

Governor Phil Murphy

Murphy Administration Proposes Significant Budget Cuts as Part of Revised Fiscal Plan to Weather COVID-19 Crisis

05/22/2020

State Facing Combined Revenue Shortfall of Nearly \$10 Billion

More Drastic Cuts Loom on Horizon if Additional Federal Aid Does Not Come Through

(TRENTON) – The Department of the Treasury delivered a budget update to the Legislature today, providing a detailed revenue report that illustrates the devastating impact COVID-19 has had on New Jersey’s finances and laying out plans to close the looming gap for the remainder of the extended fiscal year through a series of deep cuts and spending deferrals.

A report on the financial condition of the State budget for both Fiscal Years 2020 and 2021 was required pursuant to the COVID-19 Fiscal Mitigation Act (P.L.2020, c.19), which extended the end of the state’s fiscal year from the traditional date of June 30 to September 30, and also extended various tax filing and payment deadlines from April 15 to July 15.

“This report is designed to serve as a road map to help New Jersey begin to navigate what is essentially uncharted territory. We are not alone. All across the country, states are facing similar challenges that seemed inconceivable just a few short months ago,” **said State Treasurer Elizabeth Maher Muoio**. “As a state, we had made great strides over the last two years to improve our fiscal condition. However, the global pandemic sparked by COVID-19 has halted this progress in its tracks. Managing this unprecedented fiscal crisis will require extremely difficult decisions in the weeks and months ahead, and will necessitate a combination of budget and appropriation adjustments, critically needed borrowing, and more robust federal assistance.”

Based on a wide variety of economic assumptions, the State of New Jersey is potentially facing a combined revenue shortfall of nearly \$10 billion over the remaining months of Fiscal Year 2020 and through the end of Fiscal Year 2021 – a potential decline that would be worse than the Great Recession.

The report provided the most detailed account to date of the significant shortfalls expected among the major tax revenues:

Gross Income Tax (GIT)

- FY 2020 revenues are projected to be \$910.9 million, or 5.4%, lower than Governor’s Budget Message (GBM) forecast.
- FY 2021 collections are projected to be \$3.955 billion, or 22.2% lower than GBM.

Sales and Use Tax


Back
to top

- FY 2020 revenues are projected to be \$1.131 billion, or 10.9%, lower than GBM forecast.
- FY 2021 revenues are projected to be \$1.528 billion, or 14.2%, lower than GBM.

Corporation Business Tax (CBT)

- FY 2020 revenues are projected to be \$451.9 million, or 11.6%, lower than GBM forecast.
- FY 2021 revenues are projected to be \$1.228 billion, or 32.0% lower than GBM.

Since his first budget proposal, Governor Murphy has made building the state's surplus reserves and rainy day fund a priority. While still not comparable to many other states, New Jersey's reserves had increased to roughly three times the size inherited from the previous administration, helping to bridge the gap while uncertainty swirls around the prospect of additional federal funding.

At the direction of the Governor, the Department of the Treasury has taken a number of initial steps to ensure the state remained in a solvent financial position, including:

- Review of state spending across all branches of government and placement of approximately \$1 billion of available appropriations into reserve.
- Transfer of the entire \$421 million Surplus Revenue Fund, also known as the Rainy Day Fund, to the undesignated General Fund balance to help offset the anticipated shortfall; in addition, the planned deposit on June 30, 2020 will not be made.
- Implementation of a statewide hiring freeze with the exception of COVID-19 related needs.
- Ongoing review and approval by the Office of Management and Budget of department spending and contracting.
- Cancelling and reserving of pre-encumbrances, which will result in deferral or elimination of planned department spending.

Additionally, to help offset the anticipated billions in lost revenue, the administration is proposing significant cuts across nearly all sectors of government. The report proposes decreasing planned spending by over \$5 billion, including:

- \$1.3 billion in proposed deappropriations;
- \$3.2 billion in cut or delayed first quarter appropriations; and
- Withdrawal of \$849.7 million in proposed spending priorities put forth by the Governor in February.

Based on the size of the looming shortfall for the upcoming fiscal year, the report notes that without new resources – including the ability to access borrowing facilities or additional federal funding – significant additional cuts will be needed for FY 2021.

Shortly prior to the onset of the pandemic, Governor Murphy had unveiled his proposed budget for Fiscal Year 2021, an ambitious spending plan that continued to build on the fiscal responsibility of his previous two budgets – proposing another record payment into the pension system; significantly increasing the state surplus; making a second consecutive deposit into the rainy day fund; the first time that has been done in more than a decade; making record investments in public education and NJ TRANSIT; and reducing the state's historical reliance on fiscal gimmicks such as one-shots and diversions.

Much of that proposal has been rendered obsolete without additional federal funding and the ability to access borrowing mechanisms.

The full copy of the budget report released today may be viewed online at <https://www.state.nj.us/treasury/omb/publications/NJ-Financial-Condition.pdf> (<https://www.state.nj.us/treasury/omb/publications/NJ-Financial-Condition.pdf>)

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[Education \(/governor/initiatives/#Education\)](/governor/initiatives/#Education)

[Environment \(/governor/initiatives/#Environment\)](/governor/initiatives/#Environment)

[Health \(/governor/initiatives/#Health\)](/governor/initiatives/#Health)

[Law & Justice \(/governor/initiatives/#Justice\)](/governor/initiatives/#Justice)

[Transportation \(/governor/initiatives/#Transportation\)](/governor/initiatives/#Transportation)

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[Direct Appointments \(/governor/news/appointments\)](/governor/news/appointments)

[Advice and Consent Appointments \(/governor/news/acappointments\)](/governor/news/acappointments)

Statements on Legislation

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Administration Reports (/governor/news/adminreports/approved/archive.shtml)

Transition Reports (/governor/news/reports/approved/reports_archive.shtml)

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