

STATE OF NEW JERSEY

Department of the Treasury

Andrew P. Sidamon-Eristoff, State Treasurer

Opening Statement Before The New Jersey State Senate Budget and Appropriations Committee April 8, 2010

Chairman Sarlo, Budget Officer Bucco, distinguished members of the Senate Budget and Appropriations Committee -- thank you for inviting me to explain Governor Chris Christie's proposed Fiscal 2011 budget.

As you know, the Governor's budget message of March 16 marked eight weeks of intensive work to close projected budget gaps for both FY 2010 and FY 2011. Throughout this "trial by fire" Governor Christie and senior members of his new administration relied upon, and benefitted greatly from, the wisdom and experience of New Jersey's outstanding professional staff. Even as I thank OMB Director Charlene Holzbaur and Deputy Director Robert Peden, who join me at the table today, I wish to also acknowledge and thank the entire OMB staff and the fiscal staff of the several agencies for their superhuman work effort.

We recognize that our work is not over. March 16 marked the end of only the first phase of a process of engagement with the Legislature and New Jerseyans that will end in the adoption of a balanced budget by June 30, as constitutionally mandated.

Recognizing that you and your colleagues in the Assembly will spend the next few weeks reviewing the various agencies' proposed budgets in great detail, I hope you will allow me to kick off this second phase of the process by speaking to a few overall themes and also addressing some specific issues. Of course, I will be happy to entertain your questions.

Let me first speak to purpose.

What is the Governor's proposed budget all about? What, in summary, are we attempting to accomplish?

Simply put, Governor Christie's proposed budget is ultimately about rebuilding New Jersey's economy. Only a strong, competitive, and growing economy can support the quality of life and government services that New Jerseyans deserve and expect.

Repositioning New Jersey for economic growth will necessitate major changes in New Jersey's state and local governments, beginning of course with adopting a budget that starts to return the State to a sound and sustainable financial footing. And that, in turn, means facing up to the need to make many very difficult choices.

No one who reads a newspaper, watches TV, or listens to the radio would deny that Governor Christie's budget contains many, many tough choices. I know that people of good will not always agree on the specifics. But I am confident that these choices are, in sum, absolutely necessary if we are to build a stronger New Jersey for tomorrow.

Let's be honest and fair. The absolute and unavoidable necessity of making tough choices now arises because past Legislatures and Governors of both political parties could not --- or would not --- exercise the leadership necessary to address fiscal problems that have been festering for decades.

Ladies and gentlemen, although we face a very real budget gap, I assure you that we don't suffer from a leadership gap.

Having addressed purpose, let me now turn to process.

In building a balanced budget proposal, the Governor had to address a breathtakingly large projected budget gap of \$10.7 billion, about 36 percent of the FY 2010 budget.

Simply put, if we did nothing, projected spending for FY 2011 --- including about \$8.5 billion in growth --- would have been \$38.4 billion, \$10.7 billion more than the projected FY 2011 base revenue of \$27.7 billion.

In mentioning revenue, I should acknowledge that the Office of Legislative Services on Tuesday issued its Revenue Outlook for FY 2010 and FY 2011 in which it estimates that revenue in FY 2011 will be \$167.7 million less than the Governor's budget estimate. Although a not insignificant number, \$167.7 million represents roughly one half of one percent of the proposed budget.

OLS has also estimated FY 2010 revenues will be \$81.7 million below Treasury's estimates as of February. This, in conjunction with the fact that we have incurred additional supplemental needs, makes it important that we work together to address the remaining FY 2010 close-out issues in the coming weeks.

How did the budget gap grow so large? Although a bruising national recession certainly had an impact on revenue --- reducing revenues by about 15% from the high of almost \$33 billion in FY 2008 --- the truth is that New Jersey has a spending problem. Specifically, New Jersey's State and local governments have built up unsustainable spending commitments over a long period of time.

State government spending soared about 50% from FY 2002 to FY 2008, while local government spending increased 69% from 2001 to 2010.

Worse, rather than exercising restraint in the face of reduced revenues during the recession, the State succumbed to the temptation to use \$3 billion in one-time federal stimulus money to support unsustainable, ongoing spending commitments in FY 2009 and FY 2010. The problem we faced in dealing with the \$1.1 billion reduction in stimulus funding in FY 2011 is a lot like the problem faced by the home owner who, enticed by the offer of deferred interest, buys more house than he or she needs, only to wake up months or years later to find that his or her regular income can't support the mortgage payments.

The Budget in Brief and other documents detail how the Governor proposes to close the \$10.7 billion gap for FY 2011. In broad brush, we cut \$1.9 billion in

baseline spending, cut \$7.1 billion in projected growth, eliminated some programs for \$200 million in savings, identified \$600 million in additional resources, found non-State resources to support \$400 million in spending, and project the receipt of \$500 million in enhanced federal Medicaid funding.

The broad brush obscures the true nature of what was an exhaustive process. In regular meetings over the course of two months, the Governor personally reviewed hundreds of budget line items and proposed savings and/or revenue ideas. At the end, as we strove to reach a balanced budget, we were literally reviewing items scored in the thousands, rather than millions. Every single department of State government has taken a hit.

Let me now address a few issues of specific concern to New Jerseyans.

First, I know that some will demand that Governor Christie propose or accept a restoration of the previous Governor's massive \$1.1 billion temporary tax increase to "save" certain programs or restore cuts. Although I am sure that we will explore this topic at length later today, I can assure you that this Governor will not sign a budget that increases taxes. To do so would break faith with the people of New Jersey -- already the highest taxed in the nation -- and undermine New Jersey's economic competitiveness and job creation at a particularly vulnerable stage in the economic cycle. Besides, history teaches us that tax increases in New Jersey never close deficits, they simply fuel more spending. The cycle must and will stop now.

Second, we know that there will be plenty of people who say we shouldn't have cut school aid, that school spending should continue to rise at rates far higher than inflation. But it was impossible this year to achieve balanced reductions in the State budget without reducing education aid, because school aid is 36 percent of the budget. Governor Christie took a scalpel, not an ax, to school aid. No district with steady enrollment will lose more than 5 percent of its current year's budget in formula aid. How many New Jersey families, or businesses, have had to make do with 5% less than they had last year? To paraphrase a recent opinion column: Yes, these cuts are significant, but they are manageable. And they come

only after year after year of uninterrupted increases in both State aid and local property tax support for public schools.

I would also respectfully note that, in addition to formula and other forms of aid to districts, the State will continue to provide \$1.8 billion in direct aid to education for teachers' benefits, including 100% of the cost of teachers' Social Security tax contributions, 100% of teachers' post-retirement medical benefits, and interest payments on outstanding pension bonds.

Speaking of aid to school districts, I would take this opportunity to urge your favorable consideration of the Governor's proposal to give school districts and local governments the tools they want and need to manage their own budgets more effectively. I should also acknowledge and thank you for your actions in beginning the process of much-needed pension reform.

Third, there will be those who complain that one cut is far deeper than another. In response, I would note that each choice was made on its own merits, weighing all the options and impacts to the extent we could. This reflects the assumption that our responsibility is to set priorities and make choices on behalf of New Jersey's residents. If all we did was impose across-the-board reductions, we might as well pack up and turn over the entire budget-making process to a computer.

I would also note that it's important to keep in mind that every budget cut decision has at least three dimensions – the absolute amount being spent, the relative amount of projected spending that represents growth as opposed to baseline spending, and the marginal amount that is proposed to be cut. To look at these decisions only from the marginal perspective of a proposed cut is tempting but distortive and often misleading.

At the end of the day, let us not lose sight of the fact that, notwithstanding the enormous challenges, Governor Christie has proposed a budget of \$28.3 billion that continues to deliver a vast range of essential and important services to New Jerseyans. And that's not counting spending that is supported by federal funds;

dedicated funds; special revenue, trust, bond, and proprietary funds; or independent authorities, colleges and universities. If you put it all together, total spending by the State government and its associated entities for next year will exceed \$63 billion. Pursuant to the Governor's Executive Order 8, I am pleased to note that this year's Budget in Brief includes detailed information on total spending from all sources for the first time in State history.

Finally, as Governor Christie has stated repeatedly, we are open to better alternatives and would expect to see some changes as a function of the process of review and consultation that starts with this week's budget hearings. None of us has a patent on wisdom. We welcome the fact that the final adopted budget will no doubt reflect the special expertise or experience with respect to particular issues that many advocates, and many of you, will contribute to the process.

In closing, thank you for giving me this opportunity. I look forward to working with -- and learning from -- you as the process unfolds. Working together and constructively, we will build a better future for New Jersey.

I will be happy to entertain your questions.