

Facing Our FUTURE



The Problem

New Jersey faces a critical, structural problem: current services can't be funded by the existing revenue system, and the projected service delivery gap continues to accelerate. Because of the interdependency of levels of government and budgets, the problem exists at all levels – state, municipal, county and school district.

There are no easy solutions to the problem, and any solution requires more than one or two actions. Every New Jerseyan must participate in an important dialogue – a conversation to determine future priorities. Why? We can no longer fund government services at the level we've known. Citizen participation is essential in the discussion of what needs to be done. The New Jersey government that evolved throughout the 19th and 20th centuries must change to meet the needs of today – and the 21st century.



Facing Our Future: A Summary

New Jersey faces a stark reality: the state cannot grow, cut or tax its way out of its current and well-publicized budget problems and still maintain the quality of life provided by current services levels. The complex layers of state, county, municipal governments and school districts that have evolved from the 19th century can no longer deliver the 21st century services we expect, especially as the gaps between the costs of those services and the revenues to pay for them grows ever wider.

To take charge of the future and to survive and thrive moving forward, all of New Jersey's citizens need to understand the current environment and to make choices about the future. We need to understand the complex interdependencies of state policy decisions. To develop that understanding, we need to consider the available revenue sources at all levels of government, the types of expenditures that drive the cost of government, and the impact of those policy decisions, revenues and expenditures on the operation – and fiscal capacity – of state government and its municipalities, counties and school districts. This knowledge can prepare us to make difficult choices about the future. We need to determine how to balance a need for change against our expectations about government and the willingness to support essential public services. The purpose of this report is to inspire a public discussion about how we address these difficult issues.

Government – when successful in delivering on the priorities of its citizens – respects the past, deals effectively with present concerns, and provides opportunity for the future. All of us are stakeholders in and consumers of the diverse array of services supplied by government and its various institutions and agencies. The starting point for the discussion central to New Jersey's future is not the statement that government fails us, but rather the question of how do we make government more effective and efficient at doing the very jobs we want done.

Throughout our report, and documented in extensive research and consideration of possible future scenarios, *Facing Our Future* presents a look at New Jersey's future at all levels of government. Our research presents data.

The report doesn't assess blame, nor does it offer specific recommendations. We don't second-guess any decisions made to date. We look at current budgets and services, and offer documentation and an explanation for the sizeable gap between government revenues and the spending levels necessary to maintain services at current levels. We realize there are myriad choices affecting our future.

To help identify and discuss those choices, we raise three important questions:

- What do we need to understand about New Jersey's fiscal crisis?

- Is the state – and are the government institutions created in the 19th century – efficient, effective, affordable and capable of meeting the needs and requirements of New Jersey's citizens in the 21st century?
- How can we inspire a robust discussion, based on facts and understanding, about New Jersey's priorities, needs and how they can be met in the future?

We are at a critical juncture, a crossroads, to our future. Together we must enter into a public conversation about our priorities, to decide which services we value most at all levels of government, how and by whom we want those services delivered and how we will pay for them. The time to engage in that serious conversation is now.

The Questions

Facing Our Future presents objective information to document the gap – and the dimensions of that gap – between government revenues and spending.

Our purpose is to present this information as the foundation for a discussion among New Jersey's citizens – and also to promote discussion about what we value as citizens. The core questions critical to the discussions are simple: what are our priorities; are we organized effectively and efficiently to deliver on those priorities within all levels of our government: state, county, municipal and school district; and how should we fund those priorities?

We hope that our questions can prompt individual consideration and public discussion, and that leaders at all levels of New Jersey government will help to promote the public conversation. Together, we can work to build consensus that will enable each of us – as New Jerseyans – to face our future.

Establishing Priorities

- What are our priorities in the provision and delivery of government services?
- What types and levels of change are necessary to meet our priorities?
- Are there government services currently being provided that can be eliminated? If so, what is the process for developing a consensus on them?

Identifying Investments Necessary for Economic Growth

- How do we establish priorities for needed public investment (i.e., transportation; education; water, sewer and stormwater; technology), and how should these investments be funded?
- What public investments are required to promote private sector economic activity and to ensure that New Jersey remains competitive?
- Do we have a tax structure that is fair – to individuals, to businesses, to homeowners? If no, how might it be changed? If yes, can the current state and local tax structure create incentives for investment and growth to provide sufficient funding for a redesigned 21st century government?

Considering Possibilities for Change

- Are there constitutional or statutory requirements – or societal expectations – that need to be revisited for the 21st century?
- How are other states, regional jurisdictions, municipalities and school districts dealing with the same problems?
- Would a commission similar to the federal 'deficit commission' be useful in informing a public discussion?

Increasing Government Effectiveness and Efficiency

- How do we afford the government that we have?
- How do we rethink current governmental organization and functions to promote excellence, efficiency and affordability?
- Should we restructure government to enable us to address new or emerging priorities? If, yes, how? If no, why not?
- Are there opportunities for change – privatization, shared services, regionalization or any other approach – that might result in increased effectiveness and efficiency for the delivery of essential services?



An Open Letter to the Residents of New Jersey:

New Jersey is in a fiscal crisis. The way government at all levels – state, county, municipal and school districts – raises and spends money cannot be sustained. The problems that have led us to this point are of long standing and restrict our state’s ability to function and thrive for years to come. Any solutions will undoubtedly require our best, most creative thinking, a spirit of cooperation and purposeful determination, and courageous leadership. The answers will not come easily. They will be neither simple to implement nor quick to ease the pain of our current situation, but all of us need to think about a new way forward.

Like others throughout New Jersey, the Leadership Group for *Facing Our Future* cares profoundly about the state’s deeply troubled fiscal future. This volunteer group – composed of former government executives and public servants – represents all sides of the political spectrum. Our report documents the unparalleled budget gaps at state, county, municipal and school district levels through 2016. It provides sound, comprehensive and understandable information critical to informed decision-making and problem solving. Our goal is to engage everyone – citizens, community groups, the business sector and all government officials – in a serious, thoughtful public discussion that will help us build a base of understanding, make informed choices and ultimately address the problems created by our complex, multi-layered governmental system.

We realize this is not the first report warning of the potential for fiscal failure in New Jersey. Five years ago, as an example, four joint legislative panels explored various aspects of New Jersey’s tax structure and spending practices, with particular attention paid to retirement costs (pension and health benefits). They offered substantive, detailed recommendations, some of which were eventually enacted into law, many of which were not.

So, why is *Facing Our Future* different? In part, it is a function of the times – the warnings sounded by earlier reports are no longer dark, distant clouds we can hope will blow past. The storm is here and growing. Our fiscal problems are broader and deeper, the tools to fix them less plentiful. As we come through the global economic depression, revenues continue to lag even as our demands for service grow. Our analyses show state government will be unable to adopt a balanced budget over the next five years without significant changes in services, programs and employee pension systems and benefits. Local governments and schools also face insufficient revenues to maintain current levels of service.

As we face this set of conditions, gone are the surpluses municipal governments and school districts tapped in troubled times and the one-time solutions that may have saved the day repeatedly at the state government level. Past measures employed by the state to balance state budgets exacerbated the problem, and increased pressure on local governments to absorb the deficits. In addition to a significant gap between revenues and the cost of public services, the state faces unfunded liabilities of \$94 billion for pension and medical benefits, perhaps the single largest threat to a stable economic future. The fiscal situations of the different levels of New Jersey government are completely entangled with each other, and cannot be attacked in isolation from each other.

In recognition of the need for change – and the need to engage all members of the New Jersey community in making the choices for how to change – the Leadership Group of *Facing Our Future* worked under the umbrella of the Council for New Jersey Grantmakers (CNJG). United in our commitment to the state, with our shared experience in public service, we agreed to work together to encourage open, informed dialogue about the state’s massive gap in revenues versus spending. CNJG coordinated an objective, data-driven effort led by two highly respected, independent analysts to assemble and analyze nonpartisan budget data and share information about the state’s current and future fiscal woes. The results show the extent to which all levels of government funding and services are intertwined. The data show we cannot grow, cut or tax our way out of this situation and still maintain the quality of life provided by current service levels. Fixing the problem will require various solutions and affect all levels of government and government services.

Our immediate goal is to build a better understanding of how we raise and spend money in New Jersey. The *Facing Our Future* report serves as a primer on taxing and spending. Moving forward, our work will continue with a deeper look at a number of municipalities and other local government jurisdictions around the state, focusing on their fiscal health and the challenges they face. We also anticipate looking at how New Jersey stacks up against other states in revenue and spending policy.

We encourage you to read this handout – and the full report, consider the questions posed and engage in the dialogue about how to shape government for our state’s long-term fiscal health. Our hope is that everyone – elected officials at all levels of government and every citizen of New Jersey – can cast aside differences and work together to face these serious issues. With a better understanding of how our governments work, together we can face our future and make informed, intelligent decisions to address our complex challenges.

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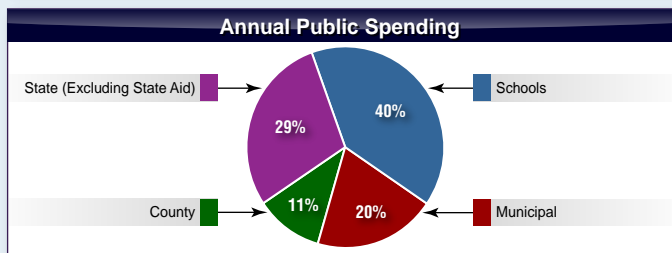
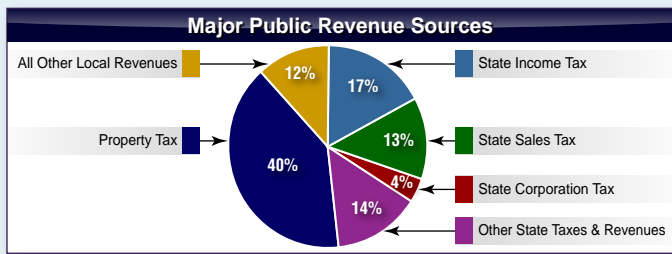
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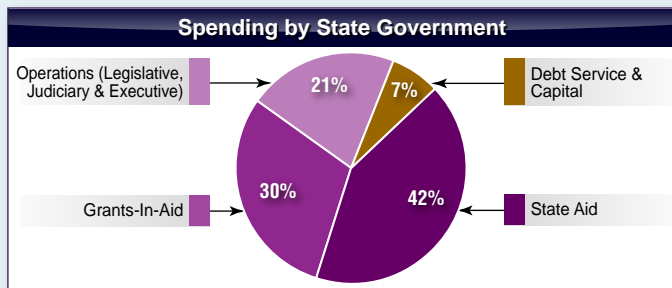
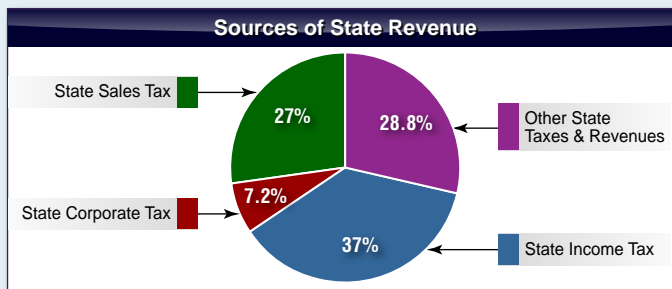
How do NJ governments raise and spend money?

We've used the data gathered through the *Facing Our Future* research to provide short summaries of information at a macro or 'big picture' view to show how NJ governments raise and spend money. For example, we don't try to present all sources of revenue, and we don't try to itemize every dollar spent in New Jersey throughout each level of government. What we do provide is an aggregate picture – for all levels of government combined then for each individual level of government – of the major ways in which government in New Jersey raises and spends money on behalf of its citizens. To provide this big picture view, we've identified only major sources of revenue and spending, and have adjusted figures so that 'aid' – whether state aid or federal aid – is counted only once. More information – and fuller explanations – are provided in the complete *Facing Our Future* report and research documents available at <http://www.cnjg.org/FacingOurFuture>.

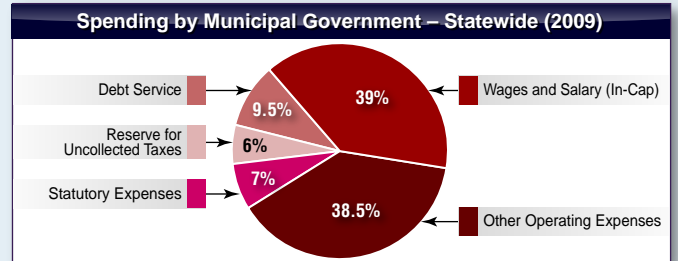
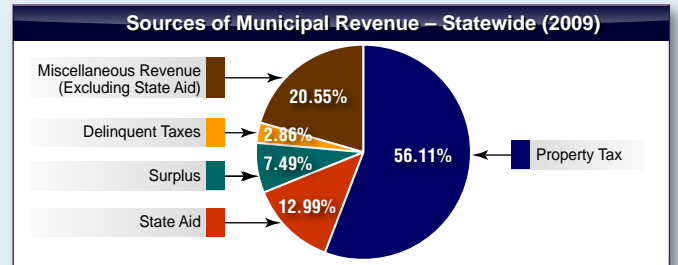
Major Public Revenue Sources and Annual Spending (Combined for All Levels of Government: State, Municipal, County and School District)



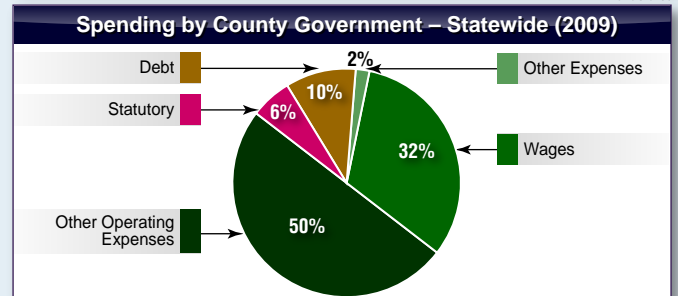
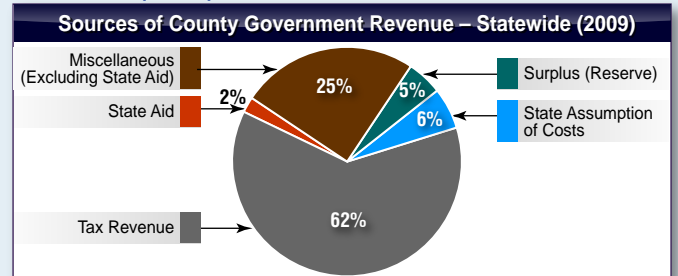
State Government Revenue Sources and Spending



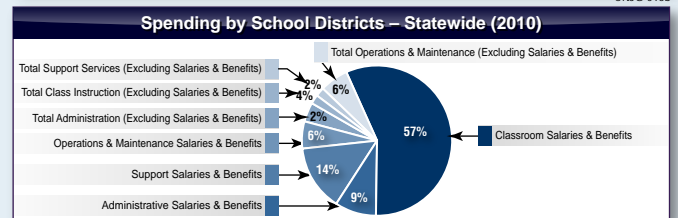
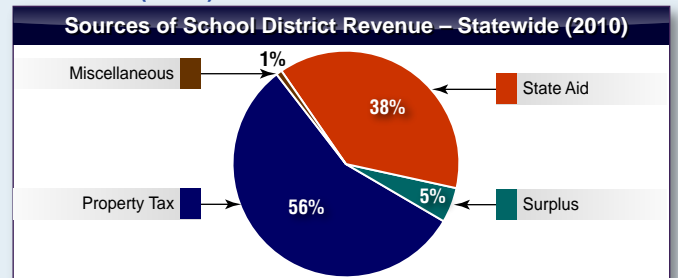
Municipal Government Revenue Sources and Spending - Statewide



County Government Revenue Sources and Spending - Statewide (2009)



School District Revenue Sources and Spending - Statewide (2010)



How does government in New Jersey deliver services? Is the delivery of services efficient and effective?

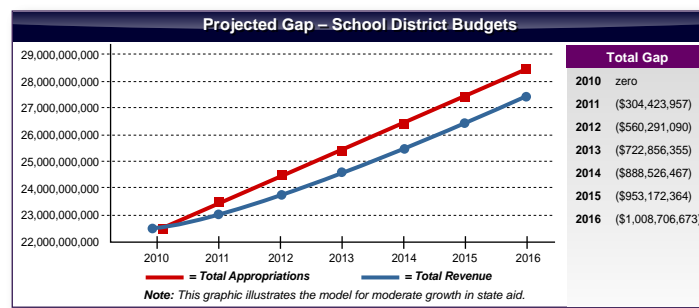
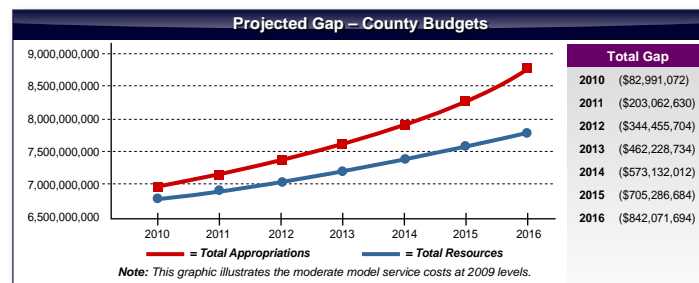
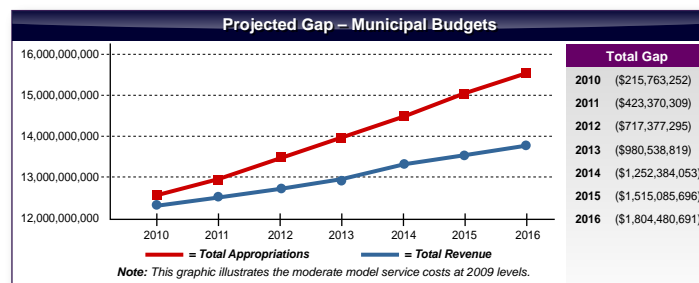
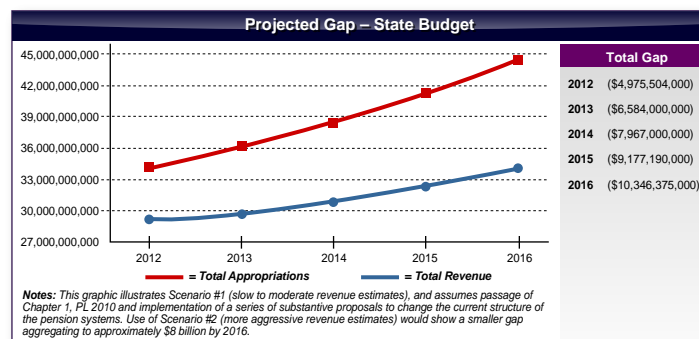
Government employees directly provide most services throughout all levels and branches of NJ government. Our widespread fiscal problems, however, mean that the trend of a decreasing number of employees will continue. In the face of this declining workforce, the scope of government responsibilities has not seen a corresponding decrease. If anything, there is an increasing demand and expectation for government services and problem solving. The structure that supports this service delivery system – a well trained and well managed workforce with relevant technology – has deteriorated. The combination of an aging workforce and a series of early retirement programs have resulted in a loss of significant institutional knowledge and experience. At the same time, the shrinking workforce has shifted a larger workload to the employees who remain. Lastly, there has been no significant investment in technology improvements to mitigate the impact of workforce reductions and improve efficiency.

Additionally, New Jersey government is complex. The number of municipal subdivisions has more than doubled from the late 19th century's 270 to the early 21st century's 566. For further complexity, New Jersey local government has 604 school districts – a number greater than the number of individual municipalities. Each of these public entities – 566 municipalities, 21 counties and 604 school districts, as well as the state – has the ability to raise taxes and make expenditures on behalf of their residents and students. All of New Jersey's levels of government face a growing inability to meet today's 21st century challenges. Many of the service delivery practices, structures and processes at all government levels were designed for a 19th century state. As a result, services are duplicated across public entities in the same municipality or county – and across differing levels of government.

What are the projected gaps in service delivery at each level of government?

Our research shows that New Jersey cannot grow its way out of its budget problems. Whether we use a moderate or more aggressive revenue scenario, the projected gap at each level of government is large and alarming. Viewed individually or as a whole – and as a whole is the way to view our problem because of our interdependent levels of government – we all face the challenge of limited future financial resources with which to support government services. In short, we all face a future in which government in New Jersey will be unable to maintain current services. Furthermore, if taxes were increased, such increases would unlikely ever be sufficient to address the long-term gap facing New Jersey. **In no year of our research – from 2011 through 2016 – is New Jersey able to achieve a balanced state budget without significant service, programmatic and employee benefit changes.**

What does this mean? This means that policy makers will need to reduce government spending patterns radically and/or increase revenues significantly in order to fund current services. Many existing expenditures are statutory – and therefore are difficult to reduce; additionally, there is a smaller range of remaining choices from which to determine budget cuts. Low and/or no wage increases will not bridge the municipal budget gap. Therefore, we estimate that as much as 20 percent of current services may need to be eliminated. *Facing Our Future* doesn't suggest which services should be offered or eliminated. We are convinced, however, that there will not be sufficient revenue available in 2016 to support government operations at current services levels.



Unfunded Liabilities

The single biggest challenge to NJ's fiscal future is the underfunding of public employee pension and post-retirement medical benefits. Unlike other programs, the retirement program costs have extensive and serious long-term liabilities that need to be addressed. The total unfunded liability for state costs – including school teachers – is \$94 billion, which includes \$37 billion for state pension systems and \$57 billion for post-retirement medical benefits. Additionally, the municipal and county levels of government have total unfunded liabilities of \$27 billion. There are further health retirement liabilities for other jurisdictions that do not participate in the state system.

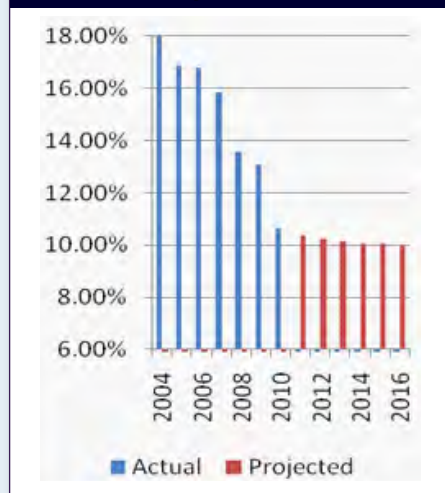
If the state begins contributing to the pension systems – and if the proposed initiatives are implemented – the pension systems can again achieve a necessary funding level. However, the immediate problem then becomes the rising cost for medical care for retirees and current employees. Unlike the pension systems, no money is reserved for future medical commitments and is met solely on a pay-as-you-go basis. If nothing is done to contain costs, the total funds needed in the state budget by FY2016 for health benefits will be in excess of \$3 billion – an increase of almost 40 percent.



Interdependencies and Revenue Limitations

New Jersey's municipalities face a future of increasing costs set against the existing revenue system to support those costs. To address these challenges, we need to understand the complex set of interdependencies across state policy decisions, court determinations and the revenue requirements for other levels of government. For example, the New Jersey Supreme Court ordered a hearing in a case raising a constitutional challenge to recent budget cuts in education funding, a case that illustrates the interdependency of the judicial branch determinations and revenue requirements and/or spending. As another example of the interdependencies across New Jersey government, a decision to permit local entities to defer pension contributions either fully or partially has immediate and long-term consequences at the municipal and county levels. Allowing a local entity to defer payment in the present doesn't eliminate the obligation. It simply defers the payment into the future, thereby creating an 'unfunded liability'.

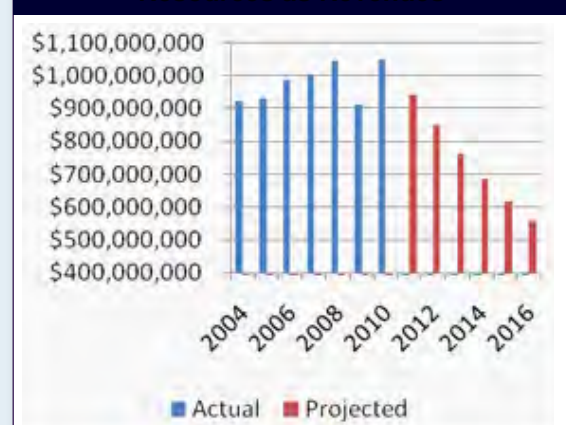
State Aid as a Proportion of Total Municipal Revenue



Yet another example of this complex interdependency is the **distribution of state aid from the state to individual municipalities**. In 2007, Consolidated Municipal Property Tax Relief Aid and energy tax receipts – the largest municipal aid programs – peaked at \$1.7 billion. By FY2010, this municipal revenue source had decreased to \$1.281 billion. Local government officials have offset this lost state aid by other revenues, property tax increases, or reductions to services or wages.

Another future challenge faced by New Jersey's municipalities is the **diminished availability of surplus funds**. In the past, surplus funds have been created through a limited number of opportunities, such as when there is excess revenue or when there is less spent on a project and the remaining funds are returned and made available for other use(s). With reduced state aid and diminished availability of surplus, property taxes will continue to increase as a proportion of local revenue.

Projected Availability of Surplus Resources as Revenues



What's Next?

The question of 'What's next?' can't be directed solely at one effort or volunteer organization – such as *Facing Our Future*. The question of 'What's next?' must be directed to every resident in New Jersey; each of us is an essential part of the answer.

How do we do this? What happens next? Our work as *Facing Our Future* – private citizens sharing a public interest – will continue throughout the coming months. First, we'll engage in an active outreach effort to bring the *Facing Our Future* report to a wide range of citizens and public groups. The outreach effort will enable individuals from our volunteer group to meet with editorial boards, associations and issue groups throughout New Jersey. In addition, we'll work to share the information in this report with elected leaders at all levels of government and promote a common understanding of the specifics – and certain impact – of our current fiscal crisis and future challenges.

Second, we'll work to personalize the information. By the end of Spring 2011, we'll put a personal face on the future for a representative number of local governments in New Jersey. *Facing Our Future* will select a small number of local government jurisdictions and identify the revenue versus spending gaps that face each of these jurisdictions in the coming years. Through careful selection of the representative municipalities, our hope is that every citizen in New Jersey will be able to identify with at least one of the jurisdictions and will be able to personalize the impact of the current crisis – and its future impact on government services for them.

What Happens Next?

- **Now** – Engage in active outreach
- **Spring 2011** – Personalize the information
- **Spring/Summer 2011** – Learn from experience
- **Fall 2011** – Promote public discussion and informed perspective

Third, we can learn from experience. *Facing Our Future* anticipates using the Spring and Summer of 2011 to identify comparable situations and standards of excellence in service delivery and learn where New Jersey meets or exceeds these standards.

Lastly, we'll promote public discussion and informed perspective to determine New Jersey's priorities. Beginning in Fall 2011, *Facing Our Future* expects to work closely with other groups and organizations who wish to provide broad, diverse opportunity for public discussion, prioritization and consensus building. We foresee the use of town hall style gatherings, public forums, leadership retreats and other public conversations to engage New Jersey's residents in a statewide effort to frame informed consensus on future priorities for government service delivery and related funding.

CNJG

COUNCIL OF NEW JERSEY GRANTMAKERS
Strengthening Philanthropy in Our State

The Council of New Jersey Grantmakers (CNJG) is the center for philanthropy in New Jersey, serving the leading independent, corporate, family and community foundations as well as public grantmakers of our state. We support our members by strengthening their capacity to address New Jersey and society's most difficult problems. We also access the resources of the philanthropic community – funding, expertise, and leverage – to provide leadership on statewide issues.



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