

# State of New Jersey Department of the Treasury

May 21, 2014

## Opening Statement of State Treasurer Andrew P. Sidamon-Eristoff Before the Assembly Budget Committee

Chairman Schaer, Budget Officer O'Scanlon and distinguished members of the committee, I am pleased to appear before you this afternoon. I am joined by Charlene Holzbaur, Director of the Office of Management and Budget, Robert Peden, Deputy Director, and Dr. Charles Steindel, Treasury's Chief Economist.

On Monday, April 28, we announced that, based on available information to date, gross income, sales and corporate tax revenues for April would fall short of budgeted projections. We further announced a reduction in projected net revenue for the current fiscal year. At that time, and again during my last appearance before this committee, I committed to returning today to update our revenue projections and to outline the adjustments we are making and propose to make to the Fiscal Year 2014 budget and the Governor's Fiscal Year 2015 Budget. We are all keenly aware that just five weeks remain in the current fiscal year, and I want to thank you for your understanding and patience as we have undertaken extensive due diligence to identify and evaluate options for both Fiscal 2014 and 2015.

In view of April's extremely disappointing results, we are now obliged to project approximately \$31.5 billion in total revenue for Fiscal 2014, a reduction of just over \$1 billion or 3.2 percent from our projection as of the Governor's Budget Message in February. The Gross Income Tax accounts for almost 85 percent of this reduction, mostly due to an unexpected shortfall in April final payments.

Carrying this reduction forward, we are now projecting \$32.7 billion in total revenue for Fiscal Year 2015, a reduction of \$1.7 billion or almost 5 percent from the Governor's Budget Message. In addition to the lower base coming out of Fiscal 2014, this reduction reflects our decision to reduce the projected Fiscal Year 2015 growth rate for total revenue from 5.8 percent to just under 3.9 percent.

We believe these adjustments are reasonable, based on our understanding of current economic conditions and trends. In this context, I would be remiss if I did not point out that our colleagues at the Office of Legislative Services have made similar adjustments, with the result that we are now in virtual alignment.

To recap, we have reduced our revenue expectations by \$2.75 billion across the two fiscal years. This, in turn, defines the very serious two-year challenge we now face.

Meeting this challenge will require a range of adjustments to the current fiscal year's budget as well as the proposed budget for Fiscal 2015. You have before you several tables that summarize changes since the Governor's Budget Message in February.

Turning first to the table entitled "Changes in FY 2014 Supplementals," you will note that we are recognizing a modest net reduction in the need for supplemental appropriations of \$39 million since the

Governor's Budget Message. This includes several increases offset by related revenues, an elimination of the need for supplemental funds in the Spill Compensation Fund/Hazardous Discharge Site Cleanup Fund, and an elimination of the supplemental need for Children and Families Grants because it will be accommodated through a transfer of funds.

Turning next to the table entitled "Changes in FY 2014 Lapses," we are increasing lapses by just over \$1 billion. Across multiple departments and agencies we have identified underspending and savings that will reduce our projected spending by \$118 million. With only a few weeks to go in the fiscal year, we had few practical options that would not involve extremely painful reductions to education, health care or our social safety net. The list before you is a catalog of newly identified savings opportunities and "least worst" reduction options. Lest I stand accused of obscuring controversial items, I would draw your attention to our decisions to reduce this year's subsidy to New Jersey Transit by \$14.8 million and to eliminate a \$13.2 million one-time contract adjustment for community providers in good standing.

In addition, we are proposing a \$887 million reduction in the budgeted pension contribution, from \$1.58 billion, an amount equal to three sevenths of the actuarially recommended contribution (ARC) amount, to a lower amount equal to the full actuarial "employer normal cost" of \$696 million.

What is the employer normal cost and why did we settle on this amount? As you will recall, the ARC calculation has two basic components. The first is the "normal cost," the present value of the additional benefits earned by active employees during the current year. The total normal cost is the sum of the employer's contribution in respect of all active employees (the "employer's normal cost") plus employee contributions made by each active employee.

The second component of the ARC is the amount necessary to amortize the unfunded accrued liability (UAL). As a result of many years of chronic underfunding, the enactment of unfunded benefit enhancements, and investment underperformance at the end of the last decade, the UAL portion of the full (and phased-in) annual ARC payment has recently reached approximately 80 percent of the total contribution amount. In other words, roughly 80 percent of the payments this Administration and this Legislature have budgeted in recent years relate to decisions and/or events of the past.

Given that we simply do not have the resources to make the full three sevenths contribution, and our determination not to skip making a payment in any fiscal year, we believe that our financial priority must be to fund current benefit accruals for our active employees who, after all, are continuing to contribute a portion of their salaries to their retirement. In this manner --- with both the employer and employee contributing toward the normal cost --- we will be keeping our commitment to fund currently accruing benefits for our employees while, regrettably, deferring our ability to pay down the UAL.

Please do not let the reduction in the pension contribution obscure the fact that we are also taking some very tough reductions in other areas.

Net of all these adjustments, we project an ending unrestricted fund balance of \$300 million.

Moving to Fiscal Year 2015, we are proposing once again to fund only the active employee or "normal contribution" amount of \$681 million, for a savings of \$1.57 billion. With other savings of \$128 million, including cuts to salary program by shifting responsibility for salary growth to the operating departments and agencies, a reduction in projected growth in Medicaid costs, and the utilization of

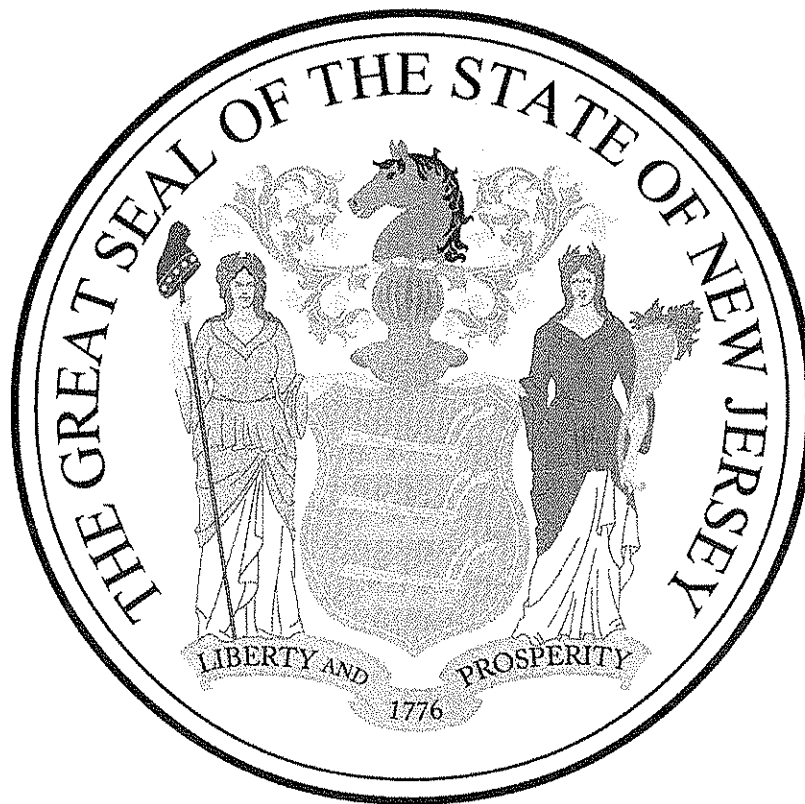
additional Clean Energy Fund resources to support utility costs at State correctional facilities and New Jersey Transit, we will reduce Fiscal Year 2015 expenses by \$1.7 billion.

Once again, we project an ending fund balance of \$300 million. Of course, \$300 million is less than optimal but we feel the balance of priorities militates strongly in favor of funding the full employer normal pension cost while minimizing the collateral impact on important public programs and services. We will, of course, manage the adopted budget closely over the course of the fiscal year with a view toward increasing the margin.

Before taking your questions, I want to emphasize that we appreciate the Legislature's important role in meeting the challenges before us over the next few weeks. To be frank, we cannot and should not do this alone. We will need the Legislature's cooperation in making certain budgetary adjustments expeditiously and with minimum disruption to the programs and services our constituents rely on. With that acknowledgement, however, I am confident that, upon examination, you will agree that we have outlined a practical approach that respects our shared priorities in the face of extraordinary circumstances.

Ms. Holzbour, Mr. Peden, Dr. Steindel and I will be pleased to answer your questions. Thank you.

# ***FY 2015 Budget***



***May 21, 2014***

**State Revenues**  
**Fiscal Years 2014 and 2015**  
**(thousands of dollars)**

	FY 2014			FY 2015		
	Budget	Revised	Change	Budget	Revised	Change
	2/25/14	5/21/14		2/25/14	5/21/14	
<b>Major Taxes</b>						
Sales Tax	\$8,680,000	\$8,597,000	(\$83,000)	\$9,212,000	\$9,138,000	(\$74,000)
Sales Tax Dedication	(662,000)	(660,000)	\$2,000	(701,000)	(698,000)	\$3,000
Sales Energy	213,000	240,000	\$27,000	225,000	245,000	\$20,000
Corporate Business	2,419,700	2,433,000	\$13,300	2,582,980	2,590,000	\$7,020
Corporation Business-Energy	23,000	10,000	(\$13,000)	35,000	20,000	(\$15,000)
Motor Fuels	536,000	536,000	\$0	541,000	541,000	\$0
Motor Vehicle Fees	438,500	426,700	(\$11,800)	444,365	432,400	(\$11,965)
Transfer Inheritance	715,000	715,000	\$0	757,900	757,900	\$0
Insurance Premium	612,000	587,000	(\$25,000)	650,000	627,000	(\$23,000)
Cigarette	221,407	226,000	\$4,593	180,751	180,751	\$0
Petroleum Products Gross Receipts	213,000	213,000	\$0	215,000	215,000	\$0
Public Utility Excise (Reform)	14,000	14,000	\$0	14,000	14,000	\$0
Corporation Banks and Financial Institutions	197,000	197,000	\$0	210,000	210,000	\$0
Alcoholic Beverage Excise	108,000	108,000	\$0	110,000	110,000	\$0
Realty Transfer	287,000	257,000	(\$30,000)	325,000	305,000	(\$20,000)
Tobacco Products Wholesale Sales	21,700	21,700	\$0	56,700	56,700	\$0
<b>Total Major Taxes</b>	<b>\$14,037,307</b>	<b>\$13,921,400</b>	<b>(\$115,907)</b>	<b>\$14,858,696</b>	<b>\$14,744,751</b>	<b>(\$113,945)</b>
<b>Miscellaneous Taxes, Fees, Revenues</b>						
Assessment on Real Property Greater Than \$1 Million	108,000	103,000	(\$5,000)	120,000	118,000	(\$2,000)
Medicaid Uncompensated Care	402,272	401,347	(\$925)	442,958	440,986	(\$1,972)
Good Driver	76,800	76,300	(\$500)	77,000	77,800	\$800
Hotel/Motel Occupancy Tax	98,000	98,000	\$0	105,000	105,000	\$0
Public Utility GRFT	115,000	115,000	\$0	115,000	115,000	\$0
TEFA		5,000	\$5,000	0	0	\$0
Fringe Benefit Recoveries	727,133	674,359	(\$52,774)	744,247	580,343	(\$163,904)
Other Miscellaneous Revenue	1,238,030	1,271,824	\$33,794	1,404,180	1,380,112	(\$24,068)
<b>Total Miscellaneous Taxes, Fees, Revenues</b>	<b>\$2,765,235</b>	<b>\$2,744,830</b>	<b>(\$20,405)</b>	<b>\$3,008,385</b>	<b>\$2,817,241</b>	<b>(\$191,144)</b>
<b>Interfund Transfers</b>						
State Lottery Fund	993,000	965,000	(\$28,000)	1,036,850	1,036,850	\$0
Other Funds	842,841	869,094	\$26,253	463,449	463,700	\$251
<b>Total Interfund Transfers</b>	<b>\$1,835,841</b>	<b>\$1,834,094</b>	<b>(\$1,747)</b>	<b>\$1,500,299</b>	<b>\$1,500,550</b>	<b>\$251</b>
<b>Total State Revenues General Fund</b>	<b>\$18,638,383</b>	<b>\$18,500,324</b>	<b>(\$138,059)</b>	<b>\$19,367,380</b>	<b>\$19,062,542</b>	<b>(\$304,838)</b>
<b>Property Tax Relief Fund</b>						
Gross Income Tax	12,927,800	12,050,000	(\$877,800)	13,988,220	12,627,000	(\$1,361,220)
Sales Tax Dedication	681,000	679,000	(\$2,000)	720,000	717,000	(\$3,000)
<b>Total Property Tax Relief Fund</b>	<b>\$13,608,800</b>	<b>\$12,729,000</b>	<b>(\$879,800)</b>	<b>\$14,708,220</b>	<b>\$13,344,000</b>	<b>(\$1,364,220)</b>
Casino Control Fund	57,683	58,001	\$318	60,408	60,408	\$0
Casino Revenue Fund	256,755	229,669	(\$27,086)	310,732	270,172	(\$40,560)
Gubernatorial Elections Fund	700	700	\$0	700	700	\$0
<b>TOTAL STATE</b>	<b>\$32,562,321</b>	<b>\$31,517,694</b>	<b>(\$1,044,627)</b>	<b>\$34,447,440</b>	<b>\$32,737,822</b>	<b>(\$1,709,618)</b>

# FY 2014 Fund Balance

(In Millions)

	<u>Appropriations Act</u>	<u>Budget Revised</u>	<u>May Testimony</u>	<u>Change to Revised</u>
<b>Opening Surplus</b>	\$ 467	\$ 313	\$ 313	\$ -
Revenues				
Income	\$ 13,039	\$ 12,928	\$ 12,050	\$ (878)
Sales	8,680	8,680	8,597	(83)
Corporate	2,416	2,420	2,433	13
Other	8,678	8,535	8,438	(97)
<b>Total Revenues</b>	<b>\$ 32,813</b>	<b>\$ 32,563</b>	<b>\$ 31,518</b>	<b>\$ (1,045)</b>
Lapses		694	812	118
Pension		-	887 *	887
<b>Total Resources</b>	<b>\$ 33,280</b>	<b>\$ 33,570</b>	<b>\$ 33,530</b>	<b>\$ (40)</b>
Appropriations				
Original	\$ 32,977	\$ 32,977	\$ 32,977	\$ -
Supplemental		292	253	(39)
<b>Total Appropriations</b>	<b>\$ 32,977</b>	<b>\$ 33,269</b>	<b>\$ 33,230</b>	<b>\$ (39)</b>
<b>Fund Balance</b>	<b>\$ 303</b>	<b>\$ 301</b>	<b>\$ 300</b>	<b>\$ (1)</b>

\* Pension Payment Active Employees \$696 million; 3/7 would have been \$1.582 billion.

# Changes in FY 2014 Supplementals

(In Thousands)

	<u>Feb 2014</u> <u>Revised</u>	<u>May 2014</u> <u>Testimony</u>	<u>Difference</u> <u>May vs. Feb</u>
<b>Supplementals</b>	\$ 291,918	\$ 252,661	\$ (39,257)
<b>Significant Changes in Supplementals</b>			
NJ SMART			\$ 8,863 *
SEMI-MAC Administration Reimbursement			4,994 *
Nonpublic Handicapped & Auxiliary Services			4,978 *
Public Defender			2,684
Winter Operations			2,200 **
NJ Sports and Exposition Authority			(5,730)
Extended Polling Hours			(9,240)
Spill Compensation Fund/Hazardous Discharge Site Cleanup Fund			(15,800)
Children and Families Grants Offset by Transfer			(30,574)
Miscellaneous - None Greater than \$2 million (net)			(1,632)
<b>Net Change in Supplementals</b>			<u>\$ (39,257)</u>

\* Offset by revenue increases

\*\*Supplemented by transfer of \$30 million

# Changes in FY 2014 Lapses

(In Thousands)

	Feb 2014 Revised	May 2014 Testimony	Difference May vs. Feb
<b>Lapses</b>	\$ 694,008	\$ 1,698,729	\$ 1,004,721

## Significant Changes in Lapses

Pension at Normal Cost for Active Employees		\$ 886,707
BEIP		47,000
Teacher Post Retirement Medical and FICA		41,400
Higher Education Capital Improvement Fund - College Share		15,314
NJ Transit Subsidy		14,800
Community Provider Contract Adjustments		13,200
Brownfield Site Reimbursement Trend		10,000
Capital Project Balances		9,076
Health Surplus Balances		6,500
Dormitory Safety Trust Fund - College Share		5,649
Highlands Protection Fund		4,000
Employee Benefits Other Than Pensions Surplus Balances		3,456
Environmental Protection Surplus Balance		3,000
Senior Tax Freeze Trend		2,700
Part-time Tuition Aid Grant (TAG) Trend		2,700
Sandy Hook Marine Lab		2,200
CUGNET Central Ring Project		2,183
Children and Families Surplus Balances		2,073
Volunteer Emergency Service Organizations Loan Fund		2,000
Unknown District of Residence		2,000
Miscellaneous - None Greater than \$2 million (net)		14,328
School Construction Debt Service transferred to Winter Operations		(30,000)
<b>Eliminated or Reduced February 25 Lapse</b>		
General Assistance Caseload		(2,284)
Energy Costs Increase		(2,500)
Children and Families Grant Trend		(5,771)
Health Care Subsidy Fund Trend		(6,653)
Prior Year Updated		(7,012)
Realty Transfer Fee Trend		(9,500)
Medicaid, DDS, Aging Services Trend		(10,915)
TANF Trend		(10,930)

**Net Change in Lapses**

**\$ 1,004,721**



# FY 2015 Revised Budget

(In Millions)

	FY 2014	FY 2015		
	May Testimony	Budget	May Testimony	Difference
<b>Opening Surplus</b>	\$ 313	\$ 301	\$ 300	\$ (1)
Revenues				
Income	\$ 12,050	\$ 13,988	\$ 12,627	\$ (1,361)
Sales	8,597	9,212	9,138	(74)
Corporate	2,433	2,583	2,590	7
Other	8,438	8,664	8,383	(281)
<b>Total Revenues</b>	\$ 31,518	\$ 34,447	\$ 32,738	\$ (1,709)
Lapses	1,699			-
<b>Total Resources</b>	\$ 33,530	\$ 34,748	\$ 33,038	\$ (1,710)
Appropriations				
Original	\$ 32,977	\$ 34,435	\$ 34,307	\$ (128)
Supplemental	253			
Pension	-	-	(1,569)*	(1,569)
<b>Total Appropriations</b>	\$ 33,230	\$ 34,435	\$ 32,738	\$ (1,697)
<b>Fund Balance</b>	\$ 300	\$ 313	\$ 300	\$ (13)

\* Pension Payment Active Employees \$681 million; 4/7 would have been \$2.25 billion.

# FY 2015 Budget Changes

(In Thousands)

	<u>-----FY 2015-----</u>		
	<u>Feb Budget</u>	<u>May Testimony</u>	<u>Difference</u>
<b>FY 2015 Budget</b>	<b>\$ 34,435,311</b>	<b>\$ 32,737,822</b>	<b>\$ (1,697,489)</b>
<b>Significant Changes in Budget</b>			
Pension at Normal Cost for Active Employees			\$ (1,569,250)
BPU Balances to Offset Utility Costs at Corrections/NJTransit			(30,000)
Medicaid Trend			(25,000)
Salary Program Trend			(21,200)
Homestead Benefit Program - Participation Trend			(21,000)
Higher Education Capital Improvement Program - Debt Service Savings on New Issuance			(10,509)
Brownfield Site Reimbursement Trend			(10,000)
Teachers' Social Security Trend			(7,700)
Choice Aid -Adjustment for Actual Enrollment			(4,300)
State and Higher Education Social Security Tax Trend			(4,407)
Senior Tax Freeze Trend			(3,500)
County Offices on Aging - Transfer of Cost to Managed Care (net savings)			(2,398)
Noncontributory Insurance Reduced Trend			(1,953)
Child Protection and Permanency Grant Trend			(1,843)
Alternate Benefits Program Trend			(1,745)
State Assessment - Reduced Costs of PARCC			(1,000)
Capital Project Balances			9,076
Extended Polling Place Hours			9,240
<b>Net Change in FY 2015 Budget</b>			<b>\$ (1,697,489)</b>