

# ANNUAL REPORT 2012

*A Citizen's Guide To the State of The States*

## NEW JERSEY



THE STATE OF THE STATES

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**The State of the States**  
**THE ANNUAL REPORT OF NEW JERSEY**  
**2012**

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FELS INSTITUTE OF GOVERNMENT AT UNIVERSITY OF PENNSYLVANIA  
INSTITUTE OF POLITICS AT HARVARD UNIVERSITY  
AMERICAN EDUCATION FOUNDATION

**STAFF**

**PUBLISHER**

Meredith Bagby

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Brent Levin

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Ryan Leibowitz

Himalaya Mehta

Melissa Roberts

Natalie Weinberg

**CREATIVE/PRODUCTION**

Susan Voitovich

**PARTNERSHIPS**

Wharton's Social Impact Consulting Group

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Professor Ann Thornburg, Adjunct Lecturer in Public Policy,  
The Kennedy School of Government at Harvard University

Cathy McLaughlin, Executive Director, Institute of Politics at Harvard University

Donald Boyd, Executive Director of the Task Force on the State Budget Crisis,  
the Rockefeller Institute of Government at the University of Albany

David Crane, Lecturer, Stanford Institute for Economic Policy Research and President,  
Govern for California

The team at California Common Sense, [www.cacs.org](http://www.cacs.org)

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2012

# Dear Citizens of the State of New Jersey,

We are pleased to present to you the Annual Report of New Jersey 2012, a joint venture of the University of Pennsylvania's Fels Institute of Government, Harvard University's Institute of Politics at the Kennedy School, and the American Education Foundation, for the fiscal year ending June 30, 2011. The data in this report were drawn from New Jersey's Comprehensive Annual Financial Reports for New Jersey ("CAFRs") from FY 2002 to FY 2011, FY 2012 and FY 2013 New Jersey budgets, the 2010 United States Census, and other official data sets and reports that we have found to be reliable sources on state finance.

This report was designed to synthesize the complicated financial information available from many sources into one easy-to-read document that provides context and creates a comprehensive analysis of trends in state government finance. We believe that citizens deserve to know "the state of the state" and we hope that our report will help explain the basics of state finance and the challenges that lie ahead. We did our best to ensure that this report reflects a nonpartisan analysis of the state's fiscal health. With all the politics and noise surrounding budgeting and state financial planning, we believe that this neutral perspective is vital when assessing budgets.

We begin the report by looking at basic demographic and financial information about the state to provide a snapshot of New Jersey's financial position. The report then moves on to discuss key budget topics that we believe are crucial to understanding financial trends such as pensions, education, and health care.

We hope that this document is both an informative and useful guide for understanding the many challenges that New Jersey faces. To find out more about the States Project and how you can get involved, please visit our website at <http://www.thestatesproject.org>.

Sincerely,

Meredith Bagby  
PUBLISHER

Joseph C. Semsar

Brent Levin

EDITORS-IN-CHIEF

## OVERVIEW

Across the country, states are grappling with difficult fiscal issues. The financial crisis of 2008 and subsequent years of stagnant economic growth have brought state finances to a near critical condition. As tax revenue fell, the country saw mass layoffs of state workers, from teachers to police officers and judiciary employees. Nevertheless, the demand for public services continued to increase. A stagnant economy sent more Americans toward public programs like unemployment insurance and Medicaid. Health care costs swelled and educational capacity was stretched to its limit. Infrastructure, including government buildings, schools, roads, and bridges, continued to deteriorate with little funding left for repair. In 2009, the federal government stepped in with much needed stimulus for the states, but those funds will expire in 2012, leaving states with even bigger deficits to fill, despite an improving economy.

The state of New Jersey suffers from many of the same issues that plague other states: high unemployment, stretched educational resources, expensive health care, and underfunded pensions. New Jersey's unemployment rate is higher than the national average, with manufacturing, construction, and information sectors taking the hardest hit in job losses. Meanwhile, New Jersey struggles with historical deficits, which have quadrupled state debt since 2001 to over \$60 billion in liabilities in 2012.<sup>1</sup> Additionally, New Jersey's pension funds are ranked as some of the worst in the country, with liabilities estimated at \$42 billion.<sup>2</sup> The split government in New Jersey — with Republican Chris Christie leading the executive branch and Democrats controlling both Houses of the Legislature — adds to the already challenging task of stabilizing the state's economy and passing legislation that is fiscally sound and sustainable.

“At the end of fiscal year 2011, the state had a deficit of \$5.2 billion, down a full 30% from the previous year.”

## BUDGET DEFICIT

At the end of fiscal year 2011, the state had a deficit of \$5.2 billion, down a full 30% from the previous year. At the beginning of fiscal year 2011, however, Governor Christie faced a budget deficit of \$10.7 billion — or one-third of the entire budget. While tax increases are generally a politically unpopular strategy, they are even more difficult to implement in New Jersey, since the state already has one of the highest tax burdens in the country. Consequently, Christie attempted to close the gap by cutting funding for education (\$921 million) and community development and environmental management (\$472 million), as well as deferring \$3 billion in benefits owed by the general fund to the state pensions.<sup>3</sup>

1 Dopp, Terrence, and Martin Z. Braun. “New Jersey’s Bond Rating Cut by Standard & Poor’s.” [<http://www.bloomberg.com/news/2011-02-09/new-jersey-bond-rating-cut-by-s-p-on-growing-pension-health-obligations.html>] Feb. 9, 2011.

2 Ravitch, Richard and Volcker, Paul. Report of the States Budget Crisis Task Force. [<http://www.statebudgetcrisis.org>].

3 New Jersey Comprehensive Annual Financial Report (“CAFR”) 2011.

## { executive summary }

Christie received mixed reviews for his budget slashing efforts — from those on the left, who worry that he is gutting important social programs and from those on the right, who say that the Governor did not cut spending, but rather pushed it off to subsequent years through deferrals and accounting tricks. Either way, most economists predict that New Jersey will now face another, larger budget deficit in FY 2013, as tax revenues remain stagnant and the state is required to contribute big funds to state pension programs.<sup>4</sup>

“Christie received mixed reviews for his budget slashing efforts — from those on the left, who worry that he is gutting important social programs; and from those on the right, who say that the Governor did not cut spending, but rather pushed it off to subsequent years through deferrals and accounting tricks.”

### REVENUES AND EXPENDITURES

New Jersey’s revenues for 2011 were \$55.9 billion. The majority of revenues collected by the state of New Jersey can be categorized into three groups: taxes, operating grants, and charges for sales and services (or user fees). New Jersey collected \$26 billion in tax revenue, which comprised the largest portion of state revenue at just under 50% of the total. User fees amounted to 18%, or \$10.2 billion, and operating and capital grants stood at 32%, or \$17.9 billion.<sup>5</sup>

The state of New Jersey spent a total of \$61.2 billion in the 2011 fiscal year, down 2.9% from 2010.<sup>6</sup> The largest areas of spending were education at 23.0% of total expenditures, and government direction, management, and control at 19.1%. Other major areas of spending included health care at 18.6% and the Unemployment Compensation Fund at 11.8% of expenditures.

### NET WORTH, ASSETS, AND LIABILITIES

According to the State Comptroller, New Jersey has a negative net worth of \$34.2 billion.<sup>7</sup> New Jersey’s net worth is calculated by taking the difference between the total assets of the state (measured at \$36.9 billion) and the total liabilities (\$71.1 billion). Theoretically, that means that if New Jersey sold off all of its assets to pay all of its debts, the state would still owe \$34 billion, or nearly \$3,900 for every man, woman, and child in the state.<sup>8</sup> Because of New Jersey’s high debt,

4 “N.J. faces \$10.5 Budget Deficit Heading into New Year.” The Star Ledger. [[http://www.nj.com/news/index.ssf/2010/07/nj\\_continues\\_to\\_face\\_105b\\_budg.html](http://www.nj.com/news/index.ssf/2010/07/nj_continues_to_face_105b_budg.html)] and FY 2012 Budget Summary, State of New Jersey. [[www.state.nj.us/treasury/omb/publications/13bib/BIB.pdf](http://www.state.nj.us/treasury/omb/publications/13bib/BIB.pdf)].

5 New Jersey CAFR 2011.

6 Ibid.

7 New Jersey CAFR Statement of Net Assets, 2011.

8 Ibid.

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slow recovery from the recession, and lack of a plan to shore up deficits in coming years, New Jersey received three credit rating downgrades last year, from Moody's, Standard & Poor's, and Fitch. While some spending cuts have been implemented, the state still has a long way to go in order to ensure long-term solvency. Given the current projections of New Jersey's 2012-2013 budget deficits, the prognosis for New Jersey remains negative.<sup>9</sup>

“Because of New Jersey’s high debt, slow recovery from the recession, and lack of a plan to shore up deficits in coming years, New Jersey received three credit rating downgrades last year, from Moody’s, Standard & Poor’s, and Fitch.”

### DEMOGRAPHICS

New Jersey's total population is 8,791,894, or 2.8% of the American population, as reported by the 2010 Census.<sup>10</sup> The state has a high population density, but the total population only increased 4.5% between 2000 and 2010 — half the rate of the national average. The slow population growth is likely due to the high cost of living and high income taxes in New Jersey. Immigrants make up 20% of the state's population and account for 28% of its workforce.<sup>11</sup> In 2010, the median income for New Jersey households was \$69,400, about \$20,000 more than the national average.<sup>12</sup> A little over 9% of New Jersey residents live below the poverty line.<sup>13</sup> About half of New Jersey residents have acquired some form of college degree, and about a third have at least a bachelor's degree. Weak growth in the manufacturing and information industries, which took a major hit during the Great Recession, contributed to a higher-than-national average unemployment rate of 9.1% in late 2011.

### HEALTH CARE

The Health and Human Services budget was \$11.4 billion in fiscal year 2011, representing 18.6% of the state budget, second only to education.<sup>14</sup> As in many states, the Great Recession and the retirement of Baby Boomers have driven up the costs associated with funding public health programs. While health care costs in New Jersey have grown more slowly than in other states,

9 Oliff, Phil and Mai, Chris and Palacio, Vincent. “States Continue to Feel Recession’s Impact. Center on Budget and Policy Priorities. [<http://www.cbpp.org/cms/index.cfm?fa=view&id=711>]; “N.J. revenue shortfall increases at least another \$50M in May.” New Jersey Star Ledger. June 5th, 2012. [[http://www.nj.com/news/index.ssf/2012/06/nj\\_revenue\\_shortfall\\_increases.html](http://www.nj.com/news/index.ssf/2012/06/nj_revenue_shortfall_increases.html)].

10 United States of America. Census Bureau. 2010 Census Interactive Population Search. Web. 26 Jan. 2012. [<http://2010.census.gov/2010census/popmap/ipmtext.php?fl=34>].

11 Springer, Jason. “Immigrants make up 28% of NJ Workforce.” BlueJersey. [<http://www.bluejersey.com/diary/10056/>].

12 U.S. Census Bureau. American FactFinder. 24 Jan. 2012. Web. [[http://factfinder2.census.gov/faces/tableservices/jsf/pages/productview.xhtml?pid=ACS\\_10\\_1YR\\_S1901&prodType=table](http://factfinder2.census.gov/faces/tableservices/jsf/pages/productview.xhtml?pid=ACS_10_1YR_S1901&prodType=table)].

13 U.S. Census Bureau. New Jersey Quick Facts. Web. 26 Jan. 2012. [<http://quickfacts.census.gov/qfd/states/34000.html>].

14 New Jersey CAFR 2011; “Fiscal 2011 Budget in Brief.” New Jersey Office of Management and Budget. [<http://www.state.nj.us/treasury/omb/publications/11bib/BIB.pdf>]. Page 91.

## { executive summary }

total per capita health expenditures in the state are still above the national average (\$7,583 vs. \$6,815). Potential reforms by Governor Christie include revising Medicaid eligibility criteria and eliminating negative cost incentives in the system by moving away from a “fee-for-service” model to a “managed care” model.

### EDUCATION

New Jersey operates two systems of public education: kindergarten through twelfth grade (K-12), and a system of public universities and community colleges which provide higher education at a reduced cost to the state’s citizens.

The state spends more on “educational, cultural, and intellectual development” (which includes K-12 funding) than any other component of its budget, comprising 23% of total spending, down 6.1% from the previous year. In fiscal year 2011, the state budget allocated \$10.7 billion to K-12 education, and \$10.3 billion in fiscal year 2012, a 3.9% decrease.<sup>15</sup> New Jersey relies on its local tax revenue base to fund K-12 education, with local tax revenue accounting for 58.9% of all K-12 spending. New Jersey is the third-highest spending state per pupil behind Washington D.C. and New York.

Governor Christie has proposed various types of reform, including structuring teacher compensation by merit instead of seniority and increasing the number of charter schools in the state. New Jersey is ranked second in the nation on educational achievement, behind Massachusetts, thanks to the state’s strong national standardized test performance, achievement gains, high school graduation rate, and the availability of Advanced Placement classes.<sup>16</sup> However, the state’s students perform poorly on the SAT, which is used in college admissions and serves as an indicator of academic success in college.

The state spent \$5.7 billion on higher education in 2011, more than on public safety and transportation combined.<sup>17</sup> New Jersey has three public research universities, nine state colleges and universities, and 19 community colleges. Still, a lack of state investment to meet capital needs, outdated regulations, and increased administrative costs have led to high school graduates deciding to leave the state for college, a problem Governor Christie has called the “brain drain.” To make matters worse, 66% of New Jersey higher education students graduate with debt, the eleventh-highest percentage in the country.

### PENSIONS

New Jersey’s pension system covers over 720,000 current workers and retirees and has seven distinct retirement systems, a separate system of health benefits, and a number of other programs designed

15 “The Governor’s FY 2012 Budget.” New Jersey Office of Management and Budget. [<http://www.state.nj.us/treasury/omb/publications/12bib/BIB.pdf>]. Page 65.

16 “K-12 Achievement.” EdWeek. [<http://www.edweek.org/media/ew/qc/2011/16sos.h30.k12.pdf>].

17 New Jersey CAFR 2011.

## { executive summary }

to provide for public employees during their employment and retirement. New Jersey, unlike most other states, manages all its state as well as local pension obligations.<sup>18</sup>

As with nearly every other state in the union, New Jersey is struggling with controlling the costs of pension benefits for state employees. To help overcome the looming \$53.9 billion pension deficit, Governor Christie reached a deal with the legislature in 2011 to increase employee pension and health care contributions, reduce annual cost-of-living increases for current and future retirees, raise the retirement age from 60 to 65 for new employees, and cut final compensation for new employees. While the legislation reduced costs in the short term, the current unfunded liability estimate for New Jersey is still a whopping \$42 billion.<sup>19</sup> In addition, the state is continuing to withhold its full general revenue contributions to the pension fund; in 2011, Christie skipped a \$3 billion contribution to the pension fund in order to help balance the general budget.

“New Jersey is continuing to withhold its full general revenue contributions to the pension fund; in 2011, Christie skipped a \$3 billion contribution to the pension fund in order to help balance the general budget.”

### THE FUTURE

The state’s fiscal year 2013 budget provides an indication of the course New Jersey is charting. Governor Christie signed the \$31.7 billion budget into law on June 29, 2012. The budget prioritizes job growth and includes no tax increases. In contrast to Governor Christie’s past policies, his new budget is now increasing state aid to schools and doubling up on state pension contributions based on growing tax revenue projections. To make New Jersey the “economic engine of the region” again, Governor Christie says, the new budget is a dose of “fiscal sanity that restores New Jersey’s economic future.”<sup>20</sup> The governor criticized the Legislature for failing to enact the 10% cut in income tax that he proposed in his budget.

Worryingly, predictions show that Governor Christie’s budget is already producing a budget deficit in 2012, and analysts are skeptical that it will help put New Jersey on the path to fiscal stability. With stagnant income tax reported and almost 6% of the budget funded by non-recurring revenue, investors remain wary of the state budget’s health.<sup>21</sup> The state’s budget situation is particularly difficult because the Federal Reserve predicts two more years of slow national economic growth.

18 Ravitch, Richard and Volcker, Paul. Report of the States Budget Crisis Task Force. [<http://www.statebudgetcrisis.org>].

19 Ibid.

20 “Gov. Chris Christie budget speech full text.” [[http://www.nj.com/politics/index.ssf/2012/02/gov\\_christie\\_budget\\_speech\\_liv.html](http://www.nj.com/politics/index.ssf/2012/02/gov_christie_budget_speech_liv.html)]. Feb 21, 2012.

21 Kaske, Michelle and Dopp, Terrence. “Christie Budget Nears Approval As Financing Worsens: Muni Credit.” Bloomberg. [<http://www.bloomberg.com/news/2012-06-25/christie-budget-nears-approval-as-financing-worsens-muni-credit.html>].

## { executive summary }

Worse yet, the federal government is providing significantly less fiscal aid compared to its assistance immediately after the economic crisis. All of these factors spell trouble for the already struggling New Jersey economy and budget. ★

# { income statement }

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The income statement, or profit and loss statement, shows a snapshot of all revenues for a given year, set against all expenditures. New Jersey's 2011 fiscal year runs from July 1, 2010 through June 30, 2011. In FY 2011, New Jersey's income statement showed a net deficit of \$5.2 billion, down a full 30% from the previous year, and nearly 50% less than what was originally projected. This reduction came from a series of cuts initiated by Governor Chris Christie, which included:

- (1) a \$921 million cut in education (or 6.1%),
- (2) a \$472 million dollar cut to community development and environmental management (or 21%),
- (3) a \$1 billion dollar reduction in unemployment benefits (in part due to an improving economy, in part due to changing eligibility requirements), and
- (4) a deferral of \$3 billion in pension benefits owed by the general fund to the state pension funds.<sup>22</sup>

Christie received mixed reviews for his budget slashing efforts — from the left, who worry that he is gutting important social programs — and from the right, who say that the Governor did not cut spending, but rather pushed it off to subsequent years through deferrals and accounting tricks. Either way, New Jersey, most economists predict, will now face another, larger budget deficit in FY 2013, as tax revenues remain stagnant and as the state is statutorily faced with contributing big funds to state pension programs.<sup>23</sup>

Historically, New Jersey has financed its deficits by raising funds through bond issuances.<sup>24</sup> Over the last 10 years New Jersey's debt has increased from \$16 billion in 2001 to almost \$65 billion in 2011.<sup>25</sup> As debt rises, so do interest payments — making the debt ever more expensive for the state. In 2011, New Jersey paid \$1.2 billion in interest on its debt,<sup>26</sup> up from \$1 billion in 2008.

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22 "New Jersey Comprehensive Annual Financial Report." State Of New Jersey, Department of Treasury. New Jersey State Legislature, 2010. Web. 3 Mar. 2012. "New Jersey CAFR" [<http://www.state.nj.us/treasury/omb/publications/11cafr/pdf/finsect.pdf>].

23 "N.J. faces \$10.5 Budget Deficit Heading into New Year." The Star Ledger. [[http://www.nj.com/news/index.ssf/2010/07/nj\\_continues\\_to\\_face\\_105b\\_budg.html](http://www.nj.com/news/index.ssf/2010/07/nj_continues_to_face_105b_budg.html)] and FY 2012 Budget Summary, State of New Jersey. [[www.state.nj.us/treasury/omb/publications/13bib/BIB.pdf](http://www.state.nj.us/treasury/omb/publications/13bib/BIB.pdf)].

24 Dopp, Terrence, and Martin Z. Braun. "New Jersey's Bond Rating Cut by Standard & Poor's." Bloomberg News. Bloomberg L.P., 9 Feb. 2011. Web. 16 Mar. 2012. [<http://www.bloomberg.com/news/2011-02-09/new-jersey-bond-rating-cut-by-s-p-on-growing-pension-health-obligations.html>].

25 "State of New Jersey Debt Profile." [[http://nj.gov/transparency/debt/pdf/2011\\_state.pdf](http://nj.gov/transparency/debt/pdf/2011_state.pdf)]. December 2, 2011.

26 New Jersey CAFR 2011.

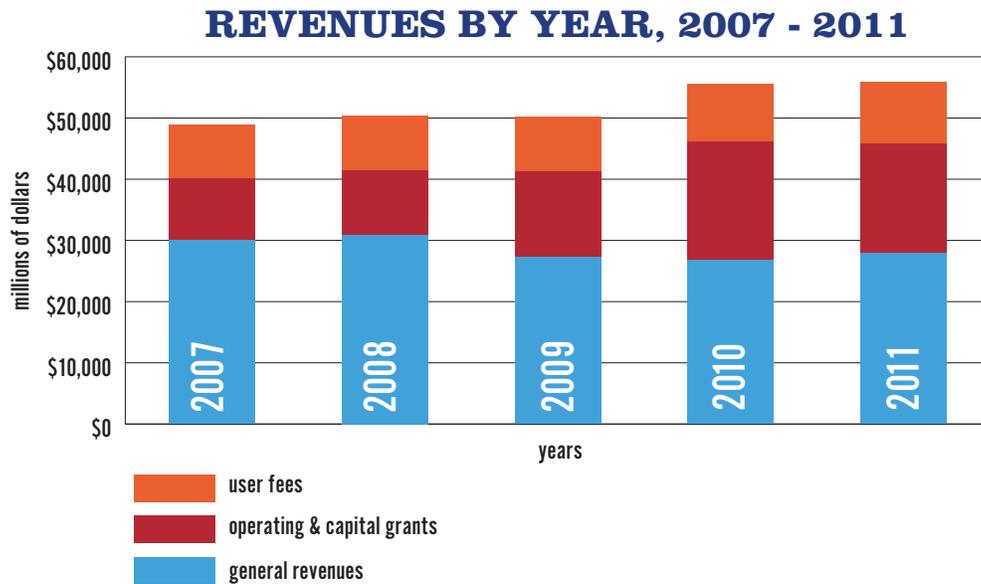
# { income statement }

FISCAL YEAR ENDING 6/30

	<b>2009</b> (IN MILLIONS)	<b>2010</b> (IN MILLIONS)	<b>2011</b> (IN MILLIONS)
<b>REVENUES</b>			
<b>General Revenues</b>			
Income Tax	\$10,476	\$10,322	\$10,617
Sales and Use Tax	\$8,264	\$7,898	\$8,144
Business Tax	\$2,665	\$2,144	\$2,344
Other Taxes	\$5,505	\$5,379	\$5,463
Investment Earnings	\$25	\$63	\$48
Miscellaneous	\$890	\$818	\$762
Transfers	(\$547)	\$114	\$499
User Fees	\$8,946	\$9,442	\$10,193
<b>Total Revenues (excluding grants)</b>	<b>\$36,225</b>	<b>\$36,183</b>	<b>\$38,072</b>
Operating & Capital Grants & Contributions	\$13,931	\$19,406	\$17,874
<b>TOTAL REVENUE</b>	<b>\$50,157</b>	<b>\$55,590</b>	<b>\$55,946</b>
<b>EXPENDITURES</b>			
<b>Governmental Activities</b>			
Public Safety & Criminal Justice	\$3,087	\$3,133	\$3,169
Physical & Mental Health	\$10,589	\$10,989	\$11,392
Educational, Cultural & Intellectual Development	\$14,681	\$15,013	\$14,091
Community Development & Environmental Management	\$2,271	\$2,166	\$1,694
Economic Planning, Development & Security	\$6,126	\$6,663	\$6,729
Transportation Programs	\$1,859	\$2,017	\$1,927
Government Direction, Management & Control	\$11,846	\$11,627	\$11,671
Special Government Services	\$364	\$337	\$348
Interest Expense	\$1,092	\$1,125	\$1,227
<b>Business Type Activities</b>			
State Lottery Fund	\$1,645	\$1,705	\$1,724
Unemployment Compensation Fund	\$5,283	\$8,214	\$7,206
<b>TOTAL EXPENDITURES</b>	<b>\$58,848</b>	<b>\$62,993</b>	<b>\$61,183</b>
<b>NET GAIN (DEFICIT)</b>	<b>(\$8,691)</b>	<b>(\$7,403)</b>	<b>(\$5,236)</b>

## OVERVIEW

New Jersey collected \$55.9 billion in total revenues, fees, fares, grants, and contributions in the 2011 fiscal year. The majority of revenues collected by the state can be categorized into three groups: taxes, user fees collected from state-run programs, and grants from the federal government.



**Figure 1**

SOURCE: NEW JERSEY CAFRS 2007-2011

Revenue trends in New Jersey over the last five years (2007-2011) resemble those in other states. Specifically, 2009 marked a key moment in the way the state paid for services for its citizens. General Revenues dropped off dramatically in 2009, falling more than 9% in a year. This drop off was driven by a decrease in state income tax revenues, which fell 17% or \$2.1 billion from 2008 to 2009, the result of the national economic crisis. To maintain adequate funding for state services, the federal government stepped in. Federal grants to the state rose by nearly \$3.5 billion (33.7%) from 2008 to 2009 and another \$5.5 billion (39.3%) from 2009 to 2010.

In 2011, New Jersey collected nearly \$26.5 billion in tax revenue, which comprised the largest portion of total revenues at 47.5%. User fees amounted to 18%, or \$10.2 billion, and operating and capital grants were 32%, or \$17.9 billion of total revenue.<sup>27</sup> In 2012 and 2013, operating and capital grants will decrease as the federal stimulus comes to an end. Indeed, in 2011, operating grants already decreased 7.9% from the previous year.

## TAXES

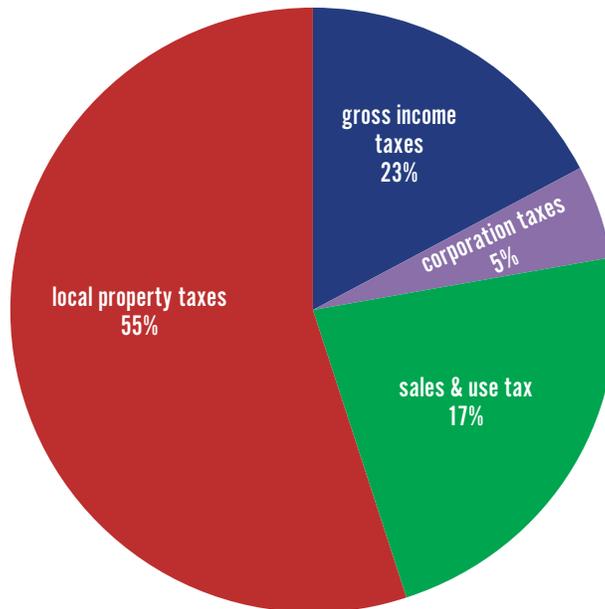
There are three main sources of tax revenue in New Jersey: income tax, sales tax, and corporate tax.

<sup>27</sup> New Jersey CAFR 2011.

# { revenues }

The majority of taxes collected by the state government come from income and sales taxes, while local governments generally collect the largest portion of their revenue from property taxes. Taxes in New Jersey have been raised 115 times in the past eight years – including increases in the sales tax, income tax, the cigarette tax, and the corporate business tax.<sup>28</sup>

## NEW JERSEY STATE AND LOCAL TAX DISTRIBUTION



**Figure 2**

SOURCE: NEW JERSEY CAFR 2011

### Income Taxes

Income taxes are the largest source of tax revenue in New Jersey, comprising 19% of all tax revenues in 2011. New Jersey is one of the highest taxing states. When local income tax is added, the tax burden in New Jersey was at 12.2% of income in 2011, compared to the national average for all states of 9.8%, making New Jersey's rate of taxation the highest of all U.S. states for three consecutive years.<sup>29</sup>

Income tax collection had risen steadily in New Jersey until 2008, when it suddenly dropped by \$2 billion, or 17%.<sup>30</sup> The economic crisis that began in the fall of 2008 was certainly the main culprit. The crisis triggered higher unemployment and underemployment, which meant less overall income for citizens and less income tax for New Jersey. By 2011, however, New Jersey was showing

28 New Jersey Treasury. Office of Management and Budget. Budget in Brief: Fiscal 2011. [<http://www.state.nj.us/treasury/omb/publications/11bib/BIB.pdf>]. March 16, 2010.

29 Tax Foundation. "New Jersey's State and Local Tax Burden". [<http://taxfoundation.org/article/new-jerseys-state-and-local-tax-burden-1977-2009>]. Feb. 23, 2011.

30 New Jersey CAFR 2009.

# { revenues }

some signs of improvement with lower unemployment rates. Still, income tax revenues remained stagnant at post-recession levels.<sup>31</sup>

The New Jersey income tax system, like most income tax systems, is progressive, with higher earners paying a greater percentage of their income to taxes.<sup>32</sup> Due to this progressive structure, the top 5% of income earners — with incomes over \$210,707 a year in 2011 — pay over half of New Jersey's income taxes. Those in the top 1% of the income bracket — making over \$501,833 — pay as much as 40% of the income taxes collected in New Jersey.

<b>Percentile</b>	<b>% Income Revenue</b>
<b>0 - 50</b>	<b>2.26%</b>
<b>50 - 80</b>	<b>12.77%</b>
<b>81 - 90</b>	<b>12.51%</b>
<b>90 - 95</b>	<b>11.69%</b>
<b>95 - 99</b>	<b>20.29%</b>
<b>99 - 99.9</b>	<b>20.60%</b>
<b>99.9 - 100</b>	<b>19.88%</b>

SOURCE: AMERICAN COMMUNITY SURVEY 2010

## **Sales Taxes**

After income taxes, sales and use taxes generate the next largest source of revenue for the state, representing 14.6% of revenues in fiscal year 2011. New Jersey's sales tax is 7%. The government exempts "essential goods" from the tax, including textbooks, unprepared food, clothing, U.S. and New Jersey flags, prescription drugs, real estate, and motor fuels.<sup>33</sup> Revenue from sales taxes has remained a comparatively consistent percentage of tax revenue since 2007.

## **Corporate Taxes**

Corporate taxes are levied on the profits of corporate entities, much like income taxes are on individuals. The corporate tax rate in New Jersey has been 9% since 1980. Revenues gained through corporate taxes have been far more volatile than personal income taxes in recent years, with revenues dropping from 2004 to 2005, peaking in 2007 at \$2.9 billion, and then plummeting to \$1.9 billion in 2010. Corporate tax revenue rebounded in 2011 and is projected to rise to \$2.4 billion in fiscal year 2012. Recent volatility in corporate tax revenue, however, has made it difficult for state budget planners.

<sup>31</sup> New Jersey CAFR 2011.

<sup>32</sup> New Jersey Division of Taxation. "2011 NJ-1040 Tax Table." State of New Jersey. New Jersey Department of the Treasury. Web. 01 Mar. 2012. [<http://www.state.nj.us/treasury/taxation/pdf/current/taxtable.pdf>].

<sup>33</sup> New Jersey Division of Taxation. "Sales and Use Tax Overview." The Official Web Site for The State of New Jersey. New Jersey Department of the Treasury. Web. 12 Mar. 2012. [[http://www.state.nj.us/treasury/taxation/su\\_over.shtml](http://www.state.nj.us/treasury/taxation/su_over.shtml)].

## { revenues }

According to a report published by the Tax Foundation, a Washington, D.C. based research firm, New Jersey has one of the worst tax climates for businesses in America. New Jersey placed last in terms of business friendliness, and it has the 13th highest corporate tax rate.<sup>34</sup>

Legislators have attempted to reduce corporate taxes in New Jersey in recent years. In 2010 and 2011, the state approved more than \$1.2 billion in tax subsidies for corporations and developers in the name of economic development.<sup>35</sup> Most of these breaks went to big corporations such as Campbell's Soup, Prudential, Goya, ShopRite, and Panasonic.<sup>36</sup> While some called the move corporate welfare, the aim of the reforms was to spur job creation by encouraging innovation in private industries. New Jersey, like many other states, is attempting to expedite in-state economic recovery through tax reforms.

### Property Taxes

Local governments — cities, townships, and school boards — levy property taxes. Local governments determine individual property tax rates by determining property value, property geographical location and property purpose. Property taxes fund essential local services such as schools and town services.

“Property taxes are controversial in New Jersey, because property taxes exceed income, corporate, and sales taxes combined.”

Property taxes are controversial in New Jersey, because property taxes exceed income, corporate, and sales taxes combined.<sup>37</sup> New Jersey is the only state, besides New Hampshire, where this is the case. In fiscal year 2011, residents of New Jersey paid approximately \$25.6 billion in property taxes,<sup>38</sup> which was up from just over \$25 billion in 2010,<sup>39</sup> an increase of just over 2.5%. Over the past ten years, the total amount of property taxes collected has risen by almost 60%,<sup>40</sup> far outpacing the inflation rate of roughly 25% over the same period.<sup>41</sup>

34 Ha, Young. “N.J., N.Y. Have Worst Tax Climates for Business, Report Says.” Insurance Journal. [<http://www.insurancejournal.com/news/east/2012/01/26/232789.htm>].

35 Howlett, Deborah. “Op-Ed: New Jersey’s Corporate Tax Subsidies Don’t Pay Off.” New Jersey Policy Perspective. [<http://www.njpp.org/blog/op-ed-new-jerseys-corporate-tax-subsidies-dont-pay-off>].

36 “The Christie Economic Development Agenda: Creating Real Jersey Jobs.” New Jersey Business Portal. [<http://www.nj.gov/njbusiness/pdfs/The%20Christie%20Economic%20Development%20Agenda-Creating%20Real%20Jersey%20Jobs.pdf>].

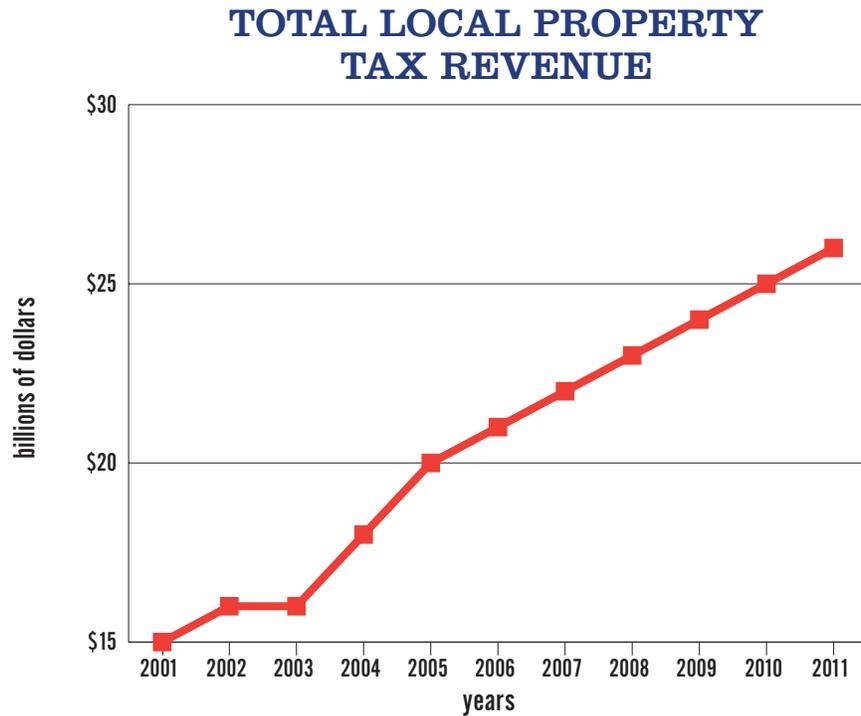
37 Magyar, Mark J. “Why Christie Won’t Cut Property Taxes.” 28 February 2011. NJ Spotlight. 22 February 2012. [<http://www.njspotlight.com/stories/11/0227/1507/>].

38 New Jersey Division of Local Government Services. “Current Property Tax Information, PropertyTaxes - 2011.” State of New Jersey. New Jersey Department of Community Affairs. Web. 01 Mar. 2012. [<http://www.state.nj.us/dca/lgs/taxes/taxmenu.shtml>].

39 New Jersey Division of Local Government Services. “Historical Data - 2010.” State of New Jersey. New Jersey Department of Community Affairs. Web. 01 Mar. 2012. [<http://www.state.nj.us/dca/lgs/taxes/taxmenu.shtml>].

40 Ibid.

41 United States Bureau of Labor Statistics. “Table Containing History of CPI-U U.S. All Items Indexes and Annual Percent Changes From 1913 to Present.” Bureau of Labor Statistics. United States Department of Labor, 17 Feb. 2012. Web. 01 Mar. 2012. [<ftp://ftp.bls.gov/pub/special.requests/cpi/cpiai.txt>].



**Figure 3** SOURCE: NEW JERSEY CAFRS 2001-2011

While revenues from the all other taxes fell during the financial crisis and recession in 2008, property tax revenues continued to rise, as many localities increased tax rates to offset decreasing property values. Since property taxes are the primary revenue generator for local governments in New Jersey, rates can jump rapidly when the state government cuts local government funding.<sup>42</sup> This is precisely what happened in 2010 as a result of the fiscal year 2011 budget cuts. Proposals have been put forward in the New Jersey Assembly to allow local governments to collect income and sales taxes to ease the property tax burden on low income-groups, who feel property tax increases the most.<sup>43</sup>

## USER FEES

New Jersey, like all other states, collects significant fees from its citizens in direct exchange for the services it provides. In 2011, these collections totaled nearly \$10.2 billion. The State Lottery and the Unemployment Compensation Fund comprise the largest portions of New Jersey's user fees. However, these are considered business-type activities. In terms of pure government activities, the Public Safety and the Economic Planning Departments have the largest shares at over \$1 billion.

42 Council of New Jersey Grantmakers. "Facing Our Future." 2012 January 2011. Council of New Jersey Grantmakers. 22 February. [[http://www.cnjg.org/s\\_cnjg/bin.asp?CID=10859&DID=45909&DOC=FILE.DOC](http://www.cnjg.org/s_cnjg/bin.asp?CID=10859&DID=45909&DOC=FILE.DOC)].

43 Star-Ledger Editorial Board. "Letting N.J. Towns Raise Income and Sales Taxes." NJ.com. The Star-Ledger, 29 Mar. 2010. Web. 16 Mar. 2012. [[http://blog.nj.com/njv\\_editorial\\_page/2010/03/greenwald.html](http://blog.nj.com/njv_editorial_page/2010/03/greenwald.html)].

# { revenues }

## OPERATING AND CAPITAL GRANTS

Another major source of revenue for New Jersey is federal grant money, the primary contributor to a category of revenue called operating and capital grants/contributions. According to figures from the National Association of State Budget Officers, states in the U.S. receive roughly 34.1% of their funds from the federal government.<sup>44</sup>

Operating grants and contributions (the majority of which is from the federal government) made up 32% (\$17.8 billion) of New Jersey's revenues in 2011. Most federal funding pays for specific programs like Medicaid, highways, mass-transit, and other federal programs. New Jersey is one of the least reliant states on federal government funding, with total federal funding amounting to \$2,000 per citizen.

In 2009, during the worst of the financial crisis, the federal government passed the American Recovery and Reinvestment Act (ARRA), commonly referred to as "the stimulus," to help prevent states from laying off workers, to provide funds for research and infrastructure projects, to offer extra unemployment compensation, and to fund health and education services.<sup>45</sup> New Jersey received an extra \$2.3 billion in 2010, and an extra \$800 million in 2011.<sup>46</sup> However, operating revenues are projected to fall in 2012 as ARRA money expired on June 30, 2011. Expiration of stimulus money will require the state government to either cut expenses by reducing funding to programs that were supported by this money or increase revenue collection from other sources.

The majority of federal grants are spent on Medicaid, nutrition programs like food stamps and subsidized school lunch, and K-12 education. Many federal grant dollars are linked directly to specific programs and projects, which may carry certain requirements. Therefore, states are constrained in how they spend federal grants. Requirements can come in the form of building code standards for affordable housing grants, coverage minimums for Medicaid assistance, or standardized testing requirements for K-12 education funding. State budgets that rely on federal grants for these programs face risks that federal funding for such programs will be reduced, leaving states to fund these services themselves. Because states do not always like the strings attached, some states choose to take federal dollars for some programs and not others. ★

44 National Association of State Budget Officers. "2010 State Expenditure Report: Examining Fiscal 2009-2011 State Spending." [<http://www.nasbo.org/sites/default/files/2010%20State%20Expenditure%20Report.pdf>]. 2011.

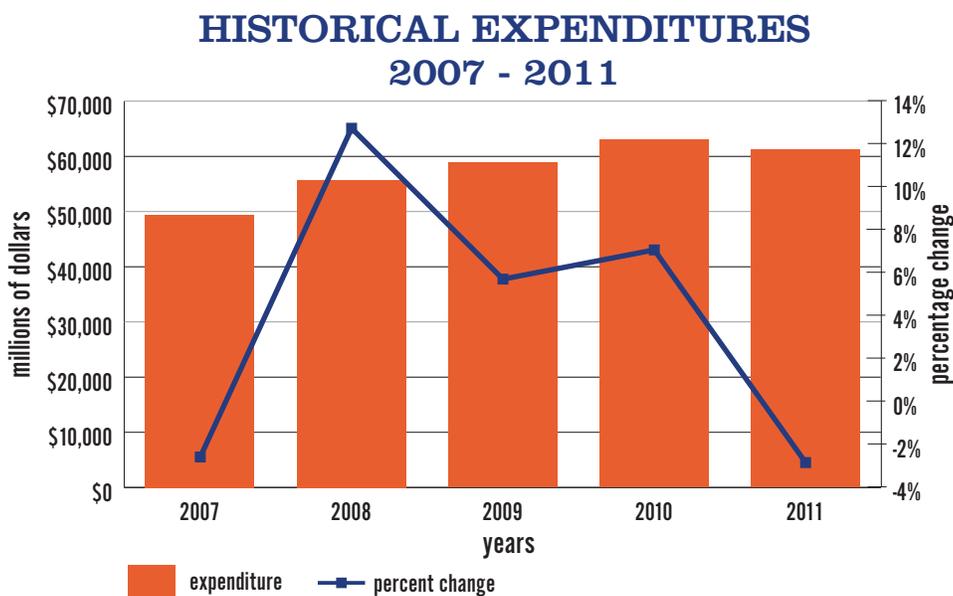
45 American Recovery and Reinvestment Act of 2009. Pub. L. 111-5. 123 Stat. 115. 17 February 2009. [<http://www.gpo.gov/fdsys/pkg/PLAW-111publ5/pdf/PLAW-111publ5.pdf>]

46 New Jersey Office of Management and Budget. "Financial Section - Comprehensive Annual Financial Report." State of New Jersey. New Jersey Department of the Treasury, 5 Jan. 2012. Web. 12 Mar. 2012. [<http://www.nj.gov/treasury/omb/publications/11cafr/pdf/finsect.pdf>].

## OVERVIEW

The state of New Jersey spent a total of \$61.2 billion in the 2011 fiscal year,<sup>47</sup> down 2.9% from 2010, bucking New Jersey’s long-term trend of continuously increased expenditures. The reduction in spending, led by Governor Chris Christie, was a response to decreased tax revenue due to the recession as well as a looming budget deficit of over \$10 billion if the Governor did not act.

Governor Christie and legislators achieved spending reductions to education, transportation programs, and state pensions. However, many argue that the real reason New Jersey has been able to manage its budget is that the state chose not to meet all its obligations at the end of the fiscal year.<sup>48</sup> Governor Christie did this in part by ignoring prior obligations enacted by previous administrations, including \$3 billion in pension payments, public school aid, and property tax rebate checks. New Jersey’s Assembly Budget Committee Chairman Lou Greenwald contends that Christie took this course of action in order to “boast he cut the state’s deficit without raising taxes.”



**Figure 4**

SOURCE: NEW JERSEY CAFRS 2007-2011, STATEMENT OF ACTIVITIES

Despite New Jersey’s recent decreases in spending, overall state expenses have grown by 23.4% since 2007.<sup>49</sup> New Jersey spends more on education, at 23% of total expenditures, than any other spending category. Defending this large expense, Governor Chris Christie notes, “For New Jersey,

47 Christie, Chris, Stephen M. Sweeney, Sheila Y. Oliver, and Albert Porrioni. “NJ Comprehensive Annual Financial Report.” State Of New Jersey, Department of Treasury. New Jersey State Legislature, 2010. Web. 3 Mar. 2012. [<http://www.state.nj.us/treasury/omb/publicaons/11cafr/pdf/finsect.pdf>].

48 Renshaw, Jarrett. “N.J. budget experts say Christie’s ‘new normal’ approach on deficit is ‘old’.” [[http://www.nj.com/news/index.ssf/2011/03/experts\\_say\\_gov\\_christies\\_new.html](http://www.nj.com/news/index.ssf/2011/03/experts_say_gov_christies_new.html)]. March 1, 2011.

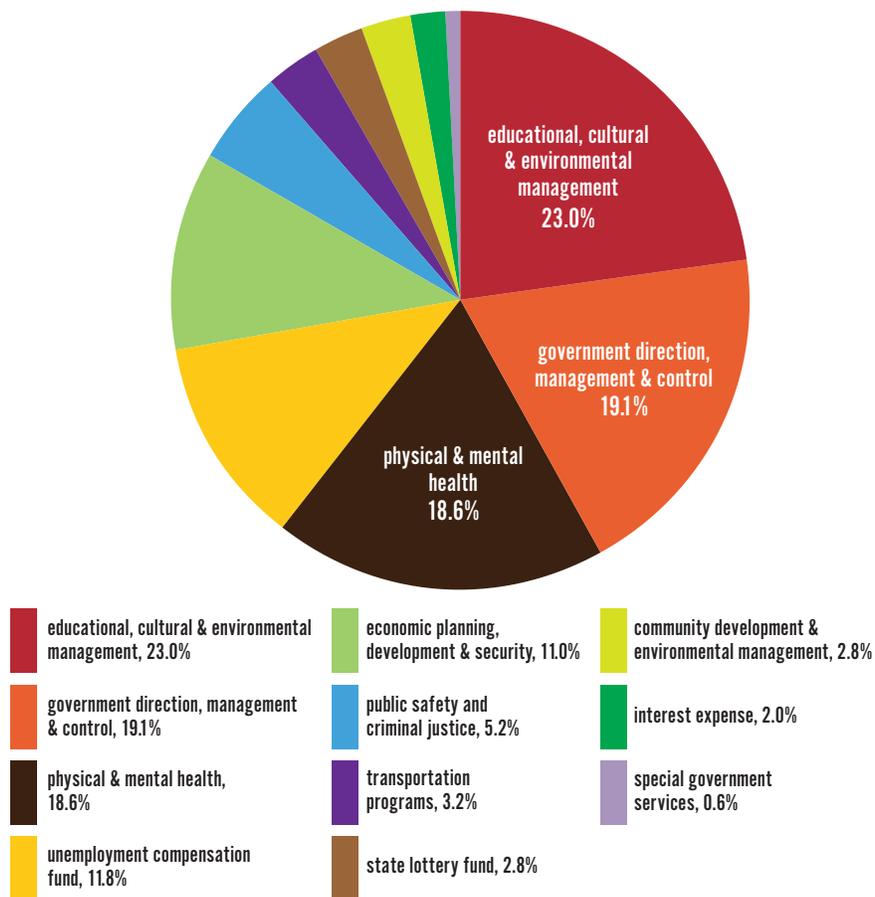
49 Renshaw, Jarrett. “N.J. budget experts say Christie’s ‘new normal’ approach on deficit is ‘old’.” [[http://www.nj.com/news/index.ssf/2011/03/experts\\_say\\_gov\\_christies\\_new.html](http://www.nj.com/news/index.ssf/2011/03/experts_say_gov_christies_new.html)]. March 1, 2011.

# { expenditures }

the state’s position as an economic leader of the region and nation is contingent on the quality of the education system and the achievement of every child.”<sup>50</sup> New Jersey budgeted \$17,620 per student in 2011, the highest designation in the nation.<sup>51</sup>

Government Direction, Management, and Control (“GDMC”) takes up 19.1% of the budget and is the second highest expense in the state. GDMC is comparable to general government expenditures in other states and includes state aid, transitional aid to localities, other direct state services and the administrative work of the Governor’s and mayors’ offices.<sup>52, 53</sup> Heath Care (also called Physical and Mental Health) comprises another 18.6%.

## EXPENDITURE BY CATEGORY, 2011



**Figure 5**

SOURCE: NEW JERSEY CAFRS 2007-2011, STATEMENT OF ACTIVITIES

50 Christie, Chris, Kim Guadagno, and Andrew P. Sidamon-Eristoff. “The Governor’s FY 2012 Budget.” State Of New Jersey, Department of Treasury. State of New Jersey, 22 Feb. 2011. Web. 7 Jan. 2012. [<http://www.state.nj.us/treasury/omb>]. pg 34.

51 Ibid.

52 New Jersey CAFR 2011.

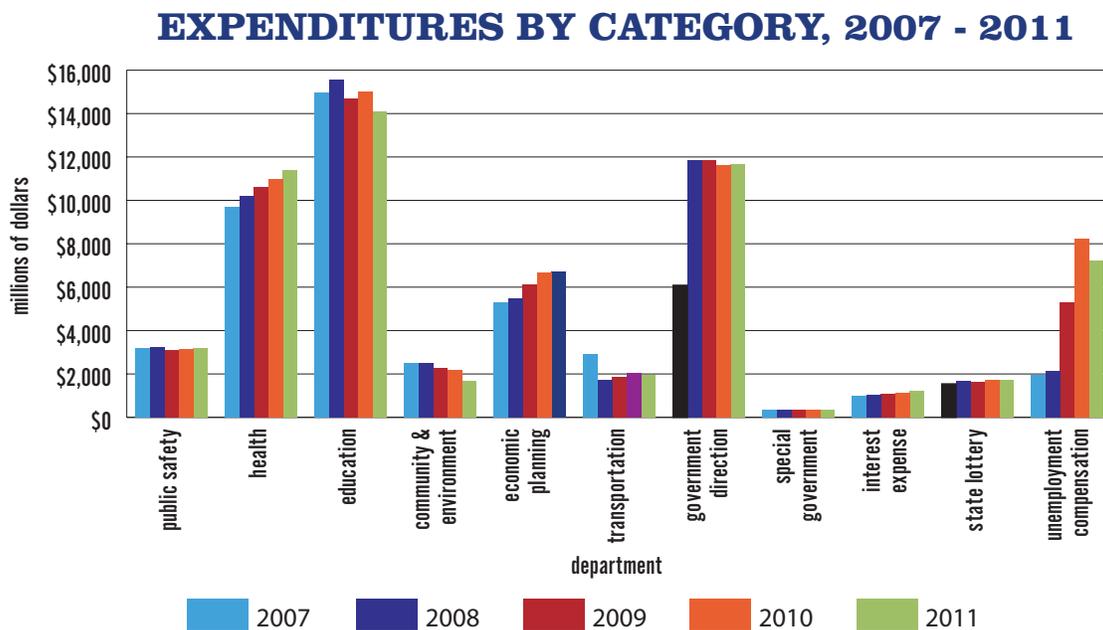
53 “Department of Community Affairs.” April 2012. [[http://www.njleg.state.nj.us/legislativepub/budget\\_2013/DCA\\_analysis\\_2013.pdf](http://www.njleg.state.nj.us/legislativepub/budget_2013/DCA_analysis_2013.pdf)].

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Although education remains the largest budget category, it also suffered some the largest budget cuts in 2011. The reductions were largely driven by reductions in federal stimulus money. New Jersey tried to mitigate some of these reductions by dedicating \$70 million of its own funds to education, ensuring no school would lose more than 5% of its 2010 budget.<sup>54</sup> Overall, however, the state spent \$921 million less, or 6.1%, than it did in 2010. Transportation, has also seen big cuts in recent years and is currently operating at 33.8% below its 2007 spending levels.

“Between 2007 and 2011, unemployment compensation costs increased \$5.3 billion, or 271.9%.”

Spending on unemployment insurance increased more than any category in percentage terms, as poor economic conditions left more people to claim unemployment checks. Between 2007 and 2011, unemployment compensation costs increased \$5.3 billion, or 271.9%. While this is a remarkable increase, much of it came between 2008 and early 2010, during the height of the recession. In fact, state expenditures on unemployment insurance actually fell by 12% from 2010 to 2011, as the state economy began to recover.



**Figure 6**

SOURCE: NEW JERSEY CAFRS 2007-2011, STATEMENT OF ACTIVITIES

54 Christie, Chris, Kim Guadagno, and Andrew P. Sidamon-Eristoff. "Fiscal 2011 Budget in Brief." State Of New Jersey, Department of Treasury. Office of Management and Budget, 16 Mar. 2010. Web. 5 Jan. 2012. [<http://www.state.nj.us/treasury/omb/publications/11bib/BIB.pdf>]. Page 12.

# { expenditures }

<b>Spending Category</b>	<b>Increase/Decrease in Spending 2007 to 2011 (in Millions of Dollars)</b>	<b>Increase/Decrease in Spending 2007 to 2011 (in Percentage Terms)</b>
Public safety and criminal justice	-\$20.4	-0.64%
Physical and mental health	\$1,710.3	17.66%
Educational, cultural, and intellectual development	-\$876.8	-5.86%
Community development and environmental management	-\$790.3	-31.81%
Economic planning, development, and security	\$1,428.8	26.95%
Transportation programs	-\$985.5	-33.83%
Government direction, management, and control	\$5,584.8	91.75%
Special government services	\$21.4	6.53%
Interest expense	\$252.7	25.92%
State Lottery Fund	\$180.1	11.66%
Unemployment Compensation Fund	\$5,269.2	271.97%

SOURCE: NEW JERSEY CAFRS 2007-2011, STATEMENT OF ACTIVITIES

## WRANGLING THE DEFICIT

Under previous administrations, the state dealt with its deficit problems by issuing one-time taxes or deferring payments and programs. Faced with disappearing federal grants and pervasive deficits, Governor Christie attempted to make cuts to the New Jersey budget in order to close the deficit gap.

The largest single cut is nested within the “Elimination or Reduction of Projected Growth” and consists of deferring \$3 billion in pension payments, which will be passed on to subsequent years. Under the same category is a \$1.7 billion reduction in school aid. Additionally, the government is recouping \$848 million that was supposed to go to homeowners in the form of a property tax rebate check. The budgets for child care programs and Medicaid were also cut.<sup>55</sup>

Other spending cuts for 2011 included cuts to public safety, environmental management, and transportation. State and local government operating budgets were also reduced. Jobs in local government declined by 3.5%, and state government jobs dropped by 5.2%. The Rockefeller Institute reported a job loss of 195,000 between 2010-11 for public sector workers in New Jersey.<sup>56</sup>

55 Christie, Chris, Kim Guadagno, and Andrew P. Sidamon-Eristoff. “Fiscal 2011 Budget in Brief.” State Of New Jersey, Department of Treasury. Office of Management and Budget, 16 Mar. 2010. Web. 5 Jan. 2012. [<http://www.state.nj.us/treasury/omb/publications/11bib/BIB.pdf>]. Page 12.

56 Ward, Robert B. “State Revenues and Budgets in an Era of Fundamental Change.” New Jersey GFOA. The Nelson A. Rockefeller Institute of Government. 22 Sept 2011. Address.

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## BUDGETING

At the state level, the budgeting process determines the amount of tax charged when consumers make purchases, the salaries of government employees, and many other fiscal policies. Crafting and passing an annual budget is a year long process which involves both the executive and legislative branches. Most states, including New Jersey, require that the budget must be “balanced,”<sup>57</sup> meaning that lawmakers cannot plan to spend more money than they predict to take in through taxes and fees. In order to pass a balanced budget, gaps between planned spending and revenue need to be closed.

New Jersey’s split government, with Democrat control of the legislature and Republican control of the executive branch, has left the two branches pitted against one another, with neither entity being able to agree on forecasted costs and revenues for this fiscal year. While both legislative houses passed an appropriations bill for FY 2011, Governor Chris Christie used his special powers to veto multiple portions of the newly approved budget. Projecting income of only \$30.3 billion, as opposed to the \$30.6 billion estimated by the legislature, Governor Christie cut another \$900 million in spending, reducing state spending to \$29.7 billion.<sup>58</sup>

Among the items vetoed by Christie were a tax increase on those with incomes over \$1 million dollars, assistance to local school districts, assistance in paying property taxes for senior citizens, funding for women’s health clinics, and funding for cities short on money that would have helped reduce lay-offs of police officers. Additionally, Governor Christie vetoed wording that might have prevented him from changing the eligibility for Medicaid, the health care program for the impoverished. Democrats in the legislature strongly opposed the Republican governor’s cuts.<sup>59</sup>

Budgeting issues are almost always resolved before the July 1st deadline each year. If, however, legislators and the governor’s office are unable to come to an agreement, a governmental shutdown can take place, as it did in 2006, and almost did in 2011. This would lead to tens of thousands of state employees being sent home, parks and beaches being closed, and only essential emergency services remaining open.<sup>60</sup> Governor Christie used his line-item veto powers on June 30<sup>th</sup>, one day before the 2011 deadline, to cut many Democratic funding priorities such as municipal aid, Urban Enterprise Zone programs, and tax relief for seniors.<sup>61</sup>

Despite Christie’s 2011 budget cuts, his budget for 2012 represents one of the most expensive spending increases of any governor in the country. The budget, he told the press, will make the

57 New Jersey State Constitution 1947 Art. VIII §2 ¶2

58 “State governments deal with their own budget crisis.” [<http://www.bankruptingamerica.org/state-governments-deal-with-their-own-budget-crisises/>]. July 1, 2011.

59 Perez-Pena, Richard. “New Jersey Governor Vetoes Spending.” *Nytimes.com*. The New York Times, 30 June 2011. Web. 16 Mar. 2012. C.f. “Gov. Christie Signs State Budget after Series of Deep Cuts.” *NJ.com*. The Star-Ledger, 1 July 2011. Web. 16 Mar. 2012. [[http://www.nj.com/news/index.ssf/2011/07/christie\\_signs\\_state\\_budget\\_af.html](http://www.nj.com/news/index.ssf/2011/07/christie_signs_state_budget_af.html)].

60 Jones, Richard G. “Corzine Orders New Jersey Government Shutdown.” *Nytimes.com*. The New York Times, 2 July 2006. Web. 16 Mar. 2012. [<http://www.nytimes.com/2006/07/02/nyregion/02corzine.html>]. C.f. Ford, James. “New Jersey On The Brink Of Shutdown.” *WPIX*. Tribune Broadcasting, 29 June 2011. Web. 16 Mar. 2012. [<http://www.wpix.com/wpix-nj-budget-impasse-may-shut-down,0,3894514.story>].

61 Froomjian, John. “Christie cuts \$900M”. [[http://www.pressofatlanticcity.com/news/breaking/christie-cuts-m-signs-budget-vetoes-include-millionaire-s-tax/article\\_9f67ba60-a367-11e0-9b1d-001cc4c03286.html](http://www.pressofatlanticcity.com/news/breaking/christie-cuts-m-signs-budget-vetoes-include-millionaire-s-tax/article_9f67ba60-a367-11e0-9b1d-001cc4c03286.html)]. July 23, 2011.

## { expenditures }

state's pension payments, increase money for schools, provide drug treatment for nonviolent criminals, restore tax credits for the working poor, and give every taxpayer a 10% income tax cut.<sup>62</sup> Higher tax revenues from the improving economy, the governor said, will cover the increases in the budget. That said, many economists now doubt the 7.2% estimated increase in tax revenues will materialize, which will leave legislators scrambling at the end of the year.<sup>63</sup> ★

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<sup>62</sup> Zernike, Kate. "As His Optimistic Budget Falters, Christie Comes Out Swinging" New York Times. June 27, 2012

<sup>63</sup> Ibid.

# { balance sheet }

FISCAL YEAR ENDING 6/30

<b>ASSETS</b> (IN MILLIONS)	<b>2011</b> TOTAL GOVERNMENT	<b>2010</b> TOTAL GOVERNMENT	<b>% CHANGE</b> FROM 2010 TO 2011
<b>Current Assets:</b>			
Cash and Cash Equivalents	\$171	\$229	-25.2%
Investments	\$6,202	\$5,194	19.4%
Receivables	\$6,824	\$7,424	-8.1%
Due From External Parties	\$9	\$20	-54.7%
Deferred Charges	\$11	\$15	-23.4%
Other	\$330	\$342	-3.4%
<b>Total Current Assets</b>	<b>\$13,550</b>	<b>\$13,226</b>	<b>2.4%</b>
<b>Noncurrent Assets:</b>			
Investments	\$335	\$402	-16.7%
Pension Assets	\$6	\$6	-4.5%
Non Depreciated Capital Assets	\$8,652	\$8,284	4.4%
Net Depreciated Capital Assets	\$14,146	\$13,509	4.7%
Other	\$216	\$215	0.6%
<b>Total Noncurrent Assets</b>	<b>\$23,358</b>	<b>\$22,418</b>	<b>4.2%</b>
Deferred Outflow	\$24	\$336	-92.6%
<b>TOTAL ASSETS &amp; Deferred Outflows</b>	<b>\$36,933</b>	<b>\$35,981</b>	<b>2.6%</b>
<b>LIABILITIES</b>			
<b>Current Liabilities:</b>			
Accounts Payable & Accrued Liabilities	\$2,466	\$2,994	-17.6%
Due to External Parties	\$115	\$82	40.6%
Interest Payable	\$298	\$268	11.0%
Deferred Revenue	\$411	\$254	61.7%
Current Portion of Long-Term Liabilities	\$1,982	\$1,932	2.6%
Other	\$416	\$426	-2.2%
<b>Total Current Liabilities</b>	<b>\$5,690</b>	<b>\$5,958</b>	<b>-4.5%</b>
<b>Noncurrent Liabilities:</b>			
Advance From Federal Government	\$1,547	\$1,749	-11.6%
Net Pension Obligation	\$10,857	\$8,403	29.2%
Net OPEB Obligation	\$13,501	\$10,028	34.6%
Pollution Remediation Obligation	\$80	\$92	-13.3%
Derivative Instrument Liability	\$386	\$711	-45.7%
Other	\$39,075	\$38,005	2.8%
<b>Total Noncurrent Liabilities</b>	<b>\$65,447</b>	<b>\$58,990</b>	<b>10.9%</b>
<b>TOTAL LIABILITIES</b>	<b>\$71,138</b>	<b>\$64,949</b>	<b>9.5%</b>
<b>TOTAL NET ASSETS</b>	<b>-\$34,204</b>	<b>-\$28,967</b>	<b>-18.1%</b>

# { balance sheet }

## NET WORTH

The New Jersey balance sheet compares all the state's assets to its liabilities in order to calculate a "net worth" for the state. Estimating the net worth for a public sector entity is not equivalent to calculating the net worth of a company. However, the calculation is still an important determinant of liquidity and creditworthiness because it gives a snapshot of both the state's ability to generate revenue as well as its spending habits over time.

New Jersey's net worth is calculated by taking the difference between the total assets of the state (measured at \$36.9 billion) and the total liabilities (\$71.1 billion). Assets can take the form of explicit value, like cash or investments, or of held value, like a bridge or a building. Liabilities are all debts for which the state is responsible, including bond issuances, the pensions and health care of state workers, tax refunds to citizens, and financing agreements such as leases for vehicles or land. All assets and liabilities are reported by the New Jersey Office of the State Comptroller at the end of each fiscal year. These figures gathered by the Comptroller are reported by each of the state agencies.

“According to the Comptroller, New Jersey has a negative net worth of \$34.2 billion. If New Jersey sold off all its assets to pay all its debts, the state would still owe \$34 billion, or nearly \$3,900 for every man, woman and child in the state.”

According to the Comptroller, New Jersey has a negative net worth of \$34.2 billion.<sup>64</sup> Theoretically, that means that if New Jersey sold off all its assets to pay all its debts, the state would still owe \$34 billion, or nearly \$3,900 for every man, woman and child in the state.<sup>65</sup>

New Jersey is not alone in having a negative net worth. In fact, for many states, as well as for the federal government, liabilities exceed assets. A negative net worth is a cause for concern. If enough debt accumulates over time, at some point investors will cease to lend to states. Just as an investor would not want to lend money to a company that consistently loses money, so too would a potential bond investor not want to invest in a state that may not have the ability repay its principal. If a state is unable to raise money from investors, the state must cut programs, raise taxes, and eventually, even face insolvency.

<sup>64</sup> New Jersey CAFR 2011, Statement of Net Assets.

<sup>65</sup> Ibid.

# { balance sheet }

The good news for U.S. states is that the federal government has traditionally stood behind state debt. When states sustained huge spending shortfalls in the years following the recession of 2008, the U.S. government stepped in with loans and stimulus funds in order to help troubled states meet their basic obligations. While no explicit legislation requires the federal government to be a “lender of last resort,” the U.S. government has historically aided states in times of trouble. It is for this reason that most state debt is highly rated despite the fact that collectively, after accounting for pension liabilities, the states as a group have a negative net worth of several trillion dollars.

However, the rising debt level of U.S. states, coupled with a fear of exploding pension and health care costs, have analysts worried that the federal government — struggling with its own massive debt — may not always be able to provide assistance.

## ASSETS

At the end of 2011, New Jersey reported \$37 billion in assets, made up of \$13.6 billion dollars in current assets and \$23.4 in noncurrent assets.<sup>66</sup> Overall New Jersey’s total assets increased by 2.6% from 2010.<sup>67</sup>

Current assets are short-term assets that can readily be turned into hard dollars, such as cash, receivables that the state expects to be redeemed within 12 months (e.g. taxes due), or liquid investments (e.g. Treasury bills or other stocks, bonds, or market positions). New Jersey saw an increase in investment performance on its balance sheet in 2011 that increased current assets by 2.4% from the previous year.

Non-current assets are holdings that the state is unlikely to turn into liquid assets within a short time frame. These assets include investments such as real estate, schools, roads, and long-term bonds (although those can often be securitized into liquid assets for a fee). The largest component of the non-current asset class is “Capital Assets.” These capital assets, like schools, parks, and roads, make up a big part of the state’s overall assets, and their valuations are highly debated. Some argue that these assets are undervalued, as they are valued at the cost and not market price. This means that capital assets do not capture the appreciation, for instance, in the value of state land. However, others argue that capital assets like schools and roads could be worth significantly more in the public domain than the private domain, meaning asset values would likely be overstated if measured in today’s dollars.

## LIABILITIES

New Jersey’s total liabilities were estimated at \$71.1 billion in 2011, which included \$5.7 billion of current liabilities and \$65.4 billion of noncurrent liabilities.<sup>68</sup> Overall liabilities increased in

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<sup>66</sup> New Jersey CAFR 2011, Statement of Net Assets.

<sup>67</sup> Ibid.

<sup>68</sup> Ibid.

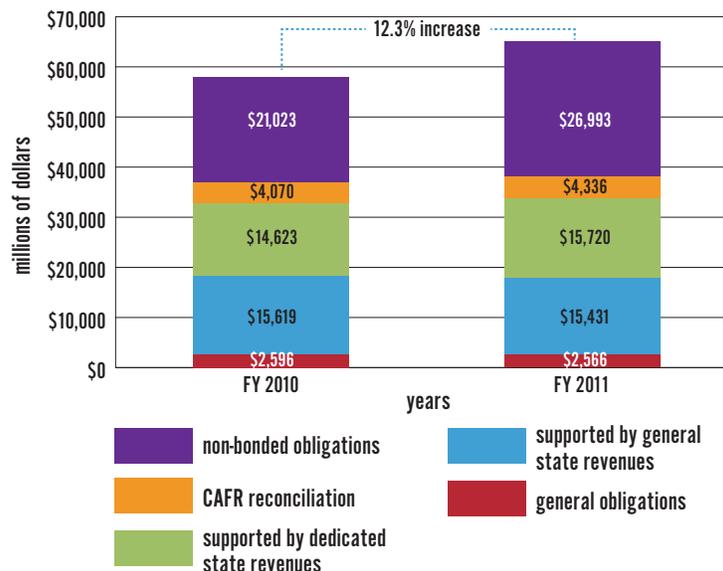
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2011 by 9.5%, due to a large increase in pension liabilities in fiscal year 2011. More specifically, net pension and other post-employment benefits (OPEB) soared by nearly \$6 billion combined, or 32.2%.<sup>69</sup>

Current liabilities are obligations that require payment within twelve months. Examples of current liabilities include salaries to government workers, payments to companies contracted by the government to provide services (such as private contractors who build and run prisons), entitlement and welfare payments to citizens (such as payments to Medicaid recipients or unemployment beneficiaries), or debts to other levels of government (negotiated payments for government goods and services). Overall, current liabilities decreased by 4.5%, or roughly \$270 million, from 2010 to 2011.

Non-current liabilities are comprised of obligations that the state owes in the long term, i.e., outside a twelve-month horizon. Non-current liabilities include bond obligations, leasing agreements for financed projects, and employee pension and health care liability. These long-term liabilities generally represent the state's current spending and obligations that will be passed into the future as debt. In New Jersey, non-current liabilities increased by 10.9%, or \$6.5 billion, from 2010 to 2011, mostly due to the aforementioned net pension and OPEB obligations.

## SUMMARY OF OBLIGATIONS 2010 - 2011



**Figure 7**

SOURCE: NEW JERSEY CAFRS 2010-2011

<sup>69</sup> Ibid.

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## THE DEBT

New Jersey's total debt obligations stood at \$65.1 billion in 2011, according the Office of Public Finance of the State of New Jersey.<sup>70</sup> This represents an increased of 12.3% from FY 2010. Over the past ten years, New Jersey's debt has quadrupled from just \$16 billion in 2001.<sup>71</sup>

States raise debt in a variety of ways. They can issue general bonds in which investors bet on the full faith and credit of the state or they can issue special purpose bonds that are secured by the success of a specific project like road construction or the building of a school. Additionally, a state can borrow from federal grants that it expects to receive in the future. Non-bonded obligations are also included in debt and result from loans, leases, or other contractual commitments for which no financial securities have been issued and which require more than one-year to repay.

Bonded obligations are responsible for most of the state's outstanding debt. Bonded obligations are divided into three categories: General Obligations, Supported by General State Revenues, and Supported by Dedicated State Revenues. General Obligation Bonds are those authorized from time to time by enacted legislation that must also be approved by public referenda. Such bonds are direct obligations and are secured by the State's full faith and credit. Obligations Supported by General State Revenues are payable from amounts available and appropriated from the State's General Fund.<sup>72</sup> Obligations Supported by Dedicated State Revenues are payable solely from certain state revenues that have been constitutionally and/or statutorily dedicated and appropriated for such purpose.

**Table 3: Summary of Obligations 2010 - 2011  
(In Millions)**

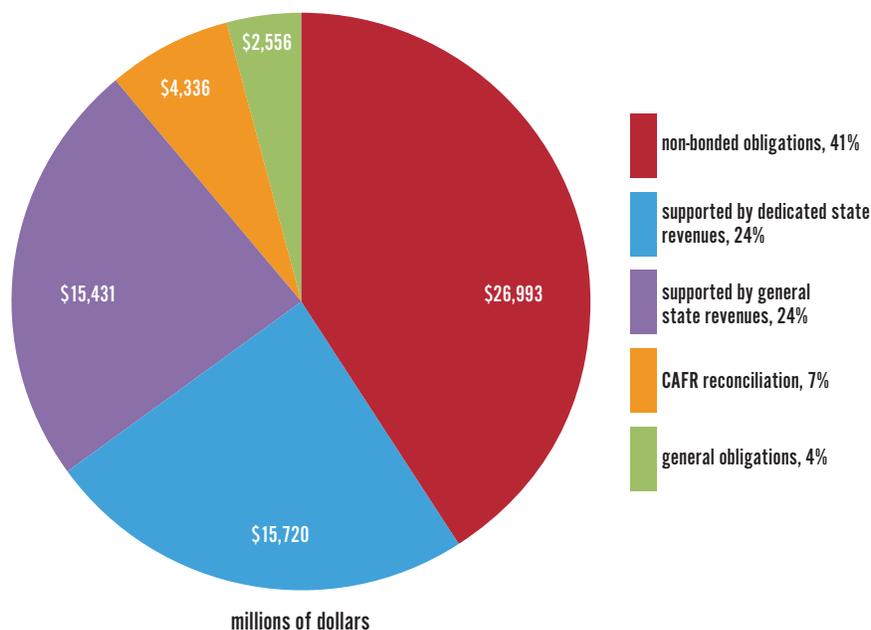
<b>Category</b>	<b>as of June 30, 2011</b>	<b>as of June 30, 2010</b>
General Obligations	\$2,566	\$2,596
Supported by General State Revenues	\$15,431	\$15,619
Supported by Dedicated State Revenues	\$15,720	\$14,623
CAFR Reconciliation	\$4,336	\$4,070
Non-Bonded Obligations	\$26,993	\$21,023
<b>Total</b>	<b>\$65,049</b>	<b>\$57,933</b>

70 The Office of Public Finance focuses on the bonded obligations of the state and has a different way of accounting for debt obligations than in the CAFR. Reconciliations are provided in the Summary of Obligations chart and through the OPF's annual report available at: [nj.gov/transparency/debt/pdf/2011\\_state.pdf](http://nj.gov/transparency/debt/pdf/2011_state.pdf).

71 Dopp, Terrence, and Martin Z. Braun. "New Jersey's Bond Rating Cut by Standard & Poor's." [<http://www.bloomberg.com/news/2011-02-09/new-jersey-bond-rating-cut-by-s-p-on-growing-pension-health-obligations.html>]. Feb. 9, 2011.

72 State of New Jersey. Department of the Treasury. State of New Jersey 2011 Debt Report. Trenton: Department of the Treasury, 2011.

## DISTRIBUTION OF OBLIGATIONS, 2011



**Figure 8**

SOURCE: STATE OF NEW JERSEY DEBT REPORT 2011

### NEW JERSEY'S CREDIT RATING

Credit rating agencies (CRAs) like Moody's, Standard & Poor's, and Fitch provide analyses of the risk and value of state bonds based on a state's outstanding debt, revenue sources, and past behavior, summarizing the ability of the State Treasury to pay off the outstanding bonds.

New Jersey received three credit rating downgrades last year, from all three major reporting agencies. For example, in April 2011, Moody's downgraded New Jersey State's bonds from Aa3 to Aa2, resulting in poor investor confidence in the bond. Moody's analysts wrote that the downgrade "reflects the state's weakened financial position and the expectation that recovery will be unlikely in the medium-term due to rapidly rising fixed costs, relatively slow economic recovery and a lack of a specified plan to rebuild fund balances." Overall, it gave New Jersey a negative outlook. In turn, the Treasury's budget became a focal concern as the state's liabilities, especially its pension and other employee related obligations (OPEB), continued to increase. In August 2011, Fitch also downgraded New Jersey's bonds from AA to AA-.<sup>73</sup>

More worrying still, an analysis by Moody's ranked New Jersey's ratio of unfunded pension liability to GDP as ninth-highest in the country.<sup>74</sup> As of March 2011, the state's three largest plans had funded ratios of 70.8%, 64.9%, and 63.8%, putting New Jersey barely ahead some of the worst-

<sup>73</sup> "Fitch Downgrades N.J. Bond Rating Despite Pension Overhaul." [<http://www.foxnews.com/politics/2011/08/18/fitch-downgrades-nj-bond-rating-despite-pension-overhaul/>].

<sup>74</sup> "NJ Bonds Oversold." Janney Capital Markets. Page 2.

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funded state pension systems, like Kansas at 64%.<sup>75</sup> Moreover, according to data compiled by Joshua Rauh, Professor of Finance, Stanford Graduate School of Business, New Jersey has nearly \$135 billion in total liabilities, but only \$67.2 in pension assets and approximately \$30 billion in annual tax revenue. Taken together, these measures indicate that the state may have trouble paying its pension obligations, despite recent reforms.<sup>76</sup>

## PROGNOSIS

New Jersey has taken some action to reduce future liabilities, such as cutting the budget and attempting to reform the current pension system. That said, with its extremely large debt load, the state will need to raise a significant amount of additional revenue and make reductions in services if it is to remain solvent in the long run. With lower tax revenue than in previous years, new tax breaks, wary investors, stagnant GDP, waning federal support, and a fractured political environment, debt reduction will be anything but easy.<sup>77</sup> ★

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75 "Special Report: Best and Worst State Funded Pensions." The Fiscal Times. [<http://www.thefiscaltimes.com/Articles/2011/03/24/States-Short-Change-Pension-Funds.aspx#page1>].

76 Novy-Marx, Robert and Joshua D. Rauh. "Public Pension Promises: How Big are They and What are They Worth?" Journal of Finance. [[http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=1352608](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1352608)]. Page 50.

77 Oliff, Phil and Mai, Chris and Palacio, Vincent. "States Continue to Feel Recession's Impact. Center on Budget and Policy Priorities. [<http://www.cbpp.org/cms/index.cfm?fa=view&id=711>]; "N.J. revenue shortfall increases at least another \$50M in May." New Jersey Star Ledger. June 5th, 2012. [[http://www.nj.com/news/index.ssf/2012/06/nj\\_revenue\\_shortfall\\_increases.html](http://www.nj.com/news/index.ssf/2012/06/nj_revenue_shortfall_increases.html)]

## OVERVIEW

New Jersey's total population is 8,791,894, as reported by the 2010 Census, representing 2.8% of the total U.S. population.<sup>78</sup> More than half of New Jersey's citizens are over the age of 25, with almost 65% between the age of 25 and 54. Only 23% of New Jersey citizens are under the age of 18. New Jersey is experiencing slower population growth than the rest of the nation. New Jersey's population increased just 4.5% between 2000 and 2010, while the U.S. population grew by 9.7% during the same period.<sup>79</sup>

Some argue that New Jersey's slow growth rate may be explained by its high cost of living and high income taxes, compared to fast growing states like Nevada and Texas.<sup>80</sup> In addition, New Jersey is a small state and has limited housing available. Almost all of the 3.5 million housing units in New Jersey are occupied. Only 2.5% of housing units are available for rent and 1% for sale.

## RACE, ETHNICITY, IMMIGRATION

New Jersey's citizens identify predominantly as white at 74.1% of state residents, up slightly from the 2000 Census. Meanwhile, black, Asian, and Hispanic populations in the state have increased substantially since 2000. The growth in the percentage of the population identifying as Hispanic or Latino has been especially notable: In 2000, 13.3% of state residents were Hispanic or Latino, and by 2010 the percentage had reached 18.1%. Similarly, the Asian population has increased from 5.7% of the state population to 8.7%.<sup>81</sup>

“Immigrants play a crucial role in the New Jersey economy. In 2010, immigrants accounted for 27% of the state's workforce, and the latest available data from 2006 showed that immigrant workers contributed at least \$47 billion to New Jersey's gross state product.”

The shifting racial makeup of the state has significant political implications. The growing prominence of minorities will bring issues that these groups care about into public focus, while also changing the makeup of the State Legislature. Indeed, there has been controversy in recent years over redistricting minority communities. In 2011, Democrats succeeded in shifting district boundaries so that large numbers of African-American and Hispanic voters were mixed into

78 U.S. Census Bureau. 2010 Census Interactive Population Search. Web. 26 Jan. 2012. [<http://2010.census.gov/2010census/popmap/ipmtext.php?fl=34>].

79 U.S. Census Bureau. New Jersey Quick Facts. Web. 26 Jan. 2012. [<http://quickfacts.census.gov/qfd/states/34000.html>].

80 Matthews, Steve. “New Jersey Population Growth Slows as Taxes Push Some to Flee.” Bloomberg. 4 Feb. 2011. Web. 23 Jan. 2012. [<http://www.bloomberg.com/news/2011-02-04/new-jersey-s-population-stagnates-as-residents-flee-for-lower-tax-states.html>].

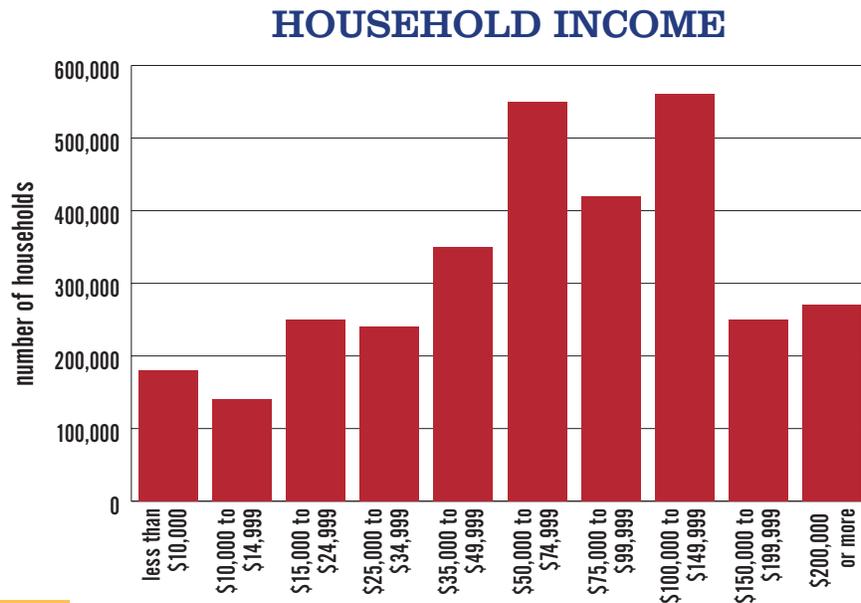
81 “Census 2000: New Jersey Profile.” United States Census Bureau. [[http://www2.census.gov/geo/maps/special/profile2k/NJ\\_2K\\_Profile.pdf](http://www2.census.gov/geo/maps/special/profile2k/NJ_2K_Profile.pdf)]. and “State and County QuickFacts: New Jersey.” United States Census Bureau. [<http://quickfacts.census.gov/qfd/states/34000.html>].

# { demographics }

urban-suburban districts. As a result, four minority Democrats were elected in formerly Republican districts. Republicans argue that redistricting should place African-American and Hispanic voters in districts where they are guaranteed to elect a minority representative.<sup>82</sup>

Immigrants (or foreign-born individuals) make up a large and growing segment of the New Jersey population, with the state having the third largest immigrant population in the U.S. as of 2011.<sup>83</sup> The most common countries of birth for New Jersey' immigrants are India (11.0%), Mexico (7.0%), and Korea (4.2%); however, collectively, more immigrants come to New Jersey from Latin America than from any other part of the world, at 46.2% of all the state's immigrants.<sup>84</sup>

Immigrants play a crucial role in the New Jersey economy. In 2010, immigrants accounted for 27% of the state's workforce, and the latest available data from 2006 showed that immigrant workers contributed at least \$47 billion to New Jersey's gross state product. These immigrants are particularly important in high-skilled areas of the state economy. According to a study by the Eagleton Institute of Politics at Rutgers University, more than 40% of the state's scientists and engineers with advanced degrees are foreign-born.<sup>85</sup>



**Figure 9**

SOURCE: U.S. CENSUS BUREAU 2010

82 Magyar, Mark J. "Mapping Out New Jersey's Minority Representation." NJSpotlight. [<http://www.njspotlight.com/stories/11/0311/0055/>].

83 Camarota, Steven A. "A Record-Setting Decade of Immigration: 2000-2010." Center for Immigration Studies. [<http://cis.org/2000-2010-record-setting-decade-of-immigration>].

84 "New Jersey." Migration Policy Institute. [<http://www.migrationinformation.org/datahub/state.cfm?ID=nj>].

85 "New Americans in New Jersey." Immigration Policy Center. [<http://www.immigrationpolicy.org/just-facts/new-americans-new-jersey>].

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## WEALTH

In 2010, the median income for New Jersey households was \$69,400, about \$20,000 more than the median household income of the nation.<sup>86</sup> Overall, New Jersey households are wealthier than the households in other states, with well over one million residents making over \$100,000 a year.

“In 2010, the median income for New Jersey households was \$69,400, about \$20,000 more than the median household income of the nation.”

Just 9.4% of New Jersey residents live below the poverty line,<sup>87</sup> compared to 15% for the nation.<sup>88</sup> According to the U.S. Census Bureau, in 2010, a family of four was considered to be living in poverty if the household made less than \$22,314 per year.<sup>89</sup>

One major source of poverty in New Jersey is high housing costs, which puts pressure on low-income residents who cannot afford high living expenses.<sup>90</sup> Property taxes in New Jersey average around \$7,750 per housing unit, ranking the highest in the nation.<sup>91</sup> Approximately 80% of children from low-income families come from homes whose living expenses exceeded 30% of income in 2008.

## EDUCATION

New Jersey is one of the most educated states in the nation. About 40% of New Jersey residents have acquired some form of college degree and about a third have at least a bachelor's degree, all exceeding national averages. New Jersey's advantage in educational achievement compared to other states leads to an advantage in wealth. As of 2010, New Jersey was the second-richest state in the country as measured by median income.<sup>92</sup>

86 U.S. Census Bureau. American FactFinder. 24 Jan. 2012. Web. [[http://factfinder2.census.gov/faces/tableservices/jsf/pages/productview.xhtml?pid=ACS\\_10\\_1YR\\_S1901&prodType=table](http://factfinder2.census.gov/faces/tableservices/jsf/pages/productview.xhtml?pid=ACS_10_1YR_S1901&prodType=table)].

87 Ibid.

88 “Income, Poverty and Health Insurance Coverage in the United States: 2010.” United States Census Bureau. [[http://www.census.gov/newsroom/releases/archives/income\\_wealth/cb11-157.html](http://www.census.gov/newsroom/releases/archives/income_wealth/cb11-157.html)].

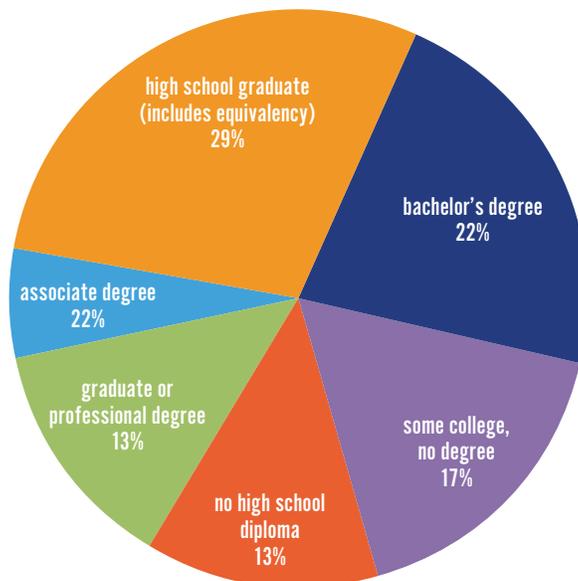
89 U.S. Census Bureau. “Poverty Thresholds for 2010 by Size of Family and Number of Related Children Under 18 Years.” [[www.census.gov/hhes/www/poverty/data/threshld/thresh10.xls](http://www.census.gov/hhes/www/poverty/data/threshld/thresh10.xls)].

90 “More NJ Children Slipping below Poverty Line.” The Times, Trenton. [<http://www.nj.com/>] 20 Jan. 2010. Web. 12 Mar. 2012.

91 Magyar, Mark. “Should Christie Be Cutting Property Taxes Instead? The Highest Property Taxes in the Nation Hurt New Jersey's Competitiveness More than the Income Tax Burden.” NJ Spotlight. 23 Jan. 2012. Web. 24 Jan. 2012. [<http://www.njspotlight.com/stories/12/0123/0031/>].

92 Christie, Les. America's wealthiest (and poorest) states. CNN Money. [[http://money.cnn.com/2010/09/16/news/economy/Americas\\_wealthiest\\_states/index.htm](http://money.cnn.com/2010/09/16/news/economy/Americas_wealthiest_states/index.htm)].

## EDUCATIONAL ATTAINMENT



**Figure 10** SOURCE: U.S. CENSUS BUREAU 2010

## UNEMPLOYMENT

Out of its 8.7 million citizens, New Jersey has a civilian labor force of 4.5 million individuals. The state's unemployment rate in July, 2012 was 9.8%, higher than the national average of 8.3%.<sup>93</sup> The manufacturing and information industries have had the largest private sector job losses due to the Great Recession.<sup>94</sup> Unemployment has affected all sectors of the population, but African-Americans in New Jersey have been the hardest hit.<sup>95</sup> While unemployment was 8.7% for white citizens and was 9.3% for Hispanics, African-Americans faced a 15.1% unemployment rate in 2010.

## PRISONS

Compared to other states, New Jersey has a very small number of incarcerated individuals. According to the 2010 Census, 0.0029% of the New Jersey population (25,263 individuals) reside in adult correctional facilities of any kind, compared to 0.73% at the national level (nearly 2.3 million individuals). Moreover, the New Jersey prison population fell 14.8% between 2000 and 2009 thanks to re-entry programs that help prepare inmates for release, an overall decrease in crime levels, and a new policy in drug courts where offenders are punished by means other than jail time. New Jersey was one of only six states to see its prison population decline between 2000 and 2009.<sup>96</sup>

<sup>93</sup> United States of America. Department of Labor. Bureau of Labor Statistics. New Jersey Economy at a Glance. Web. 13 Mar. 2012. [<http://www.bls.gov/eag/eag.nj.htm>].

<sup>94</sup> Ibid.

<sup>95</sup> Kwoh, Leslie. "African-American Unemployment Reaches Record Highs." The Star-Ledger. 26 Sept. 2011. Web. 13 Mar. 2012. [[http://www.nj.com/business/index.ssf/2011/09/african-american\\_unemployment.html](http://www.nj.com/business/index.ssf/2011/09/african-american_unemployment.html)].

<sup>96</sup> Megerian, Chris. "N.J.'s inmate population declines, officials credit less crime, prisoner re-entry programs." NJ.com. [[http://www.nj.com/news/index.ssf/2010/07/njs\\_inmate\\_population\\_declines.html](http://www.nj.com/news/index.ssf/2010/07/njs_inmate_population_declines.html)].

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## MARRIAGE AND DIVORCE

Of the New Jersey population over 15 years old, 49.8% are now married, which is slightly above the national figure of 48.8%.<sup>97</sup> New Jersey also has a lower percentage of people who are divorced (8.5%) than the nation as a whole (10.9%).<sup>98</sup> Divorce rates are especially low among New Jersey residents under the age of 45; after that age, the percent of New Jersey residents who are divorced jumps into the double digits.<sup>99</sup> ★

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97 U.S. Census Bureau. "Marital Status: 2010 American Community Survey 1-Year Estimates: New Jersey" [[http://factfinder2.census.gov/faces/tableservices/jsf/pages/productview.xhtml?pid=ACS\\_10\\_1YR\\_S1201&prodType=table](http://factfinder2.census.gov/faces/tableservices/jsf/pages/productview.xhtml?pid=ACS_10_1YR_S1201&prodType=table)].

98 Ibid.

99 Ibid.

## OVERVIEW

In New Jersey, public health programs are administered principally by the Department of Human Services (DHS). DHS is the largest state agency in New Jersey, serving about one in every six state residents through programs for low-income families, the disabled and mentally ill, and other citizens in need.<sup>100</sup> The Department of Health and Senior Services also manages a smaller number of health care programs in the state.<sup>101</sup> In the state's Comprehensive Annual Financial Report (CAFR), these departments are grouped under "physical and mental health."

As in many states across the country, health care is one of New Jersey's largest expenses. In the 2011 fiscal year, total spending on physical and mental health was \$11.4 billion, or over 18% of the overall budget. In terms of total state spending, health and human services is second only to education.<sup>102</sup>

"New Jersey's average annual percent growth in health care expenditures between 1991 and 2009 was 0.5% below the national average. Still, the state's health care expenditures per capita (\$7,583) are well above the national average (\$6,815)."

State spending on health care has grown in recent years, especially as the Great Recession has driven more citizens to enroll in state programs like Medicaid. That said, the good news is that health care costs in New Jersey are growing more slowly than in the rest of the country. New Jersey's average annual percent growth in health care expenditures between 1991 and 2009 was 0.5% below the national average. Still, the state's health care expenditures per capita (\$7,583) are well above the national average (\$6,815).<sup>103</sup>

## MEDICAID, HIGH AND RISING COSTS

In July 2005, total enrolment in New Jersey FamilyCare/Medicaid (the state Medicaid program) was 938,507. In 2008, enrollment began increasing more rapidly as the economy deteriorated, and by December 2011 total enrollment had reached 1,285,963.<sup>104</sup> State spending on health care

100 "About DHS." State of New Jersey Department of Human Services. [<http://www.state.nj.us/humanservices/home/about/>].

101 "About Us." State of New Jersey Department of Health and Senior Services. [<http://www.state.nj.us/health/about.shtml>].

102 New Jersey CAFR 2011.

103 "New Jersey: Health Expenditures by State of Residence." The Henry J. Kaiser Family Foundation. [<http://www.statehealthfacts.org/profileind.jsp?sub=143&rgn=32&cat=5>].

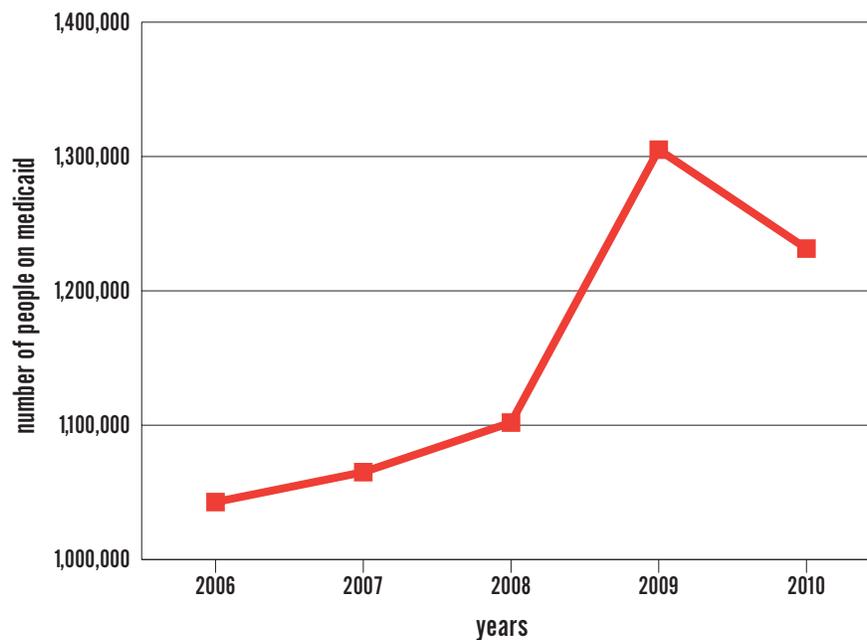
104 "Enrollment Totals July 2005 – December 2011." New Jersey Department of Human Services. [[http://www.state.nj.us/humanservices/dmahs/news/reports/Enrollment\\_arch\\_2005-2011.pdf](http://www.state.nj.us/humanservices/dmahs/news/reports/Enrollment_arch_2005-2011.pdf)].

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has increased concurrently. In 2007, the state spent a total of \$9.7 billion on physical and mental health; by fiscal year 2011, the physical and mental health budget had grown 17.7%.<sup>105</sup>

That said, New Jersey has consistently had lower-than-average annual growth in Medicaid spending since 1990 compared to the rest of the nation. Still, the state's payments per enrollee remain very high. In fiscal year 2009, the national average was \$5,535 per enrollee; in New Jersey, the figure was \$8,268. Spending per enrollee was particularly high for the aged and disabled.<sup>106</sup> The state's high level of spending per enrollee is due to a number of factors, including differences in the types of benefits offered, the eligibility requirements, the payments made to health care providers, and a higher than average percentage of elderly enrollees.<sup>107</sup> Notably, however, the state's Medicaid spending per enrollee has remained relatively stable in recent years even as Medicaid spending has ballooned in other states. In 2003, for instance, New Jersey's Medicaid spending per enrollee was approximately \$8,000 – which, while the highest in the nation at the time, is relatively close to what current spending is today.<sup>108</sup>

## MEDICAID POPULATION



**Figure 11** SOURCE: MEDICAID.GOV

105 New Jersey CAFRS 2003-2011. Page 38.

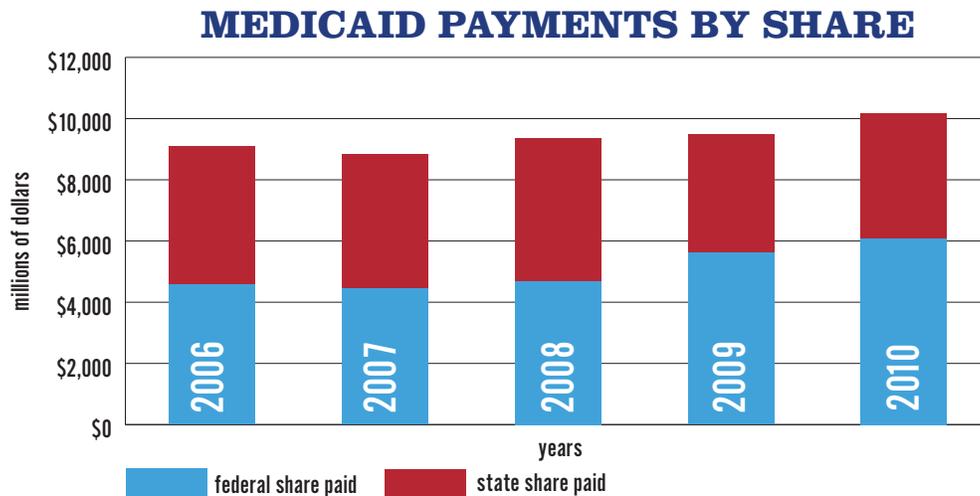
106 "New Jersey: Medicaid Spending." The Henry J. Kaiser Family Foundation. [<http://www.statehealthfacts.org/profileind.jsp?cat=4&sub=47&rqn=32>].

107 Scott, Dylan. "Significant Disparity Persists in State Medicaid Spending." Governing. [<http://www.governing.com/blogs/view/Significant-Disparity-Persists-in-State-Medicaid-Spending.html>].

108 Davis, Karen and Cathy Schoen. "Slowing the Growth of U.S. Health Care Expenditures. What are the Options?" The Commonwealth Fund. [[http://www.commonwealthfund.org/usr\\_doc/Davis\\_slowinggrowthUShticareexpenditureswhatareoptions\\_989.pdf](http://www.commonwealthfund.org/usr_doc/Davis_slowinggrowthUShticareexpenditureswhatareoptions_989.pdf)]. Page 8.

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The NJ FamilyCare/Medicaid program is jointly funded by federal government and the state, and administered by the state. In total, Medicaid coverage for New Jersey citizens cost \$10.2 billion in 2010, a figure that increased 4.7% between 2007 and 2010. Although Medicaid expenses overall rose in New Jersey in 2010, the proportion funded by the state decreased. The federal government's share of the funding has increased from 50% in 2006 to 60% in 2010, thanks in large part to \$1 billion in federal stimulus money dedicated to funding Medicaid in New Jersey.<sup>109</sup>



**Figure 12** SOURCE: MEDICAID.GOV

## PROSPECTS FOR REFORM

In response to the looming budget deficit, Governor Christie proposed cuts to the state's Medicaid program in 2012, including a reduction in eligibility for Medicaid. The transition to a reduced beneficiary pool has already begun, owing in large part to decreased enrollment as the economy has slowly recovered from the Great Recession. Another cost containment strategy involves fundamental changes in the system. Since 1995,<sup>110</sup> New Jersey has been moving recipients from the traditional "fee-for-service" model, where health care providers are paid directly for the services they perform, to a "managed care" model, in which health care providers are paid a certain fee to cover all specified medical expenses for a recipient.<sup>111</sup>

With the passage of the Patient Protection and Affordable Care Act (ACA) through Congress in 2010, a host of new health care programs and policies now affect New Jersey. Because of ACA, for

109 Medicaid Statistical Information System (MSIS) and Medicaid Financial Management Report. "New Jersey Medicaid Statistics." The Official U.S. Government Site for Medicaid. Centers for Medicare & Medicaid Services. Web. 09 Mar. 2012. [<http://medicaid.gov/Medicaid-CHIP-Program-Information/By-State/new-jersey.html>].

110 New Jersey Department of Human Services. "NJ Medicaid & Managed Care." The Official Web Site for The State of New Jersey. State of New Jersey. Web. 09 Mar. 2012. [<http://www.state.nj.us/humanservices/dmahs/info/resources/care/>].

111 New Jersey Department of Human Services. "Medicaid Managed Care Enrollment Initiative." The Official Web Site for The State of New Jersey. State of New Jersey. Web. 09 Mar. 2012. [<http://www.state.nj.us/humanservices/dmahs/home/carve.html>].

## { health care }

instance, young adults are allowed to remain on their parents' health care coverage plans until age 26, and a larger number of rebates and discounts have become available to seniors to help pay for their prescription drugs.

The ACA also requires insurance companies to spend at least 80% of premium dollars on spending that directly benefits patient health, rather than on administrative and managerial costs. Furthermore, the law prevents large premium increases. More generally, the ACA aims to place a greater emphasis on wellness and preventive care rather than on last-step interventions like surgeries, which tend to be more drastic and expensive than prevention. Though the full effects of the ACA remain to be seen, all of these measures are designed to help improve access to quality care for citizens in the state, but may work counter to New Jersey's cost control effort on health care.<sup>112</sup>

### HEALTH BENEFITS FOR STATE EMPLOYEES

One of the most costly and contentious areas of health care spending in New Jersey are expenditures on health benefits for state employees. In 2010, the state faced over \$120 billion in unfunded pension and health care benefits for public employees. In September 2010, Governor Christie put forward a reform plan to address this large liability, which would have increased the retirement age for state workers and required them to pay a flat 30% portion of the cost of their premiums. Democrats in the State Legislature countered with their own proposals, including a tiered plan by Senator Stephen Sweeney that would have required higher-paid workers to pay a higher percentage of their premium, up to 30%.<sup>113</sup>

The measure that ultimately passed the Legislature and was signed by Governor Christie represented a compromise between these two plans. According to The Wall Street Journal, the reform measure requires workers "to pay a share of their premium on a sliding scale based on income. The average worker earning \$60,000 would pay 27% of his premium while someone earning more than \$95,000 would pay 35%."<sup>114</sup>

Unions have been vocal critics of Governor Christie's plans for health benefits reform, calling the measures unfair to workers who were promised these benefits.<sup>115</sup> Nonetheless, pension and health benefits reform passed the State Legislature in June of 2011.<sup>116</sup> According to a report by Governor Christie's office, the reform measures saved local governments \$267 million in the first year after their passage, and will save taxpayers \$120 billion over the next thirty years, once interest payments on the unfunded liability and inflation are taken into account.<sup>117</sup> The reform measures

112 "How the Health Care Law is Making a Difference for the People of New Jersey." HealthCare.gov. [<http://www.healthcare.gov/law/resources/nj.html>].

113 "Democrats for Pension Reform." The Wall Street Journal. [<http://online.wsj.com/article/SB10001424052702304319804576389601939696000.html>].

114 Ibid.

115 Fleisher, Lisa. "Top N.J. Democrat to Propose Change in Health Spending." The Wall Street Journal. [<http://online.wsj.com/article/SB10001424052748703703804576145200919279100.html>].

116 "N.J. pension reform deal reached between Christie and 4 top lawmakers in Trenton." NJ.com [[http://www.nj.com/news/index.ssf/2011/06/nj\\_pension\\_reform\\_deal\\_reached.html](http://www.nj.com/news/index.ssf/2011/06/nj_pension_reform_deal_reached.html)].

117 "The Governor's Fiscal Year 2013 Budget Summary." New Jersey Office of Management and Budget. [<http://www.state.nj.us/treasury/omb/publications/13bib/BIB.pdf>]. Page 20.

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were necessary, Governor Christie said, because of the huge unfunded liabilities in the health care system and because the average New Jersey public employee contributed only 8% of the cost of his or her health benefits, compared to 34% for the average federal employee.<sup>118</sup>

“As federal stimulus funds dry up, the state will be expected to shoulder a larger percentage of health care spending.”

### CHALLENGES AHEAD

New Jersey’s average annual growth in health care spending remains below the national average and Medicaid enrollment in the state has begun to decrease thanks to a slow, but steady economic recovery. Still, many issues remain in controlling the high costs of state health care. Medicaid spending per enrollee and total health spending per capita remain well above the national average, crowding out other state spending. As federal stimulus funds dry up, the state will be expected to shoulder a larger percentage of health care spending. While recent reform to the public employee health benefits system was an important first step, much work remains in ensuring access to affordable and high-quality care for all of the state’s citizens at a cost the state can afford. ★

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<sup>118</sup> Campanile, Carl. “Gov takes ax to NJ spending.” The New York Post. [[http://www.nypost.com/p/news/local/gov\\_takes\\_ax\\_to\\_nj\\_spending\\_3tYhH107a11aYEXwx87hP](http://www.nypost.com/p/news/local/gov_takes_ax_to_nj_spending_3tYhH107a11aYEXwx87hP)].

## OVERVIEW

States are responsible for running two massive educational systems. First, states operate a public school system with a mandate to provide free education for all children from kindergarten through twelfth grade (K-12). Second, states operate public universities and community colleges, which provide higher education at a reduced cost to state citizens and serve millions of students (and employ hundreds of thousands of people) nationally. State governments manage these two education systems, K-12 and higher education, separately. Altogether, the states, along with cities and local governments, are responsible for the vast majority—approximately 90%—of public education financing.<sup>119</sup>

“In New Jersey, the key issues facing the public education system are poor performance in poor and urban school districts, increasing tuition at the college level, and a “brain drain” of educated young people out of the state.”

While the issues plaguing states in each segment of the education system are different, there are several trends that run throughout the public education systems in the United States. These include increasing tuition costs for university education, declining levels of achievement in math and science among high school students, and entrenched underperformance at all levels by schools in impoverished areas. In New Jersey, the key issues facing the public education system are poor performance in poor and urban school districts, increasing tuition at the college level, and a “brain drain” of educated young people out of the state.

## K-12 EDUCATION

### Funding

According to the New Jersey Comprehensive Annual Financial Report (CAFR) from the fiscal year ending June 30, 2011, the state spent \$14.1 billion on “educational, cultural, and intellectual development,” comprising nearly 23% of all primary government spending.<sup>120</sup> However, this figure includes funding for educational initiatives other than just K-12 education. In fiscal year 2011, the state budget allocated \$10.7 billion to K-12 education, and \$10.3 billion in fiscal year 2012, a 3.9% decrease.<sup>121</sup>

According to data from the New Jersey School Boards Association and the Tax Foundation, New Jersey relies much more heavily on local taxes to support K-12 education funding than do other

119 “Funding and Managing Education.” New Jersey School Boards Association. [<http://www.njsba.org/propertytax/pdf/funding-managing-education.pdf>]. Page 2.

120 “Basic Financial Statements.” New Jersey CAFR 2011. [<http://www.state.nj.us/treasury/omb/publications/11cafr/pdf/finstats.pdf>]. Page 28.

121 “The Governor’s FY 2012 Budget.” New Jersey Office of Management and Budget. [<http://www.state.nj.us/treasury/omb/publications/12bib/B1B.pdf>]. Page 65.

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states. The average state receives 12.5% of its public elementary school funding from federal sources and 43.5% from state sources, while New Jersey receives only 9.3% of its funding from the federal government and 35.1% from state sources.<sup>122</sup>

“In 2010, New Jersey was the third-highest spender per-pupil in the country at \$16,841, behind only Washington, D.C., and New York.”

Though the percentage of the education budget covered by federal funds increased in recent years thanks to federal stimulus funding, New Jersey nonetheless funds a smaller percentage of education through federal aid than do other states.<sup>123</sup> In fact, the Tax Foundation found that New Jersey relies less on the federal government for education funding than any other state.<sup>124</sup>

Nevertheless, New Jersey has consistently spent more per-pupil on education than have other states. In 1984-1985, the state ranked fourth in the nation in terms of per-pupil spending. By 2003-2004, New Jersey spent more than any other state per pupil.<sup>125</sup> In 2010, New Jersey was the third-highest spender per-pupil in the country at \$16,841, behind only Washington, D.C., and New York.<sup>126</sup>

<b>Table 4: Expenditures Per Pupil in Selected Years and Ranking of New Jersey Students in Performance</b>					
	<b>1973</b>	<b>1983</b>	<b>1993</b>	<b>2003</b>	<b>2008</b>
Spending Per Student (NJ)	\$7,440	\$9,720	\$15,540	\$17,240	\$17,076
Spending Per Student (U.S.)	\$5,720	\$7,030	\$9,970	\$10,740	\$10,591
<b>State Ranking (NJ)</b>	<b>4th</b>	<b>5th</b>	<b>1st</b>	<b>1st</b>	<b>3rd</b>

SOURCE: NEW JERSEY EDUCATION COMMISSIONER'S EDUCATION FUNDING REPORT, FEBRUARY 2012

## Legal Battles

New Jersey has a tangled history of K-12 education funding and performance. In 1981, the Education Law Center, a Pennsylvania legal advocacy group, filed a complaint in Superior Court challenging New Jersey's system of financing public education, alleging that the state's funding formula "caused significant expenditure disparities between poor urban and wealthy suburban school districts" and that as a result urban districts were unable to meet the educational needs of

122 Dixon, Mark. "Public Education Finances: 2010." June 2012. [<http://www2.census.gov/govs/school/10f33pub.pdf>]. Page 5.

123 "Funding and Managing Education." New Jersey School Boards Association. [<http://www.njsba.org/propertytax/pdf/funding-managing-education.pdf>]. Page ii.

124 Prante, Gerald. "K-12 Spending More Reliant on Federal Government Since No Child Left Behind Act." [<http://taxfoundation.org/article/k-12-spending-more-reliant-federal-government-no-child-left-behind-act>].

125 Prante, Gerald. "K-12 Spending More Reliant on Federal Government Since No Child Left Behind Act." [<http://taxfoundation.org/article/k-12-spending-more-reliant-federal-government-no-child-left-behind-act>].

126 McCandless, Justina. "Utah still ranks last in per student spending." [<http://www.sltrib.com/sltrib/news/54350036-78/utah-education-per-state.html.csp>].

their students.<sup>127</sup> A lengthy and continuing legal battle ensued. In May 2011, “Abbott XXI,” the twenty-first ruling based on the case, was released. The State Supreme Court found that New Jersey’s K-12 school formula funding was unconstitutional and ordered the state to change the way it provided education to low-income school children.

Governor Christie has argued against the funding formula mandated by the Abbott ruling, pointing out that “63% of state aid over the years has gone to the Abbott Districts and the schools are still predominantly failing,” a policy he says is unfair to the state’s other 557 school districts. Governor Christie also points out that there is not necessarily a correlation between the amount of a funding a school receives and school performance. For example, in 2010, New Jersey had twelve National Blue Ribbon schools (schools that had high-achieving students or had demonstrated an improvement in student achievement), and five of the six traditional New Jersey schools recognized as Blue Ribbon had a lower per-pupil district spending than the state-wide average.<sup>128</sup>

In March 2011, a Superior Court judge found that Governor Christie’s \$820 million in cuts to school aid in the 2010 fiscal year left New Jersey’s schools unable to provide a “thorough and efficient” education to the state’s 1.4 million school children. Governor Christie’s office has noted that the judge’s ruling did not consider the larger effects of the state’s budget crisis or the need to cut spending in order to balance the annual budget.<sup>129</sup>

## **Education Reform**

Governor Christie has proposed reforms to the ways teachers are hired, compensated, and fired. Some of the reforms include reforming tenure, implementing teacher layoffs by merit rather than by seniority, and paying high-performing teachers more. These proposals have led to battles with education unions in the state, who accuse Governor Christie of “bullying teachers.”<sup>130</sup>

Governor Christie has also proposed an expansion of the number of charter schools in the state. In 2010, Governor Christie’s administration approved six new charter schools, adding to the 73 already operating in the state. In his 2011 State of the State address to the Legislature, Governor Christie called the expansion of the state’s charter school program “a top priority.”<sup>131</sup> In January 2011, the Christie Administration approved 23 new charter schools, the largest number of charter schools approved in an application cycle since the Charter School Program Act was signed into law in 1995.<sup>132</sup> In total, the Christie Administration allowed for 97 charter schools to operate in the state, serving 25,000 students, by September 2011, in hopes of providing better choices for students.

127 “The History of Abbott vs. Burke.” Education Law Center. [<http://www.edlawcenter.org/cases/abbott-v-burke/abbott-history.html>].

128 “New Jersey’s Blue Ribbon Schools Announced.” New Jersey School Boards Association. [[http://www.njsba.org/sb\\_notes/20100921/blueribbon.html](http://www.njsba.org/sb_notes/20100921/blueribbon.html)] and “The Governor’s FY 2012 Budget.” New Jersey Office of Management and Budget. [<http://www.state.nj.us/treasury/omb/publications/12bib/BIB.pdf>]. Page 35.

129 Rundquist, Jeanette. “Christie’s budget cuts left N.J. schools unable to provide ‘thorough and efficient’ education, judge rules.” NJ.com [[http://www.nj.com/news/index.ssf/2011/03/christies\\_school\\_aid\\_cuts\\_left.html](http://www.nj.com/news/index.ssf/2011/03/christies_school_aid_cuts_left.html)].

130 “Chris Christie on Education.” OnTheIssues. [[http://www.ontheissues.org/governor/Chris\\_Christie\\_Education.htm](http://www.ontheissues.org/governor/Chris_Christie_Education.htm)].

131 Ibid.

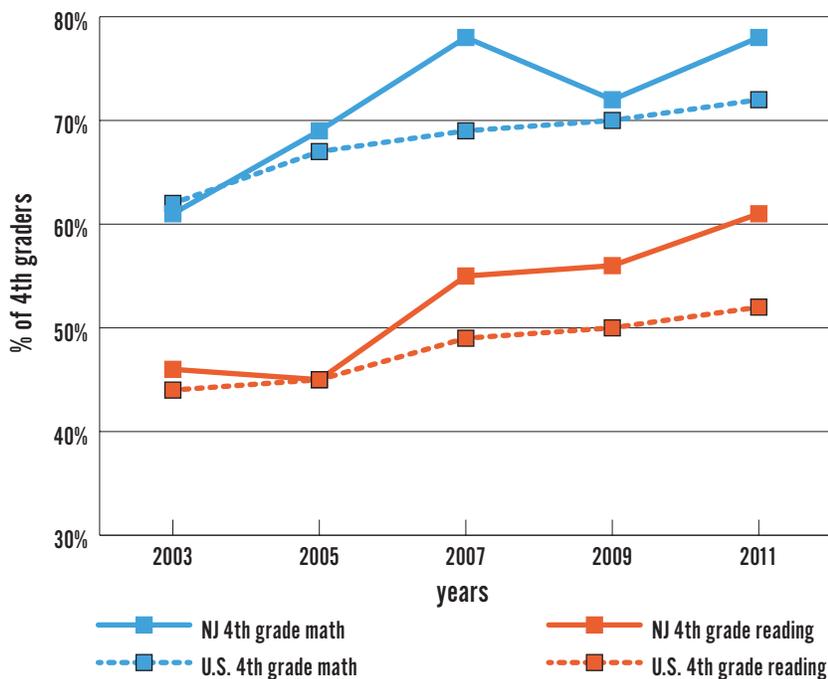
132 “The Governor’s FY 2012 Budget.” New Jersey Office of Management and Budget. [<http://www.state.nj.us/treasury/omb/publications/12bib/BIB.pdf>]. Page 38-39.

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There is a vigorous debate surrounding charter schools and their educational and social benefits. Proponents argue that charter schools provide families with an alternative to a failing school system. In addition, the competition introduced into the educational system by charter schools can help improve results for students in every type of school. Finally, proponents cite the greater flexibility and accountability of charter schools: the vast majority of charter schools are not unionized, and thus principals have the flexibility to hire, fire, and reward teachers based on merit. Also, unlike a traditional public school, if a charter school does not perform, their charter is not renewed.

However, charter school critics maintain that charter schools are destroying rather than improving the public education system by diverting funding and talented students from traditional public schools. Funding is allocated to public schools based on the number of students they have, so every student who leaves a public school for a charter school takes with him tens of thousands of dollars in funding. There is also worrying evidence that charter schools do not, on average, perform better than traditional public schools.<sup>133</sup>

## % OF 4TH GRADERS SCORING “BASIC” OR ABOVE IN READING & MATHEMATICS

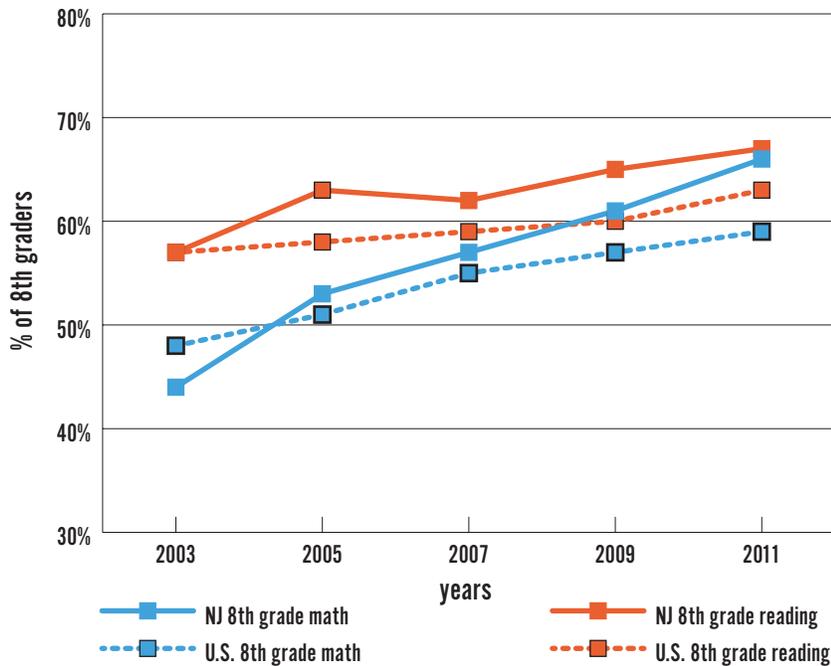


**Figure 13**

SOURCE: NEW JERSEY EDUCATION COMMISSIONER'S EDUCATION FUNDING REPORT, FEBRUARY 2012

133 Paulson, Amanda. "Study: On average, charter schools do no better than public schools." The Christian Science Monitor. [<http://www.csmonitor.com/USA/Education/2010/0629/Study-On-average-charter-schools-do-no-better-than-public-schools>].

**% OF 8TH GRADERS SCORING “BASIC” OR ABOVE IN READING & MATHEMATICS**



**Figure 14**

SOURCE: NEW JERSEY EDUCATION COMMISSIONER'S EDUCATION FUNDING REPORT, FEBRUARY 2012

**Measures of Achievement**

Despite funding issues and controversy, including the eighth highest rate of school finance inequity among districts, New Jersey students show high academic achievement.<sup>134</sup> A ranking compiled by the DailyBeast, using data from the National Assessment of Education Progress (NAEP), a national standardized test given to fourth- and eight-graders, puts New Jersey's students third in the country, behind only Vermont and Massachusetts.<sup>135</sup> Similarly, a report on K-12 achievement by EdWeek ranks New Jersey second in the nation, behind Massachusetts, thanks to the state's strong NAEP performance, achievement gains, high school graduation rate, and the availability of Advanced Placement classes.<sup>136</sup> As the New America Foundation notes, New Jersey led the nation in fourth-grade reading, eighth-grade math, and eighth-grade reading on the 2011 NAEP, and ranked third in fourth-grade math. The state's high school graduation rate, at 85%, is fifth highest in the nation and well above the national average of 68.8%.<sup>137</sup>

However, problems remain. The state's students perform poorly on the SAT, which is used in college admissions and serves as an indicator of academic success in college. The state's critical reading,

134 "Federal Education Budget Project." New America Foundation. [<http://febp.newamerica.net/k12/>].

135 "America's Smartest Kids." The Daily Beast. [<http://www.thedailybeast.com/galleries/2011/01/21/america-s-smartest-kids.html#slide3>].

136 "K-12 Achievement." EdWeek. [<http://www.edweek.org/media/ew/qc/2011/16sos.h30.k12.pdf>].

137 "Federal Education Budget Project." New America Foundation. [<http://febp.newamerica.net/k12/>].

math, writing, and total SAT scores are all below average.<sup>138</sup> The state ranked 40th in critical reading, 32nd in math and 36th overall. The state's poverty gap on the NAEP—the difference in NAEP performance between those students eligible for free lunches and those who are not—is also above average.

## HIGHER EDUCATION

### Funding

In June 2011, Governor Christie reorganized New Jersey's system of higher education, abolishing the Commission on Higher Education and transferring the duties, responsibility, and authority of the Commission to the Secretary of Higher Education. The Secretary now oversees all public higher education in the state.<sup>139</sup> This includes the \$5.7 billion the state spent on higher education in the 2011 fiscal year, more than expenditures on public safety, criminal justice, and transportation combined.<sup>140</sup> The state also received more than \$5.0 billion for higher education thanks to tuition and operating grants from the federal government.<sup>141</sup>

New Jersey has three public research universities, nine state colleges and universities, and 19 community colleges. The state's flagship university, Rutgers, the State University of New Jersey, has been ranked as one of the world's top 100 universities.<sup>142</sup>

### Challenges

The state's public colleges and universities face a host of problems, including a lack of state investment to meet capital needs, a lack of research dollars and increased administrative costs. As of 2012, New Jersey ranks 47<sup>th</sup> nationally in support for higher education and 47<sup>th</sup> in enrollment capacity.<sup>143</sup>

These issues have led to a severe “brain drain” out of the state: few high school graduates stay in the state for college, and those who do often leave after earning their diploma. In fact, Governor Christie says, “New Jersey loses more of its student to out-of-state colleges and universities than any other state in the nation.” New Jersey's net out-migration of college students constitutes a third of all net out-migration in the United States, or 30,000 students per year.<sup>144</sup>

In response to these challenges, Governor Christie created the Higher Education Task Force in 2010 to examine how best to promote higher education in the state. Governor Christie has also

138 Grant, J.C. State Education Rankings: SAT Scores." Yahoo! [<http://voices.yahoo.com/state-education-rankings-sat-scores-6382040.html>].

139 "State of New Jersey: Higher Education." [<http://www.state.nj.us/highereducation/about/index.html>].

140 New Jersey's considers its system of universities a component unit and its finances are therefore not included in total revenues and expenditures, as they may be in other states.

141 "Basic Financial Statements." New Jersey CAFR 2011. [<http://www.state.nj.us/treasury/omb/publications/11cafr/pdf/finstats.pdf>]. Page 28.

142 "The World University Rankings 2011-2012." Times Higher Education. [<http://www.timeshighereducation.co.uk/world-university-rankings/2011-2012/reputation-rankings.html>].

143 "Elevating Higher Education To A New Level of Excellence." NJ Fifth Legislative District. [<http://www.njleg5.com/content/elevating-higher-education-new-level-excellence>].

144 Hester Sr., Tom. "Christie creates Higher Education Task Force to examine problems, needs of N.J.'s 63 colleges." NewJerseyNewsRoom.com [<http://www.newjerseynewsroom.com/state/christie-creates-higher-education-task-force-to-examine-problems-needs-of-njs-63-colleges>].

signed legislation that aims to give greater leverage to higher education institutions and private entities in building new on-campus structures and improving existing buildings. He has also proposed a series of legislative measures that will help higher education institutions better control their costs through collective bargaining, risk management, and civil service reforms.<sup>145</sup>

<b>Table 5: State Education Rankings: New Jersey SAT Scores</b>		
Critical Reading SAT Score:	496	(Ranking 40)
Math SAT Score:	513	(Ranking 32)
Writing SAT Score:	496	(Ranking 35)
Total SAT Score:	1,505	(Ranking 36)

## Student Debt

New Jersey's lack of support for higher education has had clear consequences for the state's students. Public colleges and universities, facing funding shortfalls, have raised tuition and other costs to students and their families. As a result, many students have taken on huge debt burdens to finance their higher education. With tuition costs on the rise, especially since 2008, a generation of students has responded by taking out heavy loans to finance their educations. Recent estimates from the Federal Reserve Bank of New York suggest that total student loan debt is nearly \$1 trillion nationwide.<sup>146</sup> According to the Project on Student Debt, 66% of New Jersey's higher education students graduate with debt, the eleventh-highest percentage in the country. The average debt burden is \$23,792.

## LOOKING AHEAD

Though New Jersey's students show high achievement by national standards, the state's system of public education still faces difficult challenges. In K-12 education, recent state funding cuts may imperil school quality, and the issue of how to fund districts equitably remains pressing. The question of how to provide the state's students with affordable high-quality education is crucial. Governor Christie has put forward proposals and reforms, including championing the charter school movement and changing the ways in which teachers are compensated, but there is political opposition to those reforms and the state has far to go. The state's funding for higher education is below average, resulting in a "brain drain" of students out of the state and increasing levels of student debt. Continued budget issues will not make the choices in funding higher education — or K-12 — any easier. ★

<sup>145</sup> Ibid.

<sup>146</sup> Hamilton, Walter. "Student loan debt continues to rise" The Los Angeles Times. [<http://www.latimes.com/business/money/la-fi-mo-student-debt-rise-20120531,0,543907.story>].

# { unfunded liabilities }

## OVERVIEW

Reported as noncurrent liabilities, “unfunded liabilities” occur when the state budgets too little for the amount that is promised in the future. The largest categories of unfunded liabilities are pension and health care benefits to current and retired state workers. Taken together, these programs represent billions of dollars in unfunded liabilities that threaten to bankrupt states if left unattended. Around the country, state legislatures are now realizing the incredible urgency of pension and health benefits reform and are beginning to take action to contain costs by increasing retirement ages, reducing benefits, and increasing costs to public employees. Still, states have a long way to go before they will be on sure financial footing. Like most states, New Jersey is struggling to address tens of billions of dollars in unfunded liabilities.

## PENSIONS

A large percentage of New Jersey’s unfunded liabilities can be traced to the state’s pension fund system. New Jersey’s system covers over 720,000 current workers and retirees and has seven distinct retirement systems, a separate system of health benefits, and a number of other programs designed to provide for public employees during their employment and retirement. New Jersey, unlike other most other states, manages all its state and local pension obligations.<sup>147</sup> These programs are overseen by the Division of Pension and Benefits in the New Jersey Department of the Treasury.<sup>148</sup> The state’s two biggest public pension funds are the Teachers’ Pension and Annuity Fund (TPAF) and the Public Employees’ Retirement System (PERS).

In early 2011, the State Treasurer’s office reported: “For New Jersey’s pension fund, the unfunded liability for its state and local components is now \$54 billion, and without reform, that liability will rise to \$183 billion by 2041.”<sup>149</sup>

As a result of these dire projections, in June 2011, Governor Christie and top state legislators reached a deal to reform the state’s public employee pension and health care benefits programs by boosting employee pension and health-care contributions, raising the minimum retirement age for new workers, and freezing annual cost-of-living adjustments (COLA) to pension payouts. Sixty percent of the projected \$122 billion in savings (or \$75 billion) comes from reducing COLAS for the almost 300,000 retired teachers, police, firefighters, and state and local government workers in the state pension system. Kevin Roberts, a spokesman for Christie, explained the need for these pension changes: “We have a benefits problem, both the governor and Senate president have made that clear. And without a change we run the risk of a pension not being there for folks who are counting on it, which is not an acceptable option.” New Jersey’s branch of the AFL-CIO opposed the legislation, but was unable to block it.

147 Ravitch, Richard and Volcker, Paul. Report of the States Budget Crisis Task Force. [<http://www.statebudgetcrisis.org>].

148 “Division of Pension and Benefits.” New Jersey Department of the Treasury. [<http://www.nj.gov/treasury/pensions/>].

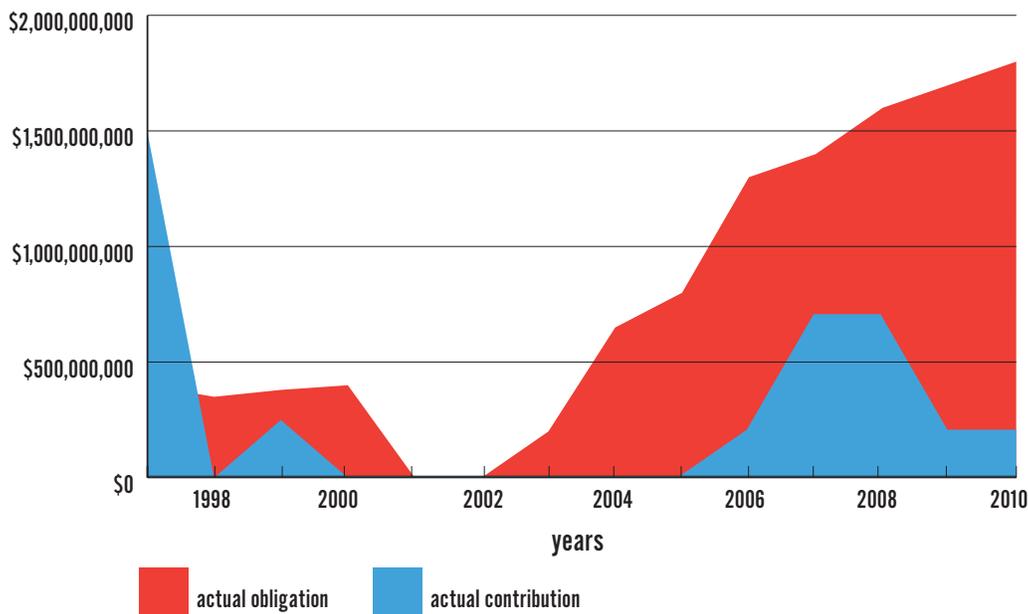
149 The Governor’s FY 2012 Budget - State of New Jersey. [[www.state.nj.us/treasury/omb/publications/12bib/BIB.pdf](http://www.state.nj.us/treasury/omb/publications/12bib/BIB.pdf)].

# { unfunded liabilities }

“By late 2011, the pension liabilities had increased again to \$41.8 billion after Governor Christie skipped a \$3 billion pension payment, calling the pension fund “a broken system” and refusing to pay more into the system until more reforms were implemented.”

After the law was signed, New Jersey’s unfunded pension liability dropped from \$53.9 billion to \$35.4 billion, as reported by the state in bond documents. By late 2011, however, the unfunded liability had increased again to \$41.8 billion after Governor Christie skipped a \$3 billion pension payment, calling the pension fund “a broken system” and refusing to pay more into the system until more reforms were implemented.<sup>150</sup> According to the a state budget study by Paul Volcker and Richard Ravitch, as of June 2012, New Jersey’s unfunded pension liability was closer to \$42.6 billion.<sup>151</sup>

## NJ OBLIGATION VS. ACTUAL CONTRIBUTION TO STATE TEACHER PENSION FUND



**Figure 15**

SOURCE: NEW JERSEY UNDERFUNDS TEACHER PENSIONS.” THE QUICK & THE ED. [HTTP://WWW.QUICKANDED.COM/2011/01/NEW-JERSEY-STARVED-THE-PENSION-BEAST.HTML/NEW-JERSEY-UNDERFUNDS-TEACHER-PENSIONS]

150 Dopp, Terrence. “New Jersey’s pension-funding deficit climbs more than 17% to \$53.9 Billion”. [http://mobile.bloomberg.com/news/2010-12-23/new-jersey-s-pension-funding-deficit-climbs-more-than-17-to-53-9-billion]. December 23, 2010.

151 Ravitch, Robert and Volcker, Paul. Report of the States Budget Crisis Task Force. [http://www.statebudgetcrisis.org].

## { unfunded liabilities }

The primary reason for these huge liabilities is not only the economy's lackluster performance, but also the fact that New Jersey historically underfunds its pension programs. Andrew Pratt, spokesman for the Treasury, said, "New Jersey's pension deficit is the result of investment losses amid the economic slump and lawmakers' expansion of pension benefits without identifying funds to pay for them."<sup>152</sup> According to the Volcker-Ravitch report: "New Jersey has habitually underpaid its pension contributions. Over the last six years, contribution shortfalls have totaled about \$14.5 billion."<sup>153</sup>

"The primary reason for these huge liabilities is not only the economy's lackluster performance, but also the fact that New Jersey historically underfunds its pension programs."

The 2011 pension reform legislation contained a requirement for New Jersey to increase contributions from the general fund each year until, by 2018, it would be paying its fully required contribution. However, just as in the past, the state has already fallen short: In FY 2012, the first year of the requirement, the state only paid \$484 million — far less than the required contribution of \$3.4 billion. The annual employer contribution will have to increase by at least several billion dollars between 2013 and 2018 if New Jersey is to meet the requirements of this new legislation.<sup>154</sup> Because the state won't be making full pension payments, the unfunded liability estimates could swell again to \$58 billion by 2019, according to the state's own estimates.

According to a J.P. Morgan report, issued in the summer of 2012, even after Christie's reforms, the state would still have to cut spending 30.8% or raise taxes another 17.2%, keeping them in place for two decades, to solve the problem.<sup>155</sup> "While admirable, this was paper reform," said Fred Beaver, former state pension director. "The state is going to need a big shovel to get out of the hole they are digging themselves by not making the payments," said Richard C. Dreyfuss, a pension expert at the Commonwealth Foundation, a nonprofit educational research group in Pennsylvania. The state is enjoying short-term pension relief at the expense of future taxpayers. He called it "generational theft."<sup>156</sup>

152 Dopp, Terrence. "New Jersey's pension-funding deficit climbs more than 17% to \$53.9 Billion". [<http://mobile.bloomberg.com/news/2010-12-23/new-jersey-s-pension-funding-deficit-climbs-more-than-17-to-53-9-billion>]. December 23, 2010.

153 Ravitch, Richard and Volcker, Paul. Report of the States Budget Crisis Task Force. [<http://www.statebudgetcrisis.org>]

154 Ibid.

155 "Morgan's Big Secret," The New York Post. June 18, 2012. [[http://www.nypost.com/p/news/opinion/opedcolumnists/morgan\\_big\\_secret\\_DSB009VFZwDih1ZrjkeaAN#ixzz2433iTW10](http://www.nypost.com/p/news/opinion/opedcolumnists/morgan_big_secret_DSB009VFZwDih1ZrjkeaAN#ixzz2433iTW10)]

156 Christie's overhaul may not save N.J. pension system , Star-Ledger, Oct. 23, 2011.

# { unfunded liabilities }

The state faces other pension-related issues as well. Many analysts argue that New Jersey is underreporting its level of liabilities. Much debate, for instance, has surrounded the issue of valuing the future liabilities for pensions. A growing number of analysts are concerned that the assumed rate of return used to value the pension assets in New Jersey is vastly overstated at 8.25%, considerably higher than the rate used in most other states (indeed, 40 states used assumed rates of 8% or lower).<sup>157</sup> If this assumed rate was adjusted downward, as many have advocated, New Jersey's unfunded liabilities would look even more troublesome.<sup>158</sup>

## UNFUNDED RETIREE HEALTH CARE PROMISES

In addition to the state's pension troubles, New Jersey also faces billions of dollars in unfunded retiree health care promises. Like many states, New Jersey promises state employees and retired state workers health care benefits as part of their compensation package. When other benefits, like life insurance, are included, these benefits are called "Other Post-Employment Benefits" (OPEB). According to the Volcker-Ravitch report, "these benefits have barely any funding."<sup>159</sup> In fact, until the Governmental Accounting Standards Board issued disclosure rules for state OPEB funds in 2004, states did not make these liabilities public.

Across the nation, state-administered OPEB plans have total unfunded liabilities of more than \$600 billion, according to the Volcker-Ravitch report. When unfunded health care liabilities at the local level are counted, the combined liabilities of U.S. States are likely over \$1 trillion. In New Jersey, the unfunded health care liability is \$58.3 billion.<sup>160</sup> New Jersey funds these benefits on a pay-as-you-go basis rather than contributing to an established fund, which leaves the state even further behind in its promises.

The state's health care liabilities will only increase in coming years if no action is taken. Indeed, if the federal government increases the eligibility age for Medicare, OPEB liabilities could actually increase, because state and local government retiree health plans will be left covering the period between retirement and eligibility for Medicare for state workers.

Thus, despite reform efforts and media coverage on unfunded pensions and health care liabilities, New Jersey, like most of the country, remains deeply behind on promises made to its current and retired workers. If the state does not address these issues soon, liabilities will continue to swell and may eventually overwhelm any efforts at sound financial reform. ★

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159 Ravitch, Richard and Volcker, Paul. Report of the States Budget Crisis Task Force. [<http://www.statebudgetcrisis.org>].

160 Ibid.

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