**REMARKS OF FRANK HAINES,
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TO THE
SENATE BUDGET AND APPROPRIATIONS COMMITTEE
APRIL 6, 2017**

Chairman and committee members, good morning. Thank you for inviting the Office of Legislative Services to address you on the subject of the Governor's proposed budget. I intend to keep my comments brief so we can proceed to Ms. Brennan's presentation of the OLS revenue forecast.

You have already begun to delve into the budget's myriad details, and through public hearings you have given organizational representatives, public officials and citizens the opportunity to share with you their many concerns about how the State budget will affect their lives and the lives of those they represent and care for. Throughout the next phase of the process, as you review with Executive branch leaders and the Judiciary their respective areas of responsibility, the staff of the OLS will provide its usual analyses of the departmental and Judicial branch budget recommendations.

And we will remain at your service after you conclude your review of the budget and take up the challenge of crafting and approving an appropriations bill that allocates the State's finite resources to best meet the diverse and pressing needs of the people.

The Governor's budget for FY 2018 will be quite familiar to you in its broad outlines. By conventional measurement it totals $35.5 billion, once again the largest budget yet proposed, and calls for modest growth. Two-thirds of our revenue will continue to come from our two broadest-based taxes, the gross income tax and the sales and use tax. The main emphasis of state spending remains local education aid in all its forms, and health care and other services to the State's elderly, disabled and disadvantaged.

Grants in Aid and State Aid account for nearly three-fourths of State spending. And no doubt the mismatch between finite resources and the policies and programs you wish to support is as perplexing as ever.

No budget is without elements of uncertainty unless we possess perfect knowledge of the future. Certainly the revenue side of every budget entails forecast risk. Revenue forecasters are never unerring. Ms. Brennan will have more to say on that subject in a few minutes.

A significant non-tax revenue item we are uncertain about is the expectation of $325 million from the sale of state assets. We assume this is related to the outcome of the Federal Communications Commission (FCC) auction of broadband spectrum in which the New Jersey Public Broadcasting Authority participated. But until the FCC issues more complete information later this month we cannot fully evaluate the assumptions supporting this estimate. I direct your attention to an informative discussion of this subject in the OLS Tax and Revenue Outlook.

The expectation of $75 million from legal settlements in FY 2018, as well as the forecast of $140 million in FY 2017, is another area of risk. In FY 2016 the Executive expected legal settlements to generate $110 million, only to shift that expectation forward a year in the May update. The Executive has informed us that $225 million due from the Exxon settlement is currently held in escrow while legal proceedings continue, which illustrates the forces beyond our full control that affect this type of revenue. As for the amount assumed for FY 2018, there is no substantive information yet available.

Risk from uncertainty is present on the spending side of the budget as well. The Executive continues to urge changes to employee health benefit plans for budgetary savings. The FY 2018 budget assumes $100 million in new savings from additional plan design changes and legislation not yet approved. A higher savings assumption was included in the FY 2017 budget, and appears to have been attained. But past success does not assure future success.

The FY 2018 budget recommends $15 million to fund tort claims. The same level of funding now appears to be $17.4 million short of the full FY 2017 need; the revised total is consistent with costs in recent years.

The budget again provides a base allocation of $10.34 million for the Department of Transportation's winter operations. In the current fiscal year this same amount is $40 million short of projected costs. In recent extremely severe winters the shortfall has been about $100 million.

So we should consider what we hold as a hedge against the potential that the budget's uncertainties are resolved to our disadvantage. First and most obvious, the budget assumes a surplus of $493 million, equaling about 1.4% of appropriations. As we discuss in the OLS Tax and Revenue Outlook, this is significantly lower than the national median, which is running at about 5% of appropriations.

I should point out that the budget reflects two other reserves, and this is something of a new development. The first is an FY 2018 year-end Open Space Reserve of $194 million. This represents the portion of the Corporation Business Tax constitutionally dedicated for Green and Blue Acres, farmland preservation and historic preservation that has not yet been appropriated by the Legislature. The second is the Transportation Trust Fund Capital Reserve, which you'll hear more about in the revenue discussion. The estimate for this reserve is a two year total of about $1.3 billion, and it also consists of constitutionally dedicated revenue. These are significant resources for important needs. But they do not give budgetmakers the same flexibility that an unrestricted surplus does to plug budget holes.

The ability to hold spending below authorized levels is another hedge against risk. The Executive plans to lapse $345 million of unexpended appropriations at the close of FY 2017, a target that is below the short-term average. Debt service appropriations, where costs can be affected by debt restructuring, and health and social services programs which involve caseload trend forecasting, feature prominently on the lapse list. However, spending-side options adequate to offset budget distress, that do not in and of themselves have severe impacts, are not assured unless intentional overbudgeting is in practice.

Last year at this time I observed that the budget for FY 2017 might be the last one approved while the only lawful location in New Jersey for casino gaming is Atlantic City, and might also be the last one in which the State retained any discretion over its annual payments to the defined benefit pension funds. As the referendum on the former and the litigation on the latter turned out, neither of those changes came to pass. However, other changes in the fiscal environment may loom, with their own set of opportunities and challenges.

There is at present great uncertainty among states about how federal policy changes and the federal budget process might affect their federal aid. The Governor's FY 2018 budget, at least at first glance, assumes no drastic upheaval on that front. But, there are some warning signs that the federal aid we receive could be cut in both federal fiscal year 2017 and federal fiscal year 2018, and continued discussions in the nation's capital are likely about the future shape of Medicaid. So perhaps we need to evaluate our reserves not as a percentage of State appropriations but proportional to the sum of state and federal funding. That math produces a budgetary surplus of barely 1% of appropriations.

And on that note I'll turn it over to Ms. Brennan.