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To: Chairman Sarlo and Members of the Senate Budget and Appropriations Committee

From: Christopher Emigholz, Vice President Government Affairs

Date: September 4, 2020

RE: NJBIA Testimony Opposing New Jersey's FY2021 Nine-Month State Budget Proposal

On behalf of the member companies of the New Jersey Business & Industry Association (NJBIA) that provide one million jobs in our State making NJBIA the largest statewide business association in the nation, we wanted to express our **opposition** to Governor Murphy's proposed FY2021 state budget and detail our recommendations for how we hope you, the Legislature, can fix it. The business community has 4 primary concerns with this budget proposal:

- 1) There is no need for the **billion dollars in new taxes**, so they should be eliminated.
- 2) The budget does not need **\$4 billion in borrowing**, so that should be reduced.
- 3) When revenues are down and we are in a devastating economic downturn, there should be **no new spending** unrelated to the crisis at hand.
- 4) This budget crisis is the **perfect opportunity for structural reforms**, yet this budget proposal fails to include any real reform to make our state more affordable.

Why Businesses/Taxpayers Need a More Fiscally Responsible Budget:

Our New Jersey business community just went through months of a government-imposed shutdown, and businesses are still reeling from their operations being limited. For the sake of job growth, wage growth, general economic growth, and state revenue growth, **we cannot afford a budget that further kicks them while they are already down.**

New Jersey's Gross Domestic Product (GDP) contracted by 5.5% in the first quarter of 2020, 10% worse than the national average contraction. According to the latest release from the United States Bureau of Economic Analysis, the nation's GDP contracted by an additional 32.9% in the second quarter, which is the worst quarter in recorded history. If the trend from the first quarter holds, which it likely will due to our mandatory stay-at-home orders and non-essential business closures, New Jersey's second quarter contraction is likely to be even worse again than the historically bad national average.

In addition in July, we had one of the worst unemployment rates in the nation at 13.8%. Only Massachusetts, Nevada, and New York were worse. Over 33% of our Civilian Labor Force or 1.5 million people have filed for unemployment insurance since March. It is clear that New Jersey businesses are struggling and, as a result, our workers and the state is struggling as well.

Although all business types are finally open in some form, the current capacity restrictions are unsustainable for the vast majority of businesses in New Jersey. According to NJBIA's [Recovery Survey](#), an overwhelming 83% of respondents state that their business requires half or more of their usual patrons to break even in a given month – including 18% who say they need 100% of their patrons to break even.

What is more, when asked how long it would take for their business to generate revenues comparable to pre-COVID-19 profits, 21% said their business could never generate a profit at 50% capacity. Another 14% said it would take 10 months to a year to reach a profit and 23% believed it would take their company more than a year to generate revenues comparable to pre-COVID-19 if they were only able to operate at 50% capacity. Another 6% said it would take more than 2 years.

Why the Billion Dollars in New Taxes Should be Eliminated:

Taxes matter because they impact our **competitiveness** regardless of how fair they sound. It is not just about who would pay the higher tax and whether the taxpayer can afford it, but it is more about any collateral damage for our economy from the tax increase – if they choose to move their home, expand their business or shift their shopping to a state with a lower tax and lower cost. The State of New Jersey should avoid anything that could jeopardize our competitiveness as we look to the very same taxpayers and businesses to restore our lost jobs and lost revenue. Examples of this collateral damage include:

- An income tax increase where we expand those paying the second highest top rate in the nation may lead to a higher-income resident choosing to retire in another state besides New Jersey.
- A corporate business tax (CBT) increase that would keep us at 11.5% would give New Jersey the highest rate in the nation after Iowa phases down their currently highest-in-the-nation rate in 2021, and that may lead to multi-state corporations choosing to expand their sales and operations in other states that won't cost them as much.
- A higher cigarette tax may lead to smokers spending more money at a grocery store, deli or gas station on the other side of the Hudson and Delaware rivers.
- Being the only state in the nation that is trying to reverse a recent federal tax cut on qualified small business income may mean an entrepreneur opens up their business in another state or hires one less person for their new small business in New Jersey.
- Tax increases on limousines may make limousine services from out of state look more attractive in their pricing.
- A higher boat tax may lead to fewer sales for Jersey Shore boat makers.
- A new tax on drug manufacturers and distributors burdens the whole logistics industry and makes the medical care of patients needing responsible pain relief more costly.

There are also taxes being discussed at the time of this budget process that could be even more devastating to our competitiveness. Ideas for a **new tax on financial transactions** (A-4402

(McKeon)/S-2902 (Sweeney)) could make it very easy for financial services firms and their data centers to move to Long Island, just north of New York City or to Southwest Connecticut and should be abandoned. At a time when more businesses and residents are looking to leave New York City, we should capitalize on that and make North Jersey a more attractive part of the New York economic region – not less.

Additionally frustrating about these new proposed taxes is that Governor Murphy shows **no sign of relenting** on his plans to increase taxes. When the economy was good and revenues were growing naturally, he asked for more taxes. When the economy and revenues are down, he asks for more taxes. Is there ever a time when New Jersey pays enough taxes, especially at a time when our taxpayers are already struggling more than at almost any time in their history? When will it stop?

Lastly and even more disappointing about the proposal of these new taxes hurting our competitiveness is that they are **completely unnecessary**.

After going through a once-in-a-lifetime health and economic crisis, the proposed surplus is actually \$900 million higher than it was when we entered FY2020. (Started FY2020 with a \$1.3 billion surplus and proposing to end FY2021 with a \$2.3 billion surplus). Governor Murphy deserves credit for his efforts to increase the surplus, but a budget surplus is designed to provide a cushion for unexpected events that may arise – the rainy day. We are in the midst of that rainy day, yet the surplus still goes up and is not being used in any way to help the people of New Jersey that are hurting right now.

The surplus' increase is almost equivalent to the increase in taxes, so if the surplus remains at \$1.3 billion, then there is no need for new taxes. And that \$1.3 billion is still higher than the surpluses Governor Murphy inherited from Governor Christie. Additionally, a healthier surplus in today's budget is less necessary because of the unused borrowing capacity which is akin to a line of credit that we can still tap if the once-in-a-lifetime crisis gets unexpectedly worse.

Lastly on the taxes, NJBIA hopes that no tax increases are necessary (especially the CBT increase), but if the Legislature and Governor determine some level of CBT increase is appropriate, we request the a few technical adjustments that don't impact the rate and state revenue collected from it. Any CBT increase should remain **temporary instead of permanent**, as a permanent tax change would cause corporate accounting burdens that could easily be avoided by keeping a sunset date. Any CBT change should also include a **correction of previous technical mistakes**. NJBIA has worked with Treasury's Division of Taxation on potential legislation that should not cost any revenue to the state but correct and improve the technical administration of some corporate tax policies for both the taxpayer and Treasury.

Why The \$4 Billion in Borrowing Should Be Reduced:

Our states debt levels should worry everyone, because it means that other spending on programs to help people will be crowded out of future spending. If we borrow more, debt service costs in future budgets grow. Our debt service costs are already high and our even worse overall long-term liabilities compound those future cost concerns. Every effort should be made to keep any new borrowing for operational expenses to a minimum, so that we can afford things that we all want

instead of just paying off loan interest that was not used for anything more important than just balancing one budget. Anyone that wants to increase spending on pre-school, school aid, NJ Transit, programs for the disabled, mental health and addiction services or other very worthy programs that will provide significant help to people beyond just paying down a debt should be very opposed to new borrowing that is not completely necessary.

And this **level of borrowing is not necessary**. For example, if the pension payment were to remain flat to last year's seven-tenths level instead of growing to the proposed eight-tenths, that \$1.2 billion could be freed up to reduce the borrowing could by 30%. That could mean cutting hundreds of millions in debt service in budgets over the next several decades allowing that money to be used for spending that will help our state. Borrowing today does not make sense just to put more money to the side for the future.

Limiting the borrowing to only necessary expenditures also gets this budget proposal more in line with the Supreme Court's recent decision. NJBIA does not believe that \$4 billion is needed to cover a shortfall as the Court dictated, because there is little evidence that our budget shortfall is that large.

Why New Spending Should Be Cut:

Belts are tightening throughout the world because of this global pandemic. When people are losing jobs, getting furloughed, and seeing wages slashed, it means that people get their spending habits under control. Our state government should do the same. The federal government without a balanced budget requirement rightfully tries to infuse the economy with cash in tough times like this, but it is not the job of states with a balanced budget requirement to do the same. We can afford to spend more when the economy grows, not when the economy and people's livelihoods are collapsing all around us. We should avoid making cuts that will harm the vulnerable and hurt the future growth of our state, but a time like this is not when you spend more. New Jersey already spends more than most states and can afford to hold the line on new spending. **The budget should NOT grow \$1.4 billion or 3.6% from last year in the midst of this economic downturn when revenues are down.** Reducing the surplus and pension payment increases are appropriate as mentioned earlier, but all other new spending not related to the COVID-19 crisis should be eliminated from the budget. Without that spending growth, the new taxes and borrowing become even less necessary.

Why We Need Structural Reforms Now:

We don't need cuts but we need a right-sizing of our budget. New Jersey is overly generous in many areas of its spending. This budget needs structural reforms, similar to the ones proposed in Senate President Sweeney, Senator Sarlo and Senator Oroho's bi-partisan Path to Progress report. **This crisis presents us with an opportunity for real reform.** Bringing down the costs of pension and health benefits from overly generous to merely generous will help this budget and our massive long-term liabilities as well. There is over-spending that could be permanently right-sized now and into the future. Examining government structures and any over-spending that comes from too much government is also necessary. New Jersey residents would understand and support a budget that includes savings from re-thinking costly programs at a time like this when many residents have to do the same thing. If we can't do this when the pandemic has forced us to re-think our budgeting and find spending efficiencies, when can we ever do it?

Conclusion:

To make this budget more fiscally responsible, the reliance on \$5 billion in irresponsible revenue from new taxes and borrowing needs to be reduced. Affordability and competitiveness issues have been slowing the growth of our economy for many years, and exacerbating these problems after businesses were already devastated by the pandemic's economic shutdown will be devastating for the very same taxpayers that we need to restore the jobs and revenues lost over the past few months.