State of New Jersey

Department of the Treasury

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For Information Contact:
Tom Vincz
(609) 633-6565

Final FY 09 Shortfall Solutions Announced

TRENTON -- Faced with a new $1.2 billion shortfall in the current year budget resulting from lower than anticipated collections in major State revenues during March and April, Governor Jon S. Corzine and State Treasurer David Rousseau today proposed a series of budget solutions to bring the FY 09 into balance for the remainder of fiscal year.

"The FY 09 budget has been defined by a long series of prudent steps to help New Jersey weather an economic downturn. In January of 2008, as the budget planning process for FY 09 began in earnest, we anticipated a recessionary economy and proposed a budget that cut spending, preserved core priorities and brought New Jersey closer to structural balance. We then worked with the Legislature to enact the largest year to year spending reduction in State history. After the downturn worsened, our planning paid off -- our surplus accounts helped us to absorb the early waves of revenue shortfalls and we were able to step forward last fall as the first state to implement an economic recovery plan," said Governor Corzine.

When a further erosion of tax revenues was reported in the defining holiday collection period, the Corzine Administration, in January of this year, announced a current year shortfall of $2.1 billion. The announcement was accompanied by a detailing of corresponding solutions to rebalance FY 09, including more than $800 million in spending cuts. The following month, when January revenues fell significantly below targets, the shortfall was revised upward – to $3.6 billion. The Corzine Administration again proposed a new series of budget cuts – another $500 million in reductions, plus additional spending and revenue solutions, including a tax amnesty program. When the FY 10 budget was introduced in March, the FY 09 budget was again rebalanced through a reduction of $500 million in the State's pension contribution.

"As the effects of the deepening recession progressed, our resolve to maintain balance in the budget was tested further, and we responded each time by making tough but necessary choices.

We continue to make these choices and make good on our constitutional obligation for a balanced budget," Corzine said.

Treasurer Rousseau said the most recent revenue collections require further rebalancing, as April income tax revenues fell $747 million below projections and 38 percent under collections for the same month last year. He said the activity largely mirrors the patterns now being experienced in states around the country. According to a study of 47 states released yesterday by the Rockefeller Institute of Government, collections from the major personal income, sales and corporate taxes are down about 13 percent during the first quarter of this year, versus the same quarter in 2008, adjusted for inflation. The Institute reported the largest declines in the personal income tax, and the sharpest declines to be among the Mid-Atlantic states.

"The weakness in the April collections re-opens a shortfall that we had closed three times previously this fiscal year, creating an additional problem of $1.2 billion. Collectively, our shortfall for FY 09, discounting all solutions implemented or proposed to date, has now reached $4.4 billion," Rousseau said. "Closing a $1.2 billion shortfall with six weeks remaining in the fiscal year is daunting, and leaves New Jersey few choices – none of which is pleasant or painless."

The Administration proposes to close the additional $1.2 billion shortfall by utilizing $450 million from the $700 million State surplus that was anticipated in March of this year. The surplus for FY 09 would be reduced to $250 million for the remaining six weeks of the fiscal year.

The $750 million balance of reductions would come from further reducing the State's pension contribution by $150 million and moving costs originally scored for payment in the current fiscal year to FY 10. Those expenses include a $383 million school aid payment and $70 million in grants for the Business Employment Incentive Program (BEIP). The Treasurer said the school aid payment would be made in July, from the FY 10 budget, and the BEIP grants would be made in FY 10. The remaining $150 million would take the form of additional line by line FY 09 spending reductions in State departments and agencies.

"As the current fiscal year ends, we will have closed about one-half of the budget shortfall through direct reductions in spending," Corzine said. "That's about $2.2 billion in tough choices to realign our spending with a revenue stream ravaged by the effects of a global economic downturn."

A detailed listing of the additional reductions and other summary charts will be posted on the Treasury website tomorrow.

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