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To: Chairman Paul A. Sarlo, Vice-Chairwoman Sandra B. Cunningham and Members of the Senate Budget & Appropriations Committee

From: Christopher Emigholz, Vice President Government Affairs

Date: July 14, 2020

RE: **NJBIA Testimony Regarding Concerns with A-4175/S-2697 – New Jersey COVID-19 Emergency Bond Act**

Good morning! My name is Christopher Emigholz, and I am the Vice President of Government Affairs for the New Jersey Business & Industry Association (NJBIA) covering economic development, tax and budget issues. On behalf of our member companies that provide 1 million jobs in our state and make NJBIA the largest statewide business association in the nation, thank you for the opportunity to speak with you regarding A-4175/S-2697 – the New Jersey COVID-19 Emergency Bond Act. ***In a crisis such as we are in, NJBIA believes that borrowing can potentially be a useful and important fiscal tool, but it is <u>irresponsible</u> for our State and to our taxpayers now and into the future to pursue it without the proper limits and conditions. Authorizing $9.9 billion in bonding right now is excessive and premature. Before pursuing any borrowing, a comprehensive multi-year fiscal plan must be done to show why bonding is needed and what state budget spending will be reduced to pay for its debt service.***

<u>Taxpayer Concerns about Borrowing:</u>
Borrowing definitely has a place in government fiscal policy, but NJBIA and taxpayers have many concerns about its improper and/or excessive use that could hurt New Jersey's affordability and competitiveness for generations to come. NJBIA is happy to see the legislative panel that Senate leadership added to this bill, but that change alone does not ensure responsible borrowing. To ensure this bonding is appropriate and results in a more rapid economic recovery from this crisis, we hope Senate President Sweeney and Chairman Sarlo use their authority on this panel to address the following significant concerns and press for these ***recommendations for responsible borrowing***:

- ***Waiting to borrow*** anything beyond short-term notes for cash flow and the Federal Reserve's Municipal Liquidity Facility until we better know the full scope of our State's needs
  - It is premature to issue any long-term bonds until we fully know how much budget support may come from the federal government and what the annual tax revenues coming on July 15 look like. On top of that, your three-month state budget taking us to October 1 is already set with a surplus without the need for any borrowing.

Therefore, there is time to wait to ensure we only borrow what is absolutely necessary.

- ***Needing a multi-year fiscal plan***
  - For good government transparency, since this borrowing is not being approved by the voters, and for righting our state's fiscal ship, a plan must accompany any borrowing. Our taxpayers, who are being made responsible for any future debt service without their consent, need to see a plan for:
    - How the funds coming in from the bonding will be spent
    - Why they are needed
    - What cuts are planned so that the state is able to afford the future debt service
    - A glidepath going forward to allow the state to wean off the bonded funds and avoid a fiscal cliff
- ***Limiting length of borrowing***
  - It may be more appropriate to rely on only the Federal Reserve's Municipal Liquidity Facility (MLF) program's shorter-term bonds instead of the 35-year bonds contemplated in A-4175/S-2697. This would protect future taxpayers and limit what the state borrows because the state would have to pay it back more quickly. Using short-term MLF bonds would also prevent this borrowing from hurting our credit rating and harming our ability to pursue future borrowing for purposes that would actually stimulate the economy, such as for infrastructure.
- ***Limiting amount borrowed***
  - Bonds like what are considered in A-4175/S-2697 could cost New Jersey taxpayers at least many hundreds of millions of dollars in additional debt service costs for the next 35 years. New Jersey already is one of the most indebted states in the nation, and this will just mean more of our budget will go toward paying debt service instead of programs that benefit our residents. Additionally, the revenue shortfall for the next state budget has been estimated to be in the range of $5 billion, so how is borrowing twice that amount in this bill necessary before any federal support or spending cuts have been included?
- ***Pursuing real spending cuts and structural reforms*** first before relying on more borrowing than necessary
  - Borrowing should never be a first option but instead only pursued after serious and permanent spending cuts are made, including structural reforms. These spending reductions will also be necessary to cover new debt service costs. This should include:
    - Pension reforms on top of the health savings legislation that recently became law
    - Implementing the across the board 15% department cuts recently proposed by Governor Murphy
    - Eliminating new spending and returning to spending levels of just a few years ago when the state budget was billions of dollars less
    - Pursuing Path to Progress and other structural reforms
- ***Developing a backup plan*** if this borrowing plan is ruled unconstitutional so immediate tax increases are not necessary because of a court decision

    - NJBIA understands that there is a constitutional exception to bonding in an emergency without voter approval, but does that include bonding for annual revenue to cover operating expenses that the courts have warned about in the past? That uncertainty may mean that a backup plan is prudent in case a court strikes down this borrowing. A worst-case scenario would be getting backed into painful tax increases if no other options remained after borrowing became impossible and it became too late for other more fiscally appropriate options.
- ***Limiting borrowing for operating expenses to only short-term borrowing*** and only pursue long-term bonding for capital costs
    - Investing in the economy through capital programs that may require long-term bonding may be a great stimulus after a down economy, but bonding for operational expenses is bad fiscal policy, possibly illegal and could hurt our future chances for beneficial infrastructure borrowing.
- ***Ensuring consistent debt service payments*** and avoiding any balloon payments
    - It is irresponsible fiscal policy to delay increased debt service payments and tough budget decisions today by loading up the debt service with balloon payments on future taxpayers long after current policymakers may be out of office.
- ***Focusing on a safe reopening and recovery*** plan for New Jersey businesses that generate the very tax revenue that is missing so that less borrowing is needed
    - State revenues will continue to decline as long as businesses are closed or limited by state government, so businesses need clear reopening metrics and guidelines to allow them to generate the tax revenues we so desperately need to avoid unnecessary cuts and borrowing. This borrowing is not for COVID-19 related expenditures but to fill a revenue hole – a hole that would not be so deep if we better prioritized a safe business reopening and recovery.

Positives of Borrowing & Changes Being Made to Assembly Version:

Borrowing can still be a beneficial and possibly even necessary tool to address some of the fiscal uncertainties in a crisis such as the one we are in now. Borrowing may be appropriate as part of a more comprehensive plan because it can allow for:

- ***Spreading the costs*** of a crisis over many years instead of having it absorbed by one or two years of extreme pain
    - It can be reasonable to expect future taxpayers to help cover the costs of an extreme once-in-a-generation (hopefully) event like this.
- ***Maintaining cash flow***
    - With uneven revenues due to the pandemic's impact on the economy and the unique adjustments to the state fiscal year, short-term borrowing can be helpful to smooth out revenue collection.
- ***Avoiding immediate & unnecessarily painful tax increases*** to balance the State Budget when New Jersey already has one of the highest tax burdens in the nation and the business community was just locked down for months
    - The natural growth of the economy after this crisis passes may be enough to cover some of the future costs of borrowing, while spending cuts alone may not be enough to immediately balance the State Budget. Borrowing should make new revenue raisers over the next few budgets completely unnecessary.

- ***Preventing a further contraction*** of some government programs that may do more harm to an already devastated economy
  - Creating additional unemployment and de-investing in the economy could slow an economic recovery.
- ***Legislative Panel as a Safeguard:***
  - Being extra cautious on something as significant as bonding billions is a good approach, and ensuring that a majority of legislators on this bill's panel must approve Governor Murphy's borrowing plan may become a beneficial safeguard to protect taxpayers.

New Jersey was already challenged with affordability and regional competitiveness issues before the COVID-19 pandemic, and it is important to get this right to ensure that we do not compound what our business community has long struggled with as we start to shift to recovery.

Thank you for considering our perspective on the New Jersey COVID-19 Emergency Bond Act, and we look forward to continuing to work with you all to help New Jersey businesses and taxpayers through this fiscal crisis caused by the pandemic. Hopefully, our concerns above are addressed, and the positives of limited and responsible borrowing can come to fruition.