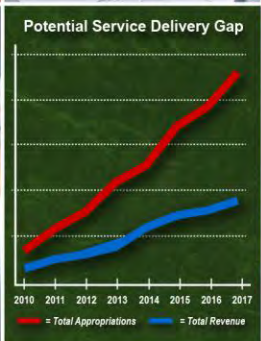


February 2012  
Updated Report with Options Analysis

# Facing Our FUTURE



## Open Letter and Executive Summary

An Open Letter to the Residents of New Jersey:

In January 2011, we released the initial *Facing Our Future* report and began with the statement “New Jersey is in a fiscal crisis”. During this past year, elected leaders across all levels of government made choices reflected in the budgets adopted on July 1, 2011. Notably, the choices included significant changes to the retirement pension systems, health benefits for current employees, arbitration constraints and a 2 percent cap on property tax increases.

**Nevertheless, we face some of the same challenges one year later.** Yes, we averted last year’s immediate fiscal crisis, and no longer find ourselves in the same situation as state and local governments elsewhere in the country – and especially in California or Illinois. However, we continue to face the real possibility of a future short- or long-term crisis. New Jersey cannot only grow, or only cut, or only tax its way out of the current and well-publicized budget problems. These problems are of long standing and restrict our state’s ability to function and thrive for years to come. Because of these problems, we are already several years into a slow degradation of services. We are simply hollowing out government services rather than rethinking them. We will not feel the pain in a single year; rather, it will be in the on-going accumulation of lost services at all levels of government.

The recent past underscores the long-term prognosis of the *Facing Our Future* reports. There are still large gaps between revenues and increasing service demands. Indeed, our projected gaps are so large that any future debate is likely to include the loss of entire programs, and may equate to the elimination or transformation of nearly 20 percent of all current services. Although New Jersey law requires balanced budgets, they can be achieved only by eliminating services of the high quality we have long accepted – and expected – throughout our levels of government. **Unless we rethink what services we want from our government, and how we want to deliver and pay for them, we will face a starkly different New Jersey.**

Throughout the outreach effort following our 2011 report, we heard a single question with increasing frequency: “what can we do?” In response to that question, this report identifies more than one dozen specific, measurable options for consideration across all levels of New Jersey government. The report also updates the initial *Facing Our Future* budget analysis and projections, and advances them by an additional year to retain a 5-year projection.

Like others throughout the state, the Leadership Group for *Facing Our Future* cares profoundly about New Jersey’s deeply troubled fiscal future. Working under the umbrella of the Council of New Jersey Grantmakers (CNJG), *Facing Our Future*’s volunteer Leadership Group represents all sides of the political spectrum. Composed of former government executives and public servants, the Leadership Group coordinated an objective, data-driven effort led by two highly respected, independent analysts to assemble and analyze nonpartisan budget data. Additionally, the Leadership Group itself reviewed and considered hundreds of successful best practices and proven, practical ideas – some of which are already successful in one or more parts of our state but not throughout the state.

The 2011 *Facing Our Future* report was noted by media, citizens, stakeholders and government officials for its clarity, lack of bias and stark presentation of reality. We hope this updated report meets that same exacting standard. In presenting this report, we have set out to accomplish two things: (1) review and recalculate the projections and update the data by one year into 2017 and (2) provide a list of practical

options – best practices – that can be implemented in New Jersey and serve as an ongoing reference and catalyst for other ideas. **New ideas are essential to establish priorities and enable government and service delivery to meet 21<sup>st</sup> century needs.**

Neither the 2012 *Facing Our Future* report nor the prior year’s initial report make specific recommendations about taxes or revenues, and neither report addresses the fairness of our current tax structure for any individuals, businesses or homeowners. However, both reports state that New Jersey cannot only grow, or only cut, or only tax its way out of the long-range and well-publicized budget problem. No single action can provide a solution. The *Facing Our Future* Leadership Group firmly believes that a tax policy discussion has to be a part of any discussion –and of our future.

We encourage you to read the 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 every reader of this report – elected officials at all levels of government and citizens throughout 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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## Executive Summary

A significant gap exists and will continue growing over the next five years between the cost of services – at current services levels as provided by government in New Jersey – and the revenues to pay for them. To achieve the required balanced budgets, there will be trade-offs. During 2011, elected leaders across New Jersey made substantial changes and choices. However, New Jersey cannot sustain its antiquated system for raising and spending money at all levels of government. The effect on public services – including schools, public safety, transportation, and healthcare – is severe and will be felt by virtually everyone.

Over the next five years, New Jersey governments again will be unable to achieve the balanced budgets as required without significant service, programmatic and personnel-related costs at state, county, municipal and school district levels. New Jersey faces the ongoing contraction of services and the end of high-quality services we have long accepted – and expected.

Business as usual cannot continue. To date, we have had only a limited response that adapts, streamlines or rethinks government. As a result, we are just hollowing out services rather than redesigning them. Many of New Jersey's service delivery practices, structures and processes, at all government levels, were designed for a 19<sup>th</sup> century state. Services are duplicated across public entities in the same municipality or county and across differing levels of government. New Jersey needs a 21<sup>st</sup> century government to meet the 21<sup>st</sup> century needs of its citizens.

Using objective, nonpartisan budget data, the *Facing Our Future* analysis again shows the complexity and intertwined nature of programs and spending throughout all levels of New Jersey government. Research led by two highly respected independent analysts reviews and recalculates the projections into 2017, and continues to show a fiscal environment spiraling out of control. (Detailed research reports are available at [www.cnjg.org/facingourfuture](http://www.cnjg.org/facingourfuture).) As the 2011 *Facing Our Future* report stated and reiterates this year, no one solution or group of solutions can close the budget gaps. New Jersey has a systemic problem, and only a comprehensive solution can resolve the long-term crisis. As in the 2011 *Facing Our Future* report, the Leadership Group revisits several core questions. The core questions are simple, and provide a framework critical to an informed public discussion – and to our future:

- How do we establish priorities?
- What investments are necessary for economic growth?
- What are the possibilities for change?
- How do we increase government effectiveness and efficiency?

To further the discussion – and respond to the repeatedly asked question “what can we do?” – this report identifies more than one dozen specific, proven, ideas that exist in New Jersey and other jurisdictions across the country. The ideas presented in this report provide a list of practical options that can be implemented in our state at one or more levels of government. The ideas also serve as an ongoing reference and catalyst for other options that address our need to establish priorities and enable state government and service delivery to meet 21<sup>st</sup> century needs. The ideas do not provide a single blueprint for action, and do not close the funding gaps that exist at all

levels of government. Our list of options represents *specific* examples in *specific* areas of service, yet the principles can be similarly applied to other unrelated services. The options in this report begin to address the need to establish priorities and enable New Jersey government and service delivery to meet 21<sup>st</sup> century needs. In alphabetical order, the options are:

- Adopting an Internet sales tax
- Centralizing emergency response systems
- Combining efforts to maximize special services
- Consolidating Information Technology (IT) services and updating aging infrastructure
- Expanding e-government and integrating one-stop resources
- Exploring transition of developmental disability services to home- and community-based care
- Identifying – and incentivizing – successful implementation of shared services
- Identifying creativity and change in purchasing operations
- Implementing county administration of school districts
- Right-sizing deployment (police, fire, emergency responders)
- Sharing examples of municipal consolidation
- Supporting countywide tax assessment
- Using Medicaid for health and behavioral health services in county juvenile detention centers (pre-adjudication)

In addition, this updated *Facing Our Future* report includes in its findings:

- A significant gap remains at every level of New Jersey government between revenues and current services.
  - By 2017, state government faces a shortfall of up to \$8.1 billion; municipalities face a shortfall of up to \$2.8 billion; counties face a shortfall of over \$1.1 billion, and school districts face a shortfall of nearly \$1 billion. These shortfalls use the ‘slow to moderate’ growth scenario (see *Appendix 2: Budget and Research Reports*) and are based on Current Service projections (see *Table 1: Definition of Important Budget Terms*).
  - The gap does not include the \$25.6 billion unfunded liability of the state pension systems, with an additional unfunded liability for post-retirement medical benefits of \$59 billion and no funds reserved for future costs.
  - In addition, there is an unfunded liability for municipal and county pension systems of \$10.6 billion, and at least \$12 billion underfunded for retirement medical benefits.
  - The Governor and Legislature enacted into law Chapter 78, P.L. 2011, which made substantial changes to retirement pension systems and for health benefits for current employees. As a result of these changes, the above projected unfunded pension liability reflects a reduction from last year’s projected amount by almost 30 percent – but remains a significant long-term challenge.



- Four spending areas dominate the state budget – school aid, Medicaid, pension obligations, and health benefits for current and retired employees. In FY2012, these four spending areas represent 53 percent of all state expenditures, and increase to 60 percent by the year 2017. The growth in these four programs is twice the projected increase in the income tax, and exceeds the growth in all revenue sources – even assuming the more aggressive revenue assumptions.
  - Budget balancing remains a challenge. For example, the state has appropriately committed to change the structure and meet funding requirements for the pension system, but there is an increasing cost to this policy. Compared to FY2011 – when less than \$100 million was appropriated for pensions – our analysis projects that in FY2017 at least \$4.4 billion will need to be appropriated. This represents an increase greater than the projected increase in the income tax under the moderate growth scenario.
  - There was one surprising local government finding in our updated report: our original analysis was more optimistic about the use of municipal government surplus funds than what occurred in 2010. The use of surplus funds to offset loss of state aid and locally generated miscellaneous revenues actually declined in 2010.
- 41 percent of **all** money raised by “government” (state, county, local and school district combined) in New Jersey comes from property taxes levied at the local level.
  - Most **state** government revenue (more than 64 percent) comes from just two sources: the income tax and sales tax.
  - Most **county, municipal and school district** revenue comes from one source: property taxes – 63.2 percent for counties, almost 58.3 percent for municipalities and 53.5 percent for school districts.
  - Municipalities have experienced a reduction of approximately one-quarter of the \$1.727 billion provided as state aid in FY2007 – a reduction of more than \$424 million. The level of state aid to municipalities declined to approximately \$1.3 billion in 2010, representing the need for more than \$420 million in offsetting revenue to retain appropriations at a level current to those of FY2007.
- Better data collection at the municipal and county levels of government provides improved views into budget activity and trends. For example, it is now evident that more than 20 percent of the average municipal budget appropriation is expended for one single line item: Police.

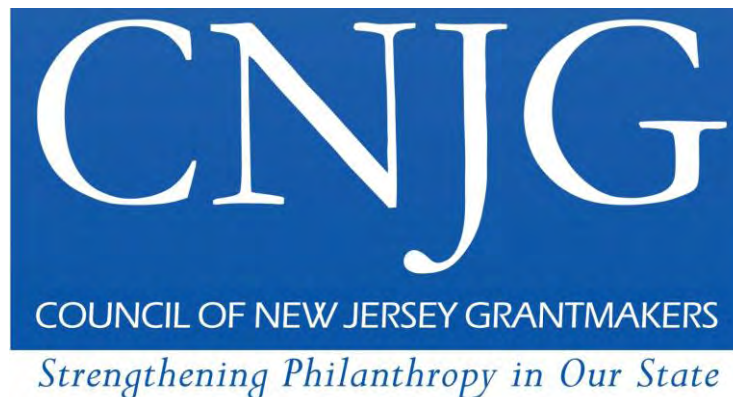
Neither the 2012 *Facing Our Future* report nor the prior year’s initial report make specific recommendations about taxes or revenues, and neither report addresses the fairness of our current tax structure for any individuals, businesses or homeowners. However, both reports state that New Jersey cannot only grow, or only cut, or only tax its way out of the long-range and well-publicized budget problem. No single action can provide a solution. The *Facing Our Future* Leadership Group firmly believes that a tax policy discussion has to be a part of any discussion – and of our future.

The next steps for *Facing Our Future* include continuing public education and outreach, and supporting active consideration of proven, practical options that begin to address our systemic problems at all levels of government. The larger next steps for New Jersey include building

consensus and establishing priorities for how to identify critical services rather than enabling all services to degrade, identifying needed public investment for economic growth, and seeking incentives for governmental effectiveness and efficiency.

In conclusion, the *Facing Our Future* report draws a landscape against which elected officials must make decisions. All levels of government – state, county, municipal and school district – are tightly interconnected, and decisions at the state level have inevitable consequences at the local level. The cumulative effect across all levels of government of ‘balancing without restructuring and modernizing’ is an acceleration of the hollowing out of services.

Unless we rethink what services we want from our government, and how we want to deliver and pay for them, we will face a starkly different New Jersey.



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