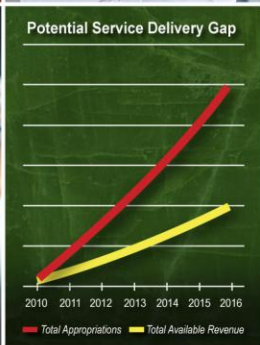
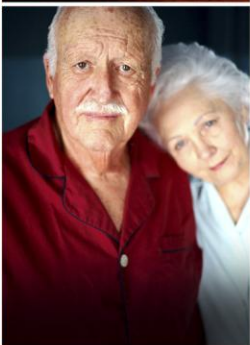
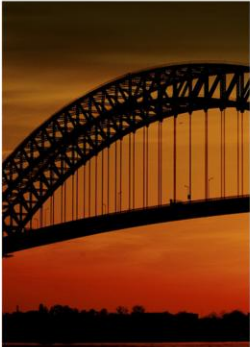


J a n u a r y 2 0 1 1

# *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.

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## 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](http://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 19<sup>th</sup> 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.

## **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.*



## Section 1 - The Report

### New Jersey's future is *our* future.

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 19<sup>th</sup> century can no longer deliver the 21<sup>st</sup> century services we expect, especially as the gaps between the costs of those services and the revenues to pay for them grows ever wider.

#### Our Role

As New Jerseyans, we each need to participate in a public discussion on priorities for state and local government.

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.

#### Government Responsibilities

From time to time, we all get angry and frustrated with government; it can be confusing, complicated and inefficient. Government can also be focused, transformative and meaningful – it can provide us with “things” that make our lives and future safe and healthy. We expect the police to come when needed, the roads repaired and plowed after a winter storm and our children educated.

#### Value of Report

This report is not an abstract economic exercise, but rather a vehicle through which public decision makers and elected officials – and the public at large – can consider different ideas and proposals about New Jersey's future.

Throughout this 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.

## Section 2 - The Group

*Facing Our Future* is an independent effort to build understanding about New Jersey's current fiscal crisis, to stimulate informed public discussion about the impact of that crisis on our state's future in the 21<sup>st</sup> century, and to trigger action to address the crisis. *Facing Our Future* grew out of a targeted briefing provided by the Council of New Jersey Grantmakers (CNJG) in early 2010. The purpose of the briefing was to provide an understanding across the state's foundation community on how New Jersey's government officials construct the state budget and on the looming, long-term fiscal crisis facing the state. The briefing was an eye-opening experience for all attendees.

Almost simultaneously in those same early months of 2010, an informal discussion occurred around a dining room table. Like many New Jersey citizens, the people around that table were deeply concerned about the overall financial and economic future they saw for New Jersey and its citizens: high unemployment, decreasing services, lagging economy, questions regarding efficiency and effectiveness in government, challenges in providing educational opportunity for all students, costly health care for families and reduced resources for retirement. These people wanted to do something – and were in a unique position to make a difference. They had diverse backgrounds and extensive senior experience in state government. Their collective experience crossed party lines, and many of them had served multiple New Jersey governors, both Republican and Democrat.

Because many of the people at that table had attended or been aware of CNJG's briefing on the state budget crisis, a natural synergy emerged – and the concept of *Facing Our Future* was born. As a neutral convener – without hidden agenda, political motivation or bias – CNJG was well-positioned to help shape an informed discussion for New Jersey's citizens. Working with an invited Leadership Group (see Appendix 1: *The Leadership Group*), CNJG formally established *Facing Our Future* in the spring of 2010. Through CNJG, *Facing Our Future* coordinated an objective, data-driven effort to assemble information about the current and future condition of New Jersey's state and local fiscal crises. The purpose of assembling this information was to understand the size and scope of New Jersey's fiscal problems, and to share the information across a wide spectrum of the public. Through this process, we hope to foster a public discussion of what we *all* want for the future of New Jersey.



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. *Facing Our Future* builds on past efforts that include a study of healthcare conversions and their philanthropic legacies, creating access to philanthropic dollars in underserved communities, and partnering with the state to pilot a highly regarded national model that addresses crime prevention through youth development.

## Section 3 - The Situation

**To understand our future, it is necessary to understand the present.**

In the two most recent fiscal years – FY2009 and FY2010 – New Jersey suffered the largest percentage decrease in revenue in the state’s history: a decrease of 11.4 percent from FY2008 to FY2009 and an additional decrease of 3.5 percent in FY2010. Overall, state revenue decreased from \$32.6 billion in FY2008 to \$27.9 billion in FY2010, a total decrease of \$4.8 billion. The FY2011 budget projects that revenue will increase by only \$282 million. According to the Rockefeller Institute, given the severe downturn in the national economy it would take a state government five years to return to peak revenue levels. For New Jersey, it would therefore take until 2014 to match the peak revenue levels of FY2008. To accomplish this, New Jersey would require an average long-term growth rate of 5 percent. The ongoing recession makes growth of this magnitude unlikely and will only exacerbate our situation.

The picture at the municipal level presents a similar story. Between FY2004 and FY2009, municipalities became more dependent upon the property tax and state aid as other miscellaneous revenue decreased by almost 8 percent. In the most recent fiscal year, municipalities have used surplus funds to balance budgets, and those funds are unlikely to be replenished. Our research identifies similar patterns at the county and school district levels. Additionally, costs at all local government levels continue to increase, especially costs associated with personnel.

In understanding the current situation, we need a common, shared basis of information as we consider three basic questions:

- How does government in New Jersey obtain its money?
- Where does government in New Jersey spend its money?
- How does government in New Jersey deliver services, and is the delivery efficient and effective?

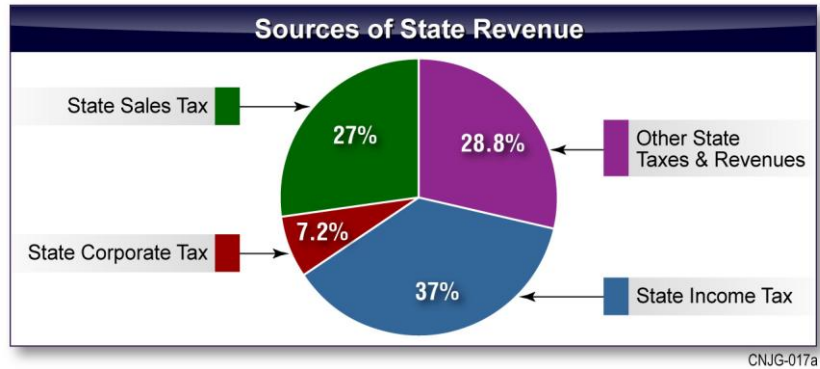
To answer these questions, we’ve used the data gathered through the *Facing Our Future* research to provide short summaries of information at the macro-level. For example, we don’t try to present all sources of revenue, and we don’t try to itemize every dollar spent in New Jersey throughout each level of government. What we do provide is an aggregate picture – *at each level of government and then for all government levels combined* – of the major ways in which money is raised and spent by government in New Jersey on behalf of its citizens. When necessary, we’ve rounded percentages for visual convenience and clarity to help promote understanding and discussion.

***How does state government obtain its money? How do other levels of government obtain money?***

New Jersey's state government depends heavily on two revenue sources: the income tax and the sales tax. Based on FY2010 estimates, the income and sales tax together represent roughly 64 percent of all state revenues. The next largest source of state revenue is the corporate business

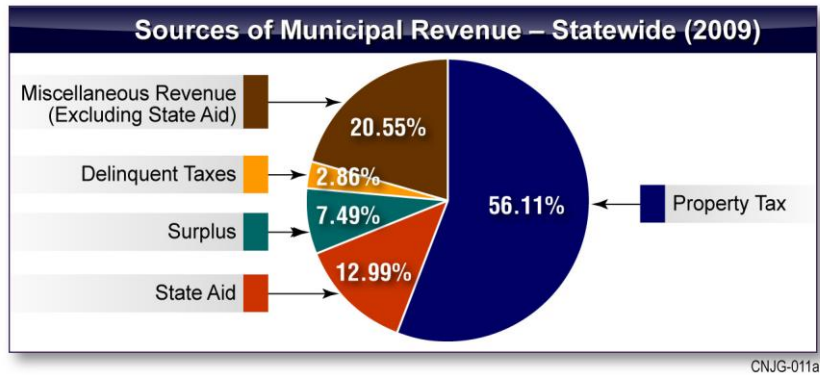
tax – at roughly 7 percent. Figure 1 presents a view of the major sources of New Jersey state government revenue.

**Figure 1: Sources of State Government Revenue**



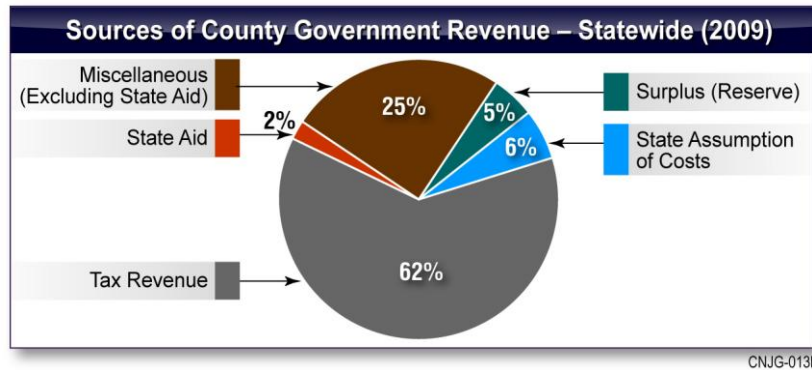
At the **municipal level**, property taxes and state aid are the largest sources of revenue. Currently at approximately 56 percent, the property tax alone will soon provide (on average) more than 60 percent of the required revenue for municipal operations. State aid as a percentage of municipal revenue is decreasing (e.g., by 24.9 percent between CY2007 and CY2010). This decrease in state aid impacted other levels of New Jersey government. As indicated on the previous page, other past sources of revenue – such as surplus funds and grants – have decreased. Figure 2 presents an aggregate view of the major sources of municipal government revenue.

**Figure 2: Sources of Municipal Government Revenue - Statewide**



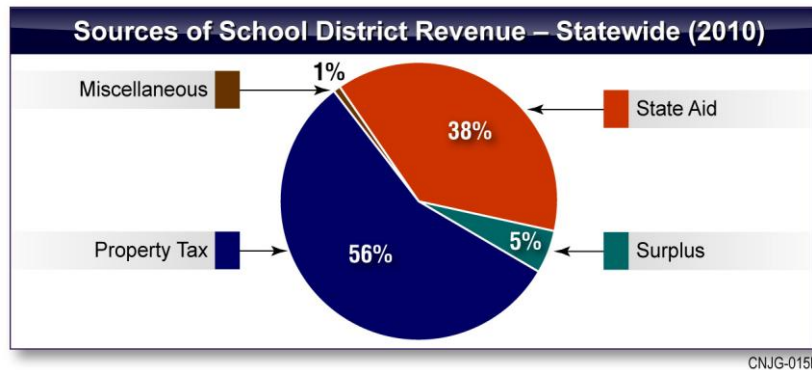
**County government** is dependent upon taxes for 62 percent of its revenues, and the dependence is principally upon property tax. An additional 8 percent of county money comes from potentially declining sources of revenue (state aid and surplus). Figure 3 presents a view of the major sources of county government revenue.

**Figure 3: Sources of County Government Revenue - Statewide (2009)**



New Jersey’s **school districts** depend on property taxes to provide 56 percent of their revenue, with an additional 38 percent from state aid. Although there are exceptions to this aggregate macro-level view – some school districts depend less on property taxes than others – the funding representation presented in Figure 4 depicts an aggregate snapshot of the revenue sources for most of New Jersey’s school districts.

**Figure 4: Sources of School District Revenue - Statewide (2010)**

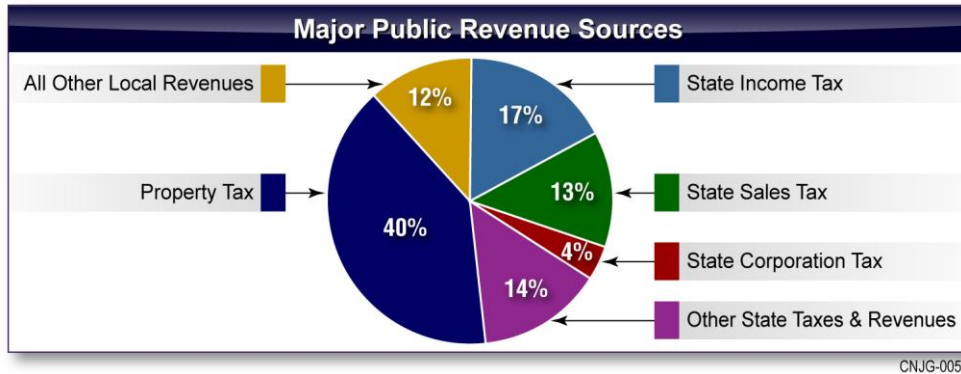


In addition to the above summaries by level of government, we think that it is important to provide a macro or ‘big picture’ view of how **all of New Jersey government** receives its money without regard to what level of government actually collects the money. To do this, we’ve identified only major sources of revenue, and have adjusted figures so that ‘aid’ – whether state aid or federal aid – is counted only once.

As an example of the information presented for our macro view, 40 percent of all of the money raised by ‘government’ in New Jersey comes from property tax, but none of that money is raised by the state government – it is all raised by local government. As another example of the macro view, 17 percent of all of the money raised by government in this state comes through state income tax – even though no local government collects state income tax. However, all of the income tax is paid to local government – and is paid principally to school districts. The information presented in Figure 5 presents a close approximation – but not a ‘to the dollar’ representation – of the major public revenue sources for all levels of government in New Jersey.

**Figure 5: Major Public Revenue Sources**

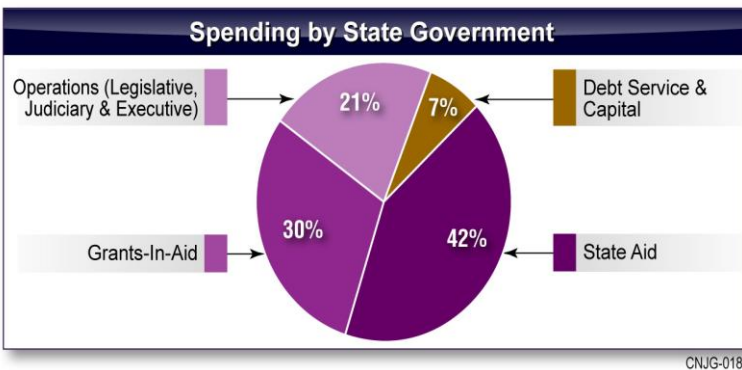
(Combined for All Levels of Government: State, Municipal, County and School District)



**How does government in New Jersey spend its money?**

At the **state level**, the largest cost drivers in the budget are school aid, public employee pensions and health benefits, and Medicaid. For the past two years, the Medicaid program has benefited from the availability of federal stimulus funds to support New Jersey’s obligations. Continuation of federal stimulus funds for Medicaid is not an option as they have been eliminated. The state’s widely documented unfunded liabilities – underfunding of the public employee pension and health benefits systems – represents perhaps the most significant fiscal challenge to our future. Figure 6 presents a view of the major spending by state government.

**Figure 6: Spending by State Government**



At the **municipal level**, wages and salaries represent the largest appropriation item at approximately 40 percent of total appropriations. Wages and salaries represent the largest portion of spending and – when contracts are involved – are typically the most difficult to reduce. Other appropriation

**Unfunded Liabilities**

Unlike other state programs, the retirement program costs have extensive and serious long-term liabilities that need to be addressed. The total unfunded liability for retirement costs is \$94 billion. This includes:

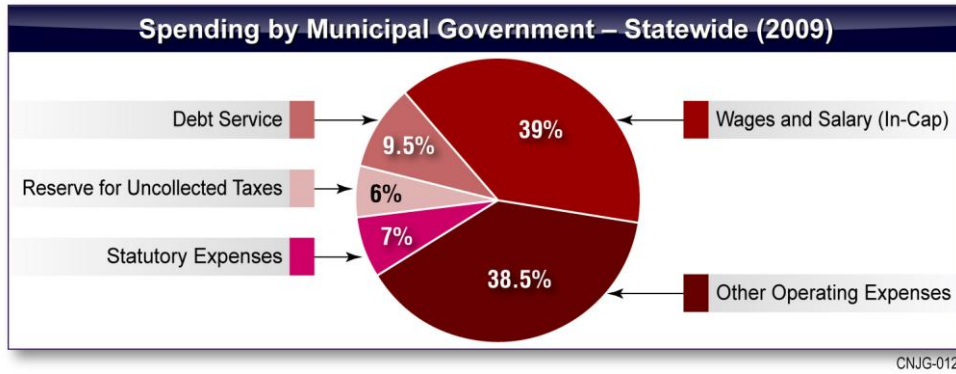
- The unfunded liability of state pension systems, including the teachers’ system, is \$37 billion. The state pension system is currently only 56.4 percent funded.
- The unfunded liability for post-retirement medical benefits is \$56.8 billion, of which \$32.3 billion is for retired teachers and other school board employees. No future year costs have been funded.

NOTE: A similar problem exists at the municipal and county levels of government. At those aggregate levels, the unfunded liability for pensions is \$16.7 billion (70 percent funded) and \$10 billion for retirement medical benefits. An additional health retirement liability exists for other jurisdictions that do not participate in the state system.



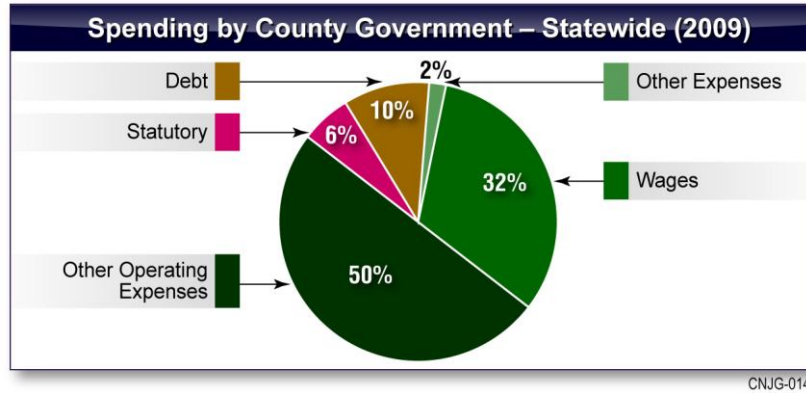
categories that are difficult to reduce include statutory spending and debt service. Figure 7 presents a view, at the statewide aggregate level, of all municipal spending.

**Figure 7: Spending by Municipal Government - Statewide**



Salaries and wages account for approximately 32 percent of all **county level** spending in the state. Operating expenses – which comprise half of all county level spending – are differently categorized and defined by each of the state’s counties (see *Section 4*). Two areas – debt service and statutory spending – represent a total of 16 percent of all county government spending and are extremely difficult to reduce. The aggregate view of all county government spending is presented in Figure 8.

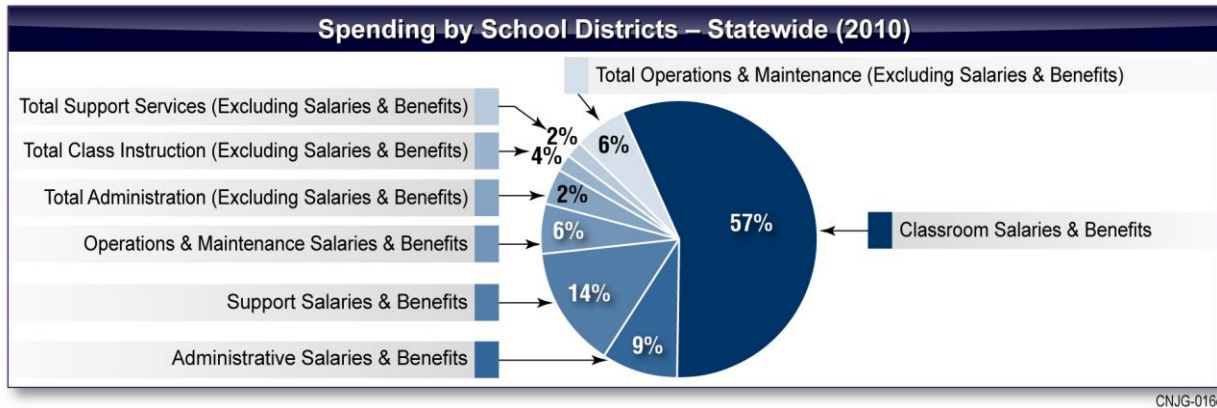
**Figure 8: Spending by County Government - Statewide (2009)**



New Jersey’s **school districts** spend the majority of their money on salaries and benefits, with 57 percent directed to classroom salaries and benefits. Administration represents 11 percent of all school district spending. These numbers do not include the dollars paid by the state for the employer’s share of the retirement costs for teachers’ pension and health benefits, nor do they include the employer’s share of social security for current teachers. Figure 9 presents a view, at the aggregate level, of all school district spending.



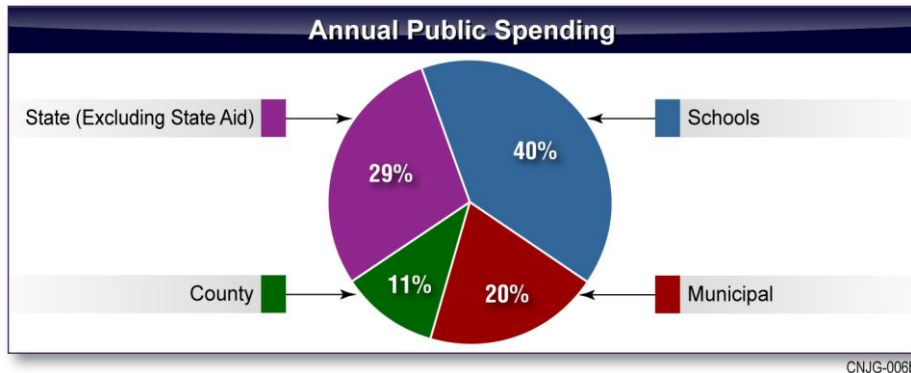
**Figure 9: Spending by School Districts - Statewide (2010)**



As with the previous summaries on how government obtains its money, we thought it was important to provide a macro or ‘big picture’ view of where **all of New Jersey government** spends its money without regard to what level of government actually spends the money. Again, we’ve identified only major sources of spending – or appropriations – and have adjusted figures so that information is counted only once. As an example of this macro spending view, 40 percent of all money spent by government in New Jersey supports schools – this includes money spent directly by school districts as well as state aid provided to schools through the state government. The information presented in Figure 10 presents a close approximation – but not a ‘to the dollar’ representation – of the major areas of public spending for all levels of government in New Jersey.

**Figure 10: Major Annual Public Spending**

*(Combined for All Levels of Government: State, Municipal, County and School District)*



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

As of August 2010, the total number of employees on the state payroll for all three branches of government was 74,600. This number represents a decrease of 5,700 since January 2006; when you incorporate the court-ordered hiring of 900 caseworkers in the Department of Children and Family Services, there was a net reduction of 6,600 state employees. The state's fiscal problems mean that this trend of a decreasing number of employees will continue. In the face of a declining workforce, however, the scope of the state's responsibilities has not seen a corresponding decrease.

Who Provides Services?
Government employees directly provide most services throughout all levels and branches of government. Whether at the state, municipal, county or school district level, government employees are usually state residents, and often are our neighbors, friends or family members.

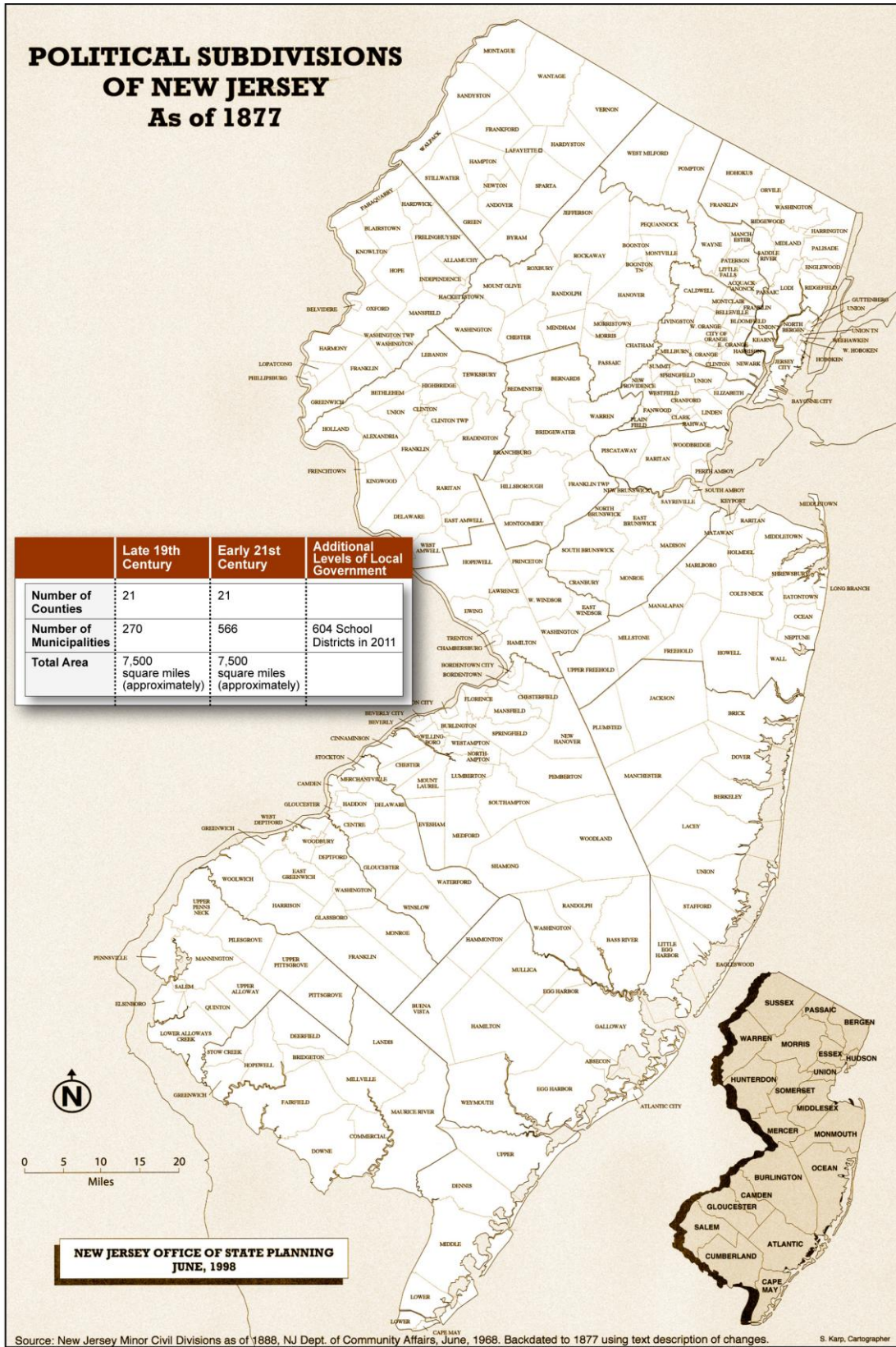
If anything, there is an increasing demand and expectation for state services and problem solving. The structure that supports this service delivery system – a well trained and well managed workforce with relevant technology – has deteriorated. The combination of an aging workforce and a series of early 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.

The organization and operation of local government – and the services delivered by local government – is even more complex. Figure 11 shows a map of New Jersey from the late 19<sup>th</sup> century. During that time, the geographic area of the state was similar to what exists today (approximately 7,500 sq. mi.). However, the number of municipal subdivisions more than doubled from the late 19<sup>th</sup> century's 270 to the early 21<sup>st</sup> 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.

Services are duplicated across public entities in the same municipality or county – and across differing levels of government. Examples of this duplication include county and municipal police, parks, recreation services and public records retention. Technology that is widely available in most businesses – and in many of our homes – is not state-of-the-art throughout New Jersey's levels of government. For example, there is no existing public database that includes all critical revenue and appropriations information for each of New Jersey's 566 municipalities.

Figure 11: Map of New Jersey Political Subdivisions - Late 19<sup>th</sup> Century



CNJG-0036



## Section 4 - The Research

From the start, *Facing Our Future* focused on one crucial requirement: the research and analysis had to present an objective picture of the problem. In preparing the research, we attempted to identify New Jersey’s long-term systemic fiscal problems and the future challenges that must be faced in meeting required obligations at the state, municipal, county and school district levels. To accomplish this, *Facing Our Future* retained two highly respected, separate providers of independent research and analysis – both deeply steeped in New Jersey knowledge and experience (see *Appendix 2: Research and Reports*). All research was coordinated to ensure alignment of assumptions (see *Appendix 3: Research Assumptions*). Definition of important budget terms is presented in Table 1.

The Data
<p>Taken in its entirety, the data presented by Facing Our Future enable projections for the state, municipalities, counties and school districts. The data outline the seriousness of the situation we will face in New Jersey in the coming years and illustrate the interdependencies that currently exist, and will continue to exist, across all levels of New Jersey government.</p>

**Table 1: Definition of Important Budget Terms**

Terms and Definitions	
Balanced Budget	Budget in which expenditures do not exceed resources
Current Services Budget	Projection of the cost to fully fund all current statutory requirements, including requirements for inflation, caseload changes, costs mandated by statute or court order and the annualization of partial year costs (see <i>Appendix 2: Research and Reports</i> for additional information)
Current Services Projection	Common baseline technique used historically to begin an analysis of future year needs; an acceptable starting point from which program priorities and ultimately program reductions are developed. This number should be used very carefully as it has never been a ‘real’ number in terms of final recommendations, and is subject to subjective analysis. (see <i>Appendix 3: Research Assumptions</i> for a detailed definition of Current Services Projection as used within the <i>Facing Our Future</i> research and report)
Fiscal Year (FY)	12-month period for which a government plans the use of its funds (e.g., July 1 – June 30, January 1 – December 31); the fiscal year carries the date of the calendar year in which it ends; NOTE: CY (Calendar Year) can be used when a government’s fiscal year is January 1 – December 31
Grants-in-Aid	Monies appropriated by the state government and paid directly to third party entities or individuals other than local governments (i.e., Medicaid, homestead rebates, support for higher education, pharmaceutical assistance to the aged and disabled)
Non-recurring Revenue	Revenue from a source that is not going to be there next year
State Aid	Monies appropriated by the state government and paid directly to local governments, specifically to municipalities, counties and school districts
Statutory Spending	Expenditure that is required for a program that is identified by a specific law (statute)
Structural Deficit	Projected appropriation pattern which exceeds the current revenue structure; may also include the use of one-time revenues
Unfunded Liabilities	Amount by which the liabilities of a program exceed program assets at a given date; difference between what a program promises to pay and what funds (or assets) have been set aside to fulfill those promises

The research coordinated by *Facing Our Future* establishes a baseline that outlines the challenges – using current forecasts – that New Jersey will face over the next five years. The research identifies several ‘scenarios’ that capture the budgetary realities facing state and local governments, and focuses on two areas:

- Identification and analysis of a “Current Services Budget” for the State of New Jersey for FY 2016 – and for each interim year
- Identification and analysis of local government budgets – municipal, county and school district – at the statewide aggregate level to determine current revenues and expenditures and to model five years out (to 2016)

In the following sections, we present high-level summaries of the budget information and projected budget gaps identified through our research, and a short description of the interdependencies and revenue limitations facing these four levels of government.

### State Budget

The New Jersey Constitution requires that the Governor and Legislature enact a balanced budget by July 1 of every year. As required, the budget of the State of New Jersey is in balance for the current year (FY2011). As in the previous fiscal year, the Governor and the Legislature achieved a balanced budget through many reductions in state spending and difficult policy choices. For example, the current year’s balanced budget was achieved by making \$10.8 billion in reductions to current service requirements, and by skipping a \$3.1 billion pension contribution – thereby increasing the state’s unfunded liability. Although important, a balanced budget for the current year doesn’t solve the long-range problems facing the state; much more is needed to achieve long-term solvency for New Jersey.

Our research shows that the state cannot grow its way out of its budget problem. Whether we use a ‘slow to moderate revenue growth’ scenario or a ‘more aggressive’ revenue scenario, the projected gap between revenues and the current services budget is large. Furthermore, if taxes were increased, such increases would unlikely ever to 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.**

The **first year of the analysis** suggests that the state could be facing a **projected shortfall of approximately \$5 billion**. In the **final year of this analysis**, the **shortfall increases to \$8 billion or \$10.3 billion** depending on the revenue scenario used. This projection assumes the passage of Chapter 1, PL 2010 that changed the funding provisions for the pension systems such that fewer appropriations are required through FY2018. It also assumes that a series of substantive proposals are implemented to change the current structure of the pension systems such that less state appropriations are required. Without these changes, the shortfall in the first year of the analysis would approach \$8.5 billion. Again, the shortfall – in all years – would be substantially higher if pension reforms are not implemented.

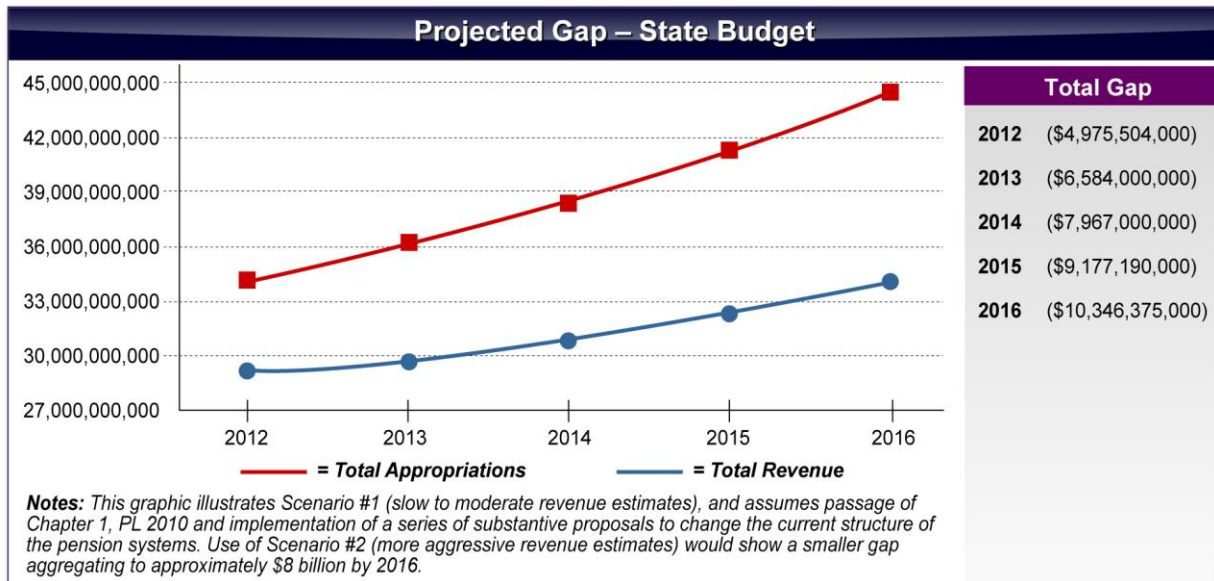
The New Jersey State Budget Current Services Projections (FY2012-2016), Facing Our Future Research Report, page 2 (see Appendix 2: Research and Reports)

Under a current services projection for the five years of our research – again, 2011 through 2016 – expenditures are estimated to increase by \$14.8 billion. For that same period, revenues in the most aggressive scenario would increase by \$8 billion and result in a gap of \$8 billion. Using less aggressive revenue assumptions, the gap would widen to \$10.3 billion. This means that policy makers will need to reduce the state’s spending patterns radically and/or increase revenues significantly in order to fund ‘current services needs’. To help make these radical changes in spending and revenue patterns, *each of us* in New Jersey must be part of a public discussion. Figure 12 provides a graphic representation of the projected state budget gap.

**A Necessary Conversation**

Throughout the state, each of us must engage in an ongoing conversation on the state’s fiscal policies and government priorities. This conversation will determine the most critical items to be funded in the state budgets in the immediate and longer-range future.

**Figure 12: Projected Gap - State Budget**



CNJG-019

## Municipal Budgets

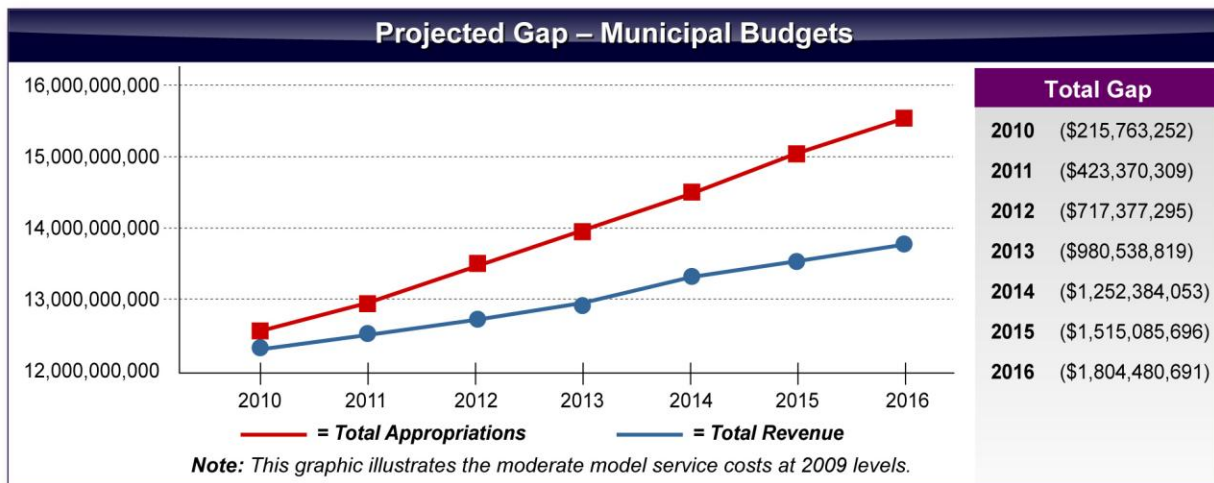
*Facing Our Future's* research and analysis of the cost of municipal government in New Jersey explores challenges facing both elected and appointed officials as well as all citizens throughout the state. Together, we face the challenge of limited future financial resources with which to support local government services; in short, we all face a future in which municipalities will be unable to maintain current services.

*Our analysis of the state's 566 municipalities suggests that **current revenue sources**, combined with restrictions on future property tax growth and depending upon the model used, will **result in a shortfall between \$1.75 billion and \$2.75 billion** in order to maintain current services levels.*

*Preliminary State-Level Analyses of Municipal Government Ability to Sustain Appropriations at Current Services Levels (2010-2016), Facing Our Future Research Report, page 3 (see Appendix 2: Research and Reports)*

In other words, New Jersey's municipalities will face a significant overall reduction in the level of services currently provided to each of us. Because various expenditures within municipal budgets are statutory and therefore are difficult to reduce, local officials will have a smaller range of choices from which to determine budget cuts. Low and/or no wage increases will not bridge the municipal budget gap. Because of that, we estimate that as much as 20 percent of current municipal services may need to be eliminated. This will require headcount reductions, reduction and elimination of services and the likely freezing of municipal wages and/or benefits for multiple years. *Facing Our Future* doesn't suggest which municipal services should be offered. We are convinced, however, that there will *not* be sufficient revenue available in 2016 to support municipal operations at current services levels. Figure 13 provides a graphic representation of the projected municipal budget gap.

**Figure 13: Projected Gap - Municipal Budgets**



CNJG-020

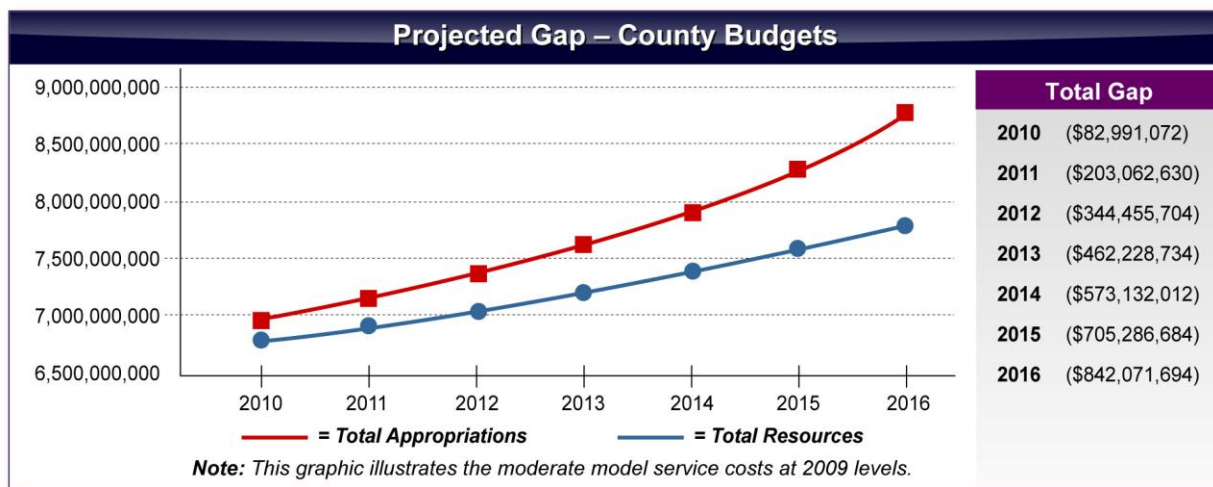


## County Budgets

As with state and municipal budgets, county budgets face similar constraints. Our analysis of the 21 county budgets suggests that the current resources will result in a revenue shortfall of between \$0.04 and \$1.10 billion just to maintain current levels of service.

Our analysis reflects the future property tax levy caps and, based on the state’s fiscal crisis, reduced state funding to county governments. These realities will likely require budget cuts at the county level, with the potential of a 17 percent service delivery gap from the 2009 base line appropriations statewide. Figure 14 provides a graphic representation of the projected county budget gap.

**Figure 14: Projected Gap - County Budgets**



CNJG-021

In our research model, we’ve assumed that state aid to support county health facilities continues through 2016. This is an important assumption as it may not hold true – we don’t know what the state intends to do.

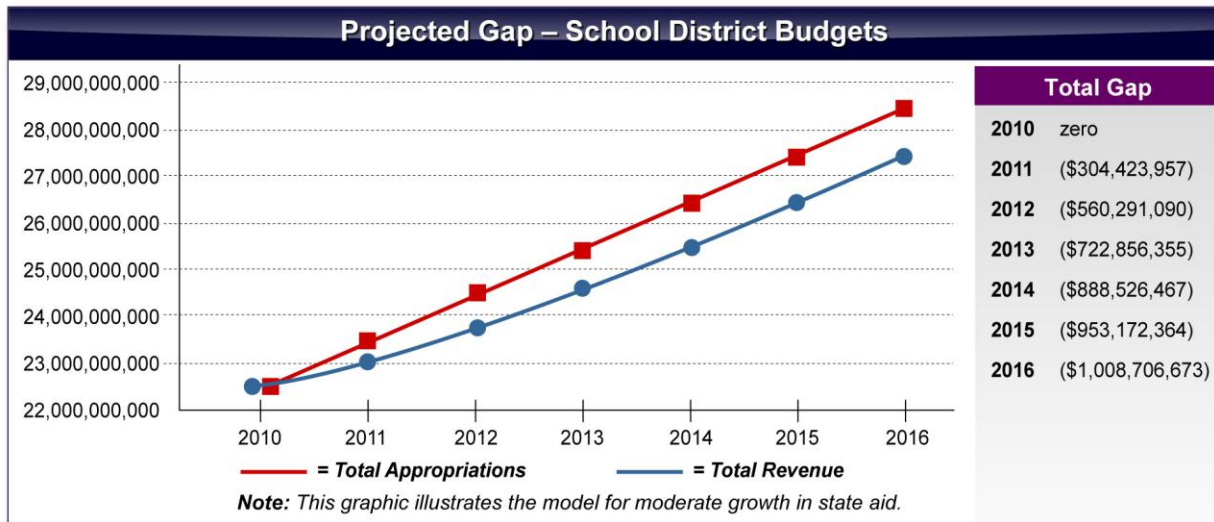
As identified in revenue data from 2009 and 2010 county budgets, more than 60 percent of county revenues are derived from taxes – and principally from the property tax. An additional 8 percent is provided by state funding sources.

Salaries and wages account for approximately 32 percent of all county level spending in the state. Operating expenses – which comprise half of all county level spending – are differently categorized and defined by each of the state’s counties. For example, at least one county provides budget detail for broad areas yet subdivides information by an additional nine classifications (i.e., general government, judiciary, roads and bridges, health and welfare). Other counties provide categories for operating expenses according to type of service (i.e., telephone, mailing and postage, gasoline, bulk purchasing).

### School District Budgets

School district budgets and funding are considerably more complex than municipal and county budgets – both in terms of size and in terms of the significant amount of state revenue they receive. As shown earlier in Figure 10 (see *Section 3*), aggregate school district spending represents 40 percent of all government spending in New Jersey. Therefore, it is especially important to understand the school district budget environment. If New Jersey’s school districts are to maintain current levels of service delivery, they will need an additional, cumulative \$4.5 billion over the next six years. Figure 15 provides a graphic representation of the projected school district budget gap, and shows the projected gap for each individual year.

**Figure 15: Projected Gap - School District Budgets**



CNJG-022

In FY2010 more than \$22 billion was spent statewide on K-12 education. Of that \$22 billion, 56 percent of the revenue was derived from local property tax and 38 percent came from state aid. In fact, direct state aid payments to local school districts totaled \$7.9 billion. As shown earlier in Figure 9 (see *Section 3*), the majority of all school expenditures are dedicated to salaries and ‘partial’ benefits. Because the state pays for all the employer’s share of teacher retirement costs – pensions and health benefits – we’ve used the term ‘partial’ to indicate that most benefit costs are not reflected in the school district budget. For example, the state paid \$1.7 billion in FY2010 for post-retirement health benefits, debt service on pension bonds and social security. Although required, the state made no payment into the pension fund for teachers. This cost driver is not included in the projected cumulative school district revenue shortfall of \$4.5 billion.

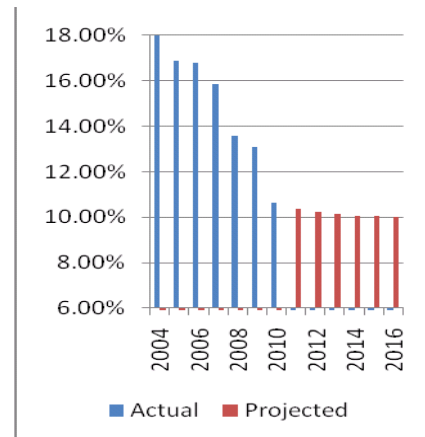
### Interdependencies and Revenue Limitations

New Jersey’s municipalities face a future of increasing costs set against the existing revenue system to support those costs. Therefore, we need to understand the complex set of interdependencies across state policy decisions, court determinations and the revenue requirements for other levels of government. Even as this report was being prepared, 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'.

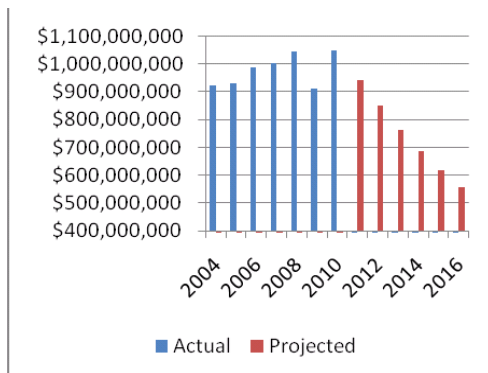
Yet another example of this complex interdependency is the distribution of state aid from the state to individual municipalities. In 2007, Consolidated Municipal Property Tax Relief Aid and energy tax receipts – the largest municipal aid programs – peaked at \$1.7 billion. By FY2010, this municipal revenue 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. Figure 16 presents a graph of the declining levels of state aid as a proportion of total municipal revenue.

**Figure 16: State Aid as a Proportion of Total Municipal Revenue**



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). Figure 17 presents a graph of the projected declining availability of surplus resources as revenue.

**Figure 17: Projected Availability of Surplus Resources as Revenues**



With reduced state aid and diminished availability of surplus, property taxes will continue to increase as a proportion of local revenue. In 2009, more than half of New Jersey's municipalities were 60 percent or more dependent upon property tax as the source of revenue. Although the newly enacted 2 percent property tax levy cap will provide a significant 'revenue control' on all municipal appropriations, the small number of excluded appropriation categories (i.e., pension, health benefits, debt service and capital) will certainly cause the municipal purpose tax to exceed the 2 percent cap.

## Section 5 - The Future

### **Our future challenges are alarming.**

The gap between revenue projections and the current services appropriation projections is significant and increases every year over the five-year period included in our projections. Additionally, the level of unfunded liabilities for retirement costs – currently at \$94 billion – is extensive and will continue to worsen. The state government cannot grow, cut or tax its way out of its budget problem and still maintain the quality of life provided by current service levels. The most robust growth projections used in this analysis will not support current expenditures. 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. All other levels of New Jersey government – municipal, county and school district – face similar challenges.

New Jersey is at a crossroads in determining its view for the future – *our future*. It is essential that New Jersey’s citizens come together to engage in a critical discussion – a public conversation – about our priorities. We need to determine what services we value most at the state and local levels, how and by whom we want those services delivered and how we will pay for them.

The data presented by *Facing Our Future* (see *Appendix 2: Research and Reports*) outlines the critical situation we are certain to face in New Jersey in the coming years, and illustrates the interdependencies that will continue to exist within the state, municipalities, counties and school districts. The future documented by *Facing Our Future*’s research is clear – we have significant problems existing throughout all levels of New Jersey government, and insufficient funds with which to maintain our current levels of service. It is no longer sufficient to reduce expenditures, eliminate ‘waste, fraud and abuse,’ or raise taxes.

The problems identified throughout the *Facing Our Future* research are systemic, and not limited to ‘just’ state government. Because of the strong connections and dependencies that exist throughout our levels of government, a change in one area of spending or appropriation may only move the problem around. As an example, a change made to reduce levels of state aid to schools directly impacts the citizens in municipalities and students in school districts. As another example, a change in state support of county health and welfare services will affect individual county budgets and services.

To face our 21<sup>st</sup> century future – both short- and long-term – New Jersey’s citizens will need to engage in rigorous discussion. That process can inform decisions and set priorities. New Jersey’s citizens and government leaders will need to set these priorities *together*, and the process will be difficult. It must be based upon multiple factors: our constitution, laws, values and other legitimate and important concerns; however, all decisions and priorities must deal with fiscal reality.

The Impact
No person in New Jersey will escape the ramifications of the systemic problems identified throughout this report. We can no longer expect to have government services – as we’ve known them. Given this picture, we face an inescapable requirement for change. The New Jersey government that evolved throughout the 19th and 20th centuries must change to meet the needs of today – and the 21st century.

## Section 6 - The Questions

Throughout this report, *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?

As stated earlier, 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 service levels. Furthermore, every level of New Jersey government – county, municipal and school district – faces a future of increasing costs set against the existing revenue system. Therefore, it is important to start public discussion and involvement *NOW*. 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?



## Section 7 - What's Next?

*Facing Our Future* is an independent effort to promote understanding about New Jersey's current fiscal crisis. We've assembled data to inform discussion and supported that data with graphic illustrations about how we raise and spend public money in New Jersey. The data and accompanying graphics present a picture of the future – a future in New Jersey where we can no longer have the current government services we've all come to expect. We've introduced critical questions about how New Jersey's citizens – *all of us* – need to identify collective priorities and determine how we can fund those priorities to deliver effective and efficient government services.

### 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

*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**. The *Facing Our Future* report presents information for the state budget from 2011 through 2016, and presents aggregate information for that same period for New Jersey's municipalities, counties and school districts. 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*.

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. This process of identification and analysis will provide a base of knowledge and understanding of how New Jersey delivers services at all levels of government. In conducting this review and analysis of service comparisons, *Facing Our Future* will apply the same rigor, independence and data-driven analyses that were used to develop this report.

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. Throughout this effort, *Facing Our Future* will use the data obtained through its initial research, feedback from the outreach effort, and analysis of comparable situations.

In conclusion, 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.

### **What Can I Do?**

*The core questions critical to our future are simple, and every person can help promote discussion: 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?*

**APPENDIX 1: Facing Our Future - The Leadership Group**

*The Council of New Jersey Grantmakers (CNJG) assembled a Leadership Group to drive the discussion and research effort on behalf of Facing Our Future. The Leadership Group reflects bipartisan – and nonpartisan – perspectives, and includes individuals who offered their time and deep knowledge of New Jersey to consider the important fiscal and strategic issues facing our future. The group demonstrates lifetimes of commitment to New Jersey, supported by careers with deep and senior experience working within diverse areas of this state and other jurisdictions – including government, law, politics, the foundation community, business and academe.*

LEADERSHIP GROUP		
MEMBER	CURRENT POSITION(S)	CAREER HIGHLIGHTS
<b>Nancy Becker</b>	<i>Program Development Associate, Program on the Governor, Eagleton Institute of Politics, Rutgers University; Vice Chair of the Board, Capital Health Systems</i>	President, Nancy Becker Associates 1976/2006; <b>Vice Chair of the Board, NJ Turnpike Authority</b> 1994/2002
<b>Raphael J. (“Ray”) Caprio</b>	<i>Vice President, Division of Continuing Studies at Rutgers, The State University of NJ; Executive Director, Center for Executive Leadership in Government at Rutgers and Professor of Public Administration</i>	Department Chair (Geography, Urban Studies and Public Administration departments) at Rutgers; Senior Associate Academic Dean at Rutgers’ Newark College of Arts and Sciences (NCAS); Acting NCAS Dean, Associate Provost (Newark)
<b>Sam Crane</b>	<i>Principal, CraneConsulting LLC</i>	Senior Vice President - External Affairs, Maher Terminals LLC 2000/2008; President, Regional Business Partnership 1994/2000; <b>NJ State Treasurer</b> 1992/1994
<b>Kathy Crotty</b>	<i>Retired</i>	<b>Executive Director, NJ Senate Majority Office</b>
<b>Christopher J. Daggett</b>	<i>President and CEO, The Geraldine R. Dodge Foundation</i>	<b>Deputy Chief of Staff to the Governor, NJ</b> 1982/1983; <b>Cabinet Secretary to the Governor, NJ</b> 1983/1984; <b>US Environmental Protection Agency, Regional Administrator, Region 2</b> 1984/1988; <b>Commissioner - NJ Department of Environmental Protection</b> 1988/1989

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LEADERSHIP GROUP		
MEMBER	CURRENT POSITION(S)	CAREER HIGHLIGHTS
<b>Hans Dekker</b>	<i>President, Community Foundation of NJ; Trustee, Council of NJ Grantmakers</i>	Executive Vice President, Baton Rouge Area Foundation; Member, Southeastern Council on Foundations' Community Foundation Committee; Commissioner, Louisiana Housing Finance Agency
<b>Robert Del Tufo</b>	<i>Of Counsel, Skadden, Arps, Slate, Meagher &amp; Flom, LLP and Affiliates</i>	<b>Attorney General, NJ</b> 1990/1993; <b>Commissioner, NJ State Commission of Investigation</b> 1981/1984; <b>US Attorney for the District of NJ</b> 1977/1980; <b>First Assistant Attorney General, NJ</b> 1974/1977; <b>Director, Division of Criminal Justice</b> 1976/1977; Assistant Prosecutor, Morris County 1962/1967; First Assistant Prosecutor 1965/1967
<b>W. Cary Edwards</b>	Cary Edwards was a life-long New Jerseyan, and an important voice and participant in the early discussions that resulted in <i>Facing Our Future</i> . Cary served as <b>Chairman, NJ State Commission of Investigation, Attorney General, NJ</b> (1986/1989), and as a <b>Member of the NJ General Assembly</b> (1978/1982); we were saddened by his death on October 20, 2010.	
<b>John Farmer</b>	<i>Dean, Rutgers School of Law - Newark</i>	<b>Assistant Counsel, Deputy Chief Counsel, and Chief Counsel for the Office of the Governor</b> 1999; <b>Attorney General, NJ</b> 1999/2002; <b>Senior Counsel and Team Leader for the National Commission on Terrorist Attacks Upon the United States</b> (commonly known as the 9/11 Commission); President - Board of Trustees of the New Jersey Institute for Social Justice; <b>Member, New Jersey Governor's Ethics Advisory Board</b>

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LEADERSHIP GROUP		
MEMBER	CURRENT POSITION(S)	CAREER HIGHLIGHTS
<b>Richard Greenberg</b>	<i>President, The Fund for New Jersey</i>	Director of Equal Justice Policy and Programs, NJ Institute for Social Justice 2006/2010; Executive Vice President, Marga, Inc. 2004/2006
<b>Feather O'Connor Houstoun</b>	<i>President, William Penn Foundation</i>	<b>PA Secretary of Public Welfare</b> 1995/2002; <b>CFO Southeastern PA Transportation Authority (SEPTA)</b> 1990/1995; <b>NJ State Treasurer</b> 1986/1990
<b>Robert Hughey</b>	<i>Associate Vice President for Strategic Initiatives, New Jersey Institute of Technology</i>	<b>County Administrator, Atlantic County; Commissioner - NJ Department of Environmental Protection</b> 1982/1986; <b>Chief - NJ Economic Recovery</b> 1993
<b>Richard F. Keevey</b>	<i>"Distinguished Practitioner in Residence", School of Public Affairs and Administration, Rutgers University - Newark</i>	<b>NJ State Budget Director and Comptroller</b> (under two governors); <b>Deputy Under Secretary of Defense for Finance; Chief Financial Officer - US Department of Housing and Urban Development;</b> Practice Director - Andersen LLP and Unisys Corporation
<b>Deborah T. Poritz</b>	<i>Member, Board of Trustees, Fund for New Jersey; Visiting Jurist Emerita-in-Residence at Rutgers Schools of Law Newark and Camden</i>	<b>Chief Justice, NJ Supreme Court</b> 1996/2006; <b>Attorney General, NJ</b> 1994/1996; <b>Chief Counsel to the Governor</b> 1989
<b>Oliver Quinn</b>	<i>Senior Counselor, Taft and Partners; President, New Jersey Public Policy Research Institute (NJPPRI)</i>	Vice President - Prudential Financial 1995/2009; <b>Deputy Solicitor - US Department of Labor</b> 1993/1995; <b>Deputy Commissioner - NJ Dept of Labor</b> 1990/1993; Administrative Law Judge 1988/1990; <b>Counsel/Chief of Staff - NJ Public Advocate</b> 1985/1988; Executive Director, Urban League of Essex County 1983/1985

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LEADERSHIP GROUP		
MEMBER	CURRENT POSITION(S)	CAREER HIGHLIGHTS
<b>Ingrid Reed</b>	<i>Retired</i>  <i>Board Chair, www.njspotlight.com; Chair, Governor's Task Force on Local Government Ethics; founder and member of the Board, NJ Future; Chair, Capital City Redevelopment Corporation</i>	<b>New Jersey Project Director, Eagleton Institute of Politics, Rutgers</b>
<b>Robert L. Smartt</b>	<i>Retired</i>	<b>Deputy NJ State Treasurer 2002/2007 and 1992/1994; Deputy Director, Assembly Majority Office 1976/1983</b>
<b>Nina Stack</b>	<i>President, Council of NJ Grantmakers (CNJG)</i>	<b>Director - External Affairs, NJ State Council on the Arts 1988/2005</b>

## APPENDIX 2: Facing Our Future - Research and Reports

*The information presented in this report used data obtained from nonpartisan sources. Throughout the process, the Leadership Group for Facing Our Future directed that all research was to be based on data – and was not to assign targets or blame, nor to provide recommendations or opinion. The assembled data would be the basis to inform public discussion.*

*Facing Our Future* retained two highly respected, separate providers of independent research and analysis – both deeply steeped in New Jersey knowledge and experience. Richard F. Keevey and Raphael J. (“Ray”) Caprio, Ph.D. coordinated the research effort; the Center for Executive Leadership in Government at Rutgers, The State University of New Jersey, provided supplemental research support and analysis for the municipal, county and school data. Kathe Callahan, Ph.D., Angie McGuire, Ph.D., Leila Sadeghi, Ph.D. and Dennis Ng provided additional research and analysis. Drs. Callahan and McGuire are respectively the Associate Director and Assistant Director of the Center for Executive Leadership in Government (CELG) at Rutgers University; Dr. Sadeghi and Mr. Ng are Research Associates at CELG. Work across the research groups was coordinated to ensure alignment of assumptions (see *Appendix 3: Research Assumptions*). Maryanne E. Preztunik served as Project Coordinator for the overall *Facing Our Future* effort.

The research coordinated by *Facing Our Future* establishes a baseline that outlines the challenges – using current forecasts – that will be facing the state five years from now. Several projected ‘scenarios’ capture the budgetary realities facing state and local governments, illustrate ‘trade-offs’ that may have occurred or are under consideration, and identify the critical need for public investment. The scope of research focuses on two areas:

- Identification of a “Current Services Budget” for the State of New Jersey for FY2016 – and for each interim year
- Analysis of county, municipal and school budgets at the statewide aggregate level to determine current revenues and expenditures and to model five years out (to 2016)

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**Richard F. Keevey** is “Distinguished Practitioner in Residence”, School of Public Affairs and Administration, Rutgers University - Newark. Two separate governors appointed Mr. Keevey as the State Budget Director and State Comptroller for New Jersey. In addition, he has held appointments by the President as the Chief Financial Officer (CFO) for the U.S. Department of Housing and Urban Development, and as the Deputy Under Secretary of Defense for Financial Management. Mr. Keevey was Practice Director for Andersen LLP and Unisys Corporation.

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**Raphael J. (“Ray”) Caprio, Ph.D.** is Vice President for the Division of Continuing Studies at Rutgers, The State University of New Jersey. Additionally, Dr. Caprio is Executive Director of the Center for Executive Leadership in Government (CELG) at Rutgers University, and a Professor of Public Administration. The CELG is founded on the principle that effective public sector leadership is essential for healthy, strong communities, and is dedicated to strengthening the leadership capacity of individuals who are responsible for delivering public and not-for-profit programs.



## Scope of Research

*Current Services Budget* for the State of New Jersey for FY2016 (and for each interim year): includes a projection of the cost of full funding of all current statutory requirements, including requirements for inflation, caseload changes, costs mandated by statute or court order and the annualization of partial year costs. It assumes that the current tax structure is maintained during the period of analysis – specifically, there are no increases or decreases in the base or rates for the existing taxes and other revenues. On the revenue side, the report develops two possible scenarios for the above Current Services Budget: (1) a slow (early years) to moderate growth scenario; and (2) a slow (early years) to a more aggressive scenario. Because the state has rarely ever fully funded the Current Services Budget, reasonable adjustments were forecast.

*County, Municipal and School Budgets*: includes creation of scenario assumptions to model expenditures five years out (to 2016). Budget projections considered the Current Services Budgets indicated above as well as the possible/likely stressors on appropriations (i.e., the size and proportion of service cuts, continued reductions in state aid). Reasonable, informed adjustments were projected and documented. The analysis performed for *Facing Our Future* used unbiased, nonpartisan data obtained from county, municipal and school budgets at the statewide aggregate level to determine current revenues and expenditures. This information enabled the creation of scenario assumptions to model expenditures five years out (to 2016).

## Report

Taken in its entirety, the data coordinated by *Facing Our Future* enables projections for the state, municipalities, counties and school districts. The resulting report outlines the seriousness of the situation we will face in New Jersey in the coming years, and uses the research results to build the foundation for communicating with key elected officials and policymakers, interested foundations, issue advocacy organizations and the general public. Additionally, the report provides an initial list of questions – grouped by broad categories – that can help to stimulate and structure public discussion and decision regarding our collective future in New Jersey.

The detailed research reports used to develop this report are available online at [www.cnjg.org/FacingOurFuture](http://www.cnjg.org/FacingOurFuture).

### **APPENDIX 3: Facing Our Future - Research Assumptions**

*Facing Our Future retained respected, separate providers of independent research and analysis (see Appendix 2: Research and Reports). Work across the research groups was coordinated to ensure alignment of assumptions.*

All documents prepared as part of the *Facing Our Future* effort are available online at [www.cnjg.org/FacingOurFuture](http://www.cnjg.org/FacingOurFuture).

Detailed assumptions for the state's Current Services Budget are contained in the following documents:

- Exhibit I - Current Service Projection – Scenario #1, Slow to Moderate Revenue Growth
- Exhibit II - Current Service Projection – Scenario #2, More Aggressive Revenue Growth
- Exhibit III - Notes to Revenue Projections for NJ Current Services Projection
- Exhibit IV - Notes to Appropriation Projections for NJ Current Services Budget Projection

Similarly, all of the municipal, county and school aid models have detailed annual Cost of Living Adjustment (COLA) figures contained in the following documents:

- Preliminary State-Level Analyses of Municipal Government Ability to Sustain Appropriations at Current Services Levels 2010 - 2016
- Preliminary State-Level Analyses of County Government Ability to Sustain Appropriations at Current Services Levels 2010 - 2016
- Preliminary State-Level Analyses of School District Government Ability to Sustain Appropriations at Current Services Levels 2010 - 2016

## **APPENDIX 4: Facing Our Future - Representative Vignettes**

*In the coming months, Facing Our Future will conduct additional research into the fiscal reality facing New Jersey's municipalities and citizens. Through selection of a small sample of municipalities across the state, we'll use the data presented in this report – supplemented by publicly available budgets for calendar year 2010 – to create representative vignettes of the future reality for each of the sample municipalities.*

A representative vignette will present an analysis of the applicable jurisdictional budgets for each municipality (municipal, county and school district), and provide insight into the differences across New Jersey's landscape that can't be visualized with the broad, high-level analyses discussed in this report. The information for each vignette will use narrative and graphic formats to provide:

- Basic municipal profile information, including: county location, population, school district, per pupil expenditure, type of fire department, description of utilities (as applicable)
- Analysis of property tax revenues and expenditures for municipal operations, county operations and school district operations
- Identification of the potential service delivery budget gap for each area of operations



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