

## **FY25 State Budget at First Glance**

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By [Christopher Emigholz, NJBIA Chief Government Affairs Officer](#)

Governor Murphy delivered his seventh budget proposal to the Legislature for fiscal year 2025 (FY25) on the afternoon of Tuesday, Feb. 27, 2024. His FY25 budget theme was “Making New Jersey the Best Place to Raise a Family.” He is planning to spend \$55.9 billion – an increase of about \$1.6 billion or 2.9% from last year’s signed FY24 budget. Notable increases in this year’s state budget include state K-12 school aid, affordable housing and property tax relief.

The awful news from the outset is that this budget is reliant on significant tax increases on the New Jersey business community, unlike Governor Murphy’s three prior budget proposals. Last year’s budget included the scheduled sunset of the temporary 2.5 percentage point corporate business tax (CBT) surtax and many recent statements by Governor Murphy erroneously indicated that he was staying strong on that as the right policy-. However, this budget speech unfortunately reflects an about-face on that pro-business position to ignore the negative impacts on our state’s competitiveness of having the highest corporate taxes in the nation. It includes a billion-dollar corporate tax increase.

Cumulatively for the seven budgets of the Murphy Administration, this \$55.9 billion appropriation level in FY25 represents an increase of \$21.2 billion or 61% since the last signed \$34.7 billion budget of the Christie Administration.

Below are the major highlights of Governor Murphy’s FY25 budget proposal at first glance, but please also feel free to explore Governor Murphy’s and NJBIA’s budget documents linked below:

[FY25 Budget in Brief](#)

[Governor Murphy’s FY25 Budget Press Release](#)

[Text of Governor Murphy’s FY25 Budget Speech](#)

[NJBIA Statement on FY25 Budget Proposal](#)

## Overall Budget Numbers:

Key Budget Figures for FY24 & FY25						
(in billions)	FY24 Signed	% Change from FY24 Signed to FY24 Revised	FY24 Revised	% Change from FY24 Signed to FY25 Proposed	% Change from FY24 Revised to FY25 Proposed	FY25 Proposed
<b>Total Appropriations</b>	\$54.3	2.0%	\$55.4	2.9%	0.9%	\$55.9
<b>Total Revenues</b>	\$52.7	-0.9%	\$52.2	2.7%	3.6%	\$54.1
<b>Structural Imbalance</b> <i>(Spending More than Revenue)</i>	negative \$1.6	100% worse	negative \$3.2	12.5% worse	43.8% better	negative \$1.8
<b>Sales Tax</b>	\$13.4	-1.5%	\$13.2	2.2%	3.7%	\$13.7
<b>CBT</b> (**including FY25's billion \$ tax increase)	\$5.3	-3.8%	\$5.1	1.9%	4.9%	\$5.4
<b>Business Alternative Income Tax (BAIT)</b>	\$4.1	4.9%	\$4.3	7.6%	3.2%	\$4.5
<b>Income Tax</b>	\$19.5	-4.1%	\$18.7	-0.5%	3.5%	\$19.4
<b>Total Closing Balance</b> <i>(Ending Surplus)</i>	\$8.7	-5.7%	\$8.2	-29.9%	-25.6%	\$6.1

## Opposition to Unnecessary Tax Increases & Overspending

- The FY25 budget proposal includes a massive corporate business tax (CBT) increase retroactively extending the expired surtax. Unlike that expired surtax that was temporary and only applied to corporations earning more than \$1 million, this new Corporate Transit Fee will be permanent and apply to corporations earning more than \$10 million. The budget estimates that this will bring in \$1.023 billion in FY25 and be dedicated for NJ Transit as they approach a fiscal cliff next year because of their loss of federal aid.
  - This will hurt New Jersey's competitiveness with attracting and growing corporate jobs as Governor Murphy was quoted recently opposing this tax just before he reversed himself and proposed it. Further, it is unnecessary in this budget because NJ Transit's fiscal cliff is next year, there is a healthy budget surplus to use to avoid a massive tax hike, and there are better ways to dedicate funds to NJ Transit. It is also interesting to note that this massive business tax increase is less than the new spending added by the Legislature at the last second last June, and this is indicative of this tax hike being the result of a spending problem and not a revenue problem.
- The proposed budget also includes a \$10 million warehouse tax that has been described as a dollar per truck using New Jersey warehouses. This budget proposal is very bare bones as to who will pay this tax (truckers, retailers, manufacturers, warehouse facilities, etc.?) and how it will be collected.
  - New Jersey is a logistics state with many jobs from this important industry, and this impedes that industry's growth. The logistics industry also supports other important sectors like manufacturing that are critical to New Jersey and its innovation economy and, therefore, would be harmed by this new tax.
- NJBIA continues to be concerned about the rapid and unsustainable spending growth in recent state budgets. The proposed \$55.9 billion in spending is \$1.6 billion (2.9%) higher than last year and \$21.2 billion (more than 60%) higher than the last Christie budget just 7 years ago. That growth may not be sustainable without further tax increases.

- There are several smaller revenue raisers in the proposed FY25 budget worth noting:
  - Beginning of phase out of electric vehicle sales tax incentives increasing state revenue by \$70 million but increasing Charge Up New Jersey program by \$20 million for EV rebates
  - 20% increase in HMO assessment
  - Increase in firearm permit and license fees
  - Increase in Bureau of Securities fees
  - Ending consumer sales tax holiday for school supplies to save the state \$35 million
- And of course, any New Jersey business tax increase conversation must be in the context of the massive UI payroll tax increase of over a billion dollars on jobs that occurred both because of the pandemic and because of the state's inaction in using federal funds to replenish the UI fund as most states did to protect business.

### **Key Spending Details:**

- The proposed FY25 budget includes the fourth straight 100% pension payment and largest in state history at \$7.2 billion.
- The proposed budget includes a \$6.1 billion ending surplus drained down from last year's \$8.7 billion.
  - Critics will point out that this level of surplus is responsible to avoid spikes in taxes or cuts in critical spending programs if there is a revenue downturn, yet the budget inexplicably includes a billion-dollar corporate tax hike despite having a \$6.1 billion cushion.
- There is a proposed \$908.3 million increase in state school aid plus an additional \$123.8 million increase for preschool funding making K-12 education the largest increase in the FY25 budget. This increase also completes the S-2 (recent state law revising state school aid increasing overall school funding year-by-year) phase-in to get to a 100% funding of the state's current school funding formula.
  - This could be beneficial for both workforce development and property tax relief.
- The FY25 budget proposal includes the use of \$585 million from the Debt Defeasance & Prevention Fund. There does not appear to be any investment in the fund like was done in some recent budgets.
- The Murphy Administration claims to have made spending reductions totaling more than \$1 billion, but the budget is \$1.6 billion larger than last year's signed budget law.
- More than 42% of the FY25 state budget is distributed through school and municipal aid totaling \$23.6 billion.
- \$3.3 billion or approximately 6% of the budget is for debt service.
- Approximately \$6 billion in health benefit payments for active and retired public employees that state is responsible for is included in the budget, and Governor Murphy indicated a willingness to "find responsible, sustainable, and fair reforms to public health benefits to produce new State savings" to control these costs.
- Cut of most legislative add-ons from last June

## Business-Related & Other Notable Spending Changes

- Continues support of Main Street Recovery Fund, Manufacturing Initiatives and Strategic Innovation Centers but there is an unclear \$85.8 million cut in EDA grant funding so unsure what EDA programs are impacted and at what levels
- \$1.5 million more for Secure Choice Savings Program meaning it may finally become operational with a new mandate impacting the business community
- \$17.5 million more for international events, improvements and attraction (World Cup readiness)
- \$40 million more for University Hospital capital projects
- \$34 million over next 2 years to end veterans' homelessness
- \$31.8 million more for WorkAbility program expansion for disability community
- \$33.8 million more for minimum wage and wage inflation increases
- \$5 million cut to horse racing subsidies
- Ending consumer sales tax holiday for school supplies to save the state \$35 million
- Workforce Development, Higher Education & Education Investments:
  - Continued \$6 million for Community College Consortium for Workforce & Economic Development (*NJBIA-supported program*)
  - Ending of \$8.5 million shift from professional licensing boards to State Police salaries to continue process improvements (*NJBIA supported stopping shift*)
  - \$13.5 million new line-item for the new Summer TAG program but uncertain if the total amount from TAG line-item is lower or not (*NJBIA-supported summer TAG*)
  - \$5 million for suite of nurse workforce investments
  - \$4.25 million for teacher recruitment and retention initiatives
  - Funds from the Workforce Development Partnership Fund to support the online database for the new minor working paper law (*NJBIA-supported new law*)
  - \$20 million operating aid cut to community colleges
  - \$10 million cut for Tuition Assistance Grants (TAG)
  - \$7.3 million cut in aid to independent colleges and universities from \$16.5 million to \$9.2 million
  - \$5 million more for fringe support for public research institutions
  - Total Higher Education Aid is cut by about \$100 million or 3%
  - Total Higher Education Financial Assistance is cut by \$16.7 million
- Infrastructure Funding:
  - CBT surtax will provide \$859 million to NJ Transit in FY26 budget, which in addition to recently announced fare increases, will allow NJ Transit to overcome fiscal cliff.
  - \$15 million more for a Grid Modernization Initiative (plus \$25 million in Clean Energy Funds to meet federal match)
  - \$275 million used for programing from the Clean Energy Fund
  - \$12 million less for Drinking Water & Clean Water Infrastructure
  - \$2 billion total for State Transportation Capital Program
  - Shore protection funding, which is critical for our tourism economy, is still uncertain and will probably remain that way until more budget language and budget language is available.

- It was noteworthy that Governor Murphy's plans for the Transportation Trust Fund coming up for re-authorization soon was absent from the budget speech.
- New Innovation Investments to Support AI Moonshot:
  - \$4.5 million for Innovation Challenge to support AI innovation projects
  - \$2.5 million for Innovation Fellows program for AI startups
  - \$500,000 for higher education entrepreneur-in-residence programs
- Childcare Funding:
  - \$225.4 million for continuation of pandemic childcare rate increases
  - \$15 million from federal ARPA funds to continue EDA's childcare facilities program
  - Planned end of enrollment-based funding in January 2025 due to federal changes from pandemic
- Property Tax Relief (*unfortunately excludes businesses*):
  - \$100 million more totaling \$200 million toward a down payment for future StayNJ property tax relief
  - Continuation of ANCHOR property tax relief program with an additional \$22 million due to its growth.
  - \$6.3 million more for Senior Freeze program
  - Municipal aid is cut by \$134.3 million and totals just over \$1.6 billion.
    - Property taxpayers should be concerned that the FY25 appears to return to the state Energy Tax Receipts funds that previously were returned to municipalities for municipal property tax relief, and that means less structural property tax relief for all property taxpayers instead of just for residents like with ANCHOR.
- Affordable Housing:
  - \$10 million to incentivize municipalities to create new accessory dwelling units
  - \$15 million to help rental assistance recipients with pathways to homeownership
  - \$32 million for Down Payment Assistance
- Hospital & Nursing Home Funding:
  - \$793.1 million in direct subsidies to hospitals but shifting from traditional Charity Care to a new Medicaid outpatient hospital supplemental payment model that still lacks details
  - \$336.5 million for Graduate Medical Education including a \$10 million increase because of the shifting described above
  - \$210 million for the Quality Improvement Program
  - Growth of over \$113 million to meet increasing needs for NJ FamilyCare's long-term care population, including an extra \$7.2 million to provide for wage increases for nursing home staff
  - \$4 million for long-term care reform and response in Department of Health