



State of New Jersey

FY2021 REVISED BUDGET PROPOSAL

PHILIP D. MURPHY, GOVERNOR

SHEILA Y. OLIVER, LT. GOVERNOR

AUGUST 25, 2020

*Stronger, Fairer and More Resilient:
Building New Jersey's Post-COVID Future*

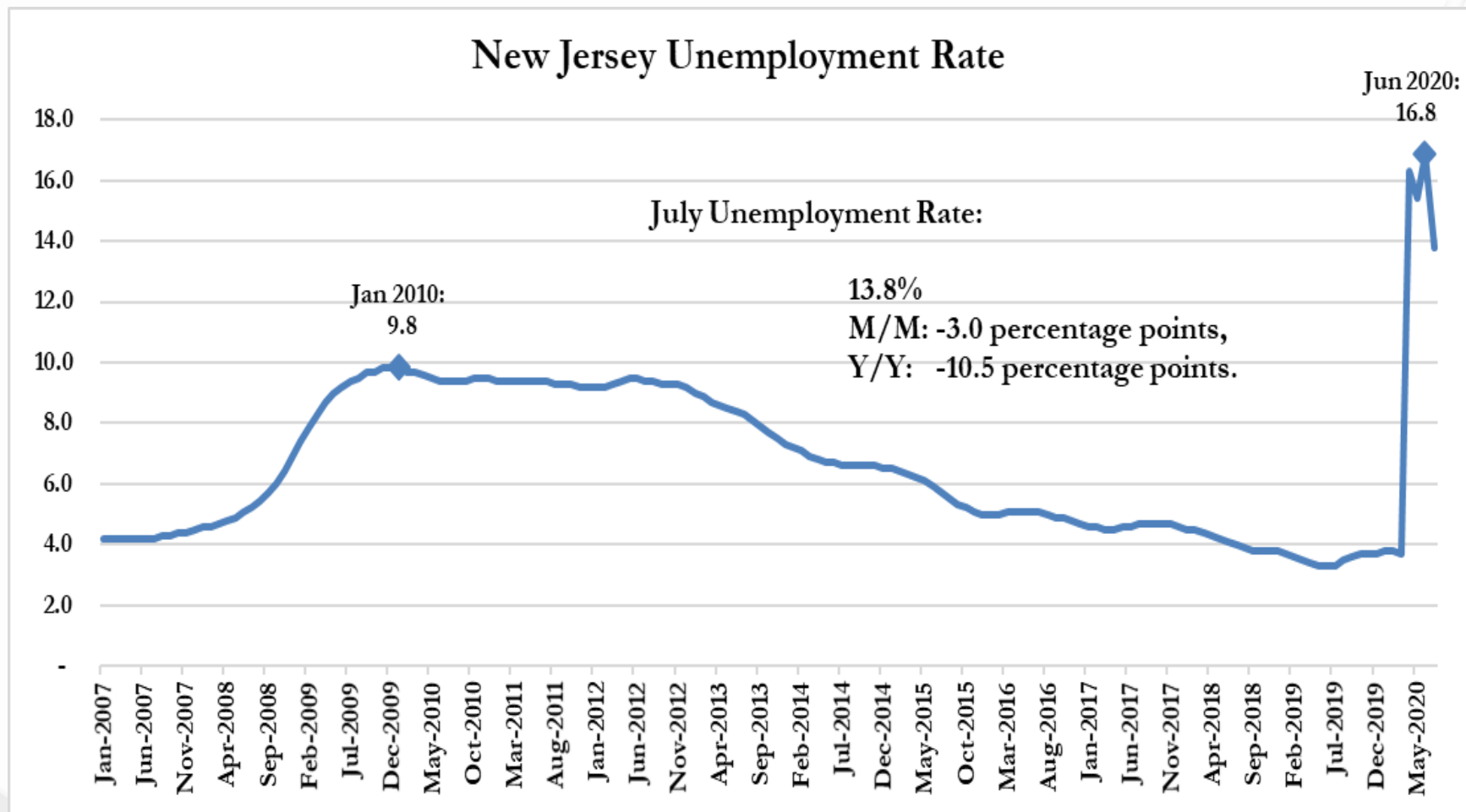
Moving New Jersey Forward

Besides setting off an unprecedented public health crisis, COVID-19 unleashed an economic crisis that can only be rivaled by two other times in our state's entire 244-year history - the Great Depression and the Civil War.

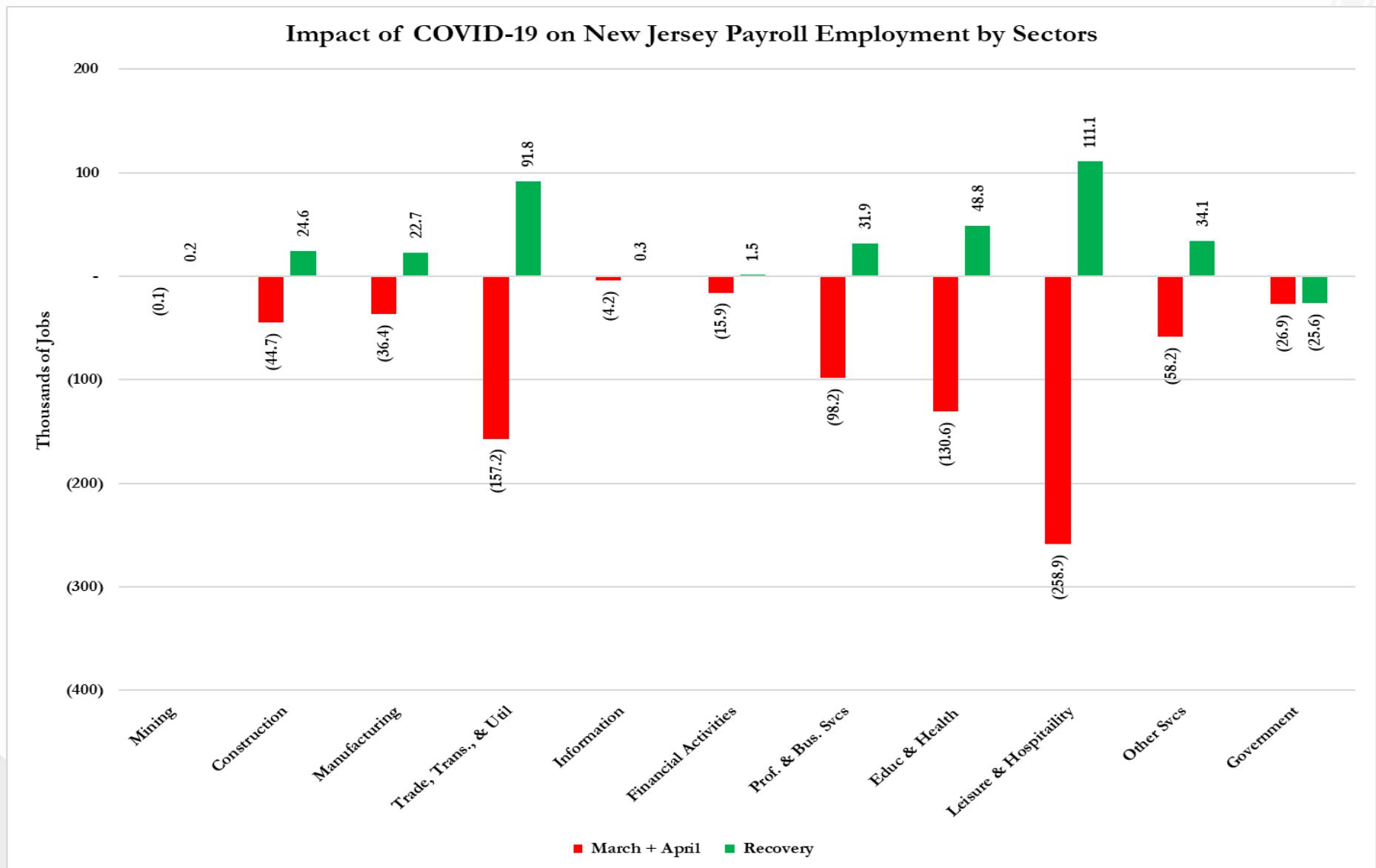
Governor Murphy's budget is not simply about getting New Jersey back to where it used to be, but moving forward to where we need to be by building a new economy that grows our middle class and works for every single family, while asking the wealthiest among us to pay their fair share in taxes.

Economic Overview

The New Jersey unemployment rate surged to a high of 16.8% in June, well above the Great Recession peak of 9.8%.



The COVID-19 pandemic has hit low-wage sectors especially hard



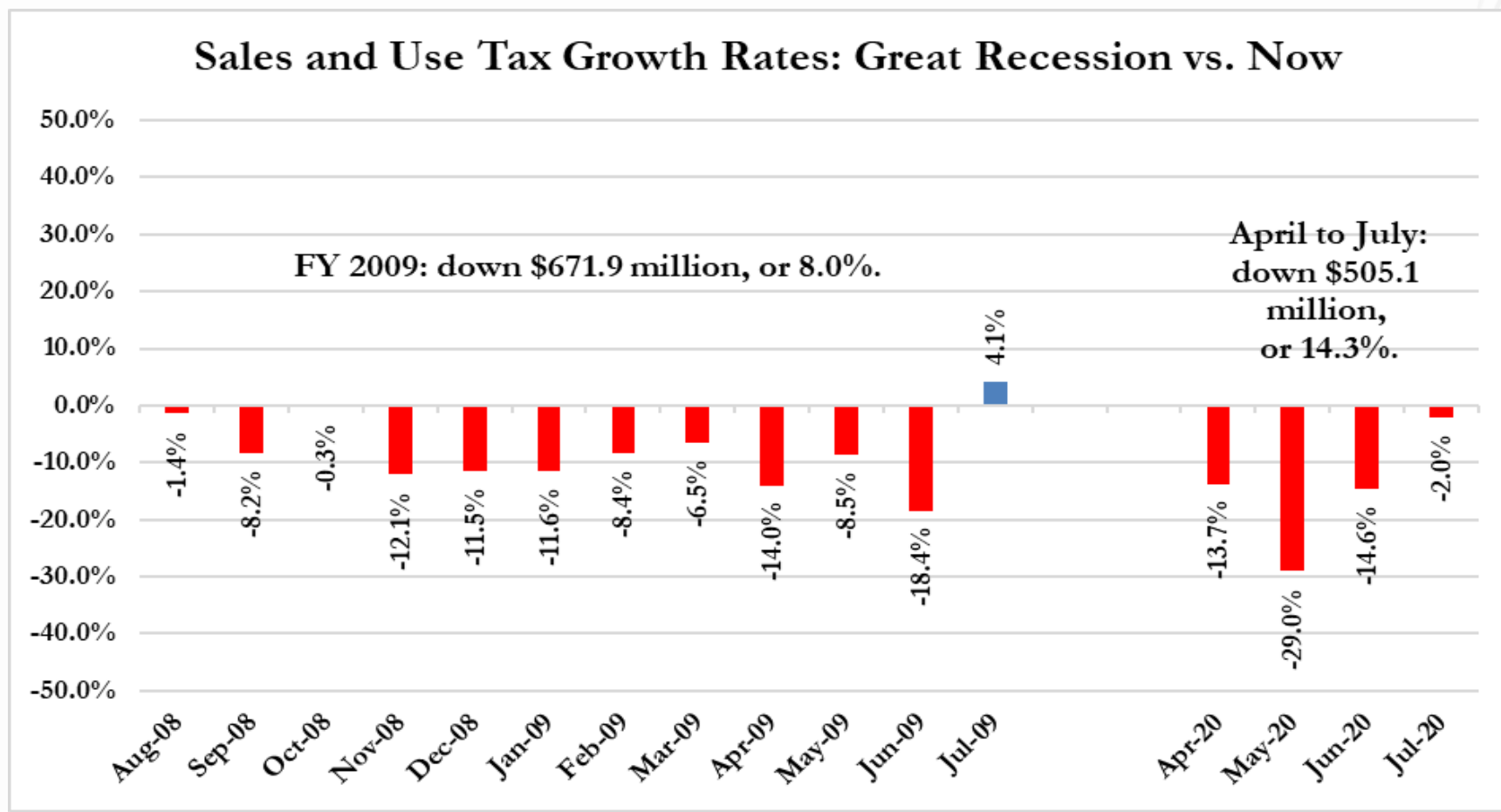
Changes in Employment Explained

- In January 2020 there were 172,300 New Jerseyans unemployed and the state had a 3.8% unemployment rate.
- In June 2020, there were 751,300 New Jerseyans unemployed and the State's unemployment rate was 16.6%.
- Since March, **1.4 million unemployment claims** have been filed.
- Low wage earners making less than \$27,000 have seen the largest decrease in employment since January at 16.7%.
- Nationally, Black men and women have recovered about 20% of the jobs they lost in the pandemic versus almost 40% for white men and 45% for white women.^[1]

• ^[1] <https://www.washingtonpost.com/business/2020/08/13/recession-is-over-rich-working-class-is-far-recovered/>

During the Great Recession, sales tax declined by \$671.9 million over a 12-month period

During the COVID-19 pandemic, sales tax declined \$505.1 million – ~75% of that amount – in one-third of the time



FY2020 Revenue Update

(millions of \$)

FY2020 Revenue Estimate	Feb GBM*	August	Difference	Growth Rate
Gross Income Tax	\$16,801	\$16,194	- \$607	-3.6%
Corporation Business Tax	\$3,897	\$3,865	- \$32	-0.8%
Sales and Use Tax	\$10,406	\$9,772	- \$634	-6.1%
Total Revenues	\$39,465	\$38,027	- \$1,438	-3.6%

*GBM=Governor's Budget Message

FY2021 Revenue Update

(Excluding August Tax Policy Proposals)

(millions of \$)

FY2021 Revenue Estimate	Feb GBM*	August	Difference	Growth Rate
Gross Income Tax	\$17,795	\$14,526	- \$3,270	-18.4%
Corporation Business Tax	\$3,831	\$2,862	- \$969	-25.3%
Sales and Use Tax	\$10,774	\$9,794	- \$980	-9.1%
Total Revenues	\$41,162	\$35,528	- \$5,633	-13.7%

Revenues are displayed for the traditional 12-month fiscal year time frame. The August 25 report also shows revenues displayed by 3-month extended fiscal period and the 9-month FY2021 period.

*GBM=Governor's Budget Message

FY2021 Revenue Update

(Including August Tax Policy Proposals)

(millions of \$)

FY2021 Revenue Estimate	Feb GBM*	August	Difference	Growth Rate
Gross Income Tax	\$17,795	\$14,991	- \$2,804	-15.8%
Corporation Business Tax	\$3,831	\$3,075	- \$756	-19.7%
Sales and Use Tax	\$10,774	\$9,814	- \$960	-8.9%
Total Revenues	\$41,162	\$36,391	- \$4,771	-11.6%

Revenues are displayed for the traditional 12-month fiscal year time frame. The August 25 report also shows revenues displayed by 3-month extended fiscal period and the 9-month FY2021 period.

*GBM=Governor's Budget Message

Departmental Solutions

- Governor Murphy's revised budget proposal includes \$1.25 billion in spending reductions and solutions across all executive state departments, including:
 - Medicaid solutions proposed by DHS totaling \$336 million;
 - DOC's inmate population management initiative and other reductions totaling \$59 million; and
 - \$66 million in solutions proposed by DCF, which will help offset the increased investment in the Children's System of Care.
- We wanted to avoid cuts that would be counter-productive to the State's efforts to contain the economic impacts of COVID-19, as well as those that would hamper the ability of millions of families to get ahead, notably low-income households, single parents, and people of color.
- The goal was to learn from the lessons of the Great Recession and avoid Draconian cuts that would block a swift recovery.

Expanding the Millionaires Tax

- Prior to COVID-19, New Jersey continued to grow millionaires:

NJ-1040 Millionaire Return Counts by NJ Taxable Income

Year	N.J.T.I. ≥ \$1M	N.J.T.I. ≥ \$5M
2015	20,994	1,776
2016	20,127	1,683
2017	21,236	1,811
2018	22,648	1,957

- Increasing the marginal tax rate from 8.97% to 10.75% only on every dollar earned over \$1 million will generate **\$390 million in FY 2021** to ease the burden on middle and working-class families
- The marginal 10.75% tax rate will apply to MORE out-of-state taxpayers than in-state taxpayers with income between \$1 million - \$5 million:
 - State residents = 16,491
 - Non-state residents = 19,128
- The current 10.75% marginal tax rate on income over \$5 million also impacts more¹² out-of-state taxpayers than full-year residents:
 - State residents = 1,957
 - Non-state residents = 5,749

Along with the Millionaires Tax, the Proposed Budget Includes a Series of Tax Policy Proposals Totaling \$1.019 Billion, Including:

- Make the 2.5% CBT surtax permanent - **\$210 million for FY 2021**
- Increase the Cigarette Tax to \$4.35 per pack to mirror neighboring states - **\$143.1 million for FY 2021** (eight months in effect)
- Increase HMO Assessment to 5.0 percent - **\$102.7 million for FY 2021**
- Apply a 5% surcharge to individuals with federally Qualified Business Income (QBI) greater than \$1 million who have benefited from a regressive new deduction for pass-through entities created under the 2017 federal Tax Cuts and Jobs Act. - **\$75 million for FY2021** (partial year in effect)
- Restore the sales tax on limousines services - **\$13 million for FY 2021** (eight months in effect)
- Undo the exemption and cap on sales and use tax for new and used yachts and boats - **\$7 million for FY 2021** (eight months in effect)
- Raise firearm and ammunition taxes and fees for first time since 1960's - **\$6.3 million for FY 2021** (eight months in effect)

Borrowing Proposal

- The Legislature passed and the Governor signed the “COVID-19 Emergency Borrowing Act” authorizing the State to borrow up to \$9.9 billion.
- The revised budget proposes to borrow \$4 billion to help close a substantial budget gap and allow for a sufficient surplus to weather future health and economic uncertainties.
- The decision must first be approved by the legislative Select Commission on Emergency COVID-19 Borrowing.
- Treasury’s Office of Public Finance is currently evaluating funding options, including accessing the Federal Reserve’s Municipal Liquidity Fund and/or borrowing from the public markets, to determine the optimal financing strategy, with an eye towards obtaining the most favorable interest rate.

Revised Budget Overview

FY2020 and FY2021 Fund Balances

As of August 25, 2020

(amount in millions)

	FY2020 12 Month Ending June 30, 2020	FY2020 3 Month Ending Sept 30, 2020	FY2021 9 Month Ending June 30, 2021	FY2021 12 Month Ending June 30, 2021
Opening Fund Balance	\$ 1,291	\$ 1,716	\$ 2,081	\$ 1,716
CBT Open Space Reserve	111	107	140	107
Surplus Revenue Fund	421	-	-	-
Revenues				
Income	\$ 16,194	\$ 2,621	\$ 12,370	\$ 14,991
Sales	9,772	2,534	7,280	9,814
Corporate	3,865	675	2,400	3,075
Other	8,196	1,871	6,640	8,511
Total Revenues	\$ 38,027	\$ 7,701	\$ 28,690	\$ 36,391
Borrowing	-	-	4,000	4,000
Lapses	1,387	353	-	353
Total Resources	\$ 41,237	\$ 9,877	\$ 34,911	\$ 42,567
Appropriations				
Original	\$ 38,720	\$ 7,632	\$ 32,414	\$ 40,046
Supplemental	694	24	-	24
Total Appropriations	\$ 39,414	\$ 7,656	\$ 32,414	\$ 40,070
CBT Open Space Reserve	(107)	(140)	(258)	(258)
Surplus Revenue Fund	-	-	-	-
Ending Fund Balance	\$ 1,716	\$ 2,081	\$ 2,239	\$ 2,239

* Lapses in FY2020 include \$1.191 billion in deappropriations, and \$143.5 million of CRF funding to offset eligible public safety and direct care salary and statewide leave time costs. Lapses in the July - September period include \$126.4 million of CRF funding to offset eligible public safety and direct care salary and statewide leave time costs.

12 Month FY2021 Fund Balance at Benchmark Points in Time

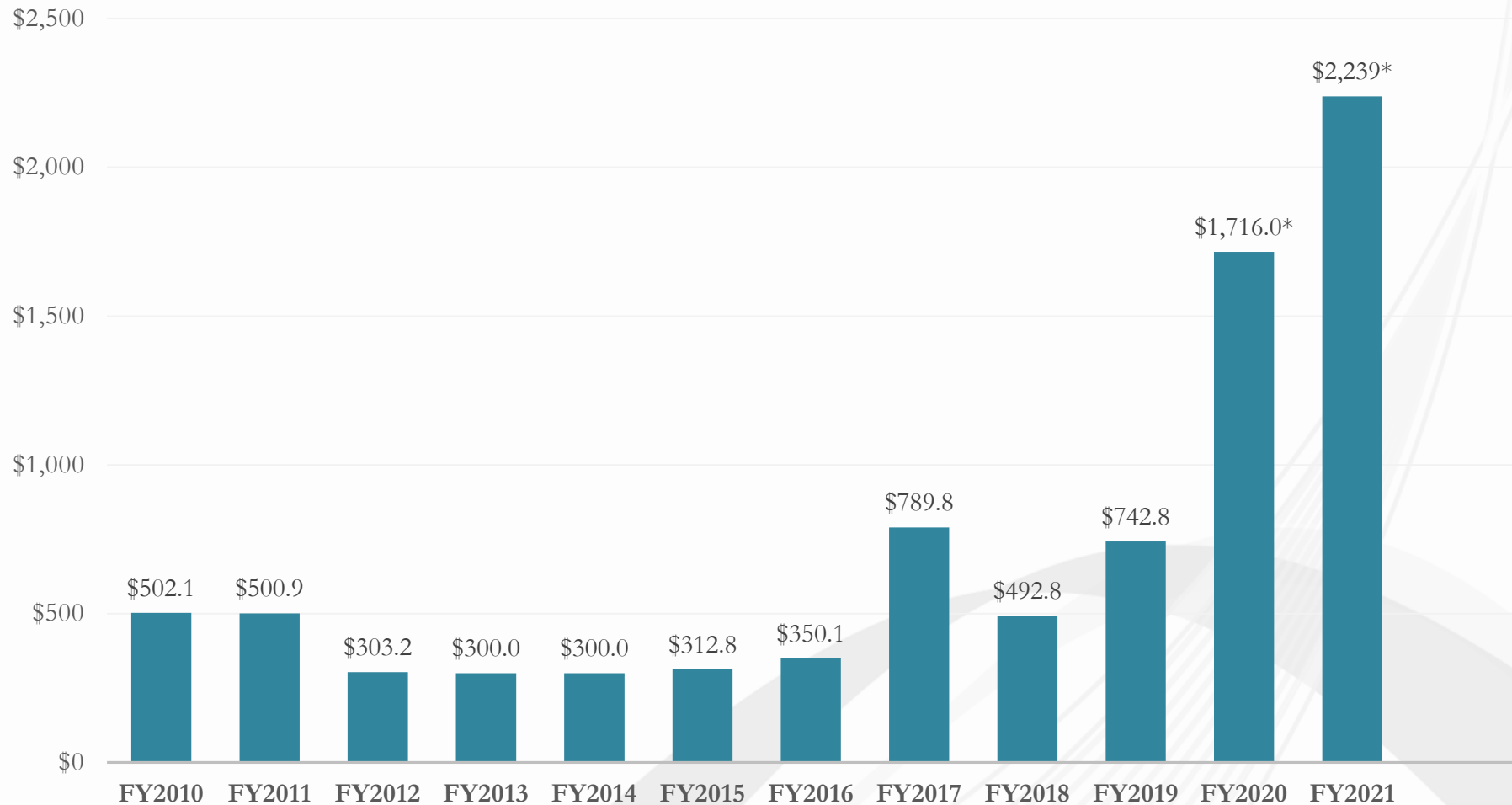
(in millions)

	February 25 GBM	August 25 Proposed Budget
Opening Undesignated Fund Balance	\$ 781	\$ 1,716
CBT Open Space Reserve	110	107
Surplus Revenue Fund	732	-
Revenues		
Income	\$ 17,795	\$ 14,991
Sales	10,774	9,814
Corporate	3,831	3,075
Other	8,762	8,511
Total Revenues	\$ 41,162	\$ 36,391
Borrowing	-	4,000
Lapses	-	353
Total Resources	\$ 42,785	\$ 42,567
Appropriations		
Original	\$ 40,851	\$ 40,046
Supplemental	-	24
Total Appropriations	\$ 40,851	\$ 40,070
CBT Open Space Reserve	(298)	(258)
Surplus Revenue Fund	(745)	-
Ending Undesignated Fund Balance	\$ 891	\$ 2,239
Surplus Revenue Fund	745	-
Ending Total Combined Fund Balance	\$ 1,636	\$ 2,239
% of Budgeted Appropriations	4.00%	5.59%

Growing our Surplus

Governor's Proposed Ending Fund Balance

(In Millions)



The Governor is committed to maintaining this surplus to address the very real possibility of another shutdown due to a resurgence of the novel coronavirus.

**As of the Governor's Revised Budget*

Investing in the Future

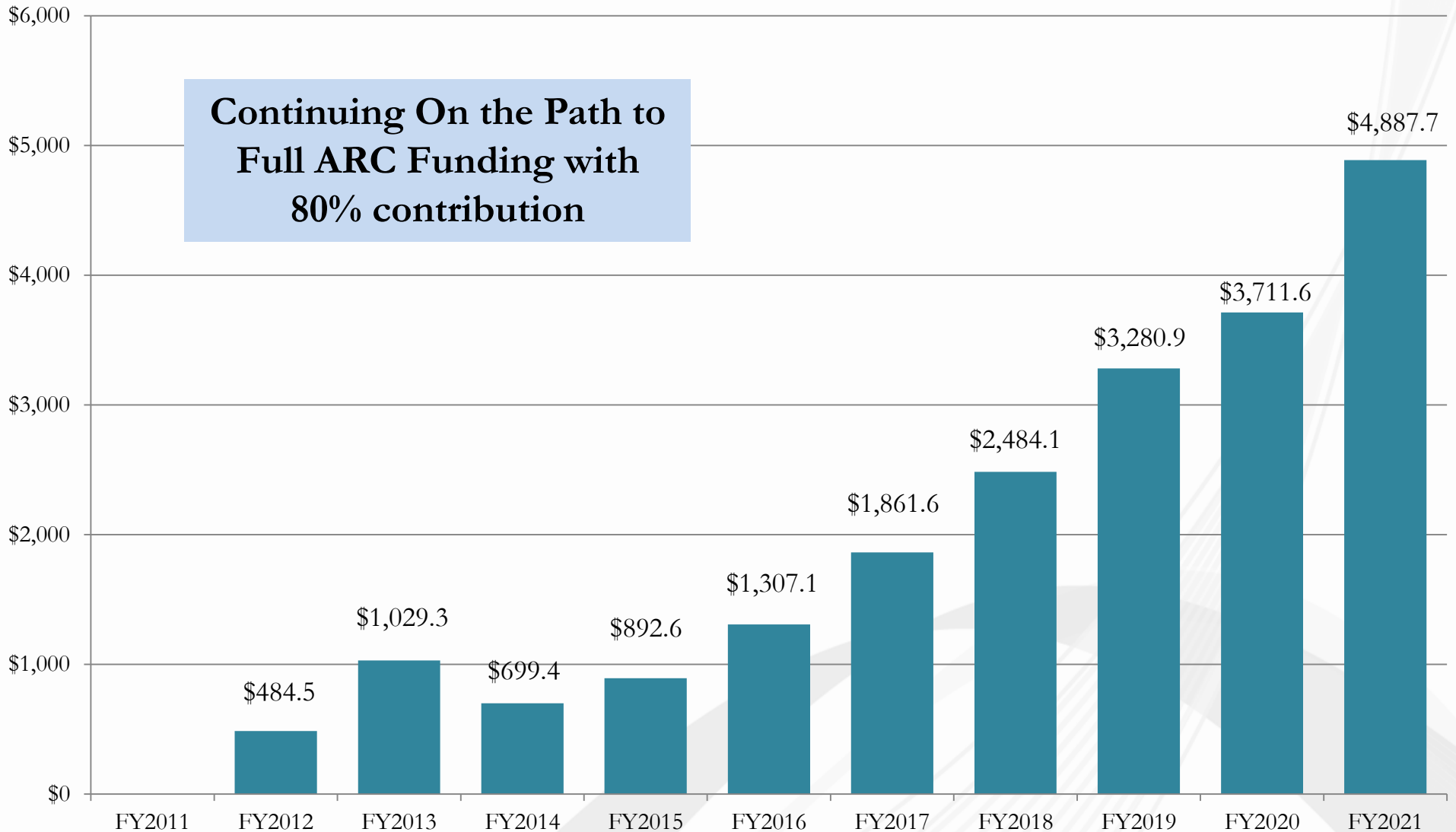


Protecting Our Progress

- Targets investments to address long-standing disparities and ensure that the recovery includes **all** New Jerseyans
- Maintains core state programs
- Does not cut K-12 school aid, post-secondary tuition assistance, or operating aid for senior public colleges and universities
- Restores funding for the Homestead Benefit and Senior Freeze property tax programs
- Maintains core municipal aid funding
- Protects the Earned Income Tax Credit and the Child and Dependent Care Tax Credit

Historical Pension Contributions

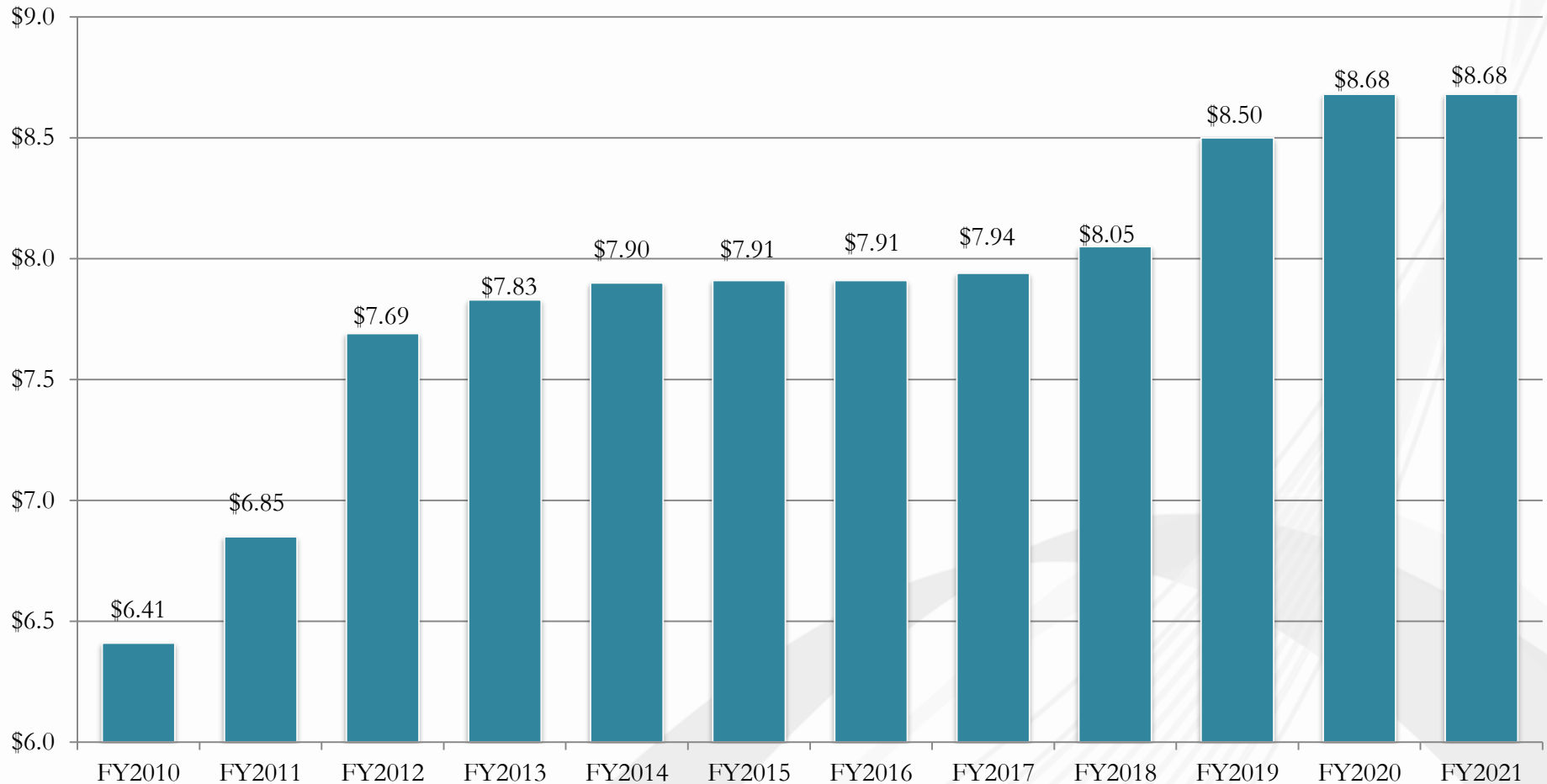
(In Millions)



- Proposed FY 2021 payment includes an additional \$280 million to account for changes from the latest experience study.
- Starting in FY 2018, payments include the annual contribution from the Lottery Enterprise Contribution Act.

Historical K-12 School Formula Aid

(In Billions)



- Amount reflects K-12 SFRA aid categories, including School Choice Aid.
- FY2010 does not include \$1.057 billion of federal stimulus funding.
- FY2010 through FY2019 represents the amount that was expended. FY2020 represents the adjusted appropriation at the time of the FY2021 Governor's Budget Message, FY2021 represents the 12 month period ending June 30th, 2021.

School Aid

(amount in millions)

	FY2020 Adjusted Approp.*	FY2020 3 Month Extension	FY2021 9 Month Budget	Total 12 Month Budget
Aid to Schools				
Formula Aid	\$ 8,677.0	\$ 1,374.2	\$ 7,306.2	\$ 8,680.4
Preschool Education Aid	806.5	122.0	752.2	874.2
Commercial Valuation Stabilization Aid	20.0	-	20.0	20.0
Extraordinary Special Education Aid	250.0	-	250.0	250.0
School Building Aid	27.7	21.3	-	21.3
Debt Service Aid	100.5	47.5	62.6	110.1
Other Aid	191.4	(9.7)	196.9	187.2
Total Aid to Schools	\$ 10,073.1	\$ 1,555.3	\$ 8,587.9	\$ 10,143.2
Direct State Payments for Education				
Teachers' Pension and Annuity Fund	\$ 1,708.3	\$ 10.7	\$ 2,121.2	\$ 2,131.9
Post Retirement Medical	1,000.8	301.1	800.2	1,101.3
Debt Service on Pension Obligation Bonds	261.6	29.0	221.7	250.7
Teachers' Social Security	785.5	120.1	680.4	800.5
Total Direct State Payments for Education	\$ 3,756.2	\$ 460.9	\$ 3,823.5	\$ 4,284.4
School Construction Debt Service	\$ 1,099.5	\$ 102.6	\$ 912.2	\$ 1,014.8
Total School Aid (included in Budget)	\$ 14,928.8	\$ 2,118.8	\$ 13,323.6	\$ 15,442.4
Additional Support from Lottery Enterprise Contribution Act	\$ 831.6	\$ 210.6	\$ 631.9	\$ 842.5
Grand Total School Aid	\$ 15,760.4	\$ 2,329.4	\$ 13,955.5	\$ 16,284.9

*The FY2020 Adjusted Appropriation is as of the Governor's Budget Message.

Notable Proposed Investments

- **\$60 million** for safe and modern drinking water infrastructure
- **\$45 million** for Children's System of Care rate rebalancing, which will help children with behavioral health needs.
- **\$35 million** in both FY 2020 and FY 2021 to support affordable housing development
- **\$10 million** to help new districts launch pre-school programs.
- **\$10 million** for the Expungement Unit in the Department of Law and Public Safety
- **\$5 million** for Early Voting
- **\$1 million** to conduct a statewide disparity study
- **Support** for Code Blue Assistance, LGBTQ+ Shelters, and Implicit Bias Reduction Training

New Direct Assistance Programs

Baby Bonds:

- The budget proposes a statewide Baby Bonds initiative, modeled after the federal initiative proposed by Senator Cory Booker, which will provide a \$1,000 deposit for the approximately 72,000 babies born in 2021 into families whose income is less than 500 percent of the Federal Poverty Level, or \$131,000 for a family of four.
- When these residents turn 18, they can withdraw these funds to help them pursue higher education, buy a home, start a business, or pursue other wealth-generating activities.

Health Insurance Subsidies:

- Due to the enactment of the New Jersey Health Insurer Assessment Act in July, the State will be able to provide its own health insurance subsidies to New Jerseyans with annual income up to 400% of the Federal Poverty Level.
- The Department of Banking & Insurance is conducting an actuarial study before finalizing amounts, but the estimated average subsidy for an individual may be at least \$564 a year and at least \$2,256 a year for a family of four.

Recovery Programs and CRF Allocation

Education and Social Services

Department	Program Title	Cost
K-12 Education Relief and Re-Opening		
DHS/DCF	Child Care Capacity	\$ 250,000
DOE	School Re-Opening and Remote Learning	\$ 100,000
DOE	Digital Divide Initiative	\$ 50,000
	<i>Estimated Subtotal</i>	\$ 400,000
Higher Education Relief		
OSHE	Higher Education Fund	\$ 300,000
Social Services and Health Care Support		
DOH, Misc	Testing and Safe Isolation	\$ 175,000
DHS	Substance Use and Mental Health Support	\$ 50,000
DHS/DCF	Provider Reimbursements and PPE Support	\$ 25,000
NJDA	Food Banks	\$ 20,000
DOH	Long Term Care Facilities Oversight	\$ 10,000
DHS	Increased Income Assistance Needs	\$ 10,000
DHS	County Benefits Administration	\$ 10,000
	<i>Estimated Subtotal</i>	\$ 300,000

Note: CRF Allocations are still subject to change due to new federal legislation or guidance, confirmation of actual expenditures incurred, and the identification of additional unmet COVID-19 needs

Economic Development, Local Government, and Housing Assistance

Local Government Relief		
DCA	Local Govt Emergency Fund	\$ 120,000
Misc.	Program Expansion for 12 Counties	\$ 90,000
OEM/DOH	FEMA Match for 12 Counties	\$ 20,000
EDA	Small Business for 12 Counties	\$ 15,000
DCA	Public Health and Dispatch Shared Services	\$ 5,000
	<i>Estimated Subtotal</i>	\$ 250,000
Economic Development and Re-Employment Programs		
EDA	Small Business Grants	\$ 51,000
DOL	Workforce Training and Reskilling	\$ 15,000
EDA	Business PPE Purchase and Enabling	\$ 15,000
NJRA	Small Business Lease Emergency Assistance Grant	\$ 10,000
EDA	Small Business Targeted Technical Assistance	\$ 7,500
DCA	Commercial Corridor Relief Program	\$ 7,500
	<i>Estimated Subtotal</i>	\$ 106,000
Housing Assistance Programs		
DCA	Emergency Rental Assistance	\$ 65,000
HMFA	Small Landlord Program	\$ 25,000
DHS	Homeless Prevention	\$ 12,000
	<i>Estimated Subtotal</i>	\$ 102,000

State Operations and Emergency Spending

FEMA Match and Emergency Spending		
Misc.	Testing Capacity	\$ 125,000
OEM	Emergency Spending	\$ 100,000
Misc.	Department FEMA Matches	\$ 15,000
	<i>Estimated Subtotal</i>	<i>\$ 240,000</i>
Payroll, Health Benefits, and State Capacity		
TO	Salaries and Administrative Leave	\$ 450,000
TO	Health Benefits	\$ 100,000
Misc.	Department Reimbursements	\$ 50,000
TO	Increased Interest Payments	\$ 25,000
DOH/DHS	Emergency Rates	\$ 23,000
NJT	NJ TRANSIT Reimbursements	\$ 30,000
State	VBM Elections	\$ 15,000
OIT	Telework/IT Upgrades	\$ 5,000
	<i>Estimated Subtotal</i>	<i>\$ 698,000</i>

Total CRF Allocation = \$2.39 Billion

Note: CRF Allocations are still subject to change due to new federal legislation or guidance, confirmation of actual expenditures incurred, and the identification of additional unmet COVID-19 needs

End of Presentation



STATE OF NEW JERSEY
GOVERNOR PHIL MURPHY

FY2021 Revised Budget Presentation – August 2020