budget Committee
- Debra L. Wentz, Ph.D., President, New Jersey Association of Mental Health Agencies
- Cornell William Brooks, Executive Director, New Jersey Institute for Social Justice

The conference was opened by Patrizia Zita, Principal, KZP Group, and Vice President, Board of Advisors, Council on State Public Affairs.

Both panels were moderated by Rebecca Perkins, President of the Council on State Public Affairs

Perkins: Can you give us a snapshot of New Jersey's fiscal situation right now?

Rousseau: We are in unprecedented economic times. Last June New Jersey had the largest decrease in spending ever. June was a turning point in how we look at finances. At that point there was a \$1.5-2 billion dollar deficit, which was manageable. After September, shortfalls grew. Last week Corzine said we have \$3.6 deficit. As the economy declines, spending increases (welfare, general assistance, etc.). Yet, we must have a balanced budget. Core component of the current plan to meet these challenges included cutting \$600M. We now have found additional \$1.4 Billion. The Governor is trying to avoid hitting the same areas (eg. sparing higher ed) that had large reductions in June. He has postponed the decision to use \$600Mill to pay down debt and has drawn the surplus down to \$300Mill as well as diverting funds from other areas. The goal is a balanced budget. The Governor has promised money to other entities who have budgeted based on this funding.

New Jersey is getting \$850 million from the Federa; stimulus plan, which still leaves us with a \$2.8 shortfall – it could be more, probably not less. After April or May when income tax returns are in, the Treasurer will know more. No matter what the outcome, New Jersey will keep a balanced budget.

Perkins: Are your programs impacted by the current fiscal crisis, and if so, how?

Wentz: Mental health has been hit nonstop since September. Foreclosures, bankruptcies, loss of retirement funds, etc. have hit affected those with longstanding mental health problems. New Jersey's mental health agencies have seen a 25% increase at first point agencies in recent months. Two North New Jersey centers have had a 40% increase of inpatients. This is happening despite increased demands – rising costs, insufficient government support, decreases in philanthropic support. This means much longer waits for services and waits in emergency rooms to find placements, etc.

Brooks: I think we must begin by examining how we establish our priorities as a state. What kind of budget will we craft? The government must contemplate a budget that thinks about those who are most vulnerable while thinking about those cities that are best able to contribute. Vulnerable people live in urban areas, yet the best positioned areas to contribute are actually those same communities. The best way to take advantage of economic stimulus is to think about metropolitan areas.

Ex-offenders and women face ongoing calamities. There is a lack of affordable housing, the public educational systems are failing them, especially in the communities with the most ex-offenders (Camden, Trenton, Newark). Racial concentration of poverty declined in the 1990s, but communities and neighborhoods have concentrations where 15% of men have criminal backgrounds and face barriers in getting work.

Greenwald: People are afraid for their families, their jobs, and if they have a sick child, they are afraid of losing health insurance. If given the option, I would advocate cutting the number of school districts to save money. Taking care of the vulnerable is weighed against those who support them. Companies are forced to cut raises, eliminate bonuses in order to save jobs and benefits. I'm concerned about losing high-income earners (people who earn over \$100K) to nearby states. These people help cover the costs of the more vulnerable. We need to look at public policy in different way, including transitioning people in jail. We have too many school districts. It's not popular to bail out banks, but we can't get money into system otherwise. We need to stop worrying about being popular and think outside of the box.

Perkins: Will the money from the stimulus package be enough to see us through?

Rousseau: Barring a calamity in April, New Jersey should be okay this year. I'm looking to 2010. Normally I look ahead to next year's budget, but this year we've spent a lot of time on the current budget. Changing the status quo is hard. We're bound by constitutional decisions made earlier, including the referendum for open space. Nothing similar has been done to help the disabled. A 4% corporate business tax goes to the environment. Since it's now in constitution, it's hard to correct or change course. Home rule has been a contentious issue, but education is a huge expense for taxpayers.

Greenwald: Government is a pass through agency for all revenues, as only 23% is government costs. Local governments are passing 4% increases for school districts. There are other costs which could be considered, including the budgets raised in the recent fire district elections. New contracts have been negotiated. People have a 30 minute attention span and want a quick fix. Have people learned lessons from changes in our culture, or listened to Obama's call for a change in the culture, that things shouldn't come quickly or easily? There is a lot of money in this stimulus. Is giving out this money going to help? I'm concerned that the stimulus money will contribute to skyrocketing prices. This money might not employ small businesses in New Jersey and may employ the wrong people.

Rousseau: The money coming in for transportation projects has to go through municipal planning organizations. Waste water money will go through the environmental trust. There are restrictions on these funds.

The stimulus bill was hastily put together. (And overwhelming: double sided it was almost 2 reams of paper.) When questioned further, federal regulatory agencies gave one set of answers, other regulators have another interpretation. The money is clearly going to keep people at work, but what will happen in two years when this money goes away? It's one thing to put in money to save money later (e.g. new computer programs in hospitals). It's another with Title 1 where schools will be starting new programs without sustained funding.

What about the unemployment fund? Will increasing employer taxes to cover this fund? The governor is doing everything he can to not do this. Small businesses can't withstand a 20% increase in their unemployment costs.

Greenwald: Gov. Corzine hasn't looked to increase taxes. We have lived beyond our means as a nation. We have started to live off our bonuses. We need to restructure ourselves, live within our means and recover naturally. If you make an imbalance in the structure (i.e. raise taxes) you will drive people out of the state which doesn't protect the most vulnerable. Gov. Corzine has invested in business incentive programs. There are other issues as well. Escrow to property taxes is growing. Property taxes are unchecked, unbalanced, and outside our control.

In addition, we need to plan policy decisions better. It's hard to build a shelter during a storm. It makes fiscal sense to help people with mental health services, for example, which then helps transform people into taxpayers. These are investments, not expenses.

Perkins: What does it take to do the right thing? How do we make these things happen?

Greenwald: I think the Governor wants to solve these problems. There are also opportunities in this crisis. People are so afraid of change. Obama wants to raise its graduation rates for 1st time in 11 years. Perhaps those with special needs can be moved from institutions to group homes. Maybe it's a good time to change the tax structure to be less focused on property taxes.

Part II:

The panelists in the second discussion were:

- Henry A. Coleman, Ph.D., Edward J. Bloustein School of Planning and Public Policy, Rutgers, the State University of New Jersey
- Oliver Cooke, Ph.D., Stockton College
- Cornell Brooks, Executive Director, New Jersey Institute for Social Justice

Perkins: Dr Cooke, you publish the South Jersey Economic Review. What can you tell us about the state of the economy in south Jersey?

Cooke: South Jersey municipalities have slipped deeper into recession, e.g. Cumberland and Atlantic City which tend to be driven by casino industry, have performed worse than Central and Northern New Jersey since Summer 2007.

Unemployment rates in urban areas around state are cause for alarm. From a budgetary perspective: rising unemployment rates and increase crime means money has to get poured into running the justice system. The fiscal stimulus money is not going to do much in dealing with the larger structural gap which the state will eventually have to face.

Coleman: New Jersey should shift responsibilities along levels of government in order to get a better hold of property taxes. The SLERP Commission proposed a comprehensive approach, but in New Jersey we do things “in a piecemeal way”. Until we see a comprehensive solution, we’re going to have these problems for years to come.

A number of factors gave rise to the SLERP (State and Local Expenditure and Revenue Policy) Commission in the early 1980s. It was started in 1985, just as we came off of a significant and sustained recession. It looked at the ongoing concerns about local structure, economic development, regionally and nationally – overall fairness of tax structure. These are the same issues as we have today.

Perkins: (State Treasurer) David Rousseau and (Assemblyman) Lou Greenwald have been earnest about making things happen, but are we going to see changes?

Coleman: I would be suspect about our abilities to achieve these kinds of reform in the short term. The SLERP commission chair said we need a crisis to do something. But even now, it is hard to get reform. The thinking is too narrow. The revenue system was designed to be used in the 50s and 60s. You shouldn’t use the policies and procedures from 50 years ago. We need to update the revenue system, as it is too archaic.

2) Who thinks we would be here if we hadn’t lowered income tax? Lowering income tax coincides with the deviation to a baseline structural shortfall. New Jersey loves to take policy actions without supportive research. The research I know shows that you do more damage cutting than you do raising taxes, we do the opposite: don’t raise taxes, cut spending instead. Even in CA, where they have a Republican governor, there is a \$40B budget, with \$12B in new taxes. We’ve taken out taxes as an option.

Cooke: I think that removing tax increases from the table is a huge mistake. There was some indication from Greenwald that we need change in the tax structure. We should also talk about tax increases. We had more revenues due to rise in stock market (New Jersey and several neighbors), yet we found ourselves in the worst fiscal shape in 2002-03, and we are finding ourselves there again. New Jersey has one of the most progressive personal income taxes in the country, and we should do more, in ways that would not increase regressivity. We have a higher tax burden in this state: we are an incredibly regressive state. We think about personal income taxes, and broadening sales taxes, but giving property tax relief should be on the table.

Brooks: Looking at economic history, we have not made wise, thoughtful investments. If we look at the community colleges as platforms for workforce development, we see it is not the time to be penny wise and pound foolish. This is not a choice between an anti-business environment vs. low taxes, but a time to see things in a regional perspective. This is a time to promote growth.

Perkins: How do you get past the short-term political will created by 2- year and 4- year terms for state legislators?

Brooks: History has been both kind and unkind to Obama. We have had economic times and three ongoing wars, but in a political system in a calamity, we can respond in a new and bold way nationally. I'm not sure if we can do it here in New Jersey. We are at a moment when decisive action is necessary. We have to be the ones to say NOW is the time to do it.

Perkins: If each of you had a wish list, what would you do to create a better budget process in New Jersey?

Coleman: I don't think the state was best prepared for either short term or long term problems. Progressive states use: 1) Tax incidence analysis. We don't have a clue as to who pays taxes by individual income class, and 2) a Current Services budget. There are certain things going on beyond your control like population changes. Given what we can project about those changes, we can make decisions. The state was in a great situation in the early 80s. We did a current services look – by 1990 and 2000 certain, we'll have this \$\$ deficit. We don't even go through the exercise to show what may happen!

We always talk about spending. The difficulty is – a lot of the spending we do is done through the tax code. There is not a place in state government that can give you a number of the revenue we've LOST in our attempts to stimulate the economy. We are spending more in these tax expenditures than in defense and social security. It's frightening that we may be spending over \$800 billion in revenues and we don't know who we are subsidizing, what we are spending, etc. We need to monitor tax incidences, and what we are giving and getting with tax liabilities. We would benefit from these kinds of analyses.

Perkins: Why don't we have these measures in place? Who would oppose them?

Coleman: I don't know who is against it. We are trying to cut back on state resources. Many states farm out this research to higher education. Why we don't do it then? They are not new ideas.

Cooke: My wish list would include 1) Transparency in state budgets and tax expenditures. (E.g. there was an estimate in the mid 1990s on the exemption for clothes in the state. 11 years ago it was estimated to cost the state \$300 million) 2) Equity issues. Not having a greater understanding of who is actually paying the taxes in this state. When we talk about raising taxes, everyone assumes it's too few who pay too much, but if you add in property taxes and sales taxes, this isn't any longer the case, and 3) Better contingency planning. What if five years ago we had plans in place for crises now? And if we had a sense of policy decisions then about what's going on now?

Perkins: Dr Cooke, you've had experience with the New York City and New York state budgets. How does New Jersey fare in regard to our neighbors?

Cooke: Is Albany worse than Trenton? New York does better on tax expenditure incidents. But I was pleased that the Assemblyman (Greenwald) said earlier that we might look at comparing neighboring states.

If you look at the census you see there is a data set which can compare incomes of people moving in or moving out. Incomes coming in are higher than those going out.

Coleman: it makes no sense. I grant you that people are leaving every day, but there are also people moving in every day. Companies chose locations for a variety of different reasons. When you look at the different factors, taxes isn't the highest on the list, but availability of workforce, access to resources and things like airports are. Evidence indicates that businesses are more responsive to services that they value than to taxes. If taxes were the reason that firms and households make their location decisions, then we'd have more people living in other states.

Brooks: What would you cut? The issue of transparency shows what we need to cut. Looking at the criminal justice system – we spend a \$1B. In state prison system, there is a phone surcharge. We can choose carriers. When a prisoner calls a loved one/their attorney, the person receiving a collect call pays a 30-40% charge on top of the call. This is the highest charge in the nation. This is a tax issued on poor women (who usually receive these calls). The average citizen in New Jersey doesn't know about this "tax". It is a metaphor for the justice system in New Jersey in general. People who are in prison have no incentives to get an education. New York is talking about closing prisons. New Jersey is not having that discussion. We should think about it. If there was any other entity with a 65% failure rate – 65-75% of time we'd look into changes.

Question from the audience:

How do we interject this discussion (on tax policy changes) into the gubernatorial election this year?

Coleman: Policy makers are too fearful of tax policy in campaigns. This Council brings these ideas to discussion. We need a comprehensive approach to problems in short and long term. We need to increase revenues, too. We must prepare ourselves with analyses with a current service budget. Fiscal problems are still going to be severe, but we'd be in a better place to deal with them.

Brooks: it's a matter of political will. As long as we look at our budget solely in terms of math, we are losing an opportunity to create political will. When we talk about protecting the most vulnerable and creating opportunity, what are the costs to society if we don't serve them? What can we do if we DO serve the most vulnerable and what kind of state we can be? In the State of the Union address, the President talked about the sacrifices we would be called upon to make. It's up to us to create the political will that will demand that these changes be made.