January 2011

Facing Our FUTURE

CNJG
COUNCIL OF NEW JERSEY GRANTMAKERS

Potential Service Delivery Gap

2010 2011 2012 2013 2014 2015 2016

Total Appropriations — Total Available Revenue
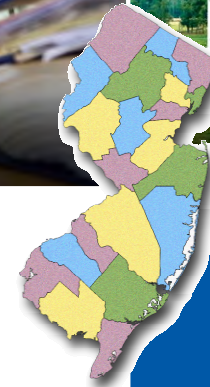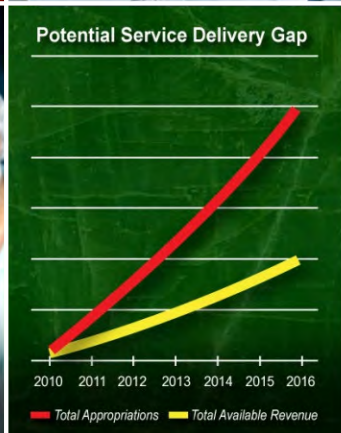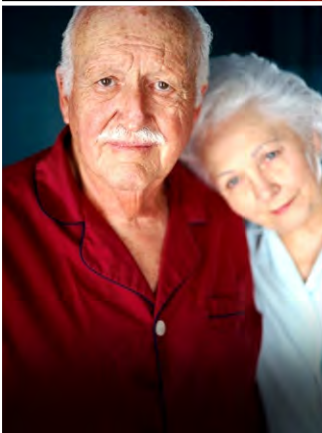
Facing Our Future: Key Messages
April 2011

Agenda

- Introduction

- Understanding the Current Environment

- Research Findings

- Our Future
  - Key Findings

- Conclusion and Next Steps

Introduction

- **What is *Facing Our Future*?**
  - Organized, independent effort
  - Conducted without hidden agenda, partisanship, political motivation or bias
  - Provides objective data on current and future condition of NJ's state and local gov't fiscal crises
  - Presents reality of NJ's future at all levels of gov't
  - Fosters environment of informed public discussion and impact of crisis – and future of NJ
- **Raise important questions**
  - What do we need to understand about current crisis?
  - Is gov't able to meet needs and requirements of citizens in 21st century?
  - How can we foster discussion about NJ's future priorities, needs and requirements?

What *Facing Our Future* doesn't do:

➢ *Doesn't assess blame*

➢ *Doesn't offer specific recommendations*

➢ *Doesn't second-guess any decisions made to date*

Understanding the Current Environment

- **All levels of NJ gov't are in crisis**
  - Significant structural shortfalls ('gaps') at all levels of gov't
  - Restricts NJ's ability to function and thrive for short- and long-term
  - Huge unfunded liability for public employee pensions and health benefits

- **Way gov't raises and spends money can't be sustained**
  - Projected gaps result in estimated decreases of 20%+ of services

- **Complex, interconnected relationships exist across levels of gov't**
  - Holistic approach *required* (changes at one level affect others)

To understand our future, we must understand the present.

The Environment:
Current Budget and Services (state level)

- Review FY2009 and FY2010, NJ's two most recent fiscal years
  - Largest % decrease in revenue in state's history
  - Overall decrease in state revenue from $32.6 billion (FY2008) to $27.9 billion (FY2010)

- Address retirement program costs and extensive, serious long-term liabilities
  - Total unfunded liability of **$94 billion**
    - State pension systems – including teachers' system – is $37 billion (56.4% funded)
    - Post-retirement medical benefits is $56.8 billion (No future years costs funded)

The Environment:
Current Budget and Services (local gov't levels)

- FY2004 - FY2009 (municipal budgets)
  - More dependent upon property tax and state aid
  - Other miscellaneous revenue decreased by almost 8%
  - Used surplus funds to balance budgets

- Similar patterns at county and school district levels

- Costs continue to increase

- Problem: retirement program costs with extensive, serious long-term liabilities
  - Aggregate unfunded liability for pensions at municipal and county levels of gov't
    - Pensions: total unfunded liability is $16.7 billion (70% funded)
    - Retirement medical benefits: $10 billion

The Environment:
An Independent Indicator

- Severe downtown in national economy

- Would take five years for a state gov't to return to peak revenue levels

- Ongoing recession makes growth of this magnitude unlikely

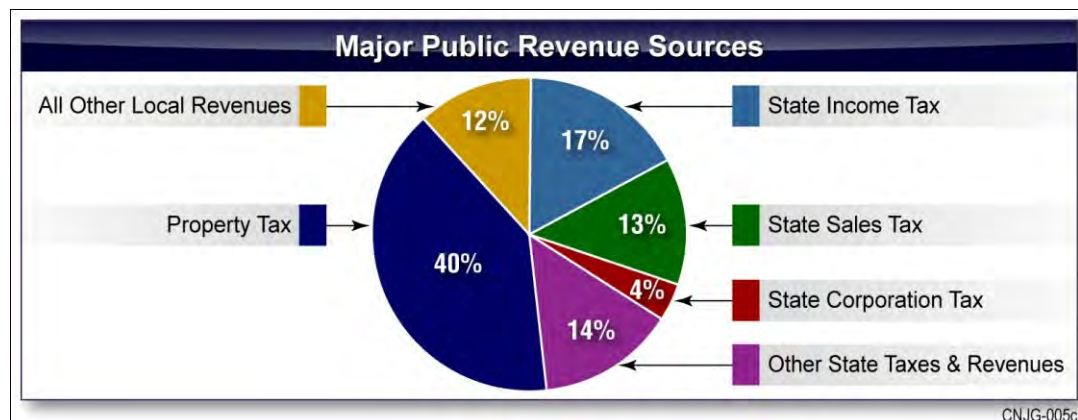- Problem with revenues and spending will only be exacerbated

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For NJ, it would take until 2014 to match the peak revenue levels of FY2008.

The Environment:
Identify Gov't Revenues and Spending Gap

- Provide common, shared basis of information
  - How does gov't in NJ obtain its money?
  - Where does gov't in NJ spend its money?
  - How does our gov't deliver services, and is the delivery efficient and effective?
- Share clear, short summaries of information at macro-level
  - Don't present all sources of revenue
  - Don't itemize every dollar spent in NJ
  - Do present aggregate picture
    - At each level of gov't
    - For all levels combined

The Environment:
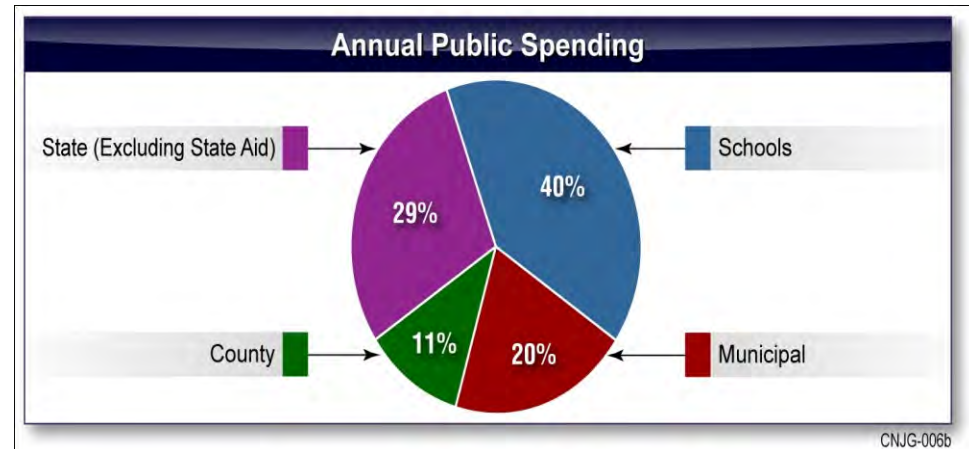## *How Does Gov't in NJ Obtain Money?*

- Shows combined revenue sources for all levels of gov't: state, municipal, county and school district

- Property tax
  - Represents 40% of all money raised by 'gov't' in NJ
  - None of this is raised by state gov't

- State income tax
  - Represents 17% of all money raised by 'gov't 'in NJ
  - All of this is raised by state gov't
  - All of this is paid to local gov't (principally school districts)

Major Public Revenue Sources

All Other Local Revenues — 12%
Property Tax — 40%
State Income Tax — 17%
State Sales Tax — 13%
State Corporation Tax — 4%
Other State Taxes & Revenues — 14%

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NOTE: We've identified only major sources of revenue, and have adjusted figures so that 'aid' is counted only once.

The Environment:
Where Does *Gov't in NJ Spend Its Money*

- Shows combined spending for all levels of gov't: state, municipal, county and school district
- 40% of all money spent by 'gov't' in NJ supports schools
  - Includes money spent directly by school districts
  - Includes state aid provided to schools through the state gov't

Annual Public Spending

State (Excluding State Aid) → 29%
Schools ← 40%
County → 11%
Municipal ← 20%

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NOTE: We've identified only major sources of spending, and have adjusted figures so that 'aid' is counted only once.

The Environment:
Delivery, Efficiency and Effectiveness of Gov't Services

- Delivery: employees directly provide gov't services
  - Trend: decrease in total number of gov't employees
  - Trend: no decrease in scope of gov't responsibilities

- Efficiency: deteriorating structure
  - Aging workforce
  - Loss of significant institutional knowledge and experience
  - Workload shift to remaining employees
  - No significant investment in technology improvements

- Effectiveness: complexity of gov't organization and operation
  - Duplication across levels of gov't
  - Multiple jurisdictions – all with taxing and expenditure authority