



When in a Hole, Stop Digging:

*New Jersey's Budget Woes
and How to Address Them*



**A REPORT FOR THE GARDEN STATE INITIATIVE
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Summary

New Jersey's budget is structurally out of balance – with spending growing faster than revenue and requiring the state to spend savings it has acquired over the past few years to cover routine government expenditures. Over the past three years, the state has spent \$7 billion more than it has brought in. Temporary federal COVID money helped build up much of this savings, rather than any deliberate budget strategy by the state. In addition to the sharp increases in spending, New Jersey has significantly increased taxes over the past few years - especially on higher income individuals and businesses. The state already ranks poorly on business friendliness indicators, and is unlikely to attract new or expanding companies without much needed reforms in state government taxing and spending. Further, public services are not improving despite all the additional money being spent by the state. New Jersey should immediately seek policy changes that can make the state an attractive place for businesses and families. These changes should include:

1. Seeking to reduce tax burdens on individuals and businesses to make it more competitive with states that are currently attracting families and businesses. It is currently a tax outlier.
2. Focusing its spending on core public services and reducing spending on everything else. Core services should also be examined in detail to find efficiencies. The state should look for how to improve performance while controlling costs. New Jersey's history of increasing funding and assuming better performance in key public services is not empirically verified. For example, despite spending more on education, New Jersey students are performing worse than they did in the past.
3. Ensuring its budgets are fiscally sound, where annual revenues fully pay for annual spending.
4. Reforming the state's retirement systems will reduce the recurring annual cost to the state. New Jersey should follow the example of other states (such as Pennsylvania) that have reformed their pension and retiree healthcare systems already to make them financially viable and sustainable. New Jersey is a comparative laggard in this area compared to other states. It is clear that New Jersey will not spend its way out of the problem it is in. The likely solution will involve higher payments for benefits from workers with longer vesting periods and less generous benefits.

“Temporary” Federal Money Permanently Inflated New Jersey’s Budget

Prior to the COVID-19 pandemic, the fiscal year 2020 New Jersey state budget planned to spend nearly \$39 billion¹ - funded by \$40 billion in taxes, fees, and a surplus expected from 2019.² For fiscal year 2025, New Jersey’s budget had grown to more than \$56 billion in planned spending - funded by \$62 billion in taxes, fees, and an expected surplus from 2024.³ In other words, in just 5 years New Jersey’s spending has grown nearly 50 percent while inflation during the same period grew at half this rate of increase.⁴ How did New Jersey’s budget increase so dramatically so quickly?

New Jersey received significant federal largesse to handle the public response to the COVID-19 pandemic declared in early 2020. Four funding programs directed funds to state and local governments in particular: Families First Coronavirus Response Act (March 2020), the CARES Act (March 2020), the Response and Relief Act (December 2020), and the American Rescue Plan (ARPA, February 2021). Table 1 lists the amount of funding the state of New Jersey was allocated from each of these federal actions.

TABLE 1: FEDERAL COVID FUNDS ALLOCATED FOR STATE OF NEW JERSEY ONLY

Families First Coronavirus Response Act (March 2020)	\$3,675
CARES Act (March 2020)	2,393
Response and Relief Act (Dec 2020)	4,075
American Rescue Plan (Feb 2021)	6,245
Total	\$16,388

source: Governor’s Disaster Recovery Office, Financial Summary; does not include funds passed through state to other governments.

This \$16.4 billion in extra money was allocated across various state departments, as detailed in Table 2.

TABLE 2: FEDERAL ALLOCATIONS TO NEW JERSEY BY DEPARTMENT BY COVID BILL

Department	Families First	CARES Act	Response and Relief Act	ARPA	Total
New Jersey Board of Public Utilities				187,768,225	187,768,225
New Jersey Casino Reinvestment Development Authority		3,780,000		5,625,000	9,405,000
New Jersey Department of Agriculture		35,000,000	44,284,938	13,698,981	92,983,919
New Jersey Department of Children and Families	111,150,352	18,022,000	5,958,279	79,601,546	214,732,177
New Jersey Department of Community Affairs		172,714,528	558,535,994	2,189,566,600	2,920,817,122
New Jersey Department of Corrections		354,695,157	40,000	121,453,297	476,188,454
New Jersey Department of Education		147,339,581	1,230,031,757	342,245,793	1,719,617,131
New Jersey Department of Environmental Protection		3,000,000	10,265,887	617,526,336	630,792,223
New Jersey Department of Health	80,954,128	170,264,000	535,054,097	344,336,991	1,130,609,216

1 See page 5 of <https://www.nj.gov/treasury/omb/publications/20budget/pdf/vetosum.pdf>.

2 See <https://www.nj.gov/treasury/omb/publications/20budget/pdf/revcert20.pdf>. New Jersey extended its 2020 fiscal year until September 30 (from the original June 30, 2020 end date) to provide the state with extra time to handle its response to the COVID-19 pandemic.

3 <https://www.nj.gov/treasury/omb/publications/25budget/pdf/FY2025-Budget-Detail-Full.pdf>.

4 Calculated from the Bureau of Labor Statistics using the Consumer Price Index for All Urban Consumers (CPI-U) series.

Department	Families First	CARES Act	Response and Relief Act	ARPA	Total
New Jersey Department of Human Services	3,453,238,478	313,404,837	275,307,552	178,740,000	4,220,690,867
New Jersey Department of Labor	29,506,949	4,856,000	999,249	68,084,000	103,446,198
New Jersey Department of Law and Public Safety		166,092,000	1,551,757	80,693,542	248,337,299
New Jersey Department of Military & Veterans Affairs		18,570,000		18,257,000	36,827,000
New Jersey Department of State		264,635,000	30,155,743	46,267,300	341,058,043
New Jersey Department of Transportation			248,043,335	38,063,129	286,106,464
New Jersey Department of Treasury		316,949,668	2,105,708	83,113,282	402,168,658
New Jersey Division of Property Management and Construction				90,350,000	90,350,000
New Jersey Economic Development Authority		336,580,092		499,399,379	835,979,471
New Jersey Fort Monmouth Economic Revitalization Authority				10,500,000	10,500,000
New Jersey Historic Trust				10,050,000	10,050,000
New Jersey Housing Mortgage and Finance Authority		4,888,000		632,625,000	637,513,000
New Jersey Judiciary Court System		2,212,000	215,068		2,427,068
New Jersey Legislature		169,000			169,000
New Jersey Local Government Services				36,002,517	36,002,517
New Jersey Motor Vehicle Commission		4,311,000		12,048,705	16,359,705
New Jersey Office of Emergency Management				2,714,000	2,714,000
New Jersey Office of Homeland Security & Preparedness (OHSP)				5,000,000	5,000,000
New Jersey Office of Information Technology				12,893,820	12,893,820
New Jersey Office of the Secretary of Higher Education				408,569,750	408,569,750
New Jersey OMB Division of Property Management and Const				21,345,435	21,345,435
New Jersey Redevelopment Authority		25,700,000			25,700,000
New Jersey Sports and Exposition Authority				43,000,000	43,000,000
New Jersey Transit		30,000,000	1,129,571,090	45,000,000	1,204,571,090
South Jersey Transportation Authority			3,712,906		3,712,906
TOTAL	3,674,849,907	2,393,182,863	4,075,833,360	6,244,539,628	16,388,405,758

source: Governor's Disaster Recovery Office.

New Jersey's initial fiscal reaction to the COVID emergency was to increase taxes on high income taxpayers and businesses, and expanding the sales tax base; while targeted spending cuts were included in the Governor's modified fiscal year 2021 budget in August 2020, it also included funding for new programs using state funds which had been freed up by federal money – in addition to programs funded by new federal funding.⁵ New Jersey expected to collect \$36 billion in revenues (compared to \$38 billion in the prior fiscal year), appropriated \$40 billion in spending (compared to \$39 billion in the prior fiscal year), and expected to use the prior year's surplus to balance its budget.

In other words, the budgetary sky did not fall because of the pandemic. But New Jersey had now increased the floor on both its taxing and spending. In 2019, the average effective income tax rate in New Jersey was 3.51%; by 2023, it had increased significantly to 4.56%.⁶

5 See <https://www.nj.gov/treasury/omb/publications/21budget/pdf/ReportontheRevisedFY21Budget.pdf>.

6 Page 388, FY2023 New Jersey Annual Comprehensive Financial Report.

New Jersey's Budget Has Grown Faster Than Inflation

The state of New Jersey's spending has grown nearly 25 percent in real, inflation-adjusted terms between 2018 and 2025. Spending – boosted higher by temporary federal funding – has remained at this higher level even when accounting for price escalations in the general economy.

Education spending increased over 26 percent during this time period even though New Jersey already ranks third nationally in per pupil spending. Community affairs (nearly 88 percent growth) and human services (nearly 26 percent growth) account for much of the state's increased spending on social welfare programs. The Department of Agriculture growth is due to the increased subsidy of school lunches across the state. Of note – while federal COVID funds supported this funding for years, it is now expiring, and the state still anticipates spending at the now-higher budget levels using its own funds. The interdepartmental branch represents spending on shared services and employee benefits – and has increased nearly 38 percent over the time period analyzed. These benefits include health insurance payments for both current and retired workers, malpractice insurance for hospitals owned by public entities in the state, workers' compensation, and payments to a health care affordability and access fund. Interdepartmental also includes payments to employee pension systems – in fact, more than 80 percent of the budgeted spending in interdepartmental is due to pension payments. Table 3 lists inflation-adjusted spending by branch from 2018 to 2025.

TABLE 3: CHANGE IN NEW JERSEY SPENDING BY BRANCH, 2018-2025

Department	2018	2025	% Change
Chief Executive	8.1	14.7	81.0%
Agriculture	45.2	178.7	295.2%
Banking and Insurance	71.1	75.2	5.8%
Children and Families	1,469.1	1,495.6	1.8%
Community Affairs	637.7	1,197.5	87.8%
Corrections	1,304.7	1,191.5	-8.7%
Education	16,622.2	21,018.7	26.4%
Environmental Protection	513.3	502.2	-2.2%
Health	1,379.0	1,395.0	1.2%
Human Services	7,828.1	9,847.9	25.8%
Labor and Workforce Development	234.9	208.9	-11.1%
Law and Public Safety	927.8	977.3	5.3%
Military and Veterans Affairs	128.9	125.3	-2.8%
State	1,614.6	2,147.4	33.0%
Transportation	1,957.9	2,099.9	7.3%
Treasury	3,769.4	5,287.5	40.3%
Miscellaneous	1.0	1.0	0.1%
Interdepartmental Accounts	5,272.7	7,250.9	37.5%
Judicial	1,021.6	895.5	-12.3%

Department	2018	2025	% Change
Legislative	100.4	117.8	17.3%
TOTAL	44,907.9	56,028.5	24.8%

source: Governor’s Disaster Recovery Office.

Note: 2018 from New Jersey state Annual Comprehensive Financial Report. 2025 data from governor’s detailed budget recommendations fiscal year 2025, available from <https://www.nj.gov/treasury/omb/publications/25budget/pdf/FY2025-Budget-Detail-Full.pdf>.

Data are inflation adjusted and in \$billions.

What is clear from Table 3 is that departments that received significant COVID funding (detailed in Table 2) – such as Agriculture, Community Affairs, Education, Human Services, State, and Treasury – have seen the most significant growth in their budgets. Much of this federal funding has already been spent, but not all has. What this means is that within the next year, either New Jersey will have to cut spending in these categories and revert to where it was prior to COVID-19 or it will have to increase spending from its own revenue significantly to maintain these higher levels of spending. Whether “temporary” funding really was temporary or whether it increased New Jersey’s budget permanently remains to be seen.

New Jersey Has Significantly Increased Taxes During the Same Period

During the same time period, New Jersey has seen a significant increase in sales and use taxes (12 percent), corporation tax (50 percent), and other major taxes (105 percent) – with budgeted revenues increasing 21 percent on an inflation-adjusted basis since 2018. Despite tax rate increases, income tax revenue is only up 3 percent during the 2018-2025 period, as New Jersey’s personal income growth has lagged national averages.⁷ Table 4 displays the inflation-adjusted growth in state revenues from 2018 to 2025.

TABLE 4: CHANGE IN NEW JERSEY REVENUES, 2018-2025

	2018	2025 (budgeted)	% Change
Gross Income Tax	18,786	19,356	3%
Sales and Use Tax	13,066	14,604	12%
Corporation Business Tax	2,913	4,368	50%
Other Major Taxes	4,474	9,184	105%
Miscellaneous Taxes & Fees	5,134	6,001	17%
State Lottery	-	-	
Casino Taxes and Fees	332	596	80%
Total Revenue Budgeted Funds	44,705	54,109	21%
FUND BALANCE	1,237	7,908	539%

Note: 2018 from New Jersey state Annual Comprehensive Financial Report. 2025 data from proposed budget, available from <https://www.nj.gov/treasury/omb/publications/25budget/pdf/FY2025-Budget-Detail-Full.pdf>. Data are inflation adjusted.

The other major taxes are business alternative income tax, corporate transit fee, petroleum products gross receipts, insurance premium, transfer inheritance, motor fuels, realty transfer, motor vehicle fees, alcoholic beverage excise, tobacco products wholesale, public utility excise, and cigarette.

7 See https://chss.rowan.edu/centers/sweeney_center/mybwreportjune2024web.pdf.

New Jersey's Budget Is Structurally Out of Balance and Needs Significant Reforms

Importantly, while total spending has grown 25 percent during the 2018-2025 period, revenues have grown only 21 percent. The significant growth in the state's fund balance, derived primarily from increased taxes on businesses and residents while some spending was paid for in large part by the federal government, may be spent down as spending continues to grow faster than revenue. During a relatively good economic period, fiscal year 2022 through 2024, New Jersey has spent more than \$7 billion more than it has brought in – relying on accumulated surpluses to balance the budget.⁸

However, much of the state's fund balance – rather than being spendable – actually needs to be retained in order to show bond rating agencies and investors that New Jersey is worthy of its recent rating improvements.⁹ These improved bond ratings make the state's new debt less expensive. If New Jersey were to spend down its fund balance instead, these ratings are likely to revert to the state's historically poor levels, and increase future bond costs.

New Jersey, however, currently ranks 49th among states for friendly business climate according to one study.¹⁰ The low ranking is due in part to the state's high tax burdens on corporations as well as surtax on large businesses (the Corporate Transit Fee). Further, New Jersey ranks 49th overall in this same study for its overall tax competitiveness index due to its already high property and income taxes.¹¹ New Jersey does not have room for increasing revenues since it is already an outlier among states. As shown in Table 5, the top 1 percent of taxpayers already face an average state income tax liability in excess of \$230,000, making New Jersey less competitive for attracting additional high-income taxpayers. The state will likely have to turn to spending reductions to balance its budget and address its chronic structural imbalance.

TABLE 5: INCOME TAX LIABILITY BY INCOME LEVEL

Income Level	Filers	2021 Percent of Total	GIT Liability (\$millions)	Percent of Total	Avg. Liability per Filer
\$1 million+	33,728	1.1%	7,766.8	40.8%	230,278
\$500,001-\$1 million	67,620	2.3%	2,214.2	11.6%	32,745
\$250,001-\$500,000	209,503	7.0%	2,943.6	15.5%	14,050
\$100,001-\$250,000	747,374	25.0%	4,064.7	21.4%	5,439
\$75,001-\$100,000	332,045	11.1%	788.3	4.1%	2,374
\$50,001-\$75,000	498,280	16.7%	724.9	3.8%	1,455
\$35,001-\$50,000	409,559	13.7%	298.8	1.6%	730
\$20,001-\$35,000	425,192	14.2%	161.0	0.8%	379
\$10,001-\$20,000	206,986	6.9%	37.1	0.2%	179
\$0-\$10,000	57,696	1.9%	18.7	0.1%	324
TOTAL	2,987,983	100.0%	19,018.1	100.0%	6,365

Source: Taxpayer and liability data from New Jersey Annual Comprehensive Financial Report Fiscal Year 2023

8. *Ibid.*

9. *Ibid.*

10. Andrey Yushkov, Jared Walczak, and Katherine Loughead (October 31, 2024). *2025 State Tax Competitiveness Index*. Tax Foundation, available at <https://taxfoundation.org/research/all/state/2025-state-tax-competitiveness-index/>.

11. *Ibid.*

Easy Spending Reductions No Longer Exist

In the past, New Jersey was able to reduce spending through refinancing outstanding debt at lower rates.¹² In fiscal years 2022 and 2023, for example, New Jersey saved over \$1 billion in future debt payments through refunding's.¹³ With higher interest rates now, these painless spending reductions are no longer available. For fiscal year 2025, New Jersey is expected to pay \$7.1 billion into its significantly underfunded pension systems, as well as another nearly \$2.4 billion in post-retirement health insurance costs for retirees that were not pre-funded.¹⁴ These pension and retiree healthcare costs are expected to increase in the future and has the potential to crowd out other spending the state and its citizens desire.

While the current administration directed departments to reduce spending 5 percent in October 2024, this reduction is unlikely to align spending growth with revenue growth which has lagged significantly. Additional spending reductions would be necessary to bring the budget into balance – even before considering other pressures on the budget such as Stay NJ.

Has the Increase in Taxing and Spending Led to Improved Public Services?

New Jersey governments, businesses, and residents were allocated nearly \$125 billion in COVID-19 recovery funds.¹⁵ The state government of New Jersey received more than \$16 billion of these funds directly. Despite this massive windfall in federal dollars and depositing \$40 billion of its own resources into the pension funds over the past 7 years, New Jersey's combined pension funding ratio remains stubbornly low and unchanged.¹⁶ In 2018, the combined funded ratio of New Jersey's pensions was 54.4%; at the end of fiscal year 2025, the current administration expects it to be 52.4%.¹⁷ In other words, despite all the resources deposited and New Jersey having additional resources available to make its pension contributions, the state is failing to make headway in improving its pension funding. Further, the state continues to delay in making needed reforms that would make the system more affordable – as other states have already done.

New Jersey has a highly regarded public education system. It is ranked in the top 3 nationally.¹⁸ But the state spends more per pupil than 47 other states; further, it spends more per pupil than the two states ranked higher (Massachusetts and Connecticut).¹⁹ Did the COVID money or the state's increase in spending have any effect on student learning outcomes? As shown in Table 6, student performance – as measured by the NAEP educational assessment – shows a downward trend from before the pandemic to after.²⁰ Despite billions of extra dollars allocated to schools, student performance actually went down. While this trend is also evident across most of the country, New Jersey

12 See Thad D. Calabrese. *New Jersey's Fiscal Cliff Explained*.

13 See <https://www.nj.gov/treasury/news/2023/02272023.shtml>.

14 Office of Legislative Services, New Jersey Legislature (May 2024). *Analysis of the New Jersey Budget Interdepartmental Accounts*, available at https://pub.njleg.state.nj.us/publications/budget/governors-budget/2025/ida_analysis_2025.pdf.

15 See <https://gdpo.nj.gov/tp/en/financial-analysis/financial-summary#>.

16 See page 14 of Budget In Brief, available at <https://www.nj.gov/treasury/omb/publications/25bib/BIB.pdf>.

17 Ibid. Historical pension funded ratio derived from state Annual Comprehensive Financial Report.

18 <https://www.usnews.com/news/best-states/rankings/education/prek-12>

19 <https://educationdata.org/public-education-spending-statistics>

20 Data available at <https://www.nationsreportcard.gov/profiles/stateprofile?sfj=NP&chort=1&sub=MAT&sj=&st=MN&-year=2024R3>.

also experienced this decline despite its strong public education system and a seemingly permanent increase in its education budget. The state is not getting more from this department despite additional resources.

TABLE 6: EDUCATION PERFORMANCE

2024	4th Grade	8th Grade	12th Grade*
Math - Basic/Proficient	77/44	65/37	71/33
Reading - Basic/Proficient	66/38	73/38	77/41
2019			
Math - Basic/Proficient	86/49	76/44	83/24
Reading - Basic/Proficient	72/42	76/44	73/36
Change			
Math - Basic/Proficient	(9)/(5)	(11)/(7)	(12)/(9)
Reading - Basic/Proficient	(6)/(4)	(3)/(6)	(4)/(5)

*12th grade scores are from 2013, the most recent available.

New Jersey also spent billions on child welfare and anti-poverty programs using federal COVID funds, and has included some of these programs in its ongoing budget. In 2019, nearly 171,000 children in New Jersey were a part of a family below the poverty line. In 2023, despite billions in additional federal spending, nearly 194,000 children in the state were in families who were below the poverty line.²¹ While the extra spending may have prevented even more children from falling into poverty, there is little evidence the resources improved outcomes meaningfully.

Billions of extra dollars were spent on transportation since the pandemic. On-time rail performance for NJ Transit was 94 percent in 2020 before the pandemic, and is 89 percent as of January 2025. Further, the distance between failures has plummeted from nearly once every 89,000 miles to once every 50,000 miles.²² In other words, residents are paying more but getting less from a key transportation mode that is critical for economic growth and sustainability.

21 See <https://fred.stlouisfed.org/series/PECIUB5T17NJ34000A647NCEN>.

22 Data from <https://www.njtransit.com/improve/on-time-performance/rail>.

Conclusions

New Jersey's budget is structurally out of balance, with spending growing faster than revenue, forcing the state to dip into savings to cover regular government costs. Federal COVID relief funds temporarily masked this issue, with substantial amounts directed not only to public health but also to other unrelated expenditures. In recent years, New Jersey has significantly raised taxes, especially on higher-income individuals and businesses. As a result, the state already ranks poorly in terms of business-friendliness and is unlikely to attract new or expanding companies without major reforms to its tax and spending policies. Despite increased spending, public services have not seen notable improvements. To make New Jersey more attractive to businesses and families, immediate policy changes are needed. These should include:

1. Reducing the tax burden on individuals and businesses to boost competitiveness with other states that are currently drawing in families and companies.
2. Focusing state spending on essential public services while cutting back on non-essential areas.
3. Ensuring the state's budget is fiscally balanced, where annual revenues fully cover annual expenditures.
4. Reforms to the state's pension and retiree health care systems to reduce the annual costs. A likely solution will involve higher worker contributions, longer vesting periods, and less generous benefits.