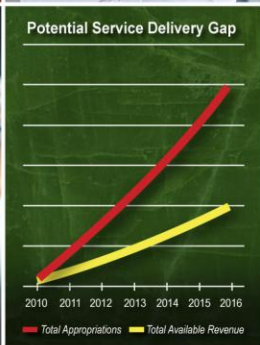
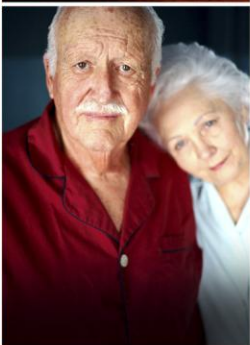
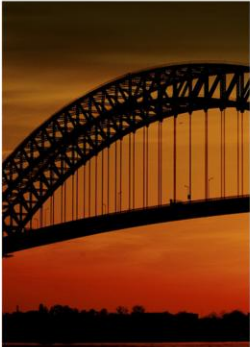


J a n u a r y 2 0 1 1

Facing Our FUTURE



January 2011

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 this report 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 attached document 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 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 all readers of this report – 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.

Nancy Becker

Robert Del Tufo

Deborah T. Poritz

Raphael J. Caprio

John Farmer, Jr.

Oliver Quinn

Sam Crane

Richard Greenberg

Ingrid Reed

Kathy Crotty

Feather O’Connor Houstoun

Robert L. Smartt

Christopher Daggett

Robert Hughey

Nina Stack

Hans Dekker

Richard F. Keevey

Executive Summary

A significant gap exists – and will continue growing over the next five years – between the cost of services provided by government in New Jersey and the revenues to pay for them. The state can no longer 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.

A Leadership Group, comprised of individuals with extensive, senior experience in state government, worked through the Council of New Jersey Grantmakers (CNJG) to provide an independent, objective analysis of how various government entities in New Jersey raise and spend money. Using objective, nonpartisan budget data, their analysis shows the complexity and intertwined nature of government programs and spending throughout all levels of New Jersey government. Research led by two highly respected independent analysts has produced *Facing Our Future*, which shows the fiscal crisis spiraling out of control. (Detailed research reports are available at www.cnjg.org/FacingOurFuture.)

The members of the Leadership Group care profoundly about New Jersey's future. Their goal is to educate the public about the fiscal realities we face and then undertake a shared identification and examination of options. This first step in *Facing Our Future* is designed to promote a necessary conversation that should involve as many citizens as possible.

The report's findings include:

- By 2016, state government faces a shortfall of up to \$10.3 billion; municipalities face a shortfall of up to \$2.75 billion; the counties face a shortfall of up to \$1.1 billion, and school districts face a shortfall of over \$1 billion.
- Those gaps do not include the \$94 billion underfunding of public employee pension and health benefits systems, including post-retirement medical benefits, which may be the single biggest fiscal challenge to New Jersey's future.
- By far the most expensive service New Jersey provides is education, which consumes 40 cents out of every dollar spent by all levels of government.
- Forty 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 (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; 56 percent for school districts and municipalities, nearly 62 percent for counties.
- Over the next five years, the Governor and Legislature of New Jersey will be unable to achieve a balanced budget as required without significant service, programmatic and employee benefit changes at state, county, municipal and school district levels.
- Many of New Jersey's service delivery practices, structures and processes, at all government levels, were designed for a 19th century state. Services are duplicated across public entities in the same municipality or county and across differing levels of government.

The Leadership Group identified core questions critical to an informed public discussion – and to our future. The core questions are simple: what are our priorities; are we organized effectively and efficiently to deliver on those priorities within all levels of our government; and are we able to fund those priorities? Next steps include conducting additional research; examining a representative sampling of municipalities; looking at ways other states provide services and pay for them; identifying needed public investment for economic growth, and seeking models of governmental effectiveness and efficiency.



Nina Stack, President

Maryanne E. Preztunik, Project Coordinator

Council of New Jersey Grantmakers

101 West State Street (Mailing)

221 West Hanover Street (Office)

Trenton, NJ 08608

609-341-2022 (Phone)

609-777-1096 (Fax)

www.cnjg.org

Funding for Facing Our Future has been provided by William Penn Foundation and a private donor. The Geraldine R. Dodge Foundation and Community Foundation of New Jersey will be providing additional support.