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BUDGET MESSAGE

OF

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GOVERNOR OF NEW JERSEY

TRANSMITTING TO THE
ONE HUNDRED AND
SEVENTY-SECOND SESSION
OF THE LEGISLATURE
RECOMMENDATIONS FOR
STATE EXPENDITURES

FOR THE FISCAL YEAR ENDING
JUNE 30, 1949

ENTON, NEW JERSEY
BRUARY 2, 1948

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BUDGET MESSAGE

To the Members of the Senate and General Assembly:

On September 27, 1947, representatives of the Congress of the United States and of the Governors' Conference reported: "The American form of government is founded upon the principles of local government and citizen participation in government. If these principles are to be developed and maintained—local, state, and federal governments all must be strong.

"The unprecedented high total tax bill now being paid by the American taxpayer to support all levels of government requires an immediate readjustment of the Federal-State relationship for the purpose of preserving a working Federal system." The statement agreed upon by the conferees, following a meeting of historic significance, added:

"To achieve a higher degree of efficiency, reduce duplication, and achieve economy and stability in our co-ordinated system of federal, state and local governments, our states must cease relying upon the federal government to do things for them and their citizens which they can do for themselves as well as, or better than, the federal government. In order that the state and local governments may be enabled to assume those functions, the federal government should reduce those taxes which can be administered best by state and local governments."

Specifically, the conference urged:

1. That the federal government should reduce federal excise taxes as soon as practicable;¹
2. That the federal government should amend inheritance and estate taxes to provide more equitable division of this revenue between the federal government and the states;
3. That the federal government should relinquish to the states federal tax on employers levied to cover the administrative

¹Special consideration should be given to local telephone calls, intrastate energy, gasoline and admissions taxes.

expenses of the state employment security programs, and the states will assume the responsibility for the administration of the unemployment compensation and employment service programs;

4. That the Congress take the earliest possible action to correct by federal law the income tax inequities existing between the community property and the non-community property states;

5. That the states should avoid encroachment upon tax fields which are peculiarly adaptable to federal uses."

The average citizen is interested in the total cost of government. In 1947 this total cost included the following levies¹ Federal—\$1,400,000,000, State—\$157,000,000,² Counties—\$77,000,000, Municipalities—\$210,000,000, School Districts—\$150,000,000.

The Federal levy upon our citizens is many times larger than the State levy and reflects, of course, the cost of the war and a change in political philosophy, with the resultant shift from a Federal Government to a National Government. If this shift in power, responsibilities and capacity to dominate fields of taxation and governmental spending continues our States will soon become hollow shells, and useless and costly ornaments of an age when Federalism had real significance.

It is for this reason, in addition to the imperative need for the simplification and co-ordination of governmental service and the opportunity for real economy that we have pressed our fight for the restoration of a co-ordinated working Federalism. Unfortunately, the historic "conflict" between the Federal Government and the states over activities, services and taxes is not susceptible of a quick solution. It is easier to agree upon principle than to apply the principle and to untangle tight fiscal knots that have acquired the rigidity of age and hard usage. New Jersey citizens, under the present system of indiscriminate Federal grants-in-aid, are called upon to support their own governments, and, in addition, to help support governmental programs in other States that in fact may be in better financial condition than New Jersey with its "rich" though impoverished cities.

If the taxpayer owns real estate and pays an income tax, he has a painful familiarity with these two taxes that have increased

¹ Approximate and rounded to thousand dollars.

² Including total State aid to counties, municipalities and school districts of approximately \$57,000,000.

tremendously during recent years. Neither tax, however, is designed to support State Government in New Jersey. Many of our citizens do not appreciate the fact that if they do not drive a car, indulge in alcoholic beverages, participate in pari-mutuel betting or receive bequests from decedent friends or relatives, they pay very little, if anything, to support State Government.

It is reported the Federal Government will close its fiscal year with a balance of approximately seven billion dollars. The expenditures of the 48 States during the same period will probably exceed current revenues by over one billion dollars. To meet this situation four States during 1947 adopted a general sales tax law; seven States adopted cigarette and tobacco taxes (38 States now impose this tax); seven States increased their cigarette tax; eight States increased their gasoline tax; three States enacted new use fuel taxes; seven States increased their excise taxes on distilled spirits; four States increased their taxes on wine; six States increased their tax on beer; five States revised upward State income taxes; and corporate income taxes were increased in five States. Additional States taxed soft drinks, increased levies on pari-mutuel betting and in other ways sought to close the gap between receipts and expenditures. Most of these States now have tax rates higher than in New Jersey and in many instances taxes that New Jersey has previously been able to escape.

Of all the objectives mentioned in the report of the Federal-State Conference two appear most likely of accomplishment. There is every reason to believe that at this session of Congress the income tax inequities existing between the community property and the non-community property States will be corrected. This action alone will save the citizens of this State approximately \$38,000,000.

It is hoped that Congress will amend Federal laws applicable to estate and inheritance taxes so as to restore so-called death taxes substantially to the States. For generations these taxes were levied exclusively by the States. To meet the fiscal emergency incident to World War I, the Federal Government turned to a death tax for additional revenue. Following the conclusion of that war, while the Federal Government did not withdraw from the tax, it did in 1926 increase the credit allowed for State death taxes to 80 per cent of the Federal tax. During the great depression preceding World War II, the national government again turned to death taxes as a substantial source of revenue and

as it became more firmly entrenched in this field of taxation the States obtained a smaller and smaller share of the total revenue from this source. Federal death taxes have increased enormously while State receipts on the whole have declined. In 1930 when the 80 per cent credit was still in full effect, State receipts accounted for three-fourths of all revenues from death taxes. Today with the credit touching only a small portion of the Federal estate tax, the States receive less than one-fourth of the combined total of Federal-State death tax revenues.

As we approach the task of budget-making we cannot overlook the mounting cost of local government, including our school districts. This cost is largely borne by the owners of real and personal property. In 1939 general property (exclusive of railroad property) was the source of \$239,437,000 of State and local revenue.¹ In 1947 it was the source of \$297,574,000 in local revenue. Railroad taxes amounted to \$18,739,000 in 1939 (reached \$23,895,000 in 1943), and provided \$15,029,000 in 1947.

The question naturally arises at what point do taxes on real property and, in fact, all taxes become so high as to place in jeopardy our economy setting in motion a spiral of diminishing returns, and to what extent is it wise to substitute for additional taxes on real property, levies of another character pending Federal-State adjustment of taxes and services.

In my judgment it is apparent that real estate taxes in particular have in many municipalities reached rates that are discouraging the construction and acquisition of new homes. If the State is to share a greater portion of the tax burden then it must strengthen its controls and aggressively, in co-operation with its political sub-divisions, seek to prevent wastes and to reduce total costs. The theory of home rule, cherished as it is in this State, has not proved an effective brake under present-day circumstances against rising costs.

In my Budget Message of last year I stated that we faced the same inflationary trends that have troubled industry, labor and all levels of government. These inflationary forces, unfortunately, are in greater evidence this year than in the winter of 1947.

We are presently engaged in the reorganization of the Executive Branch of our government. The figures and tables submitted with this message do not reflect the substantial saving that I be-

¹ All figures have been rounded to thousand dollars.

lieve may be achieved when this reorganization is properly accomplished. The figures stated in the schedules prepared by the Department of Taxation and Finance in most instances provide for the various departments as they presently exist. Provision should be made for the transfer of funds appropriated for the support of the various existing agencies to the principal departments to which the functions of government may ultimately be transferred.

It is against this background that the 1948-49 fiscal program and budget of the State must be considered. In my Inaugural Address a year ago I recognized that it might become necessary for the State, in order to meet the requirements of the State and municipalities, to make "tax adjustments" and to secure "replacement revenues." I also emphasized that we would take advantage of any leeway that might come to us through a reduction in Federal taxes. The latter eventuality has not been realized to any appreciable extent.

The total amount requested by all departments for the fiscal year was \$217,664,775.

In the figures attached you will find total recommendations of \$140,511,089, which is \$15,291,228 less than recommended for the present fiscal year, and approximately \$77,000,000 less than the total requests, or a reduction of about 35%. These figures represent estimates of current costs of operation, present grants-in-aid commitments with additions contemplated a year ago, and "normal" highway construction. These recommendations may be met from available current income. To do so, however, would subject the State to a substantial penalty by the Federal Government for the "diversion" of Highway User revenues—this despite the fact that the Federal Government returns to the State only a portion of the Federal "emergency" gasoline tax collected from New Jersey highway users. For the reasons that will be stated, I am opposed to the use of Highway User revenues for other than highway purposes at this time.

In addition to the foregoing recommendations, there are certain additional recommendations for appropriations, including additional grants-in-aid for education and provision for capital construction, that will be discussed in this message.

While New Jersey has finally achieved a single budget it is designed to perform three distinct purposes.

The budget detail should be studied in the light of the following

BUDGET PART I

CURRENT OPERATIONS

	Total	General Purpose	Highway
Estimated Balances, July 1, 1948	\$20,957,524.21	\$9,437,524.21	\$11,520,000.00
1948-49 Revenue Estimates	120,327,729.64	63,077,729.64	57,250,000.00
	\$141,285,253.85	\$72,515,253.85	\$68,770,000.00
Budget Recommendations:			
For current operations	68,371,008.67	46,035,042.47	22,335,966.20
Balance	\$72,914,245.18	\$26,480,211.38	\$46,434,033.80

It will immediately be noted that current revenues are more than sufficient to take care of restricted State current operations at the present level. If we are to continue grants-in-aid to our municipalities on the present level or as recommended or to make the capital improvements that are urgently required to provide adequate care for our wards in the State institutions, our children seeking higher education, and the users of our highways, additional revenue will be required.

BUDGET PART II

GRANTS-IN-AID TO COUNTIES, MUNICIPALITIES AND SCHOOL DISTRICTS
(WITH ADDITIONS CONTEMPLATED LAST YEAR)

	Total	General Purpose	Highway
Balance of Income Available	\$72,914,245.18	\$26,480,211.38	\$46,434,033.80
Additional amount required to provide Grants-in-Aid	22,543,094.50	22,543,094.50
Total	\$95,457,339.68	\$49,023,305.88	\$46,434,033.80
Budget Recommendations	65,273,305.88	*49,023,305.88	16,250,000.00
Balance	\$30,184,033.80	\$30,184,033.80
* Education	\$33,552,258.59		
Welfare	13,491,140.69		
Special	1,979,906.60		
	\$49,023,305.88		

Educational Aid:

The total amount recommended in the budget detail for State School Aid in School Districts, pursuant to the formula adopted

by the Legislature in 1946 with additions contemplated last year is \$14,065,766.18. The State's contribution to the Teachers' Pension and Annuity Fund is \$7,101,189.16 and for additional programs, such as State subsidies for industrial and manual training, vocational schools, veterans' secondary education, etc., \$2,385,303.25. In this budget message, I have recommended an additional \$10,000,000.00 for direct aid to our School Districts, contingent upon the adoption of legislation providing the necessary additional revenue. My studies disclose that this additional grant when added to the other increases over last year should accomplish the purpose of the State School Aid Commission. The States responsibility for the continuation of good schools is recognized. The need is apparent.

In my opinion, the time has come when State aid for education on the local level should be completely revised to establish an over-all State grant on an equitable definitive basis. At the present time there are many weaknesses in the statutes which make it possible for local districts that have established educational programs, to commit State funds to the extent that deficiency appropriations are required each year to cover the cost of such programs. Now that the State has undertaken to assume a major share of the cost of education, it should be relieved of its obligation to meet a number of "open end agreements" that have placed in jeopardy its financial position.

The State will continue its obligations to maintain the security of the Teachers' Pension and Annuity Fund. The burden of this fund has grown substantially in recent years with the increase in number of teachers and salaries. As stated heretofore, I have recommended an appropriation for the State's share of the contribution to the Teachers' Pension and Annuity Fund in the sum of \$7,101,189.16. This is \$2,405,271 less than the amount requested. The present statute requires the State to provide annually a sum to be known as the "deficiency contribution." This amount represents the accumulated State's liability for accrued credits to those members of the fund who were transferred from the old "State Retirement Fund." This deficiency on June 30, 1947, equaled \$20,670,136. The amount requested for an installment payment against this deficiency in the current budget was \$3,905,-271. This requested amount is computed on the basis of the present statutes, which require that the amount of the deficiency contribution shall be arbitrarily increased by three per cent until the

entire deficiency is met. Following numerous conferences, it is recommended that the annual payment against this deficiency be "pegged" at \$1,500,000 until such time as the full amount due by the State has been fully liquidated. The full amount requested for the fund apart from the so-called "deficiency" has been provided. This fund now totals more than \$148,000,000, far more than was originally contemplated.

Direct grants for aid to the School Districts should be consolidated, wherever practical, and placed on a definitive basis so that both the Districts and the State will know exactly the extent of the latter's obligation. In the past, the State has been called upon to grant deficiency appropriations to cover manual training, vocational training, and other educational programs. This type of deficit financing should be terminated.

In conjunction with this increased aid, it is my hope that you will require annual audits of all local school districts as they are now required in the municipalities, and that the Department of Taxation and Finance will be authorized to audit or cause to be audited the records of the school districts. A uniform standard of accountability as between School Districts and all other local governments should be established. The State Department of Education should be authorized to establish standards of education that must be met by each school district to entitle it to State School Aid, and the service performed by the Department of Taxation and Finance should be subject to the policy decisions of the Department of Education.

These State grants are intended to serve a twofold purpose: the promotion of a quality education and the protection of real estate against excessive local purpose tax rates. We depend largely upon the local school boards to do their part to maintain a proper balance of these two purposes in each community.

Welfare:

The amount recommended in this Budget includes grants-in-aid for welfare purposes of \$13,491,140. This is an increase of approximately \$5,000,000 over last year and reflects, in part, the inflationary trend of the current period. It is my hope that through the medium of consolidation of administrative agencies, "Emergency Relief," "Old Age Assistance," "Child Welfare" and other welfare programs, and the completion of our social

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Highway:

We should continue and expand somewhat the grants-in-aid for highway purposes initiated last year subject to one change, namely, the limit of the State's responsibility should be clearly defined. Accordingly, I recommend as aid to counties and municipalities the sum of \$15,925,000—an increase of \$1,000,000—to be distributed in accordance with the formulae adopted at the last session of the Legislature and subject to the condition mentioned above. An additional sum of \$325,000 is recommended for expenditure by the Highway Department for municipal lighting on the State Highway System.

Other Grants-in-Aid:

The most important of the State grants-in-aid items for general purposes is that made for aid to the local police and firemen's funds which amounts to \$1,000,000 annually. The balance of this program for general items is made up of beach erosion and inland waterway work and 5% of inheritance tax collections which, by statute, is returned to the county in which it is collected.

BUDGET PART III
CAPITAL IMPROVEMENTS

	<i>Total</i>	<i>General Purpose</i>	<i>Highway</i>
Balance of Income Available ...	\$30,184,033.80	\$30,184,033.80
Amount to be Raised to Finance Capital Improvements for General Purposes	5,260,000.00	\$5,260,000.00
Total	\$35,444,033.80	\$5,260,000.00	\$30,184,033.80
Budget Detail Recommendations	17,866,775.00	260,000.00	17,606,775.00
Reserved to Finance Capital Improvements	\$17,577,258.80	\$5,000,000.00	\$12,577,258.80

The Departments requested appropriations for capital improvements totaling \$75,706,607.50, including \$16,956,500 for institutional buildings, \$15,450,000 for educational buildings, \$225,000 for State Police buildings, \$42,958,807.50 for highway construction, and miscellaneous requests totaling \$116,300.

Provision has been made in the budget detail for the State Police buildings, the cost to be charged against highway user receipts. There is acute need for these buildings and their completion will not only strengthen this important branch of our government but will save present rental payments for inadequate facilities. Provision has likewise been made for the completion of the second unit of the Diagnostic Center located at Menlo Park at a cost of \$250,000. At the request of the Fish and Game Council, provision has been made for \$10,000, to be reimbursed by the Federal Government, for the acquisition of land for hunting purposes.

No provision has been made in the budget detail, and none can be made until funds are available, for the modernization of our institutions. A year ago, in my First Budget Message, I stressed the overcrowded condition of our welfare institutions and urged that "careful consideration should be given to a long-range program for institutional improvement." In my judgment this program can no longer be delayed. The Legislature is requested to give this subject its immediate consideration and to establish a list of priorities in order of urgency.

A public-spirited group of citizens has urged a total building program for institutions and education totaling \$75,000,000, including the requests by the affected departments. It is to be noted that in the statement at the beginning of this section, provision is made for \$5,000,000 of additional revenue which should be sufficient to finance the construction of those buildings, found to be essential, over a reasonable period of time.

The Department of Institutions and Agencies has presented a building program totaling \$39,000,000 and has indicated a need for immediate construction and modernization totaling \$16,000,000. The various teachers' colleges have requested funds for expansion of existing facilities totaling \$5,450,000 and the State University has requested \$10,000,000. I can attest to the fact that our State Teachers Colleges and the University could put additional facilities to good use. The University is sorely in need of a new library and chemistry building. The New Jersey College for Women, likewise, requires additional buildings. The Montclair Teachers College and the Paterson Teachers College, in particular, require additional facilities. An initial grant of \$1,000,000 was made to the latter last year. I have prepared, and at a later date will deliver to the Legislature, a special message

With respect to all of these capital improvements, we should ask ourselves: (1) Are we confronted with an emergency situation? (2) Can construction properly be deferred until materials are in greater abundance and prices have returned to a more normal level? (3) To what extent, if any, will the construction of these buildings interfere with the construction of homes—a program in which this State has a substantial investment? (4) To what extent may we expect the population in our institutions or enrollment in our colleges and university to be reduced, thereby relieving present pressure for additional facilities? Wherever possible we should avoid competition for scarce materials or labor. Emergency construction should be begun as quickly as possible. We should proceed with our long-range planning now and construction may be begun after a prudent weighing of the extent of the need against high costs, and the other factors previously mentioned. It is to be noted that I am not now advocating either a substantial new bond issue or a large building program. Nor am I advocating, at this time, an appropriation for these purposes except for the amount necessary to take care of the emergency construction that can be financed at this time for far less than the \$5,000,000 tentatively allocated for long-range capital improvement. We do, however, urge the immediate adoption of a plan. This subject of capital improvements should be referred to an appropriate committee of the Legislature for immediate consideration with a request for a report prior to the completion of the work of the Appropriations Committee.

Highway Construction:

Provision is made in the budget detail for highway construction totaling \$16,600,000 out of current receipts. In addition, there is presently before Congress an appropriation bill which, if passed, will make available in the form of a Federal grant-in-aid about \$8,400,000 for additional highway construction. As previously noted, this grant-in-aid represents a portion of the payments under the Federal "emergency" gas tax made by the New Jersey highway users. The total thus anticipated as available for "normal" highway construction will be \$25,000,000. In my first Annual Message, I stated: "Our highway requirements are so acute that

it is apparent that we cannot hope to finance the construction and completion of major highways which have been legislated, planned or discussed out of current income." The amount of highway user revenues reserved after the recommended appropriation should support any additional highway program that may be adopted.

The Chairman of the Citizens' Committee for the Relief of Traffic Congestion, Mr. Lee Bristol, accurately stated the highway problem confronting New Jersey some time ago when he said: "The future prosperity of every element of the population and every section of the State depends upon the successful solution of our highway congestion problem." It is estimated that the economic loss due to the traffic congestion and resulting delays in New Jersey exceeds \$4,000,000 a year.

Some time ago New York State announced a 14-year highway building program of \$143,000,000 a year. Pennsylvania reported a contemplated program of \$168,000,000 a year for five years. New Jersey does not intend to compete with these "plans."

There are certain limitations that necessarily must be imposed on any highway construction program. Once again, we must measure the need against prevailing prices, availability of materials and labor, our opportunity to obtain competitive bidding, and our capacity to design and supervise new highways. Two methods of financing the required new highways have been suggested: the first is through the medium of current highway user revenues, either on a pay-as-you-go basis or the use of current revenue to service additional highway borrowings. The other is through the use of tolls and the sale of revenue bonds serviced exclusively by the tolls. This was the method used in Pennsylvania to construct the Pennsylvania turnpike and more recently in the State of Maine to construct a turnpike in that State. It has been suggested that this method could be used to finance the improvement of the Route 4 Parkway from the Victory Bridge at Perth Amboy to Cape May, serving the important recreational areas in Monmouth, Ocean, Atlantic and Cape May counties. It has also been suggested that the same method could be used to finance the important Route 300 Freeway from the proposed Trans-Delaware River Bridge in Salem County to the North Jersey-New York metropolitan area.

I have not heretofore advocated toll roads for New Jersey and I am not prepared to advocate them at the present time. It is

entirely possible, however, that in a long-range program including the development of express highways or freeways primarily designed to carry through traffic where marginal free roads are available for local traffic, this method of financing may have considerable merit.

Among the additional capital requirements, there is one that commands our attention. The prosperity of all of our seaport communities and the very substantial recreational business of the State depend upon the preservation of our fine beaches. The latter, in recent years, have been particularly vulnerable to the action of storms and tides. Sporadic efforts to prevent beach erosion have not proved sufficient. The problem of beach erosion has been studied and re-studied. The national government has had a traditional interest in the promotion of commerce and the development of inlets and waterways. The deterioration of the coastal area is not peculiar to New Jersey. It is apparent that the State must be prepared to participate with its municipalities in a Federal-State-County-Municipal program which we hope will be defined in the near future.

Revenues:

It is now apparent that while current revenues are sufficient to support current operations of the State Government they are insufficient to support current operations and in addition the present grants-in-aid with the additions requested. Nor will they support any capital improvements. The need for new highways requires that we retain highway user revenues for highway maintenance and construction. No additional gas tax is required at this time to finance the long-range highway construction program referred to in my First Annual Message. Nor is any contemplated.

Mindful of the additional burdens the State Government is being called upon to carry and in an effort to keep within the "adjustments" referred to in my Inaugural Address, we recommend a reduction of existing payroll taxes for employers and employees. All States which originally had a worker contribution, except Alabama, have eliminated the contribution. The detailed method of achieving this reduction will be set forth in bills to be submitted shortly, but briefly stated the result is estimated as follows:

Reduction in Annual Employer Tax	\$17,000,000
Elimination or Transfer of Employee Tax	29,000,000

Our Unemployment Compensation Fund, on deposit in the Federal Treasury, had swollen to \$474,000,000 as of December 31, 1947. While we must at all times maintain this fund at ample strength to meet any future economic emergencies, it is not in the public interest to "freeze" excessive sums in the Federal Treasury—and the present fund is clearly excessive in the judgment of all competent observers.

The reduction of the Employer Contribution Rate can be accomplished through a combination of two changes in the present law: First, the Experience Rating Schedule should be revised and rate brackets added so that the maximum rate will be reduced from the present 3.6 per cent of taxable payroll to 3.0 per cent, and the minimum rate lowered from the present 0.9 per cent to 0.3 per cent. In addition, so long as our Unemployment Compensation Fund remains at its present excessive level, I would further recommend a uniform reduction of the payroll tax of all employers, entirely apart from the Experience Rate. This latter provision should be of special value to the thousands of new businesses which have been started by veterans and others since the end of the war.

In terms of percentage reduction of tax, the effect of these changes will, on the average, save employers 31 per cent in their payroll tax; and for some employers having the best employment records, the saving will run as high as 66 2/3 per cent of the tax that would have been imposed under the present law. The present 1.0 per cent Worker Contribution for unemployment compensation should be either entirely repealed, saving those covered by unemployment compensation the \$29,000,000 a year which it produces at current rates, or this contribution should be transferred to a temporary disability benefits fund to provide so-called "cash sickness" benefits in accordance with the recommendation of my recent Annual Message.

If the present rate of benefit payments continues, that is if benefits paid run about \$56,000,000 annually, these benefits will exceed the estimated current contributions to the fund by about \$20,000,000. To a considerable extent this loss will be offset by interest accruals, which in 1947 amounted to \$8,600,000. We are in the fortunate position of presently being able to achieve both tax reduction and full safety of our unemployment compensation reserve.

These tax reductions in large measure offset the revenue program to which we must resort if we are to meet the need for additional State aid for schools, for institutional construction and for the expansion of State educational facilities. We are able in a large measure to adjust the total tax burden for the support of government by reducing payroll taxes at a time when we are faced with the need to meet obligations for which payroll taxes are neither available nor appropriate. While many alternative forms of taxation are, of course, available for study and consideration, the course we should take in raising needed revenue, amounting to some \$37,000,000 in total, has been very well worked out by the recommendations of citizen commissions appointed to study the problems that are before us. I accordingly recommend for your consideration the following changes in our tax structure.

1. A three-cent cigarette tax—to finance additional State aid for schools and the debt service on necessary institutional construction, as recommended by two outstanding citizen committees, to produce \$14,200,000 net.

2. Increase the lower range of the State's share of the pari-mutuel take from four to five per cent to produce \$1,500,000.

3. Increase the present tax on beer from $3\frac{1}{2}$ cents per gallon to five cents per gallon to produce \$1,800,000.

4. Assess a gross receipts tax of $1\frac{1}{2}$ mills on business properly allocable to this State—as an adaptation of the recommendations of the second report of the Commission on State Tax Policy—to produce \$19,500,000.

The latter tax legislation should limit the percentage of assessment that may be levied against tangible personal property, according to a schedule to be prescribed, taking into consideration the character of the property. This provision would give the owners of tangible personal property, for the first time, protection against "tax lightning."

These additional revenues are required to bridge the gap between present income and the amount required to meet current requests for grants-in-aid to our counties, municipalities and school districts and needed capital improvements.

It is apparent from this message that there are a number of choices open to the State. We may balance current revenue against current cost of operation by the simple expedient of re-

ducing grants-in-aid thereby increasing the burden on real estate. I do not recommend this policy. We may balance current costs against current income, retaining grants-in-aid at their present levels by the use of highway user revenue. There is an urgent need for new highways, particularly in the metropolitan areas where the entire future depends upon elimination of traffic congestion and improved transportation. Accordingly, I am not inclined to recommend this easy way out of our present dilemma. We may provide for current expenses, increase our grants-in-aid, make reasonable provision for some additional capital improvements and at the same time balance tax reduction against additional levies in the hope that a fair tax balance will be maintained. I recommend this procedure.

During my brief term as Governor, I have been tremendously concerned with the plight of our municipalities. I believe that the proposals that have been discussed in this message, coupled with adjustment in railroad taxes to be discussed in a separate message should materially assist our municipalities to meet their pressing obligations. It is to be understood that with increased State aid the parent government will be required to take such steps as may be necessary to insure that full value is obtained for each dollar contributed. The "leverage" thus acquired by the State may properly be used to require greater integration of school and municipal activities wherever practicable.

State Personnel and Pension:

There is included in the present budget \$41,252,105.00 to pay the salaries of State employees. This compares with \$38,020,288.00 recommended last year. The greater part of the increase is made up as follows:

(a) Normal increments	\$1,500,000.00
(b) Cash in lieu of food at State institutions	780,305.00
(c) Additional engineers to accelerate highway planning	490,320.00

The need for additional employees in two departments has been recognized. I refer to Institutions and Agencies where a shortage of attendants and nurses has been chronic, and the Board of Public Utility Commissioners which has been deluged with new work where the protection of our citizens appears to require additional trained personnel in the handling of rate cases. Thirty Thousand Dollars (\$30,000.00) has been appropriated for this

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purpose. In my judgment, this appropriation should obviate the
need of legislation for any supplemental appropriation.

It is my hope that through the medium of State reorganization it will be possible for us this year to substantially reduce State personnel by not filling vacancies as they occur, and that the subsequent saving may in part be used to provide adequate salaries for employees in the lower brackets.

There has been recommended in this message sufficient funds to provide for the State's share of contribution to existing pension funds, and in addition, funds for those pensions payable currently out of State revenues. Recognizing the potential liability of the State covering accrued service credits of those employees still not members of one of the established actuarial pension funds, I have requested that a study be made of the entire pension problem with special emphasis on veterans' pensions. This committee is presently working on this problem, and its report will undoubtedly shed considerable light on the future burden that the State may be called upon to assume.

In my first Budget Message, I stressed the fact that "A budget is not a blueprint for spending State revenues. Properly understood, it constitutes a challenge to save money and to spend less than the amount recommended for appropriation." 1947 was a busy year. As a result of legislation adopted by the 171st Legislature much was accomplished. Those accomplishments provide the basis for a stronger State government and stronger controls. Pending action by the present Legislature on the proposed reorganization of the Executive branch of our government, it is impossible for this Budget to reflect contemplated changes in structure and operation. In the months immediately ahead, it will be necessary to review all State activities for the purpose of ascertaining which of these activities the State can afford to continue and which should be discontinued. I shall confer with our legislative leaders on this subject from time to time and make specific recommendations as required. We may be required to discontinue some of our cherished activities in the interest of economy.

In our concentration upon the immediate requirements of the State, we have not overlooked the need for long-range planning, nor have we hesitated to recommend the use of credit (as we did last year) where the use of that credit for long-term projects

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permits us to keep present taxes within reasonable limits and to
make available for grants-in-aid funds that otherwise would be
consumed in capital improvement. As was suggested in my last
budget message, it is the abuse of credit—not its reasonable use
where necessary—that is to be feared and avoided. We have
urged a cautious approach to capital improvement and are con-
stantly seeking new information on this subject.

I have appreciated the co-operation received from the heads of
the various State agencies and regret that in many instances
available funds did not permit me to recommend the requested
appropriations. We must, however, live within available revenues.

Respectfully submitted,

ALFRED E. DRISCOLL,

Governor.

Attest :

J. LINDSAY DE VALLIERE,

Secretary to the Governor.