ICYMI: Treasurer Muoio Testifies Before Senate Budget Committee on Proposed FY2026 Budget

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TRENTON – State Treasurer Elizabeth Maher Muoio and Department of the Treasury officials testified before the Senate Budget and Appropriations Committee at the State House today, providing a detailed update on revenue projections for the remainder of Fiscal Year 2025 through Fiscal Year 2026.

The following is a copy of the testimony, as prepared for delivery:

Treasurer Elizabeth Maher Muoio Testimony Senate Budget and Appropriations Committee April 1, 2025

Good morning, Chairman Sarlo, Vice Chairwoman Greenstein, (Senate President Scutari) and distinguished members of the Committee. Thank you for the opportunity to come before you today to discuss Governor Murphy's proposed Fiscal Year 2026 budget.

I would like to begin by introducing my colleagues seated with me today – Deputy Treasurer Aaron Binder, Acting Director of the Office of Management and Budget Tariq Shabazz, and the Director of our Office of Revenue and Economic Analysis, Martin Poethke.

Each year, this group, along with Treasury's front office and the staffs of OMB, OREA, and a number of other divisions, work tirelessly to help put this budget together. This year is no exception, and I would like to personally thank each of them for their dedication and the extreme professionalism they display every day.

This budget season marks my ninth and final budget as State Treasurer. I am proud of what this Administration, together with you as our partners in the Legislature, have been able to accomplish for the people of the Garden State. From delivering historic property tax relief to making full payments into our public pension system, we have made significant progress towards righting our fiscal ship while maintaining a strong commitment to increasing affordability for every New Jerseyan. While we've been thrown many challenges – including an unprecedented global pandemic and mass economic uncertainty - I believe that together we have made a positive impact in the lives of the people we serve.

And as we prepare to adopt the final budget of Governor Murphy's tenure, we have once again focused our efforts on providing economic security and opportunity for every New Jerseyan while at the same time fulfilling our obligations to ensure that New Jersey remains well-prepared for the future.

To be clear, this has been a challenging budget to craft. As you've seen in the news, troubling, proposed funding cuts at the federal level could have a dramatic impact on our budget here at home. According to an analysis completed by the Department of Human Services, proposed federal cuts to Medicaid could reduce funding to the State by nearly $10 billion and endanger health care for some 700,000 New Jerseyans. As the Governor mentioned in his address, this could be the "break the glass" scenario. We're not sure what that might look like, which makes this budget unique.

Potential Medicaid cuts are just one example of the unforeseen impact of budgetary decisions out of Washington – it remains to be seen how the new White House and Congress will continue providing funding to the states for everything from education to health care. That means perhaps now more than ever, every dollar in our State Budget must be spent wisely and efficiently, with an eye toward ensuring New Jersey remains resilient in the face of an uncertain federal picture.

The FY2026 budget incorporates many of the hallmarks of our past budgets, including keeping our promises to the hardworking men and women who have contributed so much to the operation of the State, while also making New Jersey more affordable and ensuring our schools remain second to none.

Before we move on to the detailed revenue discussion, I will first highlight some of the important items contained in the budget.

Supporting New Jersey's best-in-the-nation public schools has been a top priority for the Murphy Administration since day one. The FY2026 budget includes a record-breaking $12.1 billion for K-12 schools, an increase of more than $3.9 billion since FY2018. It also addresses feedback received about the formula by capping decreases in major school aid categories, ensuring no district sees a steep reduction in aid from one year to the next. K-12 State aid will not decrease by an amount greater than 3% of the prior year State aid in four primary categories: equalization, special education, security, and transportation.

Building on the Governor's commitment to making progress in achieving free universal preschool in New Jersey, the FY2026 budget proposes $1.27 billion for Preschool Education Aid. Opportunities for our state's youngest learners have greatly expanded since 2018, as nearly 20,000 new seats have been created through preschool expansions in 229 school districts. The Governor looks forward to working with the Legislature this year to codify pre-K aid and require access to full-day kindergarten.

Next, I'd like to turn attention our public pension system, which for so many years was neglected by legislators and administrations on both sides of the aisle. This budget continues the Administration's record of fully funding the pension system, with the $7.2 billion proposed payment marking the fifth consecutive full Actuarially Determined Contribution. Since the Governor took office in 2018, total pension contributions are on track to exceed $47 billion – nearly four times the $12.2 billion in total contributions of the previous six governors combined.

Continuing our focus on fiscally responsible governance, we are proposing a budget surplus of $6.3 billion, more than ten times larger than the average surplus under the previous administration. With this final budget, the Murphy Administration would leave the next governor with a surplus that is more than 15 times greater than the one we inherited ($409 million).

Prioritizing good fiscal stewardship means we must be realistic about what we can afford. In closely examining our revenue outlook and a vast array of other factors, the budget proposes to largely cap new discretionary spending and incorporates nearly $2 billion in appropriation reductions. These cuts represent many difficult decisions that we do not take lightly, and as you heard during testimony from the public, many of these cuts will be very challenging – but some belt tightening is necessary for this budget given the current circumstances.

Additionally, the budget includes a range of tax policy changes, including tax increases for the highest tier of realty transfer fees, sports betting, alcohol, adult-use marijuana, and cigarettes, as well as a new exemption for small business investment and certain baby supplies. We've proposed broadening the sales tax base to include new items such as participatory sports. While increasing taxes is never an easy decision, these changes, along with reductions in appropriations, help ensure that revenues are more closely in line with expenditures.

Having touched upon a few of the budget highlights, I would like to turn now to the revenue picture. I should note that the revenue update provided by the Office of Legislative Services is based on at least one month of additional revenue data, which contributes to the slight differences between our forecasts.

The following table outlines the Governor's Budget proposal:

	FY2025 Adjusted Approp.	FY2026 Budget	Change $	Change %
Opening Surplus (Undesignated)	$ 8,819	$ 7,790		
Open Space Reserve	331	52		
Surplus Revenue Fund	322	-		
Revenues				
Income	$ 20,267	$ 21,112	845	4.2
Sales	13,748	14,464	716	5.2
Corporation	4,464	4,229	(235)	(5.3)
Corporate Transit Fee	1,023	868	(155)	(15.2)
Business Alternative Income Tax	4,043	4,158	115	2.8
Other	11,325	11,977	652	5.8
Total Revenues	$ 54,870	$ 56,808	1,938	3.5
Lapses	1,624	-		
Total Resources	$ 65,966	$ 64,650		
Appropriations				
Original	$ 56,686	$ 58,054		
Supplemental	1,438	-		
Total Appropriations	$ 58,124	$ 58,054	(70)	(0.1)
Ending Open Space Reserve	(52)	(291)		
Ending Surplus Revenue Fund Balance	-	-		
Projected Ending Undesignated Surplus	$ 7,790	$ 6,305		
Combined Ending Surplus	$ 7,790	$ 6,305		

Total FY2026 appropriations are expected to decline slightly by $70 million, from $58.12 billion in the FY2025 adjusted appropriation to $58.05 billion proposed in FY2026.

State revenues are expected to grow from a revised $54.9 billion in FY2025 to $56.8 billion in FY2026. That is growth of $1.9 billion, or 3.5 percent.

We have slightly increased the overall revenue forecast for FY2025 by $363 million, up just 0.7 percent compared to the Appropriations Act forecast last June.

Some key points of note for the adjusted FY2025 revenue forecast:

- The Gross Income Tax (GIT) estimate of $20.3 billion is up by $572 million.

- The Sales Tax estimate of $13.7 billion is down by $48 million.
- The Corporation Business Tax (CBT) estimate of $4.5 billion is up by $126 million, while the $1.0 billion forecast for the Corporate Transit Fee (CTF) is unchanged.
- The Pass-Through Business Alternative Income Tax (PTBAIT) estimate of $4.0 billion is down by $297 million.

The small overall change in the FY2025 forecast is driven more by what happened in 2024 than by what will happen in the coming months. Over the last year, we've seen steady and stable levels of employment, income, and GDP growth, and price inflation has moderated from the 2023 peak. In 2024, the economy achieved the "soft landing" forecasters had been hoping for.

In that vein, we believe the spring income tax filing period will reflect last year's solid wage and income growth, plus the strong two-year growth in the stock markets. The S&P 500 grew by over 50 percent from the end of 2022 to the end of 2024. Capital gains and certain categories of business income should reflect this growth when higher-income taxpayers file their Tax Year 2024 returns. The revised FY2025 forecast for the GIT expects double-digit growth from April final payments, which is a primary reason why we've increased the GIT forecast by $572 million. When we return before your committee in May, we should have a good handle on how the April payments are performing.

The FY2025 Sales and Use Tax forecast is almost unchanged from the Appropriations Act certification. The $48 million reduction reflects under-performance during the first three months of FY2025, but since then the Sales Tax has been tracking with expectations, running close to the rate of price inflation. We expect this modest growth to continue.

CBT revenues have trailed last year by 5.4 percent so far in FY2025, due to the expiration of the 2.5 percent surtax at the end of Tax Year 2023. But this decline is actually less than anticipated for the surtax impact, which is why our FY2025 forecast is up $126 million from the Appropriations Act.

Meanwhile, collections from the new Corporate Transit Fee (CTF) are expected to ramp up this spring and through the filing extension period in the fall, since taxpayers are not required to pay the new CTF until filing their Tax Year 2024 returns. We have no new data yet for the CTF, and are therefore maintaining the $1.0 billion estimate for this year. CTF revenues in the Governor's FY2026 Budget Proposal are dedicated to supporting New Jersey Transit, fulfilling another promise made by Governor Murphy to provide NJT with a more stable source of funds.

The somewhat volatile Pass-Through Business Alternative Income Tax, or PTBAIT, was down 3.1 percent through the first eight months of FY2025, rather than growing as expected. That weakness necessitated a $297 million reduction in the forecast. However, preliminary payment data for March, when annual returns were due, suggest a boost to collections due to an increase in payments from first-time taxpayers as well as one significant non-recurring payment. The PTBAIT experiences taxpayer turn-over from year-to-year, and predicting payment patterns can be a challenge. Over time, the impact of the PTBAIT is intended to be revenue neutral, but annual fluctuations can shift the flow between fiscal years, adding to the forecast's complexity.

Other smaller tax revenues are close to our targets, with any differences roughly offsetting each other in FY2025. Most of the revision to the forecast stems from the performance of the very largest tax revenues.

Now let me turn to the FY2026 revenue forecasts. Total revenues of $56.8 billion are $1.9 billion above FY2025. The following table identifies several key revenues:

Category	FY2025 Revised	FY2026 Forecast	Difference	% Change
Gross Income Tax	$20,267	$21,112	$846	4.2%
Sales and Use Tax	$13,748	$14,464	$716	5.2%
Corporation Business Tax	$4,464	$4,229	-$235	-5.3%
Corporate Transit Fee	$1,023	$868	-$155	-15.2%
PTBAIT	$4,043	$4,158	$115	2.9%
Total Revenue*	**$54,870**	**$56,808**	**$1,938**	3.5%

PTBAIT is the Pass-Through Business Alternative Income Tax
* Total Revenue also includes various other taxes and miscellaneous revenues.

Highlights for the FY2026 revenue forecast include:

- The GIT rising to $21.1 billion, up $846 million or 4.2 percent, driven largely by steady wage and income growth. Most of the two-year stock market surge boosts FY2025 collections, with the non-wage income base resetting for FY2026.
- The Sales Tax rising to $14.5 billion, up $716 million or 5.2 percent. Consumer spending growth will generally match price inflation as base collections rise by about 3.2 percent, while this forecast also includes a selection of tax policy proposals that will increase collections by $270 million.
- The CBT declining to $4.2 billion, down $235 million or 5.3 percent from FY2025. The previously expired surtax will reduce baseline CBT collections, while U.S. corporate profits are also expected to decline slightly.
- In FY2026, the CTF will raise $868 million, down from FY2025 due to the non-recurrence of an estimated $205 million in one-time retroactive collections during FY2025. After adjusting for the six percent Constitutional open space dedication, $815 million is allocated to New Jersey Transit.

The major forecasting firms expect that moderate, but slower, economic growth will continue in 2025 and 2026. While fiscal, trade, and tax policy changes now formulating at the federal level have increased uncertainty, Congress has yet to enact substantial budgetary legislation. The result of future policies adopted in Washington D.C. could be expansionary or contractionary, but the net effect remains unknown at this time. Accordingly, economic forecasters are maintaining cautious, slow growth forecasts for the coming year. This yields moderate growth in baseline State revenues.

As mentioned earlier, the Governor is proposing a number of tax policy changes to support the FY2026 budget, such as:

- Adding certain services to the Sales Tax base, such as digital streaming services, interior design, participatory sports, horse training, and complementary rooms and meals at the casinos. Also added are the value of used car trade-ins, second-hand airplane sales, and an end to the partial exclusion of yacht sales. Certain baby products and sunscreen will be exempt from the Sales Tax to help young families and improve health.
- A 10% increase in alcohol beverage taxes to generate $18.5 million.
- Internet gaming and sports betting tax rates of 15 percent and 13 percent are to be increased to 25 percent to bring in $402.4 million.
- Cigarette Tax rate increases from $2.70 per pack to $3.00 to bring in $41 million.
- Tobacco Products / Vaping Tax increased from $0.10/mL to $0.30/mL and E-liquid tax from 10 percent to 30 percent to generate $10 million.

- The current 1% assessment on certain million-dollar properties is increased to 2% up to $2 million and 3% above $3 million, bringing in $317 million.
- Warehouse truck traffic fee of $2 to bring in $20 million for a partial first year.
- Social Equity Excise Fee (SEEF) increased from $2.50 per ounce to $15 per ounce, and to $30 per ounce for intoxicating hemp products, generating $70 million.
- Drone sales excise tax of 10 percent to bring in $5 million.
- Firearms excise and ammunition excise tax to bring in $4.6 million.
- A 9-8-8 fee to help fund the suicide and crisis lifeline in New Jersey, generating $61 million.
- An Income Tax exclusion for Qualified Small Business Stock (QSBS), resulting in a $10.4 million State revenue loss to encourage taxpayers to invest in small businesses.

These changes will ensure we are able to serve the people of New Jersey and fulfill our obligations, while at the same time reducing the structural budget gap. The difference between total revenues of $56.81 billion and recommended appropriations of $58.05 billion is about $1.2 billion. That is a substantial improvement from the $2.2 billion gap enacted last June in the FY2025 Appropriations Act, despite unavoidable expenditure growth in areas like healthcare.

Of course, we will be back again in the middle of May to update your Committee on the FY2025 and FY2026 revenue forecasts. By then we will know how the bulk of the annual spring filing season turned out, and we may – or may not – have more information on the evolving federal tax, fiscal, and trade policies.

As I finish outlining the revenues, I would like turn attention to a cost driver that continues to garner attention and concern during budget discussions: that is the rising costs of providing health benefits in the State Health Benefits Plan and the School Employees Health Benefits Plan. As you all know, costs have been rising over the past several years, and we are expecting even higher increases this year.

This comes on top of corresponding increases in rates paid by the State, local governments and school boards, and public employees.

While it is too early to know with certainty, since the rate-setting process does not begin until late June when the plan actuaries provide the rate recommendation reports to the Commissions, we are reasonably certain that the plans will experience double-digit rate increases – again.

Of particular concern is the Local Government section of the State Health Benefits Plan – the part of the SHBP that counties and towns participate in. We have been transparent about the financial problems of the Local Government section for the past several years. Those problems are getting worse, as more towns with healthier or younger employees leave the Plan to get less costly health benefits coverage elsewhere.

Now, the State's actuary is projecting increases in the SHBP Local Government section will likely be well above 20% for Plan Year 2026; premiums would have to consider a margin of around 19.5% simply to reach a target level to restore the Claim Stabilization reserve. This is before taking into account the increasing cost of health benefits.

As in past years, the drivers of these cost increases across all the plans include escalating costs of health care services, and increased demand for extremely expensive drugs, notably the GLP-1 drugs and costly brand name "medical specialty" drugs. However, there is no doubt that the rate increases our plans have experienced in the past four years outpace what other, similar State and public employers are experiencing, especially in the SHBP Local Government section.

Many here may recall that in May of 2023, Treasury commissioned a study by its health benefits actuarial consultant comparing our public employee plans to other employer-sponsored health care plans in both the public and private sectors, in part to identify possible insights into the drivers of the cost difference between our plans and other employer-sponsored plans. That study has been posted on DPB's website since it was finalized and was distributed to legislative offices, as were the most recent mid-year experience reports.

According to the 2023 study, the answer is plan design – what services and drugs are covered, and the costs for that coverage.

The design of our public employee plans is the result of many years of policy decisions at the legislative, administrative, and collective bargaining levels.

Only the Plan Design Committees and the Legislature have any legal authority to make the significant plan changes required to rein in these increasing costs. Treasury does not have authority to make the necessary reforms unilaterally.

We know this is a concern for members here – that you have heard from your towns and constituents, and you have shared those concerns in past budget hearings. Continued increasing costs and fiscal pressures merit renewed focus by all partners with a view to addressing these serious challenges.

Moving on to addressing another affordability concern at the top of mind for many New Jerseyans: property taxes. The FY2026 budget delivers a record $4.3 billion in direct property tax relief, including $2.4 billion for the continuation of the highly successful ANCHOR program to benefit over two million homeowners and tenants; continued funding for Senior Freeze, New Jersey's property tax reimbursement program for seniors and disabled residents, with a $239 million allocation to benefit more than 235,000 taxpayers; and $600 million in total resources for the forthcoming Stay NJ program, which will significantly reduce property taxes for more than 432,000 senior homeowners.

This year, Treasury's Division of Taxation and the Division of Revenue and Enterprise Services worked diligently to launch the single combined property tax relief application – known as the PAS-1 – to open the door for qualifying seniors and disabled residents to apply for these three property tax relief programs, including Stay NJ, on one application. The PAS-1 application is available online now and many residents have successfully used the new online application to apply, and paper applications began going out to households a few weeks ago. This was a tremendous undertaking by many Treasury employees, and one that will make it far simpler for New Jerseyans to access the property tax relief they are entitled to as homeowners and tenants.

As we prepare for the Murphy Administration's final months, it's worth noting where we began. We inherited a budget that included a surplus of less than two percent of the budget, and one that allocated a small fraction of the actuarially required pension payment. Working with our partners in the Legislature, this Administration has made every conceivable effort to right our fiscal ship – including reducing our outstanding bonded debt, fulfilling our pension obligations, providing record funding for our best-in-the-nation schools, and increasing affordability through historic property tax relief – all while knowing the decisions we make today impact the New Jersey of tomorrow.

Everyone in this room is well aware that the budget the Governor signs into law in June will differ from the budget he introduced in February. We look forward to working with the Legislature in the coming months to pass a budget that honors our shared commitment to creating a bright future for all New Jerseyans.

Thank you, and we are now happy to take questions.

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