New Jersey Senate

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Honorable Stephen M. Sweeney
Senate President
935 Kings Highway, Suite 400
West Deptford, NJ 08086

Honorable Paul A. Sarlo
Chairman, Senate Budget Committee
496 Columbia Blvd., 1st Floor
Wood-Ridge, NJ 07075

Dear Senate President Sweeney and Chairman Sarlo:

The Republican members of the Senate Budget and Appropriations Committee are submitting this letter as the basis for our recommended changes to the Governor's proposed Fiscal Year 2022 State Budget (the Governor's proposed budget.) We request that you formally accept this letter as a budget resolution pursuant to your memorandum dated May 20, 2021.

The constructive changes we propose will:

- prevent three tax increases on employers totaling approximately $1.5 billion that are otherwise scheduled to be phased in on July 1 this year and the next two years.
- prevent a $600 million tax increase on insurance policies scheduled to be collected next June.
- create a tax deduction for contributions to charitable organizations.
- protect New Jersey residents from New York's illegal taxation of their income which will reduce their tax burdens and keep more than $1 billion of annually recurring revenue in our own budget;
- reduce spending by approximately $300 million net of limited proposed increases to fund compelling needs neglected by the Governor;
- set aside new revenues and savings to pay down or avoid $4.3 billion of debt to reverse the Governor's broken promise to repay $4.3 billion of obviously unnecessary debt he borrowed last year and thereby avoid the Governor's planned taxes after the November election.

Equally important, the constructive changes are achieved in manner that restores transparency and credibility -- two things that have been sorely lacking in the Governor's budget. Notably, we eliminate the Governor's proposed authority to unilaterally spend a nearly $6.5 billion federal block without public input and replace the Governor's grossly pessimistic revenue forecast with a forecast to be issued by the nonpartisan Office of Legislative Services later this week.

The changes we propose are sweeping and far more than tinkering around the margins. They have to be, because the Governor's proposed budget is fundamentally broken due to his obviously unnecessary issuance of $4.3 billion of debt last November for a claimed revenue loss that never materialized. And instead of repaying the unnecessary debt as the Governor promised, he is proposing to spend it on a massive and unsustainable election year budget.

This fundamental problem is related to, or aggravated by, these concerns:

1) It is grossly unbalanced in a way that sets taxpayers up for massive future tax increases.

2) It unconstitutionally gives the Governor unilateral authority to spend almost $6.5 in new federal block grant funding without transparency or public input. He will squander it just like he did with $2.4 billion of CARES Act funding.

3) It contains no strategy or solutions to stop New York from advancing its aggressive, inappropriate, and unconstitutional collection of income taxes from people who live in New Jersey and rarely, if ever, step foot in New York. This results in our residents paying more in taxes than they should, and deprives the State of up to $1 billion in revenue for our own needs.

4) The Governor's most recent 2021 revenue forecast lacks credibility and is clearly too pessimistic by at least $1 billion. As a result, revenues will be at least $4 billion higher than what the Governor certified when he signed the budget last year.

5) There are $1 billion in two major tax increases scheduled to be collected in FY 2022, and his proposal again fails to support bipartisan legislation to encourage charitable giving.

6) It fails to deliver on the Governor's promise to repay $4.3 billion of debt the Governor borrowed to address his claimed $4.3 billion revenue loss that never materialized.

Our constructive proposals to address these concerns are summarized as follows:

1) To restore structural balance to the State budget and avoid future cliffs and tax increases:
- Eliminate or scale back, as appropriate, the Governor's massive spending initiatives that are recurring in nature and reallocate most saving to one-time expenses such as debt reduction, IT modernization, and infrastructure improvements, while reallocating some of the funds to compelling needs the Governor has neglected.

2) To prevent a repeat of the Governor unilaterally spending $2.4 billion of CARES Act block grants, and squandering much of it in the process:
- eliminate the Governor's proposed budget language that allows him to unilaterally spend an approximately $6.5 billion American Rescue Act block grant without a public process.
- Appropriate some of the American Rescue Act immediately to address timely and urgent needs:
  - $2.5 billion over three years to restore stability to the Unemployment Insurance Fund. $1 billion would be dedicated to retiring the fund's indebtedness before interest is

charged, while \$1.5 billion would prevent employer tax increases that otherwise would occur over the next three years starting this July. It would also help pay for reimbursement of nonprofit and local government self-insureds for cost of COVID 19 unemployment benefits.

- \$1 billion in additional assistance for businesses and nonprofits still recovering from COVID 19 and whose assistance to date has been trickled out and insufficient.
- \$500 million to provide additional relief for middle class renters and, indirectly, their landlords, who have been left out of limited support programs.

- Hold committee hearings and a special session throughout July, or for as much of the summer as it takes -- to transparently vet competing proposals to appropriate the balance of federal funds. Our own proposal shared two months ago, would additionally fund:

- \$1.5 billion over three years for capital projects by the State, schools (both public and private), higher education, local governments, libraries, authorities, and third-party service providers.
- \$500 million to modernize antiquated IT systems, including but not limited to Unemployment Insurance and Motor Vehicle Commission systems that provide unacceptably poor service to citizens and do not have the capacity to handle impacts from COVID 19 and future pandemics.
- \$500 million to make almost 200 school districts whole whose aid the governor proposes to cut in this budget as well as the budgets for the next two years. Classroom disruption and additional economic impacts must be avoided as the State's schools and economy stabilize post-pandemic.

3) To prevent New York from taxing our residents at rates higher rates than New Jersey and, in the process, gain more than \$1 billion in revenue for our State Budget:
- The Governor should immediately direct the Division of Taxation to remove outdated guidance for taxpayers -- absurdly premised on employee work-from-home arrangements being temporary and/or voluntary --and replace it with something realistic.
- The Governor should direct a comprehensive set of initiatives including, but not limited to, incentives for employers to allocate employees to New Jersey offices for tax purposes and legal support for taxpayers who appropriately push back against New York's abuses.

4) To fix the revenue forecasts that lack credibility and are clearly too pessimistic:
- Adjust the latest 2021 revenue projections assumed by the Governor in February by at least \$1 billion to reflect actual and likely collections though June 30 – which is \$4 billion higher than the Governor's manipulated estimates last fall to justify massive and avoidable debt.
- Use the Office of Legislative Services' June revenue forecast for 2021 and 2022 as the basis of the Appropriations Act, which will likely exceed the \$1 billion amount noted above.

5) To reduce excessive taxation:
- As previously indicated, federal funds should be used to stabilize the Unemployment Insurance Fund and head off massive employer tax increases scheduled over the July 4th holiday weekend.
- Either eliminate the \$600 million tax on health insurance scheduled to take effect in FY 2022, but that hasn't been appropriated; or advance legislation proposed by Senators Singer and Bucco to transparently appropriates the funding in a way that enhances health services.

6) To fix the Governor's broken promise to return \$4.3 billion of obviously unnecessary debt.

- Recognize the Governor has already proposed approximately $1.2 billion of debt retirement or debt avoidance through: an approximately $700 million increase in the pension payment above and beyond a payment previously scheduled; and approximately $500 million of new pay-as-you-go capital investments. We recognize that the former helps to retire the unfunded pension debt and the latter arguably avoids new debt.
- As noted above, we have proposed that $1 billion of the most recent federal block grant be used to retire the debt incurred by the Unemployment Insurance Fund.
- Allocate the more than $2.3 billion impact of other changes we have proposed to the following purposes: additional payments to the pension systems above and beyond 100% of the actuarially required payment; retiring long term bonds otherwise maturing no sooner than 2025; and paying for capital improvements that could otherwise be paid for with duly authorized debt.

A MORE THOROUGH EXPLANATION AS TO WHY THE GOVERNOR'S PROPOSED BUDGET IS FUNDAMENTALLY BROKEN AND OUR PROPOSED CHANGES.

1. **Structural Balance: Approximately $600 million restraint of Governor's excessive spending increases, repurposed to one-time expenses and more sustainable unmet needs.**

Problem: It is grossly unbalanced in a way that sets taxpayers up for massive future tax increases.

We propose to:

- **Eliminate or scale back, as appropriate, the Governor's massive spending initiatives that are recurring in nature.**
- **Reallocating only half of the savings to compelling needs the Governor has neglected and leave the balance as part of a $4.3 billion debt reduction and avoidance proposal.**

The Governor' proposed budget cynically hikes election year spending by 11% -- to record levels that he knows can't be sustained. We appreciate that some proposed increases are appropriate – including increases in pension funding, meeting pay-as-you-go capital needs, and limited (though inadequate) increases in funding to address the needs of people with disabilities. But it is impossible to argue that the Governor's proposed 11% spending increase is even close to responsible or sustainable.

By his own Treasurer's admission, more than $5 billion of the spending in this budget is only made possible by one-time revenues that will soon disappear.

Though we will get to our more constructive changes, a recap of the largest nonrecurring source of revenue in this budget -- $4.3 billion of obviously unnecessary debt – is first appropriate. Accountability, and making the historical record clear, is important.

In the spring of 2020, the Governor absurdly claimed – without any explanation at all – that the State would lose $20-30 billion in the coming year and that he would be forced to lay off hundreds of thousands of employees (though the State has fewer than 60,000.) In early April, he pressured the Legislature to give him new authority to borrow $14 billion, payable over 35 *years, to make up for the fantasy budget problem. Thankfully, legislative leaders from both parties called him out on his unsupported claims and rejected his grab for borrowing authority.*

In May and June, the Governor doubled down on his efforts. He applied intense pressure in a public campaign to gain the authority to issue long term debt. He publicly (and falsely) claimed the State was facing imminent insolvency and inability to pay bills if he was not given new authority quickly. Democrats relented – presumably relying on false claims of imminent insolvency – and passed legislation without any Republican support. That legislation authorized the Governor to borrow up to $9.9 billion – the latest among the Governor's ever-shrinking and disingenuous estimates of revenue losses – to be paid back with interest and fees over the next 12 years.

Republican legislators continued to fight and brought the Governor to court. Although the New Jersey Supreme Court ultimately issued a largely disappointing ruling that allowed the Governor to borrow, the litigation did delay the issuance. Furthermore, the ruling required the Governor to update projected revenue losses at the time of actual borrowing and limited the borrowing to no more than what the Governor newly projected. By the time the Governor issued debt in November, actual collections for the previous six months had become known, and they made a mockery of his earlier projected revenue losses. He ultimately had to moderate his still-inflated claims of revenue losses (and the amount he could borrow) to $4.3 billion.

Over time, it became increasingly clear the Governor's claims were more than just incompetence as seemed plausible at the time. He was almost certainly lying about the State's finances. We know this through a later review of the State's actual cash flows that existed at the time the Governor was claiming an imminent insolvency. It showed that the State's cash flows were exceptionally strong—not weak -- thanks to billions of dollars in federal funding the State received in April in the form of a block grant. It is patently false to have claimed the State was flirting with insolvency, and he knew it, or should have known if he didn't.

The administration's knowledge that cash-flows were strong -- despite public statements of the Governor to the contrary -- is also apparent from something that doesn't exist. A review of legally required formal disclosures with the financial marketplace during the period of demagoguery fail to identify any mention of an imminent insolvency – something that would have been required by law to be disclosed had it been true.

The Governor fabricated a story about an imminent insolvency and used the narrative to pressure the Legislature to give him unwarranted borrowing authority. Unfortunately, Republican legislators largely stood alone in refusing to vote for his money grab.

Even still, the administration was counseled by many people in his own party to wait and only issue long term debt if the Governor's doomsday revenue projections materialized. They, and others, pointed out he could have issued short term cash flow loans -- if he even needed to, though he never did -- just as the State has done in each of the last 30 years for ordinary cash management. He could have waited to see if his doomsday forecasts played out, before issuing long term debt.

To placate and assuage those who had counseled prudence, the Governor promised he would retire the debt if revenue losses didn't materialize as he predicted. Then he rushed and advanced long-term debt in November, despite the State having healthy cash balances.

Shockingly, the administration deliberately structured the debt in a way that prohibited the Governor from keeping his own promise – demonstrating that the commitment was almost certainly never sincere.

Fast forward to when the 2022 budget was proposed in February 2021. Actual revenue collections couldn't be swept under the rug. He was forced to admit in his budget address that the majority of his $4.3 billion of claimed revenue losses never materialized. He newly admitted that his revenue estimates had been overly pessimistic by an estimated $3.6 billion.

And now, with several additional months of actual collections known, it is certain that even his February revenue projection for the period ending June 30, 2021 understates revenues by an additional $1 billion. This means that we now proof that none of the borrowing was necessary at all.

The cost to taxpayers of the election year borrowing is staggering. More than $13 million was wasted in fees paid to law firms, banks, rating agencies and various vendors to issue the debt. Over the next 12 years, the State will be on the hook to annually make debt service payments hundreds of millions of dollars – in some years more than a half billion dollars-- money that could be used for something more productive.

In a scene right out of George Orwell's 1984, the Governor now attempts to rewrite history. When people point out that the State was never facing the Governor's claimed impending insolvency, he just repeats tired old exaggerations about State finances and mumbles something about "Monday morning quarterbacking" as though the strong cash flows weren't known by his administration. When people remind him of his poor revenue forecasts, he brands them as "Monday morning quarterbacks" even though many people had been challenging the revenue forecasts for the better part of a year – long before debt was issued, and Monday morning had arrived. Most recently, the State Treasurer even shockingly stated that in hindsight, she never made a mistake in issuing long term debt -- which is a bit like a weatherperson standing in the sunshine and blurting out there was nothing wrong with his predictions of torrential rain. And when he is reminded that short term debt could have been issued as a bridge (as it has been issued every year for 30 years) until it was clear whether actual revenues would be as bad as he predicted, he just denies the obvious option was ever a realistic option -- like a child claiming he didn't break something that is broken in his hands when people saw him break it..

No other state in the country borrowed anything close to what the State of New Jersey borrowed. The vast majority borrowed nothing at all. "P'shaw," says the Governor. "War is Peace. Love is Hate. Needlessly issuing debt and wasting money on interest and fees is sound public policy."

The harsh truth is the Governor grossly overstated the State's financial position and issued inappropriate revenue projections again and again to advance an obviously unnecessary money grab. And he structured the debt so that even if the money grab was later proven to have been unnecessary, it could effectively flow into the FY 2022 election year budget. He and his Treasurer have no credibility left.

This obviously unnecessary $4.3 billion borrowing is the biggest part of the more than $5 billion of one-shots the Treasurer admits will disappear next year. But the structural budget mess is bigger.

Just as the $5 billion of one-shots disappear, massive repayment obligations on the debt come due. And the full year costs of new programs he is proposing -- like taxpayer-paid college tuition -- will spike.

But there's more. While we rightly pointed out the how unduly pessimistic the Governor's revenue projections were last year, caution and prudence is warranted as we look down the road.

As we indicated in last year's September budget resolution, much of the strong collections we are seeing are being fueled directly, or indirectly, from home purchases and related spending attributable to a quick shift in preferences for where to live. Some of it comes from a new ability (or requirement) for people with existing homes to work from home and move forward with long-neglected home improvement projects. And both of these consumer changes are being accelerated due to new mortgages and refinancings available at record-low interest rates. Though some would disingenuously claim the tax revenue windfall was completely unpredictable and comes from the recently enacted American Rescue Plan, that's an exaggerated explanation -- and not the biggest part -- of all this revenue.

The boom in housing sales and improvements won't go on forever, but the Governor's spending spree on recurring programs acts like it will.

Here is a list of approximately $600 million of the Governor's spending increases that should be eliminated or moderated as indicated. A serious Governor and Treasurer would help identify more.

- $100 million – Moderate some of the most excessive school aid increases for favored districts -- even as the Governor proposes to cut other schools' aid. Increases are so excessive they exceed 20% in some districts and provide a $70 million increase one. Even with this reduction, aggregate school aid increases would be among the largest in State history.
- $50 million – The Governor proposed a large amount of Transitional Aid funding to address the needs of approximately a dozen local governments facing financial distress. The amount was proposed in February prior to federal passage of the American Rescue Plan which provides these particular communities with hundreds of millions of dollars that can be used to, among other things, offset their lost revenues and support unmet needs for the next three years. Between State and local funding in the aggregate, they will still receive substantial aid increases to avoid distress and allow them to embark on important economic development improvements to help grow revenues longer term.
- $6 million -- Eliminate new funding to extend welfare programs (General Assistance) to convicted drug distributors.
- $8 million -- Eliminate taxpayer-funded legal services to undocumented/illegal immigrants to fight the Biden administration's enforcement of immigration laws.
- $6 million – Eliminate the line item for debt service on cash flow borrowing. The state is so flush with cash, no cash flow borrowing will be needed for the first time in 30 years.
- $120 million – Due to the receipt of almost $6.5 billion of federal block grants (and even more federal money that is intended to last several years) the State will have significantly higher cash balances. These funds can be invested until they are spent. So not only won't the State be issuing short-term debt for the first time in 30 years (with related interest costs), there will be opportunity to gain revenue from investments. We propose dedicating the State's share of short-term investment returns (never envisioned in the

Governor's budget proposal) to offset other expenses. It should be noted that short term cash investments by the State have traditionally received anemic investment returns (as opposed to stronger returns of the pension funds) because the funds have been invested in Treasury Bills and other low interest vehicles to maintain cash liquidity. It's well-past time that the State begin investing large cash balances in things like short-terms municipal loans, which would not only let the State significantly increase its investment returns, but help local government obtain lower interest rates than they pay on such borrowings from banks. $120 million in investment returns is a reasonable assumption, especially if Treasury only moderately restructures cash investment strategies to maximize safe returns. $60 million – Eliminate the $30 million supplemental appropriation in 2021 (and similar appropriation for 2022) that the Governor wants to bail out financial institutions who hold unconstitutional 2004 Deficit Bonds. In lieu of a bailout, the State should either: (1) reconsider legislation enacted in late 2019 that triggered the "need" for a bailout; (2) or negotiate debt service modifications with buyers of bonds who assumed the risk that certain pledged revenues would be insufficient to pay debt service.

- $50 million – Continue to increase the line item for pension payments to the full actuarial contribution amount and appropriately fund postretirement medical benefits, but offset the amounts needed by enacting legislation to end certain pension abuses grandfathered in under previous reforms: for example, end abuses like end-of-career pensions boosts after years of minimal work and end full-time pension credit for as little $1,500 of part-time work.
- $50 million – Eliminate the Governor's proposal for the "Garden State Guarantee" that requires taxpayers to pick up two full years of tuition at public universities.
- $50 million – Eliminate preschool expansion, which simply cannot be afforded at this time.
- $50 million – End the need for the Department of Education's discretionary distressed school funding line item by adopting our separate proposal to utilize $500 million of federal block grant funding to ensure no school's aid is cut for the next several years.
- $50 million – Misc. – The governor has proposed many ongoing new initiatives that should be either eliminated or more slowly phased in until they are better defined and until the budget is more structurally balanced. Examples that should be considered for eliminating or scaling back include: $40 million in undefined new programs in the New Jersey Economic Development Authority that appear to be little more than press releases; $25 million for the NJ Health Savings Plan; a new $10 million program for first-time homebuyers.

Of this $600 million in restraint, we propose putting approximately half towards our separate proposal (explained herein) for more than $4.3 billion to be set aside in the budget to retire or avoid more than $4.3 billion of debt. We propose that the balance be used to address the following compelling needs left underfunded by the Governor.

Purpose	Background	Amount
EDUCATION FUNDING		
Extraordinary Special Education Aid	This increase would put education funding that supports children with severe disabilities on a path to more fully fund needs that remain underfunded in the State budget.	50,000,000
Nonpublic School Support	Increases in aid for nonpublic schools is critically important. There has been significant disenrollment in private schools which will put additional stress on public schools if the trends continue. Increases in existing categories aid to help over the costs of transportation 15%) and technology (25%) are supported and should be funded with $10 million in State funds and such additional funds as necessary from federal discretionary school aid though the American Rescue Act.	10,000,000
Community Colleges	Increased state investment in Community Colleges will ensure New Jersey (1) increases the number of people who earn postsecondary credentials or degrees, (2) has an efficient and effective education system that prepares individuals, of all ages and at all stages, for a family-supporting career, (3) has the most skilled, innovative, and talented workforce in the country, and (4) addresses the systemic racial injustice and inequality in our state and communities.	5,000,000
Tuition Aid Grants (TAG)	This seeks to add a 2% increase in Tuition Aid Grants (TAG) for ALL eligible recipients. The State's TAG program is one of the premier student assistance programs in the country primarily because it allows students to choose the college or university that best fits their educational and/or financial needs.	9,000,000
Child Care Center at William Paterson University	Over the last two years, William Paterson's Childcare Center did not receive any special purpose funding from the legislature, unlike most other State institutions. During this time, William Paterson has put together a plan that is in line with Governor Murphy's vision, the Secretary of Higher Education's master plan, and State and local needs. Additionally, as home to the NJ Center for Quality Ratings assessing Pre-K throughout the State, William Paterson is a natural home for a top-of-the-line Childcare Center.	2,000,000

Independent College and University Assistance Act	This would increase the proposed appropriation in the direct operating aid that the non-profit public mission independent colleges and universities receive under the Independent College and University Assistance Act (ICUAA) to $5 million, an increase of $2 million. An increase of $2 million would allow for a continued gradual increase in funding that would help support the New Jersey residents who attend the independent institutions. These additional funds would also aid in offsetting the over $260 million in increased costs and revenue losses due to the COVID pandemic. An increase would also show support for our sector as an important component of the overall higher education system in the state.	2,000,000
PROPERTY TAX RELIEF		
Reimbursing Counties for New Voting Machines	The proposed FY22 budget includes $20 million for early voting implementation, in addition to a FY21 supplemental appropriation of $20 million for the same purpose. This only covers a fraction of the cost of recent legislation requiring counties purchase new machines, as well as electronic poll books. To that end, this seeks to provide counties with additional funds in order to offset these costs.	40,000,000
Open Space PILOT Municipal Aid	More than 100 rural and suburban communities with significant State-owned lands have been undercompensated by the State for previously taxable properties having been removed from the property tax base. The Governor promised a similar increase of $3 million in the 2021 budget (which was actually just a restoration of funds that had been cut years before.) This proposal would make good on that promised increase with an inflationary adjustment.	3,500,000
Senior Freeze eligibility expanded by excluding enhanced UI benefits from income eligibility	Funding would allow continued senior freeze eligibility for people who would otherwise be eliminated from the program due to the impact of enhanced UI benefits causing them to temporarily exceed income eligibility. Without this fix, people "helped" by temporary enhanced benefits would lose far more in the form of senior freeze payments when their base year is recalculated.	200,000

HELPING VULNERABLE CITIZENS		
Mental Health Services	As proposed by the New Jersey of Mental Health and Addiction Agencies, $25,000,000 would be added to the budget to cover deficits and stabilize services provided by mental health providers to address underfunding in current fee for service models that are being reviewed. An additional $10 million would be added to support mental health facility enhancements to support integrated care efforts.	35,000,000
Day Habilitation	The Day Habilitation programs works with individuals who have an intellectual and/or developmental disability to assist them in achieving their life goals. The day program staff teach participants valuable life skills through instruction and real-world experiences so they can better participate in their community. This funding would allow for a rate increase of 15%, for services that Governor had proposed smaller increases (never delivered) two years ago.	30,000,000
Personal Care Assistance Rate Increases	Medicaid providers of home-based personal care are increasingly having difficulty under old rates paying for quality help for people needing assistance with basic daily needs. An increase in the rate of $2 per hour will help ensure that people needing services can be served by a quality workforce.	27,000,000
Support Professional Services Rate Increases: Disabilities; Mental Health and Addiction Services; and Vocational and Rehabilition Services; Autism Spectrum Disorder Services	This proposal would provide an increase of $30 million in funding to third party providers offering services through the Divisions of: Disabilities; Mental Health and Addiction Services; and Vocational and Rehabilitation Services. Funding would be to increase salaries for professional staff to be competitive enough with other economic sectors to attract quality employees who care for people with significant disabilities and needs. Funding would also support rate adjustments ensure adequate funding to maintain services levels despite sporadic client absenteeism among people with severe disabilities. Additionally, for similar reasons, $12.5 million would be provided to increase the NJ FamilyCare managed care reimbursement rate for Applied Behavior Analysis services rendered to NJ FamilyCare Medicaid eligible individuals under the age of 21 with a diagnosis of Autism Spectrum Disorder.	42,500,000

Early Intervention Provider Rate Increase	Early Intervention Service providers who meet the needs of children and toddlers with developmental delays and disabilities are increasingly having difficulty paying salaries to staff to ensure quality help for the served community. This funding would allow for an appropriate increase.	15,000,000
Legal Services	Legal Services of New Jersey provides legal services to people in civil litigation settings, representing them in matters such evictions, personal bankruptcy, protective orders, etc. Those needs have increased (or are about to increase with the eviction moratorium coming to an end.) This funding would provide help to people in civil settings and would NOT be made available for fighting federal immigration laws. Funding for free legal services for undocumented immigrants to fight enforcement of immigration laws is separately proposed for elimination.	6,000,000
Assisted Living Facilities; and Adult Medical Day Care	Assisted living providers have endured the same cost impacts as other healthcare entities due to COVID-19. These increased costs include necessary PPE, mandatory staff and resident testing, increased infection control and sanitization measures, mandated staffing and direct care pay increases, and more. This resolution will provide $5 million for a $10/day increase for assisted living residences, personal care homes, and for assisted living programs. Separately, but for similar reasons, Adult Medical Day Care Services is increased by $4.3 million. Providers of adult medical day care services offer vital health care services and transportation to qualified program participants who are able to remain at home with family or community supports. Increasing the adult medical day care Medicaid reimbursement rate by an additional $4/day will address the impact of the minimum wage, transportation and other cost increases, and the challenges presented by a workforce shortage. This funding attracts a federal match.	9,300,000
Veterans Memorial Home HVAC	This project is for a roof and HVAC replacement which is beyond its useful life and is actively leaking at the Glen Gardner building in Veterans Haven North. Additionally, the BPU has designated $1 million to fully fund this project.	2,000,000
JBWS, Counseling and Addiction Services	JBWS has incurred additional expenses due to pivoting to provide services to families impacted by domestic violence in our community. COVID-19 has created these additional expenses: premium pay for residential workers providing on site direct care, sanitation supplies and Personal Protective Equipment (PPE), food and IT costs.	1,920,000

Northern New Jersey Red Cross	The Red Cross provides support services during emergencies and also seeks to better prepare people to handle natural disasters, fires, and other emergencies. This funding will help the Red Cross fulfill this mission	1,660,000
Samaritan Healthcare & Hospice "Expanded Access to Palliative Care" Program	The amount appropriated for Samaritan Healthcare & Hospice "Expanded Access to Palliative Care" Program shall be utilized to increase access to palliative care services to thousands of additional people in the South Jersey region, especially to those who are underserved and most vulnerable; and to expand its education programs for healthcare professionals and throughout the community.	1,500,000
Child Collaborative Mental Health Care Pilot Program	For the past six years, the State-funded New Jersey Child Collaborative Mental Health Pilot Program has provided pediatric mental health services, including access to diagnosis and treatment resources, using pediatricians' offices as access points. The program serves all 21 counties through nine hubs. The New Jersey Collaborative Mental Health Care Program operates on a $5 million annual State appropriation ($2.5m in State funds and $2.5m in Federal Medicaid matching funds). This seeks to restore a $1.25 million cut in the Governor's proposed FY22 budget.	1,250,000
NJ YMCA State Alliance	The YMCA is the nation's leading nonprofit committed to strengthening communities through youth development, healthy living, and social responsibility. This funding will provide additional support for operations and programming.	5,000,000
ALS Association and the Center for Evaluation and Counseling	The ALS Association provides a variety of services to people diagnosed with ALS. Support includes counseling, equipment loans, and referrals to local medical professionals. An increase for this organization of $400,000 was requested and justified at public budget hearings. Additionally, the Center for Evaluation and Counseling (CEC) is proposed to receive a $350,000 increase. CEC is a non-profit that provides clinical and forensic mental health services to children and families who have experienced abuse, neglect, and violence. A cost-of-living adjustment would enable the organization to retain and attract professional staff to meet the needs of clients.	750,000
REGIONAL ECONOMIC DEVELOPMENT		

Lake Hopatcong and Greenwood Lakes as well as Statewide General Lake Management	This funding will support lake management activities. The money will help these lakes address algal blooms and weed proliferation that have threatened both boating and swimming for many years.	10,000,000
Small Business Development Centers	The New Jersey Small Business Development Centers (NJSBDC) network provides comprehensive assistance to small and medium businesses to maximize opportunities for growth and generate economic impact statewide. Their services are needed more than ever due to challenges created by COVID 19 and rising unemployment. Funding for the program has been cut since its inception, and this would provide support for the Center's mission.	300,000
Wildwoods - Regional Improvements	The Wildwoods have significant infrastructure improvements that will benefit the regional economy, residents and visitors from around the State, and the State's budget via tax collections from economic activity. The Governor proposed limited funding for the project which is far less than is needed and far less than he has proposed in support of projects elsewhere in the State that have lesser economic benefits for the State. This proposal is to increase the recommended funding by $3 million.	3,000,000
EMERGENCY PREPAREDNESS		
Local Health Departments	Local health department funding was cut approximately a decade ago and stress in local health department capacity became apparent in COVID 19. This proposal is to allocate funds though the Department of Health to in support local departments of health.	10,000,000
NJ Emergency Medical Services Task Force	NJEMSTF was created in response to the September 11 attacks and has since provided emergency medical services following Superstorm Sandy, and during the COVID-19 pandemic just to name a few. This funding would support their ongoing operations, replacement of aged assets, and increased training of their membership	3,000,000
Morris County Sherriff Hope One	The Morris County Sheriff’s Office has coordinated the HOPE ONE Mobile Outreach vehicle, a law enforcement diversion program. This project provides approximately 800 life-saving Naloxone training and kits each year to prevent overdose deaths. The mission of this project is to continue and expand outreach for individuals to access community-based substance use and mental health services.	150,000

OTHER

Deer Overpopulation Control	Funding would allow for additional support of deer management though the Division of Fish and Wildlife.	140,000

Additionally, we support directing $500,000 of existing Transportation Trust Fund resources to an important and neglected road improvement project of regional importance to improve conditions in Hillsborough, Brown Road/Rt. 206)

2. **Inappropriate Delegation of Appropriation Power to Governor**

Problem: It unconstitutionally gives the Governor unilateral authority to spend almost $6.5 in new federal block grant funding without transparency or public input, and he will squander much of the money just like he did with $2.4 billion of CARES Act funding.

We propose to:

- Eliminate the Governor's proposed budget language that allows him to unilaterally spend an approximately $6.5 billion American Rescue Act block grant without a public process.
- Appropriate some of the American Rescue Act block grant immediately to address the timeliest needs:

- **$2.5 billion to stabilize the Unemployment Insurance Fund and head off tax increases on employers – including small businesses and nonprofits still reeling from COVID 19 -- that will otherwise take effect over the July 4th holiday weekend.**
- **$500 million to provide additional relief for middle class renters and, indirectly, their landlords, who have been left out of limited support programs;**
- **$1 billion in additional assistance for small businesses and nonprofits still recovering from COVID 19 and whose assistance to date has been trickled out and insufficient.$500 million to make almost 200 school districts whole whose aid is otherwise proposed to be cut by the governor in his proposed budget and for the next two years to prevent classroom disruption and additional economic impacts as the State's schools and economy stabilize post pandemic.**

- Hold committee hearings and a special session throughout July, or for as much of the summer as it takes -- to transparently vet competing proposals for how to appropriate the balance of federal funds. Our own proposal shared two months ago:

- **$1.5 billion over three years for capital projects by the State, schools (both public and private), higher education, local governments, libraries, authorities, and third-party service providers.**
- **$500 million to modernize antiquated IT systems, including but not limited to UI and MVC systems that provide unacceptably poor service to citizens and do not have the capacity to handle impacts from COVID 19 and future pandemics.**
- **$500 million to make almost 200 school districts whole whose aid is otherwise proposed to be cut by the governor in his proposed budget and for the next two**

years to prevent classroom disruption and additional economic impacts as the State's schools and economy stabilize post pandemic.

New Jersey received enormous amounts of funding though several federal enactments over the past year. The biggest three enactments were: the CARES Act (enacted in March 2020), a $900 billion relief measure (enacted in December 2020), and the American Rescue Plan (enacted in March 2021.) The vast majority of the funding provided though these acts has clearly proscribed and limited uses (for example, Medicaid funds, transportation funds, agricultural support funds, etc.) Language in the State budget allows these restricted funds to be spent in conformance with federal limitations and we take no exception to that language. However, we find highly objectionable similar language that deferred to the Governor the sole authority to determine how to spend a flexible $2.4 billion CARES Act Block Grant that is included again in the Governor's proposed budget. It would arguably allow him to unilaterally decide how to spend an almost $6.5 American Rescue Plan billion block grant and squander much of the money like he did with the CARES Act block grant.

- *$2.4 Billion CARES Grant Waste and Abuses (Lessons Hopefully Learned)*

Among many other provisions, the CARES Act provided a flexible grant to the State of $2.4 billion. It was received by Treasury in April 2020. The Governor had flexibility to spend the money the way he saw fit without legislative guidance or oversight because of a single sentence that has been in the budget for many years, but that was intended to simply allow for the use of relatively small amounts of FEMA funds needing to be spent quickly after natural disasters. It was never intended that the sentence would be used to allow the Governor to divvy up behind closed doors billions of dollars of discretionary block grants.

Despite broad powers to put the $2.4 billion block grant to use and spend it as he saw fit, the Governor was slow to spend the money. The vast majority of the money sat in a Treasury account for months. The Governor claimed delays were attributable to the federal government being slow to give guidance on how the money could be spent -- and claimed it was President Trump's regulations that prohibited funds from being used to pay for previously budgeted items or to supplant lost revenues even though those prohibitions were expressly set forth in the actual CARES Act.

Shortly after receiving the CARES Act block grant, Republican members of the budget committee and Republican leadership called on Democrats in the Legislature to appropriate federal block grants through open, transparent appropriations process, with opportunity for public input. Proposals were put forth to appropriate funds primarily to relief for suffering business, nonprofits, and individuals and to contain the spread of COVID 19.

On occasion, the legislative majority would agree with various proposals and seek to direct some portion of the funds to one purpose or another though advancement of legislation. With few exceptions those bills failed to be enacted. The only ones that were enacted, were signed a year after New Jersey received the money and essentially codified what the Governor was doing anyway. The public was cut out of the process.

As bad as the slow use of the CARES Act block grant was, its waste and abuse by the Governor was far worse.

As noted, the CARES Act expressly prohibited this. Ironically, President Trump who inaccurately been blamed for the prohibition, established a minor administrative exception, but only when block grants were used to pay the salaries and benefits of previously budgeted employees who were substantially dedicated to COVID-19 response and recovery.

Despite how narrow the exception was to using CARES money for previously budgeted expenses, Treasury allocated more $500 million of CARES Act funds for the purpose of paying the ordinary salaries and benefits of employees who had been on the State payroll long before the onset of COVID 19. The employees' salaries and benefits had already been budgeted prior to the CARES Act, so there was never a danger they weren't going to be performing services or that they weren't going to be paid.

The Governor perverted the limited exception and a presumption premised on good faith and abused it as a loophole to be aggressively exploited. The funding was never intended to bless deliberate misuses of CARES funds to pay salaries of employees not dedicated to COVID 19 response and recovery and who were doing substantially the same things as they did prior to the pandemic. But that is exactly what the Governor did. Funds were used to pay hundreds of employees' previously budgeted salaries and benefits even where their job duties had not changed. Troopers assigned to executive protection and marine police duties were paid for with the CARES block grant. So were the salaries and benefits of Corrections guards assigned to prevent prisoner escapes. So were the salaries and benefits of dentists assigned to provide dental care and ordinary cleaning staff at psychiatric facilities. To be clear, we value all of these employees and believe many of them they all should have been provided extra "hazard " or "emergency" pay because of the special dangers COVID 19 posed to them in the course of their duties they did not have the luxury of performing from home.

As a matter of policy, it was an incredible waste. CARES Act money was meant to alleviate suffering and combat COVID 19. Supplanting funds budgeted for salaries with CARES Act money – did nothing to alleviate suffering or prevent the spread of COVID 19. As with excessive borrowing, all it did was bad the State's surplus so it could flow into 2022 and be used to advance a new and increased unsustainable spending in the 2022 election-year budget.

By way of one more example of the Governor's waste of the CASRES block grant, the Treasurer used $25 million to pay increased borrowing interest costs when the State extended the payment date of a short-term cash flow loan from June to September of 2020. In return for the extension, banks more than doubled the interest rate of the short-term loan as of April. The $25 million paid for the costs of the increased interest rate from April to June as well as all interest for the three-month extension. A later analysis shows that there was no need to extend the cash flow loan, because the State's cash flow was healthy and never in danger of running into the red without the extension.

Another example of waste was exposed in a Wall Street Journal report explaining that CARES Act funds were used to give managerial staff (including a Veterans Nursing Home Administrator who was later fired for mismanagement) "hazard pay" increases even though they were ineligible and not entitled to such pay.

A final example of waste was though a DCA program meant for "Main Street" business support, but that were politicized and mismanaged. Grants were prohibited from helping businesses or associations in more than 500 municipalities – even in poorer Main Street areas.

Meanwhile, some of the few favored areas that received money were frittering the money away or abusing it for expenses including: repayment for events that had long since been funded and held; frivolous items like renting out a holiday storefront for decorations, new parking meter decorative covers, and tote bags with government logos; support for businesses in "special" areas who were expressly denied help though EDA's programs for failing to meet eligibility standards and for failing to abide by laws that were conditions of all other businesses seeking assistance throughout the State.

- *Almost $6.5 Billion American Rescue Plan Block Grant – (We Can't Let the Governor Waste it Again)*

The $1.9 trillion COVID-19 relief bill signed March 11 was approved shortly after budget address and it provides for a $6.3 billion block grant to New Jersey and a smaller almost $200 million capital block grant.)

It was not unreasonable that the Governor did not present a spending plan at the time of his budget address as the American Rescue Plan had not yet been signed by the President. But it is unconscionable for him to have advanced no plans after almost three months have gone by, all of the funds were deposited in the State's accounts, and (predictable flexible) regulations have been issued. The delay is similar to the delay with the CARES block grant.

We fully expect that he will continue to delay putting forth a plan that can be scrutinized and debated. He will continue to claim, as he has in recent days, that the regulations issued by the Biden administration aren't final because they are "interim rules." It is simply a misrepresentation. The regulations – despite being called "interim rules" have the same legal impact as "emergency rules" that the Governor issues from time to time. They can reasonably be relied upon, just as he relied upon interim rules to spend the CARES Act block grant.

If the old language is repeated, the Governor will cite it as allowing him to start spending the money when and how as he sees fit, without appropriation by the full Legislature. Such an interpretation by him would likely run afoul of both the New Jersey Constitution and budget language.

The New Jersey Constitution reserves the appropriation power to the Legislature, and makes no provision for delegating the responsibility to the Governor. Unlike the CARES Act enacted in the early days of COVID 19, the federal enactment comes more than one year into COVID 19. And unlike the CARES Act funding which was intended to pay for true emergency needs in a time of economic uncertainty, American Rescue Act allows funds to be spent over an almost four-year window. These differences create an entirely different fact pattern. To argue this funding is solely for emergency needs and allows an exception to constitutional requirement for the Legislature to appropriate funds to be disingenuous at best. It would also likely run afoul of the budget language requirement that the funds be needed for an "emergency." Ironically, the excuses coming out of one side of the Governor's mouth as to why the Governor hasn't proposed a speeding plan to put the money use, undermine the comments that come out of the other side of his mouth when he says the money is for an emergency and he must have the authority to spend it right away.

But we know the Governor has repeatedly shown a propensity to set aside the Constitution and laws that he finds inconvenient when he can claim an emergency.

In the absence of the Governor's leadership or transparency we proposed our own plan to put the funds to use two months ago. That included the $6.3 billion block grant and approximately $200 million more though a small capital block grant. We propose the following uses with the timeliest needs appropriated immediately in the appropriations act as noted, and the balance appropriated after expedited summer hearings to allow for additional public input and vetting.

- $2.5 billion over three years to restore stability to the Unemployment Insurance Fund.
    - $1 billion could retire debt the administration borrowed to pay unemployment benefits.
    - The balance could be used to prevent $1.5 billion of employer tax increases that are otherwise scheduled to be phased in on all employers (including small businesses and nonprofits still reeling from COVID 19) beginning on July 1, 2021. (We also support two bills related to this use of funds: legislation that ensures tax increases otherwise scheduled to take effect on July 1 of 2021, 2022, and 2023 do not take place; legislation that would reimburse self-insured employers for benefits paid due to COVID 19.(which largely consists of nonprofit corporations and local governments,)
- $1.5 billion over three years billion for capital projects by State, Schools (both public and private), higher education, local governments, libraries, and authorities, and third-party service providers in lieu of issuing more debt or increasing user costs for critical services. We fully support as part of this proposal, that full funding would be provided to support a thoughtful and proactive proposal by local emergency response advocates and professionals to modernize disaster preparedness. We also support a portion of this funding to be used to improve local water infrastructure, including replacement of lead service lines, and strengthening the resiliency of water distributions systems to adopt in times of emergency. We also support $20 million of this funding being used to support for the following proposal:
    - The County College of Morris has a long history of providing exceptional healthcare education that supports the State's ability to meet the general health care needs of the State as well as be prepared for pandemics and health emergencies. Its flagship Nursing Program has provided many of the registered nurses serving northern New Jersey. All major healthcare providers in Morris County support their programs by providing clinical and internship opportunities and serving on program advisory boards. The college has been approached several times to start programs to meet the regional and State demand for healthcare professionals but is hampered by space limitations. This plan is in support of a request for the construction of a 70,140 square foot building.
- $1 billion over the next year for business and nonprofit assistance for employers still recovering from COVID-19 revenue losses. To date, assistance provided by the Murphy Administration has been little more than symbolic. The majority of

these funds should be made available to small businesses and nonprofits though various existing programs that can be expanded by the Economic Development Authority. A portion of these funds should be available to address statutory claims for compensation from economic harm created by Executive Orders. We also support $75 million of these funds being set aside to assist private bus carriers (separately being advanced by Senator Diegnan) whose routes are a critical part of mass transportation offered though NJ Transit and whose ridership declines during COVID 19 have resulted in considerable financial problems that challenge continued services to many rural and underserved areas. And finally, we strongly support these funds (in the absence of other available funds) being made used to support a proposal by the New Jersey Business and Industry Association to fund the following workforce development programs though New Jersey Community College Consortium for Workforce and Economic Development: $3 million for the Workforce Literacy Basic Skills Training program; $8.5 million to establish pathway and skill collaboratives and centers for excellence in key industries; and $12 million for reskilling displaced workers from the pandemic.

- $500 million to modernize antiquated IT systems, including but not limited to UI and MVC systems that provide unacceptably poor service to citizens and do not have the capacity to handle impacts from COVID 19 and future pandemics.
- $500 million to expand mortgage and rental assistance programs that are currently inappropriately restricted to renters at very low incomes. The result of inadequate current programs will be evictions, foreclosures, and rental properties being removed from affordable housing stock.
- $500 million for public schools to ensure flat funding for three years to prevent classroom disruption and economic the impacts from an untimely implementation of the school funding law.

All of these proposed uses are predictably and directly consistent with the federal "interim rules" authorized uses. Some proposed uses may require attention and be somewhat limited. As noted above, we are not advocating that all $6.5 billion be included in the budget process and have limited inclusion in the budget to those items of a particularly timely nature and that have broad bipartisan support. There is time for hearing other ideas, vetting and debating them, and establishing the best use of funds.

Failure to have an open process where all legislators and the public can vet their government's proposed spending and ensconce it in a publicly debated and enacted budget is a bedrock principle that has existed for hundreds of years in every democracy at every level of government. Those who advocate for concentrating power in an executive to unilaterally make spending decisions of the public's money behind closed doors, may prefer a dictatorship to democracy. Don't count us among them. We look forward to a healthy public debate and legislative process.

3. **Failure to Combat New York overtaxing our residents and taking $1 billion of our revenue that we could use for schools and property tax relief.**

Problem:

- **The proposed budget contains no strategy or solutions to stop New York from advancing its aggressive, inappropriate, and unconstitutional collection of income taxes from people who live in New Jersey and rarely, if ever, step foot in New York. This also deprives the State of up to $1 billion in revenue for schools and property tax relief.**

We propose:

- The Governor should immediately direct the Division of Taxation to remove outdated guidance for taxpayers -- absurdly premised on employee work-from-home arrangements being temporary -- and replace it with something realistic; and
- The Governor should direct a comprehensive set of initiatives including, but not limited to, incentives for employers to allocate employees to New Jersey offices for tax purposes and legal support for taxpayers who appropriately push back against New York's abuses.

New York State has been inappropriately taxing New Jersey residents' income when they work almost exclusively from home for New York corporations. It's basically "theft" and New Jersey sits back and watches it happen. A large portion of the approximately $3 billion of taxes New York collects from New Jersey residents should not be collected by New York. The money should be collected by New Jersey -- and at lower rates.

Traditionally, many of these employees commuted to New York as a rule, and only worked from home as an exception. The old paradigm of New York collecting taxes from income earned in New York made some sense. However, with technology changes over several years, many such workers now rarely step foot in New York -- if they even have office space there at all. The problem has recently exponentially increased as employees are directed by their employers to stay away from New York offices due to COVID 19. New York corporations are realizing more and more that they can function fine -- sometimes even better -- under the arrangement where their employees' offices are really their homes, or even a satellite office, in New Jersey. But they just keep taxing our residents anyway.

It's not fair or reasonable. The employees aren't putting a demand on New York government services or expenses. To the contrary, these folks work from New Jersey and receive New Jersey services.

In many instances, the continued taxation of New Jersey based employees by New York corporations on the premise they earn income in New York isn't even legal. In many cases, it may violate New York's own source allocation rules. Furthermore, New York's position may violate the United States Constitution.

Despite raising this issue repeatedly, Governor Murphy has done next to nothing. The State's only "action" has been to tell New Hampshire that we would file paperwork (and Amicus Brief) with respect to federal litigation they have brought against Massachusetts over a similar issue.

Though filing an Amicus Brief is appropriate, it's a lazy approach to a serious problem and it ignores additional options. New Jersey should have a much more aggressive plan of action to address this unfair, and almost certainly unlawful, practice.

Governor Murphy should immediately order the Division of Taxation to remove the year-old guidance they gave employers in the early stages of the pandemic concerning the sourcing of income which was premised on locational changes being temporary;

Our Division of Taxation should be warning New York corporations to stop allocating New Jersey employees and their income to New York for tax purposes when they aren't stepping foot in the city to work, are even prohibited or discouraged from doing so.

New Jersey should actively court New York corporations to set up satellite offices in New Jersey -- if that is even needed -- to help them allocate their employees to New Jersey for tax purposes which would benefit there, and their employees', bottom lines.

New Jersey should encourage New Jersey residents to assert their rights and offer legal assistance should New York continue to try and tax our people at higher rates than they would pay in New Jersey.

And our Governor should be marshalling our United States Senators and all of our congressman to unanimously insist on federal changes to protect against an adverse court outcome in the New Hampshire case.

In short, sitting in a lawn chair and clapping for New Hampshire isn't leadership. It's lazy and it's costing our residents money and our State billions in revenue.

4. **Revenue forecasts that lack credibility and are clearly too pessimistic:**

Problem:

The 2021 balance carrying forward into 2022 is at least $1 billion more than the Governor's most recent revenue forecast because actual tax collections are unquestionably going to be more than $4 billion higher than what the Governor certified when he signed the budget last year.

We propose to:

- Adjust the latest 2021 revenue projections assumed by the Governor in February upward by at least $1 billion to reflect actual and likely collections though June 30 – which is $4 billion higher than the Governor's manipulated estimates last fall to justify massive and avoidable debt.
- Use the Office of Legislative Services' June revenue forecast for 2021 and 2022 as the basis of the Appropriations Act, which will likely exceed the $1 billion amount noted above.

We have reviewed actual revenue collections recently in the State's accounting system and consulted with a bipartisan group of economists and revenue forecasting professionals from both parties. We are certain that the Governor is still understating revenues for the current year ending June 30, 2021, by more than $1 billion from the Sales Tax, Gross Income Tax, and Corporate Business Tax combined.

According to the State's Consolidated Financial System, the Corporate Business Tax collections though the last week of May have already exceeded the Governor's anticipated revenue by $300 million with June collections still to come. This revenue source could be understated by as much as $500 million.

The Treasurer informally acknowledged at a May 19th meeting of the Assembly Budget Committee that Sales Taxes revenue was likely tracking several hundred million higher than the February forecast. Days later, the Sales Tax remittances that were due for April sales came in more than $100 million higher than a monthly target necessary to meet the Governor's February forecast. This revenue sources could also be understated by as much as $500 million.

The Gross Income Tax is also performing strongly and will undoubtedly exceed revenue forecasts, though the amount is difficult to quantify due to the volatile and unpredictable nature of certain tax credits that are available for the first time. There is no past data to truly understand expected usage. This revenue forecast could be anywhere from $200 million to more than $1 billion too pessimistic.

As previously noted, we no longer place any value in the Governor or Treasurer's revenue forecasts because of their demonstrated willingness to misrepresent our State's finances. When the more thoughtful and honest Office of Legislative Services presents a revised revenue forecast to the Senate Budget Committee on June 10, it ought to be used to prepare the 2022 Appropriations Act. We are confident it will identify in excess of $1 billion of revenue collections in just in 2021 that are still not being disclosed by the Governor. For the reasons stated earlier, we do not expect the revenue forecast for 2022 to be too much more positive than it is.

5. **Two new tax increases should be avoided and there is still no action on a bipartisan proposal to establish a tax credit for charitable contributions.**

Problem:

The Governor's budget proposal strikes the wrong balance on taxes. There are two major tax increase totaling approximately $1 billion scheduled to be collected beginning in FY 2022, and his proposal again fails to advance a bipartisan targeted and affordable proposal to encourage charitable giving.

We propose to:

- As previously indicated, federal funds should be used to stabilize the Unemployment Fund and head off massive employer tax increases scheduled over the July 4th holiday weekend.
- Eliminate the $600 million tax on health insurance scheduled to take effect in FY 2022, but that hasn't been appropriated. Barring the repeal of this new tax, legislation should advance that is proposed by Senators Singer and Bucco to transparently appropriate the funding in a way that enhances health services.

As everyone knows, the Governor's first three years were spent increasing taxes with due to an insatiable appetite for taxpayer money. He increased taxes on everything from employee payroll taxes (more than $1,000 in regressive annual tax increases on middle class salaries implemented in January 2020 and January 2021), health insurance taxes, and a gas tax increase that could have been avoided. He even implemented major toll road increases without transparency or public input under the chaotic cover of the first months of COVID 19.

Now the Governor is claiming this budget is not raising taxes. It's a staggeringly misleading statement. Though not technically included in the budget because related spending is considered "off budget," there are two tax increases going into effect in the Fiscal Year 2022.

First, a more than $300 million employer payroll tax on all employers is scheduled to go into effect just in time for the July 4th weekend. That tax increase is being imposed under existing law to restore solvency to the State's Unemployment Insurance Fund that has incurred significant debt to pay claims. However, this tax increase is easily avoidable if (as we proposed months ago and explained earlier in this document) the Governor would simply use $2.5 billion of available federal funds to retire the debts of the Unemployment Insurance Fund and use

There is also a $600 million tax on Horizon Blue Cross Blue Shield (courtesy of ratepayers) that is scheduled to be collected in June of the 2022 budget year. Ironically, the budget does not include the revenue from this massive tax increase and there is no explanation anywhere as to how this money will be spent, so it could be repealed with no impact at all to the FY 2022 spending plan.

Claiming there are "no new taxes" this year is like a child covering his or her eyes and saying, "can't see me." It's cute, but obviously silly.

Additionally, there is overwhelming bipartisan support to establish a tax incentive to donate to New Jersey nonprofit organizations. It is sound public policy. It encourages private support of a sector that provides services to those in need and that plays an important part in our economy. These organizations are more in need than ever, and we propose finally enacting tax benefits for contributions made after October 1 under the standards and limitations set forth in Senate Bill 2360 -- though made permanent.

Nonprofit hospitals, food pantries, home care nursing services, organizations that support the disability community, visiting nurse associations, are all providing more help than ever at exactly the time economic uncertainties are impacting fundraising. Nonprofit educational institutions, museums, theaters, and other organizations that are important parts of our communities and economic engines continue to suffer considerably.

Enacting permanent tax benefits effective October 1 will have a quarter year impact for CY 2021 income tax liabilities supporting 2022 and a likely impact of $100 million of lost revenue. The loss of revenue could grow to just less than $400 million annually according to the Office of Legislative Services which established these estimates at the high end of a suggested range. Though this would challenge future budgets, the net impact of this change, along with the other changes we are proposing, make a substantial dent in reducing the State's structural budget imbalance.

The charitable deduction will bring back to NJ hundreds of millions of dollars that currently flow to other states and does not benefit NJ charities or residents. It's a way to help *our charities and residents for probably less than 6 cents on the $1.*

It has been the right public policy for a long time to finally extend these tax benefits to encourage charitable giving.

6. Debt Reduction or Avoidance Increased to More than $4.3 billion.

As noted elsewhere, the Governor issued $4.3 billion of obviously unnecessary debt and structured it so it couldn't be retired -- breaking a promise that he would pay back the debt if revenue losses never materialized. As noted, his broken promise is aggravating the structural deficit and setting the stage for higher taxes later. To restore structural integrity, as well as rebuild some shred of credibility for a Governor and proposed budget that have none left, this budget must be changed to have at least $4.3 billion of alternative debt reduction or avoidance.

As a start, the Governor can fairly be credited with proposing what we would consider to be about $1.2 billion of debt retirement or debt avoidance. First, he proposed an approximately $700 million increase in the pension payment that is above and beyond the increase that was needed to bring the payment to 90% of the actuarial recommended contribution amount. Second, he has proposed approximately $500 million towards pay as you go capital investments. We recognize that the former helps to retire the unfunded pension debt and the latter arguably avoids new debt.

The Governor's baby steps towards debt reduction or avoidance leave about $3.1 billion of debt relief or avoidance to go.

As noted above, we have proposed that $1 billion of the most recent federal block grant be used to retire the debt incurred by the Unemployment Insurance Fund

As the below chart demonstrates, the net impact of other changes we have proposed leaves more than $2.3 billion unallocated. We propose this amount be restricted to debt relief and avoidance, which together with the amounts noted above, will more than reverse the destructive and destabilizing impacts of the Governor's obviously unnecessary $4.3 billion of debt. To prevent the Governor from abusing this fund, we propose that legislation be enacted placing it into a special State Trust that can only be used only for the following purposes: payment to the pension systems that exceed 100% of the actuarially required payment; calling (retiring) long term bonds maturing no sooner than 2025; and paying for capital improvements that could otherwise constitutionally be paid for with long term debt. Furthermore, the legislation should provide that long term general obligation bonds cannot be sold until these funds have been used for these purposes.

Below is an accounting of the unallocated resources that can be allocated to debt reduction and avoidance.

$	
Revenue	
+$1 Billion (this amount could be higher as we advocate using revenue projections	**Correct Discredited Forecast (Including an assumption of new deductibility for charitable contributions.)**

prepared the Office of Legislative Services that will not be presented for several days.)	
+$1 Billion	**Recapture NY Taxes on NJ Residents**
- $100 Million	**Eliminate UI Tax Increases for Three Years (federal funds available to negate) and FY 2022 Health Insurance Tax (revenue neutral due to no proposed appropriation) and Establish State Charitable Contribution Deduction on Income Taxes (-$100 million)**
Spending	
+$300 Million: (Approximately $600 million of spending restraints offset by approximately $300 million of added priorities.)	**Eliminate Substantial New/Increased Non-COVID Spending, though Add Back certain items.**
Language	
Neutral	**Language to End Governor's Unilateral Ability to Spend Federal Funds. Appropriate some federal funds, leaving balance to be appropriated after proper vetting and public discussion in summer session.**
Closing Surplus	**No Change**
= $2.3 billion Towards Additional Debt Reduction	**This would be in addition to $1 billion use of federal block grant funds to retire UI debt, and $1.2 billion in the proposed budget which can be fairly characterized as retiring or avoiding debt.**

These are the fundamental changes needed to fix a fundamentally broken budget proposal. We, and our colleagues, reserve the right to offer additional suggestions for change and improvement after we have heard from the public and after the vetting process – inadequate as it is – concludes.

Sincerely,

Steven V. Oroho
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Republican Budget Officer

Samuel D. Thompson
Senator Samuel Thompson
Member, Budget Committee

Senator Declan O'Scanlon
Member, Budget Committee

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c: Kevin Drennan, Senate Majority Executive Director
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