NJBIA
New Jersey Business
& Industry Association

Navigating a Smooth Landing For Our State Budget & Economy

NJBIA Guidance for Effective, Efficient & Responsible Use of Federal Pandemic Relief Dollars

New Jersey will be receiving $6.4 billion from the federal government's American Rescue Plan to help the state recover from the devastating impacts of COVID-19. This guide is intended to help New Jersey policymakers formulate a plan for the best use of that money to assist those who need it and position our state to recover expeditiously from the pandemic as quickly as possible.

New Jersey's February 2021 unemployment rate was 7.8%, one of the worst rates in the nation. As of the week ending March 6th, 2,044,177 individuals have filed an initial unemployment claim in New Jersey since the onset of the pandemic. That means that a staggering 44.8% of New Jersey's pre-pandemic civilian labor force has applied for unemployment assistance since COVID-19 first impacted our state.

Additionally, the number of small businesses open as of March 20, relative to January 2020, was down 36.9%. Conditions are particularly worse in the Leisure & Hospitality industry, where that number is 53.1%. Accordingly, small business revenue as of March 20, relative to January 2020, was down 33.3% overall and 60.2% in the Leisure & Hospitality industry.

It is important to note, federal funds cannot be used to "directly or indirectly" offset a reduction in net tax revenue that resulted from a reduction in taxes or delay of tax increases. Additionally, state and local recipients are permitted to use the funds to cover costs incurred through Dec. 31, 2024.

Six Core Tenets for a Smooth Landing:

1) **Reduce Debt** – The emergency borrowing that occurred in 2020 was structured in a way that prohibits that debt to be paid down early. As such, it is incumbent on the state to defray other debt and prepare for future debt service while the state is in a strong cash position resulting from the 2020 borrowing, stronger than budgeted revenue performance and significant unbudgeted federal aid. Also, while the state is in this stronger cash position, any debt refinancing should avoid kicking the can down road with higher payments at the back end.

2) **Coordination & Collaboration** – On top of the $6.4 billion going to the state, New Jersey's counties, municipalities, school districts and other government agencies like NJ TRANSIT and public higher education institutions will also be receiving billions of dollars in direct assistance. In addition, the federal government already provided billions in COVID-19 relief in 2020 and is currently discussing the idea of billions more for transportation infrastructure. For this massive influx of money to be used well, New Jersey must develop a coordinated plan for all levels of government to avoid redundant spending, allow collaboration where appropriate, and ensure the money has the greatest reach. NJBIA recommends there be a central point in the Governor's office to coordinate with legislative input a comprehensive pandemic rescue and recovery plan for the whole state and its many layers of government.

3) **NO Permanent & Recurring Use** – Spending should be focused on non-recurring items that fill a need now, but will not need ongoing funding through new line-item expenditures in future state budgets.

4) **Multi-year Approach** – The federal funds must not be depleted in one year and, while ensuring that any expenditures do not become permanently recurring, the state should take a multi-year approach through 2024 to ensure their best use. These monies should be considered additional surplus to our state budget that could be drawn over multiple budgets to stabilize future revenue and spending needs. This will create a smoothest landing without needing tax increases to support spending in our state budget. Consideration should also be given to putting funds aside in a new budget line item to pay the multiple years of new debt service from last year's emergency bonding.

5) **Focus on Protecting the Vulnerable** – The list of COVID impacts is seemingly endless: obvious health impacts; too many displaced workers; students struggling with remote learning; small business owners that have lost their life savings; families having a difficult time providing food for their families; nonprofits with greater needs than ever to address the growing mental health crisis resulting from the past year. There are countless examples of New Jersey residents who have been hit hard by this pandemic, and federal funds should be focused on them and not paying for new unrelated programs.

6) **Stimulate Economy** – Federal funds should be spent to maximize return on investment and economic growth so that New Jersey's economy is in a better position to generate more tax revenues without increasing taxes. First, the State must provide more direct aid to its small businesses that support the whole economy by keeping as many open as possible after it forced closures or operating limits on them. In addition, NJBIA believes there are three pillars of pro-growth spending that should consume most of these federal dollars:

    - **Workforce Development** – At a time when we have a historic number of displaced workers, the state must provide training opportunities to prepare workers for the economy that is emerging from the pandemic. Investing in basic skills training, such as the "Basic Skills Program," which has trained over 180,000 workers via 11,000 employers, re-skilling, up-skilling, K-12 education, higher education, apprenticeships, and other programs to enable our workers to take advantage of the new post-pandemic economic opportunities available to them is critical.
    - **Infrastructure** – Investing in transportation, school buildings, clean water, energy, and telecommunications all create jobs and create a pro-growth environment. Improving school infrastructure, including better ventilation and other safety features, could also get students back in school more quickly, which will also have other positive impacts on the workforce. Without students in a safe learning environment, New Jersey's working parents cannot get back to work.
    - **Innovation** – Strengthening New Jersey's innovation ecosystem will make our state a destination that attracts further talent, research and development, STEM investments and high-paying jobs, all of which will spur continued growth.

<u>NJBIA Investment Recommendations for a Smooth Landing:</u>

- Reserving at least a third of the federal funds for a **special short-term surplus to draw down over multiple budgets** for anticipated spending growth such as for emergency bonding debt service and to pay down debt

- $500 million for **EDA small business grants and loans**
    - Includes the recently passed $100 million, five-bill package and the announced bipartisan $300 million bill

- **Workforce development** programs, with a focus on careers in innovation and growth industries, through the following entities:
    - Replenish Workforce Development Partnership Fund & Supplemental Fund for Workforce Basic Skills
    - County colleges
    - County vocational-technical schools
    - Private career schools
    - 4-year colleges needing increased STEM funding
    - STEM fellowship programs

- At least $400 million to pay down **Unemployment Insurance (UI) Trust Fund debt** to delay pending UI payroll tax increase on jobs by a year, per the reported OLS estimate and new state law

- Covering increased demand from pandemic on **social service and safety net programs** such as food banks and mental health services

- **Technology upgrades** throughout New Jersey state government
    - Includes upgrades for permit modernization, UI system

- **School construction**
    - Includes new schools to avert looming school construction constitutional crisis, safety improvements to get students back in school plus a focus on STEM upgrades

- **Water infrastructure** upgrades

- **Telecommunications/broadband infrastructure** upgrades