

SENATE BILL NO. 3000

To the Senate:

I am today returning Senate Bill No. 3000 with my signature, along with certain constitutionally permitted modifications set forth in the statement appended thereto.

The \$33.47 billion State budget I signed today affirms the Legislature's and my commitment to provide substantial property tax relief in the context of sound fiscal principles. This Fiscal Year (FY) 2008 budget spends only what we can pay for, provides new efficiencies and savings, eschews the tricks and gimmicks of budgets past, and upholds our commitments to the most vulnerable in our state and society. And it was proposed, debated, and passed with unprecedented transparency and on time.

I commend Senate President Richard J. Codey and Assembly Speaker Joseph J. Roberts, Jr., for sending this budget to my desk earlier than any other budget in recent memory. I congratulate along with them Senate Budget and Appropriations Committee Chairman and Senate Majority Leader Bernard F. Kenny, Assembly Majority Leader Bonnie Watson Coleman, and Assembly Budget Committee Chairman Louis D. Greenwald for their leadership in strengthening the budget process by making it more accountable to the citizens whose lives it affects.

Direct Property Tax Relief

The FY 2008 budget, first and foremost, provides the citizens of New Jersey with significant property tax relief. It increases the state's property tax relief programs by nearly \$2 billion, and provides an additional \$300 million in tax savings to businesses and working

families. It is the first adopted budget since FY 2001 not to rely on tax or fee increases.

This budget also finances tax relief without abandoning the principle, re-established last year, that the State must fund today's liabilities rather than pushing costs off to the future - and it does so by diverting dramatically less from dedicated funds than the average of the last five years. For the second consecutive year, the budget does not redirect any funds from the Unemployment Insurance Fund.

Nearly \$16.8 billion in property tax relief is at the center of this budget. This is an increase of approximately \$2 billion over the adjusted FY 2007 levels, and represents over 80 percent of the overall increase in the final FY 2008 budget as compared to the adjusted FY 2007 appropriation level.

Direct relief to more than three million homeowner and tenant households accounts for nearly \$3 billion of the total \$16.8 billion in property tax relief. This is an increase of \$1.25 billion from the current levels and represents more than half the overall increase in the budget.

The majority of the \$3 billion in direct relief is the new \$2.25 billion property tax relief program that was enacted in April - the cornerstone of the special legislative session on property tax relief and reform. Under this new program, nearly two million homeowner families will receive an average benefit of approximately \$1,000. For non-senior homeowners, this is more than three times the amount they received last year. Approximately 550,000 non-senior tenants with incomes below \$50,000 will see their current \$75 rebate increase to between \$200 and

\$350 depending on their incomes. Senior homeowners and tenants are guaranteed whichever is larger, either the benefit under the new program or the amount they received last year, assuming they still meet eligibility requirements.

The Senior Property Tax Freeze program remains fully funded, and provides 164,000 eligible senior homeowners with an average benefit of \$931. An additional 30,000 senior homeowners will become eligible for this program in the upcoming year.

Aid to School Districts and Municipalities

In addition to the relief this budget provides directly to homeowners and tenants, it also holds down New Jersey's aggregate property tax bill by nearly \$14 billion through the State's assumption of certain local costs and by aiding municipalities, counties, school districts, and other local governments.

This budget provides nearly \$11 billion in aid to local school districts to ensure a quality education and help control property taxes. This represents an increase of \$582 million from the FY 2007 adjusted appropriation level.

Every school district in the state will be receiving at least a three percent increase in aid, which is the first major increase for the non-Abbott districts in three years, and the largest dollar increase since FY 2000.

Taxpayers and students also benefit from three initiatives that reflect key educational priorities. This budget establishes a new \$67 million aid program targeted to districts with higher proportions of low-income students. These districts have struggled to provide programs to bolster academic performance in the face of

flat State aid. In addition, this budget provides \$26 million to support school districts that currently provide full-day kindergarten and \$10 million to expand and enhance the quality of preschool programs in non-Abbott districts - promoting the well-established benefits of early education.

Through the legislative process, this budget evolved to address other educational needs as well. It includes \$10 million for adult education programs, \$5.7 million to ensure that charter schools receive the benefit of the new aid targeted to low-income students, \$2.9 million to assist districts that are spending below the minimum amount recommended for a thorough and efficient education and whose students are not meeting educational standards, and \$3.2 million to provide an inflationary increase for nonpublic school transportation costs.

This budget also provides nearly \$2.9 billion in aid to municipalities, counties, and other local governments - an increase of \$152 million from the adjusted FY 2007 level.

Direct aid to municipalities accounts for nearly \$2 billion of the \$2.9 billion, representing an increase of \$79 million from the adjusted FY 2007 appropriation level. Included in this amount is \$32.6 million in new formula aid to every municipality in the state.

This budget also appropriates \$900 million in aid to local governments to finance several initiatives that were not included in my original budget proposal: \$25 million to continue the local grant portion of the successful Garden State Preservation Trust Program; \$10.5 million for the costs associated with the February 2008 presidential primary; \$10 million to assist counties in upgrading their voting machines to meet the requirements to have a voter-

verified paper audit trail; and \$8 million to assist counties and municipalities match the federal aid from the Spring 2007 flood. Without State funds, all of these costs would have been passed on to local property taxpayers.

Tax Relief: The Earned Income Tax Credit and Corporation Business Tax Reform

Property tax relief is not the only tax reduction in this budget package. We have also enacted a law that expands the Earned Income Tax Credit program for approximately 300,000 working families, with incomes between \$20,000 and \$40,000, who previously were eligible for the federal program but not the State program. This change brings New Jersey in line with the other 19 states that have EITC programs, will provide at least \$36 million in tax relief to these families this year, and will impact over 500,000 families when the State increases payment to 22.5 percent of the federal benefit in 2009, and 25 percent in 2010.

This budget package also spurs economic growth by including significant tax relief for New Jersey businesses and cutting corporate business taxes by \$275 million. Specifically, it allows the alternative minimum assessment, net operating loss, and subchapter S provisions of the 2002 Corporation Business Tax reforms to expire. In addition, we have repealed the sales tax on memberships at non-profit health clubs, saving taxpayers an additional \$20 million next year.

Funding Other Top Priorities

Although almost half of this budget, \$16.8 billion, will go towards property tax relief, it also maintains New Jersey's commitment to help those in the dawn, shadows, and

twilight of life - children and students, our most vulnerable populations, and seniors.

In particular, this budget maintains or increases funding for higher education and tuition assistance, PAAD and Senior Gold programs that help defray prescription costs for the elderly, healthcare under Medicaid and Family Care, nursing homes, and community based efforts to help those suffering from mental illness.

Furthermore, this budget acts on the recognition that New Jersey's acute care hospitals need additional support. It provides \$716 million in State and federal funds for Charity Care, an increase of \$133 million from the amount originally proposed. We also updated the Charity Care allocation formula in important ways. First, aid will be distributed based on a formula that uses the most recent available claims data rather than data from 2002, which informed the past few budgets. This will more accurately reflect the uncompensated care that New Jersey hospitals provide. Second, the Charity Care formula applies existing statutory and regulatory requirements to calculate the graduate medical education component of Charity Care. As a transitional device for this year, the formula guarantees that no hospital will lose more than 10 percent of its projected reduction, or gain more than 20 percent of its projected increase compared to FY 2007. This year, the Commission on Rationalizing Health Care Resources, which I created by Executive Order, is meeting to assess the financial condition of New Jersey hospitals and to consider ways to promote a system of high-quality, affordable, cost-effective, and accessible health care in the state. I look forward to receiving its recommendations on strengthening

our hospital system, and expect that they will inform my FY 2009 budget proposal.

For FY 2008, this budget provides \$60 million in Medicaid funding for graduate medical education programs at hospitals - an increase of \$40 million in State and federal funding over my proposed budget. Unlike past spending plans, this year's budget includes no hospital assistance grants or specific line-item appropriations to any hospital. All funding will be provided through either the Charity Care formula or the GME distribution under the Medicaid program.

This budget also provides nearly \$2.2 billion to support higher education, including a \$50 million increase proposed in February to offset last year's cuts. In addition, the budget provides over \$250 million to support the state's Tuition Assistance Grants and STARS programs to help students with financial need to attend college.

Other important elements of New Jersey's FY 2008 budget include:

- Nearly \$40 million in new funding for a three percent cost of living adjustment to the community provider organizations that provide vital services to many of our most vulnerable citizens. Without this added funding, many of these organizations would have little choice but to reduce service or staff.
- \$30 million in new funding for community programs that support individuals with developmental disabilities or mental illness.
- \$10 million for stem cell research grants to maintain New Jersey's leadership in the face of restrictions on federal grants for this life saving science.

- \$5.35 million in added funding to address the needs of the autism community.
- \$5 million for an initiative to improve access to health care for children.
- \$3.5 million to eliminate the waiting list for the Personal Assistance Service program, which makes it possible for adults with physical disabilities to work, attend school, and engage in their communities.
- Funding for two new training classes for the State Police and the purchase of new vehicles to ensure the troopers are safe on the roads -- protecting not just themselves, but the millions of drivers on our roads.
- An additional \$1.5 million to provide support to returning veterans and their families.

The operations of the executive departments of State government account for only \$3.6 billion - or 11 percent of the total budget - with the vast majority of this money being used to fund the operations of the prison system, the State developmental centers and psychiatric hospitals, veterans' homes, State Police, and many other critical functions that serve and protect New Jersey's citizens.

Efficiencies, Savings, and Transparency

Over the last two years, this administration has implemented a number of spending restraints and efficiencies that have achieved real savings for the people of New Jersey. This budget includes those savings - among them the elimination of 400 political appointees, reduction of 1,300 employees (even accounting for necessary increases for child welfare, homeland security, and the newly restored Office of the Public Advocate), suspension of the

purchase of new office furniture and office space, energy conservation, and subtraction of 1,200 state vehicles.

This administration has also achieved substantial savings through our contract settlement with the State's civilian employees, which yields cost-sharing arrangements for both pension and healthcare benefits. Over the long run, both taxpayers and public employees will reap the rewards of the important reforms we have implemented.

Critics point out that this budget grows by \$2.4 billion, or nearly eight percent. While that is accurate, it is also important to be mindful that 80 percent of the increase returns directly to property tax payers, leaving the real increase closer to 1.4 percent. If the critics do not believe we should spend \$2 billion more on property tax relief - or if there are other areas of the budget that can or should be reduced - they should add their ideas to the public debate. In my judgment, actionable alternatives have not emerged during the four months we have debated this budget.

Finally, the issue of "Christmas tree" grants, earmarks, "member spending," or whatever supporters or critics want to call them needs to be addressed. In our system of government, no one should expect or accept that the Legislature simply serves as a rubber stamp for the Executive, approving whatever budget the governor presents. There will always be differences of opinion about what should and should not be funded and at what level. Many of these differences are policy driven, and need to be worked through cooperatively - as we did this year in areas like aid to schools and municipalities, the decision not to impose co-payments on Medicaid and medical day-care clients, and increased funding for hospitals. None of

these legislative changes to my proposed budget can legitimately be characterized as "Christmas tree" items.

Line Item Vetoes

Just as the Legislature has the authority to promote different policy priorities in New Jersey's budget, I also believe the Legislature has the authority to send a governor an appropriations bill that in appropriate circumstances includes specific appropriations for specific causes. The practice of including such additions goes back many years and actually predates the adoption of the 1947 State Constitution.

During this budget process I expressed to the Senate President and the Speaker my desire that any additions to the budget for these types of items meet the criteria of being statewide or regional in scope. Many of the legislative additions meet these criteria, including the appropriations for statewide or regional entities such as the Boys and Girls Clubs of New Jersey, Federally Qualified Health Centers to provide services to the homeless, the Battleship New Jersey, the Newark Museum, and Liberty Science Center. These are all programs that benefit all of the citizens of the State, and I support them as included in the appropriations bill or with modest reductions as set forth in the line-item veto statement.

Conversely, there are numerous specific line-item appropriations that do not clearly meet these criteria, and I am using the power vested in me by the New Jersey Constitution to line-item veto those appropriations.

I also requested during the budget negotiation process that, to the greatest extent possible, we look to existing departmental programs to provide additional funding to specific entities or groups and not dictate to the

respective departments where the money should go. Programs like Special Municipal Aid and Extraordinary Aid should be the vehicle for municipalities to request additional funds. Thus, I am supporting the addition of funds to the budget for these programs. This will allow the professionals in the Department of Community Affairs to make the decisions on which municipalities qualify for this funding. In the case of Special Municipal Aid, the Local Finance Board also must approve that decision. Unlike previous years, there are no new specific line-item appropriations to any municipality in the budget.

Similarly, I believe that requests for additional funds for arts and cultural groups should, to the greatest extent possible, be approved through the State Council on the Arts and the peer review process that the Council has developed. I am concerned that this bill has a number of specific line-item appropriations to arts and cultural groups who have thereby effectively bypassed the State Council on the Arts process. Through discussion with the legislative leaders and other legislators it is clear, however, that there are some areas that the State Council on the Arts has failed to address, prompting legislators to advocate for specific line-item appropriations. I am therefore willing to accept with some minor adjustments these specific line-item appropriations this year. However, I will be asking for a review of the processes used by the State Council on the Arts to determine arts and cultural grant awards, and will request that the processes be modified if necessary. Next year, I am not likely to look favorably on specific line-item appropriations for arts and cultural entities.

The other specific area of concern I have relating to additions to the budget is the allocation of funds to various institutions researching cancer. When I proposed the budget in February, it included \$25.25 million for the Cancer Center of New Jersey and \$14.75 million for other cancer research institutions to be allocated by the Commissioner of Health and Senior Services. I generally support the additional \$24.15 million that the Legislature has included in this bill for this most worthy cause. I am concerned, however, that the language added to the bill directs where the funding is to be allocated. I have no information at this time that enables me to determine whether this allocation is appropriate, and thus I am using the line-item veto to make only minor adjustments to these appropriations. Still, I remain concerned that the Legislature, not the research experts, has made this allocation decision. Therefore, I am going to request that the Commissioner of Health and Senior Services and the Director of the Cancer Institute of New Jersey develop criteria for a peer review process both to review past grants and to better inform future budgeting.

In all, in accordance with the principles stated above, I object to more than 60 individual line items contained in this bill, which will reduce state spending by more than \$10 million.

However, on balance, I am pleased and proud to sign into law this budget for Fiscal Year 2008. It affirms our commitment to provide substantial property tax relief in the context of sound fiscal principles, spends only what we can pay for, provides new efficiencies and savings, eschews the tricks and gimmicks of budgets past, and upholds our commitments to the most vulnerable in our state and

society. Moreover, it was proposed, debated, and passed with unprecedented transparency and on time.

Respectfully,

Governor

Attest:

Chief Counsel to the Governor