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CAUCUS ROOM

Murphy Closes in on His Budgetary White Whale

By Carl Golden | April 16, 2020, 12:42 pm | in [Caucus Room](https://www.insidernj.com/category/caucus-room/) (<https://www.insidernj.com/category/caucus-room/>), [Columnist](https://www.insidernj.com/category/columnist/) (<https://www.insidernj.com/category/columnist/>)



For two years running, Gov. Phil Murphy has asked the Legislature to increase the top rate in the state's income tax on those earning \$1 million a year and above. For two years he's been rebuffed.

In true Capt. Ahab pursuing the great white whale fashion, Murphy has vowed to continue seeking it until he gets it.

This might just be the year when the hurled harpoon finds its mark.

As the Administration struggles to get ahead of and eventually conquer the Covid-19 pandemic, the impact on the state's fiscal condition is potentially incalculable.

Businesses are closed, unemployment is approaching record levels, consumer spending has hit bottom and millions are under voluntary home confinement.

The growth in revenues reported this week — while welcome — reflect tax collections from February business activity prior to the closures of non-essential businesses and the resultant layoffs.

When March collections are tallied, it is virtually certain that the state's two largest revenue producers — the sales tax and income tax — will absorb a hellacious hit.

In moving the end of the fiscal year from June 30 to September 30, Murphy acknowledged the budget was being “crushed” by the economic slide. More recently, he warned that tax collections were falling off a cliff.

Look no further than the state's sports betting system for a sobering definition of “crushed” — wagers totaled \$181.9 million last month, a stunning 63.2 percent decline from February, and a 51.2 percent drop from March 2019. Gross revenue last month totaled \$13.2 million, down from \$31.7 million from a year ago while the state tax take fell from \$3.7 million to \$1.7 million.

Granted, with professional sports leagues on hold and high-profile events like the NCAA college basketball tournament canceled, wagering revenue was bound to plummet.

One can read in the numbers, however, the potential dire implications for the state's other revenue streams.

The suddenly unemployed don't pay income taxes and don't buy new cars or make any other major purchases.

More than half of the governor's proposed \$40 billion budget — \$27.2 billion — is derived from sales and income taxes. Any substantial decline caused by a spike in unemployment and a falloff in consumer spending bodes ill for the state's ability to fund essential services or support local aid programs at their current or expanded levels.

Murphy has indicated he intends to deliver a sequel to his budget recommendations sometime prior to the September expiration date when the Administration will have a clearer idea of any revenue loss.

There's no doubt he'll renew his millionaire's tax proposal, backing it up with hard data demonstrating the devastating impact of the Covid-19 pandemic on state finances.

Whether Senate President Steve Sweeney (D-Gloucester), the leading opponent of the tax increase, will be moved by the gloomy outlook and reconsider his opposition is a matter of conjecture.

All indications point to a summer of continued personal apprehension and a prolonged and slow economic recovery.

Employment may revive but at what pace is unknown. The same applies to business activities.

Jersey shore communities facing closed beaches and boardwalks will suffer severe consequences as prohibitions on large gatherings remain in force, battering the tourism industry. Summer jobs — long a source of income for high school and college students — will either vanish or provide only a fraction of prior years.

The choice facing the Legislature is stark, indeed — potentially devastating spending cuts which will reverberate through municipalities and school districts or seek new revenue sources like the millionaire's tax.

In his two-year long pitch for the tax increase, Murphy has framed it as a matter of tax fairness, that high income New Jerseyans can easily afford the additional tax and that the proposal enjoys upwards of 70 percent public support.

His argument failed to sway legislative leaders — most of whom supported the idea as recently as three years ago — who contend taxes are already excessive and that spending reductions and a reappraisal of fiscal practices and policies should take priority.

The Covid-19 pandemic — the most serious public health crisis to strike in a century — has changed all that, driving the nation to the brink of what many economists believe to be the worst downturn since the Great Depression.

Full recovery and a return to the turbocharged economy of record low unemployment and a sky's the limit stock market will take time. Public nervousness will continue in the absence of an effective vaccine for the virus and warnings that it could become a recurring nightmare.

Murphy and the Legislature face three months of uncertainty before agreement is reached on a revised state budget — three months during which little appreciable change will have occurred.

The governor has already conceded that the crisis will persist through the summer even though progress may be seen in lower infection rates, fewer fatalities and an easing of the pressure on hospitals and other medical or long-term care facilities.

It is equally uncertain when businesses will be permitted to re-open or whether consumers, freed from confinement, will flock to malls eager to satisfy pent up shopping demands.

Many small businesses, it is feared, may never resume, further darkening full employment restoration.

There exists then the issue of guiding the state through a rocky fiscal period, one which will severely test government's ability to meet its obligations in a time of unprecedented stress and anxiety.

Murphy has already ordered a freeze on nearly \$1 billion in budgeted spending and remains hopeful that New Jersey's share of the \$2 trillion Federal stimulus package will soften the blow.

He could also turn to the state's rainy day fund to shore up the budget, but he may be reluctant to deplete it in the absence of any plan to replenish it.

Murphy will surely contend the \$500 million or more tax increase has become an imperative, one necessary to not only continue to provide state services but to avoid delivering a massive blow to local governments who depend on state aid to maintain control over property tax increases.

It may well be necessary to negotiate terms and conditions to convince legislators to sign on. A sunset provision, for instance, a timetable for the expiration of the increase might appeal to some reluctant legislators, along with tweaking the percentages or income limits.

He will have to contend with arguments that raising taxes — even on the wealthiest New Jerseyans — in the midst of a recession flies in the face of sound economic policy.

These are extraordinary times, though, unlike any the state has experienced and call for equally extraordinary actions — like lashing the white whale to the hull of the ship of state.

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