REMARKS OF FRANK HAINES,
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TO THE
ASSEMBLY BUDGET COMMITTEE
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We have temporarily changed the State budget-making paradigm, where in June, after a break *for* budget review we would marginally revise one annual State budget and adopt the next, in time to depart Trenton for the summer.

This year, annual doesn't mean 12 months in a single appropriations act. This spring became a forced break *from* budget review; out of necessity we shelved hearings with the Executive and the Judiciary on the Governor's Fiscal 21 budget, a plan which for now is still very much on the table. This June, we are required to re-scale Fiscal 20 to fit unforeseen, harsh fiscal realities, and to step ahead a fiscal quarter under highly uncertain conditions. And as summer turns to fall we will be back, having received another proposal from the Governor in late August, to authorize another round of spending that completes the 12-month 2020-2021 cycle, with a still clouded outlook for the future.

The State Treasurer's report makes clear the intent to close out Fiscal 20 in balance on its traditional duration of four fiscal quarters. And it also makes clear that the next fiscal quarter, July-September, will be balanced, using only revenues on hand and collected within that quarter.

To conclude Fiscal 20, the Legislature is asked to reduce appropriations it has already approved; to increase other appropriations; and to re-direct dedicated revenues to uses outside their current statutory boundaries. The report's budget plan also relies on the Executive using powers already delegated to it by law – to liquidate the Surplus Revenue Fund, for one – and to deploy newly awarded federal funds to cover not only new spending needs but also some spending already planned, such as Medicaid. Compared to the Executive's view of Fiscal 20 that prevailed last February, the plan reduces year-end surplus by $1.1 billion dollars more than was assumed. Rather than increasing net appropriations by $945 million, it reduces net appropriations by about $600 million, a spending-side contraction of over $1.5 billion. And it leaves an unrestricted fund balance of only $344 million, around 1 percent -- far below comfort level, especially with the usual important April tax collections, and the knowledge of whether the April "surprise" has gone against us, deferred until July. Substituting the OLS revenue outlook for the Treasurer's adds $383 million, more than doubling the year-end fund balance, an amount still far from optimal. The report indicates that additional operating reserves and unanticipated balances exist as a hedge, without quantification or detail.

The plan shows a lower amount of Fiscal 20 supplemental appropriations, $737 million instead of $1.24 billion. Of this total, about $300 million is already approved, primarily from constitutionally dedicated revenues. The remaining items are mostly for employee health benefits, services to clients and DOT winter operations.

Among the $1.32 billion of proposed spending changes are some easy fixes and proverbial low-hanging fruit; some needs deferred; some interim shifting of priorities; and some real denials of funding to individuals and third parties. The largest cut, about $400 million in Medicaid, is made possible largely by a temporarily enhanced federal match, a key coronavirus assistance measure. But other large cuts deprive homeowners, public colleges and universities, and other persons and groups of funds they were expecting to receive.

Even after these actions an unspecified amount of unexpended Fiscal 20 funds are expected to carry into the next fiscal quarter to augment new appropriations for the next fiscal quarter. $50 million of this amount is being counted on to keep that quarter in balance.

The Treasurer's report also makes clear that the point of departure for allocating resources for the 3-month extension is the Fiscal 21 proposed budget from last February. Having estimated resource limits for those three months - forgoing increased revenues from policy changes - the Executive took as the appropriations starting point the original $40.9 billion Fiscal 21 spending plan, and through a process of elimination, pro-ration, and deferral of payments, downsized the plan to fit within those limits. So it seems more useful for analytical purposes to think of the fiscal year extension not as the fifth quarter of Fiscal 20 but as the first quarter of Fiscal 21.

The Governor has retracted many of his recommended Fiscal 21 initiatives. The list of these items totals about $850 million in new or increased programs, services and aid to third parties. Over half of this amount is aid to education. The report states that implementation of the current school funding formula will continue, but without new funding above Fiscal 2020. Revised school aid amounts for each district have not yet been released.

The report provides another list of $3.2 billion in solutions, a combination of cost deferrals, spending cuts and revenue shifts. Items specifically labeled deferrals total $2.4 billion. Intergovernmental aid accounts for about half that amount; the September quarterly pension contributions comprise about another 40 percent; and an amorphous "other" makes up the rest. The largest cuts are to homeowner property relief programs and aid to higher education. Shifts to dedicated revenues total $146 million.

As for the rest, unspecified retrenchments, pro-rations and adjustments for payment timetables, presumably without fundamental changes in policies, close the remaining $29.2 billion gap.

That's a recapitulation of how an annual budget that anticipated continued economic growth and improving revenues was whittled down to fit to the quarter's worth of revenue expected from much-reduced economic circumstances. The OLS revenue forecast adds another $104 million for that quarter, for a total increase of about $487 million at September 30. We have only recently received underlying detail showing the numbers built up from the bottom. So there are questions that OLS cannot answer today, but will endeavor to in time.

Looking ahead, the Treasurer's report forecasts total revenues of $26.7 billion for the nine-month Fiscal 21 budget, and about $34 billion for the 12 months ending June 30. The last fiscal year our total revenues were that low was Fiscal 2017 - when our pension contributions, at 40% of the full amount, were about $2.4 billion lower; when school aid was about $800 million lower; and when debt service was about $400 million lower, just to name a few growth areas.

A list of federal coronavirus aid thus far awarded to the State is included at the conclusion of the report. This is only part of the total the State will receive, which itself is a subset of the total estimated federal benefits for all of New Jersey. Most notable is a general plan for the Coronavirus Relief Fund. This grant, nearly $2.4 billion to the State and over $1 billion directly to our nine largest counties, has been the subject of much confusion over how States and localities can use it to absorb the impact of the COVID-19 emergency. It is a large sum of money, and while it cannot directly offset revenue erosion, it can fund both known and unforeseen spending needs caused by the emergency - and it must be spent by December 30 or returned to the federal government. What is obscure at present is the extent to which this aid is explicitly backfilling cuts to appropriations in Fiscal 20 and substituting for State appropriations in the July-September fiscal plan. Also unclear is the extent to which federal coronavirus assistance given directly to New Jersey citizens, local governments and private firms and organizations are seen as justification for curtailing certain State appropriations in both Fiscal 20 and the three month extension.

Many questions will be asked about the budget plan as submitted - some will be answered, some not. The degree of uncertainty about the future is far above the norm. The local governments, other public entities, and service providers that are accustomed to a clearer picture of the State budget's impact on them and the citizens they serve are no doubt unsettled. After all, we did not extend their fiscal years. The OLS will do its best to help you discern the impact of the Treasurer's budget plan as you make the difficult choices which confront you.