NJBIA’s First Glance at Governor Murphy’s Second Proposed FY21 State Budget
August 25, 2020
By Christopher Emigholz

Back on Feb. 25, the day of Governor Murphy’s first budget address and before the pandemic, NJBIA provided you all with NJBIA’s First Glance on the FY2021 State Budget. So now six months later, NJBIA is providing a second first glance at Governor Murphy’s proposed FY2021 state budget. He is planning to spend $40.1 billion – an increase of $1.4 billion or 3.6% from the prior FY2020 signed budget. Cumulatively for the three budgets of the Murphy administration, this represents an increase of $5.4 billion or 15.6% since the last signed budget of the Christie administration. (The total Murphy budget increase can be softened if the shift in energy tax receipts from off-budget to on-budget several years ago is considered, lowering that cumulative increase to 13.3%).

You can see NJBIA’s initial statement expressing our disappointment with the proposed budget.

Below is a summary of Governor Murphy’s FY21 budget proposal, but please also feel free to explore Governor Murphy’s budget documents related to his proposal linked below:

Governor Murphy’s Revised Budget Summary
Governor Murphy’s Press Release
Text of Governor Murphy’s Speech

Key Budget Figures Comparing Recent Budgets:

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<thead>
<tr>
<th></th>
<th>New FY21 Proposed</th>
<th>Original FY21 Proposed</th>
<th>$ Change Over Course of Pandemic in New Versus Original FY21 Proposed Budgets</th>
<th>% Change Over Course of Pandemic in New Versus Original FY21 Proposed Budgets</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Appropriations</td>
<td>40.1</td>
<td>38.7</td>
<td>-0.8</td>
<td>2.0%</td>
</tr>
<tr>
<td>Total Revenues</td>
<td>36.4</td>
<td>38.5</td>
<td>-2.1</td>
<td>5.3%</td>
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<tr>
<td>Sales Tax</td>
<td>9.3</td>
<td>10.2</td>
<td>-0.9</td>
<td>9.3%</td>
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<tr>
<td>CBT</td>
<td>3.1</td>
<td>2.8</td>
<td>-0.3</td>
<td>2.2%</td>
</tr>
<tr>
<td>Income Tax</td>
<td>15.0</td>
<td>16.6</td>
<td>-1.6</td>
<td>-9.8%</td>
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New Taxes:

Governor Murphy is proposing approximately $1 billion in new taxes to support his $40.1 billion budget, including:

- $390 million from millionaires tax proposal to create higher top rate of 10.75% (from 8.97%) on income over $1 million;
- $210 million from reversing the Jan. 1 CBT rate decline and making the recent 2.5% CBT surtax permanent;
- $143.1 million from cigarette tax increase (increase to $4.35 per pack);
- $102.7 million from increased HMO assessment (increase to 5%);
- $75 million from 5% surcharge to individuals with incomes over $1 million with federally qualified business income (QBI);
- Using the new health insurance tax in the budget that is already law;
- $15 million opioid tax on drug manufacturers and wholesalers;
- $13 million from extending sales tax to limousine services;
- $7 million from ending yacht sales tax cap; and
- $6.3 million in new taxes and fees on guns and ammo.

**Borrowing:**

In addition to the new taxes and utilizing the new bonding authority granted over the summer, Governor Murphy is proposing to use $4 billion in borrowed funds to support this $40.1 billion budget. That is less than the full $9.9 billion in authority that was granted, and the Governor is still evaluating the mechanics of how this bonding will be done.

**Fiscal Responsibility/Spending Reductions:**

NJBIA is disappointed with the lack of fiscal responsibility demonstrated in this proposed budget, but it does include some noteworthy items:

- Governor Murphy’s proposal includes $1.25 billion in spending reductions that include the following highlights:
  - $336 million in savings from Medicaid solutions;
  - $71.3 million reduction in NJ Transit’s operating subsidy (federal money is there to replace this year but creates a hole in next budget);
  - $59 million from Corrections reform;
  - $66 million in DCF solutions;
  - $40 million transfer from Clean Energy Fund;
  - $28.7 million from a reduction to Triple 5 ERG grants;
  - $20 million horse racing subsidies;
  - $19.2 million or 10% Charity Care and GME reduction;
  - $13 million from deferring 911 upgrades;
  - $10 million from an EDA diversion;
  - $7 million shift of county college operating aid to off-budget workforce development fund;
  - $7 million to support consolidation and shared services;
  - $1.2 million elimination of new K-12 computer science initiative;
  - $1 million elimination of business marketing initiative; and
  - It is unclear how much savings was because of the furlough program that NJBIA supported.
  - This $1.25 billion includes hundreds of millions in federal COVID-19 relief monies replacing previous state spending.
- $2.2 billion budget balance or surplus - continuing to maintain a higher budget surplus
  - During this crisis the surplus actually grew by $500 million, so you can extrapolate that half of the new taxes or 1/8th of the borrowed funds are not for new spending.
or to help anyone, but merely to put more money away for a rainy day when we are already in that rainy day.

- Continuing to increase our required pension payments and making the $4.9 billion eight-tenths pension payment per the tenths track to reach full funding
  - It is important to not return to the decades long bipartisan pattern of kicking the can down the road on pension payments, but making this large of a payment in a budget crisis like we are in now begs the question of if it would be worth avoiding the borrowing and/or new taxes also contained in this budget.

**New Spending:**

So much new spending in this proposed budget is not consistent with the stark realities of our time. This new spending includes:

- Proposal for baby bonds of $1,000 per newborn baby in New Jersey to families earning less than $131,000 (booking $40 million in budget, but estimated cost could be closer to $75 million range);
- Health insurance subsidies that are based on the new Health Insurance Tax that just became law in July;
- $70 million more for preschool aid;
- $60 million more for water infrastructure;
- $45 million more for Children’s System of Care;
- $35 million more for affordable housing;
- $10 million more to launch new preschool programs;
- $10 million more for a new expungement unit in the Department of Law & Public Safety;
- $5 million more for early voting; and
- Restoration of local spending that was cut in three-month budget.

**Other Key Spending:**

- Formula aid to our K-12 school districts is flat from FY 2020.
- Higher education is flat from FY 2020.
- Municipal aid is also flat.
- The proposed FY2020 budget includes the restoration of both major property tax relief programs not included in the three-month budget extension - the Homestead program and the Senior Freeze. This costs approximately $500 million.

**Use of Federal COVID-19 Relief Money:**

The budget document includes more detail than we have previously seen on the state’s planned use of the $2.4 billion of federal relief dollars – some that will support the budget and some off-budget. It includes:

- Only $106 million of $2.4 billion or 4% for business relief (includes technical assistance and workforce development monies)
• $400 million going to K-12 and childcare;
• $300 million going to higher education;
• $300 million going to social services and health care;
• $250 million for local governments;
• $102 million for housing assistance;
• $240 million for a FEMA match and emergency spending on things like testing; and
• $698 million or 30% going for payroll, benefits and state support.

Other Highlights/Key Takeaways:

• Revenues are down from FY2020 by $1.6 billion ($38 billion to $36.4 billion), yet appropriations are up $700 million ($39.4 billion to $40.1 billion)
• Interestingly, the projected FY2021 sales tax revenue, often a good indicator of the severity of the economic crisis caused by COVID-19, is almost exactly identical to sales tax revenue of FY2020.