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## **What's Included, and Missing, in Gov. Murphy's FY 2022 Budget Proposal**

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As state lawmakers chart the course of New Jersey's pandemic recovery in next year's budget, two unique factors could shape their decisions. For the first time ever, New Jersey will be starting the new fiscal year with over \$6 billion in surplus. A number of factors made this possible, including better than expected revenue collections, borrowed funds from last year's budget, and much-needed federal aid. Second, the country as a whole is facing a moment of reckoning in the face of massive racial inequities laid bare by COVID-19, which disproportionately harmed low-paid workers and Black and Latinx/Hispanic families.

The Fiscal Year (FY) 2022 budget provides a unique opportunity to address racial disparities head-on by making meaningful investments in the building blocks of a strong economy and continuing to support those who have been harmed by the catastrophic events of the past year. As the state rebuilds its economy, it must also ensure that no one is left behind.

It is safe to say that the state's economy is on the mend. But viewed through a racial lens, the recovery is more complicated, especially among communities who never recovered from the Great Recession. New Jersey's low-paid workers and residents of color were hit the hardest by the public health crisis and are historically the last to bounce back from an economic downturn. Targeted policies that enhance racial equity must be a critical piece of the next state budget. Otherwise, New Jersey could hamper its comeback. But, to do so successfully, lawmakers must take [a multi-year view of the state budget](#), a practice that has long been lacking in the budgeting process.

In many ways, Governor Murphy's budget proposal gets it right. It is a legitimate attempt to both meet the needs of New Jersey families reeling from the pandemic and make responsible payments toward long-term obligations. There are ample proposals in this budget that are both good economic policy *and* popular, such as investments in education, health care, and support for small businesses ravaged by the pandemic. But just as noteworthy are the pitfalls in the governor's proposal, like providing insufficient pandemic relief for excluded immigrant workers, relying on non-renewable funds, and raids of dedicated funds that could leave the state vulnerable to cuts in the not-too-distant future.

Soon, the Legislature will release their budget proposal, and final negotiations between the legislative and executive branches will begin. With that in mind, the following review of the governor's FY 2022 budget proposal highlights investments that will guide the state's recovery and ways the Legislature could improve upon them to ensure the state budget meets the current moment with intention.

## Unexpected Revenue

The \$44.8 billion spending plan in the governor's proposed FY 2022 budget is a clear declaration that investing our way out of the crisis is the only path forward to a strong state economy. The overall price tag of the proposed budget is more than 10 percent higher than FY 2021's budget, with significant increases in funding going to schools, affordable housing, and the state's colleges and universities.

These investments were made possible due to better-than-expected revenue collections and borrowed dollars. The state secured these borrowed funds last fall in the face of a very uncertain future with limited options. A second wave of the pandemic was expected, and there was no promise of future federal aid given the upcoming elections for president and control of congress. New Jersey could have plunged forward without borrowing, but that would have exposed the state to potential revenue shortfalls followed by deep cuts to the very services and programs that New Jerseyans rely upon during tough economic times. Together, the Legislature and the governor settled on borrowing \$3.7 billion through an emergency sale of general-obligation bonds to address direct costs of the pandemic response and shore up the state's finances through the end of June 2021.

The good news is that New Jersey has emerged from the second wave of the pandemic on solid footing due to economic growth. Those signs of economic recovery — including strong revenue collections — allowed the governor to propose making a full payment into the state's public worker pension system for the first time in 25 years. That additional \$1.7 billion investment would save the state \$860 million over the next three decades. It would also signal fiscal prudence to credit rating agencies; improvements to New Jersey's credit rating bring down future borrowing costs.

A better fiscal outlook for next year plus the extra cushion of borrowed dollars opens up another long-overdue opportunity — starting FY 2022 with a \$6 billion surplus. New Jersey has a long history of passing budgets with razor-thin margins with very little backup savings. A healthy surplus provides extra revenue for state services and programs, if needed, instead of turning to deep, painful cutbacks to balance the budget. The governor's proposal indicates that two-thirds of the surplus would be spent on the pandemic response and residents' high unemployment needs. The remaining \$2.2 billion would remain in surplus for the following fiscal year.

However, the governor also has plans to spend down the entire rainy day fund of \$1.4 billion during FY 2022. These dollars are typically reserved for unexpected downturns or natural disasters. The governor points to the ongoing public health crisis to justify using the emergency funds. This decision may

change now that New Jersey has received an additional \$6 billion in aid through the federal American Rescue Plan.

About \$6.24 billion is slated for state government aid and \$3.6 billion for counties and local municipalities. This is additional to the \$4 billion New Jersey already received in the first round of federal aid through the CARES Act last fall. This round, however, is a bit more flexible and includes sizable expansions of tax credits for working families, dollars to lower health care costs and help schools reopen safely, small business grants, and more funding for vaccine distribution efforts. These significant COVID-related investments should help New Jersey stretch existing resources or grow an even larger surplus to better address the ongoing economic fallout of the pandemic or unexpected shortfalls in the future. Because, once the federal aid is spent, which New Jersey is required to do by the end of 2024, the state is on its own again.

That brings us to an important consideration: The FY 2022 budget relies on about 10 to 14 percent of non-recurring revenue, putting the notable investments below in jeopardy after the federal aid is spent. New Jersey lawmakers must keep their eyes peeled on the not-so-distant future and find ways to protect these new and expanded programs long-term — because sustainable funding is a non-negotiable component of advancing racial equity through the state budget.

## **Notable Investments**

### **Health Care**

#### **Cover All Kids**

The governor proposed funding most components of Cover All Kids, an initiative that would provide improved and new pathways to health coverage for all children, regardless of their immigration status. Cover All Kids aims to address the remaining gaps in coverage that have left more than 80,000 children in the state uninsured. The proposed budget would eliminate premiums in the Children's Health Insurance Program (CHIP), end the 90-day waiting period for those children who were voluntarily removed from employer insurance, and expand outreach efforts. These investments, including technological updates needed for the expansion of eligibility, amount to \$20 million. Legislation will be necessary to expand eligibility to children who are not currently covered due to immigration status.

#### **GetCovered NJ and Other Health Care Subsidies**

This past year, New Jersey opened its state-based exchange, GetCovered NJ, and provided additional state subsidies to help families with their monthly premiums. The recently enacted state Health Insurance Assessment (HIA) on health insurers funds these subsidies. Now, the governor proposed adding \$25 million more toward subsidies for FY 2022. Along with the extended enrollment period for

GetCovered NJ through the end of December 2021, these investments will provide unprecedented access to affordable insurance for thousands of New Jerseyans who have lost coverage during the pandemic or who have sought to get covered for the first time during this crisis.<sup>i</sup>

## **Reproductive Health Care**

Coverage for reproductive health care for the uninsured has been at a standstill for years, and the lack of significant investment in resources threatens the health and wellbeing of thousands of New Jerseyans. Previous years' budgets committed \$3.8 million annually for limited prenatal services for uninsured residents. Yet, funding often ran out by the end of the first quarter, pushing pregnant people off one program and into another funded with Charity Care dollars. This budget proposes replacing this patchwork coverage with a new \$19 million Reproductive Health Care Fund that would seamlessly cover prenatal costs and provide contraceptive services for the uninsured for the first-time. Additionally, the budget proposal commits \$450,000 to create a state doula registry, which would connect expecting parents with trained doulas whose services are covered under Medicaid, as was announced in February 2021.<sup>ii</sup>

In addition to expanding reproductive health services, the governor seeks to extend Medicaid coverage of postpartum care from only 60 days to 12 months, helping an estimated 8,700 mothers per year.<sup>iii</sup> This \$8.5 million investment (that the federal government will match) would greatly reduce the risk of pregnancy-related deaths, a top priority of the Murphy administration.<sup>iv</sup> For Black mothers — who are seven times more likely than white mothers in New Jersey to die during or after childbirth — this expansion of care is crucial, as Medicaid covers half of all births for Black women.<sup>v</sup> The Biden Administration's American Rescue Plan builds upon this expansion by extending 12-month postpartum care coverage and removing administrative barriers.<sup>vi</sup>

## **Charity Care**

Despite the advancements of health insurance marketplaces and Medicaid expansion under the Affordable Care Act (ACA), many New Jerseyans remain uninsured and underinsured. The Charity Care program helps address this gap by providing funds to help cover eligible uninsured and underinsured patients when they seek certain emergency and needed care at New Jersey hospitals. This budget proposes increasing funding for the program by \$10 million to \$279 million, covering more people and costs. Further funding increases and reforms would better support the state's health care needs and address possible future public health crises.

## **Office of Minority and Multicultural Health (OMMH) and Graduate Medical Education (GME)**

Programs that help diversify the medical profession and better address racism in health care are critical for improving the health outcomes of Black and Hispanic/Latinx residents, who are disproportionately without insurance and more vulnerable to pandemics and other public health crises.<sup>vii</sup> But not if these

programs are cut or flat-funded year after year (flat-funding is tantamount to a cut because the costs of services increase every year). Under the governor’s budget proposal, OMMH is flat-funded at \$1.5 million for its work in promoting health equity. Similarly, the GME program also remains flat at \$242 million. An alarming shortage of physicians, especially in areas serving communities hit hardest by the COVID-19 pandemic, demonstrates the continued need for increased funding for GME.<sup>viii</sup>

## **Economic Security**

### **Child and Dependent Care Credit (CDCC)**

The CDCC helps offset the cost of caring for children and dependents in the form of a tax credit. As currently structured, the credit reduces a tax filer’s tax liability, and accordingly, only benefits households that owe taxes. The governor proposes making this tax credit fully refundable, substantially expanding access for families who earn little or no income. In addition, the proposed budget would increase the maximum income threshold from \$60,000 to \$150,000. Together, these changes would more than double the number of families who qualify for this credit.

### **Temporary Assistance for Needy Families (TANF)**

Now more than ever, New Jersey must help families living in deep poverty. The FY 2022 budget improves the TANF program to better meet the needs of families struggling to make ends meet and put food on the table. The governor’s budget proposes increasing the child support funds, extending the period to meet program requirements, and providing additional dollars for support services for those at risk of losing their benefits.

### **Detention and Deportation Initiative**

All immigrants facing detention and deportation deserve access to meaningful legal representation. Yet, many immigrants are left to navigate the complex immigration system without legal counsel due to the high cost. In 2018, New Jersey took an important step toward addressing this gap by launching a legal representation program for immigrants detained by Immigration and Customs Enforcement (ICE). The proposed budget offers the successful program another \$2 million for a total of \$8.2 million. While this increase falls short of the level needed to fully fund representation for all who need it, the boost in funding would bring New Jersey one step closer to ensuring due process protections for all immigrants facing detention or deportation in the state.

## What's Missing

Since the drafting of the governor's budget, the state has received significant federal aid, which provides a welcomed opportunity to revisit and prioritize overlooked or underfunded programs. This includes shortcomings already covered in this report, like excluding New Jersey's undocumented children from health care coverage. But there are other areas that, if improved, would make an immediate difference in the lives of struggling families and better prepare New Jersey for unexpected emergencies in the future.

### Rainy Day Fund Deposit

New Jersey currently has one of the lowest Rainy Day Funds in the nation as the reserves were never replenished after the Great Recession. Regular deposits made by the Murphy administration paved the way for rebuilding the emergency fund if not for the global pandemic. The governor's proposal spends down the small reserves as part of the state response to the ongoing economic fallout. But now, with federal aid and a larger than expected surplus, lawmakers should consider putting this idea on ice and instead make a modest deposit into the fund. It sends a signal to credit rating agencies that New Jersey will never again allow reserves to be treated like a slush fund or a second-tier obligation as the state recovers from the public health crisis.

### Pandemic Relief for People Excluded from Federal Aid

Many New Jerseyans who have suffered financial hardship this past year have benefitted from federal program support, including unemployment insurance and stimulus payments. However, more than 400,000 New Jerseyans are not eligible for these forms of assistance. While several states have stepped up to address this gap, the proposed budget neglects targeted funding for excluded workers and families. Since the proposed budget release, Governor Murphy has announced a \$40 million allocation of federal funds to support New Jersey residents excluded from federal relief. While this investment is an important first step, this aid will reach only a small number of New Jersey's excluded workers and is insufficient to meet the needs of those who have been without relief for over one year. Lawmakers should build upon this and allocate additional dollars for excluded workers and families.

### Full Earned Income Tax Credit (EITC) Expansion

While New Jersey's EITC provides a financial boost for thousands of New Jerseyans, too many workers and their families are still left out of this critical anti-poverty program. The proposed budget expands access to the credit for childless workers over 65, but young workers under 21 who do not claim children as dependents would continue to be ineligible for the state-level EITC. Further, workers who file taxes using an Individual Taxpayer Identification Number (ITIN) are excluded from the EITC entirely. Lawmakers should permanently remove these discriminatory barriers to the EITC.

## TANF Cash Assistance Increases

Cash assistance provides a critical lifeline for families living in deep poverty, especially during recessions and extraordinary circumstances like the COVID-19 pandemic. While the governor's budget proposed expanding child support funds in the TANF program, cash assistance levels remain flat at about one-third of the federal poverty level (\$559 for a family of three).<sup>ix</sup> Lawmakers should increase the monthly cash assistance amounts to at least 50 percent of the federal poverty level and make sure to adjust it yearly for inflation to better help families and avoid increased hardship during this ongoing crisis.

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