The Fund for New Jersey

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POLICY CHOICES THAT DEFINE OUR FUTURE

STATE FISCAL POLICY

NEW JERSEY'S PROSPERITY DEPENDS ON IMMEDIATE FISCAL REFORMS

CrossroadsNJ

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New Jersey's Prosperity Depends on Immediate Fiscal Reforms

When states pay less into the retirement systems each year than what will be needed to meet future demands, a fiscal time bomb is created.

New Jersey's ability to achieve a balanced budget and to make the public investments necessary for broad prosperity is severely compromised by decades of poor fiscal decisions that have produced an unsustainable level of structural debt and an inability to pay for the state's most basic needs.

To restore the foundations for growth and make the most of New Jersey's potential, significant reforms are required in how the state sets priorities and handles its finances.

Politically expedient budget-balancing fixes made by both parties when they controlled New Jersey's government left the state with insufficient resources to meet growing needs in transportation, health care, environmental protection, and other vital areas. These problems were exacerbated by the steep decline in state revenue and the increase in public needs stemming from the 2008 recession and the sluggish recovery that followed.

Today the "blame game" must end. New Jersey's fiscal crisis is too big and too complex to be dismissed by platitudes or fixed with gimmicks. It will get much worse unless we make a serious commitment to restore integrity to the state budget. New Jersey's next governor and Legislature must prepare to take strong and deliberate action.

Current Conditions

The most immediate fiscal policy problem also is the most critical: the huge gap between what the state sets aside for pensions and health care for retired government employees and how much those obligations will cost. When states pay less into the retirement systems each year than what will be needed to meet future demands, a fiscal time bomb is created. Each year of inadequate funding compounds the difficulty.

If New Jersey does not ramp up its contributions, the pension funds will run dry shortly. The projected depletion dates—when a plan's assets cannot cover obligations to retirees—are uncomfortably near. Although estimates vary (based on differing assumptions about the state's future contributions, the yield of the investments, and the value of payments to retirees), one projection is that in five years, that is, 2022,[1] the pension plan for judges will run out of funds. According to Moody's Investors Service, the teachers' pension fund (TPAF) and the public employees' retirement system (PERS) will run out of funds in 2027 or 2028.[2] The state's police pension fund (SPRS) is projected to hit zero in 2033.[3]

In all, more than 600,000 current and former public servants—including police officers, teachers, and social workers—could see their pension payments greatly reduced or stopped. And, because of the enormous sums needed to fill the pension gap, the crisis has implications beyond what retirees face. A cash-strapped state government cannot make necessary investments in schools and bridges, water systems, child welfare, or any of the other goods and services upon which the public depends. This is why the pension issue must be of immediate concern to everyone in New Jersey.

If the retirement plans were depleted, the state would need to devote more than $8 billion each year to pensions alone, which would displace spending in all other budget categories. Further, such pay-as-you-go spending is so fiscally unsound that it would result in continued downgrades of New Jersey's once-stellar AAA credit rating and would increase the state's costs of any borrowing.

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There are those, including some experts who advised The Fund for New Jersey in the preparation of this report, who believe New Jersey is already past the point of no return—that years of missed or inadequate investment in employee pensions cannot be undone. New Jersey's unfunded retirement obligations over the next 30 years are so enormous—the smallest estimate exceeds $66 billion[4]—that replenishing might seem impossible.

New Jersey cannot hide from this threat. Unlike insolvent companies or people, states cannot file for bankruptcy protection. As long as states have the power to raise revenue, they must do so to meet their constitutional obligations. If the pension funds were depleted, it is likely that courts would be asked to decide whether retired workers' pensions are constitutional obligations that must be paid.

No one knows which groups and interests would feel the pain of a court ruling, but all of the likely scenarios are costly. If the courts ruled against the retirees, thousands of people could lose their economic security, and the cascading effects would be felt throughout the state. If courts ruled that the state is obliged to pay the pensions, the rush to find cash to cover these annual bills could destabilize the entire state budget.

The problem grows more serious each day, and there are no pain-free solutions. Every fiscal decision the state makes in the coming years must advance the goal of setting New Jersey in a new, better direction.

Pensions are not the only daunting financial challenge. Others include:

- Retiree health care costs that steadily increase, putting pressure on annual budgets
- An inefficient and inequitable tax system that deprives the state of resources needed to adequately support key public investments
- Significant unmet infrastructure needs in transportation, energy, water supply, and other vital areas that have the potential to damage or disrupt future economic growth
- Public education investments that fall short of New Jersey's constitutional obligation to remedy educational disparities, as well as under-investment in early childhood and higher education, which support economic growth
- A large and increasing number of residents, including children, who do not have enough resources to support their basic needs, including housing that is safe, healthy, and affordable

In sum, taken together, these challenges present a crisis requiring sober analysis, long-term solutions, and the determination by policymakers to act without delay.

Failure to confront these challenges will prevent public investment in the building blocks of a strong economy and thriving communities, as recommended in all the *Crossroads NJ* reports. Those recommendations include offering all students a quality education; rebuilding deteriorating public infrastructure for transportation, water supplies, energy, and waste disposal; helping all New Jerseyans afford a good home close to their work; and encouraging innovation and growth through support for business owners and workers.

These are among New Jersey's many pressing, unmet needs—now and in the future—that we cannot afford to address.

By many conventional measures, New Jersey is among the nation's most prosperous states. It has an ideal location, high average personal income and economic activity, a highly skilled work force, and many other physical, social, and economic assets. Given these strengths, the state should be on sound fiscal footing. The budget approved yearly ought to advance priorities for making public investments in New Jersey's growth.

But that is not the case. Various fiscal health measures clearly demonstrate that the state's finances are in significant distress. For example, New Jersey's credit rating has been reduced several times by each of the major rating agencies over the past seven years,[5] with the result that New Jersey has had higher borrowing costs for public improvements and prudent refinancing of existing debt. The state's fiscal status has deteriorated over time; indeed, one recent study of states' fiscal solvency ranked New Jersey 48th in the nation.[6]

Despite the constitutional requirement of a balanced budget, year after year New Jersey has achieved the appearance of balance by jeopardizing its economic future—deferring billions in pension obligations, skipping needed infrastructure repairs, and shortchanging economic drivers such as higher education.

It is simplistic to argue that a path forward for New Jersey can be built on spending reductions alone. In fact, most spending by New Jersey and other states is devoted to two areas in which the state's flexibility is limited: K-12 education and providing health coverage through Medicaid.

Reduction in Medicaid spending is limited because the federal government requires states to provide a basic set of benefits. Moreover, under the joint federal-state arrangement for funding Medicaid, each dollar that the state cuts would result in the loss of a dollar of federal assistance. Similarly, New Jersey Supreme Court decisions in the Abbott vs. Burke cases[7] limit the state's ability to significantly cut support for public schools. And, even if such reductions for K-12 education were possible, they would have adverse implications for the state's future economic development and overall quality of life.

In short, New Jersey has no choice but to confront each of its substantial financial problems head on, with a focus on what best serves the long-term public interest.

Fixing the State Employee Retirement Systems

As indicated above, there is strong agreement that New Jersey's fiscal problems are connected to insufficient state payments into retirement funds for public workers, including state, local, and judiciary workers, teachers, police, and firefighters. Based on such factors as the number of retirees,[8] their projected life spans, and the benefits approved by the state,[9] New Jersey's unfunded employee pension obligations as of July 2016 were at least $66.2 billion.[10] A much higher estimate is generated using the Government Accounting Standards Board (GASB) protocol. GASB estimates are based on more-conservative assumptions about market values of current assets, a continuation of low state contributions, and minimal investment returns. The resulting GASB calculation of the pension plan's unfunded liability is $135.7 billion. The actual size of the unfunded liability could be in between the two estimates.

Regardless of which approach is used to estimate the total unfunded pension obligation, the problem caused by underfunding the system grows every year. The state portion of the unfunded actuarial accrued liability increased nearly $20 billion from 2009 to 2016 (to $49 billion from $29.6 billion).[11] For reference, the state's contribution to the Teachers' Pension and Annuity Fund just in the fiscal year starting July 1, 2017, is statutorily required to be $2.99 billion—and $2.63 billion of the total is due to the accrued liability. Yet the state is expected to appropriate $1.49 billion at most. The system will remain broken until enough payments are directed to the unfunded portions of all of the plans. If the assets of any pension fund are depleted and the courts require that the pensions must be paid, the state would have to take the funds, more than $8 billion annually[12] to cover the judges, teachers, and other public workers, out of the budget and away from other priorities.

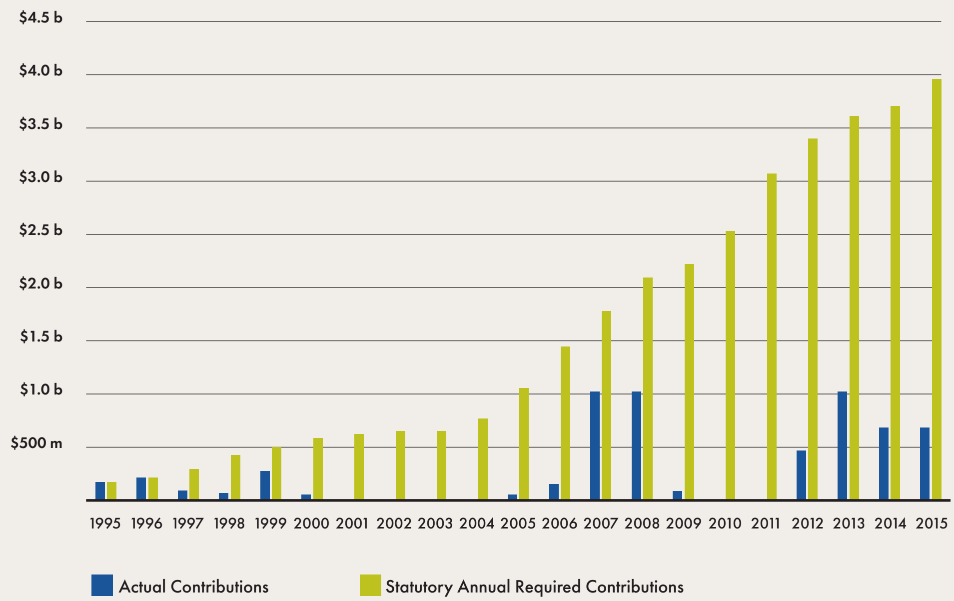
The system will remain broken until enough payments are directed to the unfunded portions of all of the plans.

Only nine states have a larger unfunded pension gap than New Jersey's.[13] The problem reflects the confluence of several factors, including:

- Decisions since 1994 to underfund annual required state payments into the pension plans
- Borrowing to finance underfunded pension plans, incurring debt costs that placed an additional burden on the budget
- Declines, induced by the 2008 recession, in earnings on the investments made using retirement funds
- An increase in 2001 in the level of pension benefits, which resulted in higher costs without identifying an ongoing means to fund them
- Increased volatility in investments' rates of return (a reflection of erratic markets), leading to changes in asset allocation to more, and riskier, equity holdings—especially since the late 1990s—and to alternative investments that incur higher fees
- Retirees' increasingly longer lives, resulting in pension contributions from current workers supporting fewer retirees than before

The bulk of the current problem can be traced to governors and Legislatures trying to balance budgets without imposing adequate tax increases or spending cuts. Instead, they simply skipped payments into the pension fund or made annual payments that were less than the annual required contribution (ARC) needed to avoid falling behind on retirement benefit funding.[14]

State's Pension Contributions are Far Behind Obligations



Source: N.J. Pension and Health Benefits Study Commission report[15]

The chart above, produced by a commission convened by Governor Christie in 2014, shows how the ARC increased exponentially when the previous year's payments were insufficient. Although public workers continued to contribute as required, the state's failure to contribute its share, coupled with the loss of potential investment earnings on those missed payments, is at the heart of the underfunded pension problem. The power of compound interest has worked against New Jersey for years, leaving the state under a mountain of debt. As with prepaying a mortgage, compound interest can help us: putting in more money now reduces the future principal. New Jersey will regain its fiscal footing only if the state begins, now, to make the full payments required. If we keep delaying, the obligation will continue to increase.

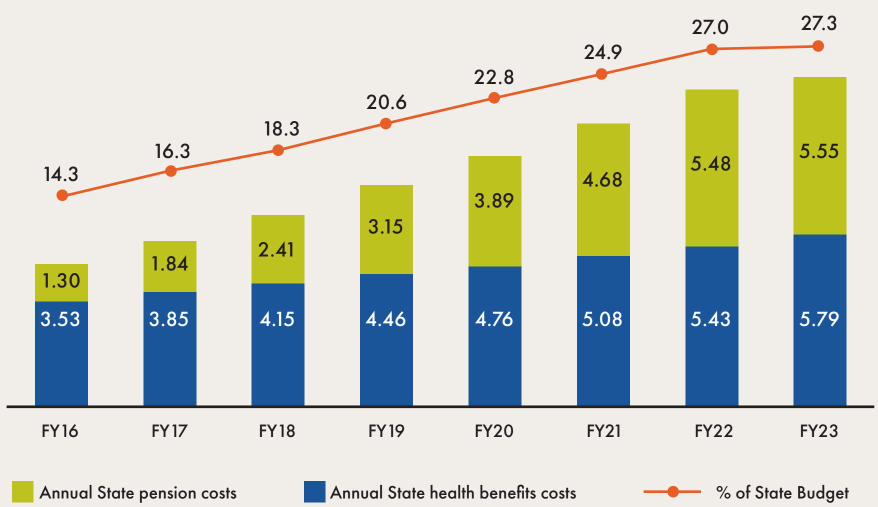
A law enacted in 2011 required employees to immediately begin to increase their contributions to the pension funds. In the case of PERS and TPAF, contributions increased to 7.5% of salary by the fiscal year starting July 1, 2017. When the law was enacted, the state vowed to make its annual payments, moving incrementally toward full ARC funding in that same fiscal year. As the New Jersey Pension and Health Benefits Study Commission chart shows, the state did not live up to the agreement. Rather, in 2015, the administration put the state on track to reach full funding of the ARC in the fiscal year that begins July 1, 2021, a delay that added to the accumulated unfunded liability.

As serious as the state's unfunded pension liability is, it is equaled by the challenges posed by other retirement benefits, primarily, health coverage for retired workers and their dependents. A legal obligation to provide these benefits is less likely (courts in other states have upheld cuts in retiree health coverage), but the unfunded obligations are large and, given longer life expectancies and steadily increasing health care costs, may grow at an even faster rate than the funding gaps in the state's pension system. Moreover, the state no longer maintains reserves to help offset the cost of future benefits, which are funded on a pay-as-you-go basis.

The commission chart below shows the state health benefits costs (blue) and the state pension costs (green) in billions of dollars, and as percentages of the state budget, projected through the fiscal year that begins July 1, 2022. The order of magnitude of these underfunded employee retirement obligations is alarming.

Unfunded Obligations Growing Sharply

$ billion



Source: N.J. Pension and Benefits Study Commission report[16]

Recent analysis by the J.P. Morgan financial services firm helps to put the situation in context.[17] Using the acronym IPOD, the analysis focuses on efforts required by individual states to meet the following fixed obligations: interest on bonds (I); payments to meet obligations for defined-benefit pension plans (P); other post-employee retirement benefits (O); and payments for state-defined contribution retirement plans (D).

The calculation for New Jersey shows that the state's obligations in these IPOD areas equal 12% of current total state revenues, and that the cost of meeting all future obligations accrued to date would be 38% of the current budget. The analysis examined three options available to the state to meet those obligations: increasing taxes, cutting state spending, and increasing the contributions made by state workers to their retirement benefits.

If the state chose to meet its obligations only through raising taxes, those taxes would need to increase by 26%. If the approach was only to reduce state spending in areas other than employee retirement, those cuts would amount to 24% of current spending. If, rather than tax increases or spending reductions, the obligations were met solely by raising the amount that workers contribute to their retirement benefits, those contributions would have to nearly quintuple. Underscoring the impracticality of each strategy is the need to keep each in place for 30 years, with all the money raised dedicated solely to resolving the retiree benefit underfunding. None of these options is politically feasible or in the best interests of promoting the state's overall growth and well-being.

Important choices loom for New Jersey policymakers and residents. Given the significance of the state's fiscal problems, some widespread pain will be in the offing as the state scales back valued services and seeks to raise additional revenues. There is no viable alternative. Opportunities to achieve economies through spending reductions are relatively modest, however, and additional future resources will have to be generated via higher taxes. Postponing action will only make the problem worse.

RECOMMENDATION

Adopt a balanced and multi-pronged approach that combines spending reductions and revenue increases to address the gap created by years of underfunding retirement benefits and to generate the additional resources necessary for public investments that build a thriving economy for everyone.

A balanced approach could include:

- Curtailing health care costs for retired public workers, which have increased dramatically. Reducing coverage to levels commensurate with leading private employers ("gold level" plans) would produce an estimated $1.4 billion in annual spending reductions for the state, savings that could be redirected to paying the unfunded pension liability.
- Reversing state tax reductions approved when the state gas tax was increased to replenish the Transportation Trust Fund. This action alone would restore approximately $1.3 billion a year lost from phasing out annual estate/inheritance tax revenues, reducing the income tax on retirement income, reducing the state sales tax rate, and other tax cuts introduced as part of the TTF refinancing agreement.[18]
- Adjusting the state's Gross Income Tax to increase yearly revenue by 10%. This action alone would produce approximately $1.4 billion in additional annual revenue.
- Increasing the rate of the state's general sales tax to 8%, equal to the combined state and local rate in Philadelphia, less than the combined rate in New York City, and equal to or less than the combined rate in most of the rest of New York State. It stood at 7% before the Transportation Trust Fund measures were approved in 2016. The increase also would provide an additional $1.4 billion in annual state revenue.

The combined result of these spending and revenue reforms would generate more than $5 billion in additional, recurring annual revenues that could be used to meet the state's employee retirement obligations as well as to make necessary public investments in other areas. These reforms are starting points for political discourse. They are unequivocally the scale of change necessary to avert the looming fiscal crisis.

Updating New Jersey's Revenue System

With or without the retiree benefit funding crisis, New Jersey's state revenue system is in dire need of modernization if it is to maintain or increase the level of public investment in services and initiatives essential to economic growth. Every year, New Jersey's anticipated expenses exceed its revenue, creating what is called a structural deficit. Lacking the resources to directly address the problem, policymakers instead have resorted to a patchwork of one-time gimmicks, unpaid or postponed bills, and raids on funds designated for specific purposes such as promoting energy efficiency and affordable homes.

A reformed revenue system—updated to better reflect New Jersey's demographic, economic, fiscal, and technological conditions—could produce more for public investment, reduce the structural imbalance, and mitigate some built-in inequity. Such reforms would not substitute for the significant shift in income and sales taxes required to address the pension crisis; they do offer additional opportunities to right the fiscal ship.

When the state sales tax was initiated in 1966, Americans were spending more on goods than on services. Today consuming patterns have reversed, and the sales tax is a less productive source of revenue for public investment because most services are not taxed.[19] Many did not even exist 50 years ago, underscoring how out of date the state's sales tax now is.

RECOMMENDATION

Lessen the inequity and increase the revenue yield of the state sales tax by expanding the number of services included.

Many states subject more services to their sales tax than New Jersey does, and they reap the resulting revenue. Some services that could be taxed, such as investment counseling or interior decorating or dry cleaning, are much more likely to be used by the wealthiest households.

Revenue from the state's corporate business tax is less robust than needed to support public investment.

Further, revenue from the state's corporate business tax is less robust than needed to support public investment because policies enable multi-state corporations to shift profits made in New Jersey. This is done by attributing profits to various subsidiaries located in other states, ones with lower or no business taxes. Often those subsidiaries are created solely to reduce a company's tax obligation.[20]

RECOMMENDATION

Join the 25 states that employ a system known as Combined Reporting, under which large, multi-state businesses must accurately keep track of income earned in each state and pay the appropriate state taxes rather than representing profits as having been earned by subsidiaries in states with little or no corporate taxation.

This reform could yield up to $290 million a year in additional state revenues. Many New Jersey firms that would be required to pay more in taxes under Combined Reporting maintain profitable operations in other states that have undertaken this reform, which suggests that it poses little or no hardship to them. Indeed, state and local taxes account for a relatively small share of businesses' costs.[21]

Another source of state revenue could come from marijuana. Across the nation, attitudes toward marijuana have changed dramatically in recent years. Amid growing evidence that its use poses no greater dangers to most people than alcohol does, policymakers are seeing the financial upsides of legalizing marijuana to reduce the number of incarcerated nonviolent offenders and reap revenue from the taxation that would accompany legalization. To date, eight states and Washington, D.C., have legalized recreational marijuana use. In many other states, including New Jersey, medicinal use is legal.

RECOMMENDATION

Legalize and regulate the recreational use of marijuana.

Once marijuana is legalized and subject to taxation, the state would receive an estimated $300 million in revenue each year, based on a 25% tax rate on purchases.[22] A portion of the proceeds should be targeted to remediation and investments in communities disproportionately harmed by marijuana prohibition.

Collectively, states lose billions of dollars a year because they are unable to collect sales taxes on purchases made through the Internet or mail-order catalogs. The growing importance of such sales undermines the revenue productivity of the state's general sales tax because, even though consumers are legally bound to pay it, sellers are not required to collect and remit sales taxes unless those sellers have a physical presence in the state. In addition to depriving the state of revenue, this puts local "brick and mortar" businesses, which must collect sales taxes, at a competitive disadvantage.

RECOMMENDATION

Working with other states, encourage Congress to improve the states' ability to raise revenues by taxing "remote" sales.

States cannot enforce their sales tax laws with remote sellers because of a 1992 U.S. Supreme Court decision that affirmed a federal law exempting businesses from collecting a state's sales tax if they do not have facilities, employees, or another kind of presence in the state. Today, many large, national companies have a 5% to 10% price advantage over locally based competitors because they need not collect sales tax. In 2013 the U.S. Senate passed, with bipartisan support, legislation that would enable states to require out-of-state sellers to collect and remit sale taxes. The House of Representatives has yet to hold a hearing on the measure.

Although New Jersey is among the nation's wealthiest states, with a median income at about $72,000 a year, the economic inequity among its residents is wide and growing. The 1% of New Jersey households that earn the most have seen their incomes increase by 190% since 1979, while the income of everyone else has risen by 20%. Only five states have a larger-percentage difference in average income between the wealthiest 5% of households and the least-wealthy 20%.[23]

More than a third of New Jersey households earn too little to provide for necessities.[24] People at this income level struggle from paycheck to paycheck. A family of four in New Jersey needs $64,176 a year to afford a two-bedroom apartment at fair market rate and to cover the cost of maintaining one car, licensed in-home child care, food, out-of-pocket medical expenses, and taxes—plus an additional 10% of the total of all these items in case of overruns. These New Jersey families face fiscal crises as overwhelming as the state's.

In relation to state fiscal policy, the burdens on the economically distressed result from both the erosion of public investment on their behalf and on the way New Jersey raises revenue at the state and local levels. Overall, New Jersey's state and local tax system is what economists call "regressive": The lower a household's income, the higher share of that income it pays in taxes. For example, New Jersey families making less than $22,000 a year pay 10.7% of their income in state and local taxes; those making between $43,000 and $71,000 pay 9.1%; and those making more than $758,000—the top 1%—pay 7.1%.[25]

The inequity is compounded by the fact that, as an alternative to raising broad-based taxes, New Jersey makes extensive use of fees, user charges, lottery receipts, and other non-tax sources that cost low- and middle-class households a greater share of their income than they cost the most affluent. To an extent, New Jersey mitigates these disparities through a state income tax that has higher rates for higher income; the exemption of food and clothing from the state sales tax; a state Earned Income Tax Credit to boost low-paid working families; and some property tax relief for families struggling to get by. More is needed.

As noted previously, the scale of the employee retirement obligations confronting the state will make it difficult (if not impossible) to avoid increasing some taxes on all state residents and businesses, including those of modest means. Through an increased sales tax, most New Jerseyans will likely pay more. At the same time, changes to income tax should be adopted to mitigate the additional burden felt by the state's least well-off residents.

RECOMMENDATION

Consider exempting New Jerseyans officially designated as below the federal poverty line from paying any state Gross Income Tax.

Most New Jersey income tax is paid by more-affluent residents. More could be done, though, to help those who struggle the most. And any tax reductions provided to people having trouble making ends meet are likely to be spent quickly and locally, providing a boost to the economy.

Getting Ready for the Next Recession

Economic downturns are detrimental to states' capacity to make key public investments. Downturns bring pressure on governments for additional spending to help people who are struggling—especially for services such as Medicaid, housing, and energy assistance—at the very time that falling personal income and reduced economic activity hurt revenues. The 2008 recession, which spanned December 2007 through June 2009, was the longest and deepest national downturn since the Great Depression and, New Jersey, like most states, saw record year-over-year declines in all major state tax revenue sources.[26]

States met the damaging effects of the 2008 recession through a four-pronged response:

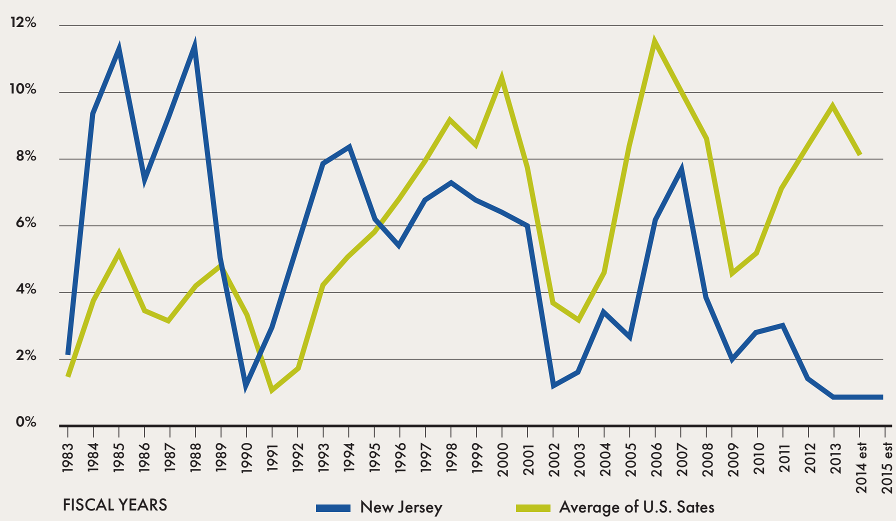
- Drawing down such reserves as "rainy-day funds" and year-end surpluses
- Cutting spending
- Raising taxes and other revenues
- Using stimulus assistance from the federal government's American Recovery and Reinvestment Act of 2009

Still, these actions served to reduce, not eliminate, the pains of the 2008 downturn. And New Jersey's financial problems, which both preceded and outlasted the downturn, only made things worse.

It took seven years for the state's Gross Income Tax to return to its previous peak, and six years for the general sales tax to do so. The corporate business tax has not, even today, returned to its pre-recession peak. And the remaining tax revenues also remain below pre-recession levels. Recession-induced spending, which has not yet declined to pre-recession levels, would have to be added to these data to get a complete estimate of the total size of the cyclical deficit. Yet, it is clear that the 2008 recession significantly harmed New Jersey finances.

The country has experienced an economic downturn each decade since World War II and many economists fear that another one will occur soon. If it did, the strategies that states employed to deal with the 2008 downturn might not be available. States have yet to replenish their reserves, especially their rainy-day funds, the money set aside for emergencies. As the following chart shows, New Jersey's end-of-the-year budget

New Jersey's Year-End Surpluses Far Below National Average



Source: Office of Legislative Services, "Analysis of New Jersey Budget," April 2016.[27]

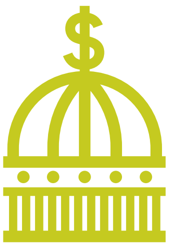
surpluses and rainy-day reserves are near a 25-year low and are significantly below the average for all states as a percentage of spending.

Similarly, many public finance experts feel that the federal government is unlikely to provide another stimulus in view of its own fiscal problems. Under current conditions, the policy response to another economic downturn would prove quite challenging for New Jersey. Another downturn could bring cuts in core services and could require significant tax increases.

RECOMMENDATION

Replenish the state rainy-day fund.

The rainy-day fund provided some cushion against the initial need for spending cuts and tax increases during the recession and should be restored. This effort should include a review of best practices in other states and a review of New Jersey's provisions regarding the level of reserves to be maintained and the conditions under which they can be drawn down. Building a rainy-day fund is good public policy and can prepare the state for cyclical downturns.



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Stemming the Proliferation of Tax Expenditures

Sometimes referred to as "back-door spending" because tax expenditures involve money given out through exemptions written into law rather than through budgeted appropriations, these exemptions increasingly are used to try to encourage businesses to move into the state or hire more people. In other cases, tax expenditures help struggling residents by, for example, exempting food and clothing from the sales tax or providing an Earned Income Tax Credit to working people who are paid too little to support their families. When taken together, New Jersey tax expenditures are substantial—in Fiscal Year 2017 alone they totaled $23.9 billion.[28]

Tax expenditures have been proliferating rapidly, particularly the tax breaks offered to businesses to persuade them to come to, or stay in, New Jersey, since a 2013 law expanded use of this type of subsidy. At the same time, the effectiveness of this strategy is being questioned. At present, New Jersey does not monitor tax expenditures closely to control their growth and to determine whether they deliver their designed economic benefits.[29]

RECOMMENDATION

Review tax expenditures concurrently with state budget outlays.

The publication of a tax expenditure report at the same time as the governor's annual budget message is already mandated by law, but the details of revenues foregone are not considered at the same time as direct budget outlays. If, following the example set by some other states, New Jersey legislators subjected tax expenditures to annual review and required votes on their renewal, it would increase the likelihood of open debate about the value of subsidies, along with the debate about other state spending.

Provide long-overdue information on all companies receiving $100,000 or more in subsidies, including how many people were hired and how much they are paid, whether jobs are full time or part time, and whether health coverage is included.

Such information is required by legislation passed in 2007 but has never been provided. Understanding whether tax subsidies actually work would help policymakers and the public determine whether specific tax breaks are a good investment.

Reforming New Jersey's fiscal policies will take far longer than a single legislative or gubernatorial term.

Conclusion

New Jersey is on the fiscal brink because of years of damaging choices. Now the problem is immense and the consequences of inaction are alarming. There is no one action that the state can take. Fixing our fiscal problems will be neither quick nor painless, but the work must begin immediately.

New Jersey's new political leaders—the governor and Legislature elected in November 2017—have a daunting charge. Unpleasant but necessary state policy actions lie ahead. Given the breadth of the state's fiscal problems, and the need to both scale back on valued services and raise additional revenues, the impact will be widespread and not short in duration. Reforming New Jersey's fiscal policies will take far longer than a single legislative or gubernatorial term of office.

It is clear, though, that to restore its ability to make public investments at the level needed for thriving communities and a strong economy, New Jersey needs, now, to stop digging its financial hole deeper, and, then, do everything it takes to climb out.

Endnotes

[1] Office of Legislative Services, IDA response to OLS Questions, analysis of the New Jersey Budget Fiscal Year 2017-2018, (GASB Statement No. 67 & 68), p 25.

[2] Moody's Investors Service, "New Jersey: Finances Unlikely to Stabilize Without Tax and Spending Changes," issuer in-depth, May 25, 2017.

[3] Office of Legislative Services, IDA response, p 25.

[4] Office of Legislative Services, IDA response, p 26.

[5] Salvador Rizzo., "N.J. credit rating cut for 11th time under Christie," NorthJersey.com, March 27, 2017.

[6] Eileen Norcross and Olivia Gonzales, "Ranking the States by Fiscal Condition," Mercatus Research, June 2016.

[7] John Mooney, "Explainer: Abbott v Burke, Changing the Rules for Funding Schools," NJ Spotlight, July 23, 2013.

[8] Lance Roberts, "The Unavoidable Pension Crisis: A Retirement Nightmare." News Max, April 12, 2017.

[9] In accordance with recent requirements by the Government Accounting Standards Board — an independent organization that sets accounting and financial reporting standards for state and local governments — states must "quantify and disclose" all retirement benefits owed to current and future retirees.

[10] Office of Legislative Services, IDA response to OLS Questions, analysis of the New Jersey Budget Fiscal Year 2017-2018, (Statutory Funding Status), p 26.

[11] State of New Jersey, Debt Report Fiscal Year 2016, March 10, 2017, p 68.

[12] Based on actual spending in FY2016 ($4.15 billion TPAF + $3.58 billion PERS + $211 million JRS) and estimated to increase modestly over the 10-year interval.

[13] Fitch Ratings analysis of Bureau of Economic Analysis data (personal income per capita); National Association of State Retirement Administrators analysis of most recent state data from 2014 or 2013 (funded pension obligations) via Aaron Kuriloff and Timothy W. Martin, "Connecticut, America's Richest State, Has a Huge Pension Problem," Wall Street Journal, October 5, 2015.

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[15] New Jersey Pension and Health Benefits Study Commission, "Truth & Consequence," September 25, 2014, p 17.

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