



THE 800-PAGE GORILLA

An Advocate's Guide to the Budget

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Produced by NJPP for the Association
for Children of New Jersey

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New Jersey Policy Perspective

NJPP is a nonprofit and nonpartisan research and educational organization established in 1997 with the mission of promoting broad, vigorous debate about important issues facing the people of New Jersey. Our goal is a state where everyone can achieve to his or her fullest potential in an economy that offers a widely shared, rising standard of living.

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Foreword

The story is told about a man who routinely attended local council meetings to rail about the budget. After a while he became a nuisance, to where the mayor felt a need to get to the bottom of the man's discontent. So he took his nemesis aside one evening and asked, point-blank, "What's really your problem with this budget?"

"What's really my problem?" the man shouted, "What's *really* my problem? My problem with the budget is that *I'm not in it!*"

Indeed, we might all have ulterior motives when scrutinizing the budget at any level of government. And there's nothing wrong with that. The budget is, after all, a statement of priorities. At its best, it is a reflection of the will of the people from whom it will raise money and for whom it will spend it.

But whether your interest in the state budget is purely academic or a bit more pragmatic, the first step is to understand it. Each year, New Jersey spends billions of dollars in thousands of ways. The process for doing so should be as wide-open as possible with as many participants as want to be involved. We've designed this guide to help you be among those participants. This booklet is about learning the nuts and bolts of the state budget, but we hope you also will read NJPP's *Let the Sunshine In: Making New Jersey's Budget More Transparent*. It contains many recommendations aimed at improving the process of crafting the state budget. For now, though, the system exists as it is laid out on the pages that follow. So, as we said in the Foreword to the first *Advocate's Guide* in 2001, "read on and fight on to make New Jersey a place that reflects the best of your values and beliefs."

As was the case with the first Advocate's Guide to the Budget, NJPP is grateful to the Association for Children of New Jersey for providing funding and guidance. In particular, we want to thank ACNJ Budget Policy Analyst Sheldon Presser, whose years of state government experience and relentless advocacy for New Jersey's kids make him an indispensable resource. Our appreciation also to Nick Acocella, publisher of the "Politifax" newsletter for sharing the above anecdote.

— Jon Shure

Introduction

Every year, New Jersey lawmakers introduce thousands of bills. Many aim to better the lives of the sponsors' constituents by doing such things as improving the educational system, minimizing prescription drug costs or sending criminals to prison with harsh mandatory sentences.

And each year, among the reams of legislative paperwork and policy statements, the most important—and perhaps least understood—bill introduced in New Jersey is the state budget. It is, for one thing, an unwieldy document, now spanning more than 800 pages in book form. And it is detailed: page after page of number after number; billions of dollars and instructions about how to spend it. The budget is the one law that, quite simply, makes everything state government does possible.

Each year countless disagreements arise over the state budget. Does it really reflect the will of the people? Is it based on sound economic forecasts? Are the truly needy being provided for? Are the wealthy carrying too much—or too little—of the burden? Does New Jersey really need to spend this much?

In years of plenty, the debate often pits how much the state should “set aside for a rainy day” against how much it should “rightfully return” to taxpayers. In lean years—which describe the situation after the boom of the 1990s—debate takes on a more desperate tone. How many programs must be sacrificed? How many people could lose their jobs? Is raising taxes an option?

Regardless of the economy, understanding the state budget and the process by which it is created requires a good roadmap. To navigate the budget, to influence it, and perhaps even change it, you need to know the way. This guide is designed with that in mind. This project was devised to help New Jersey citizens understand the budget, the process, the players and a bit of the politics. In doing so, we hope to provide advocates with the dos and don'ts of building budget support for years to come.

Please note that the numbers in this guide come from the state budget that was approved for Fiscal Year 2006: July 1, 2005 through June 30, 2006

The State Budget: The 800-Page Gorilla

The prospect of combing through tens of thousands of line items, a hundred pages of “budget language,” and the sometimes conflicting opinions of revenue forecasters can seem daunting to even the most diligent of advocates. Even more intimidating is figuring out how to navigate through the political playing field to advocate for a particular public policy or program and get it funded.

But for every budget that has been approved in New Jersey, there are dozens of success stories from advocates whose efforts lobbying the Governor’s Office and the state Legislature have paid off in real dollars for their causes.

The key to most successful efforts is a well-thought out plan of attack. But before you can begin to develop your advocacy plan, a basic understanding of the state budget, its importance and the budget process is imperative.

What is a Budget?

Despite its size and complexity, the state budget is a fiscal plan built on the same premise as a household budget. The State of New Jersey, like the individuals and families who live here, must determine on an annual basis how much money it will collect and how much it will spend.

A family uses its household budget—usually the salaries of all who are employed—to cover the mortgage, car payments, utilities, groceries and credit card bills, then figures out if the kids can go to college or the family can take a vacation.

In similar fashion, the state each year identifies its revenues, funds its mandatory programs, identifies priorities and pressing needs, then determines if there is enough money to invest in new initiatives. The main difference is one of magnitude.

While the household budget might involve one or two people negotiating their needs and bills, the scope and the scale of state budget work is vast. It involves tens of thou-

sands of state employees in dozens of state departments and agencies running thousands of programs that range from collecting taxes to protecting open space; expanding home care for the elderly or guarding prisoners; filling potholes or funding mass transit.

State budget decisions affect the lives of every one of the 8.7 million people living in New Jersey. They influence how much we pay in income and property taxes; the condition of our schools and healthcare facilities; the access we have to job opportunities in the public and private sectors; and the sense of security we have in our communities.

Despite the magnitude of the budget, the basic principles of budgeting still guide the state's work: how much do you earn, how much will you spend and how much can you save?

At every election we empower our Governor, our Senators and Assembly members to make these decisions for us. But between these elections, we retain the right, and even the duty, to educate and inform those elected officials—on a regular basis if need be—about how best to set those spending priorities.

Scope of the Budget and the Appropriations Act

Every year, the Governor of New Jersey delivers a budget message to a joint session of the Legislature. This is both a speech and a document. In his or her speech, the Governor reviews the year, tells of successes and previews new initiatives being proposed to deal with emerging or long-standing problems.

The document the Governor presents is called the New Jersey Budget—although what it is in fact is a planning document delivered to the Legislature. It provides a detailed plan of what programs the state will support using the revenues it will collect.

While this is an extremely important document and includes critical information, it is only a starting point.

The actual state budget, known officially as the annual Appropriations Act, is a bill drafted and passed by the Legislature then signed into law by the Governor. It is the only bill adopted each year that takes a comprehensive look at all of state government—the Executive branch with its 15 departments and dozens of independent agen-

cies and commissions; the Legislature; the Judiciary and virtually every other body or individual whose livelihood is funded in whole or part by the State of New Jersey.

Throughout the year, the Legislature debates and adopts hundreds of bills. Many have a financial impact, but because these bills generally are limited to a single subject, none provides the enormously broad perspective found in the state budget.

That is precisely the state budget's job.

Year after year, the budget provides the money that allows the State of New Jersey, its more than 78,000 employees and its thousands of programs and projects to operate. It determines, essentially, what will be done each year and how much taxpayers will have to pay to support it.

The budget specifies how much funding will be available for Medicaid recipients and how many students will obtain college tuition assistance. It determines how much overtime will be paid to the guards who work at our prisons, and how much marketing can be done for New Jersey's tourism industry. It determines how many families will receive state-sponsored health care and how many needy children will receive a hot meal in their school cafeteria.

This review of the budget will explain where the state gets its money and how it spends it. It will look at the state taxes and fees which provide a majority of the state's revenues each year. And it will examine state expenditures—the largest of which traditionally are made in programs that provide direct services to large groups of individuals such as New Jersey's 1.4 million school children or its 1.1 million senior citizens.

As complex as it all seems, it is important to remember that beyond the enormous expenditures made annually for social service programs, hundreds, if not thousands, of smaller initiatives are funded every year as part of the same budget bill.

Finally, it also is important to remember that just because the budget has "always been done this way," reforms and changes are still possible. True, the prospect of making long-lasting, systemic changes in New Jersey's budget priorities is intimidating. But New Jerseyans are empowered to vigorously review and debate the annual spending plan to help make sure that their priorities as individuals and communities, as parents and children, as employees and employers, drive the policy and decision-making that shapes the budget.

The Budget Over Time

Though New Jersey adopts a new budget every year, much of the annual spending is built on precedent and long-standing obligations. There is not as much flexibility as the amount of money involved might suggest. Our commitments to education, health and social services, law enforcement, environmental protection and business development continue regardless of the calendar date marking the start of another Fiscal Year. The one generalization that may safely be made about most of these items is that their cost continues to grow.

As a rule, the major features of the state budget change relatively slowly over time. That said, the past three decades have seen a number of exceptions to the rule. The enactment of the state sales tax in 1966, the adoption of the Gross Income Tax in 1976—and the raising and lowering of both since then—have helped reshape the way New Jersey raises and spends money today.

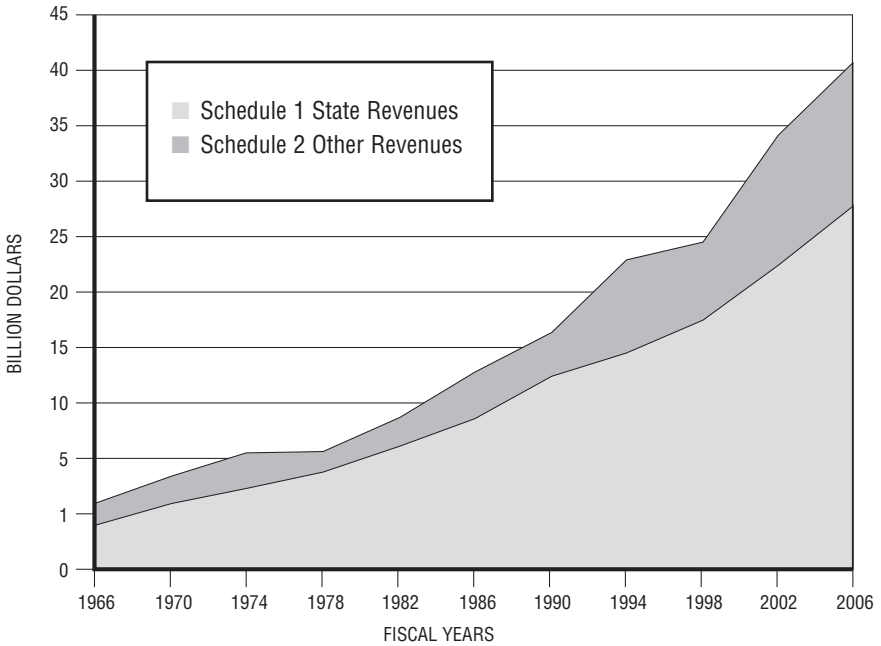
The graph on page 11 needs some explanation. During Fiscal Year 2006 (which runs from July 1, 2005 to June 30, 2006), the state expected to collect and spend about \$40.8 billion. Sixty-seven percent of that was to be collected by the state from taxes and fees—like income taxes, sales taxes, motor vehicle fees—levied on its citizens. The balance of the money was to come from either the federal government or from certain special programs.

Forty odd years ago—before enactment of the sales tax and the gross income tax—the state collected and spent just under \$650 million. In this fiscal year, the state expected to spend forty-two times more than that—approximately \$27.4 billion.

The reasons behind the enormous growth of the state budget vary, but the biggest drivers include: a 28 percent increase in population; adoption and expansions of sales and income tax laws; approval of casino gaming; enactment of a state lottery and a shift in responsibility from the federal and local government to the state for programs such as Medicaid and county court systems.

Specific demands for increased state support also stem from infrastructure needs—such as capital construction costs for transportation projects—which can be directly attributed to New Jersey's status as the most densely populated state in the nation. And, an extraordinary series of court orders mandating increases in funding for public schools in the state's most impoverished communities also increased pressure on politicians to raise money through taxation.

TOTAL STATE REVENUES



Note: Schedule 1 State Revenues are General Fund, Property Tax Relief Fund, Casino Control Fund, Casino Revenue Fund and gubernatorial elections fund revenues; Schedule 2 Other Revenues are primarily federal funds and special dedicated revenues.

Source: The Governor's recommended budgets, various years.

In the past decade alone, total state revenues have grown by over \$11 billion, almost 70 percent. The income tax has been a strong driver of this growth. During the same period, receipts more than doubled from \$4.7 billion in Fiscal Year 1996 to \$9.7 billion in Fiscal Year 2006. The sales tax has been almost as robust, increasing from \$4.3 billion to \$7.2 billion during the same period.

Now that you have a general understanding of what the budget is and how it has grown over time, it is important to understand just how little of the billions of dollars of revenue collected is up for grabs each year.

The sections that follow explain where the state gets its money, how it spends it, which spending is mandated by law and which is more discretionary. It will walk you thorough the process for adopting the state budget and provide tips on how to have an impact on the budget process.

Where the State Gets its Money

The state budget never operates in a vacuum. Programs funded at the state level often are tied to both federal aid and local property tax collections. At the federal level, a change in leadership and political philosophy can affect not only what the state is able to collect through its own efforts, but also what it might receive in federal support. Indeed, when leadership in the White House or Congress changes party or when priorities shift, quite often the state and its executives are forced to become advocates themselves to protect existing federal support or secure additional funds.

It is also valuable to understand how the economy drives state budget decisions. In times of economic prosperity, when revenue collections often exceed annual forecasts, prospects for advocacy groups improve. Governors work hard to leverage the state's good fortune to their own political advantage, embarking on initiatives large and small that satisfy not only the general populace, but key constituent groups that helped them reach the Executive Office in the first place.

Legislators work hard, as well, to identify projects that reflect not only their individual priorities, but also those of the various constituent groups they represent, and the larger interests that often play key roles in financing their re-election efforts.

On the other hand, a slowdown in the economy can spell disaster for even the most skillful advocates, requiring most to shift to a "defend and protect" mode and leave new initiatives for another day.

One state budget expert called the economy "the tightrope on which every budget is delicately balanced...one small shake, a quiver, can send the whole thing spiraling down."

That is because entitlement programs, whose costs are determined not by fixed dollar amounts but by the number of people who qualify, and spending requirements determined by law related to Medicaid, welfare and unemployment grow larger at approximately the same time the economy—and therefore revenue collections—takes a dive.

Indeed, these areas often are used as indicators of an economic slowdown. Ultimately, a slowdown has dire consequences for smaller programs as a shortage of state funds undoubtedly will precipitate deep cuts in unmandated, or what are termed “discretionary,” programs.

Whether increasing spending or cutting back, it also is key to remember that New Jersey is required by the state Constitution to adopt a balanced budget. Unlike the federal government, we are prohibited by law from running a deficit.

In Fiscal Year 2006, the State of New Jersey expected to raise \$27.87 billion, spend \$27.92 billion (with the difference made up from state surplus funds) and put about \$600 million aside for unforeseen needs that could arise. For most advocates, the overall size of the budget figures little into specific efforts to secure funding and support their cause. But understanding how money flows in and out of state government is key to developing a viable advocacy plan.

The State of New Jersey collects most of its revenues through a combination of taxes, fees, fines and penalties on individuals and businesses that live or operate in New Jersey. The state can borrow money by selling bonds and also receives money from the federal government.

The simplest way to understand the budget is to look at the Governor’s budget proposal. The Revenues and Expenditures section provides the most complete overview of the money coming in and the money going out. It is useful to look at this section because not all of this information makes it into the Appropriations Act in a decipherable form.

Most of the money collected by the state is deposited in the General Fund or in one of a number of special funds established by statute. Revenue raised and deposited in the state’s special funds—Property Tax Relief Fund, Gubernatorial Elections Fund, Casino Control Fund and the Casino Revenue Fund—can only be spent on the projects and programs for which the money was specifically raised. General Fund revenues are less restrictive for the most part. The revenue in these funds represents just under 70 percent of what the state spends annually. (See Schedule 1 State Revenues in the Total State Revenues graph on page 11).

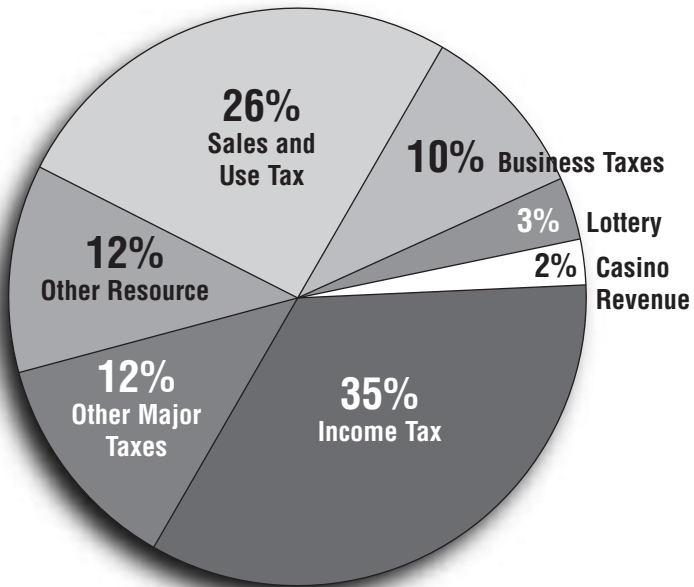
The rest of the money the state spends each year comes primarily from federal and dedicated sources (Schedule 2 Other Revenues) which must be used for more specific

purposes. Most of this revenue—about \$8.2 billion in Fiscal Year 2006—comes from the federal government and can be used only for federally-established programs administered by the state. Most federal funds are provided on a matching basis so advocating for the expansion of some state programs can, in turn, bring in more federal dollars.

The General Fund

The largest portion of state revenues flows into and out of the General Fund. Most of the revenue collected in this fund comes from 14 major taxes including the sales and use tax, corporate business taxes, motor fuel taxes, the state’s transfer inheritance tax and so-called “sin taxes” on such items as alcoholic beverages and tobacco products.

STATE BUDGET RESOURCES - FISCAL YEAR 2006



Note: Other major taxes include cigarette, transfer inheritance, realty transfer, petroleum products gross receipts, alcoholic beverage excise, tobacco products wholesale sales and public utility excise.

Other resources include various miscellaneous taxes, fees and revenues.

In Fiscal Year 2006, approximately \$13.6 billion was to be deposited in the General Fund to finance some of the state's largest initiatives. Most of the revenue in the General Fund is used to support state government operations, certain aid programs to local governments, capital construction projects and paying the state's debt. State operations is the only category of General Fund expenditures that is subject to a state budget "cap," a limit on annual increases for state government operations that is tied to the average three-year growth rate in per capita personal income.

SALES AND USE TAX

The sales and use tax is state government's second largest source of revenue after the personal income tax. Consumers and businesses in New Jersey pay a tax rate of 6 cents per dollar on retail items, rental or use of some tangible personal property, restaurant meals, hotel rooms, alcohol, cigarettes, certain admissions charges and telecommunications services. Sales of food, clothing and personal services are largely exempt from this tax.

Sales tax revenues account for more than half of the General Fund. In the past 10 years, it has regularly accounted for more than 25 percent of the state's total revenues, generating about \$6.5 billion in collections in FY 2005.

BUSINESS TAXES

State business taxes include the Corporate Business Tax (CBT), the Insurance Premium Tax and taxes levied on banks and financial institutions in New Jersey. Together, these taxes are the third largest revenue source for the state, generating nearly 10 percent of all state funds in FY 2005.

The Corporate Business Tax is the most significant of these taxes. It is levied at a rate of 9 percent on the net income of companies that do business, employ or own capital or property or maintain an office in New Jersey. The Business Tax Reform Act of 2002 effected the most extensive changes in the tax since 1945. Among other things, it increased the minimum tax, provided for a partnership filing fee and created an Alternative Minimum Assessment for certain businesses. All businesses are subjected to either the CBT or the Alternative Minimum Assessment.

MOTOR FUELS TAX AND MOTOR VEHICLE FEES

The Motor Fuels Tax applies to sales of gasoline, diesel fuels or liquefied petroleum gas and compressed natural gas used in motor vehicles on public highways. The tax is 10.5 cents per gallon for gasoline; 13.5 cents for diesel fuel; and half the gasoline rate

for other gases. In addition, the state collects 4 cents per gallon from the petroleum products gross receipts tax. Based on the number of vehicles in New Jersey and historical driving patterns, for every one cent increase in the motor fuels tax, the state collects an additional \$45 million. In Fiscal Year 2005, the motor fuels tax generated \$565 million.

Motor Vehicle Fees include car and truck registrations, drivers' licenses and miscellaneous fees collected by the Motor Vehicle Commission. In Fiscal Year 2005, The Motor Vehicle Commission collected \$272 million from the 7 million registered vehicles and 5.7 million licensed drivers in this state.

TRANSFER INHERITANCE TAX

This tax applies to the transfer of personal property and New Jersey real estate upon the owner's death. The rate depends on the amount received and the relationship between the decedent and the beneficiary. No tax is imposed on immediate family or spouses. In Fiscal Year 2005, the state collected about \$432 million from this tax.

"SIN TAXES"

The remainder of revenues collected in the General Fund can be attributed to a host of smaller tax programs, including so-called "sin taxes" levied on tobacco products and alcohol. The cigarette tax is imposed at 12 cents per cigarette or \$2.40 per pack of 20. The tax is collected primarily from licensed distributors who receive the cigarettes directly from out-of-state distributors.

The alcoholic beverage excise tax is levied on all alcoholic beverages made within the state and on any alcohol delivered to the state. It is imposed on beer at a rate of 12 cents a gallon (or fraction thereof), on liquor at a rate of \$4.20 a gallon and on wines and certain hard ciders at a rate of 70 cents a gallon.

In Fiscal Year 2005, the state collected \$636 million from cigarette sales and \$87 million from the alcoholic beverage excise tax.

REALTY TRANSFER FEE

The Realty Transfer Fee is imposed when houses are sold. The amount collected is assessed based on the value of the house. In Fiscal Year 2005, the state collected \$345 million from this tax.

STATE LOTTERY

The state collected approximately \$800 million from Lottery ticket sales in Fiscal Year 2005. In the back of the Governor's budget is a schedule which shows the programs eligible for Lottery fund support. Minus the money used to administer the program and pay prize winners, Lottery revenues are used for education and state institutions. The largest beneficiaries have been colleges, psychiatric institutions and centers for the developmentally disabled.

Property Tax Relief Fund – Gross Income Tax

The Property Tax Relief Fund (PTRF) is the state's largest fund after the General Fund. According to the state Constitution, all revenue from the Gross Income Tax is deposited into this fund and must be spent exclusively to reduce or offset property taxes. The income tax is this fund's only source of revenue.

Annual appropriations made from the fund go to school districts, municipalities and counties in the form of state aid or grants in aid. The PTRF also is used to provide aid to county colleges and support various property tax relief programs—for homeowners and tenants, senior and disabled citizens and veterans.

The income tax is New Jersey's largest source of state revenue, contributing just over \$9 billion in FY 2005. As a share of all state revenue, income tax collections have grown in almost every year since the tax was adopted—from about 20 percent in 1976 to 32 percent in 2005.

The income tax applies graduated rates—ranging from 1.4 percent for incomes below \$20,000 to 8.97 percent on incomes over \$500,000—to the annual gross incomes of New Jersey's 2.6 million taxpayers. The surge in revenue collected over the past 10 years can be at least partially attributed to significant growth in income for the wealthiest 5 percent of New Jersey households. In 2002, approximately 70 percent of all revenues collected through the income tax come from the 18 percent of taxpayers making more than \$100,000.

Casino Revenue Fund

The Casino Revenue Fund was established in 1976 to provide New Jersey's 2 million senior citizens and disabled residents with funding assistance in areas such as property taxes, rent, telephone, gas, electric and other utility charges. The Fund's authorized use was expanded in 1981 to include additional health services or benefits and transportation services for those eligible.

The money comes primarily from an 8 percent tax on the gross revenues of all New Jersey casinos. The gross revenue refers to all money a licensed casino owner earns from gaming operations minus the sums paid out to winning patrons. Additional revenue comes from five taxes implemented in Fiscal Year 2004. These are: an increase in the casino parking fee from \$2 to \$3, a \$3 per room per day fee on casino hotel rooms, a 4.25 percent tax on casino comps, a 7.5 percent tax on the casino's adjusted net income and an 8 percent tax on multi-casino progressive slot machine revenue.

In Fiscal Year 2006, the fund anticipated \$487 million—only 48 percent of what is needed to support its programs. Most of these funds are used to maintain the Pharmaceutical Assistance to the Aged and Disabled (PAAD) Program which provides payments to pharmacies for the cost of prescription drugs for eligible residents. This program and others once were entirely funded with casino revenues but, due to the rapid increase in the cost of prescription drugs and other services, now requires a substantial subsidy from the General Fund.

Casino Control Fund

The Casino Control Fund is supported by fees charged for the annual renewals of casino licenses and slot machines, non-refundable deposits for each application for a license and fees for the issuance of various work permits. The revenues in this fund are used to support the two agencies that regulate the casino industry in New Jersey: the Casino Control Commission in the Department of the Treasury and the Division of Gaming Enforcement in the state Attorney General's office.

Gubernatorial Election Fund

The Gubernatorial Election Fund supports the public financing of gubernatorial campaigns in New Jersey every four years. State law allows taxpayers to voluntarily contribute \$1 of their income tax to this special fund for the specific purpose of financing a portion of the expense of a gubernatorial primary and general elections. Candidates for governor who qualify for and accept public funding must adhere to strict limits on campaign spending.

Federal Funds

In FY 2005, the State of New Jersey received and administered \$9 billion in funds from Washington that was specifically dedicated to federal programs. These dollars are not recorded in the state's revenue and appropriations total because they cannot be used for any other purpose. Most of these funds are for programs in the human services and health area, including Medicaid, AIDS research, supplemental food programs, women's and children's health initiatives and Temporary Aid to Needy Families (TANF).

In total, more than 85 percent of revenue raised annually by the state is known as non-discretionary funds, meaning laws and regulations dictate how the money must be spent even before the state budget is put together.

Some of these laws are extremely specific:

Property taxes are the subject of an amendment in 1976 to the state Constitution which mandates that 100 percent of the revenue collected from the Gross Income Tax must be deposited in the Property Tax Relief Fund to be used solely for the purpose of reducing or offsetting property taxes.

Transportation funding is the subject of several Constitutional amendments requiring that 9 cents per gallon of motor fuels tax collections; \$200 million from the sale of petroleum products; and \$200 million from sales tax collections be dedicated solely to financing transportation projects in the state.

Hazardous waste remediation and water quality improvements were the subject of a Constitutional amendment in 1966 that now dedicates 4 percent of the annual Corporate Business Tax revenues for those purposes.

An amendment to the Constitution adopted in 1998 dedicated \$98 million annually in sales and use tax revenue to finance the purchase of open space, recreation and conservation projects throughout the state.

Other mandates are less specific, but no less binding:

The salaries, benefits and pensions, for example, of the state's more than 78,000 employees amount to more than 18 percent of state appropriations in Fiscal Year 2006. These expenses recur, at higher rates, and can only be reduced through wide-scale layoffs or the negotiated elimination of benefits.

On average, approximately 15 percent of annual state revenues fall into the category of so-called "discretionary" dollars New Jersey spends. For the most part, this is the money that hundreds of advocacy groups vie for on an annual basis.

Revenue Forecasting

Some call it an art. Others call it a science. But regardless of how you look at it, revenue forecasts can make or break the state budget.

Why? Because the state budget does not say how to raise money, only where to spend it. And when additional revenues are needed, legislation—separate from the budget—is needed.

The job of raising money falls to various other laws—such as the Gross Income Tax Act, the Sales and Use Tax Act and the Cigarette Tax Act. The responsibility of balancing the two—raising and spending—and providing the financial framework for the annual budget falls to revenue forecasters in the state Department of the Treasury.

In most years, the Governor develops a budget based on the amount of revenue that forecasters believe will be available after a close review of tax collection patterns and economic indicators. The Legislature does the same, using analysts in the nonpartisan Office of Legislative Services (OLS) who develop their own revenue estimates and critique those prepared by Treasury for the Governor's Office.

While tried and true methods of forecasting are employed diligently each year, it remains at best an imprecise exercise. Forecasts developed early in the budget planning cycle—as much as a year before the final budget is adopted—simply cannot accurately anticipate surges or unexpected downturns in the economy. Because of this, every budget adopted by the state is vulnerable.

In Fiscal Year 2000, for example, sales tax collections surprised forecasters in both the Treasury Department and OLS, initially growing at almost twice the rate anticipated when the budget was enacted and then slowing down. Underscoring the volatility of the state's second largest revenue source, each additional percentage point of growth brings an estimated \$60 million into state coffers.

The reverse, unfortunately, also is true. In Fiscal Year 1990, for example, corporate and sales tax collections consistently lagged behind projections, requiring the Governor's Office to "freeze" discretionary spending and draw down nearly the entire budget surplus in order to keep the budget balanced.

Nevertheless, the state budget is inextricably linked to these forecasts, all of which are in turn linked to global and national economic conditions. Ultimately, our system of revenue forecasting is just one reason why New Jersey's Governor is a very powerful player in the budget process.

In New Jersey, only the Governor has the power to certify revenues for the state budget—meaning the Governor has the final say on just how much money the state decides it has available to spend. This, coupled with the Governor's power to line-item veto—in essence to delete—any item of spending proposed by the Legislature before signing the budget into law, makes New Jersey's executive office one of the most powerful in the nation. In most other states, the Legislature has more say over the final form of the budget.

Few budgets would have been balanced in recent years without revenue enhancements—increased taxes or fees—that must be passed by the Legislature and signed by the Governor. Although the budget document itself can anticipate revenue from increased or new taxes or fees, the actual law must be enacted through separate legislation.

The spending side of the equation is a bit more predictable for lawmakers.

Departments of state government work hard all summer and fall to develop estimates of how much their programs will cost. Their efforts generally provide the state Office of Management and Budget with a thorough estimate of expenses.

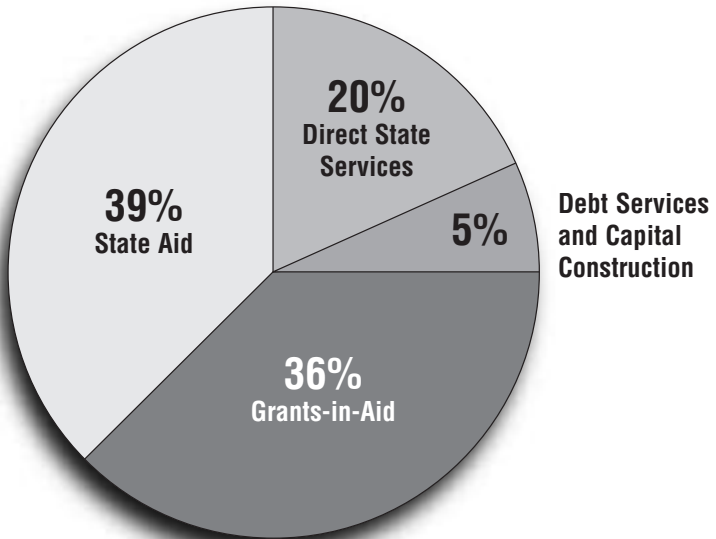
Difficulties on the spending side of the budget equation generally arise when there are unanticipated emergencies or when the number of people using state-funded facilities—ranging from school children to prison inmates—unexpectedly increases.

Where the State Spends its Money

Although it takes almost 800 pages to record where New Jersey spends its money, recognizing that about 75% percent—about \$20 billion in FY 2005—was paid out as state aid to local governments or as grants-in-aid to individuals or the various public and private agencies that provide services on behalf of the state may help you better navigate the fiscal plan.

The balance of the budget goes to support state government operations for such items as law enforcement and corrections, regulatory and enforcement programs, environmental protection, transportation, the legislature and the judiciary and paying the interest on state debt.

STATE EXPENDITURES - FISCAL YEAR 2005



Note: Grants-in-Aid: Payments made to individuals and various public and private agencies (Medicaid, property tax relief payments to individuals, tuition assistance grants and block grants to colleges and universities).

State Aid: Payments by the state to school districts, municipalities and counties.

Direct State Services: Funds for the administration of state programs (salaries, supplies and services).

The key state aid and grants-in-aid areas are: aid to local school districts (\$9 billion), Medicaid and human services programs (\$3.6 billion), county and municipal aid (\$2.6 billion), direct taxpayer relief (\$2.3 billion) and higher education (\$2 billion).

Once again, it is important to remember how much of the budget is dedicated to specific programs and causes before the Appropriations Act even makes it to paper. In the human services area, for example, the more than \$3.6 billion is dedicated to specific programs such as Medicaid and welfare reform because they receive matching dollars from the federal government.

The public school finance appropriation of approximately \$9 billion in Fiscal Year 2005 was driven by both the Constitution's requirement that all income tax receipts be spent on property tax relief and the state Supreme Court's series of rulings that ordered an equalization of spending in the state's poorest and wealthiest school districts.

In periods of sustained economic growth, such as New Jersey experienced for most of the 1990s, the job of an advocate is made a bit easier by the sheer volume of revenues coming in. Strategy, which we will discuss later in this guide, becomes key. When the economy slows as it has done in the past decade, the battle for support intensifies as slices of the "budget pie" start to shrink.

Discussions often take place among budget watchers about which department consumes the most state resources. The table on pages 50 and 51 breaks down the \$28.4 billion spent in Fiscal Year 2005 by department and type of expenditure. Overall, the Department of Education is largest—spending 32 percent of the budget because it distributes 82 percent of all state aid. The Department of Corrections, in contrast, ranks eighth in total spending but ranks first in spending on personnel and operations.

A look at the five largest budget appropriations in Fiscal Year 2006:

Public Schools

The single largest expense in the state budget is aid to local school districts, which was expected to total more than \$9 billion in Fiscal Year 2006—or more than 30 percent of state spending. This money goes to support the more than 1.4 million New Jersey children attending the public school system in grades K-12. This appropriation also includes more than \$1.5 billion in pensions and other benefits paid by the state for school district employees.

School aid generally is determined by a formula that includes enrollment growth, the annual increase in the Consumer Price Index and changes in individual districts' assessed property values and residents' income.

In addition to the formula, New Jersey is under court order to provide school children in the state's poorest districts with access to a constitutionally guaranteed "thorough and efficient" education that is comparable to one provided in richer suburban districts. Attempts to establish this parity in recent years have included the investment of more than \$1 billion in additional aid to the state's poorest school districts.

In 2004, New Jersey ranked third after New York and Connecticut—with per pupil expenditures of \$11,390.

Human Services

The Department of Human Services (DHS) is the state's health and social services agency, serving more than one million of New Jersey's most vulnerable citizens. Among them are abused and neglected children; troubled youth; people with low income; and people who are mentally ill, developmentally disabled, physically disabled, blind, visually impaired, deaf and hard of hearing. One in every eight New Jersey resident interacts with this department.

The DHS budget in FY 2006 was approximately \$5.3 billion and the department employed about one-quarter of all state workers—more than 20,000 people. Much of this department's spending is driven by federal mandates for Medicaid recipients and other programs that support mothers and children requiring federal assistance. The \$5.3 billion the department spends in state funds was matched by an estimated \$5.5 billion in federal funds in FY 2006.

Among services the department was to offer in Fiscal Year 2006 are:

- care for over 2,200 patients at six state psychiatric hospitals
- health services for 740,000 Medicaid recipients and more than 160,000 NJ Family-Care participants
- care for 3,100 patients at seven state developmental centers and various community services for nearly 32,700 others
- monthly financial assistance to about 312,000 people; food stamps to almost 446,000 people and child care services to nearly 49,500 children

- drug treatment services to nearly 46,000 people and alcohol treatment services to 19,300

Following the tragic death of several children due to abuse or neglect, the state has been in the process of reforming the way it protects children. For Fiscal Year 2006, the Office of Children's Services expected to serve an active caseload of nearly 57,200 children and 30,700 families.

State Operations

The business of running government is, quite simply, expensive. With 15 state departments, dozens of commissions and authorities, a growing number of federal mandates to meet and the entire Judiciary and Legislature to operate, the expense is sizeable even in the leanest times.

Salaries, contractual pay increases and employee benefits were expected to account for almost \$6 billion in Fiscal Year 2006. Employee benefits include pensions, health benefits and post-retirement medical costs. State appropriations support active and retired state employees and the employees of public colleges and universities, school districts and certain local governments. Although the state is not responsible for the health benefits of active school district and local employees, it funds the health insurance costs of retired teachers and public employees with 25 or more years of service prior to retirement. It also pays the federal Social Security taxes for teachers.

Approximately \$3.4 billion was appropriated in Fiscal Year 2006 for the operating expenses of the Governor's Office and the 15 executive departments. This includes:

- \$914 million to run the Corrections Department which operates 14 correctional facilities at almost 140 percent capacity with 23,819 inmates
- \$760 million for the Human Services Department which oversees not only the majority of New Jersey's federally-funded programs, but all of the state's institutions for the developmentally disabled
- \$560 million for the Department of Law and Public Safety which includes the Office of the Attorney General, State Police and Division of Law which provides legal services to all of state government
- \$408 million for the Treasury Department which oversees operation of the entire state government, manages the state budget and the state's physical and financial assets and collects state revenues

Higher Education

Once a state cabinet department, Higher Education today operates as a commission “in but not of” the Departments of State and Treasury. In Fiscal Year 2006, the state appropriated \$1.5 billion for its higher educational system—with 78 percent of the funds in the Department of State and the balance in the Department of Treasury.

Funding for the commission as well as the Higher Education Student Assistance Authority and the state’s 12 public universities and colleges—Rutgers University, the University of Medicine and Dentistry of New Jersey (UMDNJ), New Jersey Institute of Technology (NJIT), Thomas A. Edison State College, Rowan University, New Jersey City University, Kean University, William Patterson University, Montclair State University, The College of New Jersey, Ramapo College and The Richard Stockton College—is provided through the Department of State. The Higher Education Student Assistance Authority is responsible for coordinating various state and federal student financial aid programs, including Tuition Aid Grants (TAG).

A total of \$224 million was appropriated as aid to the 19 county colleges in Fiscal Year 2006 through the Treasury Department. The distribution of this aid is based on a formula that includes enrollment. State funds also provide support for independent private colleges. In Fiscal Year 2006, this aid amounted to just over \$25 million.

State support for higher education institutions in New Jersey is in theory designed to minimize the need for annual tuition increases. However, universities and colleges throughout New Jersey argue that state support has not kept pace with education costs. In fact, New Jersey families pay a larger proportion of the overall cost of a higher education than do families in most other states.

Tuition and fees at New Jersey’s institutions of higher education have increased significantly for undergraduates from the 2000-01 school year to the 2004-05 school year—to \$9,180 from \$6,730 at NJIT; to \$8,564 from \$6,333 at Rutgers; to an average of \$7,630 from \$5,069 in the state college system overall; and to an average of \$2,771 from \$2,337 in the county college system. On average, tuition and fees have increased by 47 percent or \$2,518 at the senior public institutions, 18.6 percent or \$434 at the county colleges and 26.1 percent or \$4,052 at the independent colleges.

In 2004, over 300,000 full-time and part-time students were enrolled in the state's public higher education institutions. Eighty-nine percent, or almost 270,000, of these students were undergraduates and about 60 percent of those undergraduates were in school full-time. Over 13,000 of the 35,190 graduate students enrolled in the state were attending Rutgers, the State University.

County and Municipal Aid

In the give and take of budgeting, some of the strongest advocates in Trenton are those who represent local government—either as an elected official or as an advocate for a particular municipality. Every year, regardless of the health of the economy, these advocates wage a strong campaign for the distribution—or what they sometimes argue is the rightful return—of tax revenues to their respective communities.

Much of the battle can be attributed to New Jersey's continued embrace of "home rule," which means each of its 566 municipalities, 611 school districts and 21 counties are running operations that, among other things, collect local property taxes to pay for services. It isn't difficult to imagine, therefore, how few of the elected officials in any of these communities want to raise taxes to pay for new programs, emergencies or government operations.

Instead, a great deal of their local budget battles are waged first in Trenton, where municipal and county aid allotments can mean the difference between a good year at home and a disastrous one.

In Fiscal Year 2006, the state expected to provide \$1.8 billion in direct aid to municipalities, the same amount as for at least the last 10 years. Ongoing budget problems have prevented increases even as advocates pressed for them.

Building the Budget

Now that you have a general understanding of where the state gets its money and a broad overview of how it spends it, it is important to understand the budget documents, how to use them and the process leading up to the introduction of the annual budget legislation.

Unlike other state laws, which usually remain in effect in perpetuity unless repealed, the state budget law expires every year on June 30. A new budget law must be adopted before the July 1st start of the new Fiscal Year for the state to spend the money it collects. And, as mentioned earlier, there is generally no greater policy statement on what our government considers important. The budget is the only state law that provides a sweeping, all inclusive perspective on state government.

The Governor's Budget Message

The most comprehensive look at the state budget comes in the form of the Governor's budget proposal, which by law must be presented to the Legislature on or before the fourth Tuesday in February. In recent years, governors have asked for and the Legislature has passed emergency resolutions to give them more time to prepare their budgets. In general terms, this means the Governor delivers his/her budget message sometime in late February or mid March.

Traditionally, the Governor presents a budget proposal with great fanfare to a joint session of the state Legislature. The Governor uses the occasion to make policy statements about what should be done in the coming year and take credit for what was accomplished in the previous one. Accompanying the speech is a budget proposal detailing, dollar-for-dollar, how state funds are to be spent in the coming fiscal year.

This document, usually about two inches thick, is preceded by two smaller publications: the executive summary of the budget and the Budget in Brief. The executive summary lists major spending initiatives, program cuts, revenue estimates and federal assistance. It is the broad outline of the more detailed document which will follow. The Budget in Brief is a narrative aimed at promoting the Governor's proposals by highlighting key programs and initiatives. Together, these documents provide the

framework—and by their policy statements can also set the tone and agenda—for the legislative process that follows.

From the outset, it is important to remember that the Governor’s budget proposal begins as just that—a proposal. Approximately four months will pass, lengthy public hearings will be held and many negotiations will take place before the budget actually becomes law at the July 1 start of the Fiscal Year.

In the end, after all the wrangling, politicking and posturing, it is generally agreed that the budget law retains well over 90 percent of the Governor’s original proposal.

How the Governor’s Budget Proposal is Organized

No law dictates what the state budget should look like, but the layout of the Governor’s budget proposal has changed little in the past 20 years. Governors tweak the look of the document to present their proposals in the best light, but the general organization remains unchanged. The three key sections of the budget proposal are:

Summaries of Appropriations
Revenues and Expenditures
Department Recommendations

Section 1, the Summaries of Appropriations, includes tables and charts which recapitulate the Governor’s Budget recommendations and highlight significant changes and policy initiatives, including what the state’s resources are and how they will be spent.

This section tells how the Governor’s Office believes the economy will perform. It rarely, however, provides any statistical data or supporting information explaining why the economy will perform that way.

Section 2, Revenues and Expenditures, provides both summary and detailed information on all funds maintained by the state. It includes a brief explanation of the state’s major revenues and the new sources the Governor proposes to pay for current services or new programs. In this section are detailed tables showing the major state taxes and the many miscellaneous taxes, fees and revenues collected by the various state departments and the departments that get to spend those revenues.

Key Budget Documents and Resources

The *Governor's Budget*: Prepared by the Department of the Treasury, this book provides a detailed account of existing and proposed state spending, the first look at revenue projections for the coming year and a clear sense of the Governor's policy priorities. Here you will find the amount the Governor proposes to spend in the coming fiscal year, the amount the state expects to spend in the current fiscal year and the actual amounts spent in the previous year. The Executive Summary, which is made up of selected pages from the complete document, usually is available online and in printed form shortly after the Governor presents his or her proposal.

Budget in Brief: Prepared by the Department of the Treasury, the book is a summarized version of the budget. It pulls together revenue and spending highlights in a narrative form. It is probably the easiest way to get an understanding of the year's budget basics. This is available both online and in printed form shortly after the Governor's proposal comes out.

Appropriations Act: Prepared by the Office of Legislative Services for the Legislature, this is the state's actual budget. It is based on the Governor's proposed budget but includes only spending proposals for the coming fiscal year. The Appropriations Act takes the form of a very large piece of legislation. It is generally introduced in both houses simultaneously after the Governor's budget proposal has been defended by each department's commissioner, reviewed by legislative staff and debated by legislators. This is not available until the budget committees introduce their bills.

Analyses of the Governor's Budget Proposal: Shortly after the Governor presents a budget, the Office of Legislative Services produces its own revenue forecast for the new fiscal year. After that, OLS analysts prepare reports that examine the Governor's proposed budget for each department. These are available when each commissioner defends his or her department's spending plan.

It includes four separate schedules: state revenues in Schedule 1 correspond to the budgeted expenditures in Schedule 3; other revenues in Schedule 2 correspond to the expenditures not budgeted in Schedule 4. Combined, these tell us that for FY 2006, the Governor proposed to spend a total of \$40.7 billion (\$27.4 billion in budgeted expenditures and \$13.3 billion in not budgeted expenditures). This will be discussed in more detail later.

Section 3 is the largest section. It provides a detailed look at the budgets and programs for the executive office, the Legislature, all 15 departments, the Judiciary and some state-funded agencies and commissions. These budget breakdowns provide some of the most detailed information on state programs available to the public, including employee counts, usage patterns, enrollments and caseloads. In some instances, this is the only place this information is available.

The proposals for each department, as well as the legislative and judicial branches, state commissions and inter-departmental accounts, provide line-by-line explanations of recommended expenditures. They include information on how much a particular program cost in the previous fiscal year, what is being spent in the current fiscal year, what is being requested for the new fiscal year and what the Governor is recommending for the new fiscal year.

To help the reader navigate the Governor's proposal, the preface to each budget book generally provides a glossary of terms as well as directions on how to read charts, line items and statistics in the book.

Line Items and Language

Money is appropriated to departments through line items—literally lines in pages and pages of spending. There are line items for salaries, grants, state aid, capital construction and debt. Each of these has its own line in the budget with a specific dollar amount attached. These line items, of which there are thousands, are the heart of the budget. As a general rule, without a line item in the Appropriations Act, a program cannot be funded.

There are, of course, exceptions to this rule. Sometimes what cannot be accomplished with numbers can be accomplished with words. This is done through “budget language”—text that authorizes state departments to spend, transfer and draw down dollars not specifically noted as a line item in the budget. It also authorizes the use of

unspent balances from the previous year and gives permission to spend more than what is appropriated in the law under certain circumstances.

Often the text begins by saying, “notwithstanding the provisions of...” The effect of this is to change permanent law for the year in which the budget is in effect. If the next budget does not include that language, the law reverts to the statute.

For example, in Fiscal Year 2006, the state distributed almost \$835 million in energy tax receipts to municipalities through budget language. A formula within the statute which created this program in 1997 determined how the funds should be distributed. But every year language in the budget overrides that formula, distributing a certain amount based on population and setting specific amounts not included in the statute for certain cities.

Budget language is a powerful tool—in fact, it is so powerful, it can override existing statutes. To understand how a program is funded, it is critical to look at any language associated with the program to understand its implications.

What is not in the Budget

For all the information and detail contained in the Governor’s budget proposal and the Appropriations Act, they do not present the full picture of how much the state raises and spends in a year.

In a sense the budget is a living document because the budget law can be amended during the course of a fiscal year to provide for emergencies or other unforeseen circumstances. These changes cannot be made without approval of both the Legislature and the Governor.

In addition, the Governor has the power to contain spending below the levels approved in the budget. This can mean freezing funds through an executive order by, for example, prohibiting out-of-state travel by state employees or imposing a ban on new hiring. Each of these would prevent a department from spending all the money in its travel or salary account.

The budget proposal and Appropriations Act do not provide specific details on how a funded program must spend its money. This information often must be found in the legislation that created the program or in the regulatory or administrative codes that

spell out how the program is to operate. Indeed, hundreds of appropriations are dealt with by language “below the line” where state agencies spend money over and above what is appropriated to them. Often these are miscellaneous fees or funds available to the department in addition to its line-item appropriation. Funding for the state’s FamilyCare program is handled this way. FamilyCare receives most of its state funds from the Health Care Subsidy Fund and this is directed by budget language.

Many areas that the average person might consider part of state government technically are independent or quasi-independent authorities whose spending does not come under the state budget. Although these are creations of the state and their financial solvency reflects upon the state, the Appropriations Act does not include financial information on the Turnpike Authority, Sports and Exposition Authority, Economic Development Authority or many of the other organizations that function on the state’s behalf.

“Transparency” Issues

Transparency refers to how open and public the budget process and resulting documents are. If the budget were perfectly transparent, this guide would not be so necessary. Independent organizations that have analyzed budget procedures across the nation have given New Jersey high marks in some areas, but also cited places where progress could be made.

In response to a joint project on budget transparency by the Association for Children of New Jersey and New Jersey Policy Perspective, certain additional information has been included in the Governor’s budget document and more documents have been made available on the Legislature’s website.

More needs to be done. The state has been criticized for not producing a tax expenditure report—an accounting of how much money the state is not taking in because of tax breaks to business, tax credits and exemptions. Arguably tax expenditures have the same effect as regular state spending; omitting a listing of them from the budget gives less than a true accounting of state fiscal policy and dampens the possibility of public debate over the effectiveness and desirability of that policy. An example of this debate might include a discussion of why the state exempts 401(k) contributions from the New Jersey gross income tax but not 403(b) contributions. Without an understanding of what this costs, no debate can occur.

Budget Timeline

The process of developing the budget in New Jersey is exact and methodical but, as already discussed, not transparent. Much of the work takes place away from public view. Within the executive branch of government, officials work long hours to set spending targets, assign dollar amounts to programs and put together new initiatives. Most of this work is done privately, debated internally and screened from the public until the Governor presents the budget proposal in March.

The budget proposal triggers the more open process through which the legislative budget committees consider what the Governor has proposed. During this time there are open public meetings where advocates can comment on the proposal and where cabinet members present and defend their departments' proposed budgets.

After these hearings, the final formulation of the Appropriation Act takes place—once again away from public view. This is the time when legislators, with their staff, debate and draft the final legislation that is presented publicly a few days or weeks—sometimes even hours—before it is adopted. The final legislation is usually one bill with little formal opposition.

There are four major parts of the state budget cycle:

- Department planning
- Executive preparation and presentation
- Legislative review
- Adoption, execution and evaluation

APRIL

Under the current budget process, fiscal planning begins in April, for the budget that will be adopted nearly 15 months later. At this time, departments and agencies review existing programs, executive priorities and revenue trends and begin to develop proposals.

At the same time, the Office of Management and Budget (OMB), which coordinates and oversees the entire budget process, begins assessing the economy to see how much revenue will be available in the coming year and the costs for mandated programs to determine how much the state will have to spend.

April

September

December-January

Governor/OMB

Budget planning

- Review of Governor's program priorities
- Economic forecasts
- Demand assumptions
- Program analysis
- Preliminary revenue estimates

Prepare and provide targets to departments

Governor/OMB

Finalize recommendations

- Review/analyze agency budget requests
- Formulate and review budget recommendations
- Governor makes final decisions

Departments/Agencies

Prepare planning documents

- Ability to provide services within target
- Priorities for reductions
- Prioritized list of expansions of current programs or new programs

Review planning documents and budget targets with OMB

Final submission of agency budget request

February-March

April-May

June

Governor/OMB

Governor presents budget to Legislature and public

Legislature

Prepare Appropriations Act

- Appropriations Act passes Senate and Assembly

Legislature

Public hearings

- Review/analyze/revise budget
- Review/analyze/revise revenues estimates

Governor/OMB

Review/analyze impact of budget changes in Appropriations Act

Governor may veto specific appropriations and must "certify" revenue levels

JUNE 30

Governor signs final Appropriations Act into law



SEPTEMBER

By September, OMB provides departments with budget “targets” for the new Fiscal Year. Based on those targets, departments prepare a series of budget plans that: maintain existing services; determine priorities for budget cuts if needed; and identify priorities for expanding programs or creating new ones. Sometimes a department—the Department of Human Services for one—seeks public input to help set priorities and understand the needs of the people they serve.

DECEMBER-JANUARY

Until 2002, the Governor was required to present a budget proposal to the Legislature by late January. An exception was made for newly inaugurated governors who were given until February 15.

In recent years the law has changed to allow the Governor to present the budget on or before the fourth Tuesday in February. In the last five years, budgets have been presented on January 23 (FY 2002), March 26 (FY 2003), February 4 (FY 2004), February 24 (FY 2005) and March 1 (FY 2006).

These later dates allow OMB more information in order to make more accurate revenue projections because sales tax information from the Christmas season and another month of income tax revenues are available.

As the Governor has been allowed more time, the Legislature has lost an equal amount of review time—since the June 30th deadline for passing the New Jersey budget has not changed.

MARCH

Once the Governor delivers the budget message, the Legislature begins its review. In some states, an appropriations bill is introduced. It is understood that the “budget” under consideration is the one proposed by the Governor. It is up to the Legislature to review the Governor’s proposal and determine what it will support and what it will not.

In New Jersey two legislative committees—one from the Senate and one from the Assembly—review the budget each year. In the Senate, the Budget and Appropriations Committee has authority over all legislation with a fiscal impact on the state and it also reviews and writes the budget. It has 15 members. In the Assembly, two separate committees exist with different chairpersons but some overlapping members. The 11-member Assembly Budget Committee is charged solely with reviewing and

preparing the annual state budget. A 13-member Assembly Appropriations Committee reviews and approves all legislation with a fiscal impact.

In both houses, membership on the committee with budget jurisdiction is coveted and the chairperson wields tremendous power. Traditionally, these are veteran legislators who are skilled dealmakers with significant experience in developing the state budget.

After the Governor presents the budget and before the Treasurer first appears before the budget committees to defend it, the Senate and Assembly committees hold a series of hearings in various locations around the state. At these hearings, the public can comment on the budget proposal, make recommendations, request additional funding for certain programs and lobby for changes. Five of these hearings took place in Fiscal Year 2005. At these hearings, 266 people presented testimony and another 23 who were absent mailed in testimony. The testimony came from people representing a wide range of interests from big, arguably well-financed organizations like hospitals to parents representing the interests of their disabled children who live in state facilities or are served by state agencies. The testimony can be compelling and memorable.

These hearings are the only time during the process that the public can speak on the record about the proposed budget. Anyone can attend and anyone can speak. The Office of Legislative Services organizes these hearings and facilitates testifying by allowing registration online or by phone.

APRIL-MAY

The first official day of the budget season is always about revenues. The State Treasurer appears before the budget committees to explain the administration's revenue projections and answer questions. Usually the committee chairs invite economists to provide an overview of the economy and what the state might expect in the coming fiscal year. OLS' Legislative Budget and Finance Officer also provides an independent analysis of the Governor's revenue projections.

Once revenues have been discussed and the Treasurer has appeared, department commissioners appear and explain how the proposed budget would affect their programs, and answer legislators' questions. Each year OLS provides detailed analyses of each department's budget. These analyses include descriptions of each department's programs, how much is recommended for the various line items and what language changes are recommended. They also include policy questions that departments must respond to in writing before the day of their hearings.

OLS makes these analyses available the day of each department's hearing and later online. In addition, it now puts the commissioners' testimony and the departments' written responses to OLS' questions on its website. For the first time in 2005, OLS grouped the public's testimony according to subject area and made that available as well.

The last day of budget hearings is again dedicated to revenues. The Treasurer and the Legislative Budget and Finance Officer return with new revenue estimates based on the most recent information. By this time, the April 15th income tax deadline has passed and the state has a better idea of how much was collected in income taxes and other taxes the previous year. This information helps decide whether tax projections should be raised or lowered.

EARLY JUNE

In June, the Legislature must draft its own budget bill that reflects its own priorities. A budget bill must be approved by the budget committee in each house. Often the Senate and the Assembly—even when controlled by the same party—have differences of opinion about what should be in the final bill. These differences are resolved by negotiation behind closed doors; occasionally they make it into the newspaper when negotiations are not going well but the politics behind the final resolution are never transparent.

The *exact same* budget bill must pass each house of the Legislature by a simple majority—21 in the Senate; 41 in the Assembly. Members of the minority party in New Jersey will grandstand and complain but they have not in the past presented an alternative budget. In the end, the New Jersey state budget is the product of the Governor and those in power in the Legislature.

Two things complicate the budget and make it harder to follow the process. These occur when new revenues are needed or when additional spending outside the budget takes place. Every budget requires some change in the current law. Usually it involves a tax rate increase, an extension of the tax to cover additional items or new fees. Some of this can be done in the budget on a year-to-year basis through language. But New Jersey does not allow the budget to be used to do things like raise the income tax rate on households earning over \$500,000 or impose a sales tax on plastic surgery. As the budget is being negotiated so, often, are tax bills. Trying to understand the revenue underpinnings of the budget through tax bills can be difficult. Often what one ends up doing is searching for tax bills enacted around the same time as the budget.

A second complication occurs when appropriations are made outside the state budget through separate legislation. Sometimes additional bills are passed to make the budget appear smaller; other times they are passed because an appropriation was left out of the budget and it was too difficult to amend the big bill. Technically, all spending is supposed to flow through the state budget. The additional amounts in these separate bills do not appear in the budget bill (which is the same thing as the Appropriations Handbook) but they do show up as adjusted appropriations in the Governor's next fiscal year budget. The impact of this is that the Legislature passes a budget that appears smaller than it will end up being. The additional spending becomes part of the budget in mid-year. The new proposed budget is compared to the current year adjusted appropriations and the increase seems less than it actually would be if compared to the actual budget the Legislature passed.

LATE JUNE

Although the Governor cannot add anything to the budget bill or increase the Legislature's spending plan once it reaches his or her desk, there still are three options. The Governor can sign the bill into law with no changes; veto the entire bill and send it back to the Legislature; or "line-item" veto specific appropriations before signing it into law. The latter course is most likely. Appropriations and language in the bill that have not been negotiated with the Governor in advance are obvious targets. The Legislature's recourse is to override the veto—which seldom happens.

JULY 1

The Governor of New Jersey must sign the budget bill into law by July 1. Otherwise bills cannot be paid and employees cannot receive their paychecks—because by law New Jersey, unlike the federal government, is not allowed to operate with a deficit.

Once the Governor signs the budget bill, it officially becomes the state's financial plan for the next 12 months. Adjustments can be made throughout the year through legislation that takes effect with approval of both houses of the Legislature and the Governor or if budget language permits.

Christmas in July

And what would Christmas be without a tree? Every year, legislators do their best to get local projects, programs and initiatives added to the budget bill that is sent to the Governor's desk. This list of projects and their costs has come to be known as the "Christmas Tree" list.

In times of plenty and major election years, this list of projects is often quite lengthy. It is designed, ultimately, to help legislators build goodwill with local constituents who hold their political future in their hands. It is always the subject of criticism in the media, and sometimes from the Governor's office. But it endures.

How an item from this list makes it into the budget is shrouded in mystery, though several current and former legislative staffers offered this explanation:

In drafting the final budget bill, the leadership in both houses agree on just how much money will be available in a given year for Christmas Tree items. In non-election years, the amount is divided up among all legislators who submit their local requests. In election years, legislators who run in close election districts often get the bulk of the money to spend on local projects in hopes of swaying a few more voters their way.

Generally these items are one-shot deals. Groups who get their money this way one year will likely have to come back and lobby the next or lose the funding.

How to Play a Role

As noted in the previous section, the budget does not become law until the Legislature approves it and the Governor signs it. Directed by the state Constitution, this balance of power promotes negotiations, deal making and bargaining as well as battles, politicking and posturing. It can be an advocate's dream or worst nightmare.

Well-financed causes promoting large-scale policy initiatives often have the luxury of hiring well-connected, experienced lobbyists to do much of the advocacy work on their behalf. In these cases, the lobbying often focuses most intensely at the executive level early in the process in an effort to make it into the Governor's proposal.

For those lacking the resources to hire expensive lobbyists or invest in sophisticated media campaigns, the legislative review of the budget is the best avenue to make your voice heard, get your cause considered and, hopefully, see your efforts rewarded.

What follows are suggestions—culled from experts on every side of the budget process, including legislators, partisan staff, nonpartisan staff, Treasury officials, Governor's staff and department administrators—on how best to ensure your cause is considered during the budget process.

START EARLY

It is easy to underestimate the length and complexity of the budget process. Some decisions on projects and programs are made well in advance of the Governor's proposal, while others are made at the last minute.

Nevertheless, the odds of succeeding are always in your favor if you get to work early and do not have to battle the throng trying to reach the ear of an agency official, staff person in the Governor's office or Legislature or a legislator once the budget proposal is released.

DO YOUR HOMEWORK

Make sure you know your cause up and down, backwards and forwards. Be aware of the political climate and do research on the fate of similar proposals in past years.

Be prepared to provide a clear and simple explanation of what you are asking for and why. Know what services are currently available in your area and explain what needs are not being met.

Know where the state agency your proposal falls under is likely to stand on it; know what positions the Department of the Treasury is likely to take.

Try to do some preliminary work with the executive branch in the slower summer and early fall months before the Governor's budget proposal comes out, when agencies are beginning to prepare their budget requests and Treasury begins its revenue forecasting work.

Draft a statement summarizing your cause or initiative that can be shared, over and over again, with lawmakers and their staff.

SECURE A PLACE IN THE GOVERNOR'S BUDGET PROPOSAL

First, determine if this avenue is feasible. For smaller policy or program initiatives, it often is easier said than done.

Lobbying the executive branch to include a new initiative in its budget proposal or to expand funding for existing programs generally falls to the individual agencies who at the same time are trying to meet targets set by Treasury and find ways to do more with less. Making your cause one of their priorities is often difficult, time consuming and less than fruitful. It is not, however, impossible.

A friendly supporter in the right place can make it happen. And if you make it into the Governor's proposal, you are in great shape. Once you make it into the Governor's budget, you are rarely taken out, though in times of a declining economy new programs that have yet to develop a strong constituency can be among the first to be removed by the Legislature.

For the majority of advocates, however, who have to follow the legislative track, the pointers continue.

BUILD A DIVERSE COALITION

The power of many voices carrying the same message cannot be overstated. Sometimes advocates are so focused on their particular needs and causes, they fail to step back and line up potential supporters in organizations and areas not directly related to their cause. But with the Legislature, there is strength in numbers. The more people,

organizations and voters behind a cause, the better it tends to fare.

In 2004, for example, a coalition of over 100 organizations called the Fairness Alliance won an income tax increase on the wealthiest New Jerseyans. The effort combined grassroots advocacy, research and analysis and a strong media presence to win over legislators and the Governor.

SEEK A STRONG LEGISLATIVE SPONSOR

Do your research. Find a sympathetic legislator—a doctor if your issue is health-related, a teacher if it is tied to education, a local official if it relates to local or municipal aid—and approach him or her about sponsoring your initiative.

In pursuing a sponsor, try to enlist the support of a lawmaker who is not only sympathetic to your cause, but also has the ability to get the job done for you. Make sure you:

Determine whether the Democratic or Republican party controls the majority of seats in the Senate and Assembly. You will be most successful if your sponsor is a member of the majority party.

Line up bipartisan support for the initiative if possible.

Look for a sponsor who has shown an interest in similar projects by checking the types of bills he or she has introduced.

Find a sponsor either on the budget committee itself or in a position of leadership who is a media favorite or a strong negotiator. It can be helpful if the legislator represents the district where you live.

MEET WITH LEGISLATORS EARLY

This, too, is often easier said than done. Your cause is one of hundreds lawmakers are likely to hear from during the budget process, so securing time on their calendar can be as difficult as securing funding.

In requesting a meeting, make your purpose clear. Keep it brief and to the point and do your best to provide lawmakers with a list of supporters for your initiative. If possible, make clear the impact of your cause on constituents in his or her district. Try to hold the meeting at the legislator's district office; often, he or she can be more attentive there than in the State House.

Work hard to secure meetings with the legislative leadership—key committee members, particularly those on the Budget committees and committee chairs as well as the Senate President and Assembly Speaker.

Know your detractors as well as your supporters. Anticipate what their objections are likely to be to your proposal and be prepared to answer them.

At the same time you are working the legislative leadership, pursue similar meetings with senior staff in the Governor's Office to line up support for the initiative should it reach the Governor's desk.

APPRECIATE THE POWER OF LEGISLATIVE STAFF

Both houses of the Legislature employ partisan staff whose job is to research, conceptualize and carry out the policies and priorities of the legislators they serve. These staff members are essential to the budget process; often they are the first line of negotiations with the Governor's Office and the Treasury Department. Their work and opinions often help shape the opinions of lawmakers themselves. As one budget expert put it: "Staff is relied upon for judgment; they can make or break a request."

Find out who are the partisan staff members assigned to the budget committees, as well as those who work with committees that deal with your specific cause. Meet with them early. Enlist their support and press them for advice. What you say to them is passed along to the lawmakers they represent.

ASK FOR WHAT YOU REALISTICALLY NEED

Larger organizations tend to approach the budget as a negotiation: they ask for more, expecting less. Smaller groups are considerably more successful if they document their need and take a realistic approach in framing their request.

Do not, however, focus too heavily on amounts. Your job as an advocate is to build political will for your cause. Sometimes it helps if you can suggest a revenue source for your proposal.

LET THEM KNOW YOU ARE COMING

Before the public hearings on the budget even begin, your campaign should be underway.

Letter-writing and telephone campaigns to district offices should be widespread and consistent. Meetings with legislators should take place prior to the budget hearings to line up support and identify where your campaign should be strengthened. Get the media involved on your behalf by trying to interest journalists in the newsworthiness of telling your story to the public.

In short, let the Legislature know you are serious—that you will be a presence throughout the review process at public hearings, in their district offices, at the State House and in the media.

TESTIFY AT BUDGET HEARINGS

It is easy to be cynical and discouraged about the public hearings the Legislature holds at the beginning of its budget review. Some members of the Budget Committee have been criticized for appearing inattentive during the hearings. But do the hearings have an impact? Absolutely. Projects have made their way into the final budget bill after a strong and sympathetic showing at the public hearings.

Quite often, the hearings are the most productive part of the process for smaller advocates, particularly those who can tell a story and elicit sympathy. Anecdotal examples about how your proposal—or lack of funding for it—will affect the constituents of committee members are the kinds of testimony that can stick with lawmakers and have a lasting impact. They also provide lawmakers with information they can use as they lobby for your initiative.

Quite often advocates can use public hearings to build sympathy for their cause. Sometimes the story of one individual, a recipient of the services being lobbied for, can be more powerful than 1,000 letters. One budget expert called it the “human drama factor...it pulls at the heartstrings.”

Make sure you also provide legislators with a written copy of your testimony that includes your name and contact information. What you say should be concise. With so many people wanting to speak, legislators expect you to take no more than five minutes. That is plenty of time if you are concise and well-rehearsed. Call the Office of Legislative Services or check its website early in the process to sign up.

STAY CLOSE TO THE PROCESS

If you succeed in getting your initiative into the budget, keep in touch with your legislative contacts to ensure that it does not get lost in the process. Get a copy of the final budget bill as soon as it is available before the floor vote in both houses of the Legislature to make sure your initiative is included.

Continue to work hard until the floor vote to line up support for the budget through telephone calls, letters and visits to lawmakers.

LOBBY THE GOVERNOR FOR SIGNATURE

If your initiative makes it to the Governor's desk as part of the Appropriations Act, chances are you have earned the right to celebrate. Remember, however, the Governor has the power to "line-item veto" anything in the budget—including your project—before signing it into law. Hopefully you have followed the earlier advice and spent some of the budget process making your case to the Executive Office.

COME BACK AGAIN

If at first you don't succeed...there is always next year. Do not be discouraged by first or second attempts that fail—particularly in a lean economy. Allow for a learning curve on your part, as well as on the part of staffers and legislators just becoming familiar with your issue.

Learn from your mistakes. Do not hesitate to ask staff or even legislators what you need to do to be more successful in the next cycle. Above all, stay focused and prepared: planning for the next budget is already underway before the current one has been officially adopted.

REMEMBER TO FOLLOW UP

Finally, remember to express your thanks. Send your supporters thank-you letters, regardless of the ultimate outcome. Keep them informed about your cause by forwarding information, press clippings, reports and letters of support. Request a follow-up meeting to express your thanks and ask for guidance on how to proceed in the future.

Where to Get Budget Information

The budget proposed by the Governor as well as associated documents are available as published books, as CD-ROMs and on the State of New Jersey web site.

To find out how to obtain these materials, you can either call the Office of the State Treasurer at **609-984-5830** or go to **<http://www.state.nj.us/treasury/index.html>**.

Information concerning budget hearings held by the Legislature or about specific departmental budget analyses and budget legislation is available from the Legislative Budget and Finance Office in the Office of Legislative Services. Call **609-292-8030** for the Legislative Budget and Finance Office or visit the Legislature's web site at **<http://www.njleg.state.nj.us/legislativepub/finance.asp>**. Available there are analyses of the Governor's budget, summaries of the Annual Appropriations Act and OLS Revenue Snapshots.

BUDGET BY DEPARTMENT

	Direct State Services - DSS (1)	<i>Percent of DSS by Department</i>	Grants-in-Aid
Chief Executive	\$5,537,000	0.1%	\$0
Agriculture	9,513,000	0.2%	2,755,000
Banking & Insurance	68,837,000	1.2%	0
Community Affairs	37,356,000	0.6%	69,005,000
Corrections	904,546,000	15.6%	113,599,000
Education	63,206,000	1.1%	25,544,000
Environmental Protection	225,524,000	3.9%	16,250,000
Health & Senior Services	79,058,000	1.4%	1,774,452,000
Human Services	773,288,000	13.4%	3,715,938,000
Labor & Workforce Development	62,012,000	1.1%	45,694,000
Law & Public Safety	553,937,000	9.6%	28,259,000
Military & Veterans' Affairs	84,031,000	1.5%	1,044,000
Personnel	26,307,000	0.5%	0
State	32,617,000	0.6%	1,197,575,000
Transportation	105,657,000	1.8%	278,700,000
Treasury	430,426,000	7.4%	2,007,572,000
Interdepartmental Accounts (2)	1,696,541,000	29.3%	808,030,000
Misc Executive Commissions	1,395,000	0.0%	0
Legislature	74,567,000	1.3%	0
Judiciary	552,326,000	9.5%	0
			0
	\$5,786,681,000	100%	\$10,084,417,000

Note: These reflect the adjusted appropriations for FY 2005 as they appear on pages B-42 to B-55 in the Governor's FY 2006 budget.

- (1) Direct State Services (DSS) includes all operating costs for the state, including salaries, supplies, travel for state workers.
- (2) Interdepartmental Accounts is not a state department but provides funds for the cost of certain services that are administered centrally, including salary increases, employee retirement and health benefits, aid to independent authorities, property rentals, and utilities.

State Aid	Capital Construction	Debt Service	Dollar Total	% of State Budget
\$0	\$0	\$0	\$5,537,000	0.0%
11,085,000	0	0	23,353,000	0.1%
0	0	0	68,837,000	0.2%
1,032,765,000	0	0	1,139,126,000	4.0%
0	500,000	0	1,018,645,000	3.6%
8,990,843,000	0	0	9,079,593,000	32.0%
20,872,000	116,453,000	63,240,000	442,339,000	1.6%
9,985,000	0	0	1,863,495,000	6.6%
371,076,000	10,400,000	0	4,870,702,000	17.2%
1,624,000	0	0	109,330,000	0.4%
18,120,000	0	0	600,316,000	2.1%
0	2,627,000	0	87,702,000	0.3%
0	0	0	26,307,000	0.1%
16,827,000	1,000,000	0	1,248,019,000	4.4%
25,287,000	805,000,000	0	1,214,644,000	4.3%
468,785,000	184,549,000	378,293,000	3,469,625,000	12.2%
0	0	0	2,504,571,000	8.8%
0	0	0	1,395,000	0.0%
0	0	0	74,567,000	0.3%
0	0	0	552,326,000	1.9%
0	0	0	0	
\$10,967,269,000	\$1,120,529,000	\$441,533,000	\$28,400,429,000	100%



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