

April 1, 2015

State Budget Developments

Dear Mayor:

On Monday, March 30, before the Assembly Budget Committee, and on Tuesday, March 31, before the Senate Budget and Appropriations Committee, the Office of Legislative Services' Budget and Finance Officer, Dr. David Rosen, and the State Treasurer, Andrew Sidamon-Eristoff, presented their perspectives on the state of the State's finances and the Governor's FY 2016 Budget proposal.

Between now and June 30, the Legislature will conduct a thorough Department-by-Department review of the budget, leading to final action on the Annual Appropriations Act, prior to July 1.

The Treasurer stated that, "The Governor's budget continues the recent practice of reducing CMPTRA aid to accommodate inflationary increases in Energy Tax Receipts aid, functionally and appropriately combining CMPTRA and ETR into a single aid program." From the Treasurer's perspective, this practice seems appropriate, given the State's continuing budgetary constraints, since the State will pay a price if it fails to increase ETR distributions by the rate of inflation, but can short-change CMPTRA, with impunity.

As was made clear to both Committees, however, even this reduced level of funding could be threatened by an adverse Court order, regarding State contributions to the pension systems and the suspension of COLA payments. In her February decision on that matter, Superior Court Judge Mary Jacobson found, "... that the FY 2015 Appropriations Act does not satisfy plaintiffs' (the public employee unions') contractual right to State contributions into the public pension systems and directs the State executive defendants (the Governor, et al.) to work with the Legislature to satisfy this constitutional obligation."

The State has requested a stay and has petitioned to State Supreme Court for certification. An adverse outcome would devastate the Governor's proposed budget, which would provide \$1.3 billion in pension contributions. As Dr. Rosen noted, existing law calls for an appropriation of \$3.095 billion in FY 2016.

Regarding the proposed capital plan for the Transportation Trust Fund, Dr. Rosen stated, "Between available balances, loan repayments and further borrowing it appears that the fund will be able to cobble together enough cash to pay for its FY 2016 spending plan. Unaddressed for now is how we will pay the post-FY 2016 expenses for projects that have been authorized through FY 2016 and what the capital program will be beyond FY 2016. The bottom line is that we can squeak through FY 2016, but something is needed beyond that point."

You can access the testimony of both experts and the Office of Legislative Services' ongoing analysis of Departmental Budgets on their website at <http://www.njleg.state.nj.us/legislativepub/govbudget2015-2016.asp>.

We will keep you posted on all developments that will affect municipal finances.

Very truly yours,

William G. Dressel, Jr.
Executive Director