NEW JERSEY OPINION

We must reform budgeting process, but also rethink public pensions | Opinion

Updated Jul 18;
Posted Jul 18

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The freneticism that accompanied Gov. Phil Murphy negotiating his first budget has subsided, but the time is ripe to consider some reforms that may make our state budgeting process less painful, volatile and crisis-driven.

There are several "best practices" that the state should adopt that will add stability to our fiscal situation, help improve our bond rating and make the budget process more predictable and stable.

First among these is the creation of a Surplus Revenue Fund. Think of the Surplus Revenue Fund as a rainy day fund: Just as personal financial planners urge us to have seven months of expenses saved up in case of a personal

emergency -- an illness or job loss -- so too do budget experts recommend that states put aside money in case the economy tanks and revenues fall short of forecasts.

Today, New Jersey contributes to the Surplus Revenue Fund only when there is a year-end surplus between forecasted and actual revenues (a rarity). That would be comparable to a family depositing money into their savings account only when they saw what was leftover after Christmas. That's no way to plan for the future -- and bonding agencies recognize that the absence of a rainy day fund contributes to our state's fiscal volatility.

The solution: earmark a proportion of revenue to the Surplus Revenue Fund. Indeed, it would be wise to increase the state's sales tax to an even 7 percent next year and designate the revenues from the fractional increase to the fund. This dedicated funding source would eliminate the possibility of costly disruptions of funding and would bolster revenue stability measures that impact the state's bond rating.

Today, revenue forecasts are created exclusively by governors -- governors who often have an agenda when it comes to forecasting revenue. In 2014, Gov. Chris Christie ardently opposed tax increases, which would have been a political albatross as he was preparing for his presidential run. The administration over-estimated revenue, and the state consistently failed to make the projected revenue estimates, creating a budget shortfall of $1.6 billion.

In a fix advocated for recently in a ROI.com editorial and by a white paper by the Hughes Center for Public Policy at Stockton University, the state should adopt consensus revenue forecasting, so that revenue estimates would be determined by a three-person panel made up of the governor's designee, a representative chosen by the legislature, and an independent expert selected by the other two representatives.

The budget process also should be reformed so that revenue estimates are revised periodically. Imagine that you create a personal budget, estimating your take home pay at $60,000. Now imagine that your hours are cut, and your pay now only totals $50,000.

Clearly, the decline in revenue will force cuts in spending - less money for groceries, cancelling the planned trip to Disney World, postponing major purchases. But in New Jersey, we continue spending at the same levels even if revenues are well below estimates. When this occurs, we face the often less-than-surprising "April surprise," which forces the state to come up with quick fixes and one-shot revenue deals that continue to foster volatility and contribute to the state's abysmal bond rating.

Sometimes when faced with these April surprises, the state has skipped payments to the state pension fund, the equivalent of going to Disney World but not paying your mortgage.

Which brings us to the gorilla in the room.

Understandably, procedural fixes may be more palatable, but the reality is that if Murphy is to be successful, he must begin the process of rethinking the state's public employee pension and health benefits. Murphy's fellow Democrat and arch-nemesis Senate President Steve Sweeney has said that he will make spending cuts, including changes to state employee health benefits, a priority for next year's budget. Murphy, who rode on the backs of the unions into the governor's mansion, is reluctant to tackle the problem.

But public employee pension and health-benefit costs are forecast to gobble up more than a quarter of the state budget in five years. Calling pension and benefits "the 800 pound gorilla in the room," Sweeney recognizes that it the state's fiscal health depends on its ability to meet those obligations, and that curbing those expenses is key to making the state solvent.

Murphy faces a choice moving forward: Would he prefer that the spending priorities he identified during his campaign be crowded out of budgets, which will be increasingly consumed by pension and health allocations? Or, does he have the courage to tackle the gorilla?

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