

## NEW JERSEY POLICY PERSPECTIVE

**N**JPP is a nonprofit and nonpartisan research and educational organization established in 1997 with the mission of promoting, broad, vigorous debate about important issues facing the people of New Jersey. Our goal is a state where everyone can achieve to their full potential in an economy that offers a widely shared, rising standard of living.

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## FOREWORD

It was great, wasn't it? At least it seemed that way. Since the recession of the early 1990s lifted, the State of New Jersey has been taking in more money and spending more money. Budget shortfalls became a thing of the past. New programs were being created faster than anyone could come up with acronyms.

Progressive-minded people who believe government has an activist role to play should be applauding this triumph, right?

Well, after reading Judith C. Cambria's work in the pages that follow, cheers will very likely turn to boos. Activist government is fine. But government that avoids making hard choices or telling citizens about problems they face is not in the progressive tradition. Indeed, taking actions that hamper future governments' ability to respond to problems and burden future taxpayers, in the name of short-term political gains, has the potential to seriously set New Jersey back. Squandering prosperity is no virtue.

It didn't have to be this way. The United States for most of the past decade has enjoyed an economic boom like none other. Most states entered the new millennium with strong finances. What could go wrong? But New Jersey, it turns out, spent the 1990s cutting taxes and increasing spending in a manner that never did get the budget into true balance. As this report details, the state chose instead to borrow at an unprecedented level, to shuffle around money from one place to another, to create new programs without regard to how to pay for them and to manipulate pension funds to produce what were billed as savings but actually increased future liabilities.

The state consumed revenues that should have been distributed to local governments, hospitals, colleges and others. Local property taxes went up. Hidden problems were created or exacerbated—problems that will demand state funding as part of the solution when they begin to emerge. Just as the national economy is showing signs of softening, the State of New Jersey finds itself with a mountain of accumulated debt and obligations, no savings to speak of and no surplus with which to balance upcoming budgets.

It happened in various ways. Sometimes, departures from accepted practice were incremental and hard to notice. Fiscal policy can be arcane even on good days. Other times actions were taken on such a monumental scale that it was hard to get hold of the magnitude. The pension manipulations were a case in point. Some aspects of the state's fiscal policy received sporadic attention from the press or the public, but then interest would fade. In what are seen as good economic times it is hard for skepticism—no matter how warranted it might be—to prevail.

In response to all of this, Judith Cambria offers the most thorough examination anyone has done of the state's fiscal practices from the early 1990s to the present time—including solid recommendations that policymakers would be wise to pursue. She relies on her more than three decades of experience working with issues related to how New Jersey raises and spends money. And, as she explains, she did so not with the intention of casting blame, but to put out facts that are important to policy debate in New Jersey.

It takes a special person to put in long, hard hours analyzing state finances and fiscal practices, focusing light in places where some people would rather it not shine. Even a labor of love can be frustrating at times, so we are especially grateful for what she has accomplished



On election night 2001, the returns for Governor will come in. It might not be far-fetched to speculate that while the person getting the most votes will get the job, he won't necessarily be the "winner." That's because the corrective measures needed in the aftermath of the 1990s will be so difficult. What has to be done might not be conducive to political popularity. But it must be done for New Jersey to move forward, maximize its advantages and keep its promises.

It isn't too late to fix this, but the longer we wait the harder it gets.

—Jon Shure

## AUTHOR'S NOTE

Over the past twelve months, my feelings about taking on the task of estimating the amount of future New Jersey budgets have ranged from “fools rush in where angels fear to tread” to “you must be crazy” to “what chutzpah.” The reason I chose to take on such a hazardous assignment probably lies in a 30-year interest in and examination of fiscal policy — the tax and spending decisions at the state level in New Jersey. That period includes 15 years of hands-on active advocacy for a more progressive, equitable and responsible tax structure that will better meet the needs of the people and business as well as assure a good future for our state. More immediately, it comes from a growing concern with what I perceive as a growing fiscal irresponsibility exhibited by our elected representatives regardless of political party.

In 1999 I made the decision to put out my work through New Jersey Policy Perspective to increase distribution and awareness of my writing on fiscal policy issues. The widespread dissemination of, interest in, and reaction to *New Jersey's Patchwork Property Tax Relief* last year certainly met my expectations. During our early discussions, Jon Shure put forward the idea of an analysis and projection of the size of future state budgets as an interesting and worthwhile project. I agreed, and took on the challenge.

As the project took shape it took on a far larger and more significant focus: an analysis of New Jersey fiscal policy from 1990 to the present, including historic fiscal information going back over 30 years. The estimation of future budget costs became a far smaller part of the overall effort. I make no claim that this estimation of future budget costs is complete and comprehensive. As the focus shifted, I found that I had neither the desire, the time nor the energy to examine every program in each state department.

The daily newspapers played an important role in my selection of the state expenditures that are included. It is the reporters and editors who routinely evaluate the importance of actions in Trenton and make their selections known by what they cover and report upon. They are a valuable barometer and source of information for me, and all other New Jerseyans. I wish to express my appreciation for their work and for their cordial response to my calls regarding specific issues.

This report is offered in the hope that it will increase awareness of fiscal dangers ahead and encourage discussion of tax and spending issues during the upcoming election for governor and all 120 seats in the New Jersey Legislature.

— *Judith C. Cambria*



## INTRODUCTION: *The Fiscal Landscape in 2001*

In this decade, 2001 offers New Jersey voters their greatest chance to affect state policy. Besides electing a new Governor we will fill all 120 seats in the state Senate and Assembly with representatives from newly drawn legislative districts.

The men and women chosen for those positions will take action on a host of issues and determine how billions of dollars of tax revenue will be spent. But decisions made during the rest of this decade—and beyond—will not be entirely their own. They will be strongly influenced—and in many cases limited—by the course taken over the past 10 years.

The 2001 elections and the challenges to be faced by the winners will take place against a backdrop of some defining fiscal realities:

**Avoiding taxes has become a way of life in New Jersey.** Tax increases of 1990 were followed by a series of tax decreases. In 2001, existing tax reductions and tax relief programs saved individuals and businesses—and cost the state—just under \$4 billion a year. The total tax reductions initiated since 1992: \$18 billion. And elected officials keep approving tax relief programs that will further reduce state tax revenue or increase the cost of direct payments to citizens for individual tax relief.

The only tax increased in recent years was on cigarettes. Meanwhile, increased fees, dramatically increased borrowing, spending down savings and creating major new programs without sources of funding are being employed in place of tax increases.

**Amending the constitution to dedicate tax revenue has become a way of life in New Jersey.** Since 1995, the Legislature has initiated six amendments to the New Jersey Constitution to use existing state revenue from the General Fund for specified purposes. Five reached the ballot and were approved by voters. When these changes are fully implemented \$886 million will be committed and thus unavailable for the programs that money pays for now.

**Long-term borrowing has become a way of life in New Jersey.**

From \$4 billion in 1990, the amount owed by the state took a massive jump to \$15.7 billion in 2000. Debt service—the amount of the state budget that goes to repay lenders—is now \$1.35 billion a year, a more than five-fold increase since 1992. In 1999, that accounted for 5.3 percent of state spending. And the state expects to issue at least \$9 billion in new bonds over the next five years, raising debt service payments by \$750 million—and hiking annual payments to \$2.1 billion. Borrowing in the five



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years after that will increase another \$8 billion just for transportation, school facilities and open space programs. So the *minimum* annual debt service cost will grow to \$2.8 billion.

Furthermore, shifting pension obligations into the future is a form of debt that may well exceed the debt from bonding. The unfunded accrued liability for post-retirement medical benefits alone will grow to \$13.5 billion in 2007.

**Balancing the budget by diverting funds from legislatively dedicated programs and trust funds and by manipulating the pension system has become a way of life in New Jersey.** Billions of dollars of tax revenue have been shifted from the purposes stated in the law (legislatively dedicated) under the doctrine that all state revenues are interchangeable. Along with billions of dollars in avoided annual contributions into the pension system, these revenues have enabled the state to fund budgets that were badly out of balance because of continuing tax reductions.

**Increasing state spending by more than a billion dollars a year has become a way of life in New Jersey.** The state budget grew \$9.2 billion in the 11 years since 1990, with \$4.8 billion of the growth in the last three years. The proposed 2002 budget would bring an increase of \$1.6 billion. Even if no new programs are created, state spending will continue to grow because the costs for existing state programs and obligations will increase by billions of dollars by 2005. Recently proposed new programs likely to be adopted would add millions more to that total.

But the most important fact about New Jersey's "fiscal way of life" is that after seven years of unprecedented prosperity, New Jersey still spends more each year than it takes in. **A series of decisions adopted to achieve short-term political gains has resulted in a formula that places the state in long-term fiscal peril.**

Indeed, *even if the economy continues doing well*, fiscal policies pursued during the 1990s have placed the state in a position where it faces financial problems. It faces painful decisions on what programs or services, capital spending, state aid or tax relief must be reduced or eliminated. And a slowdown or recession will increase the pain.

The aim of this report is to increase awareness of fiscal dangers ahead and promote discussion of necessary changes in tax, spending and borrowing policy during this crucial year. We examine the fiscal policy of the 1990s: how important changes came about and the likely effects on the future. The inescapable conclusion is that policies largely designed to accommodate tax cuts undermine the state's long-term financial strength and state's government's ability to pay for basic services, especially in an economic slowdown.

## 1. FISCAL POLICY IN THE 90S: *Traditional Conservatism Abandoned*

**W**hether you are a homeowner, CEO of a company or Governor of a state, the finances for which you are responsible boil down to decisions like how much to spend; where to get the money; how much to save; how much to borrow. To a homeowner, raising money means having a job and for a CEO selling a product or service. For a government entity it means taxes, as part of a financial plan to provide services and infrastructure to meet the needs of its citizens.

For New Jersey state government, that planning involved departures from its traditional fiscal conservatism amidst an economic boom that masked their impact.

- ◆ During the past decade New Jersey enjoyed its longest sustained period of prosperity ever, a 117-month economic expansion resulting in a record employment level of 3.92 million. Gross state product increased \$102.7 billion, or 47 percent, from 1990 to 1998, increased again in 1999 and expanded by 3.5 percent in 2000.
- ◆ The amount the state took in from taxes grew at an amazing pace. Income tax revenue increased \$2.2 billion in the last three years and was projected to increase by almost another \$800 million in Fiscal Year 2001. Sales tax revenue expanded by \$1.16 billion in the last three years, and was anticipated to grow another \$448 million this year.

### **Transformation of Fiscal Policy**

Some changes in fiscal policy stem from forward-looking decisions, like recognition of the need for massive infrastructure investment as in the 1960s when New Jersey expanded its state college system. But in the 1990s, changes in fiscal policy had less to do with meeting major needs than with advancing a political position. In addition, they were affected by a fear of the political consequences of increasing taxes. Finally, some changes were part of a ripple effect: they were made to cope with consequences of previous fiscal decisions.

The political firestorm following the \$2.8 billion tax increase of 1990 had far greater ramifications than one party losing control of the Legislature and Governor's office to another. Effects of post-1990 fiscal policy will be felt for years to come, no matter who sits in what chair. They are that significant and far-reaching.

Tax reductions were the immediate change. But the longer-term impact of tax cuts with no offsetting cuts in spending and the extreme anxiety among elected leaders about increasing a tax—any tax—resulted in various “tax avoidance” strategies by the Governor and Legislature.



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**Constitutional  
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five times between  
1995 and 2000,  
equaling the  
number of times  
it was on the ballot  
in the 25 years  
from 1969  
to 1994.**

Revenue shortfalls created by tax cuts were papered over with short-term devices, increases in long-term borrowing, shifting funds from one program to another and liquidation of such assets as pension reserves.

### **Using the State Constitution to Set Fiscal Policy**

At times the venue to assure funds for important programs shifted to the voting booth in the form of ballot questions asking approval to change New Jersey's Constitution to dedicate revenue from a particular tax to a particular program.

Only the Legislature can place proposed constitutional amendments on the ballot. Though this is an extreme way to make fiscal policy, the Legislature in many cases placed on the ballot provisions that would forever—or until the Constitution is amended again—remove some amount of revenue from the state's General Fund and mandate its use for a program or purpose stated in the amendment. Such use of constitutional dedication contrasts sharply with previous history. Constitutional dedication went before the voters five times between 1995 and 2000, equaling the number of times it was on the ballot in the 25 years from 1969 to 1994.

Frequency was not the most important difference. During that 1969-1994 period, all but one ballot question sought to create a *new* source of revenue: a lottery to fund state institutions; an income tax to offset property taxes; a casino gambling tax in one instance and horserace simulcasting in another to fund programs for senior citizens. The only use of constitutional dedication to earmark existing revenue came when 2 cents of the gas tax was set aside for transportation capital needs.

But all five ballot questions from 1995 to 2000 took money from *existing* sources:

- ◆ 9 cents per gallon from the gas tax for transportation (1995)
- ◆ \$98 million from the sales tax for open space preservation (1998)
- ◆ 4 percent of corporation business tax proceeds for hazardous waste cleanup (1996)
- ◆ \$200 million from the petroleum products gross tax for transportation (2000)
- ◆ \$200 million from the sales tax for transportation (2000).

Three of the amendments also enabled an increase in state borrowing as an alternative to increasing revenues. Constitutional dedication assured buyers of state bonds that money to repay them would be available and no other state program would have claim on the funds regardless of economic downturns or other needs. The corporation business tax did not involve new borrowing, while open space preservation included dedicated taxes in conjunction with borrowing an additional \$1 billion.

## Consequences of Tax Reduction

When the Legislature changed hands in 1992, it repealed the 1-cent sales tax increase of 1990. More significant reductions followed, with three income-tax rate cuts in less than three years starting in 1994. From 1994 to 2000, the administration claimed no fewer than 40 tax reductions. Only modest spending reductions were made in 1993, 1995 and 1997, leading to severe fiscal strain from lost revenue and making it difficult to fund essential programs, services and state aid from 1992-1998.

Policymakers responded in several ways.


**Raiding existing state funds and revenue dedicated by law (as opposed to by the state Constitution) for one purpose and using them for another.**

With every dollar in the state coffers needed to keep the state going, the Treasurer proclaimed that any state money could be exchanged or substituted for any other state money. It no longer mattered whether previous legislation directed the use of specific revenue sources for purposes clearly delineated in the law. The state's fiscal policy became "all money is fungible."


The effect of this policy change on future actions by the Legislature cannot be overstated. It routinely used the annual state budget as a means to override previous laws that assign specific revenue to specific purposes. It undermined the fiscally responsible procedure under which individuals or the state had to identify a source of revenue for new or expanded programs and services in any proposed legislation. Legislators now can feel free to assume that money can be found within the existing budget—it need only be taken from something else.

What suffers most from this is the state's ability to deal consistently and rationally with programs and problems over a period of time. If money can be shifted every year, there is no certainty that previously dedicated revenue actually will be available. Carefully planned solutions are threatened if not destroyed. Attempts at sustained effort deteriorate into fits and starts based on which programs "win" each year's budget battle.

Funding for school facilities was a victim of the new fiscal policy. First, it was frozen for several years, reducing districts' annual payments to less than 50 percent of the amount for which they were eligible. Second, repayments from a new revolving loan fund created to provide a source of continuing capital for school construction were taken over by the state rather than being used to provide additional loans to other districts. The proposed 2002 budget calls for raiding the Transportation Trust Fund for transportation capital programs of \$90 million of previously dedicated money to be placed in the General Fund for annual operating expenses. At the same time, the budget originally authorized the borrowing of an additional \$85 million, increasing annual bonding for 2002 to \$735 million, an increase of 13 percent.



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**Avoiding annual contributions to pension funds and spending down medical pension funds.**

Crucial savings came from changing the criteria for funding pension plans set for teachers and employees of New Jersey state government. This allowed avoidance of billions of dollars in annual pension fund payments from 1994 to 1997. New rules reduced the required payments into the pension fund in the near-term, but greatly increased future payments. Basically, each dollar saved in 1994 would be replaced later at a compound interest rate of 8.75 percent, roughly doubling every 8 years. So \$1 saved in 1994 would cost future taxpayers \$4 in 2010. The same thing happens to municipalities but the state appropriated the short-term “savings” to itself, leaving the towns to pay the resulting future increases. At the same time, the state stopped funding the medical pension benefit, switched to a pay-as-you-go system and then used the existing funds for these pension benefits to balance the budget.

**Reducing property tax relief payments to individuals and shifting state costs to other levels of government or other institutions such as schools, municipalities and hospitals**

One of the first victims of tax reduction was property tax relief for homeowners and renters. With the sales tax cut, the Homestead Rebate was eliminated except for those 65 and older or disabled and small payments to citizens making less than \$40,000 a year.

When the income tax reductions began, state school aid programs were frozen for four years. Aid for special education and basic foundation aid was limited to the number of students enrolled in 1992 and debt service aid was frozen at that level. State aid to municipalities was frozen. Hospitals paid a high price: payments to reimburse state-mandated charity care were reduced and continue to fail to compensate for medical care provided to uninsured and underinsured patients.

**Increasing State Debt**

After more than 200 years of existence, in 1990 the State of New Jersey had compiled long-term debt totaling \$4 billion. In the next decade, borrowing almost quadrupled to \$15.7 billion. The *New Jersey Debt Report* in November 2000 showed anticipated debt issuance of \$9 billion from 2001 to 2005 that would swell the total of bonds issued during the 15-year period to \$24.7 billion, almost six times the debt in 1990.

Moody’s, which provides credit ratings for states and other jurisdictions, notes that New Jersey in recent years has been issuing more bonds with longer payback schedules that increase the total amount of debt service. Decisions by the New Jersey Supreme Court that counter the constitutional requirement of a vote by citizens on increases in state debt have made it possible for quasi-governmental authorities to borrow billions of dollars for which the state is responsible for repayment.

More borrowing means higher annual debt service—the money needed to repay principal and interest. Annual payments on borrowed money were \$250 million in 1992. The State Auditor reported that in Fiscal Year 2000, they totaled \$1.35 billion. Annual debt repayments will reach at least \$2.1 billion in 2005, based on figures from the *New Jersey Debt Report*, which in 2000 estimated debt service on existing and anticipated issuances.

### **Phased-in Funding for Expensive New Programs**

Despite the booming economy, the state never had enough money to pay for some major new programs it wished to enact. As a result, many programs were phased in without regard for how their increasing costs would be covered as they grew from year to year. The annual cost of new tax relief programs alone, including the NJ SAVER rebate, Senior Citizen Tax Freeze, Earned Income Tax Credit and Veterans Property Tax Deduction, will exceed \$1.3 billion by 2005. Additional tax relief programs proposed by legislative leaders would add another \$250-300 million a year. Three newly adopted medical or pharmaceutical relief plans will require about \$400 million in additional state funding annually in a year or two. An absolute minimum estimate of the additional cost of just these new programs by 2005 is \$2 billion a year. No revenue sources have been created to meet this spending.

And the “savings” the state enjoyed from the 1994 pension changes will have to be repaid even as annual debt repayments for the pension bond of 1997 escalate, greatly expanding the annual cost to fulfill pension obligations.

The economic boom’s extraordinary tax windfall offered New Jersey an unusual opportunity to address unmet service needs as well as extensive capital needs. Instead, unprecedented multi-billion dollar increases in annual state revenue, as big as they were, will turn out to be insufficient to pay the costs of programs, services and capital spending already signed into law. Future administrations and legislators will face major funding questions that those in office when the decisions of the 1990s were made were unwilling to take on. The buck, as they say, has been passed.



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## **2. THE WHEEL OF FORTUNE SPINS** *Tax Increases are Supplanted by Tax Reductions*

**C**harles Dickens opened *A Tale of Two Cities* with, “It was the best of times, it was the worst of times.” Flip the words around and they describe the economic situation at the beginning and end of the 1990s. The recession of the late 1980s and early 1990s was severe enough to require tax increases that, it could be argued, cost a US President and Governor of New Jersey their jobs. At the other end of the decade, those in office were beneficiaries of an unprecedented economic boom that poured revenue into the state and federal treasuries. Historically, there is no fiscal parallel to this unusual period.

The decade began with the largest tax increase in New Jersey history in 1990 to deal with a \$600 million deficit in the current fiscal year’s budget, a \$1.5 billion projected shortfall for the following fiscal year and an impending New Jersey Supreme Court decision that would require increases in state school aid. The new revenue came from increasing the Sales and Use tax by 1 cent and extending the tax to some previously exempted items, and an increase in the state’s Gross Income Tax.

Voter reaction led to a change of control in the Legislature and repeal in 1992 of the 1-cent sales tax increase. This was followed in 1994 by a new administration initiating an unprecedented period of tax reductions. The main feature was a 30-percent cut in the Gross Income Tax in three stages from 1994 to 1996. The top state income tax rate—for married couples making above \$150,000 and singles above \$75,000—was reduced to 6.37 percent from 7 percent. These reductions in the Gross Income Tax will have saved individuals and businesses \$8.648 billion dollars from 1994 through 2001. The rollback of the 1-cent Sales and Use Tax saved \$6.338 billion.

When the other tax cuts are taken into account, the cost to the state on an annual basis rose to \$3.803 billion in 2001 from \$684 million in 1994. The amount will continue to increase annually since a number of more recent tax reductions are being phased in over a period of years or the number of beneficiaries increases each year. Whether it is viewed as dollars saved by taxpayers or revenue lost to the state the amounts will increase in the following programs:

**Senior Property Tax Freeze** to more than \$300 million in 2010.

**Earned Income Tax Credit** phase-in will reach \$106 million annually in 2004.

**NJ SAVER** will increase to \$1 billion annually in 2004, though proposed legislation could speed up the full phase-in.

**Veterans Property Tax Deduction** phase-in from 2001-2004 would quadruple the \$18 million first year cost to \$72 million. A decline in veteran population will reduce cost in later years.

**Increase in Gross Income Tax filing threshold** phase-in from 2000-2002 at a cost of \$50 million.

**Increase in Pension Exclusion from Income Tax** carries phased-in 2001 cost of \$23 million.

Using the 2001 figure of \$3.803 billion and adding additional amounts from programs listed above, these tax savings to individuals and businesses will result in a loss to the state of more than \$4.6 billion in annual revenue by 2004.

2001 base	<b>\$3.803 billion</b>
Earned Income Tax Credit program	<b>106 million</b>
NJ SAVER program	<b>662 million</b>
Increase in Filing Threshold of Gross Income Tax	<b>50 million</b>
Veterans Property Tax Deduction	<b>50 million</b>
Pension Exclusion Increase	<b>23 million</b>
<b>TOTAL 2004 Annual Savings</b>	<b>\$4.674 billion</b>

These figures assume continued economic growth generating enough revenue for the state to afford scheduled increases in annual payments to beneficiaries of NJ SAVER, Earned Income Tax Credit and Veterans Property Tax Deduction of \$816 million. At the same time the state will lose \$22 million in tax revenue because of the increase in the income tax filing threshold and \$23 million from the increase in the pension exclusion. If the assumption becomes reality, other tax reduction savings will increase as well, resulting in an even higher tax annual saving. But if the economy falters, the state could find it impossible to fully fund NJ SAVER and existing figures for tax savings will decline as incomes and/or sales decline.

If tax *revenues* actually increase while tax *rates* go down—as has been the case during the boom—the tradeoffs are far less pronounced. That, as we will see, has been the case during the ongoing national economic boom.



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**Major State Tax Reductions 1992-2001 (in millions of dollars)**

<b>1992</b>
Reduce Sales & Use Tax from 7% to 6%
<b>1994</b>
c.2, c.69, c.165 Income Tax reductions 1994, 95, 96
c.3 Remove 0.375% CBT surtax
c.8 Increase income tax filing threshold
<b>1995</b>
c.184 Eliminate sales tax on Yellow Pages advertise
c.245 Double weighting of sales in CBT allocation
c.246 CBT rate of 7.5% for small businesses
c.317 Sales Tax exemption for broadcast equipment
c.382 7 additional Urban Enterprise Zones
<b>1996</b>
c.60 Property Tax deduction from Gross Income Tax
<b>1997</b>
c.40 S corporation tax reduction
c.162 Repeal Public Utilities Gross Receipts & Franchise Tax
c.334 CBT Benefit Cert. Transfer for high-tech/bio-tech companies
c.348 Property Tax Freeze for senior citizens and disabled (benefits increase for 15 years)
c.409 Exemption of military pensions for retirees
<b>1999</b>
c.63 NJ SAVER Program – school property tax rebate
c.260 Increase in Gross Income Tax filing threshold
c.177 Increase in Gross Income Tax pension exclusion
c.22 Allows Income Tax deduction of health insurance costs for self-employed
c.116 Income Tax deferral of earnings in state tuition program and education IRAs
<b>2000</b>
Increase Veterans Property Tax deduction
Earned Income Tax Credit
<b>TOTAL IMPACT</b>

FY 94	FY95	FY96	FY97	FY98	FY99	FY00	FY01	Total
630	688	720	736	794	842	929	999	6,338
52	429	803	1,205	1,390	1,513	1,589	1,669	8,648
2	38	38	38	38	40	40	40	274
	28	28	28	28	28	28	28	196
		9	35	35	35	37	39	189
			7	35	35	36	37	150
			3	16	16	16	17	68
			3	3	3	3	3	15
			4	6	7	7	8	33
			100	167	250	263	278	1,055
				5	13	13	14	45
					38	117	178	331
						50	40	90
						23	47	70
							1	1
						160	336	496
						14	26	40
						11	23	34
							7	7
							1	1
							18	18
							48	48
<b>684</b>	<b>1,183</b>	<b>1,598</b>	<b>2,159</b>	<b>2,517</b>	<b>2,821</b>	<b>3,308</b>	<b>3,803</b>	<b>18,072</b>



**Annual debt repayments of \$1.35 billion in 2000 will grow to \$2.1 billion in 2005.**

### **3. PLAYING WITH BORROWED MONEY: *Bonded Debt Quadruples; will Increase Another 50%***

**F**or most of its history, increases in New Jersey debt were subject to public vote, a right conferred by the state Constitution. Bond issues were few and small until the latter part of the 20th century. Over 33 years from 1968 to 2000 citizens approved 42 bond questions totaling \$7.8 billion for a variety of public purposes requiring capital funds.

However, a remarkable change in state borrowing occurred through a series of rulings in which the New Jersey Supreme Court carved out large exceptions to that constitutional right. It said the debt limitation clause does not apply to a variety of semi-autonomous state entities authorized to issue bonds. These include the Economic Development Authority, Transportation Trust Fund Authority, Educational Facilities Authority, Sports and Exposition Authority, Building Authority and Garden State Preservation Trust Fund.

After 1990, borrowing by authorities rapidly outpaced that of the state. While citizens were approving General Obligation bonds for \$2.7 billion in bonds, the Transportation Trust Fund Authority alone, needing no public approval, borrowed \$5.7 billion. The Economic Development Authority borrowed for 10 separate projects or purposes. Among them is the largest single bond amount ever issued in New Jersey: \$2.8 billion to be placed in New Jersey's pension system. Though the state will not benefit from any tangible construction or project, it will spend 32 years repaying the over \$10 billion cost.

Responding to the use of these bonds and other new types of debt instruments by New Jersey and other jurisdictions across the nation, Moody's definition of a state's "Net Tax-supported Debt" has been expanded to include all debt serviced by tax revenues of a state, whether or not the state itself was the issuer. The intent was to analyze the degree to which a state has leveraged its tax base, creating annual fixed and recurring obligations.

Long-term bond debt grew from \$4 billion to \$15.7 billion from 1990 to 2000. Anticipated issuances of bonds through 2005 will increase that amount to \$24.7 billion.

Annual debt repayments of \$1.35 billion in 2000 will grow to \$2.1 billion in 2005. But it is likely this underestimates actual debt repayment costs. Indeed, less than two months after release of the 2000 debt report, the state Sports and Exposition Authority was to issue \$115 million in bonds. Expansion of Liberty Science Center will result in bonding of \$70-85 million, the new Greystone Hospital will require \$50-60 million and \$80 million is needed to restore the Governor's wing of the State House. Repairs to

## UNDERSTANDING STATE BONDS

### General Obligation Bonds

These are backed by the “full faith and credit” of the state. In other words, bonds issued at any time bind future Governors and Legislatures to repay the money no matter what. The State Treasurer can even levy a tax and pay for these bonds without a formal appropriation being required.

### Subject-to-Appropriation Bonds

The state does not guarantee to repay these bonds. So, to compensate bond buyers for the higher risk, interest rates are slightly higher. The ultimate security for bondholders is the knowledge that a failure by the state to appropriate money for repayment—even though such an appropriation is not legally required—would so damage the state’s credit rating as to shut it out from future borrowing.

### Revenue Bonds

Such bonds are backed by revenue that will be generated from whatever it is that the state is buying the bonds to finance. Examples would be tolls from a highway or receipts from a racetrack. In many cases the entity selling the bonds will not be able to generate enough revenue to pay them back, so the revenue is augmented by state payments from the General Fund.

Subject-to-appropriation bonds issued by authorities now make up two-thirds of the debt the state is responsible for repaying, and 72.8 percent of the debt repayable with general tax revenue. Voter-approved bonds have shrunk to only 27.2 percent of bonds repayable by the state.

### The breakdown, as of June 2000:

General Obligation Bonds	<b>\$3.79 billion</b>
Subject to Appropriation Bonds	<b>\$10.16 billion</b>
Revenue Bonds	<b>\$1.18 billion</b>

Projections for bonding through 2005 show a continuation of a low proportion of voter-approved debt in comparison to borrowing through “subject to appropriation” or “revenue” bonds. Interest rates paid by the state on these forms of borrowing are higher than those subject to voter approval.



**Rising swiftly  
through the ranks,  
New Jersey now  
ranks fifth in the  
nation in debt  
per capita...**

state parks, flood buyouts and dam repairs are important projects requiring hundreds of millions of dollars more in capital funding.

#### **Some Other Capital Projects Requiring Funding**

Project	Estimated Cost
Liberty Science Center expansion	<b>\$70 - 85 million</b>
New Greystone Hospital	<b>50 - 60</b>
Prison for sex offenders	<b>50 - 150</b>
State park repairs	<b>430</b>
Flood buyouts	<b>50</b>
Dam inspection and repair	<b>50</b>
<b>TOTAL</b>	<b>\$700-820 million</b>
Refinance of county waste treatment facilities	<b>750 *</b>

\* state is responsible only for payment on bonds for stranded debt; counties responsible for remainder

#### **NJ's debt ranking among the states**

Rising swiftly through the ranks, New Jersey now ranks fifth in the nation in debt per capita, with an increase to \$1,804 per person in 2000 from \$527 in 1990. When state debt is measured as a percentage of personal income, New Jersey ranks seventh. Debt grew to 5.3 percent of personal income in 1999 from 2.2 percent in 1990. New Jersey's 1999 debt of \$14.7 billion was fourth highest among the states—250 percent of the national median. Since then it has increased by another billion dollars.

Debt per capita will continue to rise rapidly as a result of new borrowing of at least \$9 billion from 2001 to 2005 and more than \$8 billion from 2006 to 2010. Debt as a percent of personal income also will rise even though in recent years the figure has been suppressed by the extraordinary growth in personal income in New Jersey since 1997.

**Projected Annual Debt Service Payments, 2005**

General Obligation	\$520,834,465
Transportation Trust Fund Authority	646,539,389
Garden State Preservation Trust	40,700,000
Capital Improvement Fund – EFA	48,261,750
School Construction – EFA	325,500,000
NJ – Marine Science Laboratory	1,160,013
NJ – 911	8,082,345
NJ – County College Bonds	7,882,673
NJ – Capital Leases	14,101,876
Trenton Office Complex – EDA	10,197,708
Riverview Office Building – EDA	610,146
State Office Building Acquisition – EDA	5,267,769
NJ Building Authority	73,324,653
Newark Performing Arts Center – EDA	5,539,820
Liberty State Park – EDA	1,117,258
Market Transition Facility – EDA	71,678,296
Green Lights Energy Conservation – EDA	817,500
Human Services Facilities – EDA	1,488,160
Pension Bonds – EDA	151,037,177
Higher Education Facilities Trust Fund – EFA	21,015,253
Higher Education Technology Infrastructure – EFA	6,463,244
NJ Sports and Exposition	54,864,717
South Jersey Port Corp.	6,495,358
NJ Transit North Jersey Light Rail – EDA	67,424,443
<b>Total</b>	<b>\$2,090,404,013</b>

**Includes:**

- 1) debt service in 2005 on existing debt as of June 30, 2000
- 2) projected debt service in 2005 on \$9.55 billion in new bond issues
  - a. New Jersey General Obligation bonds through 2005, **\$1.550 billion**
  - b. Transportation Trust Fund Authority bonds through 2004, **\$2.6 billion**
  - c. Garden State Preservation Trust Fund bonds through 2005, **\$475 million**
  - d. Educational Facilities Authority bonds through 2002, **\$550 million**
  - e. Economic Development Authority - School Facilities Construction/ Renovation bonds through 2005, **\$3,875 billion**
- 3) Economic Development Authority - New Jersey Transit North And South Jersey Light Rail bonds issued 8/15/99 (omitted from debt report), **\$634 million**

Source: *State of New Jersey Debt Report*, November 2000



**...if voters are asked to approve new bond issues there is no way to predict the dollar amount or time frame.**

### Looking Even Farther Ahead: Annual Debt Service 2010

	Annual Payment	Increase
Transportation Trust Fund 2004-2010 Bonding of \$3 billion over 6 years	\$ 904 million	+\$257 million
Economic Development Authority \$4.68 billion over 5 years for school facilities	770	+ 445
Garden State Preservation Trust Open space acquisition; \$500 million over 5 years	97	+ 56
Minimum Increase in Annual Debt Service Payment in 2010		+\$758

Does not include estimates for any additional bonding of General Obligation voter approved bonds or subject to appropriation bonds issued by numerous state authorities.

If New Jersey continues its policy of issuing \$300 million in voter-approved debt per year, matching the amount of General Obligation debt that is retired in a year, annual debt service payment would remain about the same. But if voters are asked to approve new bond issues there is no way to predict the dollar amount or time frame.

Projections of annual debt repayments are based on continuation of present low rates for borrowing. If interest rates increase between 2001 and 2010, debt service on new borrowing will rise accordingly. Reduced rates could cut costs.

**During the 1990s and through the first two decades of the 2000s, three specific areas will generate the greatest amount of capital bonding and subsequent debt repayments: transportation infrastructure, school facilities and the pension bond.**

### Transportation Trust Fund Bonds

The Transportation Trust Fund Authority was created in 1985 as a self-perpetuating fund to assure adequate annual funding for construction, expansion and major repairs of New Jersey's roads, bridges and mass transit system in a way that was fiscally sound and sustainable. It established a mainly pay-as-you-go system with a small component of short-term borrowing. In the first seven years of the Fund's existence, bonding covered only \$318 million—12 percent—of \$2.6 billion in capital improvements. In four of those years, no borrowing took place at all.

In 1992, bonding jumped to 45.8 percent of spending. After the reduction of the sales tax in 1993, borrowing in 1993 skyrocketed to 92.2 per cent and remained at a very high 81.2 percent in 1994. It was reduced drastically to 32.2 percent in 1995, but when the Transportation Trust Fund was reauthorized that year all semblance to pay-as-you-go and short-term borrowing was gone. The legislation authorized annual borrowing of \$700 million. Over the next six years the fund borrowed \$4.3 billion to pay the vast majority of \$4.8 billion in transportation capital improvements (though a significant percentage of this money actually paid for salaries and short-term repair work rather than capital infrastructure). Annual revenue from the state paid only 11.1 percent of these costs; borrowed money funded 88.9 percent.

These bonds had 20-year repayment schedules unlike earlier bonds with 5- or 10-year repayment. Furthermore, in 1995 existing debt was refinanced to lengthen shorter-term bonds to 20 years, reducing annual payments in the early years but greatly increasing the overall cost. Thus the state agreed to repay over 20 years money that would support only five years of transportation capital expenditures. At the end of the five-year period, annual debt repayment would consume for another 15 years all of the 9 cents per gallon gasoline tax revenue that was constitutionally dedicated in 1995, leaving no source of funding for transportation capital projects.

That was the case in 2000 when the fund ran dry. Legislative reauthorization allowed issuance of \$650 million in 20-year bonds for the next four years, a repeat of the 1995 strategy. This provided money to pay for increased debt service that will be created by winning public approval of a constitutional amendment dedicating a minimum of \$200 million from the existing petroleum products tax and \$200 million of the sales tax. The measure passed at the polls after a campaign arguing this would assure continued money for capital improvements. All it really assured was that the state could now borrow an additional \$2.6 billion over the next four years. The newly dedicated revenues will face the same future as the dedicated gasoline tax: it will be needed for annual debt repayment long before the end of the decade, and long before the 20-year bonds issued since 1995 are repaid. In both cases, the money was simply taken away from whatever other program or service it was paying for, leaving a hole in the annual budget.

Adding insult to injury, the proposed 2002 budget diverts \$90 million from the Transportation Trust Fund into the General Fund for annual operating costs. Instead of having an additional \$280 million in revenue from the two new dedicated revenue sources, actual revenue available for capital projects is reduced by 32 percent. In addition, the budget calls for authorizing an additional \$85 million in borrowing for the year, increasing the total to \$735 million. Basically, it is a scheme that increases borrowing of \$85 million to allow a diversion of capital funds to annual operating expenses.



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**...debt service  
payments will  
keep growing.**

**Percentage of Transportation Trust Fund Capital Budget  
Funded by Borrowing**

Year	Capital Expenditure	Bond Sale Proceeds	Percentage	Debt Service
1985	\$ 249 million	\$ 51 million	20.5%	
1986	323	0	0	
1987	431	178	42	
1988	323	89	27.5	
1989	365	0	0	
1990	365	0	0	
1991	565	0	0	46 million
<b>Total</b>	<b>\$2.621 billion</b>	<b>\$ 318 million</b>	<b>12.1%</b>	
1992	593 million	272	45.8	
1993	537	495	92.2	
1994	565	461	81.2	
1995	565	182	32.2	163 million
<b>Total</b>	<b>\$2.260 billion</b>	<b>\$1.410 billion</b>	<b>62.4%</b>	
1996	700 million	611 million	87.3	
1997	700	674	96.3	
1998	900	715	79.4	
1999	700	718	100.3	
2000	900	900	100.0	
2001	900	650	72.2	408 million
<b>Total</b>	<b>\$4.800 billion</b>	<b>\$4.268 billion</b>	<b>88.9%</b>	
2002	1 billion authorized by law	\$ 650	65.0	
2002	1 billion proposed 2002 budget	\$ 735	73.5	468 million

Where debt repayments were a very small component of annual expenditures in the early years, they have grown like Topsy. The \$46 million debt repayment at the end of the first eight years has grown to 10 times that amount a decade later: \$468 million in 2002. With no end in sight to continued multimillion-dollar annual borrowing, debt service payments will keep growing. Taxpayers will face \$800-900 million in annual bond repayments before a cent can be spent on actual improvements to the transportation infrastructure.

## School Facilities Bonds

While court decisions mandated increased spending for educational programs during the early and mid 1990s, the school facilities issue was ignored even as enrollment began to grow rapidly after declining for 15 years, adding more than half a million children. Buildings in poor districts that were old, unsafe, unhealthy, overcrowded and educationally inadequate when the Supreme Court ruled that facilities were an issue of constitutional consequence in 1973 had grown worse in all respects.

The school facilities crisis exploded with the 1997 decision of the state Supreme Court requiring New Jersey to plan for and pay 100 percent of the cost of educationally adequate facilities in 30 poor districts along with reduction in class size and removal of health and safety problems. Three years later, the administration and Legislature finally adopted a measure providing \$6 billion for construction of these court-ordered schools, and also including \$2.6 billion for other districts for a total of \$8.6 billion in state bonds to be issued over the following decade.


This is by far the largest bond commitment ever made by the state. The Transportation Trust Fund Authority will have borrowed a similar amount of money by 2005, but it will have done so over two decades.

Because of the uncertainties over the actual price tag and the ability to carry out such a massive program on schedule, projections for the debt service costs are subject to revision. The Office of Legislative Services has ventured an estimate that annual debt service from 2010 to 2020 will be around \$770 million annually. There have been media reports that principal and interest payments will be \$12 billion.


## Pension Bonds

The \$2.8 billion borrowed in 1997 for deposit into the state pension system was more costly than any other single New Jersey bond issue. In comparison, from 1968 to 1999 the largest bond proposal approved by voters was \$640 million for transportation funding in 1968. The largest non-voter approved annual bond sale was the \$900 million by the Transportation Trust Fund Authority in 2000.

Virtually every other New Jersey bond issue produced a tangible product with long-lasting benefits to the state and its citizens such as roads, railroads, sewers, buildings, parks, open space acquisition and Pinelands preservation. But the pension bond issue produced nothing of lasting value.



**The \$2.8 billion borrowed in 1997 for deposit into the state pension system was more costly than any other single New Jersey bond issue.**



**...the true  
purpose of the  
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operating costs.**

### **How Much did Taxpayers “Save?”**

The amount of bonds actually issued was \$2.8 billion. Of that, \$643 million went for purposes other than wiping out the pension deficit: \$590 million to balance the 1997 and 1998 budgets by making it unnecessary for the state to make that amount in pension contributions during the two budget years, and \$53 million for fees, commissions and premiums involved in such a mammoth bond sale.

The cost to taxpayers for repaying just the \$643 million will be \$2.35 billion. Paying back the entire principal and interest over the 32-year life of the repayment schedule will total \$10.27 billion. Lower payments in the earlier years will escalate to \$505.7 million annually for the last nine years, 2021 to 2029.

The publicly stated rationale for this massive borrowing to wipe out the deficit in the pension plan was that it would save \$42 billion (later increased to \$47 billion) by replacing the shortfall immediately rather than paying it through annual appropriations totaling \$57.8 billion through the year 2059.

But the most important thing to remember is that the true purpose of the bond issue was to put funds into the pension system so annual appropriations could be avoided—in other words, to borrow for operating costs.

Today the state enjoys reduced costs in each annual budget because of lower contributions to the pension funds from the General Fund. But future administrations and taxpayers will have to shoulder the vast majority of \$10.2 billion repayments for the pension bond. Annual debt service costs were kept low in the early years: \$24 million in 1998, and \$68-69 million in 1999, 2000 and 2001. Taxpayers will have to pay \$505 million annually from 2024 to 2032.

Actual payments made so far vary sharply from the schedule of debt service payments presented in the prospectus offering the pension bond of 1998: \$90.8 million; 1999: \$123.8 million; 2000: \$133.3 million; and 2001: \$130.8 million. It appears that even more of the cost is being shifted to future taxpayers. By reducing annual contributions between 1994 and 1997, New Jersey missed an unparalleled opportunity to increase the value of funds in its pension system. The way stocks appreciated during the 1990s, the state would have seen a diminution of its annual contributions without any need to borrow \$2.8 billion and subject taxpayers to repaying \$10.3 billion, with payments of \$500 million annually from 2020-2029.

## 4. SKIMMING:

### *Using Pension Funds to Avoid Budget Deficits*

In 1994, the pension system was manipulated in several ways. First, actuarial assumptions that determine the amount of annual state contributions were changed. These changes included adopting a new unit measurement formula and increasing the assumption of how much the value of the pension fund portfolio would grow annually. Adopting the unit measurement formula reduced near-term payments by pushing costs into the future. Assuming a higher rate of annual growth in portfolio value (increased to 8.75%) reduced near-term contributions. Together, these changes enabled the state to reduce annual contributions to the pension system by hundreds of millions of dollars. Second, the state stopped funding the medical benefits portion of the pension system and spent the money that had been set aside for these benefits.

The faultiness of the new actuarial assumptions adopted in 1994 soon became apparent. The unfunded liability—or deficit—in the pension system grew from \$800 million in 1993 to \$4.7 billion in 1995. The 1995 deficit was reduced by two factors: the new actuarial assumptions that shifted costs into the future and growth of the value of the portfolio with a surging stock market. It is likely that this increase in the unfunded liability resulted in, or was about to result in, a reassessment by actuaries leading to a large increase in the amount of the state's annual contribution.

The state unilaterally severed post-retirement medical benefits from the pension system and switched to annual pay-as-you-go funding. This second action failed to change a fundamental economic reality: the multi-billion dollar accrued liability for post-retirement medical benefits did not disappear. The administration deftly removed it from the pension equation, but the liability remained and grew.

The state used two strategies to reduce payments for post-retirement medical benefits in the short-term while shifting increased costs into the future. By moving to annual pay-as-you-go, the state no longer made annual contributions into the pension system for medical benefits. Included in such contributions is money to be left in the fund as investments that will increase in value over time to help pay for future retirees' benefits, thus reducing the need for future tax dollars. Shifting to pay-as-you-go enabled the state to pay only for present retirees, leaving later administrations, and taxpayers, to pay the full cost of the much larger number of future retirees. The administration then raided the built-up medical pension funds in the system to help balance the budget.

This was a big help in avoiding a budget deficit. In 1994 and 1995, more than \$400 million in annual payments for medical benefits came from built-up assets in the pension fund rather than from annual tax revenue from the General Fund.



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**...the actions of  
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Both of these strategies did nothing to reduce the actual cost of post-retirement medical benefits. Instead, they shifted the cost to later administrations and taxpayers.

The extent of this shift is made clear in a schedule released by the state showing annual state appropriations for medical benefits from 1992-2007 and the growth of the unfunded accrued liability for this benefit. The unfunded liability in the medical benefit system stood at \$2.26 million in 1994, \$2 billion less than it had been just a year earlier in 1993, a benefit of revaluing the pension portfolio to market value rather than value at purchase. Since the pay-as-you-go switch in 1994, the unfunded liability has almost tripled by 2001, reaching \$6.1 billion. But that increase is small potatoes compared to the deficit growth over the next five years: the state calculates it will escalate to \$12.6 billion.

Failure to make contributions to the medical benefits pension system after 1994, combined with the raiding of existing funds, resulted in hundreds of millions of dollars not being invested during a period when the value of the state's pension portfolio was growing at unprecedented levels each year. The bottom line, at least as far as can be known up to 2006, is that the actions of the state in 1994 have shifted \$10 billion in costs to future taxpayers.

The legality of the 1997 pension bond sale is called into serious question because of the state's document showing that there was an accrued liability of \$3.3 billion in the post-retirement medical benefit plan that year. Borrowing \$2.8 billion and depositing it into the state's non-medical pension system simply did not do what the state claimed—wipe out the deficit—when the medical benefit is included. Since it did not wipe out the existing deficit, the legality of reducing payments into both benefit systems is questionable.

**Annual State Appropriation for Post-Retirement  
Medical Benefits 1992-2007**

Year	Amount	Unfunded Annual Increase/Decrease	Accrued Liability
1992	\$208.6 million		\$ 3.66 billion
1993	247.4	+ 38.8 million	4.27
1994	28.0	- 219.0	2.26
1995	42.0	+ 14.0	2.79
1996	178.1	+ 164.1	3.10
1997	178.4	- .3	3.34
1998	150.1	- 28.4	4.21
1999	131.0	- 19.1	4.18
2000	177.5	+ 46.5	4.91
2001	249.5	+ 72.0	6.15
2002	332.2	+ 82.9	8.26
2003	373.4	+ 41.0	9.12
2004	423.0	+ 49.2	10.07
2005	478.8	+ 56.2	11.12
2006	541.1	+ 62.3	12.26
2007	622.6	+ 81.5	13.51

In 1992 and 1993, the annual state appropriation was deposited in the pension fund for post-retirement medical benefits. After 1993, the annual state appropriation paid for the actual medical benefits due eligible retired beneficiaries. In 1994 and 1995 these payments to retired individuals were funded with accrued pension funds deposited earlier for this specific benefit.

**Comparison of Average Annual Increase or Decrease in  
State Appropriation For Post-retirement  
Medical Benefits for 3 Time Periods**

Time Period	Total Change in Millions	Average Annual Increase/Decrease
1993-1997	- \$68.9	- \$17.2
1997-2001	+ 71.0	+ 17.8
2001-2006	+ 291.8	+ 58.3
2006-2007	+ 81.4	+ 81.4



**It was clear...  
that there was  
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to pay either the  
1997 or the 1998  
contribution to the  
pension system.**

### **Continued Tax Reductions Lead to Budget Deficit Problems, 1996-98**

The state continued to make tax reductions from 1994 to 1997. Despite an improving economy, the tax cuts depressed the growth of state tax revenue. The state budget increased only \$762 million over the three-year period and in 1997 it was actually \$52 million smaller than the 1996 budget.

By 1997-1998, the fourth budget year of the new administration, there was tremendous pressure to provide additional funding for programs that had suffered reductions or freezes to keep expenditures in check during 1995, 1996 and 1997. In addition, the state faced significantly higher school aid costs in fall 1997 to fund a new school aid law and programs ordered by the Supreme Court to provide the constitutionally required "thorough and efficient" education in poor school districts

It was clear during preparation of the 1997-98 budget (late 1996 into 1997) that there was not enough money to pay either the 1997 or the 1998 contribution to the pension system. This fiscal crisis led to another manipulation of the pension system: the pension bond plan.

### **Budget Deficit "Solved" with Pension Bond**

The third manipulation of the pension system to avoid a budget deficit by reducing annual contributions for pensions involved borrowing billions of dollars. The money was to be deposited in the pension fund to wipe out the unfunded liability. Not only would this provide relief for the cash crunch of 1997 and 1998, it also was designed to provide continuing fiscal benefits through the end of the next four-year term of the administration.

Donald Scarry, a former member of the state Council of Economic Advisory noted the longer-term benefit to the incumbents, in May 1997. He was quoted as saying, "This could carry her budget in the next four years of her administration." (*Star-Ledger*, 5/11/97) The prescience of the comment now is clear. The state payment to the Teachers Pension and Annuity Fund was reduced by \$321 million in 2000, based on provisions of the 1997 law that changed pension fund surplus requirements. This reduced the state's 2000 contribution to only \$119 million, and the 2001 contribution was not much higher, \$165 million.

The rationale employed to promote the pension bond plan was that paying off the unfunded liability through annual contributions would be so costly that it would be much cheaper to borrow the money to eliminate the deficit in the pension system. The scenario put forward was that it would cost the taxpayers \$57.8 billion to fully fund the system through annual contributions for the next 60 years. It should not escape attention that this enormous cost resulted from the changes in the actuarial assumptions in 1994 that pushed costs into the future and from the failure of the state to make adequate annual contributions from 1994-1997.

The original plan was to borrow \$3.4 billion, deposit it in the pension system and eliminate the unfunded liability. The January 1997 proposal to do so led to months of controversy and by June the bond amount had been reduced to \$2.75 billion. After the Legislature approved the plan, the money was deposited in the pension system and the state declared it fully funded.

### **Full Funding Achieved by Manipulation**

There are two reasons to believe that the pension deficit was not actually eliminated. When standard actuarial assumptions are employed, the pension system was not fully funded by the deposit of \$2.75 billion. The administration solved this problem by introducing legislation that declared that funds in the pension system would be valued at 100 percent of market value for one year only—even though market value of investments is never used in determining whether the system is fully funded. Less than market value is used to provide a cushion against market fluctuation. Using this sleight of hand, the state avoided making \$590 million in 1997 and 1998 contributions that would otherwise be required. Having avoided payments, New Jersey's pension fund's valuation returned to approved practice a year later.

The second fact undermining the claim that the pension deficit actually was eliminated is the accrued liability for post-retirement medical benefits. A schedule of the unfunded accrued liability for this benefit shows that in 1997 it stood at \$3.3 billion. The administration unilaterally dismissed this liability when proclaiming that the pension system was fully funded.

The state's actions on post-retirement medical benefits and the pension bond raise serious questions regarding legality, ethics, fiscal responsibility and tax equity. Is it lawful to raid an existing pension fund? Is it ethical to make changes that benefit the administration while endangering retirees' future medical benefits? Is it fiscally responsible to remove existing medical pension benefit funds, resulting in massive unfunded accrued liability? Is it equitable to relieve the present government and today's taxpayers of covering their fair share by shifting far greater costs to future governments and taxpayers?

Indeed, is it fair to ask someone born in 2000 to be paying when they are almost 30 years old for income tax cuts made in the 1990s? Is it equitable for today's generation to greatly reduce its annual pension obligation and arrange it so that taxpayers pay \$4.5 billion in the years from 2021 to 2029 to make up the difference? That is what the pension bond did.



**Is it equitable to relieve the present government and today's taxpayers of covering their fair share by shifting far greater costs to future governments and taxpayers?**



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## **5. ON A ROLL: State Revenue Growth**

**T**he period from 1997 to the present differs sharply from the past in terms of revenue growth as shown by an analysis of the three major state taxes and three smaller taxes. We look at revenue derived from these taxes during four periods, each lasting eight years, starting with 1969-1976 and ending with 1993-2000. The chart on page 36 shows the total dollar increase and annual average increase for each eight-year period and the date of each increase or decrease in tax rates.

Prior to 1993-2000, it was largely the case that tax *revenues* increased only if tax *rates* increased. With the Sales and Use Tax and the Gross Income Tax, increased rates combined with inflation that increased the price of goods and raised personal income over time. The only exception was business taxes that have fluctuated wildly at times.

Revenue from the Sales and Use Tax during 1985-1992 is a good example of the effect of a tax rate increase (1990) and its subsequent removal (1992). The total revenue increase over eight years was \$2 billion, with an average annual increase of \$255 million. But if the increase in revenue from the one-cent tax increase in effect in 1991 and 1992 is factored out, the eight-year revenue increase drops to only \$702 million, an average annual increase of only \$88 million.


When the sales tax was returned to 6 cents in 1992, it caused a loss of revenue in 1993 of \$358 million, reducing the total to \$3.65 billion, only \$448 million greater than in 1990. \$1.3 billion of the \$2 billion total increase in sales tax revenue over the eight-year period is directly traceable to the 1-cent tax increase of 1990.

Similar increases in sales tax revenue due to rate increases can be seen over a 32-year period. In 1969, the two-cent sales tax increase (to 5 cents from 3) spiked revenue by \$250 million in two years. In 1982, the one-cent sales tax hike to (6 cents from 5) resulted in almost \$1 billion in increased revenue over the next three years. And, the one-cent increase in 1990 jumped revenue by an additional \$800 million in 1991.

With the personal income tax, rate hikes in 1983 resulted in additional revenue of \$661 million in the next three years, for a \$221 million average annual increase. Higher income tax rates imposed in 1990 led to a revenue increase of \$1.37 billion, a \$456 million average annual increase.

But what happened from 1994-2001 is unique in New Jersey revenue history. Despite three successive *reductions* in income tax rates in 1994, 1995 and 1996, revenue collected by the state continued to *grow*. Modest revenue increases in 1995, 1996 and 1997 exploded into extraordinary growth over the next four years, expanding by \$2.9 billion—an average yearly increase of \$725 million.

The sales tax rate remained the same during this period, yet revenue from this tax also exhibited a pattern of unusual increases from 1997 on. Repeal of the 1990 one-cent sales tax increase in 1992 led to a loss of sales tax revenue of \$359 million in 1993. And from 1993 to 1997, revenues grew less than \$200 million annually, to \$4.42 billion from \$3.65 billion. Then sales tax revenue began to increase sharply. The average annual increase from 1997 to 1999 was \$313 million; from 1999 to 2001 the annual average rose to \$484 million per year.



**...what happened  
from 1994-2001  
is unique in  
New Jersey  
revenue history.**

Year	Increase in income tax revenue	Increase in sales tax revenue
1994	\$168 million	\$127 million
1995	47	355
1996	193	185
1997	92	97
1998	747	351
1999	733	288
2000	711 estimated	521 estimated
2001	703 estimated	448 estimated

**Total Dollar Increase of Selected State Revenues by Eight Year Periods, 1969-2000**  
**Average Annual Increase for Eight Year Period (in millions)**

	Sales and Use	Gross Income	Corporation	Motor Fuels	Cigarette	Inheritance
<b>1969-1976</b>						
\$ Increase	\$ 565 (1)			\$282 (7)	\$168 (9)	\$ 17
Avg. Annual Increase	81			47	28	2.1
<b>1977-1984</b>						
\$ Increase	\$1,145 (2)	\$1,732 (4)	\$354	\$13	\$49	\$91
Avg. Annual Increase	143	216.5	59	1.6	6	11.4
<b>1985-1992</b>						
\$ Increase	\$2,036 (3)	\$2,370 (5)	\$7	\$100 (8)	\$48	\$54
Avg. Annual Increase	254	296	87	12.5	6	6.75
<b>1993-2000</b>						
\$ Increase	\$1,924	\$2,933 (6)	\$486	\$111	\$101 (10)	\$175
Avg. Annual Increase	275	366	61	13.9	12.6	21.9

(1) 2 cent increase to 5 cents in 1970

(2) 1 cent increase to 6 cents in 1983

(3) 1 cent increase, '90, to 7 cents repealed in '92

(2) tax rates increased in 1983

(5) tax rates increased in 1990

(6) tax rates reduced in 1994, 1995, 1996; 30% reduction

(7) 1 cent increase to 8 cents in 1972

(8) tax rate increased to 10 \_ cents in 1984

(9) tax rate increased five cents in 1972 to 19 cents

(10) tax rate increased by 20 cents to 40 cents in 1998

## HITTING THE JACKPOT...AND SOBERING LOSSES

**S**ometimes unanticipated revenue sources come into play. But there is a danger in relying too much on such windfalls—as New Jersey appears to be doing in the case of the tobacco settlement.

Settlement of the multi-state lawsuit against tobacco manufacturers, projected to provide New Jersey with \$300 million a year, seems like a nice windfall. Tobacco funds were to pay for \$470 million worth of programs in Fiscal Year 2001—a sum that includes money held in escrow from previous years. Two major programs received one-time-only funding from the settlement: \$140 million to hospitals to provide charity care for the uninsured, and \$50 million to the New Jersey Insolvent HMO Assistance Fund to help reimburse doctors and hospitals for a portion of the losses they suffered when two HMO's closed their doors.

Long-term, the state has plans that amount to spending tobacco revenue more than once. The administration and Legislature agreed to dedicate \$100 million of tobacco settlement funds annually toward constructing school facilities, \$30 million for five anti-smoking initiatives, and \$50 million to Senior Gold, a new prescription program for modest income seniors and disabled who do not qualify for existing pharmaceutical assistance (PAAD). In addition, the state plans to use tobacco settlement money for two other new programs, FamilyCare (medical insurance program for lower income citizens) and KidCare, the medical insurance program for children.

It seems clear that the \$190 million of tobacco funds used for charity care and the HMO failure was used to plug holes in the 2001 state budget. Determining what programs will be funded next year with the \$170 million remaining after funding the school facilities program and anti-smoking initiatives will be difficult and contentious. Originally estimated to cost \$206 million in 2002, the cost of FamilyCare has skyrocketed and will exceed \$260 million in 2002. KidCare and Senior Gold costs will increase rapidly as well.

“Fuzzy math” about how many programs can be funded by a specific revenue source has precedent in New Jersey fiscal policy-making. When the Casino Revenue Tax was imposed, lawmakers added new programs and increased benefits in existing programs for senior citizens to where the cost of these programs now far outstrips tax revenue from casino gambling. Casino funds of \$352 million will pay just one-half of the \$707 million of 18 different programs that originated in the Fund or were created to be included within the Fund. The rest will come from state tax revenue that is subject to “drying up” during economic slowdown or recession. Besides over-promising tobacco money to fund new programs, the state faces the problem of finding another source of revenue to replace the \$140 million in charity care paid with tobacco settlement money this year.

Reliance on tobacco money is further jeopardized by the unreliability of the source. In December 2000, New York State was forced to reduce allocations of the state’s tobacco money because of a significant falloff in revenue due to declining cigarette sales. New Jersey’s annual payment presumably will be similarly affected.

On the other side of the ledger, factors were combining to cost the state important revenue. Estimates of the loss of sales tax dollars by the state due to purchase of goods on the Internet vary widely. The federal General Accounting Office in 2000 provided a range of potential losses that is 15.5 times larger at the high end than at the low end. In 2001, that range is from \$10 million to \$155 million in New Jersey. If GAO’s assumptions are correct, by 2003 New Jersey’s loss will increase to somewhere between \$33.3 million and \$516 million.

Sales tax revenue was estimated at \$6 billion in the 2000-2001 budget and provides 28 percent of annual state revenue, second only to the personal income tax, which is constitutionally dedicated to property tax relief. It is the workhorse of the tax system paying for a multitude of state programs.

## 6. UPPING THE ANTE: *Growth of State Spending*


No matter what party is in power or who is the Governor, New Jersey's state budget is, for the most part, ever increasing. An examination of different time periods shows significant differences in the average annual amount of growth of the budget. A comparison of three five-year periods from 1985 through 2000 provides an unexpected result. The highest average annual increase in the budget, \$843 million, actually took place between 1985 and 1990. The lowest increase occurred from 1990-1995. The last five years of the century saw a rebound in the average annual increase, but it still remained \$43 million less than the 1985-90 figure.

Years	Increase in Budget	Average Annual Budget	#Years
1985-1990	\$4.2 billion	\$ 843 million	5
1990-1995	3.3	655	5
1995-2000	4.1	800	5
2001	1.9	1,900	1
2002 (proposed)	1.4	1,400	1

However, the really startling change in the yearly increases in the budget are found after 1998: \$1.3 billion in 1999; \$1 billion in 2000; \$1.9 billion in 2001; and a projected increase of \$1.4 billion in the 2002 budget.



**...New Jersey's  
state budget is,  
for the most part,  
ever increasing.**



**Education replaced  
Human Services  
as the highest  
spending  
department...**

### State Budget vs. Income Growth

	State Budget	% Growth Since 1985
1985	\$ 7.947B	
1989	\$11.904B	50%
1990	\$12.163B	53%
1991	\$12.639B	59%
1992	\$14.872B	87%
1993	\$14.738B	85%
1994	\$15.495B	95%
1995	\$15.439B	94%
1996	\$16.309B	105%
1997	\$16.257B	105%
1998	\$17.158B	116%
1999	\$18.532B	133%
2000	\$19.515B	146%
2001	\$21.400B	169%
2002 (P)	\$22.900B	188%

### Department Budget Increases

A more complete understanding of spending patterns can be gained from examining growth in particular state departmental budgets.

Departmental budget information shows which programs and services experience reduced, flat or increased funding. And it signals changing needs and priorities—with significant shifts from 1995 to 2001. Education replaced Human Services as the highest spending department, while the move of programs for senior citizens from Human Services to Health—along with major increases in the number and cost of such programs—represented the largest increase in resources for one department—\$970 million.

The Transportation Department increased 131 percent, or \$678 million. An increase in the Treasury Department budget of \$549 million, 62 percent, reflects higher debt repayments for bonds issued by the Transportation Trust Fund Authority and other authorities.

Spending for Higher Education and Community Affairs both grew around \$365 million, but the percentage growth is higher for Community Affairs because it started from a smaller base. Corrections Department spending continued to increase, but at a slower rate than in the first half of the decade. Spending growth in eight other departments was modest in dollar terms; only two exceeded \$100 million, with the rest ranging from \$1 million to \$50 million.

### Growth of Budget for Higher Cost State Departments for Selected Years

Department	1994-1995	1999-2000	1989-1990	2000-2001
Education	\$3.667	\$3.956 (1)	\$6.147	\$6.622
Higher Education	963	1.018	1.273	1.436
Transportation	728 (2)	658	857	1.181
Human Services	2.410	4.163	3.167 (3)	3.445
Health/Senior Services	107	93	1.206 (3)	1.063
Corrections	476	741	879	966
Treasury	833	807	1.014	1.436
<b>Total</b>	<b>\$9.184</b>	<b>\$11.436</b>	<b>\$14.543</b>	<b>\$16.149</b>
Debt Service/G.O.		104	519	530
Debt Service/ by Appropriation			831	

- 1) The increased school aid promised by the Quality Education Act of 1990 was undermined by the tax reductions of 1992, and by the freeze of major school aid programs at the 1992 level by the Whitman administration. As a result, education funding increased only 7.8 percent in the five-year period, an average of slightly more than 1 \_ percent per year.
- 2) The higher amount for 1990 resulted from a far greater amount of pay-as-you-go funding for capital projects. Starting in 1992, borrowing increased from \$272 million annually to \$900 million in 2000. Much of the increased funding for transportation is being consumed by growing debt service payments. In 2001, these payments are estimated to cost \$433 million.
- 1) Senior Services were moved from Human Services Department to Health Department



**As fast as revenue grew during the late 1990s and into the 2000s, spending grew even faster.**

### Spending Outpaces Revenue

As fast as revenue grew during the late 1990s and into the 2000s, spending grew even faster. The pattern of expenditures would be even higher except that pension appropriations were kept artificially low by changes to the pension system in 1994 and by borrowing \$2.8 billion in 1997, both of which shifted the cost to future governments and taxpayers

#### Total Dollar Increase in Seven High Cost State Department Budgets 1990-2001

1990	\$9.184 billion		
1995	11.436	increase from 1990 to 1995	\$2.252 billion
2000	14,543	increase from 1995 to 2000	\$3.107 billion
2001	16.149	increase from 2000 to 2001	\$1.606 billion
		increase from 1990 to 2001	\$6.965 billion
		Debt Service/General Obligation	\$426 million
		Debt Service/Subject to Appropriation	\$900-925 million (estimated)

#### Dollar Increase and Percentage Increase for 7 High Cost Department Budgets and Debt Service 1990-2001

	Dollar Increase	Percentage Increase
Education	\$2.955 billion	81 %
Health/Human Services Combined	1.991 billion	72
Treasury	603 million	72
Corrections	490 million	103
Higher Education	473 million	49
Debt Service/General Obligation	426 million	422
Debt Service/Subject to Appropriation	900 million (estimated)	
<b>Total Dollar Increase</b>	<b>\$7.838 billion</b>	

## 7. GAMBLING THAT GOOD TIMES NEVER END: *Future Costs Will Exceed Estimated Revenue Growth*

**T**he greater than \$5 billion increase in state budgets from 1996 through 2001 was paid for in large part by the massive increase in personal income in New Jersey (the largest proportion of which went to the highest income households) during an extraordinary economic boom. The flood of personal income also fueled spending for tangible goods, creating a bonanza of sales tax revenue. And the economy produced increased revenue from taxes on business.

But, as noted earlier, this added tax revenue still is not enough to cover spending that New Jersey state government has approved for programs, services, state aid, property tax relief and more. Furthermore, future governors and legislators—and taxpayers—have been committed to multi-billion dollar borrowing programs for transportation, school facilities and pension bonds. No tax increases are on the books to provide money to repay the multi-billions of dollars this bonding continues to create. Nor has any revenue source been created to pay future costs for a variety of programs, services and tax relief approved by the executive and legislative branches that will grow by billions of dollars as well. Indeed it is quite possible that the policymakers of the 1990s and early 2000s have committed future revenue that will not materialize.


The analysis that follows is conservative—a partial picture of how much revenue will be needed in future state budgets to meet existing obligations. It focuses on a number of state departments with important and costly responsibilities and on programs and issues that have been the subject of press coverage. If the state continues on its present fiscal course, the results are likely to be even more negative than what can be described here.

**First, we look at future costs of a variety of state programs already in existence where costs will rise due to increased participation or phase-in of benefits.** Reasonable cost estimates are made where possible. Where it was difficult or impossible to come up with reasonable estimates none is made.


### **Tax Relief Programs**

#### **NJ SAVER**

The program promised \$1 billion per year in relief from the school portion of property taxes starting at the end of a 5-year phase-in period. In the second year the state sent \$337 million in rebates to 1.9 million homeowners. The Treasury Department analysis of the 2002 state budget revealed



**...this added tax  
revenue still is not  
enough to cover  
spending that  
New Jersey state  
government has  
approved.**



**Additional state revenue of \$474 million is required to provide the full amount of property tax relief promised to each homeowner.**

that NJSAVER will provide only \$810 million in rebates when fully funded in 2002—20 percent less than originally estimated. Additional state revenue of \$474 million is required to provide the full amount of property tax relief promised to each homeowner.

#### **Senior Citizen Property Tax Freeze**

The first-year cost was projected to be less than \$25 million, increasing to \$145 million by 2004, and reaching \$340 million by 2010. As with many recent property tax relief measures, initial year enrollment fell below anticipated numbers. The cost of the senior tax freeze program increases annually as more people become eligible and as property taxes increase in the communities which recipients reside.

#### **Earned Income Tax Credit**

New Jersey adopted an EITC similar to the federal program, which will provide cash payments to the state's lowest income working citizens starting in 2001. The benefit is phased in over four years. In the first year it will require \$49 million, a figure which will grow to \$106 million in 2004.

#### **Veterans Property Tax Deduction**

In 1999 voters approved a constitutional amendment increasing the property tax deduction for veterans from \$50 to \$250 over a four-year period, from 2000 to 2003. The \$15 million dollar annual cost in 1999 would increase to \$85 million. Mortality among aging veterans of World War II eventually would reduce this cost, but a recent legislative proposal calls for making additional veterans eligible for the benefit.

#### **Municipal Aid**

Legislation passed recently provides an inflation adjustment for state aid to municipalities. The cost in 2000 was \$65 million. The Senate has passed legislation that would increase the block grant program for municipalities by \$99 million, phased in over three years.

### **Pension Benefits**

#### **Post-Retirement Medical Benefits**

In 1987, legislation was passed adding free post-retirement health insurance (PRM) to other retirement benefits for state employees and teachers with 25 years of service. An actuarial schedule to fund the benefit was established and the payment schedule was accelerated several years later. As part of 1994 changes in the pension system, advance payment for PRM was eliminated and the system was placed on an annual pay-as-you-go basis. Existing pension system funds for PRM were used to make annual pay-as-you-go payments, wiping out that pool of money. Fiscal responsibility for all future payments for post-retirement medical benefits now is an obligation that must be paid annually from the General Fund of state revenues. The Legislature set up a reserve fund into which an annual payment of one-half of a percent of payroll must be deposited. This deposit of \$50-55 million annually has grown to a reserve of \$360 million.

The future impact of annual pay-as-you-go funding for these benefits is enormous because of the expected retirement of a preponderance of the 59,000 active teachers now over age 44—almost 57 percent of working teachers. The vast majority of teachers retire by age 60; only 3.7 percent of active teachers are 61 or older. More than one-third of practicing educators fall within the 50-59 age bracket. In short, we can anticipate that the vast majority of approximately 39,000 teachers, ages 50-64, will retire within the next 10 years, creating a heavy fiscal responsibility.

According to the Treasury Department, in 1998 the state paid \$163 million in health benefits for 47,000 people. By fiscal year 2000, the annual payment reached \$199.6 million for 54,000. The 2001 budget provided \$272.4 million, a very large increase of \$73 million compared to previous years. These annual amounts are \$13 - 23 million greater than figures released March 21, 2000 by the Division of Pensions and Benefits.

The Division's chart showing post-retirement medical funding contains figures for the annual state appropriation and the unfunded accrued liability for the years 1992 to 2007. The 2001 annual appropriation of \$249 million is estimated to increase to \$622 million in 2007. The unfunded accrued liability of \$6.2 billion in 2002 will have swollen to \$13.5 billion five years later

## Education

### Public School Funding

The rapid expansion of enrollment since 1991 has played a major role in continued increases in annual spending for public education. So have state Supreme Court rulings during the 1990s that found school funding laws unconstitutional. The rulings led to two new school funding laws that not only responded to court orders for improved educational and social programs in poor districts but also increased aid to all districts. A third factor in higher school costs is the need for new, expanded and renovated facilities, which in many cases will replace or renovate unsafe, unhealthy, overcrowded, antiquated schools.

Annual funding for education grew by \$2 billion in the past four years. The proposed increase in the 2002 state budget is \$621 million, to a level of \$7.3 billion. Facilities legislation provides for \$8.6 billion in state bonding for school facilities aid to the districts. Early estimates are that the cost to the state will be at least \$12 billion and local districts will pay another \$300 million, but the figures are subject to adjustment.

In addition, two programs mandated by the Supreme Court to enable disadvantaged children to achieve the state's core curriculum standards will require significant funding:



**The future impact  
of annual  
pay-as-you-go  
funding for these  
benefits is  
enormous...**



**The state's  
decade-long  
failure to deal  
substantively with  
this issue makes  
it difficult to  
estimate the cost...**

- ◆ The past two state budgets each allocated close to \$313 million for preschool—two-thirds for the 30 Abbott districts and one-third for others. But three years after the Supreme Court's first order on preschool, only 46 percent of eligible children in the Abbott districts were attending, and programs for 3-and 4-year olds were required to move from half-day to full-day. Problems in determining the cost for this arise from disagreement over what educational and social services are required to meet the needs of the children and how many students are in the pre-school age group. It is reasonable to expect at least a tripling of present spending in the 30 poor districts will be required, to \$600 million.
- ◆ Similar problems hinder efforts to determine the cost of supplemental programs termed "demonstrably effective" under law. These cover additional educational and social services to address special needs for disadvantaged children and assure they achieve core curriculum content standards. The 2000 budget included \$190 million, and the 2001 budget \$193 million for these programs. But the money also must pay for these programs in non-Abbott districts enrolling a specified proportion of poor children. The state's decade-long failure to deal substantively with this issue makes it difficult to estimate the cost of providing "demonstrably effective" programs in all districts with high concentrations of poor children.

In April 2001, the 30 Abbott districts requested \$1.3 billion in additional state aid they say is needed to pay for state and court mandated preschool, whole school reform and other programs to meet educational and social needs of the children they serve.

### **Higher Education**

The proposed 2002 budget includes an additional \$167 million that provides a 10 percent increase which the Commission on Higher Education requested to meet the needs of a large increase in students enrolled in New Jersey colleges, as well as money for additional special programs.

## **Medical and Pharmaceutical Assistance**

### **Pharmaceutical Assistance for Aged and Disabled**

PAAD costs are rising and will keep going up, based on nationwide trends. A Families USA study in 2000 found that older Americans pay twice as much for prescription drugs as in 1992. The average senior's cost per prescription has risen from \$28.50 in 1992 to \$43.20, and is projected to reach \$72.94 in 2010. The number of prescriptions bought annually by seniors is going up as well.

Annual state PAAD appropriations increased 49.4 percent in three years, from \$204 million in 1998 to \$313 million in the 2001 budget. PAAD money comes from the Casino Revenue Fund and the state General Fund. As costs rose during the 1990s, so much of the Casino Revenue Fund was being allocated to PAAD that the Fund's availability for a variety of other

senior citizen programs was diminished. In 2000, 57 percent of the casino revenue supported PAAD, but that proportion rose to 65.8 percent in the 2001 budget. An additional \$59 million in casino revenue has been allocated to PAAD since 1998, reaching \$230 million in the 2001 budget.

The lion's share of PAAD is from the casino money: 83.3 percent in 1998. But the shift in the proportion of support will continue in the future. Support in 2000 at a level of 80.1 percent declined to 73.3 percent in 2001. Two factors are at work: the increase in PAAD costs (with growth of \$32 million in 1998, \$36 million in 1999, and \$40 million in 2000) and a projected decline of \$35 million from the Casino Revenue Fund in 2001. Clearly, revenue from casino gambling will not keep pace with increased pharmaceutical costs.

Assuming the same rate of increase in spending for the next three or four years, PAAD would cost \$468 million in 2004 and \$545 million by 2005. Using the Families USA estimate of 133 percent yearly growth in the cost of seniors' prescriptions by 2010, PAAD would cost \$637 million, an average annual increase of \$36 million. If costs rise at the present rate, the state is likely to act to reduce the drain on the General Fund. So this report will take a middle ground. Using an average yearly increase of \$45 million for the next five years, PAAD costs would increase to \$493 million in 2005.

### **Senior Gold Prescription Discount**

A new program will provide a discount on medication to as many as 180,000 to 190,000 moderate-income elderly and disabled citizens. The estimate of the number of eligible beneficiaries has increased from 100,000 just a few months ago. Originally, the program cost was projected to be \$60 million, with an increase to \$87 million if eligible beneficiaries reached 140,000. Clearly the cost will rise if the new estimate is accurate. Participants will pay \$15 per prescription plus half the cost of the drug, with the state picking up the rest until prescription costs reach \$3,000. At that point, 100 percent would be state-paid.

### **FamilyCare Health Insurance**

FamilyCare is to provide subsidized health insurance for 125,000 working-poor adults, including 80,000 parents whose children are enrolled in Kid-Care and 45,000 singles or married couples without children. It will provide HMO coverage for monthly premiums by recipients that range from \$25 to \$65, give health insurance to a portion of the estimated 1.3 million New Jerseyans without coverage and ease the burden on New Jersey hospitals forced to care for large numbers of uninsured and underinsured patients. At passage, the cost was estimated to reach \$206 million in the third year.

By mid-May 2001, state officials said 98,000 people had signed up since November, 16,000 more than the number budgeted for the entire 2001 fiscal year. The backlog of those waiting to enroll has increased to 35,000, itself exceeding the number of people expected to be enrolled in 2003. Clearly the \$168 million budgeted for this fiscal year will be insufficient.



**Clearly, revenue  
from casino gambling  
will not keep  
pace with increased  
pharmaceutical  
costs.**



**...the state must  
find revenue from  
another source  
to meet its  
obligation.**

The Department of Human Services is reported to be looking for surplus cash from Medicaid and may ask for an emergency appropriation.

A March estimate that the cost might balloon to \$264 million in the second year—\$58 million more than the estimated third-year cost—now appears to be far too low

#### **Charity Care**

The state requires all hospitals to provide treatment regardless of a patient's finances. State reimbursements to hospitals for this public health service were \$320 million in January 2000, but hospitals claimed there was a \$180 million shortfall in state payments. In December 2000, the state Senate approved an additional \$25 million to hospitals for treating uninsured or underinsured patients. With the \$140 million charity care payment from the tobacco settlement available only for a single year, the state must find revenue from another source to meet its obligation to fund the care of uninsured that it requires by law.

#### **Pay Raises**

Salary increases approved for the Governor, legislators, judges and cabinet members total \$14.1 million annually. Raises for other state workers will take place over a four-year period from 2000-2003. Initial year increases will cost \$85 million and future increases should add approximately \$125 million additional in salaries for state workers.

### **Proposed New Programs**

**Next we estimate costs of some major programs that have been proposed and are likely to be approved.**

#### **Higher Education**

A study will determine the design and cost of a tuition aid program to meet the needs of part-time New Jersey college students.

#### **Homestead Rebate**

An increase in the \$500 maximum Homestead Rebate to \$750 at a cost of \$126 million has been passed by the Senate

#### **Senior Citizen Property Tax Freeze**

Legislation to expand the number of senior citizens eligible for a freeze of the property tax has been introduced.

#### **Water Quality Remediation Fund**

A proposed plan to protect drinking water supplies would cost \$50 million. The program includes funds to prevent runoff of agricultural wastes and pesticides, and for proper landfill closure, replacement of contaminated wells, increased testing and monitoring of water quality, reestablishing a state water testing lab and public education.

### **Incinerator and Trash Facilities Debt**

A plan for the state to provide more than \$300 million and to refinance existing county debt of \$1 billion for incinerators and other trash facilities has been proposed. Refinance of existing debt would allow counties to reduce debt payments and spread them out over a longer period of time.

### **High Technology**

A \$200 million plan to help New Jersey enhance its high-technology industry, announced early in 2001, would add to a \$165 million program set up in 2000. In addition, a \$5 million increase in state grants to help colleges and universities develop high-technology programs was announced.

### **Revenue Foregone**

**In addition to programs that require increased state spending there are programs whose impact comes in terms of money lost to the state that it otherwise would have collected through taxes.**

Those currently in existence include an increase in the retirement exclusion from state income tax (\$23 million); deduction of property tax payments from state income tax (\$301 million); elimination of income tax for those making less than \$20,000 (\$50 million); and rebates of 80 percent of money withheld for employees' state income taxes for qualifying businesses under a state economic development incentive program.


Deregulation and related issues reduced receipts from state taxes on utilities by over 20 percent, more than \$200 million, in 1999 and 2000.

Among proposals that would cost the state revenue is elimination of corporate business tax on regular income of S corporations (\$80 million).

**While the above examples show a clear loss of revenue to the state, it is important also to consider instances where state revenue is being diverted from the General Fund to specific use.** This directly affects the state's overall revenue situation by sharply reducing flexibility in future spending. It means that portions of the General Fund that had been available for existing programs or unanticipated needs now are spoken for. And no new revenue sources have been established to replace money diverted from the General Fund.

Major diversions from the General Fund to constitutionally dedicated purposes include \$98 million from sales tax for open space preservation; \$200 million from sales tax for transportation projects; \$200 million from petroleum gross revenue tax for transportation projects; \$391 million from gasoline tax for transportation projects; \$63 million from corporate business tax for hazardous waste cleanup.

The point is not that these programs are unnecessary or undesirable. It is that state policy makers chose to fund them by taking the money from someplace else.



**...portions of the  
General Fund that  
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## Summing Up

When information from various parts of this report is added up, the sums are eye-opening.

**Annual loss of state revenue from tax cuts since 1992: \$3.8 billion in 2001 and \$4.67 billion by 2004.**

**Additional revenue removed from General Fund by Constitutional dedication that no longer will be available for annual allocation: \$886 million.**

**Increase in debt service costs: \$750 million by 2005.**

**Additional cost of existing programs and services included in Future Program Costs section: \$4 billion and rising.**

The amount estimated for future program costs and services is far from comprehensive. Only 15 areas or specific programs were examined, while activities of many state departments are not represented. The \$4 billion figure does not include a number of problems that need to be addressed.

The conservative nature of the report's projections for spending increases is apparent when compared with the proposed Fiscal Year 2002 budget. The budget as proposed in January 2001 would increase state spending by \$1.6 billion in a single year, and legislators and the Acting Governor are proposing more spending.

## **BIG WINNERS:** *High Income Residents and State Coffers*

The historically unparalleled growth of income tax revenue in 1998, 1999, and 2000 can be traced to three factors.

- ◆ Substantial growth in personal income of \$71.8 billion from 1987 to 1997 followed by a remarkable increase of \$54 billion in just the next three years. New Jerseyans' personal income more than doubled from \$113 billion in 1987 to \$239 billion in 2000.
- ◆ Change in the distribution of that income. From 1987-1998 those making than \$100,000 a year almost doubled their share of total state personal income from 25 percent to 49.7 percent. The \$54 billion income increase in the next three years will undoubtedly increase the proportion to well over 50 percent.
- ◆ The state income tax increase of 1990 made the system more progressive. The rate went to 7 percent on income greater than \$150,000 and to 6.5 percent for income between \$80,000 and \$150,000. While changes in 1994-1996 reduced rates for higher income taxpayers, they did leave them significantly higher than they had been before 1990, thus retaining much of the progressivity.

The \$54 billion increase in income mentioned above explains the rapid increase in income tax revenue and was a major cause of increased sales tax revenue in 1998, 1999 and 2000. Income tax on that money expanded revenue by \$2.2 billion. The sales tax on purchases made with extra income garnered an additional \$1.16 billion. The 2001 budget anticipated another \$1.18 billion from the two taxes: a \$4.5 billion bonanza.

The fact is that the 12.1 percent of the households with incomes above \$100,000 per year paid 71.6 percent of New Jersey's personal income tax in 1998. Indeed, 44.4 percent of the income tax collected came from 2.4 percent of households—those making above \$250,000 a year. These high proportions are a direct result of the massive increase in the share of income controlled by wealthier households and the higher tax rate on this group of taxpayers.

Today, New Jersey depends more on its income tax than 20 years ago. The tax provides 35 percent of state revenue now, compared to 20 percent then. Is this a problem? Not if the alternative is a less progressive tax structure, one based less on someone's ability to pay. That would make the burden of state taxes on middle- and lower-income families rise considerably, adding to New Jersey's oppressive property tax load. Or, tax revenue received by the state would be significantly reduced, making it far more difficult to provide essential services and property tax relief or to fund capital infrastructure needs.

No tax structure is immune to an economic downturn. The best way to prepare for a rainy day is to maintain a progressive tax system and to practice sensible fiscal policies—not to make the system less progressive when income is more concentrated among a relative few people than at any time since the Great Depression.



**Any slowdown...  
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## 8. WHEN THE TABLES TURN

**N**ew Jersey justifiably boasts of a solid economic foundation built from information-age technology and a well-educated, productive, high-skilled populace. This foundation, combined with an unparalleled national economy, helped bring dramatic increases in tax revenues in New Jersey each year since 1997, producing billions of dollars of additional income. But there is little cause for jubilation. The state's fiscal practices over the past decade have made it so that a continuation of these billion-dollar or better annual increases in tax revenue is essential for the state to avoid serious fiscal difficulties.

This would be true even if the economy stayed strong. But as surely as there are good economic times, there will be slowdowns and recessions. As 2001 began, signs pointed to a weakening of the economy that could result in smaller revenue increases than the state enjoyed for the past several years. Any slowdown that lessens the size of the annual increase in revenue will have especially serious consequences for New Jersey because of commitments made without concurrent action to increase state revenue. A recession would be even more serious.

### How Well is New Jersey Positioned?

New Jersey is *not* well positioned. Several organizations reporting on the adequacy of "rainy day" and budget reserve funds in the 50 states show New Jersey less well protected against economic recession than most other states.

- ◆ The National Conference of State Legislatures found that New Jersey's rainy day and General Fund balance ranked 32nd in the US. In 1999, the balance was 3.9 percent of state spending compared to a national average of 6.9 percent.
- ◆ The *State Policy Reports* of the Federal Funds Information for the States, a joint venture of the National Governor's Association and National Council of State Legislatures, identified New Jersey as a state that might strain its fiscal capacity by enacting tax cuts, unless they were accompanied by spending cuts and a mechanism to pay for them.
- ◆ The Center on Budget and Policy Priorities found New Jersey unprepared to weather a recession like that of the early 1990s, even before the passage of the NJ SAVER property tax rebate and its \$1 billion annual price tag. In March 1999, CBPP projected New Jersey would face a shortfall of \$1.7 billion, nearly 10 percent of the state's 1999 annual budget, should a similar recession occur.

- ◆ Comparing the total of the combined Surplus Revenue Fund (rainy day) and General Fund balance to annual state spending (shown in January budgets) shows a continuing decline in the percentage: 5.1 percent in 1999; 4.74 percent in 2000; and 3.97 percent in 2001. Increases in spending made during the fiscal years of 1999 and 2000 reduced the actual percentage. This accounts for the National Council of State Legislature's lower percent figure for 1999.

Since publication of these studies, New Jersey has continued to reduce taxes and increase spending.

The bottom line is that a recession would find New Jersey ill-prepared to cope with curtailment or reduction in revenue. Spending increases already built into future budgets by law, the huge increase in borrowing with its inevitable expansion of annual debt repayments and an increasingly smaller proportion of the annual budget set aside for the inevitable rainy day all portend difficult decisions in the future. Reductions could occur in such areas as state aid to municipalities and schools as well as property tax relief for individuals and reductions of grants-in-aid that support a vast number of community, social, medical and other services and programs across the state.

Budget experts in the Office of Legislative Services warned lawmakers in March of 2000 of an increased risk because New Jersey's revenues rely so heavily on wealthy residents who make much of their money from capital gains, dividends and business through partnership income or Subchapter S Corporations. The concern was that this income is highly volatile. Those who make a living lending money to the government also expressed concern. Though it proclaimed New Jersey to be moderately well positioned to maintain fiscal balance in the event of an economic downturn, Moody's tempered that sentiment with a warning about "the state's increased reliance on the high-income taxpayer segment, which may be more sensitive to a downturn in the economy."

Events appear to be proving this assessment valid. In May 2001 there were reports that anticipated state revenues could be as much as \$1.5 billion less than what previously had been projected in the period covering the last 3 months of Fiscal Year 2001 and going into Fiscal Year 2002. The drop was attributed to a stock market downturn causing reductions from income derived from capital gains as well as lower corporate, sales and inheritance tax receipts.



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**Bonding decisions  
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## **The Road Back—Recommendations**

Following are some fiscal policy issues that demand serious consideration and debate.

### **LONG-TERM DEBT**

Allocating the cost of improvements across generations through bonding is accepted public policy when those improvements have a long life span. But in recent years, a significant portion of the state's bonding has been used to shift the tax burden from present to future taxpayers with no tangible benefit. Bonding decisions in three areas point to problems that must be addressed or avoided in the future.

#### **Pension Bond**

The \$2.8 billion pension bond was an egregious misuse of borrowing that forces future taxpayers to pay for manipulation of the pension system that avoided billions of dollars of contributions from annual budgets. It raised the long-term cost of a few years of avoided contributions by billions of dollars. The cost for future taxpayers to repay the \$2.8 billion in thirty-two year bonds will be \$10.27 billion, nearly four times the amount borrowed. This kind of shifting of the tax burden to future generations to pay for the tax reductions initiated by a single administration is fiscally irresponsible and raises questions of equity and fairness.

**Its negative fiscal consequences cannot be reversed, but the experience must stiffen our resolve to never allow it to happen again.**

Unfortunately, bad examples often provide an example that others follow. Legislation has been introduced which would use the 1997 tactic of valuing the pension system at market value for a short period of time (this time using the market value as of two years ago) to allow for an expansion of pension benefits on the basis of this valuation. This would significantly increase the cost of pension benefits in the future on the basis of a bogus valuation. This scheme ignores the fact that since last June the value of the pension fund not only did not increase by 8.75 percent, the assumed rate of annual increase, it actually declined by 9 percent, losing \$7.5 billion.

#### **Transportation Bonding**

Funding transportation projects is a prime example of legitimately shifting the great proportion of capital costs to future taxpayers. But in the 1990s a fiscally responsible capital funding plan went from mainly pay-as-you-go to one depending on a high proportion of long-term borrowing. From 1996 through 2001 average annual borrowing amounted to 88.9 percent of \$4.8 billion in capital expenditures. This policy greatly increases the long-term

cost to taxpayers by adding 20-year interest payments to the principal that funds only five years of capital improvements. Furthermore, a significant proportion of the borrowed money was used to fund annual operating costs and short-term repairs rather than to produce improved road, bridges or mass transit.

In short, the state has adopted policies and laws that force the next generation not only to pay its billion-dollar a year share but also to be responsible for paying for 65-90 percent of *our* billion-dollar a year cost, *plus* interest. In less than a decade, taxpayers will be faced with a billion dollars of annual transportation debt service payments as well as a billion dollars in annual capital spending costs.

**Continuing this policy will result in dramatic escalation of annual payments until its basic fiscal flaws make it unsustainable. It is essential that the government move to a system of significantly higher annual pay-as-you-go for transportation capital improvements.** This inevitably means increasing the gasoline tax and considering other additional tax revenue as bond repayments increase and eat up money dedicated from the gasoline, sales, and petroleum products taxes.

#### **School Facilities**

Long-term bonding is appropriate and rational for building schools. Well-constructed schools can be upgraded and serve many generations of students.

However, failure to address the problem of unsafe, unhealthy, obsolete and overcrowded schools in poor school districts for more than a quarter of a century has contributed to an increase in the money that is needed, above what it might have been. Now, \$8.6 billion will be borrowed to build and renovate schools. An estimate of the annual cost of debt service payments on these bonds is \$770 million each year from 2010 to 2020. The cost to repay the principal and interest is estimated to be at least \$12 billion. Three sources of revenue have been identified, and pledged, to this program: \$50 million annually from the doubling of the cigarette tax; \$100 million annually from the national tobacco settlement; and \$62 million annually from the Big Game lottery. This \$212 million in identified revenue represents considerably less than one-third of the annual cost in future years. The lack of a responsible plan for funding this essential program is another clear example of shifting responsibility to future taxpayers.

**It is the responsibility of present elected leaders to identify sources of revenue, phased in and out if needed, to fund school construction and renovation.**



**This inevitably means  
increasing the  
gasoline tax and  
considering other  
additional tax  
revenue as bond  
repayments  
increase...**



**The state's response  
to this problem  
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and inadequate.**

**CONSTITUTIONALLY DEDICATING REVENUE**

Amending the state Constitution to dedicate specific tax revenue to specific purposes has become the favored means for avoiding responsibility for providing revenue to meet state needs. Desiring to fund popular programs without the political risks of raising taxes, legislators vote to place amendments on the ballot to constitutionally dedicate revenue from an existing tax to the favored program. The total amount of constitutionally dedicated money is staggering: \$9.8 billion in Fiscal Year 2001. That is 46 percent of the \$21.1 billion of anticipated state revenue for the entire year.

Constitutional dedication denies lawmakers the ability to respond to changing conditions. It creates a rigid, inflexible straitjacket that dictates how revenue must be spent regardless of other needs. Constitutional dedication also reduces accountability to citizens; politicians can honestly claim they are powerless to act because revenue must be spent as the constitution dictates.

**Elected officials should stop using constitutional dedication to avoid taking responsibility for increases in spending that they initiate.**

**PROPERTY TAX RELIEF**

This is the 800-pound gorilla in the state budget, consuming \$10 billion of a \$21 billion 2001 budget—47 percent of the total. The personal income tax, which is constitutionally dedicated to property tax relief, funds almost three-quarters of the total. Estimated revenue from the income tax for 2001 is \$7.74 billion. The remainder comes from revenues in the General Fund.

New Jersey continues to depend more heavily on local property taxes than any other state. Indeed, 40 percent of tax money raised in New Jersey comes from that source. Some of the state's tax relief programs actually exacerbate the problem, providing more help than is needed for higher income taxpayers while not targeting money to those who need it most. The state's response to this problem is fragmented and inadequate. It fails to ameliorate the multiple negative effects of New Jersey's overuse of property taxes, so the demand for additional relief is unremitting.

**Increasing the state income tax or instituting a tax on intangible assets so property taxes could be lowered should be considered; so should the idea of a Constitutional convention devoted to the long overdue restructuring of New Jersey's tax system.**


## PENSION FUNDING

A number of recent changes in the state pension system combine to create a high potential for future financial problems when the economy slackens and the stock market cools. At that time, the rate of return on investments could well fall below the higher rate set in 1994—leading to a shortfall in funds needed to meet future pension obligations. The funding “cushion” against economic fluctuation will disappear more rapidly than under earlier provisions governing the pension system. When it falls below the amount actuarially required for future obligations, the state is required to increase its contribution. So, at the same time that revenue is declining the state would have to increase annual pension plan payments at the expense of other programs and services.

Fluctuations in the value of the pension portfolio are not hypothetical. New Jersey pension funds lost \$12.5 billion in value in the 9-month period after June 2000. Using market value, assets which had been “overfunded” by \$14 billion fell to being just \$2 billion overfunded. Despite this dramatic demonstration of why pension funds are valued on a 5-year rolling average, not market value, legislation has been introduced to declare the system fully funded using full market valuation *before* its recent decline. Under this stratagem, the Legislature would use \$4 billion of what it terms “surplus” funds to finance a \$3.8 billion increase in benefits for retirees. This plan also would rely on the “surplus” to pay the extra million dollars in annual contributions to the pension system that the higher benefits would cost the state.

The 1994 and 1997 changes to and manipulations of the pension system provided a disastrous blueprint for raiding the pension system that legislators are attempting to use again this election year to win support from teachers and state employees. Should it be approved, even greater costs would be shifted to future taxpayers. As discussed earlier, the government’s actions during the last half of the decade have effectively shifted more than \$20 billion in pension costs into the future. The cost of annual pension obligations will, therefore, be considerably higher for future taxpayers, even without this proposed increase in benefits. The state’s problem of reducing other programs and services to meet pension contributions during a slow down or recession will be exacerbated by those higher costs.

**The Governor and Legislature elected in November 2001 should insulate the system from politics by bringing in independent actuarial experts to examine existing pension procedures. They would evaluate the level of risk, determine whether changes in the present structure are needed to assure that it provides legislatively agreed upon benefits to eligible persons upon retirement and make recommendations for changes if necessary.**



**...changes to and manipulations of the pension system provided a disastrous blueprint.**



## **It is a high-wire act bound to fail...**

### **Conclusion—Gambling with New Jersey’s Future**

For the better part of the last decade, those responsible for assuring New Jersey’s future financial stability adopted fiscal policies dangerous to the state’s economic health. New Jersey cut its income tax more deeply than other states and reduced more than 40 other taxes. This tax cutting went along with increased, not reduced spending. So, despite unprecedented prosperity, New Jersey never got its budget in true balance, usually spending \$400 million more than its current revenues.

Instead the state resorted to various short-term measures: ballooning debt; raiding savings accounts set aside for future necessities; introducing billions of dollars of programs with small down payments and no way to pay for their future costs; and manipulating pension funds to produce quick “savings” by exponentially increasing future liabilities. It reduced the very revenues that are constitutionally dedicated to property tax relief, contributing to increasing local property taxes and shifting the burden for raising revenues to local governments, colleges, hospitals and other institutions. It “saved” state revenue by limiting Homestead Rebate property tax relief to people over 65 or disabled or to citizens making less than \$40,000.

These stratagems are more conducive to the short-term benefit of politicians than to the long-term benefit of taxpayers. Those in office get to claim credit for addressing problems or needs, while leaving the difficult part of the job—finding the money—to those who come later. They reap instant political gratification but create an onerous burden for citizens who will not be able express their feelings in the voting booth since many of the originators will no longer be in office.

Now, just as the economy shows signs of softening, the state finds itself with a mountain of accumulated debt and obligations, no savings to speak of, no surplus with which to balance its upcoming budget—one which proposed to increase state spending by an unprecedented \$1.7 billion.

How is it that those elected to positions in state government have been able to “eat their cake and have it too?” The spending, borrowing and tax cutting of the 1990s were underwritten by the unprecedented economic conditions of the latter part of the decade. It is a high-wire act bound to fail when the billion-dollar-plus annual growth of tax revenue declines to more normal levels. It is simple math that anyone who has ever balanced a family budget can understand: reduce your income, increase your spending, increase debt payments on increased borrowing, and you are in deep trouble. The state of New Jersey has ignored this simple reality for years.

The projected revenue shortfall for 2001 and 2002, whether it totals \$1 or \$1.5 billion, is a logical outcome of the fiscal irresponsibility of the previous decade.

It is important to differentiate between the *economic* condition of the state and the *fiscal* policies the state is pursuing. New Jersey enjoys a strong economy that is well positioned to compete with other states and in the information-age, high-tech global marketplace. This great strength is why New Jersey's credit rating remains strong, even in the face of present fiscal policies. But rating companies are concerned only with the fiscal capacity of the state to repay debt. They have no responsibility for meeting other needs of the people nor must they consider the effects of reductions in other services or programs.

In contrast, an examination of fiscal policy reveals a far less positive situation. If New Jersey's economy is the solid foundation, then the fiscal policies resting atop that foundation make for an inherently unstable structure, thrown together for the short run rather than carefully designed for the long run.

After the fact, people often say, "hindsight is 20-20." For New Jersey today, it would be a good idea to use hindsight *before* the fact. Looking back, it is all too evident that most of the last decade was a time of squandering prosperity in favor of the political advantages of appearing to spare people hard decisions. That is likely to create a situation that makes the early part of this decade look all too much like the early 1990s.

The time to change that is now—by making these serious concerns a major focus of the dialogue during the 2001 election.



**...the fiscal policies  
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## ABOUT THE AUTHOR

**J**udith Cambria has devoted much of her life to assuring equal educational opportunity for New Jersey students, supporting sound fiscal policy, protecting citizens' constitutional rights and increasing citizen participation in public life. She is recognized as an expert on state fiscal policy and school funding based on three decades of experience with the League of Women Voters of New Jersey and with numerous other citizen organizations.

As the League's specialist in education and fiscal policy, Judith directed challenges to the constitutionality of changes in New Jersey's pension system and to constitutional dedication of a number of taxes. Last year she led the effort to oppose reauthorization of the Transportation Trust Fund, leading to a court challenge to the state's decision to put two constitutional amendments on the ballot as a single question.

A frequent writer and speaker on public policy issues, her *New Jersey Reporter* magazine article on the state pension bond program won an award from the New Jersey chapter of the Society of Professional Journalists.

In honor of her efforts to make this state a better place, Ms. Cambria was a recipient of the 2001 New Jersey Women of Achievement Award.