



South 61 Paramus Road, P.O. Box 768, Paramus, NJ 07653-0768  
Phone: 201-368-2100 Fax: 201-368-3438

**Testimony on NJ Budget Fiscal Year 2007**  
**Commerce and Industry Association of New Jersey**  
**John Galandak, President**

Good Morning, Mr. Chairman and members of the Senate Budget and Appropriations Committee. My name is John Galandak, and I am President of the Commerce and Industry Association of New Jersey. On behalf of our 850 member companies, I am here to weigh in on the proposed budget and how it will impact New Jersey's business community.

First, let me say that no one underestimates the fiscal challenges currently facing the state, and New Jersey businesses can identify with this year's austere budget. When a company faces difficult times, it must do more with less, and this year's budget attempts to do that by cutting the size of state government. The Commerce and Industry Association of New Jersey understands that the Governor's proposal is a starting point for the Legislature, and we look forward to working with you as you go forward in examining the budget and finding new solutions.

To that end, I would like to provide you today with a summary of the budget proposals that our organization supports, those which raise concern, as well as some constructive suggestions to improve our state's fiscal position this year, and in the years to come.

***CIANJ Supports***

While the Governor's budget message painted a bleak picture of the state's finances, we saw some bright spots for the state's economy in the long-term.

First, we were encouraged by the tone of the Governor's budget message and his stated commitment to growing our economy. The newly-created Office of Economic Growth will help foster a more positive business environment that will encourage the creation of new jobs statewide, in turn improving our economy and generating more tax revenues in the years to come.

We were also pleased by the Governor's decision to continue the scheduled sunset of the Alternative Minimum Tax Assessment, as well as the reinstatement of Net Operating Losses. Both are onerous provisions of the 2002 Corporate Business Tax increases scheduled to sunset this year. Currently, New Jersey is the only state to inflict these taxes on state employers, and by removing these barriers, our corporate business tax structure will be more in line with those of other states. In time, we believe the removal of these tax barriers will lead to long-term economic growth and increased revenue for the state.

As you may know, our Association has been a long-time advocate for a leaner, more efficient government, and we support the Governor's proposals to shrink the size of the state work force and examine the effectiveness of every taxpayer-funded program. We look forward to the newly-created Task Force on Re-engineering Government to help identify more efficiencies, spending cuts and needed reforms.

We appreciate and agree with recent statements by legislative leaders that no tax increase should be considered until all areas of state spending are examined. Last year, the Senate and Assembly Budget Committees were effective in rooting out waste and finding savings, and your work eliminated the need for several proposed tax increases. We look forward to working with

both Budget Committees once again in your efforts to cut spending and reform state government operations.

### ***CIANJ Opposes***

While we support the Governor's efforts to cut spending, we are very concerned with the \$1.8 Billion in tax increases contained in this budget, which we view as counterproductive to economic growth because they raise the cost of doing business and make New Jersey a less attractive state for businesses to locate or expand. At a time when our state's tax environment is one of the most oppressive in the nation, raising taxes on employers and families will not help grow our economy, but only compound New Jersey's fiscal problems for years to come. We cannot support any tax increase, and we are especially concerned with the 2.5 percent surcharge on the Corporate Business Tax. New Jersey employers already pay among the highest CBT rates in the nation, and we are concerned this tax surcharge will undermine the goodwill and improved business reputation that comes with repealing the AMA.

### ***Suggested Solution – State Employee Benefit Reform***

As you know, one of the primary reasons why the state seems to face a multi-billion dollar budget gap year-after-year is due to the fact that a few big-ticket items consume a disproportionate share of the state's tax dollars. We look forward to working with this Committee in identifying alternative solutions to tax increases, and would like to see the Administration and Legislature tackle the structural problems in the state budget, such as reforming school funding and state employment benefit policies. I would like to touch briefly on both of these areas.

First, we would like to see the Legislature consider the recommendations of last year's Benefits Review Task Force. As you know, the total cost of healthcare benefits for state employees has risen by 50 percent over the last four years, and the cost of healthcare benefits for retired state teachers, school personnel, and college employees has more than doubled. In Fiscal Year 2006, employee benefit costs consumed 14 percent of the State's overall budget, compared to 8.8 percent just four years ago. If this pattern continues, retirement and healthcare benefits for state employees will consume 20 percent of the state budget by the year 2010.

In his budget address, Governor Corzine proposed modest reform measures to curb these costs, including an end to pension tacking and other abuses, and requiring non-union employees to pay at least 10 percent of their health insurance premium per year. Another reform proposal includes enrolling newly-elected officials and political appointees into a 401(K) type plan rather than the state's pension system. We endorse all of these reforms, but would like to see the Legislature go further in tackling some of the bigger recommendations of the Task Force.

Two of these substantial reforms include extending the state employee retirement age from 55 to 60, and ensuring pensions are more reflective of an employee's salary by calculating benefits based on the average of the five highest salaries (as opposed to the current three) or the highest three years of income (rather than one). By doing so, not only will the state reduce the cost of healthcare, but will ensure that state employees benefit from a fiscally sound healthcare system for which they have worked.

The Benefits Review Task Force also proposed eliminating pension padding by restricting end-of-career salary hikes, and ending the practice of pension tacking by requiring employees to

designate a single job for pension purposes. The Task Force also recommended that state jobs paying less than \$5000 per year should not receive credit towards pension benefits.

Other reforms include greater cost-sharing of healthcare expenses through additional co-pays and deductibles--something many private sector companies have implemented in order to contain skyrocketing healthcare costs.

While the above recommendations represent long-term structural changes, flagrant abuses of the state's pension system must be curtailed immediately. Assemblyman Michael Panter, has sponsored legislation which prohibits compensation for unused sick leave for public school employees with an annual salary of \$100,000 or more. Another common-sense bill prohibits individuals convicted of a crime from receiving pension benefits.

These and other recommendations of the Task Force deserve serious consideration, as they will help the state to get a grip on costs and put an end to the abuses of an out-of-control system.

### ***Suggested Solution – School Spending Reform***

Finally, we wanted to briefly state our support for school spending reform, particularly in the Abbott Districts. As you know, while many suburban school districts are doing well, many of New Jersey's urban districts are failing to provide students with even the most basic education, despite receiving disproportionately greater sums of state tax dollars. Clearly, we need to look at new and innovative ways to give children in our cities the education they deserve without placing an additional burden on New Jersey property taxpayers.

As an important first step to reform, our Association's Board of Directors voted to support the Urban Schools Scholarship Act, legislation that would create a five-year pilot program to provide tuition scholarships to children of low-income families residing in the cities of Trenton, Orange, Newark and Camden. Currently pending in the Legislature are bills A-257 in the Assembly, sponsored by Assemblywoman Nilsa Cruz-Perez, and Assemblymen Mims Hackett, Jr. and John McKeon, and S-1332 in the Senate, sponsored by Senators Joseph Doria and Robert Martin. This pilot program would get the business community directly involved in the future of its workforce, as the scholarships would be funded through tax credits on Corporate Business Tax Filings.

The program would also produce budget savings by helping to relieve the overcrowding in public schools in Camden, Newark, Trenton, and Orange, resulting in smaller class sizes and a reduced need to build and equip as many new schools. Public school children qualifying for scholarships can move to partially empty Catholic Schools and perhaps cause the reopening of closed parochial and secular schools. This prevents future closing of existing private schools and reduces the need for SCC construction, which experienced unexpected cost over-runs.

Not only will this legislation provide new opportunities for students in urban districts at no cost to taxpayers, it's an important first step in improving the Abbott districts and the state's school funding formula, which continues to put a massive strain on the state budget with little results to show for it.

Thank you for the opportunity to testify today. We hope we have provided you with some insight into our members' views, and look forward to working with the Committee as the budget process continues. If CIANJ can be of any assistance to you in your efforts, please do not hesitate to contact me.