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Big spending could mean big trouble for N.J. budget, analysts warn

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Murphy budget spends \$2B more than N.J. will take in, and that's a big problem, analysts warn

By

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State budget analysts on Monday predicted “stagnating” and “feeble” revenues collections for the new fiscal year and warned that New Jersey’s robust surplus will be nearly depleted if spending continues at the current pace by 2027.

This was the first time the nonpartisan analysts at the state Office of Legislative Services, along with state Treasury officials, addressed members of the New Jersey Legislature since Gov. [Phil Murphy](#) unveiled [a proposed \\$55.9 billion state budget](#) in February for the fiscal year that begins July 1.

OLS Budget and Finance Officer Thomas Koenig and Revenue and Economic Policy Analyst Oscar Mendez spoke first, delivering

what was at times a grim message to [the state Assembly Budget Committee in Trenton](#).

Murphy's budget proposes spending \$1.8 billion more than it collects in taxes and other revenues in the upcoming fiscal year, Koenig said.

Nearly gone are the pandemic budgets that were flush with federal aid and "ever-leaping collections and surpluses," Koenig said. "Cheerfulness is not usually a hallmark of budget presentations by budget officers, and it will not be today."

Revenues are expected to rise from \$52.2 billion this fiscal year to \$54.1 billion in the coming year, but that increase is "inflated" by Murphy's suggested transfer of \$585 million from a separate Debt Defeasance and Prevention Fund, which was created when the state sought to pay down the billions it borrowed when the economy tanked in 2020. If the state did not have that money to move to the budget's general fund, revenues would only be up by 2.4%, or \$1.3 billion.

Murphy proposes taking \$2 billion from its surplus account, leaving \$6.1 billion for emergencies. This follows his decision last year to use \$2.4 billion from the surplus for the current budget year.

The remaining \$6.1 billion surplus is still ample — the fifth highest in state history, Koenig said. But if the state continues to spend down its surplus at this rate, this would "raise concerns about the sustainability of the state's fiscal path," he said.

State Treasurer [Elizabeth Muoio](#) also shared upon questioning from the committee that health insurance premiums for public employees [could once again rise in the double digits](#).

Increasing demand for outpatient surgeries and prescriptions for weight loss drugs, as well as a spike in emergency room visits are driving costs up for the State Health Benefits Plan, treasury officials said. The state has set aside \$120 million in anticipation of premiums rising but more information will be available at a later date, she said.

“It does seem there will be an increase and it could be significant,” Muoio said.

In 2022, the State Health Benefits Commission approved rate increases of about 21% on state worker health plans and nearly 23% on local government benefits, but reached a last-minute deal that shifted the majority of the cost increases to the state rather than state employees. Local employees who rely on the state health plan were not part of the deal and many municipalities left the state plan to find cheaper alternatives.

The hearing also foreshadowed what is likely to be a point of contention between the Democratically controlled Legislature and Murphy: whether the budget will lay the groundwork for launching Stay NJ, a property tax reduction program for senior citizens set to take effect in 2026.

Spearheaded by state Assembly Speaker [Craig Coughlin](#), D-Middlesex, the [Stay NJ law](#) would cut property taxes by up to 50% on primary residences for people who are 65 and older and earn less than \$500,000 a year, starting in 2026. The maximum annual benefit would be \$6,500. But certain benchmarks in the state budget must be met in order for Stay NJ to launch, including a minimum budget surplus of 12%.

The budget Murphy introduced sets aside \$6.1 billion, which is just

11.1%, coming up short of the 12%.

Assemblyman Roy Freiman, D-Somerset, noted the gap between the surplus and the minimal amount for Stay NJ and asked:

“What’s the thought process for that?”

“The surplus is very close to 12%,” Muoio said, noting it would be up to the Legislature to decide how it will change Murphy’s budget proposal.

Democrats on the committee also inquired about the Murphy administration’s plans to transfer nearly \$600 million from debt-relief account into the budget’s general fund during the 2025 fiscal year.

“It could be counted as surplus,” Freiman said.

NJ Advance Media staff writers [Brent Johnson](#) and [Karin Price Mueller](#) contributed to this report.

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