DRAFT

R E P O R T

FROM

SENATE FORUM ON BUDGET AND REVENUE ALTERNATIVES

TO

SENATE PRESIDENT JOHN A. LYNCH

Robert M. Kossick, Chairman
May 1991

SENATE FORUM ON BUDGET AND REVENUE ALTERNATIVES

CHAIRMAN

Robert M. Kossick	Chairman, President and Chief Executive Officer National Community Bank of New Jersey

VICE CHAIRMAN

Aristides Georgantas	President and Chief Executive Officer Chemical New Jersey Bank

MEMBERS

Horace J. DePodwin	President Economic Studies, Inc.
Zulima V. Farber	Partner Lowenstein, Sandler, Kohl, Fisher & Boylan
Clyde H. Folley	Vice Chairman and Chief Financial Officer Ingersoll-Rand Company
Anne Evans Gibbons	Principal Elberon Development Company
Clifford Goldman	Partner Goldman, Beale Associates
David Kehler	President New Jersey Public Affairs Research Institute
Albert G. Kroll	President Albert G. Kroll, Esquire
Rita Hoffman Lewis	Vice President and Treasurer Hoffman Precision Plastics, Inc.
John G. Moore	Secretary/Treasurer B.J.D., Inc.
James Nall	Partner Arthur Andersen & Company
Richard Roper	Assistant Dean Woodrow Wilson School Princeton University

TABLE OF CONTENTS

TABLES

CHARTS

INTRODUCTION

The Senate Forum on Budget and Revenue Alternatives was appointed by Senator John Lynch, President of the New Jersey State Senate, in January 1991 and charged with examining the circumstances surrounding the enactment in June 1990 of sales and excise tax increases adopted to offset a State budget deficit. ***The Forum*** was further charged with review of the general management structure of the State government and making observations and suggestions as deemed appropriate. ***The Forum*** was specifically asked not to examine the Quality Education Act as this was being studied in depth by a Blue Ribbon Commission appointed by the Governor. We were invited, however, to examine the income tax changes adopted to provide funding for a revised education finance system and certain property tax relief initiatives.

The Forum was composed of thirteen individuals representing private industry, the banking and legal community, academia, organized public policy research, and a past State Treasurer. No elected officials were appointed to ***the Forum***. This cross-section represented a balanced combination of viewpoints with a predominant private sector/private citizen perspective. A consensus report from a group of individuals with these diverse backgrounds and perspectives was to produce a focused report which any reader--private citizen, business person, or public official--could rely on as objective and politically unbiased.

The Forum proceeded to accomplish its task in two different ways. A series of four public hearings were held throughout the State to afford the general public the opportunity to express concerns, criticism and suggestions as to tax policy, spending levels and priorities, and government management. Concurrent with the public hearing process, ***the Forum*** gathered information concerning general economic conditions, and State spending and revenue collection experience for the most recent ten year period (defined as 1980-1990).

AN OVERVIEW

The results of ***the Forum*** inquiry into the circumstances leading to the budget "deficit" in 1990 find us disquieted with the State government's high spending levels over the 1980s, the apparent lack of strong centralized management controls, the absence of routine tax policy analysis, and the untimely, incomplete and vague public disclosure of changes in revenue collections and the related spending implications. We find a general disappointment with the efforts by the Governors, the Legislatures, and the news media in explaining to the public in clear terms, and on a timely basis, the reasoning behind public policy decisions concerning tax increases and expenditure demands.

We find further disappointment with the Legislature in its apparent disinclination to perform its appointed role in the checks and balances system manifested in its cooperation with the Executive in appropriating funds to enable the high levels of spending observed through the 1980s, while faulting the Executive for these high spending levels. The Legislature has not been reluctant in enacting new spending programs, yet has not equipped itself with the appropriate tools to monitor the State government to ensure efficient operations.

Much needs to be done in the area of monitoring and reporting concerning the prioritization and management of State services, protecting of the fragile balance between tax policy decisions and economic development, and reporting to and educating the general public concerning the expenditure of public monies.

In listening to the testimony presented to us at our four public hearings, a clear underlying message was heard by all members of ***the Forum***, and that message must be listened to by State policy makers. The general public perception is that State government is inefficient, dollars are imprudently spent, the general level of taxation is too high, and the tax burden is inequitably distributed. Whether or not this message can be substantiated after careful consideration of the facts is not significant when considered against the importance of the public perception that this message is true. This public perception calls into question credibility of the State government.

Our Report is intended to explain concisely the events leading to the budget deficit in 1990, the resolution of that deficit, the purpose and use of the revenues derived from the tax increases enacted in June 1990, and to provide the Legislature with suggestions to create or enhance an information system necessary to perform effective oversight and public monitoring of State government.

We begin, in Part I, with our analysis of the 1990 budget deficit, prefaced with an historical review of the revenue and expenditure patterns of the 1980s.

In Part II, we offer several suggestions for a much needed improvement in the Legislature's management infrastructure in redress of our expressed profound disappointment with the manner in which the Legislature plays its constitutional role in the fiscal checks and balances system. We also offer a number of cost containment observations.

We provide here an **Executive Summary** of our Report.

A. THE 1990 BUDGET DEFICIT—BACKGROUND AND RESOLUTION

- The 1980s began and ended in an economic recession. The period between, 1983 to 1988, was marked by robust economic expansion producing unexpectedly high revenue collections. These high revenue collections fueled high State Government spending and produced high surpluses. High surpluses fueled higher spending.
- The budget deficit in fiscal year 1990 was the result of a high spending base and a dramatic decline in revenue collections reflecting an economic recession. The deficit was closed by spending reductions and deferrals, not with tax increases, contrary to popular public perception.
- The tax increases enacted in June 1990 were of two types. First, an increase in sales and excise taxes to support the fiscal year 1991 State Budget estimated to raise $1.4 billion, and enacted after an approximate $1 billion reduction in State spending. This tax increase we find reasonable and necessary to support the State Budget. The second increase, enacted in June 1990 concurrently with the sales and excise tax increases, estimated to raise $1.3 billion, was in the personal income tax. The increased rates applied to higher income individuals, with the revenue to be used to provide property tax relief and financing for a new system of State aid in support of the public schools. This

increase was, in part, in anticipation of an imminent Supreme Court decision (Abbot v. Burke) concerning disparities in funding for "poor" versus "rich" school districts. We do not endorse the timing of this tax increase, finding it enacted before consideration of the spending implications of the Supreme Court decision and enacted based on perceived political expediency rather than after sound public finance policy considerations.

- We do not specifically recommend any changes to the tax increases adopted in June 1990, but have included some suggestions for the Legislature to study in fine-tuning the sales tax.
- We see a slow and modest recovery from the current recession. Revenue collections will remain modest as a result. We caution the Legislature that the current "downsizing" of State Government is necessary to keep spending within the likely modest revenue collections levels to be experienced over the next several years.

B. TOWARD MORE EFFECTIVE CHECKS AND BALANCES

- A permanent Tax Policy Study Commission should be established and charged to report periodically on matters referred to it or on its own initiative. This commission should also be consulted in a public forum on any tax policy matters being considered by the Legislature.
- The revenue estimating process needs revision. The present system does not seem able to anticipate both upturns and

downturns in the economy, events which are critical to effective budget management. We recommend a formalized and public quarterly review of revenues and expenditures, and call upon the private sector to support an entity charged to review the quarterly revisions.

- We find the current process to develop cost and revenue implications of pending legislation resulting in fiscal notes and fiscal estimates to be ineffective. The process should be modified to focus the resources of the Office of Legislative Services and the Executive Departments on critical legislation being actively considered by the Legislature. The results of that review process must be incorporated, in a formal manner, in the Legislature's consideration of bills.
- We recommend an expansion of the operations of the State Auditor to include management and performance audits, and that a "peer group" review mechanism be established to monitor these new operations. Further, we recommend that the activities of the Governor's Management Review Commission be continued and the results of their activities made public. We call upon the Governor to report annually on productivity improvements accomplished in the past year and planned for the ensuing year, to be part of either his annual State of the State message, or as part of his Budget Message.
- Several budget cost centers must be carefully studied with a view to constraining future cost increases. The most

significant of these cost centers are: social service programs particularly Medicaid; the Department of Corrections budget, with particular attention to be paid to the cost-benefit of mandatory sentencing requirements; and employee pension and health benefits costs.

- We find the establishment and maintenance of a surplus balance to be a prudent financial objective and recommend the establishment of such an account. The goal should be an account with a balance equivalent to 5.0 percent of current revenue collections. To establish a balance in this account, we recommend that the equivalent of 1.0 percent of current revenue be added to this account when revenue growth rates exceed the growth rate of personal income, with an account drawdown authorized when revenue growth rates are less than the growth rate of personal income.
- Property taxes must be reduced and growth restrained. One significant way in which property taxes could be reduced is to reduce the numbers and layers of local government administrative structures. It appears to us that the number of municipalities and school districts could be reduced with direct reduction in costs experienced as a result of the administrative efficiencies. Regionalized services at the municipal level, and an absolute reduction in the number of school districts seems to hold potential for reduced costs immediately, and restrained increases in the long run.

PART I

THE BUDGET DEFICIT - BACKGROUND AND RESOLUTION

The first part of the charge to the ***Senate Forum on Budget and Revenue Alternatives*** was to examine the circumstances surrounding the enactment in June 1990 of sales and excise tax increases adopted to offset a deficit in the State budget. We present here the results of our examination.

The Forum heard testimony from 65 persons, some speaking for themselves and others representing groups. We were impressed by the time and effort expended in preparing and making presentations. We were encouraged by the willingness of New Jerseyans to participate in the debate over important public problems. But, we found it discouraging that so much of that debate appears to have been strained by misconceptions about the real nature of those problems. People with different viewpoints and values can disagree about the best solution to a problem and the clash of their views will be productive. But, if the problem is not understood, the debate often degenerates into rancor. This clearly seems to have happened in New Jersey during the past year.

To agree on alternatives, one must first agree on the problems. We view the problems as less a matter for personal rancor or political partisanship, than as indications of basic structural deficiencies in the way State government operates. To understand this, it is necessary to review New Jersey's recent fiscal history.

- ***Revenues***: The period 1980-1990 was marked by robust tax revenues which were reflective, of course, of a vigorous economic expansion. The Comprehensive Annual Financial Report for fiscal year 1989 includes a history of revenue collections over this period and reflects the growth rates in Table I.

TABLE I
REVENUE GROWTH RATES
FY 80-FY 89

Fiscal Year	Percent Growth Rate
81	8.5%
82	9.7%
83	12.4%
84	16.6%
85	10.3%
86	7.5%
87	13.9%
88	4.8%
89	6.7%

These growth rates reflect an average annual rate-of-growth of 9.99 percent. This growth rate compares to personal income growth of 8.6 percent, per capita income growth of 8.1 percent, and a consumer price index growth rate of 4.7 percent. The 1980s were, without question, a period of robust economic expansion.

The expansion did not cover the entire period, however. Moderated growth is observable in the early 1980s as New Jersey recovered from recession. The 1980s also ended, as they began, with moderated economic growth and indications of a recession.

The period 1980-1990 was marked by two major tax increases, both reactive to declines in revenue collections reflecting economic recession. In 1983, the sales tax was increased from 5 percent to 6 percent and the personal income tax was increased from 2.5 percent to 3.5 percent on income over $50,000. In 1990, the sales tax was increased from 6 percent to 7 percent and the income tax was increased from 3.5 percent to 5.0 percent on income over $70,000, to 6.5 percent for income over $80,000 and to 7.0 percent for income over $150,000. A second set of rates for single individuals (or married filing separate returns) was established revising the rates from 3.5 percent for income over $50,000 to 5 percent on income over $35,000, 6.5 percent on income over $40,000, and 7 percent on income over $75,000.

In addition in 1990, the sales tax was broadened to cover additional items. It is noteworthy here that non-prescription drugs, household paper products and soaps and detergents were not exempt from the sales tax from its original imposition in 1966 as is popularly believed. The exemptions were first adopted in 1983 when the rate was changed from 5.0 percent to 6.0 percent as part of the compromise when the rate was increased. The taxation of household soap and paper products was re-established in 1990.

- **Expenditures**: Compared to state government spending across the country, New Jersey's rate-of-spending growth from 1980-1989 was extraordinary, and, in retrospect dangerous. Of the 10 most populous states, only Florida (where, contrary to the New Jersey experience, the population increased dramatically) had a higher state government spending growth rate, according to an analysis of the U.S. Census Bureau data.

TABLE II

COMPARATIVE STATE GOVERNMENT SPENDING GROWTH RATES 1980 - 1989

State	State Gov't. Spending Growth Rate 1980-1989
Florida	170%
New Jersey	143%
California	121%
New York	116%
North Carolina	116%
Texas	111%
U.S. 50 State Average	104%
Ohio	102%
Pennsylvania	82%
Michigan	65%
Illinois	64%

These spending growth rates directly reflected the extraordinary growth rates in revenues. During this time large surpluses were common (see Table III) as the expanding economy produced ever increasing levels of tax revenue. These surpluses fueled the spending growth and in several of the years in the 1980s, spending exceeded current revenue, with surpluses making up the balance. Even after the high level of spending was financed, year end surpluses remained.

TABLE III

YEAR-END SURPLUSES BY FUND 1980 - 1989
($ Mil.)

Year	General Fund	Property Tax Relief Fund	Total
1980	$ 228.7	$28.8	$257.5
1981	188.1	58.5	246.6
1982	78.7	28.6	107.3
1983	96.2	-	96.2
1984	485.3	92.2	577.5
1985	716.8	94.8	811.6
1986	444.5	76.5	521.0
1987	565.0	157.0	722.0
1988	491.0	283.3	774.3
1989	391.5	19.7	411.2

State government expenditure growth during the 1980s was a significant factor in the budget squeeze which would confront the Governor and Legislature in 1990.

The Comprehensive Annual Financial Report for fiscal year 1989 includes a history of expenditures through the 1980s. From that history the pattern of spending increases can be calculated. (See Table IV). Total budgeted spending increased from $4,887 million in fiscal year 1980 to $11,861 million in fiscal year 1989. That represented a growth rate of 143 percent during the nine year period.

TABLE IV

ANNUAL GROWTH RATES
BUDGETED EXPENDITURES
FISCAL YEAR 1980 to FISCAL YEAR 1989

Fiscal Year	Growth Rate in Budgeted Expenditures
1981	7.1%
1982	9.9%
1983	9.1%
1984	9.4%
1985	13.9%
1986	11.4%
1987	8.9%
1988	11.6%
1989	12.0%

Whether one compares growth rates in spending in other states or simply observes the annual rate of growth in spending in New Jersey, the conclusion is the same--New Jersey's spending growth rates in the 1980s were significantly high. Comparison of the growth rate in spending to selected economic indicators is further enlightening. The annualized rate of growth in State spending over the period 1980-1989 was 10.35 percent. By comparison, the annualized growth rate in personal income in New Jersey was 8.9 percent, in the Consumer Price Index was 4.7 percent, and in the government price deflator was 5.2 percent.

The severely moderating rate of revenue collections in fiscal years 1988 and 1989, and the sustained high level of spending increases, set the stage for what some have called the fiscal "crisis" in 1990 and 1991. We will attempt to explain in a concise, coherent manner how the State found itself in a "deficit" situation in fiscal year 1990 and 1991.

New Jersey entered the 1980s in the midst of a national recession. In 1983, faced with lagging revenues, the State increased the sales tax from 5 percent to 6 percent and the income tax from 2.5 percent to 3.5 percent on income above $50,000.

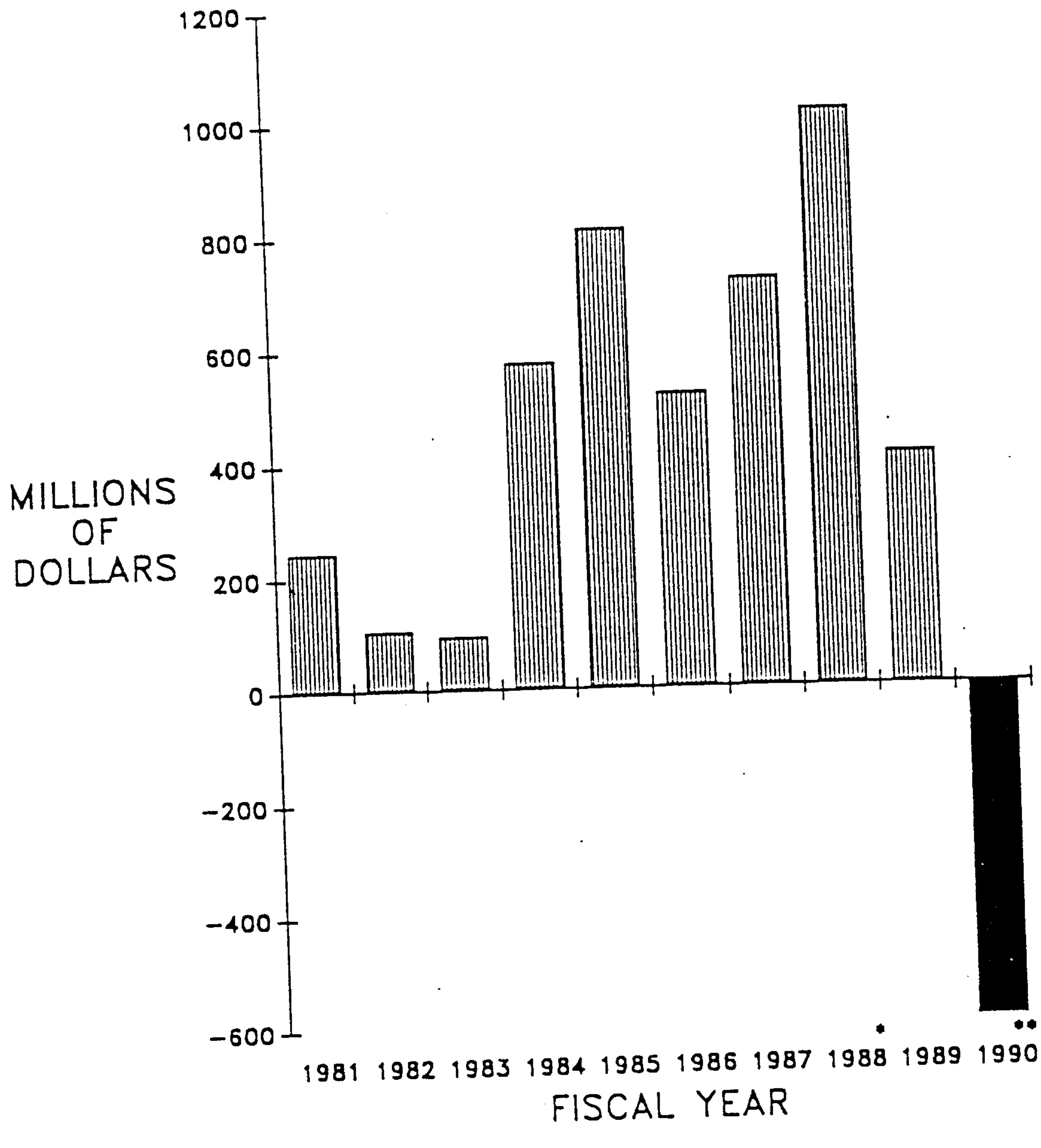
The sales and income taxes were increased just as the national economic cycle was moving from recession to prosperity. Whether the tax increases were excessive to begin with, or were designed without anticipating the economic upturn, the result was that the State budget enjoyed large surpluses during the mid-1980s, as shown on Chart I. (See also Table III.)

Spending increased at an average annual rate of 9.1 percent and revenues at an average annual rate of 11.4 percent between 1980 and 1984. That pattern reversed between 1984 and 1989, with spending increasing at an average annual rate of 11.6 percent and revenues growing at an average annual rate of 8.6 percent (see Table V).

CHART I

TEN YEAR HISTORY

Undesignated Fund Balances General Fund & Property Tax Relief Fund



- FY 1988 balance includes $246 Million from the Surplus Revenue Fund

**FY 1990 from OLS estimates

TABLE V

AVERAGE ANNUAL RATE OF CHANGE
REVENUES vs. BUDGETED SPENDING
GENERAL FUND AND
PROPERTY TAX RELIEF FUND
SELECTED FISCAL YEARS
($000)

FISCAL YEAR	ACTUAL REVENUE	BUDGETED SPENDING
1980	$ 4,594,959	$ 4,715,941
1984	$ 7,085,509	$ 6,683,970
1985	$ 7,814,241	$ 7,661,433
1989	$10,697,785	$11,550,393
1990	$10,828,716	$11,810,562
AVERAGE ANNUAL RATE OF CHANGE		
1980 - 1989	9.80%	10.50%
1980 - 1990	8.95%	9.62%
1980 - 1984	11.40%	9.11%
1984 - 1989	8.59%	11.56%
1985 - 1990	6.74%	9.04%

SOURCE: Time series data from Annual Budget Message "Summary, General State Funds, Exhibit A" for indicated year, "actual" column, accepted as reflecting audited results. Annual rate of change calculated by **Forum** staff.

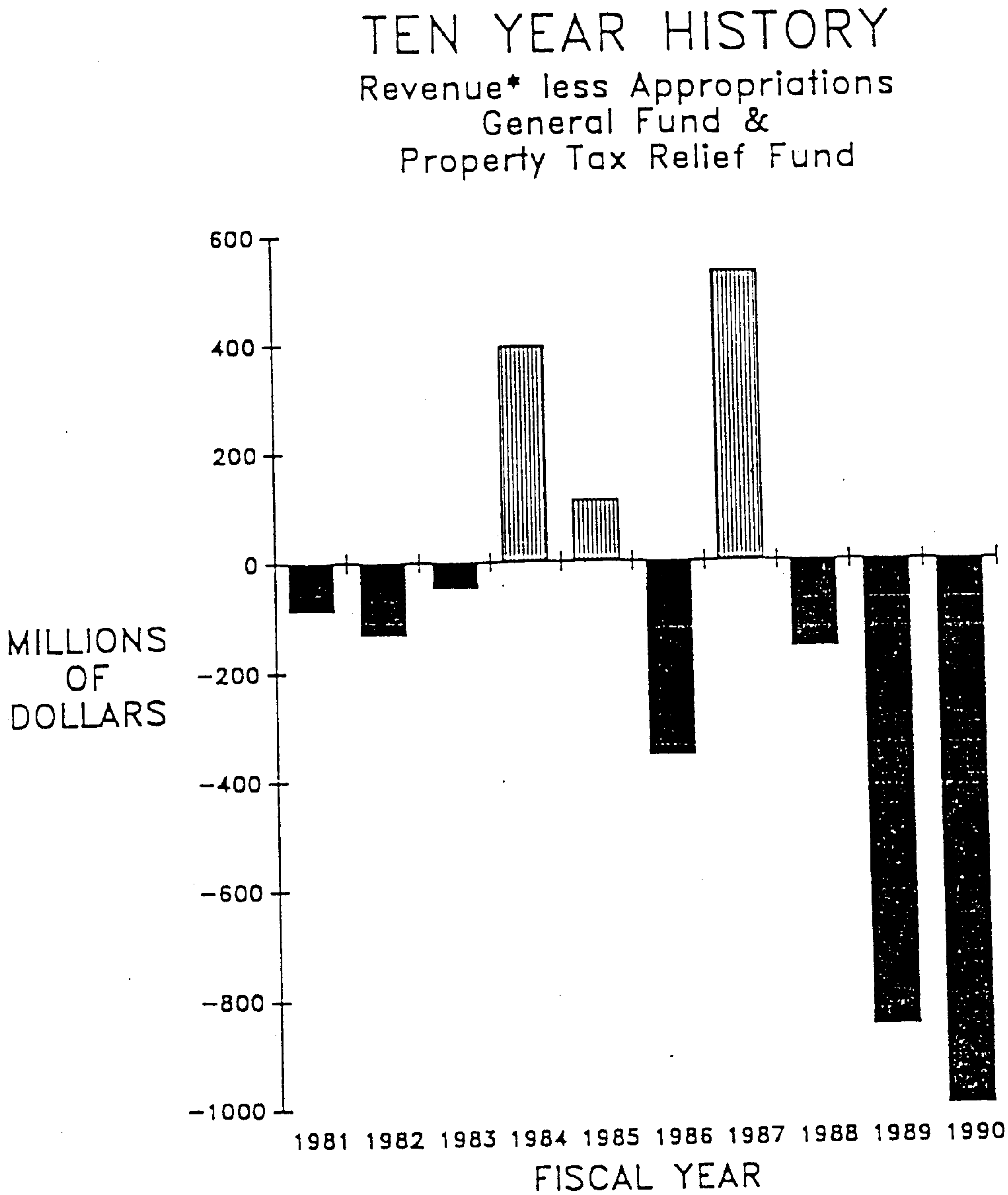
Thus, although the economic boom began to modulate, spending continued to grow at even higher rates. In 1986, appropriations began to exceed current revenues, and the budget was balanced by dipping into the accumulated surplus. (See Chart II on page 17.) Put more simply, the State began to spend more than it was taking in and began to make ends meet by using up its savings.

By the time the fiscal year 1990 budget was prepared, projected spending was greater than revenues including all of the remaining surplus. To balance the budget, various one-time revenue devices, commonly called "gimmicks," were used.

All other things being equal, a budget that relies on non-recurring surplus and one-time revenue devices to pay for ongoing expenses must by simple arithmetic create a budget gap in the following year. In fiscal year 1990, spending exceeded revenues by $1 billion (see Chart II), and some of the revenues were one-time revenues. Inevitably, the 1991 Budget would begin with a gap of at least that amount. And, since the higher base of spending was growing faster than the lower base of revenues, the gap would necessarily be higher.

It is significant to note here that during the 1980s tax collections exceeded the anticipated levels reflected in the appropriation acts for each of the years until fiscal year 1989. Signs of a recession, or at least a significant economic slowdown, were apparent as reflected in the revenue collection experience in fiscal year 1989. Major revenue collections fell short of anticipated level by $447 million.

CHART II



Deficit Spending

FY 1989 - current spending exceeded current revenues by $854 million; the General Fund surplus absorbed the spending.

FY 1990 - current spending would have exceeded current revenues by $1 billion; half-year reductions taken by Governor Florio allowed the State to close FY 1990 with a $1 million fund balance.

While the 1990 Budget reflected a recognition of the downturn in revenue collections, the magnitude of that downturn was significantly understated. The combination of high spending levels and an apparent slowdown in the economy set the stage for the budget problems acknowledged in mid-year 1990.

THE FLORIO PROGRAM

The Florio Administration took office on January 16, 1990. Apart from the normal tasks of establishing an Administration, the new Governor inherited five critical fiscal problems:

1) a large deficit in the current budget;
2) a larger deficit in the budget for the coming year;
3) a $3 billion deficit and impending collapse of the State's Joint Underwriting Association;
4) an impending collapse of the Uncompensated Health Care Fund; and
5) an imminent Supreme Court decision on the State's system of school finance which it was widely assumed would require substantial new infusions of State Aid.

The 1990 Deficit

On January 16, the State was a bit more than half-way through its fiscal year 1990 Budget. The State's 1990 fiscal year was the period from July 1, 1989 to June 30, 1990.

With only 5-1/2 months left in the fiscal year, the State was spending at an annual rate of $500 to $600 million more than its resources would allow, owing primarily to continued revenue shortfalls reflecting a recession.

We are unaware of any previous Administration taking office with the current year's budget in the red. In line with its Constitutional mandate, New Jersey has never to our knowledge ended a fiscal year in deficit.

The new Administration did not propose taxes to resolve the $600 million deficit. Rather, it used three methods to bring the 1990 Budget into balance:

1) it froze all spending over which it had discretion, saving some $193 million;
2) it deferred $255 million of expenditures for capital projects; and
3) it persuaded the Legislature to delay the payment of $144 million of State Aid into the following fiscal year.

According to audited financial records, the State ended fiscal year 1990 with a surplus of $1 million. Since these 3 methods saved or deferred $592 million, the 1990 deficit which had been estimated at $500 to $600 million in January 1990, actually would have been $591 million without these extraordinary measures.

The 1991 Budget

The Constitution requires the Governor to submit an annual, balanced budget to the Legislature. Normally, the process of formulating the budget for the Governor's submission to the Legislature begins in August and is complete by January. The law sets a deadline which, depending upon the calendar, results in a submission around the end of January and no later than February 15 in the year of a gubernatorial transition. In 1990, Governor Florio requested and the Legislature granted a delay to March 14. On its side, the Legislature must pass a balanced budget no later than June 30.

In January of 1990, the new Administration inherited a draft budget for fiscal year 1991. That draft budget was $1.9 billion out of balance after the career budget-makers in the Office of Management and Budget had pared down the Departments' original requests.

The new Administration cut an additional $1 billion from that draft budget. Table VI lists those cuts. Even after those cuts, the budget was $900 million out of balance before allowing for $255 million to restore the capital appropriations cut in 1990 and to provide an operating surplus of $245 million. Having cut the budget as much as they deemed possible in the time available, the Florio Administration proposed tax increases to balance the proposed budget. Needing about $1.4 billion, the Administration proposed to increase the sales tax, to extend it to additional items, and to enact or raise various excise taxes to yield that amount.

Thus, the purpose of the $1.4 billion sales/excise tax increases was to balance the 1991 Budget.

For the first time since 1976, the 1991 Budget, presented to the Legislature on March 14, 1990, proposed to spend less than the prior budget. The Budget identified $1.8 billion of cuts made to the draft budget. Some have argued that these were not "real" cuts but merely cuts to some unrealistic "wish lists" of the Departments. But a review of the 1991 Budget does not support this conclusion. Since the 1991 Budget provided for hundreds of millions of dollars in

TABLE VI

BALANCING THE FISCAL YEAR 1991
($mil.)

EXECUTIVE DEPARTMENT APPROPRIATION REQUESTS FOR FY 91		$ 13,585
• Reductions in Requests by OMB	($ 560)	
• School Aid Reductions from Full Funding by OMB	($ 250)	($ 810)
REVISED REQUESTS AFTER OMB REDUCTIONS		$12,775.0
ANTICIPATED REVENUE		$10,872.6
SHORTFALL		($1,902.4)
FURTHER REDUCTIONS:		
• Cuts from Current Budget	($ 416)	
• Further Reduction in School Aid	($ 267)	
• Eliminate Homestead Rebate	($ 305)	($ 988)
NET SHORTFALL		($ 914.4)
RECOMMENDED NEW TAXES:		
• Sales and Excise Taxes	$1,159	
• Oil Company Tax	255	$1,414
SHORTFALL MINUS NEW TAXES		$ 499.6
LESS: Capital Fund Replenishment	($ 255)	($ 255)
PLANNED SURPLUS YEAR-END		$ 245

identified increases in major items such as Medicaid, pensions, and debt service, simple arithmetic tells us that there were some real cuts because these items went up while the total budget went down. Table VII (on page 23) shows the successive cuts that were actually made.

The Legislature studied the proposed budget and tax package and made changes to both before enacting them on June 27, 1990. In the legislative process, certain appropriations were increased and the revenue measures were altered and re-estimated to yield $1.5 billion.

FORUM OBSERVATIONS

Sales and Excise Taxes

Many of those who testified before us complained, and we believe with sincerity, that the Florio Administration and the Legislature enacted $1.5 billion of sales/excise tax increases to deal with a $600 million deficit. Many of those who testified suggested alternatives to the Florio plan based on their assumption that it contained $900 million of excess taxes. Many were incredulous and infuriated by what they imagined might be the motives for raising $1.5 billion of taxes to meet what they were told repeatedly in the press was a $600 million deficit. The press has stated repeatedly--as recently as February 1991--that this was what happened.

But, the evidence clearly indicates that the $1.5 billion of sales/excise taxes was not directed at the $600 million deficit in

TABLE VII

SUMMARY OF FISCAL YEAR 1990-1991 RECOMMENDATIONS
($000)

	FY 90 Adjusted Approp.	FY 91 Request	FY 91 Recommended	Dollar Change from Approp.	Percent Change from Approp.	Dollar Change from FY 91 Request	Percent Change from FY 91 Request
GENERAL FUND AND PROPERTY TAX RELIEF FUND							
Direct State Services							
Executive Departments	$ 3,067,355	$ 3,209,852	$ 2,901,176	($166,179)	- 5.4%	($ 308,676)	- 9.6%
Legislature	41,624	47,859	44,541	2,917	7.0%	(3,318)	- 6.9%
Judiciary	90,703	103,610	89,864	(839)	- 0.9%	(13,746)	-13.3%
Interdepartmental	1,021,925	1,462,029	1,388,643	366,718	35.9%	(73,386)	- 5.0%
Subtotal Direct State Services	$ 4,221,607	$ 4,823,350	$ 4,424,224	$202,617	4.8%	($ 399,126)	- 8.3%
Grants-In-Aid	$ 2,215,872	$ 2,532,332	$ 2,022,680	($193,192)	- 8.7%	($ 509,652)	-20.1%
State Aid	4,630,291	5,320,437	4,639,879	9,588	0.2%	(680,558)	-12.8%
Capital Construction	386,000	549,971	331,000	(55,000)	-14.2%	(218,971)	-39.8%
Debt Service	372,051	369,802	369,802	(2,249)	- 0.6%	___	0.0%
Total General Fund and Property Tax Relief Fund	$11,825,821	$13,595,892	$11,787,585	($ 38,236)	- 0.3%	($1,808,307)	-13.3%

the 1990 Budget. That deficit was eliminated by June 30, 1990 through reductions and deferrals before the new taxes took effect. The $1.5 billion of sales/excise tax increases was applied to balance the 1991 Budget gap of $1.5 billion. Hindsight now tells us that even the $1.5 billion will not suffice. The 1991 Budget now appears to be short of revenues by some $800 million, because of continued revenue shortfalls as the recession deepens.

Most of those who testified before us spoke about the haste with which the Florio plan was enacted and the mistakes that resulted. The sales tax on trucks, since repealed, was one example. We agree that too much was done in too little time. We also observe that the introduction of the proposed tax package was ill-timed. While all the time available to the Legislature was in fact used, it does not appear to us that the time was used appropriately. That is, an adequate public debate and public scrutiny of the tax package was not facilitated. But, if the sales/excise tax increases and budget cuts were rushed or inadequately debated, it seems clear that both the Governor and the Legislature used all the time available to them under the Constitution to prepare, consider, submit, and enact the Budget. The problem, which we will address in our recommendations, was that the fiscal situation was not understood or not explained to the public soon enough--at a time when it could have been debated and dealt with deliberately.

Management Audit

Many witnesses before us argued that the Governor reneged on a pledge to conduct a management audit of the State or that he should have waited for the results of that audit before raising taxes. The Director of the Governor's Management Review Commission also testified before us. ***The Forum*** was favorably impressed by the savings identified by the Governor's Management Review Commission and by the systematic implementation of its recommendations. We hope that the management audit function can be established as a permanent part of State government rather than as a periodic measure. The arguments we heard about the timing of the audit again demonstrate the confusion about the budgeting process among well-meaning critics. To us, it is self-evident that a thorough audit of a $12 billion State Government could not have been organized and completed in the one month that was available before the 1991 Budget was due.

Income Tax and Related Spending Program

The Legislature enacted an increase in the income tax at the same time as it raised the sales and excise taxes. This income tax increase was not, however, used to support the 1991 Budget. It was implemented to generate funding for education aid and property tax relief programs included in the FY 1992 Budget.

The $1.3 billion increase in the income tax was intended to pay for a new system of school finance, for a new "homestead rebate," and for property tax relief by way of the State assuming the cost of certain government activities previously supported by the property tax base of counties and municipalities.

While *the Forum* was able to reach a conclusion endorsing the $1.5 billion sales and excise taxes to offset the FY 91 budget deficit, it was not so able regarding the income tax and its associated programs.

Our charge specifically excluded consideration of the new school finance system because another Commission is studying it. Thus, we have no basis for determining whether the amounts assumed to be needed for public education were in fact needed, and whether the increase in the income tax was fully necessary. Moreover, the plan has been overhauled by the Legislature since we completed our public hearings.

We heard much testimony from citizens and experts alike that inordinately high property taxes are the bane of the New Jersey tax system, and we agree in principal with the reduced property taxes made possible by the income tax.

It seems clear to us that the timing of the tax increase was based upon a political judgment in favor of enacting both tax increases at once. And, since the sales tax increases had to be enacted before June 30, 1990 to meet the Constitutional requirements of the FY 1991 Budget, the income tax increase was enacted to facilitate a political agenda and before the Supreme Court's school finance decision was rendered.

The Legislature made major changes to the Quality Education Act in March of 1991, most notably, a re-allocation of funding for municipal property tax relief. The preparation of local school budgets for the 1991-1992 school year was delayed while these changes were being made.

The school finance issue has not been put to rest. Further changes are being studied by a Blue-Ribbon Commission. Further litigation is a possibility. And, there is no real consensus within the education community that the solution is generally acceptable.

Albeit by fits and starts, however, the State has fashioned a workable plan which will allow public education to proceed into the 1991-1992 school year relatively smoothly in contrast to the debacle which followed the last Supreme Court decision in 1973 and which was not resolved until the Supreme Court closed down the schools in 1976.

No one can tell if a better plan would have resulted had the Legislature deferred its original action on the school finance/property tax relief issues until after the Supreme Court decision. It is possible that an impasse of 1973-1976 dimensions would have ensued. (For evidence of that possibility, one need only look to the impasse that has developed in dealing with the Uncompensated Care Fund, the only one of the five inherited fiscal problems which was not tackled immediately in the spring of 1990. This fund, on which the viability of New Jersey hospitals depends, has expired without any replacement.)

Nevertheless, it is unmistakenly clear to us that enacting both tax programs at once and with such speed led to the widespread confusion about the rationale for either one.

Alternatives Moot

Such specific alternatives to the 1990 tax programs as we might have considered and proposed have been made moot by subsequent events. Larger budget cuts instead of higher taxes might have been an alternative for the 1991 Budget. Now, rather substantial reductions are being undertaken just to keep the 1991 Budget in balance--even after the tax increases. Reduced school aid or a redistribution of current levels of funding might have been alternatives to higher income taxes, but already significant portions of the increased school aid have been cut from the new program in favor of lower property taxes.

The Forum has not heard much testimony about the financial health of New Jersey's municipalities, but we are concerned about the long-term fiscal viability of many communities without steady infusions of State Aid. Without State Aid, New Jersey municipalities have nothing but the property tax and some miscellaneous fee revenues to rely upon. And, as we review what happened in 1990, the policy focus has already shifted to the budget for fiscal year 1992 which was presented by the Governor on January 29, 1991.

Accordingly, our recommendations are focused more toward the structural roots of the recent and current State fiscal problems and to some specific, troublesome items, rather than to any overarching alternative to the Florio plan.

The decision to increase the sales tax and the excise taxes in June 1990 appears to us to have been a prudent, if disagreeable, course of action. These tax increases were enacted after the type of reductions that could be implemented in the time-frame available. The sales tax, in particular, was an appropriate tax to increase if any increases were to be adopted. It is paid by both business and individuals, and because of the exemption structure, this tax is only slightly regressive. We mention again that the modest expansion in the base by removing the exemption for household soap and paper products was not a new imposition, but rather reimposed the tax on these products as was the case from 1966 to 1983.

It is important to recall that the appropriation level for fiscal year 1991, the budget for which the taxes were increased, reflected no increase in appropriations over the fiscal year 1990. It is further important to recall that the fiscal year 1990 "deficit" of approximately $600 million was resolved without any tax increases.

Some of the elements of the tax package enacted to support the fiscal year 1991 budget trouble us. While we are not favorably disposed to recommending any specific changes in tax law, we call attention to certain tax policy decisions made in June 1990, based upon testimony we received.

a. A re-evaluation of the extension of the sales tax to interstate, international and WATS telecommunications should be undertaken. This re-evaluation should compare tax productivity to implications for future business activity in New Jersey.

b. Examine the long-term effects of "up front" taxation under the sales and use tax of equipment leases.

c. Carefully evaluate the Petroleum Products Gross Receipts tax from an economic impact viewpoint. Testimony before *the Forum* indicated equity problems and potential for business activity shifts out of New Jersey.

Economic Outlook

We trust that the Legislature will examine these tax policy decisions in a careful manner, and make appropriate adjustments.

It is our expectation that recovery from the current recession will be slow and modest and, therefore, revenue collections will remain weak through fiscal year 1992. Near term economic prospects appear bleak. Significant indicators reflect that personal income growth in New Jersey is slower than the national average, unemployment rates continue to increase, and a downward trend in new business starts is observable. Retail sales in general, and durable goods purchases specifically, are extremely weak. Residential building permits remain low. Net telecommunication access line growth reported by New Jersey Bell is the lowest since 1982.

The New Jersey economy is diversified, however, and diversification has traditionally softened the effects of decline in weaker sectors. We do not see an engine of job growth on

New Jersey's horizon. The experience of the mid-1980s reflects the offsetting effect of an expansion in non-manufacturing employment. During this period, total employment increased by 14 percent representing a net growth of 537,000 jobs. This was the net result of a decrease of 146,000 (18.2 percent) in manufacturing jobs and an increase of 683,000 (22.6 percent) non-manufacturing jobs. The decline in manufacturing employment is expected to continue with the increase in non-manufacturing employment significantly less than that experienced in the 1980s.

New Jersey enjoys a rather strong business base. Twenty-three Fortune 500 companies are located here. Sixty-six major corporations are headquartered here as well.

The economy is diversified and the business base is strong. Diversification and a strong business base are highly important to economic vitality of the State and to State government. The make-up and balance of the business base can be easily damaged by public policy actions and should be carefully protected.

* * * * *

PART II

TOWARD MORE EFFECTIVE CHECKS AND BALANCES

The second part of the charge to the ***Senate Forum on Budget and Revenue Alternatives*** was to examine the general management structure of State government. We had, at first, determined to review the organizational structure of State government looking for efficiencies through structural rearrangement. We discovered, however, that there were first some underlying structural deficiencies in the way State government operates that we feel are of a higher priority than reassigning responsibilities among the Executive Departments of State government. We focus our concerns through recommendations to the Legislature for improvements in its oversight function, its information systems, and with recommendations concerning cost containment.

Neither members of the Legislature nor the Governor are elected because they are trained experienced public managers or public finance or tax policy experts. Any prior public sector experience typically involves broader responsibilities for public policy issues and concerns. The Legislature in particular must recognize that a management information system designed to provide independent performance and management audits and tax policy analysis (including economic impact assessment, alternatives, and reliable revenue estimates) is critical to the effectiveness of a checks and balances system.

The State government seems to get into such a dire fiscal situation with little forewarning. Fiscal problems seem to come out of nowhere. Is it possible that if the State government had a more well structured and managed fiscal information system the fiscal problems would be identified earlier and those problems could be focused upon and debated, in a more deliberative manner in the public arena? Would the public be more confident that the resolution of fiscal problems, whatever the outcome, were at least after adequate public debate? Does good fiscal policy result from rigorous public scrutiny? We believe the answers to be an emphatic ***yes!!***

We provide in this part several recommendations to assist the Legislature in establishing what we feel constitutes the foundation for an effective fiscal information system. Our recommendations cover tax policy analysis, revenue and cost estimating, performance review, and cost containment.

TAX POLICY ANALYSIS
REVENUE AND COST ESTIMATING

1. ***The Forum*** recommends the re-establishment of a permanent Tax Policy Study Commission such as existed from 1945 to 1978. A continuing study of State tax policy should be an integral part of State government operations. Comprehensive analysis of tax policy and monitoring of the effects of tax policy are too important to be done sporadically. We observed that there have been only three major tax policy studies accomplished since 1970. The New Jersey Tax Policy Committee reported in 1972, the New Jersey Commission

on Government Costs and Tax Policy reported in 1977, and, most recently the New Jersey State and Local Expenditure and Revenue Policy Commission reported in 1988.

2. ***The Forum*** recommends revising the revenue estimating process. Revenue estimates are a critical component of budget making, but State government revenue estimating is an inexact science. Revenue estimates require public scrutiny and that public scrutiny can prove instructive. The requirement to substantiate reasoning behind revenue collection expectations, and a debate of that reasoning is imperative in an effective revenue estimating process. Revenue estimators endeavor to relate projections of national and New Jersey economic factors to the State tax structure to approximate likely tax yields. Budgetmakers have not allowed sufficient margin for revenue estimating errors. Estimating errors typically occur when they are most critical during sharp economic shifts either upward or downward. The problem is twofold: First, State government revenue estimates have been insufficiently accurate for the very short term fiscal planning period of a single budget year, and, second, policymakers have made insufficient provisions in adopting budgets for revenue estimate errors, even in the face of a recent record of erratic estimates.

3. ***The Forum*** recommends that the State Treasurer publish quarterly revisions of revenue and expenditure estimates during the fiscal year. By doing so on a systematic basis according to a

fixed schedule, emerging future budget gaps or unanticipated surpluses may be more precisely identified than has been the case in the past. As has been noted in an earlier section of this report, State government revenue estimates are sometimes inaccurate by wide margins. Also, during a fiscal year federal government mandates or factors impacting formula driven programs may result in unanticipated changes in the spending side of the budget ledger. Determining a projected budget balance position on a quarterly basis may facilitate timely action, and a very systematic quarterly reporting will make the public more aware of budget conditions. It is difficult to imagine that these quarterly reports would impair budget policy in New Jersey. This recommendation follows quarterly revenue estimating policies in several other states.

4. ***The Forum*** recommends to the private sector that it sufficiently fund an entity to review thoroughly and systematically these quarterly budget estimates. Highly informed, independent private sector review can evaluate for the public and policymakers the accuracy and reasonableness of the Treasury's fiscal estimates. A key advantage of such a rigorous review is that it would enrich understanding of fiscal matters and serve as a reality check on official government estimates. The New Jersey private sector ought to follow the lead of the private sectors of other major states in funding such a project.

The entity to be financed by the private sector for review and evaluation of quarterly revenue and expenditure reports must be carefully selected or newly created. Its analysis and opinions must be credible if the desirable public information and influence on the State goverment is to be realized. The entity should reflect a cross-section of interests and expertise and should make the results of its review process public.

5. ***The Forum*** recommends that the Legislature examine the cost and revenue implications of pending legislation in a more focused manner than is now the case. Currently, all legislation introduced is examined by the Legislative Budget and Finance Officer for cost or revenue implications. Where he determines that there are such implications, he notifies the sponsor that the bill is appropriate for an estimate of the cost or revenue implications, identified in the Statutes as a fiscal note, and the sponsor must initiate the request. The request is forwarded to the appropriate Executive Department for a fiscal note worksheet to be prepared. The worksheet is then converted to a format called a "fiscal note." These fiscal notes vary in their content and in the time-frame within which they are prepared, with some never prepared at all. The consideration of bills in the committee process is not conditioned upon the availability of a fiscal note. It is our considered opinion that much time and resources are employed in this current process with little utility.

We recommend that the process be modified so that consideration of bills in committee is conditioned upon the completion of a fiscal note and that full House consideration be also so conditioned. Fiscal notes should be prepared only on those bills which are actually considered at least at the committee level. This would focus the resources of the Office of Legislative Services and the Executive agencies, and would hopefully produce a more detailed estimate of cost or revenue implications (fiscal note) than is currently produced.

MANAGEMENT AND PERFORMANCE AUDITS

6. We recommend that the scope of operations of the current State Auditor, a Constitutional Officer elected by the State Legislature, be expanded to include both management and performance audits. The State Auditor function, as we understand it, is limited to financial audits. These audits, while important, constitute only part of the job of an effective oversight of State government (or of any operation). Further, all audits conducted by the State Auditor should be for not only the Governor and the Legislature, but for the general public. We acknowledge pending legislation to accomplish this expansion of the operations of the State Auditor. We are not convinced, however, that an amendment to the State Constitution is a necessary vehicle to accomplish this, nor that the State Auditor should be popularly elected.

7. ***The Forum*** recommends that an independent, major accounting firm be appointed to perform a "peer review" of the State Auditor's expanded responsibilities for performing management and performance audits. It is our understanding that "peer review" is performed for financial audit purposes. The expanded activities can benefit from the expertise available in the private sector.

8. ***The Forum*** recommends a continuation of the activities of the Governor's Management Review Commission. We find it imprudent that the management of State government does not include a permanent centralized management review unit. The current Commission has been much maligned in spite of a quite productive effort. We applaud the work of the Commission and encourage its continued efforts.

9. ***The Forum*** recommends that the Governor report annually to the Legislature on actions he has taken during the preceding year that promote efficiency in government. The Governor's report should describe what steps the Administration took to contain the growth in the size of government, eliminate unnecessary service duplication, streamline governmental operations, and improve managerial efficiency. The description of actions taken should include a listing of initiatives by each department, office and agency of State government. In addition, the report should indicate what actions are anticipated in the next year to continue efficiency improvements. The report could be part of the Governor's annual message to the Legislature.

COST CONTAINMENT

10. The efforts by the Governor to further restrain State spending and to pursue a course of "downsizing" of State government are applauded and encouraged. It is unfortunate that this downsizing is required. This is not a question of good or not good but is, rather, necessary and unavoidable. This "downsizing" will find some services no longer provided, and other services scaled back. This will find the Governor and Legislature subject to continued criticism. But the necessity of the downsizing must be acknowledged, and accomplished in a cooperative fashion in spite of the anguish and frustration.

11. ***The Forum*** recommends that formula based State grant-in-aid programs should be periodically reviewed to determine the continuing appropriateness of the formula. The cost of State Aid programs--particularly those supporting education, transportation, and fiscally strapped cities--have grown significantly over the years.

Formula Driven Programs
1980-1990
($000)

	1980	1990	Av. Annual Rate of Increase
Transportation	$ 15,095	$ 67,350	16.1%
Education	1,350,668	3,221,942	9.1%
Urban Aid	52,271	234,709	16.2%

In part, this growth has occurred as a result of cost-of-living increases and the public's demand for more and better services. In part this growth has occurred to offset the fiscal stress in many municipalities and to replace withdrawn Federal aid. Equally as important, however, as the ever rising cost of these services are the formulas used to allocate program funds. These formulas, once established, tend not to be reviewed to determine whether they should be adjusted to reflect changed conditions. As a consequence, the public does not know whether the needs which a given formula was designed originally to meet are, indeed, being met.

The Forum believes it would be prudent, as a routine matter of business, to review periodically all formula-based programs. At a minimum, the review should be undertaken to assess budget impact trends. This review should examine the intended outcomes of the formula-based aid programs, the realized outcomes, and an evaluation of the impact of continuing these programs on both the State Budget and the local budget.

12. In the effort to restrain State spending, careful attention should be paid to the cost of State employee benefits. An attractive fringe benefits program is necessary if State government is to retain and recruit a good quality work force. A balance must be struck between the increasing costs of health benefits on one hand and the fairness to current employees and attractiveness to prospective employees on the other hand.

In the United States between 1980 and 1988, health care costs more than doubled and now exceed $600 billion each year. Approximately 12.0 percent of the nation's GNP is consumed annually by health care costs thus putting American companies at a competitive disadvantage in the world marketplace. In New Jersey, total health care costs are at least $17 billion annually and could be as high as $25 billion. Hospital costs alone increased 60.0 percent from 1983 to 1989.

The spiraling increase in health insurance costs and the resulting increase in insurance premiums is graphically demonstrated by the experience of the International Union of Operating Engineers Local 68 Welfare Fund. Local 68 has labor agreements with approximately 270 employers in New Jersey which require employers to make hourly contributions to the Welfare Fund. In turn, the Fund pays premiums to Blue Cross and Blue Shield of New Jersey. The history of the increase in premiums is as follows:

Year	Premium Costs
1986	$2,203,778
1987	3,674,217
1988	3,846,412
1989	5,209,722
1990	6,415,653

This experience is shared by all Taft-Hartley Welfare Funds in New Jersey. The increases in premium costs for health care insurance have tripled the contribution rates paid by employers to Taft-Hartley Funds in New Jersey. Obviously, these increases have caused labor strife. The number of strikes caused by labor-management clashes over who pays for the rising costs of health benefits has increased by more than 300 percent since 1986. While health benefits were a major issue in work stoppages involving 18 percent of workers who went on strike in 1986, by 1989 that percentage had increased to 78 percent. In 1989, work stoppages rooted in health insurance disputes cost the United States economy more than $1.1 billion in lost wages and productivity in the unionized sector.

From 1980 to 1990, the number of State employees went from 66,617 to 74,122, an increase of 7,505 or 11.27 percent. In the same period, the State's cost for providing health care benefits, i.e., medical, drug, dental and vision programs, increased from $61.6 million to $334.7 million, an increase of 443.3 percent per year.

In addition to the increase in the State's cost for providing health care benefits, pension costs have also significantly risen. From 1980 to 1990, pension costs (excluding teachers' pensions) went from $98.3 million to $282.9 million, an increase of 11.15 percent per year. As a percentage of total appropriations from the General Fund, overall net employee benefits have increased from 4.58 percent in 1980 to 7.4 percent in 1990, an increase of 14.07 percent per year.

Since many of the State employees are covered by labor agreements with various labor unions, any attempts by the State to shift the rising costs of health care insurance to its employees is subject to collective bargaining. In the private sector, employees' wage increases have been significantly restricted in order to maintain health care coverage. In fact, in many contracts, scheduled wage and/or pension increases have been diverted to cover increased health costs. This results in less take-home wages and less consumer spending.

During the past decade, elected public officials in New Jersey have simply been unable to achieve any solutions to the health cost crisis. To the contrary, enacted legislation has added to the cost of health care in New Jersey, e.g., the Uncompensated Care Trust Fund which in 1989 applied a 19 percent surcharge to all in-patient hospital bills. As outlined in the 1988 report by the former New Jersey State Commissioner of Health to the New Jersey Hospital Rate Setting Commission, there are certain hospital practices which have significantly added to the increased health care costs in New Jersey. In 1990, the Governor's Commission on Health Care Costs issued a detailed report with numerous recommendations which would reduce health care costs. To date, the Legislature has not addressed any of the cost-cutting recommendations.

The Forum recommends that the Governor and Legislature examine the health care and pension costs as part of the overall effort to restrain State spending.

13. ***The Forum*** recommends that legislation be adopted to create an independent pension review commission to analyze proposed revisions in New Jersey public pension policy. Presently, 22

states have permanent commissions of some sort exclusively concerned with public pension issues. As a 1985 study by the National Conference of State Legislatures put it, "Such...commissions...are necessary because pension laws demand continuous supervision and attention. A single, ill-conceived provision in a single act could have significant fiscal consequences that are not fully apparent for many years."

Pension expenditures are different from other State government expenditures. Pension commitments are permanent; once a benefit is provided it cannot be rescinded. The costs of a pension benefit granted today are payable far into the future, and often the policymakers who conferred the benefit are no longer in office when the bulk of the costs are payable.

A pension review commission would provide objective data and information on proposals to revise retirement legislation and strengthen the decision making process. Such a commission would be helpful in evaluating the current proposal to provide early retirement for public employees and would have been helpful in the consideration of the QEAs transfer of retirement costs to some school districts.

14. ***The Forum*** recommends a very close examination of alternatives to the high cost of the State's current incarceration policy. The Department of Corrections budget increased by 347 percent from 1980 to 1989. Over that same period of time, total General Fund spending increased 122 percent. The Governor's

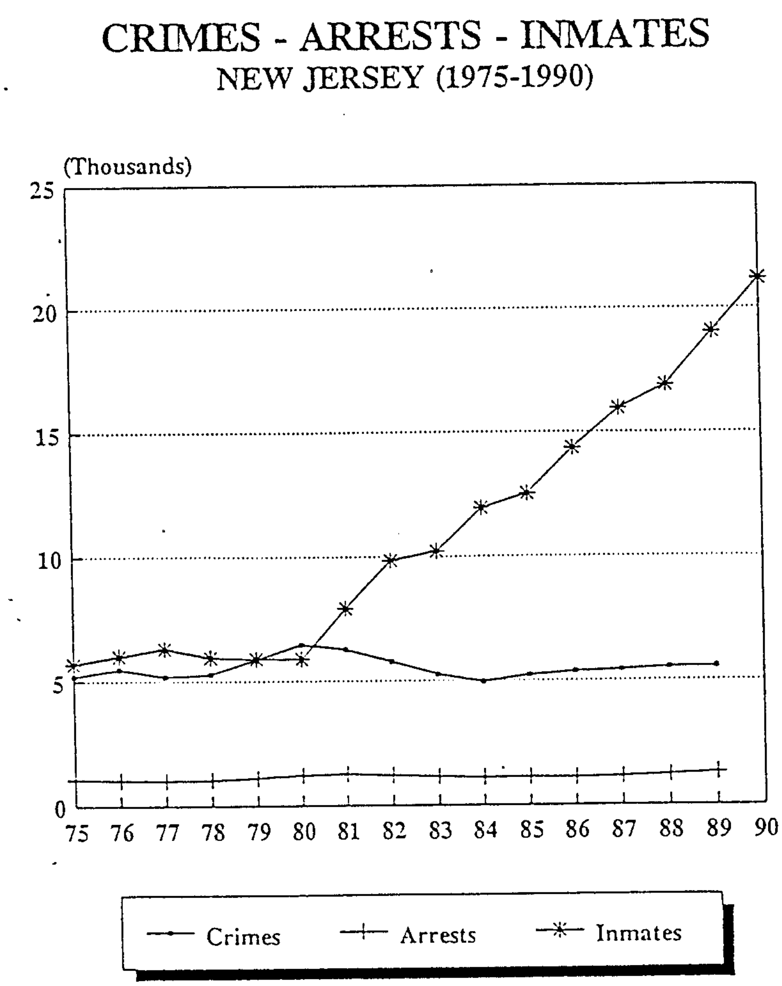
recommended appropriation for the Department of Corrections for fiscal year 1992, if approved, will find the increase from 1989 to 1992 at 42.4 percent. Over this same period of time, total General Fund appropriations will have increased 4.7 percent. The Corrections budget increased from 2.3 percent of General Fund spending in 1980 to 4.7 percent of General Fund spending in 1989. By 1992, the Department of Corrections budget accounts for 6.3 percent of General Fund spending.

While this spending increase is serious enough to merit attention, the results of the incarceration policy are disquieting. Mandatory sentencing has caused dramatic increases in prison population and no measurable effect on crime rates and arrest rates. The high cost of maintaining a prison system would be acceptable if there was some demonstrable effect on crime rates. Such is not the case.

Privatization of the prison system is one alternative to be examined. It is the understanding of ***the Forum*** that both Florida and Texas have had some success in this regard.

DEPARTMENT OF CORRECTIONS
COMPARATIVE SPENDING LEVELS
1980 - 1989
($000)

	1980 Expenditure	1989 Expenditure	% Growth Rate
Department of Corrections	$ 87,593	$ 391,574	347.0%
Direct State Services	$1,674,421	$4,109,250	145.4%
Total General Fund	$3,775,068	$8,383,477	122.1%
Corrections As % of:			
Direct State Svcs.	5.2%	9.5%	-
General Fund	2.3%	4.7%	-



Includes Major Drug Arrests
Crimes, Arrests are per 100,000 Pop.

15. *The Forum* recommends the establishment of a surplus reserve account. The establishment of such an account seems to us to be a prudent financial practice. With changes, both upward and downward, in the economic cycle over time, and the resulting changes in State revenue collections, a surplus reserve account could be used to offset these changes. We propose that the account be financed by measuring the changes in personal income. Deposits would be made to the account equivalent to 1.0 percent of current revenues when growth in revenue collections exceeds the growth in personal income. A drawdown would be authorized in an amount equivalent to 1.0 percent of current revenues when the growth in revenue collections is less than the growth in personal income. A variation on this account was established for one year in the Appropriation Act for fiscal year 1989. A "Surplus Revenue Fund" was established and capitalized with 50.0 percent of the difference between the amount of revenue actually deposited in the General Fund and the amount anticipated to be deposited in the General Fund as certified by the Governor upon signing the Appropriation Act. That provision found $246 million credited to the "Surplus Revenue Fund." If that fund had been in operation through the 1980s, it appears to us that a substantial amount of money would have been accumulated which could have been used to offset the revenue short-fall experienced in 1990 and 1991. This could have had the desirable secondary effect of reducing the State spending base.

16. One of the themes expressed by a number of participants at the public hearings conducted by ***the Forum*** was the need to increase interjurisdictional cooperation in the delivery of some local services. The views presented during the hearings regarding this matter are supported by the behavior of a growing number of local government officials seeking to reduce costs. Local municipal and school district officials in several New Jersey communities now recognize that cost savings achievable when services are provided on a regional basis outweigh the perceived loss in home rule. While it is clear that the biggest savings can be obtained through school district consolidation, substantial cost savings can also be obtained through the consolidation of such services as police, fire, waste disposal, and engineering and public works. Tax collection and assessment and legal services represent further areas for cost savings.

Regionalization of service delivery should be pursued, where it makes good economic and programmatic sense, as a matter of course. Quite possibly, the current downturn in the State and regional economy will serve as a catalyst at the local level for more concerted efforts to develop regional service agreements. Properly designed, these agreements can produce reductions in service costs and improvements in service delivery.

The Forum endorses regional service consolidation as a useful governmental reform. It strongly encourages local government officials to explore opportunities for consolidation that offer the prospect of increased efficiency, improved service, and reduced costs.

* * * * *