ASSEMBLY BILL NO. 2800

To the General Assembly:

Today, I am returning Assembly Bill No. 2800 with my signature, along with certain constitutionally permitted modifications set forth in the statement appended thereto.

In my February budget address, I called my budget, if approved, a turning point for the State. The $32.87 billion budget I signed today makes a clear turn towards long-term fiscal responsibility, rather than continuing the past practices of pushing tough budget choices off until the future.

The Fiscal Year (FY) 2009 budget makes an unprecedented cut of $600 million from the budget I signed last year, the largest absolute reduction in State history. It relies on nearly $3 billion of actions to reduce spending to offset the mandatory and inflationary growth in the budget in order to achieve the overall $600 million reduction.

The budget significantly reduces the use of non-recurring revenue to support current spending, increases overall property tax relief, increases funds for education implementing the new school aid formula, and protects services and programs that provide public safety and protect the most vulnerable. This budget reduces the size and cost of government and allocates necessary reductions in a fair and equitable manner. There are no legislative add-ons or items commonly known as “Christmas trees.” Appropriately, this budget does not include any new or increased taxes. Finally, as was the case last year, this budget was proposed, debated, and passed with transparency and well within the constitutional deadline.

In addition to the historic reforms set forth in the general appropriation act, other long-term reforms that formed part of the debate and serve to frame this budget for the purposes of sustaining fiscal discipline include: (1) placing a constitutional amendment on the ballot to require voter approval of State debt; (2) establishing a Long Term Obligation and Capital Expenditure Fund to pay down State debt and meet other long-term obligations; and (3) my signing today of Executive Order No. 103, which will require that recurring revenue match recurring spending in future proposed budgets.

I commend Senate President Richard J. Codey and Assembly Speaker Joseph J. Roberts, Jr., for their cooperative efforts and for sending this fiscally responsible budget to me well within the constitutional deadline. I also would like to thank Senate Budget and Appropriations Chairwoman Barbara Buono and Assembly Budget Committee Chairman Louis D. Greenwald for their disciplined leadership during this process. I am grateful to all the legislators who voted for this budget and its confirmation of the commonsense principle that we should spend no more than we take in.

Restoring Fiscal Stability

First and foremost, the FY 2009 budget represents a continuation of my administration's efforts to restore fiscal and tax stability to State finances and begin to make decisions based on long-term objectives, rather than simply "getting by" from year to year. This $32.87 billion budget will spend $600 million less than the budget that was enacted last June. This represents the largest decrease of any State budget in New Jersey history and is three times larger than any past year-to-year reduction.

In February, when I delivered an austere budget message for Fiscal Year 2009, I stated that we were facing a structural gap of approximately $3.2 billion between our expected revenues of $32.5 billion and our anticipated spending of $35.7 billion, based on mandatory spending and inflationary increases. The $3.2 billion structural gap originally was closed with $2.7 billion in actions that impact spending and using $500 million of the excess surplus projected.

In May, the State Treasurer updated the revenue and spending projections and announced an additional gap of approximately $200 million between spending and revenues. This increased structural gap again was closed primarily with spending reductions and adjustments to areas of the budget that were projected to increase. The most important of those new reductions came from our paydown of $650 million of debt, allowing a decrease of spending on debt service by $135 million.

This budget dramatically reduces the gap between recurring revenues and recurring expenditures by reducing one-time revenues from $1.8 billion to less than $600 million. The budget relies on only $500 million of FY 2008 excess surplus to support FY 2009 spending and continues the glide path to bring the State closer to a budget that matches recurring revenues with recurring spending. During the past six fiscal years, State budgets had relied on an average of over $2.3 billion in non-recurring revenues to support spending. As Executive Order No. 103, which I am signing today, confirms, I fully intend to eliminate the use of any one-time revenue to support current spending in future budget proposals.

As noted above, this budget benefits from a $650 million reduction of the State's debt by applying FY 2008 excess surplus to debt reduction, saving at least $135 million per year for the next five years. This budget also benefits from appropriations of about $300 million of additional FY 2008 surplus to repay previous Unemployment Insurance Fund diversions and fund one-time capital projects. So nearly $1 billion of FY 2008 surplus was appropriately used, not to support new spending, but to achieve savings and avoid tax increases. It is my goal to continue to use a portion, if not all, of excess surplus built up each year through unanticipated revenue, efficiencies, and careful management of spending for additional debt reduction.

In contrast with past decisions to avoid pension payments altogether, this budget honors the commitment to make annual payments of at least $1.1 billion to the State's pension systems. Over the past three years, the State has contributed more than $3.3 billion to the various pension systems; this sum exceeds the cumulative amount contributed over the previous 16 years. In addition to making actual cash contributions to the pension systems, the contract negotiated last year with public worker unions will save the systems over $3.5 billion between FY 2008 and FY 2022, as a result of increasing the retirement age from 55 to 60, capping pension income at the social security level, increasing the employee contribution by 10% from 5% to 5.5%, and removing elected and appointed officials from the defined benefit program. The changes made last year will save an additional $2.9 billion in health benefit costs over the same period. The continued annual appropriations and the savings generated from the contract, plus the reforms recently passed by the Legislature, will continue the process of securing the pension systems and reducing the liability on future taxpayers.

Reducing the Size and Cost of Government

This budget reduces the cost of State government by nearly $300 million and the number of State Executive Branch employees by between 2,000 and 3,000 through a combination of an Early Retirement Incentive Program (ERI) and the continuation of an aggressive attrition program that already has resulted in the reduction of nearly 2,000 Executive Branch employees.

In this regard, the budget provides for a reduction in the operating funds for every Executive Branch department. Departmental budgets have been directly reduced by approximately $184 million, or by an average of about 5% each. In addition, departments will realize savings from the ERI and attrition program of approximately $90 million and an additional $25 million through procurement savings. In total, these actions amount to nearly $300 million and represent an average reduction of nearly 8% per department.

The ERI legislation that I signed last week represents a major component of the downsizing and restructuring of State government. The reduction of approximately 1,700 Executive Branch employees to be achieved through this initiative will require every department and agency to re-evaluate its priorities and adjust to the reduced workforce. This process of re-evaluation and prioritization should lead to additional savings over time.

This budget also eliminates two cabinet level agencies -- the Department of Personnel and the Commerce Commission – and consolidates the essential functions of those agencies into other Executive Branch departments or agencies. As a result, savings will accrue from the elimination of administrative functions, including two cabinet level offices, and efficiencies gained through consolidation.

The budget also provides for a reduction of $3.6 million for the Legislature and will require the Judiciary to implement $27 million in efficiencies to offset a portion of the cost of its negotiated salary increases.

Increasing Property Tax Relief and Support for Education and the New School Funding Formula

Despite the pressing need to reduce overall spending to ensure fiscal stability, this budget provides for nearly $16.7 billion in total property tax relief. This represents an increase of $61 million from the FY 2008 levels, and is nearly $3.4 billion, or 25% more, than the $13.3 billion provided in FY 2006. The property tax relief component contained in the budget -- $16.7 billion -- continues to represent more than 50% of total spending.

The core components of the property tax relief include:

- $2.5 billion in direct relief to taxpayers;
- $11.5 billion in support of preschool-12 education;
- $1.8 billion in aid to municipalities; and
- $800 million in other local aid.

The budget allocates over $2.5 billion for direct property tax relief to homeowners and tenants. This funding ensures that over 1.5 million homeowners will continue to receive average rebates of approximately $1,000. Since FY 2006, direct property tax relief from the State has nearly doubled from $1.3 billion to slightly over $2.5 billion.

This budget provides nearly $1.6 billion to continue rebates for 90% of homeowners while 1.2 million, or 70%, will continue to receive the same rebate amount they received last year. The average $1,000 rebate for non-senior homeowners is nearly three times the amount received in FY 2006, and the $1.6 billion funding level is over $600 million greater than the amount provided that year.

With regard to senior citizens, the budget sets aside $169 million in funding for the Senior Tax Freeze program, an increase of $16 million, or more than 10%. The program provides nearly 160,000 senior homeowners with checks averaging $1,069, which is $125 more than the FY 2008 average.

The $11.5 billion provided in this budget to support pre-school through grade 12 education is $570 million above the FY 2008 appropriation and represents over one-third of the total budget. Of this increase, approximately $515 million is in the form of additional direct aid to school districts under the new school funding formula, which increases relief to all school districts, including boosts of 10% to 20% for over 40% of the districts. Since FY 2006, total aid to schools has increased from $9.36 billion to $11.5 billion, an increase of over $2.1 billion, or nearly 23%.

Because of fiscal constraints and limited resources, the budget provides for a reduction in the level of aid to municipalities as compared with last year. The budget, however, continues to provide $1.834 billion in aid to municipalities, a reduction of $162 million, or 8% from the FY 2008 level. The $129 million reduction in formula aid represents slightly more than 1% of the nearly $12 billion that municipalities are expected to spend in the upcoming year. As noted, the State has reduced its operating cost by nearly 8% and local officials are expected to take actions to reduce spending through efficiencies, economies, and smaller government rather than simply passing the costs on to property taxpayers.

Overall, the $570 million increase in school aid far exceeds the $160 million reduction in municipal aid. Allocating funding in this manner directly addresses the largest portion of an individual's property tax bill, since 55% of local property taxes go to support schools, and in some suburban municipalities that percentage exceeds 70%.

Despite reducing spending budget protects vital programs

In addition to property tax relief and school funding, this budget continues to provide support to vital programs that improve public safety, protect vulnerable citizens, and otherwise meet the needs of the citizens of this State.

Despite the need for a slight reduction of less than 3% in overall support for higher education, this budget still provides over $2.1 billion for operating aid and student assistance. Direct student assistance increases by over 6% to nearly $330 million and provides 50,000 students with tuition assistance grants and over 19,000 students with Educational Opportunity Grants. In addition, nearly 4,800 students will participate in the NJSTARS program.

Aid to hospitals totals nearly $1 billion in this budget, a reduction of only $75 million, representing approximately 0.4% of total hospital revenues. Charity Care reimbursement will be focused on those hospitals that provide the highest percentage of care and a new Health Care Stabilization Fund program will be established to provide assistance to those hospitals in the most distress. Hospital funding is actually $31 million greater in this budget than the FY 2006 level.

The budget will spend $256.2 million to provide prescription drug coverage to 189,000 senior and disabled citizens under the PAAD and Senior Gold programs.

The budget will provide $3.5 billion in Medicaid funding to provide health care for approximately one million residents. We will be diligent in rooting out fraud within the program with the appointment and development of the Office of the Medicaid Inspector General.

An additional $8 million is provided to fund an expansion of the NJ FamilyCare program to enroll parents with incomes between 134% and 200% of the federal poverty level ($28,197 - $42,400 per year for a family of four). The program currently covers children up to 350% FPL ($74,200 for a family of four) and parents up to 133% FPL ($28,196 for a family of four). The expansion of NJ FamilyCare, which will begin on September 1, 2008, is expected to result in coverage for approximately 18,000 additional parents and 11,000 additional children.

The budget includes funding in the amount of $3.5 million for a new State Police recruit training class. The class will graduate approximately 100 new troopers providing for an overall trooper level of approximately 3,100. The FY 2008 budget increased the troop level to over 3,000 for the first time ever, and the FY 2009 budget recognizes the importance of maintaining the commitment to this high priority. This budget also provides $2 million for the purchase of 250 new state trooper vehicles.

The State subsidy to NJ Transit is increased by $60 million, from $298.2 million provided in FY 2008 to a total of $358.2 million in FY 2009. This 20% increase, which is the largest since FY 2005, will avoid any fare increase during the coming fiscal year. Specifically, these funds will help offset rising costs of diesel fuel for bus and rail operations, the impact on service from aggressive ridership growth, and basic core inflation.

The budget provides $24 million to allow the Division of Developmental Disabilities (DDD) to transition 125 clients from the seven state developmental centers into community residential placements and day programs. This initiative is in line with the U.S. Supreme Court's *Olmstead* decision which held that, as appropriate, persons with developmental disabilities and/or mental illness have the right to live in community rather than institutional settings. An additional $15.5 million is provided to annualize placement and day program costs for 100 developmental center clients transitioned in FY 2008. Finally, language in the Appropriations Act makes up to $12.5 million available to DDD to provide community residential placements and home-based services to persons on the Community Services Waiting List.

In addition, the budget provides $15 million to allow the Division of Mental Health Services to provide housing and support services for approximately 200 persons currently residing at the five state mental health hospitals and 100 clients currently living in the community. This funding would also establish two new pre-screening sites to supplement the existing acute care hospital screening centers and potentially divert admissions to State and county psychiatric hospitals. Finally, this funding provides for new short term care beds in community-based settings, which also may divert admissions to State and county psychiatric hospitals. These initiatives are in line with the U.S. Supreme Court's *Olmstead* decision. An additional $5 million is provided to annualize the costs of similar services begun in FY 2008.

The budget provides $40.6 million to annualize a 3% cost of providing care increase given to third party agencies contracting with the Departments of Human Services, Children and

Families, Health and Senior Services, and Labor and Workforce Development, as well as the Juvenile Justice Commission.

The budget increases the percentage of federal benefit provided by the Earned Income Tax Credit (EITC) from 20% to 22.5%. The combined benefits of expanding eligibility to match the federal criteria in FY 2008 and the FY 2009 percentage increase are expected to provide more than $200 million of tax relief to approximately 250,000 new beneficiaries.

The State Rental Assistance Program will provide $52.5 million in FY 2009. Approximately $19 million of this will continue support to nearly 2,100 families currently receiving monthly rental subsidies. Another $15 million will be used to expand the program to provide vouchers for 1,500 additional families. These vouchers will be targeted primarily for seniors and for compliance with *Olmstead* mandates. The remainder of program funding will be targeted to builders to construct desperately needed affordable rental units. The funds will provide a guarantee of 10 years of rental payments to builders who construct these rental units, thereby affording program benefits to additional families when construction is completed.

Changes since February address policy concerns, not special interests

Through the cooperative efforts of the Legislative leaders, the changes that we have agreed to in this final budget represent less than 1% of the overall budget recommended in February. The changes are limited to policy areas such as health care, municipal aid, tuition assistance, and other social service programs. In addition, one of the largest changes was the reduction in the savings from the Early Retirement Program due to the change in eligibility and the delay in implementation. All of these changes were funded through additional budget savings, reduction of debt service, and the extension of the Transitional Energy Facilities Assessment. These changes do not include any legislative grants, member spending, or other similar line item appropriations to support specific organizations.

The largest change in the final budget was the additional $68 million in various programs that support hospitals thus reducing the original proposed reduction of $143 million by more than 50%. This budget provides $970 million in State and federal aid to hospitals. The original proposal -- that the majority of the Charity Care be distributed to hospitals that provide the most charity care -- has remained and the new Health Care Stabilization Fund has been increased from

$35 million to $44 million. This new fund will give the State the ability to deal with financial issues throughout the year with the hospitals that are in most distress.

The changes also include an increase of $35 million in formula aid to municipalities focusing primarily on the municipalities with populations below 10,000. In addition, the $20 million in expected payments for municipalities that currently receive State Police coverage at no charge was reduced to $12 million and the impact on each municipality was limited to no more than $100 of the average homeowner tax bill.

The most significant policy change in the final budget is the expansion of the Family Care program to include parents with incomes up to 200% of the federal poverty level. Other important changes include:

- Delaying the implementation of the income limits on the STARS program and changes in the TAG program for private college students until a study of the programs can be accomplished;
- Funding to provide for a State Trooper training class;
- Shifting resources within the Department of Environmental Protection to allow State parks to remain open;
- Increased funding for the legal services programs that assist low income families;
- Partial inflation for nursing homes that were previously not scheduled for an increase;
- Increased funding for arts, history and tourism grants; and
- Recognition of increased costs of supporting charter schools.

Clearly, each of the items above is based on policy decisions rather than special interest line items.

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In sum, the budget that I signed today marks a turning point for the State's finances. This budget:

- Cuts spending by $600 million from the budget signed last year;
- Reduces the size and cost of government;
- Significantly reduces the use of one-time revenues;

- Relies on nearly $3 billion of spending actions to offset mandatory and inflationary growth;
- Benefits from the unprecedented strides toward long-term structural soundness through the use of nearly $1 billion of excess FY 2008 revenues to reduce debt, repay previous diversions, and fund one-time capital rather than supporting ongoing programs;
- Protects core responsibilities of government – educating our children; providing public safety; and caring for the most vulnerable;
- Increases overall property tax relief; and
- Does not include any new or increased taxes.

Although we all should be proud of this budget and the new direction we are taking regarding the State's finances, this budget is only another step towards long-term fiscal stability. I appreciate that this new direction comes with many new spending cuts and limited growth. As we move forward in the upcoming fiscal year, particularly during a time of economic weakness and uncertainty, we must remain vigilant in our attempts to control the cost of government at all levels.

This budget, along with other reforms such as the creation of a Long Term Obligation and Capital Expenditure Fund that will limit our use of excess surplus, the proposed constitutional amendment to require public approval of debt, and Executive Order No. 103, which will require that recurring revenues match recurring expenditures in future budget proposals, ultimately will make this State financially sound and reduce the burden shouldered by individual taxpayers. Over the long term, we will have greater fiscal stability and certainty for our shared priorities by taking the direction we have chosen.

Line Item Vetoes

The Governor's Budget Message is a recommendation to the Legislature and, under our Constitution, the Legislature has the right and duty to adjust the Governor's proposal as they wish. Under the Constitution, the Governor has the ultimate authority to remove any spending items that he deems inappropriate.

Building on the process that was developed last year and in recognition of the extreme financial circumstances, I am pleased that the Legislature focused its efforts this spring on policy related areas rather than special line item appropriations. As such I do not believe that there are any line item vetoes that I need to make on spending items. There are, however, a number of language provisions that require adjustment that are primarily technical in nature. These changes are appended to this statement.

Respectfully,

/s/ Jon S. Corzine

Governor

Attest:

/s/ Edward J. McBride, Jr.

Chief Counsel to the Governor