

FY27 State Budget at First Glance

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Gov. Mikie Sherrill delivered her first budget proposal to the Legislature for fiscal year 2027 (FY27) on March 10. Her FY27 budget theme was “Rising to the Mission: A More Affordable and Accountable New Jersey.” She is planning to spend \$60.7 billion – an increase of about \$1.9 billion or 3.2% from last year’s signed FY26 budget and an increase from the revised FY26 budget of about a billion dollars. Notable increases in this year’s state budget include Medicaid, property tax relief, state K-12 school aid, public employee health benefit, state employee salaries, the full pension payment to remain fully funded, NJ TRANSIT’s General Fund subsidy, and the New Jersey Innovation Authority. Notable reductions include past legislative and executive add-ons and Stay NJ from what it was expected to grow to, even though it still grew.

Despite the business community’s support for a more responsible budgeting approach with some spending cuts, there is some disappointing news in that this budget includes three revenue increases totaling \$750 million: a temporary cap on Net Operating Loss use, limiting the Alternative Business Calculation Adjustment deduction and a new Employer Healthcare Assistance Contribution.

Below are the major highlights of Gov. Sherrill’s FY27 budget proposal at first glance, but please also feel free to explore the administration’s and NJBIA’s budget documents linked below:

[FY27 Budget in Brief](#)

[Governor Sherrill’s FY27 Budget Press Release](#)

[Text of Governor Sherrill’s FY27 Budget Speech](#)

[NJBIA Statement on FY27 State Budget Proposal](#)

Overall Budget Numbers:

Key Budget Figures for Current FY26 & Proposed FY27							
	(in billions)	FY26 Signed	% Change from FY26 Signed to FY26 Revised	FY26 Revised	% Change from FY26 Signed to FY27 Proposed	% Change from FY26 Revised to FY27 Proposed	FY27 Proposed
Total Appropriations		\$58.8	1.5%	\$59.7	3.2%	1.7%	\$60.7
Total Revenues		\$57.3	0.3%	\$57.5	3.1%	2.8%	\$59.1
Structural Imbalance <i>(Spending More than Revenue)</i>		negative \$1.5	46.7% worse	negative \$2.2	13.3% worse	22.7% better	negative \$1.7
Sales Tax		\$14.2	0.0%	\$14.2	3.5%	3.5%	\$14.7
CBT (*CTF)		\$5.0	-22.0%	\$3.9	-2.0%	25.6%	\$4.9
Business Alternative Income Tax (BAIT)		\$4.5	6.7%	\$4.8	7.6%	0.0%	\$4.8
Income Tax		\$21.5	4.7%	\$22.5	6.5%	1.8%	\$22.9
Closing Balance <i>(Unreserved Surplus)</i>		\$6.8	7.4%	\$7.3	-20.6%	-26.0%	\$5.4

FY26 Budget Highlights:

- Significant cost drivers in the FY27 budget include:
 - Medicaid/NJ Family Care - \$768 million increase
 - K-12 School Formula Aid - \$372 million increase
 - Stay NJ - \$362 million increase despite the cut from where it was project to grow
 - Public Employee Health Benefit - \$340 million increase
 - NJ TRANSIT General Fund Subsidy - \$215 million increase
- The proposed FY27 budget includes the sixth straight 100% pension payment and the largest in state history at \$7.3 billion, or about 12% of the state budget.
- Property Tax Relief (*unfortunately direct relief programs exclude businesses*):
 - More than 40% of the FY27 state budget is distributed through school and municipal aid, totaling \$24.4 billion.
 - \$22.5 billion in Pre-K funding (including pensions and debt service) including \$12.4 billion in K-12 formula aid (up \$372.1 million and most ever) with similar guardrails and formula adjustments as FY26 plus \$1.4 billion for pre-school (9.3% more), \$400 million for School Development Authority (former Abbott) construction projects
 - \$1.7 billion in municipal aid up \$90.6 million including increases in transitional aid and shared service grants
 - Direct property tax relief including ANCHOR, Property Tax Deduction Act, Stay NJ, Senior Freeze and Veterans and Senior Deductions increased by \$19 million to almost \$4.2 billion
- \$3.3 billion for direct support of higher education institutions and student financial assistance which is down over \$110 million but much of that is probably loss of legislative add-ons
 - Includes disappointing cuts: \$5 million reduction in independent college support, \$21 million elimination of Summer Tuition Aid Grant (TAG) program and \$8 million reduction in Community College Opportunity Grants
- \$3.2 billion or approximately 5% of the budget is for debt service.
- The state expects to spend approximately \$7.6 billion on health benefit payments -- a 10% increase from FY26 and an 84% increase from FY17, just 10 years ago.
- \$3.6 billion in direct hospital funding including the continuation of the Charity Care, GME and outpatient State-directed payment program.

Notable Budget Cuts:

- At a February 26 press conference, Gov. Sherrill and Treasurer Aaron Binder announced a \$3 billion structural deficit ahead of the specific budget proposal. That structural deficit is now projected to be \$1.7 billion, because of their budget solutions that include \$2 billion in cuts that offset much of the less discretionary growth listed above:
 - Stay NJ eligibility and benefit limits
 - Current eligibility up to \$500,000 in income proposed lower to \$250,000 and current maximum benefit of \$6,500 proposed lower to \$4,000
 - Eliminating prior legislative and executive add-ons as well as recurring items that were originally meant to be one time, especially if they were localized and not competitively awarded (over \$600 million)
- Specific cuts that may impact business:
 - \$15 million cut to horse racing subsidies

- \$50 million cut from International Events, Improvement and Attraction
- \$26 million to Event Attraction & Marketing
- \$25 million from Supercomputer Initiative

Pro-Business Investments:

- Additional \$13.3 million for New Jersey Innovation Authority to support Permitting Dashboard and the New Jersey Report Card
- \$4.3 million for staff increase at DEP to expedite permitting for energy generation and housing construction
- Doubling high-impact tutoring to \$15 million
- Reduced business registration fees
- Turbo-charged Business Action Center with additional employees
- \$500,000 for procurement assistance for minority and women-owned businesses to act on woeful numbers in 2024 disparity study
- \$3 million for Division of Consumer Affairs to upgrade its licensing system
- \$1 million increase in Local Efficiency Achievement Program (LEAP) for a total of \$3 million
- \$5 million more for the Down Payment Assistance Program for a total of \$45 million to support 3,000 new homeowners
- Maintains funding for the Main Street Recovery Fund
- Additional \$1 million for the Summer Youth Work Experience Program
- Provision for NJDOLWD to conduct a review of existing workforce development programming across the State for both effectiveness and opportunities to better align and coordinate
- Reducing Affordable Housing Trust Fund diversions by \$70 million to advance more construction
- More than \$1 billion supporting NJ TRANSIT including the \$765.6 million from Corporate Transit Fee and \$282.2 million from the general fund subsidy that is up an additional \$215.3 to cover for lower CTF revenues
- \$2.1 billion State Transportation Capital Program including \$1.3 billion for road and bridge projects plus \$782 million on NJ TRANSIT capital projects with TTF increasing by \$60 million
- \$12.2 million increase in DOBI operations
- \$400,000 for school district accountability monitors

Details on Concerning Revenue Raisers:

- The FY27 state budget contains three revenue solutions totaling \$750 million: a temporary cap on NOL use, limiting the Alternative Business Calculation Adjustment deduction and a new Employer Healthcare Assistance Contribution.
 - Net Operating Loss (NOL) Cap: Imposes a temporary \$1 million cap on all net operating loss deductions under the corporation business tax for a three-year period from tax year 2026 through tax year 2028 increasing state revenues by \$485 million annually over those 3 years impacting 600 taxpayers

- Employer Healthcare Assistance Contribution: Imposes a graduated (from \$325 to \$725 per employee on NJ FamilyCare) assessment on employers with 50 or more employees on NJ FamilyCare to raise \$145 million annually
 - impacting about 750 employers
- Alternative Business Calculation (ABC) Adjustment: Amends the current program instituted as part of Gov. Chris Christie's business tax reforms that sought to bring equity/parity to pass-thru taxpayers to increase revenues by \$120 million annually by reducing the deduction for taxpayers with gross income between \$500,000 and \$1 million to 25% and eliminating the deduction for those with gross income above \$1 million.
 - Out of 240,000 taxpayers that claim the adjustment on a return, only 10,000 returns will see an increase in tax liability because of the change.

Looking Ahead:

NJBIA looks forward to working with the Sherrill administration and the State Legislature to remove or moderate the three revenue raisers, and we will also help the governor maintain her proposed spending cuts and pledge to avoid future last-minute legislative add-ons. NJBIA will do this while trying to maintain investments in the three pro-growth spending areas of workforce development, infrastructure and innovation, especially in manufacturing. This responsible budgeting is all done with the hope of being able to sunset the corporate transit fee (CTF) per its statutory schedule in two years.