



Monday Minute



February 16, 2010

Due to the President's Day Holiday the Monday Minute is being distributed today.

JUST HOW BIG IS THAT DEFICIT?

This is the first in the Monday Minute series on the New Jersey state budget. Last week, Governor Christie declared a [state of emergency](#) to deal with the state's "unprecedented financial crisis". Was that action necessary or simply posturing?

All states (except Vermont) are constitutionally required to balance their budgets. All but four states start their fiscal years on July 1. When we talk about FY 2010 in New Jersey, we are talking about the year that started on July 1, 2009 and will end on June 30, 2010.

To be in balance, the budget must have enough revenue by June 30 to fund the programs included in the budget. If revenues are lower than spending, the resulting deficit must be corrected by year end-either through infusions of revenue, using reserve funds or program cuts.

In January last year, the state was facing a \$2 billion operating deficit in its FY 2009 budget. By May it had ballooned to \$4.4 billion largely due to an unprecedented 12 percent decline in overall revenues. To close this deficit, federal Medicaid funds were used to offset state funds; budget surpluses were spent down; a tax amnesty program was enacted; and \$2.5 billion in program cuts were made.

As that budget year was ending, the administration and legislature were struggling to craft the FY 2010 budget which had an \$8 billion structural deficit. The *structural deficit* is not the same as the *operating deficit*. Unlike the operating deficit which deals with only the current fiscal year, the structural deficit takes into account all of the state's financial obligations-like pension payments and the statutory cost of funding a program-and requires the state to account for them. A budget that fails to make pension payments or overrides statutory formulas can be balanced if they rightly or wrongly are not included as full financial obligations in that year.

The FY 2010 structural deficit was resolved by a combination of taxes, federal money and spending cuts. The most significant source of revenue (\$1 billion) was from a one year income tax rate increase on taxpayers with \$400,000 or more in taxable income. Federal Medicaid and Fiscal Stabilization funding provided \$2.3 billion for certain state services. The base budget was cut by \$3.3 billion, including the decision to save \$1 billion by not making the pension payment, cutbacks

in property tax rebates to homeowners and renters, debt restructuring, unpaid furloughs and various other cuts to programs. In addition, nearly \$1.2 billion in savings were found by freezing program growth.

These measures allowed Governor Corzine on June 29, 2009 to sign a balanced budget into law that was expected to raise \$29.371 billion in revenues and spend \$28.99 billion, leaving an end of the year surplus of \$381 million.

Not surprisingly everything wasn't perfect. It is extremely difficult to project revenues and expenditures into the future-made more so by the uncertainties of the national weak economy.

In bad budget years, outgoing and incoming governors point fingers to pass the blame. The Corzine administration claims to have left a budget surplus of \$425 million on January 14; the Christie administration claims it was left a \$1.3 billion deficit.

To make matters more dramatic, Governor Christie signed an executive order declaring a state of emergency on February 11. It was required, he said, because the state budget would be out of balance on June 30 by \$2.2 billion. By his administration's estimates, the state will collect \$1.3 billion less revenue by the end of June and will need to spend an additional \$872 million to meet its obligations.

So who is right in this posturing?

Their first disagreement is over the size of the revenue shortfall. Corzine officials claim it is \$425 million but say those are actual amounts for the first six months of the fiscal year only. They don't project what the deficit might be through June 30th.

The Christie administration claims a \$1.3 billion deficit through June 30th. They seem to accept the Corzine estimate of \$425 million for the first six months but believe revenue will fall off between January and June of this year, making the end of year deficit substantially larger. Whether this will happen is anyone's guess.

Substantial unknowns exist. These revenue data don't include a full accounting of sales tax collections from the holiday shopping season. No one can accurately predict what will happen in April when taxpayers settle up their income tax accounts with the state. Some believe the economy is starting to improve which may have a positive impact on tax collections through June 30th. All of these could produce a more positive revenue outlook.

Another disagreement is over the state's spending needs between now and June 30th. In December, an additional \$596 million was needed; those needs have grown to \$870 million. Included are higher than anticipated costs for programs such as Medicaid, snow removal and food pantries. Many of these unanticipated costs are driven by the bad economy.

The third disagreement is about the impact of the Corzine administration's actions prior to the

change in administration. On December 22, Governor Corzine announced a [plan](#) to close a projected \$924 million budget gap in the FY 2010 budget which included \$839 million in spending cuts. Included in that \$839 million was a \$260 million reduction in aid to school districts and the requirement that school districts use their excess surplus balances. A [comparison](#) of Governor Corzine's December 22 spending cuts with those announced by Governor Christie on February 11 suggests some overlap-particularly with respect to what is referred to as school district surpluses.

Whether we have a surplus or a deficit, the tax and spending decisions being made right now are likely to have a long term effect on the quality of life in this state. Change may be needed but let's make it responsibly with the best information available.

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