Blueprint for ECONOMIC JUSTICE & SHARED PROSPERITY

NEW JERSEY POLICY PERSPECTIVE
Est. 1997

CELEBRATING 20 YEARS OF PROGRESS

TABLE OF CONTENTS

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FROM THE PRESIDENT

For more than 20 years, New Jersey has been on a downward economic and financial slide. Our middle class is shrinking. Poverty is rising. The state government is effectively bankrupt. We're dangerously close to hitting rock bottom.

The next governor is New Jersey's last, best chance to slow the state's collapse, restore its stable financial foundation and rebuild its enterprising, job-creating, wealth-producing economy.

How did we get here?

The Jersey Slide began with a familiar false premise: cut taxes, and the savings will stimulate economic activity and increase state revenues. Hence a 30 percent cut in income tax rates in 1994, which produced immediate declines in state support for property tax relief and set off a two-decade chain reaction of gimmicks to hide the damage.

Gimmicks like slashing the state's payments for public employees' pensions and retiree health benefits enough to make up for revenues sacrificed to the tax cuts. Like granting local governments a pension payment "holiday" to keep property taxes from spiking.

And, in a damning blow, borrowing almost $3 billion to cover the state's share of pension costs for two or three years – sticking unknowing future taxpayers with the very large repayment bill.

Along the way, a bipartisan cast of governors, legislators and justices ignored the urgent warnings of financial experts, and violated state constitutional protections intended to safeguard against precisely these types of abuses. Because the constitution is clear: you can't spend money in the annual budget that isn't raised in the same year, and you can't borrow money long term without voter approval.

Now the chickens are coming home to roost. The games and gimmicks must stop. It's time for truth-telling, and courageous action."

I understand the challenge. I've run for office five times and participated in numerous campaigns. Not once has someone come up and asked: "Gee, my taxes are pretty low, can you do something to raise them?"

But people's concerns about the taxes they pay often mask concerns about how their taxes are spent:

- "Potholes cost me $800 for new tires."
- "I thought public colleges were supposed to be affordable."
- "The high school cut my kid's band class."
- "The district said it's not safe for my kid to drink water from the tap."

These complaints lay bare a fact that's been too-long neglected by our political leadership: Residents *want* New Jersey's enviable assets to be properly maintained. People understand that investments in the assets we all share are paid for by the taxes we all pay – taxes that should be levied in a fair and equitable way.

The idea that the state needs to protect and invest in its assets is what drove New Jersey's thriving economy from the 1960s into the early '90s. Those were the years when the state invested strategically in public transportation; in public colleges and universities; in preserving open space; in protecting the environment; and beyond. The state's robust opportunities and vibrant communities attracted striving immigrants from around the world, who in turn fostered further economic growth. The result: New Jersey transformed itself from a fading industrial state into an enterprising, prosperous and stable state with a robust middle class and a plentiful opportunity.

That was then. The picture is starkly different now. After ten credit downgrades in seven years, New Jersey ranks 49th among the 50 states for creditworthiness. Our once robust biotech and pharmaceutical industry is being lured to states that are accelerating – not slashing – public investments in innovation centers like university hubs. Inequality is at historic highs. In this high-cost state, which never bounced back from the Great Recession, New Jersey's working families are finding it harder than ever to make ends meet and give their children opportunities to advance.

Here's the good news: New Jersey still has enviable assets. And it's not too late for new leadership to stop the state's downward spiral. No candidate should promise that it'll be easy or painless to restore New Jersey as an engine of enterprise and opportunity. Nor should anyone suggest that one term as governor or as a legislator will be sufficient.

But big ideas, carefully planned and plainly explained, are the starting point.

That is the work of New Jersey Policy Perspective, and specifically, this Blueprint.

Gordon MacInnes

Gordon MacInnes

FROM THE VICE PRESIDENT

New Jersey is a financial and economic sinking ship. Leaders of today and tomorrow need to act urgently and boldly to prevent us all from ending up underwater.

But just as critically, New Jersey's next wave of political and policy leaders must work together to advance a vision for a prosperous, equitable and opportunity-filled state.

This Blueprint addresses both needs, giving attention to stopping New Jersey's financial crisis while offering dozens of commonsense policy solutions to help chart the course back toward a better, fairer future. A future in which:

- A "bubble up" approach to economic growth expands prosperity for all by affording better opportunities low-paid workers and their families
- A fairer tax code and more stable budget that allows for adequate provision of services, reliable maintenance of shared assets and judicious investments in the building blocks of a strong economy
- More residents have access to affordable health care and no children are without insurance
- A stronger safety net keeps more vulnerable residents from slipping through the cracks
- The facts shape sound, fair, inclusive public policy

Taken individually, the ideas in this Blueprint will be familiar to longtime NJPP allies. These are among the core policy proposals New Jersey Policy Perspective has advanced over the past eight years, and beyond.

But this Blueprint offers something new: a cohesive framework of complementary policies that, together, have the power to vault New Jersey out of the depths of inequality and instability, and back to its stature among the nation's most fair and prosperous states to live, work and invest. And many of these proposals can be implemented immediately, at little or no cost to the state.

Change is hard. Compromise will be necessary. But with energy, courage and commitment to a shared vision of New Jersey's future, we can steer this ship back to safer waters and toward brighter horizons.

Jon Whiten

FROM THE DIRECTOR OF EXTERNAL AFFAIRS

In times of need, it's a gift to be useful. That is why, during this unprecedented period of crisis for New Jersey and the nation, it's an extraordinary privilege to work for New Jersey Policy Perspective.

For 20 years, NJPP has been a pillar of the state's policy infrastructure, providing rock-solid analysis and compelling communications to support a mighty network of allies in the fight for economic justice and wider prosperity.

Long before the notion was the subject of national soul-searching, NJPP lived by this principle: Facts DO matter in public policy. And right now – with a state financial crisis poised to explode in a "post-fact" political environment – the facts matter more than ever.

But only if we *make* them matter.

If together, we carry the facts forward in our civic lives – using them to shape more effective strategies, build political will for necessary compromises, and generate support for good ideas.

The facts will matter if we ensure they're well and widely understood, conveying them to diverse communities and constituencies in clear, relatable ways. And if we hold public officials accountable for acting on the facts.

Thank you for taking this Blueprint and working to realize its vision of economic justice, predicated on the fair and responsible stewardship of public assets, equitable opportunity and widespread prosperity.

Thank you for bringing NJPP's reliable analysis to bear in the fight for our shared priorities. Your skills, your voice, your dedication have never been needed more to secure New Jersey's fairer and more prosperous future.

This is a moment of crisis. But it also one of hope. Together, progress is possible.

Carly Rothman Siditsky

I: MAKE NEW JERSEY WORK FOR WORKING FAMILIES

New Jersey's tepid, uneven economic recovery is leaving working families in the dust.

The state's median household income is nearly $6,000 lower today than it was in 2000 after adjusting for inflation. Income inequality is rising. The middle class is shrinking. New Jersey leads the nation in the share of young adults living at home because they cannot afford to strike out on their own.

Meanwhile, poverty persists at rates higher than before the Great Recession. Record numbers of New Jerseyans live in poverty – and many are unable to make ends meet even on incomes above the official poverty line. In 2014 more than 1 in 3 New Jersey families – 1.2 million of 3.2 million total households – couldn't afford basic needs such as housing, child care, food, health care and transportation.[1] And nearly all of these metrics are worse for people of color and women.[2]

> Prosperity hasn't trickled down. Evidence shows it *would* bubble up.

The kitchen-table economics of working- and middle-class New Jerseyans confirms what data proves: The state's experiment with trickle-down economics has failed. Prosperity has not, in fact, trickled down. It's bottlenecked at the very top.

Yet while prosperity hasn't trickled down, clear evidence shows it *would* bubble up

To expand economic security, lengthen and broaden the ladder to the middle class, and create better opportunities for working people, New Jersey should:

Make the minimum wage a more livable wage

About 1 in 4 New Jersey workers – 975,000 low-paid men and women – would benefit from increasing the minimum wage to $15 an hour by 2021. Far more of New Jersey's low-wage workers are raising kids of their own (28 percent) than are teenagers themselves (9 percent). *A full 91 percent of the workers who would benefit are adults.* Sixty-one percent are working full-time and an additional 27 percent are working mid-time (between 20 and 34 hours a week). About 1 in 5 New Jersey children have at least one parent whose pay – and ability to provide for their families – would be improved by this modest but crucial boost in pay.[3]

Increasing workers' incomes would have strong ripple effects in communities statewide, as the extra money would be spent immediately and locally on day-to-day needs.

Eliminate the subminimum wage for workers who rely on tips

Along with raising the state minimum wage, New Jersey should abolish the subminimum wage for workers who rely on tips, of which there are about 140,000 in New Jersey

Tipped workers are only guaranteed a cash wage of $2.13 per hour. This "tipped minimum wage" hasn't gone up since 1989 – over 27 years.

Officially, if workers don't receive enough in tips to make up difference with what they would have earned under a regular minimum wage, their employers are supposed to make up the difference. Unfortunately, this doesn't always happen.

The result: tipped workers are among the most vulnerable and lowest-paid employees in New Jersey. On average, non-tipped counterparts earn double the wages of tipped workers (median personal income of $36,400 versus $14,000). Meanwhile, New Jersey's tipped workers are also about twice as likely non-tipped workers to live in poor households (33.9 percent versus 18.6 percent) and lack *any* health insurance (29.2 percent versus 16.3 percent).[4]

Eliminating the tipped minimum wage would simplify labor regulations, reduce income inequality and bolster New Jersey's economy. Alaska, California, Minnesota, Montana, Oregon, and Washington have all eliminated the tipped minimum wage without a negative impact to their economies or business communities.

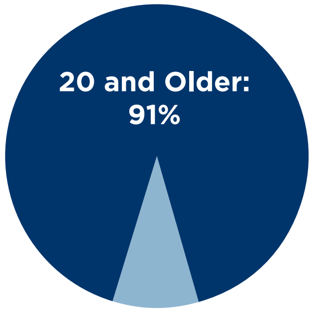
1 United Way of Northern New Jersey, *ALICE Study of Financial Hardship: 2016 Update*, January 2017. http://www.unitedwayalice.org/documents/16UW%20ALICE%20Report_NJUpdate_Lowres_12.13.16.pdf

2 New Jersey Policy Perspective, *New Jersey's Sluggish Recovery Hurting Working Families*, September 2016. https://www.njpp.org/blog/new-jerseys-sluggish-recovery-continues-to-lag-the-country-hurting-working-families

3 New Jersey Policy Perspective, *Raising New Jersey's Minimum Wage to $15 an Hour Would Boost a Large and Diverse Group of Working Men and Women,* March 2016. http://www.njpp.org/reports/raising-new-jerseys-minimum-wage-to-15-an-hour-would-boost-a-large-and-diverse-group-of-working-men-and-women

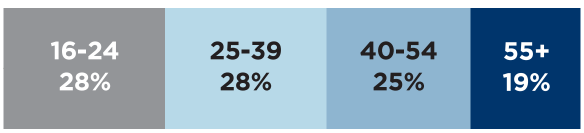
4 New Jersey Policy Perspective, *Raising the Tipped Minimum Wage Would Increase the Economic Security of Many Hard-Working New Jerseyans*, July 2014. https://www.njpp.org/reports/raising-the-tipped-minimum-wage-would-increase-the-economic-security-of-many-hard-working-new-jerseyans

Nearly All the New Jerseyans Who Would Benefit from a Minimum Wage Increase to $15 Are Working Adults



892,000 of the 975,000 New Jerseyans paid less than $15 an hour are 20 years old or older. Just 84,000 are teenagers.

All age groups are well-represented among New Jersey's low-wage workers:



This analysis is based on a $15 an hour minimum wage in 2021, which is the equivalent of $13.16 an hour today.

Expand EITC for workers without children

The Earned Income Tax Credit (EITC) is a critical poverty-fighting tool that helps families across New Jersey and the country. But this vital credit largely ignores an important group of low-paid workers: adults who aren't raising children.

No one wants children to go hungry. For this reason, politicians have historically been more open to providing tax relief for adults raising dependent kids. But poverty is poverty, whether a person has children or not. And while the tax code offers breaks for people raising children – and for homeowners, and business owners, and investors, and indeed, literally every other demographic category of taxpayer – low-paid working adults alone get no such breaks.[5]

The boost from the EITC could help a poor adult without children make a payment on the car needed to keep a job or cover the rent needed to stay out of a shelter. In high-cost New Jersey, which leads the nation in the share of 18 to 34 year olds living at home, this EITC expansion would help promote greater economic mobility for young workers, which would help boost the economy.

Federal action would be the simplest way to expand the EITC. In the absence of Congressional movement, state lawmakers should act. The District of Columbia has already expanded its EITC to include these workers, and policymakers in Minnesota and Maryland are on their way to doing so. If the Garden State follows their lead, between 343,000 and 504,000 low-paid New Jersey workers could receive a much-needed boost to help make ends meet.[6]

Improve paid family leave

In 2008, New Jersey became the second state to adopt a paid family leave policy. Nearly a decade into the Family Leave Insurance (FLI) program, it's a clear success, having replaced hundreds of millions of dollars in lost wages for tens of thousands of New Jerseyans who needed to take time off to be with a new child or sick family member.

And yet this trailblazing program is falling short of its potential, with serious repercussions for New Jersey families and for the state's economy. The program is not widely advertised, particularly among low-paid workers. And the wage replacement level and cap on earnings are so low that many workers across the income scale simply cannot afford to take advantage of what should be an important benefit.

With modest tweaks, New Jersey could remove the barriers that stop many people from taking paid family leave, enabling many more hardworking men and women to take the paid time off for which they're eligible. These benefits could be fully funded by a small increase to current worker contributions – with measurable benefits for families, employers and the state's economy. Specifically, lawmakers should:

- Increase the current two-thirds wage replacement
- Raise the very low cap on earnings while on leave
- Include job protections for those taking leave
- Expand outreach efforts
- Allow workers to take up to 12 weeks of paid leave

Extend earned sick leave to all workers

Over 1 million New Jerseyans, mostly in low-paid jobs, don't get paid if they need to take time off because they're sick. And for many, taking an unpaid day off could mean forfeiting their job. New Jersey would have a stronger economy and healthier workforce if workers could take limited time off when sick without sacrificing their pay or employment.

While it's clear that *workers* would benefit from a statewide earned sick days policy, New Jersey *business owners* would also benefit and save money, thanks to a more productive workforce

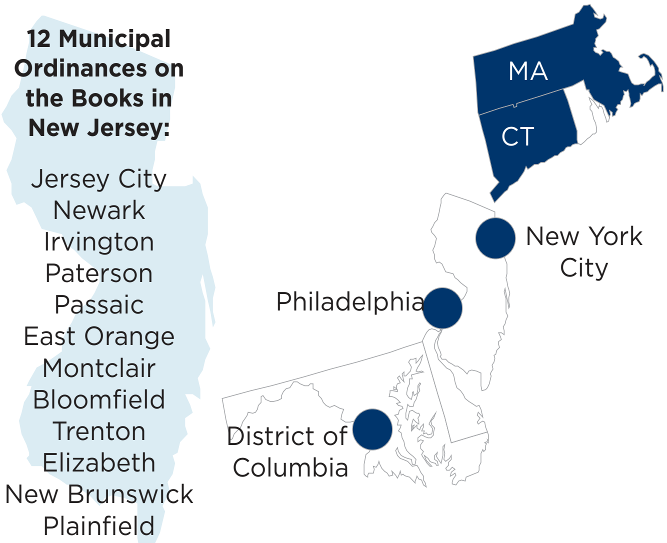
5 Center on Budget and Policy Priorities, *Strengthening the EITC for Childless Workers Would Promote Work and Reduce Poverty*, April 2016. http://www.cbpp.org/research/federal-tax/strengthening-the-eitc-for-childless-workers-would-promote-work-and-reduce

6 New Jersey Policy Perspective, *EITC Expansion Would Provide a Crucial Boost to Hundreds of Thousands of New Jerseyans*, October 2016. https://www.njpp.org/budget/eitc-expansion-would-provide-a-crucial-boost-to-hundreds-of-thousands-of-new-jerseyans

and lower employee turnover. The experience of cities and states across the country – including 12 New Jersey municipalities that have passed earned sick leave ordinances – belies opponents' claims that earned sick leave leads to job losses.

More and More Cities and States In and Near New Jersey Are Requiring Earned Sick Days

Since 2008, 18 cities and states in the region have adopted earned sick days legislation into law, with most – 12 – taking action since 2014.



Ensure equal pay for equal work

The facts are clear: New Jersey women are paid less than men. Over the course of a 40-year career, the average New Jersey woman will be paid more than $477,000 less than a New Jersey man.[7] While this pay gap has closed somewhat in recent decades, progress has been slow: at the current rate, the disparity between women's and men's earnings in New Jersey will not close until the year 2055.[8]

This persistent inequality for working New Jersey women translates to less income for families and higher rates of poverty. If New Jersey women received equal pay with comparable men, poverty for working women would be reduced by more than half from 4.4 percent to 2.1 percent. For working single mothers, the poverty rate would shrink from 17.9 percent to 8.2 percent.[9]

Closing the gender wage gap would increase the incomes of working women and also give a 3 percent boost to the state's economy.[10] Eliminating the pay gap would also help state budgets and reduce public costs. Equal pay for women would ensure that state safety net programs serve families who have fallen on hard times – not act as a taxpayer subsidy to employers that fail to pay their workers fairly.

Allow all qualified residents to drive legally

Allowing all New Jerseyans – including undocumented immigrants – to drive legally would increase the wellbeing of hundreds of thousands of Garden State families, help the state's economy, make roads safer and improve cooperation with local law enforcement.

New Jersey is home to about 525,000 undocumented residents from around the world, representing about 6 percent of the state's population. About 460,000 of these New Jerseyans stand to benefit from being allowed to drive legally.[11]

But it's not just undocumented residents who would benefit. This policy could also help veterans who have trouble proving their status, homeless residents and other vulnerable people who are more likely to lack the specific documents required under the state's 6-point system.

New Jersey should join the 12 other states and Washington D.C. that have similar policies ensuring that all their drivers are trained, tested, licensed, insured and accountable for their driving performance.

Other actions

In addition to the policy priorities identified above, lawmakers also ought to consider increasing the state EITC to 40 percent of the federal credit; implementing a state-level Child Tax Credit; and strengthening protections against wage theft.

7 National Women's Law Center, *The Lifetime Wage Gap, State by State*, 2016 (based on 2014 American Community Survey Data). https://nwlc.org/resources/the-lifetime-wage-gap-state-by-state/

8 Institute for Women's Policy Research, *Employment and Earnings, Status of Women in the States*, 2015. http://statusofwomendata.org/explore-the-data/employment-and-earnings/employment-and-earnings/

9 Institute for Women's Policy Research, *The Economic Impact of Equal Pay by State*, February 2016. http://www.iwpr.org/publications/pubs/the-economic-impact-of-equal-pay-by-state

10 Institute for Women's Policy Research, *The Economic Impact of Equal Pay by State*, February 2016. http://www.iwpr.org/publications/pubs/the-economic-impact-of-equal-pay-by-state

11 New Jersey Policy Perspective, *Share the Road: Allowing Eligible Undocumented Residents Access to Driver's Licenses Makes Sense for New Jersey*, September 2014. https://www.njpp.org/reports/share-the-road-allowing-eligible-undocumented-residents-access-to-drivers-licenses-makes-sense-for-new-jersey

Two considerations count when it comes to setting fair state tax policy.

The first is *equity*: Does the system ensure wealthy individuals and corporations don't get disproportionate breaks and advantages compared to low-income and middle- class households? The second is *adequacy*: Does the system raise enough money for the state to pay for basic services, help those in need and invest in the shared building blocks of a strong economy?

Unfortunately, nearly every tax policy decision made in New Jersey since 2010 has made the state's tax code *less equitable* and *less adequate*. From tax cuts for the wealthiest New Jerseyans and for corporations, to a sales tax cut that most shoppers will barely notice (yet will shrink state coffers), to the elimination of the estate tax, and more – New Jersey has been moving in the wrong direction on tax fairness and responsible budgeting.

> New Jersey must embrace a vision of fair taxation based on ability to pay.

Very literally, New Jersey cannot afford to maintain its current course. Without immediate action, the state will soon be forced to default on some of its core obligations – with painful short and long-term consequences for all New Jersey residents.

The first tenet of any new administration, when it comes to tax equity and adequacy, must be to do no more harm. The second must be to roll back some of the most devastating and egregious policy changes made in recent years. Finally, the new administration must be creative and courageous in raising revenues to restore balance to our state's finances.

In the face of what will likely be significant tax cuts at the federal level – almost certainly benefitting mainly wealthy individuals and corporations – New Jersey must stand strong with other states to embrace a vision of truly fair taxation based on ability to pay.

To make the state's tax structure fairer and the budget more responsible and to best meet the needs of the state's 9 million residents, New Jersey should:

Maintain existing revenues that are vital to the budget

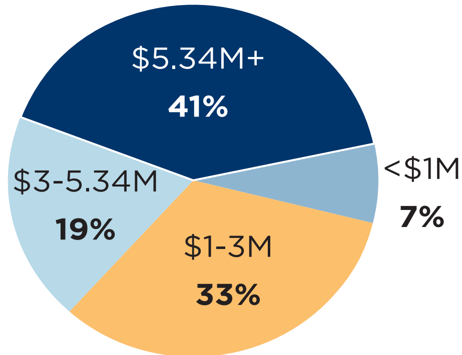
This is simple: No more budget-busting tax cuts. Lawmakers need, at the very least, to maintain the existing revenues in the budget. The state *already* can't provide essential services, maintain an adequate safety net or meet its promised obligations. Any further cuts in revenue would devastate New Jersey's ability simply to meet its current obligations, let alone invest in vital needs. Plus, additional revenue losses would likely move New Jersey from 49th to 50th for the worst credit rating in the nation, driving up long-term borrowing costs.

Restore fair and adequate taxation of inherited wealth

Last year, New Jersey's political leaders delivered a huge gift to the heirs of the state's wealthiest families – and a blow to everyone else – by eliminating the estate tax. This change will give a few thousand wealthy heirs a huge tax break, while draining the state of over $500 million a year in lost revenue – dollars vitally needed to support investments with widespread benefits, like infrastructure and higher education.[12]

New Jersey does maintain a separate tax on inherited wealth –

New Jersey's Estate Tax Was Mostly Paid by Very Wealthy Families



Of the average $297 million in estate tax revenue in 2012-2014, $121 million was collected from estates worth more than $5.34 million.

On the other end of the spectrum, $23 million was collected from estates worth less than $1 million.

Source: NJ Office of Legislative Services

12 New Jersey Office of Legislative Services, *Legislative Fiscal Estimate of A-12*, October 2016. http://www.njleg.state.nj.us/2016/Bills/A0500/12_E3.PDF

the transfer inheritance tax – but this tax is paid by heirs coming into much less money (as little as $500, compared to $675,000, the threshold at which the estate tax kicked in), making it far more regressive than the estate tax was.[13]

Policymakers can restore fair and adequate taxation of inherited wealth by either restoring the estate tax, reforming the transfer inheritance tax or a mix of the two.

If they choose the former, policymakers could bring the estate tax back with a higher threshold than before. At $1 million or even $2 million, the tax would still raise a substantial amount of revenue while affecting even fewer – and even wealthier – New Jerseyans. If lawmakers choose the latter, the broad strokes of reform would be to expand the inheritance tax to affect direct heirs (such as children and grandchildren) while raising the threshold at which this tax kicks in to protect lower- and middle-income heirs.

Rein in excessive corporate tax subsidies

Because of legislative changes made in 2013, New Jersey's surge in corporate tax subsidies has risen to unprecedented levels, cramping New Jersey's ability to invest in schools, transportation and other areas known to drive job creation.

As of January 2017, New Jersey has approved $7.5 billion in tax subsidies already this decade, including $4.9 billion since the subsidy programs were expanded in December 2013 – *more than six times* as much as were awarded in the entire previous decade, when the state approved $1.2 billion.[14]

This policy shift comes with an enormous financial reward to very few corporations and an enormous cost to Garden State taxpayers.

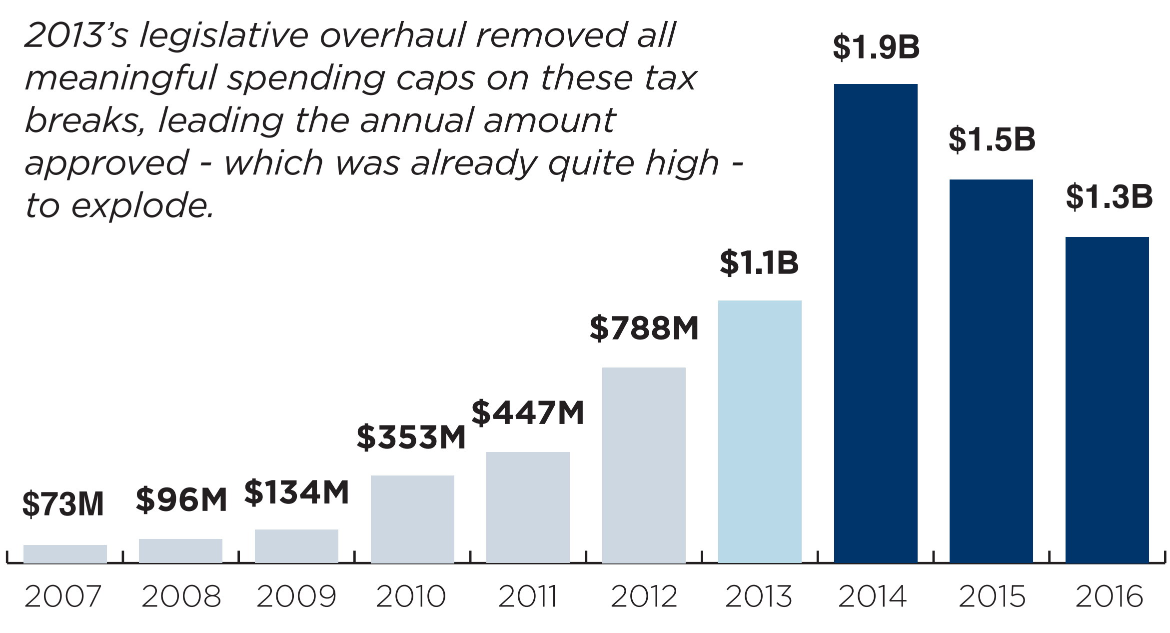
Ten key reforms – from forcing policymakers to pay for the tax breaks that happen on their watch to shifting the state's focus to adding new jobs (rather than shifting jobs from town to town) – could help rebalance the scales and ensure a more responsible approach to economic development.

At the top of the subsidy-reform agenda must be a simple change: restoring spending caps on all of the state's tax break programs to prevent the future bills from piling up too high and to ensure only the most promising projects receive subsidies. These caps were removed as part of changes made by the legislature and governor in 2013.

Other reforms that should be considered:

- Mandate better reporting on the outcomes of past tax breaks
- Fix the "net benefits test" to balance tax breaks with the mandated period for doing business in New Jersey
- Eliminate or develop more stringent standards for, subsidies for shifting jobs around the state

Amount of Subsidies OK'ed Annually Has Exploded



Source: NJPP analysis of New Jersey Economic Development Authority data

13 New Jersey Department of the Treasury, *Inheritance and Estate Taxes Overview*, August 2016. http://www.state.nj.us/treasury/taxation/inheritance-estate/inheritance_over.shtml

14 NJPP analysis of New Jersey Economic Development Authority public data, accessed via the EDA website's "Incentives Activity Reports" in late January 2017. The data is up-to-date through the January 2017 EDA meeting.

- Pay for subsidies through the annual appropriations
- Restrict corporations' ability to redeem more in credits than they owe in taxes
- Ensure fair wages for all workers on any project receiving tax credits
- Take a cooperative, regional approach to economic development rather than competing with neighboring states and cities

Make the income tax fairer and more effective

In late 2009, the lame duck legislature allowed New Jersey's temporary income tax surcharge on the state's wealthiest households to expire. Since then, the governor has vetoed numerous attempts by the legislature to make the Garden State's income tax structure more equitable.

The result: the state forfeited between $4.2 billion and $7 billion in revenue between 2010 and 2016 – further enriching the state's top earners while cutting property tax relief for middle-class homeowners, increasing public transit fares and raising tuitions at the state's public colleges to unaffordable levels.

Other states have not made these mistakes.

In recent years, states like California, Minnesota, Maine and New York have enacted or extended substantial income tax increases on their wealthiest households, generating tens of billions of dollars between them to pay for schools, health care and more.

And despite the doomsday cries that raising taxes at the top will cripple a state's economic growth, the opposite has largely been true. States like California, Minnesota and New York have been faring quite well, having boomed out of the recession with faster job growth than the nation as a whole. Meanwhile, states that have experimented with large-scale income tax reductions – like Kansas – have suffered the consequences, with nagging budget gaps and slow economic growth, and are beginning to reverse course.

New Jersey's policymakers ought to look closely at California's 2012 tax changes, which added new income tax brackets and raised rates progressively as incomes increased. Loosely emulating the Golden State's model could raise well over $1 billion a year to invest in schools, property tax relief or other targeted investments, while only raising taxes for the wealthiest 5 percent of New Jersey families.

Roll back the 2016 sales tax cut

The sales tax cut approved by lawmakers last year will be barely felt by the vast majority of New Jersey families, but will do enormous, lasting damage to the state's finances. This gimmicky tax policy should be reversed.

As part of the political deal to raise New Jersey's fuel taxes to fund essential transportation projects, lawmakers agreed to cut the state sales tax from 7 percent to 6.625 percent over two years. Once fully phased in, this tax cut will cost New Jersey about $600 million a year.

Proponents of reducing the sales tax heralded the move as delivering a broad-based tax cut that will benefit all New Jerseyans. This is *technically* true. And yet the sales tax cut will deliver noticeable tax relief to only those Garden State families that least need the help: those at the top.

On average, the state's wealthiest 20 percent of households will see a tax cut of $3.86 a week while the poorest 20 percent will get an average tax cut of 62 cents. Families in the middle will experience an average tax cut of $1.65 a week.

Close corporate tax loopholes with 'combined reporting'

New Jersey currently offers a tax loophole to large multistate corporations – one that hurts New Jersey-based businesses and costs the state money. Through this loophole, large multistate corporations can – on paper – shift profits they make in New Jersey to other states that have lower tax rates or no corporate taxation at all. Corporations often do this by creating "subsidiaries" that exist only for tax purposes.

Other states are combating this charade by adopting a practice called "combined reporting." Under combined reporting policies, states treat the parent company and subsidiaries of multistate corporations as one entity for state corporate income tax purposes. Companies' nationwide profits are added together, and states then tax the appropriate share of the combined income. With recent enactment in Rhode Island and Connecticut, 25 out of the 45 states (plus the District of Columbia) that have some form of corporate income taxation now mandate combined reporting.[15]

Limiting the ability of profitable multistate corporations to use accounting tricks to dodge New Jersey taxes would help level the playing field for the state's small and local businesses – and raise up to an additional $290 million a year to help the state pay its bills and make key investments.[16]

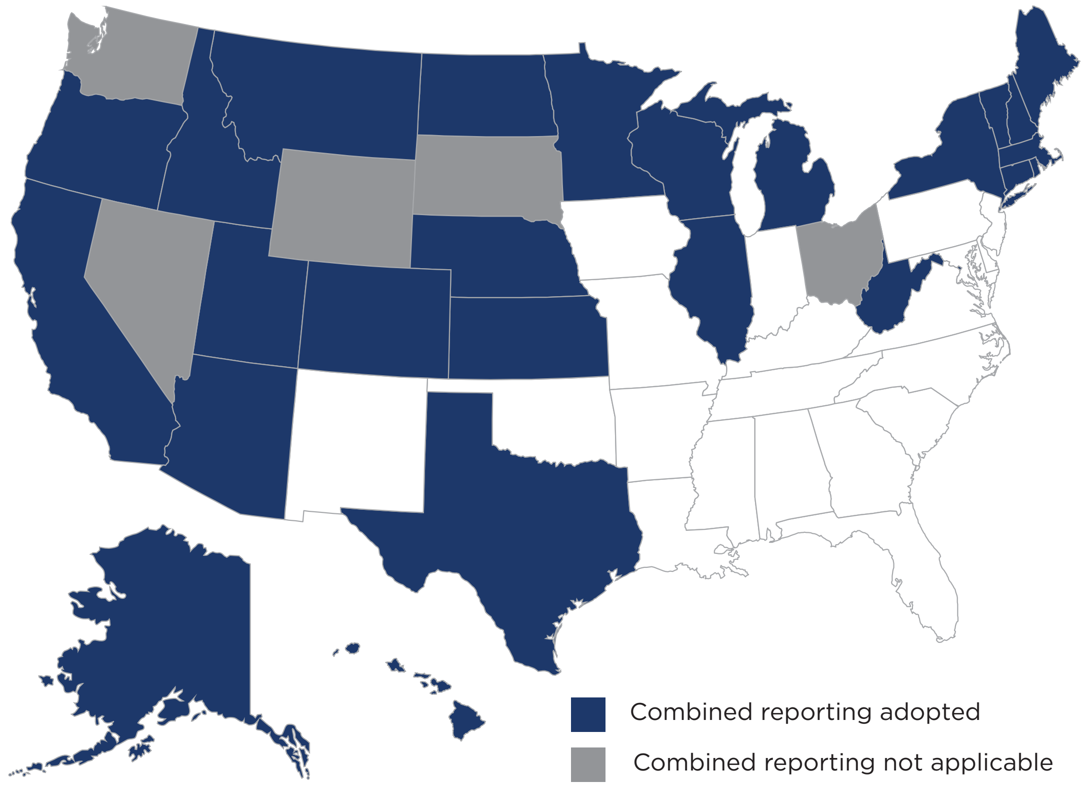
Lower property taxes for working-class and low-income New Jerseyans

One of the biggest reasons property tax reform is so difficult in New Jersey is the sheer scale of the taxes involved. Over $28 billion in property taxes were paid in 2016, a 9 percent increase

15 New Jersey Policy Perspective, *Closing Corporate Tax Loopholes Would Help New Jersey's Small Businesses & Provide Resources to Build Economy*, June 2015. https://www.njpp.org/budget/closing-corporate-tax-loopholes-would-help-new-jerseys-small-businesses-provide-resources-to-build-economy

16 New Jersey Office of Legislative Services, *Legislative Fiscal Estimate of S-982*, October 2016. http://www.njleg.state.nj.us/2016/Bills/S1000/982_E2.PDF

25 States Plus D.C. Require Combined Reporting



from 2012.[17] Significantly reducing this tax, which hits families across the income scale, presents a catch 22: Doing so would require major increases in income taxes or sales tax or both – a strategy as politically unpopular as the property tax itself.

Though programs for seniors, disabled citizens and renters provide just over $1 billion in property tax deductions, these are blunt tools when it comes to combating the regressive nature of the property tax. A more fair and cost-effective solution would be to enact a "circuit breaker" program, which stops the property tax from exceeding a taxpayer's ability to pay by capping the tax bill at a certain percentage of a taxpayer's yearly income. This targets property tax relief more precisely and with less expense than broad-based mechanisms such as homestead exemptions and assessment caps.[18]

At least 33 states and the District of Columbia use circuit breakers with various eligibility requirements. A few states allow only taxpayers with very low incomes to receive circuit breakers. Others extend their program to middle-income families whose property taxes are high relative to their incomes. The circuit breaker is triggered when taxes are between 5 and 10 percent of income. Maximum benefits also vary widely, from $200 in Oklahoma to $2,000 in Maine.[19]

Implementing a circuit breaker program in New Jersey could provide much needed assistance to those who struggle the hardest to afford property taxes by limiting the amount owed to a certain percentage of income, and setting a maximum income level so that truly overburdened taxpayers are the sole beneficiaries.[20]

Restore sustainability to public workers' health benefits and pension systems

For decades, New Jersey used conservative financial practices to manage its health benefits and pension system for public-sector employees. Each year, both employees and the state laid away a certain amount of money so that – as employees retired, or needed medical care – there was enough money saved to cover the benefits they were owed.

17 New Jersey Department of Community Affairs, *Property Tax Information*. http://www.state.nj.us/dca/divisions/dlgs/resources/property_tax.html

18 Lincoln Institute of Land Policy, *Property Tax Relief: The Case for Circuit Breakers*, April 2010. http://www.lincolninst.edu/publications/articles/property-tax-relief

19 Center on Budget and Policy Priorities, *The Property Tax Circuit Breaker: An Introduction and Survey of Current Programs*, March 2007. http://www.cbpp.org/research/the-property-tax-circuit-breaker

20 New Jersey Policy Perspective, *Why Significant, Lasting Property Tax Reform is So Difficult*, September 2013. https://www.njpp.org/budget/why-significant-lasting-property-tax-reform-is-so-difficult

But over the past 20 years, the system broke down. While employees continued dutifully paying their share, political leaders dropped their end of the bargain. They took the funds that were earmarked for public employees' health and pension benefits, and spent them on other things – assigning to future politicians and taxpayers the responsibility of paying back what was owed (with interest).

Now, the future is here. And unless New Jersey's leaders and residents can come together to fix this problem, within the next few years hundreds of thousands of retiring teachers and civil servants could be denied the benefits they've earned, paid for and counted on.

There is no simple, easy solution to this crisis. No one should expect that, in any one governor's tenure, New Jersey can fully correct two decades of reckless financial practices. However, if policymakers persist with politically convenient gimmicks and policies, New Jersey's condition will only worsen.

As with any budget problem, there are fundamentally two solutions: Raising revenue or cutting costs. There are no politically painless options here.

But refusal to act would be the most painful of all, because ultimately, it would trigger the most extreme outcomes – for example, at a worst case, the impoverishment of sick and aging public employees denied the benefits they were promised (and paid for), or severe austerity measures that would cut deep into the lives of every New Jersey resident.

Blame for the problem is widely shared. So must be the responsibility for solving it. Only through compromise can the state climb out of the hole its dug while minimizing the pain for all involved. The next governor must address this head-on and put both systems on a path to sustainability.

Improve the budget-making process

New Jersey's credit rating has been downgraded an astonishing 10 times this decade, setting a new record for downgrades under one governor.

The longer this dismal trend is ignored, the more money it costs New Jersey taxpayers to borrow for major investment projects like road improvement and school construction.

One way to reverse course is to improve the budget-making. A bill to that effect was passed by the legislature in late 2015, but vetoed by Gov. Christie. The good-government reforms included in that legislation are worth revisiting.

Policymakers should:

- Bring the executive branch, the Office of Legislative Services and a mutually agreed-upon third party together to come to a consensus about revenue forecasts
- Require New Jersey budget-makers to estimate revenues at least three years into the future
- Project the next three years of costs in major spending areas like state contributions to the pension system, education aid, municipal aid and direct property tax relief

Other actions

In addition to the policy fixes above, lawmakers also ought to consider applying the sales tax to services used most heavily by families with greater means (like interior designers, accountants or bookkeepers); boosting the state's reserves; legalizing, regulating and taxing marijuana; and working with other states to close the "carried interest" loophole at the state level.

III: MAKE HEALTH CARE AFFORDABLE FOR ALL NEW JERSEYANS

The future of health care for millions of New Jerseyans hangs in the balance as the new President and Congress take aim at the Affordable Care Act – the most significant social policy improvement America has seen in over 50 years.

When it comes to health care – particularly for low- and moderate-income residents – the threats from the federal government are comprehensive and grave. State leaders have clear opportunities to protect New Jerseyans from the worst ravages of any changes to the Affordable Care Act (ACA) or Medicaid – both by helping to shape the debate in D.C. and by developing concrete contingency plans that would minimize harm caused by federal policies.

> When it comes to health care, the threats from the federal government are comprehensive and grave.

Just as importantly, New Jersey's two U.S. Senators and twelve Representatives – regardless of party – must oppose efforts to undo the ACA.

At the federal level, New Jersey's leaders must:

Oppose repeal of the Affordable Care Act

The most immediate federal threat is the repeal of the Affordable Care Act, which has helped about 800,000 New Jerseyans obtain affordable health coverage. Three components of ACA repeal are the most alarming.

Medicaid expansion

Rolling back the Medicaid expansion as part of repealing the ACA would harm New Jersey far more than most other states, causing over a half million low-income residents to lose health coverage and costing the state about $3 billion a year in federal funds. This would reverse the progress New Jersey has made in reducing the number of residents without insurance, and deepen the state's severe financial and budget crisis. New Jerseyans statewide, along with hospitals and other health care providers, would be harmed.

New Jersey's governor and legislative leaders must frequently and vociferously oppose these federal efforts, prolonging and expanding the groundswell of opposition already underway. Meanwhile, the administration and lawmakers should design proposals to maintain coverage for at least some of those who have benefitted from the Medicaid expansion.

This will be a difficult task. The state cannot possibly find $3 billion to cover these residents if the expansion were repealed. Given the state's dire financial situation, even finding half that amount would be close to impossible. At a minimum, the state should try to maintain eligibility and services for almost 200,000 residents who were covered in NJ FamilyCare (the state's program that covers Medicaid and the Children's Health Insurance Program) prior to the ACA.

The Marketplace

One crucial element that makes the health insurance exchange (or Marketplace) work is that it provides subsidies to low- and moderate-income consumers to defray the cost of premiums. If the ACA gets repealed, these subsidies would be eliminated, placing affordable coverage out of reach for more New Jerseyans. If anything, these subsides should be increased for high-cost states like New Jersey.

Eighty-two percent of everyone enrolled in the exchange – 230,000 New Jerseyans – are projected to receive subsidies, totaling nearly $1 billion a year by 2019 when the subsidies would end under current plans for ACA repeal. So far, the plans floated to replace these subsidies – like Health Savings Accounts, establishing risk pools, or allowing premiums to be claimed as a credit – would result in no insurance coverage for most current beneficiaries.

If the federal marketplace collapses due to the lack of subsidies, the elimination of the individual mandate, or total repeal of the ACA, New Jersey must minimize the damage. In effect, the state will need to revisit an issue it grappled with before the ACA: how to provide comprehensive benefits without making the costs so high that many can't afford coverage. The state would need to decide which formerly required benefits be maintained, and find revenues that could be developed to maintain at least partial subsidies – such as a surcharge on large employers that rely on NJ FamilyCare to insure their employees at public expense, or repatriating some of the federal taxes paid by New Jerseyans

Repealing the Affordable Care Act Would Devastate New Jersey

- **1.1 million** residents would lose benefits
- **$4.2 billion** in federal funding would be lost each year
- **86,000** jobs would be lost
- **777** people would die due to lost insurance

Medicare Donut Hole

- **212,000** seniors & disabled people would lose drugs
- **$262.8 million** in federal funding would be lost each year

Marketplace

- **289,000** residents would lose coverage
- **$1 billion** in federal funding would be lost each year

Medicaid Expansion

- **550,000** adults would lose Medicaid
- **$3 billion** in federal funding would be lost each year

Source: NJPP analysis of federal and state data, as well as other reports. Full methodology online at njpp.org/healthcare/acarepeal2017

that might be reduced or repealed. The state should also work with insurers and advocates to explore further ways to reduce costs to consumers.

Medicare 'donut hole'

The ACA eliminated a prescription drug gap in Medicare coverage known as the "donut hole," which saves about 200,000 elderly and disabled New Jerseyans an average of $1,200 a year on life-saving and other medications. Repealing this benefit would force many to decide between necessities like food or rent and taking essential medications. In addition, losing this benefit under the ACA would shift between $100 million and $200 million in costs to the state, because many of these residents would be eligible for state-based assistance through the Pharmaceutical Assistance to the Aged & Disabled program.

Fight structural changes to Medicaid

House Republican leaders are proposing to overhaul the structure of Medicaid by turning it from an entitlement program into either a block grant or a program that has a "per-capita cap." Either of these changes would be disastrous for the health of New Jersey's residents, the state budget and the economy. To compensate for the federal funding cuts in either plan, New Jersey would have little choice but make significant cuts to eligibility, benefits, provider payments – or all three.

New Jersey receives about $10 billion in federal Medicaid funds each year, the largest source of federal funds for the state. Federal matching funding (50 percent for the regular program and 95 percent currently for the Medicaid expansion) is guaranteed. This open-ended entitlement funding is necessary to make Medicaid a right for everyone who applies and is eligible for it.

The main *public* argument made by proponents of a block grant or a per-capita cap is that it would result in more flexibility for states to administer the program. In fact, the opposite would be true. The current structure of Medicaid already allows states great flexibility to innovate, and changing to a fixed funding structure would make it harder for states to make the upfront investments that generally are needed to develop systems that can provide high quality care at lower costs.

Moreover, block-granting Medicaid, or converting it to a per-capita cap structure, would also make the state less flexible – and much more vulnerable – during a recession or new health crisis, when high numbers of additional New Jerseyans would seek health services they can't afford.

Take the growing health crisis of opioid addiction, for example. Block- granting Medicaid or implementing a per-capita cap – plans the governor has publicly supported – would harm the very people he's committed to helping: more than 50 percent of New Jersey addicts rely on Medicaid for the treatment services he advocates.

In the end, the *real* reasons to shift to a block grant or per-capita cap are to create federal savings, end the state-federal partnership and shift any additional costs to the states in the future. Most of the proposals from the Republican leadership would generate about a $1 trillion in federal savings over ten years, resulting in a one-third reduction in federal funds by the tenth year. But it is quite possible there will be proposals to make more modest cuts up front to generate political support, then make deeper cuts down the road.

These proposals wouldn't likely take effect for at least a year or so, and the loss in federal funds will be phased in over time. But New Jersey's leaders would still need to act immediately. At a minimum, the state will need to do a complete review of the existing Medicaid program to identify what savings could be generated through efficiencies that will avoid cuts in benefits or eligibility. This will be a challenge because the Christie administration has already achieved savings in some of the obvious areas, such as expanding managed-care and community care as alternatives to institutionalization. The state should also explore ways to increase revenues to offset the loss in federal funds or cut other non-essential state services.

Don't make children's health care a bargaining chip

Funding for the Child Health Improvement Program (CHIP) is set to expire September 1, 2017. There has always been bipartisan support for this program but there is growing concern that extending it will be used as a bargaining chip in to win over Democratic support for draconian proposals to replace the ACA or turn Medicaid into a block grant. About 230,000 New Jersey children rely on CHIP for their health care, and the state's leaders and its Congressional representatives should support extending CHIP as is, and without it being tied to policy changes that could harm other New Jerseyans.

While these federal fights are tremendously important, New Jersey should not take its eye off the ball when it comes to state-level progress:

Aim for universal health coverage for children

With the help of federal CHIP and Medicaid funds, New Jersey has made remarkable progress in reducing the share of children without insurance. Between 2011 and 2015, that figure dropped by almost 30 percent, from 5.2 percent 3.7 percent. As of 2015, there are only 74,000 children (out of 2 million overall in the state) who remain uninsured.

While the uninsurance rate for adults (11 percent) remains high even with the Medicaid expansion and the Marketplace, it is realistic to establish a separate goal of universal healthcare for children within the next four years. While there is still a lot of uncertainty regarding the fate of Medicaid in Washington, there has always been bipartisan support for CHIP. It is possible that there will be changes in CHIP, but it's unlikely to be repealed.

New Jersey could achieve universal coverage by expanding eligibility, making undocumented immigrant children eligible, improving outreach, removing administrative barriers to enrollment, maximizing federal funds and reducing the cost of health coverage for children who are not eligible for publicly subsidized coverage by negotiating with insurers (as it did before the ACA).

Eliminate surprise medical billing and excessive out-of-network medical charges

About 168,000 New Jerseyans are surprised each year to receive $420 million in medical bills – an average of $2,500 per person – mainly from doctors who they did not know were out-of-network.

In addition, insurers are being charged about $1 billion dollars in excessive out-of-network costs, which they then pass on to consumers in the form of higher premiums. These costs are one of the reasons New Jersey has some of the nation's highest premiums, which hurt residents and businesses.

Legislation that has been introduced to correct this problem needs to be enacted as soon as possible.

Other actions

In addition to the vital policy fixes above, lawmakers also ought to consider establishing an All Payers Claim Database to identify real costs in the health care system, maximizing and protecting federal Medicaid funding for family planning, eliminating fees for appealing the denial of health benefits to the state and requiring that all insurers offer plans with the same benefits and costs to make it easier for consumers to comparison shop.

New Jersey today is far from a place where everyone has the chance to thrive. A relative handful of households hold a record amount of the state's wealth, while millions struggle to get by from day to day.

Policies like raising the minimum wage or creating a statewide earned sick leave program would do much to make life more stable and secure for New Jersey's striving working families. Yet these alone are insufficient to help New Jerseyans from falling into – or remaining trapped in – poverty.

Three factors drive New Jersey's growing income inequality. First, nearly all the economic gains made since the Great Recession have gone to the very wealthy. Meanwhile, middle-income families have seen their incomes decline. And finally, the state has slashed support for the most vulnerable families. Six years into the recovery, poverty is still the highest it has been in New Jersey in 50 years, and what's called "deep child poverty" – kids living in households earning less than $10,000 a year for a family of three – has increased by a whopping 26 percent.

It's time to reverse course, starting with the families whose children face the steepest barriers to survival, let alone success. To do so, policymakers should:

Increase cash assistance for the state's poorest families

The level of cash assistance available to New Jerseyans in WorkFirst New Jersey (also known as TANF, or Temporary Assistance for Needy Families) *has not been increased in 30 years*. This stagnation has cut the true value of the assistance by more than half, making it harder for New Jersey's poorest families to scrape by – even *with* assistance.[21]

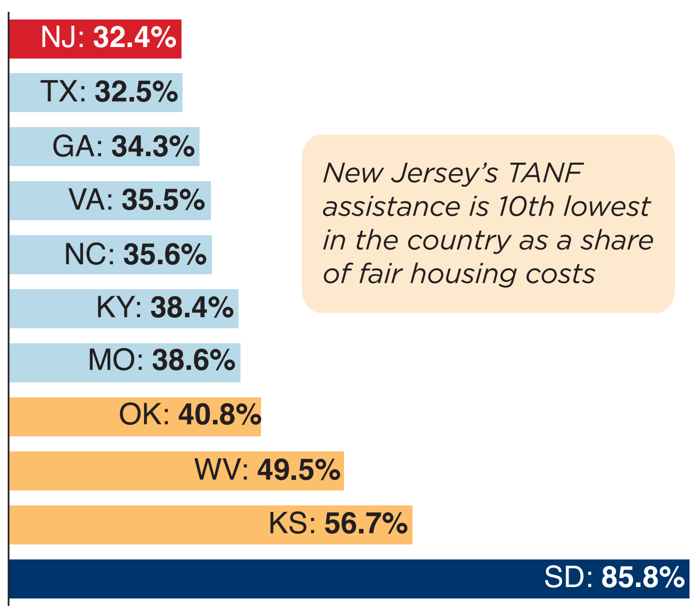
If the maximum assistance payment of $424 a month for a family of three had kept up with the rising cost of living, it would have been $889 in 2016. In 1989, the grant could at least cover nearly three quarters of the fair market rent for a two-bedroom apartment. Now, it covers about a third.

New Jersey's level assistance is now the lowest in the Northeast, and is lower even than poor states like Kentucky when housing costs are factored in.

This stagnation in WorkFirst New Jersey has been a major cause of the Garden State's deep child poverty problem. Since the income limits are tied to the assistance level, as the assistance level has eroded due to inflation, so have the income limits, which are now so low that they assist very few families and children living in deep poverty. In fact, whereas in the past the families of most kids in poverty received this cash assistance, today more than 8 in 10 New Jersey children living in poverty receive *no WorkFirst cash assistance at all*.

To start, New Jersey policymakers should increase this basic assistance by 30 percent over two years. While this wouldn't make up for all the purchasing power lost over 30 years of stagnation, and would still leave New Jersey's maximum assistance lower than New York's, it would be a meaningful start. After the 30 percent increase, lawmakers should tie future annual increases to inflation so the assistance doesn't once again start to lose ground as the cost of living rises.

When Housing Costs are Factored In, New Jersey's TANF Assistance Falls Below Many Poorer States



Source: Center on Budget and Policy Priorities, TANF Cash Benefits Have Fallen by More Than 20 Percent in Most States and Continue to Erode

21 New Jersey Policy Perspective, *Lost Opportunities for New Jersey's Children*, February 2016. https://www.njpp.org/reports/lost-opportunities-for-new-jerseys-children

Repeal WorkFirst New Jersey's 'family cap'

In 1992, New Jersey began denying assistance to any children born to a mother on WorkFirst New Jersey. For example, a mother who has a second child while on WorkFirst would be penalized by receiving $322 a month (the benefit for a two-person family), not $424 a month (the benefit for a three-person family) – a cut of $102, or 24 percent.

Other states are increasingly moving *away* from this punitive policy, which was intended to limit the number of children born into poverty. The data clearly shows that the policy does not achieve this end – and, in practice, simply punishes children for being born. In New Jersey alone, this measure has denied needed assistance to more than 20,000 very poor children since 1992.

Seven other states have repealed their family cap laws since 2002, with the latest – California – doing so last year.[22] New Jersey should follow suit.

Restore 'heat and eat' nutritional benefits

In 2014, the federal government changed the rules of the so-called "heat and eat" program, which ties important federal nutritional benefits to state heating assistance.

"Heat and eat" is a streamlining practice that 15 states and the District of Columbia use to determine families' SNAP benefits. (SNAP stands for the Supplemental Nutrition Assistance Program, formerly known as food stamps).

In the past, "Heat and eat" allowed states automatically to qualify families receiving *any* heating and home energy assistance for more federal SNAP benefits. After the 2014 change, families receiving $20 or less in heating and home energy assistance no longer qualified for "heat and eat." In response to this change, most states with "heat and eat" programs increased their heating and home energy benefits to more than $20 per year to ensure that constituents on the brink remained eligible for "heat and eat."[23]

The New Jersey legislature passed legislation to do the same – legislation that would have protected an estimated $90 a month in food assistance to 160,000 households that include seniors, people with disabilities and children.[24] But Gov. Christie vetoed the bill, and an attempt to override his veto failed.

As a result, in each of the past few years, these families lost nearly $1,100 that they had previously counted on for food. It's not too late to fix the problem for the future.

Protect food assistance for jobseekers

Federal rules require that "able bodied adults without dependents" must work to receive SNAP, but historically states like New Jersey have applied for waivers to ensure that adults who are unable to find work – particularly during economic downturns – have access to life-saving food assistance. The federal government has limited the scope of these waivers, but still allows them in areas of the state where unemployment is high.

In late 2015, New Jersey announced it would not apply for these local waivers – which would have saved about 11,000 residents in areas with high unemployment from losing needed food assistance. Now, if a person doesn't meet certain requirements for just *three months,* they will lose access to SNAP benefits for *three years* – a extremely harsh penalty that will increase severe hunger in New Jersey.

> Six years into the recovery, poverty is still the highest it's been in New Jersey in 50 years. And 'deep child poverty' has increased by 26 percent.

The legislature passed a bill to have the state automatically apply for these local waivers in 2016, but the governor amended it to make such an application *discretionary* rather than *automatic*. While the state has applied for several waivers since then, it would make more sense – and help more struggling families – if this waiver was indeed automatic for all high unemployment areas, rather than left to the discretion of the administration.

Oppose significant changes or cuts to SNAP

After health care and Medicaid, the next entitlement program likely in the crosshairs of Congressional leadership will be food assistance via SNAP. About 850,000 New Jerseyans receive about $1.2 billion to help buy food each year – all from the federal government, not state coffers. This vital resource allows struggling New Jerseyans in all 21 counties to feed their families an adequate diet, including many families whose households include children, seniors and people with disabilities.

22 Los Angeles Times, *Good Riddance to a Repugnant California Cap on Family Aid*, June 2016. http://www.latimes.com/opinion/editorials/la-ed-maximum-family-grant-20160615-snap-story.html

23 National Conference of State Legislatures, *'Heat and Eat' and SNAP Changes in the 2014 Farm Bill*, April 2014. http://www.ncsl.org/research/human-services/-heat-and-eat-and-snap-changes-in-the-2014-farm-bill.aspx

24 New Jersey Policy Perspective, *Four Reasons New Jersey Should Maintain its 'Heat and Eat' Program*, May 2014. https://www.njpp.org/blog/op-ed-four-reasons-new-jersey-should-maintain-its-heat-and-eat-program

When need rises because of a recession or other disaster, SNAP is designed to adjust swiftly to meet those needs. Making it a block grant, as is now being threatened at the federal level, would fundamentally change the program's structure. While opponents say block grants would give states more flexibility, the opposite is true. By strictly limiting the total dollars available to each state for food assistance – regardless of economic conditions – a block grant would leave vulnerable families with nowhere to turn during a downturn or other crisis. This would harm low-paid working families, low-income seniors and people with disabilities living on fixed incomes.

Other threatened federal changes could include more stringent work requirements than those already in place, or create other barriers to assistance. In the end, any federal reductions in SNAP would place additional pressure on the state government and on private charity throughout New Jersey, at a time when both already struggle to meet the needs of Garden State residents.

Other actions

State lawmakers also should reverse cuts to emergency assistance in WorkFirst New Jersey, and streamline the process by which residents obtain emergency assistance.

V: INVEST IN THE BUILDING BLOCKS OF NEW JERSEY'S ECONOMY

Qualified workers who can get to work. That's a basic ingredient for any thriving economy. Unfortunately, in New Jersey, it's an ingredient in shortening supply.

Missed opportunities to invest in early childhood education – and systematic disinvestment in the state's once-affordable institutions of higher learning – have made it harder for today's students to access the education they need to become tomorrow's qualified workers.

And neglect of the state's once-robust public transit system has left our vital rail and bus systems in disrepair. Service has degraded, even as ridership increases and fares rise.

New Jersey is situated in the middle of one of the nation's most vital markets, with easy access to New York City and other economic centers along the northeast corridor. We are a destination for striving families from around the world, eager to lend their strength to the state's economy and earn their place in the middle class.

Only by investing in these building blocks of a strong economy – the future workforce, and that workforce's ability to get to work – can New Jersey hope to regain its place as an economic powerhouse.

Expand high-quality preschool

If you want to invest in a child's future, you'll get the best bang for your buck by investing in high-quality preschool.[25] High-quality preschool is particularly important for children in low-income families. Long-term research confirms that preschool "grads" are much more likely to finish high school, stay out of prison and work full-time than their peers who did not. And better-educated kids grow up to be the leaders and innovators of their time.

In 2008, the New Jersey legislature recognized the value of expanding access to high-quality early education, passing the School Finance and Reform Act to bring preschool to more towns across the state.

But while the 2008 law set an important standard, successive governors and legislatures have yet to deliver on its promise. Currently, only 35 districts out of more than 600 have high-quality public preschool programming for all their 3 and 4 year-olds. Over 50,000 kids from poor and struggling families are still waiting for access to high-quality preschool.

New Jersey already has a high-quality public preschool program; it's one of the best in the nation. But lawmakers must ensure more of New Jersey kids benefit from this quality education by fully implementing the 2008 law. This first step would bring state-funded high-quality preschool to nearly 140 districts with concentrations of kids from poor families. But New Jersey's leaders should not stop there. They ought to continue to take steps towards implementing truly universal preschool across the entire state, in every district.

> Missed opportunities have made it harder for today's students to become tomorrow's qualified workers.

Restore support for higher education

Clear evidence shows the average college graduate enjoys life-long economic advantage over peers with less education. And other states – like Massachusetts, North Carolina, and California – have reaped significant dividends from investing in their university systems, making them engines of innovation that fuel thriving hubs in Boston, the Research Triangle and Silicon Valley.

New Jersey, to its detriment, has taken the opposite approach. At a time when more students than ever are seeking to secure their families' future with a college education, the state has systematically slashed funding for its institutions of higher learning – and shifted the cost burden onto the shoulders of striving students and their families.

These trends are particularly troubling at a time of stagnant or declining incomes for most New Jerseyans. Average tuition and fees at the state's public colleges and universities are now about 12 percent of the median income for a New Jersey family

25 Legal Momentum's Family Initiative and the MIT Workplace Center, *Early Childhood Education for All: A Wise Investment*, April 2005. http://web.mit.edu/workplacecenter/docs/Full%20Report.pdf

of four – nearly double the 6.6 percent share in 1995.[26]

To slow the increase in unaffordable college prices and rising student debt, New Jersey should at the very least return to pre-recession levels of funding for higher education. This would require increasing state support by 40 percent, from the $735 million invested in 2015 to $1.03 billion.[27] This is one possible and worthwhile use of new revenue sources identified in the tax and budget chapter of this Blueprint. Such a move would help the middle class, grow the state's economy and provide for the expansion of both.

Extend access to state financial aid to undocumented New Jersey students

In 2013, New Jersey took an important step to boost educational and economic opportunities for undocumented students living in the state. Under the Tuition Equality Act, the state allowed undocumented students who met certain requirements to pay in-state tuition rates instead of much higher out-of-state rates at public colleges and universities.

This has helped more striving undocumented New Jerseyans pursue a higher education, putting them – and New Jersey – on a path towards greater economic opportunity.

And yet, many of these students come from working-poor families, for whom even in-state tuition is unaffordable. Unlike their citizen peers from low-income families, these students are not eligible for federal Pell Grants or student loans, a critical source of funding to meet the escalating costs of college.

Allowing undocumented students to apply for state financial aid like Tuition Aid Grants (TAG), as eight other states do, would make a college education a real possibility for more of these students, boosting their prospects for a prosperous future.

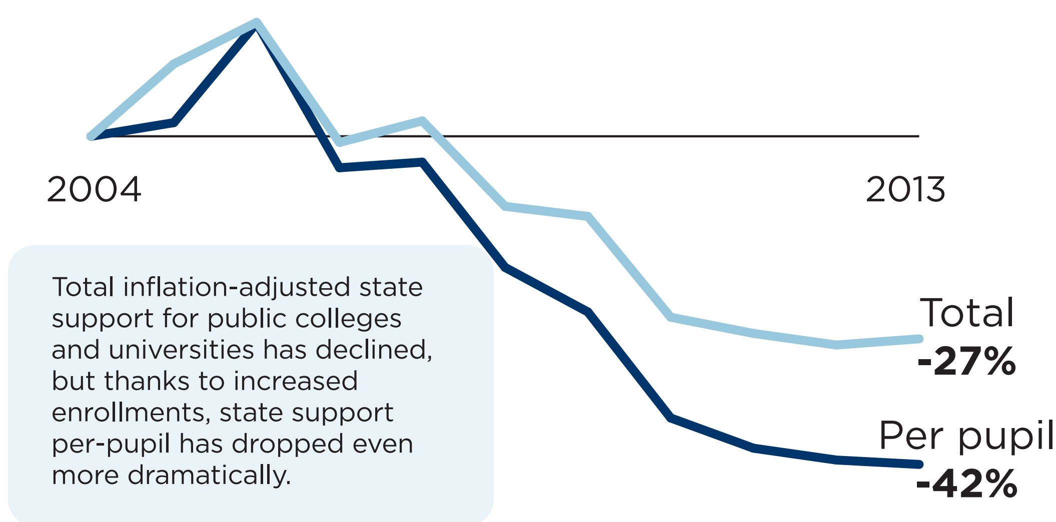
Adequately fund NJ Transit operations

New Jersey's public transit system – situated in the heart of one of the world's most vital markets – has always been the key to the state's economic power. Yet despite transit's clear benefit to New Jersey, the state has systematically shirked its responsibility to invest the dollars necessary to create a reliable, affordable, modern public transit system.

Last year, policymakers took a big step toward fixing this problem by raising fuel taxes to fund a robust Transportation Trust Fund program. This will allow for capital investments in transit modernization, and for expansion across the state. That will help, but it will not fix New Jersey's longstanding underfunding of NJ Transit operating costs, nor will it prevent significant fare hikes that could send transit into a death spiral.

Lawmakers must find adequate, stable and dedicated funding for NJ Transit's operations. From 2005 to 2017, the state slashed direct support of NJ Transit by 59 percent. This

New Jersey's Spending on Higher Education Has Plunged in the Last Decade



Note: Figures are adjusted for CPI-U. "2004" represents Fiscal Year 2004 for the state budget, and school year 2003-2004 for enrollments.

26 New Jersey Policy Perspective, *Debt Sentence*, September 2016. https://www.njpp.org/budget/fast-facts-debt-sentence

27 New Jersey Policy Perspective, *Debt Sentence*, September 2016. https://www.njpp.org/budget/fast-facts-debt-sentence

meant NJ Transit increasingly turned to riders to make up the difference. Major fare hikes raised rider contributions by 45 percent over the same time.[28]

Riders pick up far more of the tab for NJ Transit (52 percent) than they do for most peer transit agencies around the country. In Chicago, for example, riders pay for 38 percent of operations and in Los Angeles, just 22 percent. This is a direct result of how little of NJ Transit's operating budget is covered by dedicated taxes – just 1.3 percent, compared to 51 percent in Chicago and 58 percent in Los Angeles.[29]

> Only by investing in the future workforce, and that workforce's ability to get to work, can New Jersey regain its place as an economic powerhouse.

Dedicated, stable annual revenues are necessary to support NJ Transit's operating budget. Lawmakers should consider a variety of options, including congestion pricing, a surcharge on gas-guzzling automobile purchases and taxing businesses that disproportionally benefit from transit (as New York's Metropolitan Transit Agency does). Ensuring stable and adequate support for operating expenses will prevent NJ Transit from imposing even more fare hikes or capital funding raids.

Expand commuter train access between New Jersey and New York City

Listen to the morning radio reports on transit delays and you'll hear the words "NJ Transit" much more frequently than "Long Island Railroad" or "Metro North." At the same time, check the real estate ads for home prices in Summit, Maplewood, Madison or Rumson and you'll see they're rising faster than in towns that don't enjoy regular service to Newark and New York. New Jersey's economic future relies on attracting working families that want backyards and great schools but need to get to New York frequently.

New Jersey's in a race with 100-year-old, single-track rail tunnels that are corroding quickly thanks to age and Superstorm Sandy's saltwater invasion. While Amtrak owns the tunnels, NJ Transit runs many more trains and people through them than Amtrak. The 2010 cancellation of the ARC tunnel project set back the prospect of a new tunnel by at least a decade.

The new effort to build a two-track tunnel under the Hudson River, the Gateway Project, isn't scheduled to be finished until 2030. This $24 billion undertaking will double rail capacity and create hundreds of thousands of jobs, while producing about $9 billion in economic activity and reducing carbon emissions by more than 180,000 tons every year.[30]

Finishing the Gateway Project should be a top priority for lawmakers across the region, particularly for New Jersey's Congressional representatives. The need to build new cross-Hudson tunnels is urgent, with both the state's commuters and economy racing against time.[31] State and federal lawmakers should do everything in their power to ensure that Gateway moves forward swiftly, and that New Jersey's share of the cost of the project is fair and equitable.

28 Tri-State Transportation Campaign, *NJ Transit Lacks Dedicated Funding, and That's Not Normal*, December 2016. http://blog.tstc.org/2016/12/13/nj-transit-lacks-dedicated-funding-thats-not-normal/

29 Tri-State Transportation Campaign, *NJ Transit Lacks Dedicated Funding, and That's Not Normal*, December 2016. http://blog.tstc.org/2016/12/13/nj-transit-lacks-dedicated-funding-thats-not-normal/

30 Tri-State Transportation Campaign, *The Gateway Project: Saving New Jersey and New York from 'Transportation Armageddon,'* August 2016. http://blog.tstc.org/2016/08/18/the-gateway-project-saving-new-jersey-and-new-york-from-transportation-armageddon/

31 Politico New York, *Clock Ticking on Hudson Crossings, Amtrak Warns*, May 2014. http://www.politico.com/states/new-york/city-hall/story/2014/05/clock-ticking-on-hudson-crossings-amtrak-warns-016100

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