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### Debt crisis deepening N.J. woes

By JEAN MIKLE  
STAFF WRITER

Seven years ago, with uncommon unity, lawmakers of both parties eagerly embraced a plan that would speed the state's slide toward fiscal havoc.

Then-Gov. Donald T. DiFrancesco, a Republican, signed a bill to boost pensions for lawmakers, teachers and other public employees by 9 percent. It was a measure that gained quick and nearly unanimous support in the Legislature.

In the routine announcement of bills signed that day, June 29, 2001, the governor's office made no mention of the price tag: \$5.2 billion in additional pension liabilities. The pension boost took effect in October of that year.

Lawmakers thought the debt would easily be erased by a surging stock market, where much of the state's pension money was invested. But as the economy's fortunes soured, the state's taxpayers found themselves on the hook for billions of dollars in unwanted debt.

It is a stark example of how, for more than a decade, governors and lawmakers from both sides of the political aisle have been addicted to debt. It was good politics: New Jersey's government has borrowed money to boost pensions, to pay for tax cuts, and, in at least one instance, to balance the state [budget](#) all without asking voters to pay higher taxes.

Debt issues also have been a reliable way for lawmakers to reward campaign supporters.

The law firm of former Democratic Attorney General David Samson, Wolff & Samson, was paid \$380,000 for no-bid bond counsel work on the \$2.4 billion debt consolidation issue in 2003, when the New Jersey Highway Authority merged with the Turnpike Authority.

Samson's replacement in Democratic Gov. James E. McGreevey's administration was Peter C. Harvey, a former partner in Riker Danzig Scherer Hyland & Perretti, which worked on 96 bond deals worth \$7.8 billion for agencies and governing bodies throughout the state from 1999 to 2003, according to Thomson Financial, an international finance tracking company. The Attorney General's Office is usually responsible for selecting bond counsels.

Debt may have been lucrative for some, but for many in the state, it has come to equal pain, both in a fiscal and human sense.

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Local school districts have threatened to close schools, increase class sizes and lay off teachers. Towns are reeling from severe cuts in state aid.

Democratic Gov. Jon S. Corzine's proposed fiscal year 2009 budget cuts nearly \$200 million in aid to municipalities and eliminates tax relief aid for towns with populations under 5,000, while cutting aid in half for towns with 5,000 to 10,000 people.

"Quite frankly, we were blind sided by this assault on a specific class of communities," said William G. Dressel Jr., long-time executive director of the New Jersey State League of Municipalities. "A lot of these small towns are run very efficiently. They are extremely conservative in how they use the taxpayers' dollars."

From 1999 to 2003, the Legislature adopted, and governors signed, a series of laws that boosted the benefits of teachers and other state employees. The laws also added nearly \$7 billion of future liability, according to a 2005 report by a Benefits Review Task Force that had been appointed by Democratic Gov. Richard J. Codey.

"I don't think these politicians ever realized that all these pensions had to be paid," Toms River resident Victor Antonelli, 67, said. "Now it's time to pay the piper. ... In my opinion, if they don't straighten out, I don't care if it's Republicans and Democrats, this state is going to have a taxpayers' revolt."

A mountain of debt

It wasn't always this way.

In 1997, Republican Gov. Christine Todd Whitman helped [fund](#) tax cuts and plug a budget gap by borrowing \$2.8 billion that should have gone into the state's employee pension fund. In 2002, the Legislature borrowed \$1.5 billion against New Jersey's future share of the national tobacco settlement money to close yet another budget hole.

Two years later, McGreevey issued \$1.9 billion in new debt to help balance the budget, a move later declared unconstitutional by the state Supreme Court.

Further complicating matters were decisions not to fully fund the state's employee pension and health care funds. From fiscal 1997 to 2005, no state money was put into the state's Public Employees' Retirement System. From fiscal 2000 through 2005, no appropriations were provided to the second-largest system, the Teachers' Pension and Annuity Fund.

The fiscal 2009 state budget provides 65 percent funding for the state's pension system. Corzine has said that it would have cost the state \$800 million more to make a full pension payment.

Corzine has sounded the alarm about New Jersey's debt, both bonded and non-bonded, which has ballooned from \$13 billion in 1997 to \$38 billion last year.

And if you add in future costs for state employee pensions and retiree health-care costs, the state is facing a \$121 billion bill, a price tag about four times larger than New Jersey's current budget.

The Legislature also has authorized an additional \$8.6 billion in debt that has not yet been issued, Treasury Department spokesman Tom Vincz said.

Corzine has touted a \$32 billion plan that would pay for transportation improvements and debt reduction by raising tolls

800 percent by 2022.

But, in the face of almost universal popular opposition, Corzine admits that the Legislature is unlikely to adopt the toll plan.

Still, in remarks he made at a New Jersey Chamber of Commerce event Feb. 28 in Newark, Corzine drove home his message that the debt must be reduced because the \$4.8 billion that goes toward bond, pension and retiree health-care payments now is money that can't fund other state programs.

"At some point, the growth in debt gets to the point that it is actually crowding out everything else that's going on, and we're in that position," the governor said.

Corzine argues that because current payments for debt, pensions and health care take up 14 percent of the budget, funding for school districts, municipalities, higher education and hospital charity care is steadily being squeezed out.

"I think it's a little more complicated than just simply cutting," Corzine said. "We have to do that, but we also have to address this debt load."

A study released last week by the Pew Center on the States gave New Jersey a grade of "C," below the B- national average. New Jersey received C- grades for its long-term financial outlook and the budget's structural balance.

"New Jersey hasn't yet found a way to deal with the long-term imbalance between its revenues and its spending," the report states.

Simply put, the state spends more money each year than the revenues it takes in. That resulted in a \$3.2 billion budget gap for fiscal year 2009, and a \$1.7 billion projected gap next year. Balancing the budget has been solved in recent years through one-shot revenue deals and raising the sales tax a penny.

"Despite improved funding in the past two years, liabilities continue to grow," the report says.

An alternative remedy

Not everyone agrees with Corzine's contention that the state's debt problem is so severe that it must be paid down immediately.

Assemblyman John Wisniewski, D-Middlesex, who chairs the Transportation and Public Works Committee, said the debt has been incurred over many years and "can't be solved overnight."

"I would respectfully suggest that maybe we are overstating the problem a little bit," said Wisniewski, who has come up with an alternative transportation funding plan that includes a combination of smaller toll increases, a hike in the state's gasoline tax and a water usage fee. "If you have a family debt issue, it doesn't mean you stop eating, it just means you don't go out to eat as much."

Wisniewski said the state's pension funds can provide benefits to retirees for 30 years, even if the Legislature made no further contributions.

"Is the pension system underfunded? Yes," Wisniewski said. "Let's fill it in gradually, and let's make sure that the people who are managing the funds get a good return on their investments. ... The real issue is that New Jersey takes in \$36 billion in revenue. We should be able to make our state government work on that."

### Soaring cost of benefits

When Corzine talks about New Jersey's debt crisis, he's referring not just to the amount the state owes for interest and principal payments on bonds it has issued, but also to its future liability for employee pensions and health care.

Payments on the state's bonded debt are actually projected to remain fairly flat through 2013, according to a debt analysis released in November by the state's Treasury Department.

But the costs of employee benefits, including pensions and health care for both active and retired employees, are expected to skyrocket, from \$2 billion to almost \$8 billion in 2013.

Assemblyman Michael Doherty, R-Warren, accused the governor of "trying to create a crisis," so that his toll plan would be approved.

"There is \$80 billion in the pension fund, enough to pay all retirees through 2038," Doherty said. "... In view of our recent history in New Jersey with the school construction money, and cigarette tax money, when New Jersey gets a large sum of money, we spend it."

Corzine has pointed out, however, that there is a long-term deficit in the state's pension fund that grows larger each year that it isn't fully funded.

Doherty is among a group of Republican legislators who have held town meetings throughout the state to suggest budget cuts and changes to employee health-care and pension plans that they believe could save billions of dollars. The legislators say, for example, that eliminating benefits for part-time state employees and allowing full-time workers to receive a pension from only one job would save \$4 billion.

State Sen. Andrew R. Ciesla, R-Ocean, said it is state spending that must be brought under control.

"The sky is not falling," he said of Corzine's pronouncements about the dangers of debt, "but spending is absolutely out of control."

The state's total budget has jumped from about \$21.5 billion in 2000 to \$33 billion this year.

"Spending has been way out of control over the past six years, and way out of proportion to what the private sector has done," Ciesla said. "The state has not made adjustments to changing economic conditions like the private sector has done. The state has just continued to spend more money."

Ciesla argues that the governor's monetization plan "does nothing to reverse this trend of runaway spending," but instead saddles future generations with billions more dollars in debt.

"This isn't just a bad plan," Ciesla said. "There is probably not hyperbole sufficient to describe how bad this plan is."

### Reason for debt reduction

But Joseph M. Giglio, an executive professor of general management in Northeastern University's School of [Business Administration](#), said it's prudent for states to reduce debt because eventually high amounts of outstanding debt will make it more expensive to borrow money.

Most of New Jersey's previous bond issues have been given an AA- rating by Standard & Poor's and an A1 rating by Moody's Investors Service. Those ratings characterize the bonds as

favorable investment opportunities that may have greater risk than the highest-rated securities. It's the equivalent of a homeowner having to pay more a month for a mortgage loan because of poor credit.

"Seventy percent of states have a double A-minus (rating)," Assemblyman Wisniewski said, "and so does Goldman Sachs, by the way." He was referring to the investment banking firm Corzine used to head. Some larger states, such as Texas, Michigan and Ohio, have higher bond ratings.

Corzine points out that the state's [credit rating](#) has been downgraded by Moody's three times since 1992, meaning the state will pay more debt-related interest on any future bond issues.

Giglio also noted that increased debt payments make it difficult for the state to finance other projects.

"To the extent that your annual [debt service](#) increases, it crowds out your ability to spend on operating and maintenance," he said.


Treasury spokesman Vincz said the annual cost of state payments for health benefits, pensions and debt service has risen from about \$2 billion in fiscal year 2002 to nearly \$5 billion in fiscal year 2008. That's an increase of 145 percent.

By contrast, Vincz said, the percentage of state budget money devoted to aid for municipalities and school districts about 39 percent has remained basically flat for about 10 years.

"Some of the core aid programs have been held pretty much at frozen levels for a decade," Vincz said.

Jon Tamari of the Gannett State Bureau contributed to this report.

Next Sunday: Unbridled spending on education and employee benefits hammers the state budget.

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Sommysset, you're kidding, right? Employee layoffs by Corzine--including those contemplated--are impacting non-union employees only, and a very small percentage of our bloated public sector payroll. As to your contention that public sector benefits are not unconscionably excessive, maybe some facts will help.

Let's look at what the Communications Workers (that's the Union whose president, Carla Katz, Corzine paid \$6 Million to as hush money for their brief affair) says on their own website about the recent collective bargaining agreement.

ON HEALTHCARE...

"You will pay 1.5% of pay for your health coverage. Everyone will pay 1.5% of pay for coverage no matter what plan they have and what coverage."

So, a State employee earning \$75,000 annually would make a weekly contribution of \$21.63 TO COVER HERSELF AND HER ENTIRE FAMILY. In a typical private sector plan, an employee would be paying about 20% of total costs; on a reasonable plan design that would equate to an minimum of \$46 per week. And many pay far more. But wait! here's what the CWA says about that..."We negotiated higher percentage wages in exchange for that..."

How about benefit design? None of that 20% co-insurance and large co-pay for State employees. What they get is IN-FULL COVERAGE, subject only to a \$15 co-pay (up from \$10; is that you're "dramatic rise in costs"?). If they go out-of-network, benefits are subject to a \$250 deductible and then 70% of all costs. Point me to a single private sector company--including J&J or Merck--which has medical plans rivaling this! And, the in-network panel was expanded to ensure that employees would get the higher benefits. And those costs are passed on to taxpayers dollar-for-dollar with administrative and other costs tacked on.

For prescription coverages--the cost of which has been skyrocketing--State employees and their families pay \$3 for generic drugs and \$10 for brand names. For mail order (with a 90 day supply) it's \$5 and \$15. Again, there's virtually no private sector companies offering benefits that rich.

#### PENSIONS...

It is true that employees now have to contribute an extra 1/2% of pay to the pension fund. (For the \$75,000 per year employee that's a staggering \$10 or so each week.) But, as the CWA says, it was able to "beat back the proposal to cut pension benefits by changing Average Final Compensation for pension purposes to the highest 5 years instead of highest 3 years". Very few private sector companies today continue to use a final 3 average...because it is enormously costly. While many have completed eliminated their defined benefit plans (and replaced them with 401(k) or similar definer contribution plans) those that maintain them have almost certainly reduced excessive benefit provisions like this.

Now here's the big cutback Corzine and the Unions claim was made to pensions. For ONLY THOSE EMPLOYEES HIRED AFTER JULY 1, 2007, their normal retirement age is now 60...not the age 55 unreduced early retirement age applicable to the overwhelming majority of employees (those hired before July 1st). In the private sector, the normal retirement age is typically age 65. If you retire before then, you incur a reduction that typically ranges between 3% and 6% for each year before age 65. For our State workers, they can retire at any age, as long as they have 25 years service, and their reduction is 1% FOR EACH YEAR BEFORE AGE 60 and just 3% for years early before age 55. Most private sector employees can't even elect to retire before age 55, even with a reduction.

And let's not even get into paid time off, sick pay and all the other perks that State employees get which private sector employees don't.

These ludicrously rich benefits are what needs to be brought under control. In the era when public sector wages were substantially less than those in the private sector, benefits were used to "make up". That was when pensions and medical benefits were inexpensive fringe benefits. Today, public sector pay equals or exceeds that of private sector peer positions. And private sector benefits are a shadow of those provided public sector employees. But the State refuses to modernize its benefits package in light of the new realities. And the Unions--which certainly know they're on thin ice in a State teetering on the edge of fiscal crisis--continue to rely upon Corzine and his cohorts to keep the necessary reductions at bay. We will always be in financial trouble until our huge labor costs are addressed. That means that Corzine needs to stop treating the Unions like their

wages and benefits are scared cows. He needs to confront the fact that we can pay our State employees REASONABLE wages and benefits--something comparable to the private sector--and save billions of dollars. He knows that! What he needs to do is have the courage to confront the Unions head on and take a stand which says "I can't represent taxpayers and State Unions". He needs to do the right thing and that means doing what private sector employers have been doing for the last 20 years to preserve their competitiveness.

It's time to return to the day when politicians and State employees were the PUBLIC SERVANTS. We've reached a point where taxpayers live to serve the machine which our State bureaucracy has become.

Posted: Sun Mar 09, 2008 1:34 pm

scrum writes: "Health care costs have risen for everyone in the private sector - why are we burdened with our own increasing costs, while at the same time forced to support those same cost increases for public employees?"

In the past two years of the Corzine administration state employees have seen their health care and other benefit co-pays and contributing payments and fees rise dramatically, and all public employees have seen their contributions to the pension fund increase.

Somerset County is jacking the co-pays, fees and contributions for their employees.

It's a myth that state employees get the Cadillac of benefits and don't have to pay for them.

It's also a myth that state employees have permanent employment. Under Corzine the # of state employees has fallen by almost 3 percent, and he is looking at cutting another 4-5 percent in the next two years to get us down to the level of employees in 2002.  
<http://www.nytimes.com/2008/03/09/nyregion/09cuts.html>

That's not enough, but it's still a start.

The constant blame state workers get -- people who show up every day and work hard every day -- get for the mismanagement of the legislature is just stupid. Fomenting that stress is a great way for the powerful to keep workers arguing and missing the gold the powerful is stealing, and a great way to sell newspapers.

But it's a crappy way to fix the problem.

Posted: Sun Mar 09, 2008 12:29 pm

My simple plan is that I didn't cause the problems created by the Republicans and Democrats and I want to get off the sinking ship by moving out of NJ. Businesses are avoiding and leaving NJ so residents will be joining the movement.

Posted: Sun Mar 09, 2008 9:31 am

"Lawmakers thought the debt would easily be erased by a surging stock market, where much of the state's pension money was invested." Seriously? Why is it that every blue collar and lower middle class employee in the private sector who participates in 401Ks and other retirement plans realizes that their participation is a long-term investment, that the stock market goes up and down, and that yes, there are periods where your investments will fall? And these geniuses

are running our state?

How do we deal with this?

1. Part-time employees are not eligible for pension and health care benefits.
2. Employees must contribute to their health care benefits.
3. Retirement plans, not pensions, are instituted immediately. Your retirement fund will receive contributions from the State, depending on your length of employment, up to 3.5% of the person's salary (just as my 401K at my office is run). I believe 3.5% is the maximum allowable contribution as dictated by law.

Those of us who work in the private sector already have to deal with such restrictions. Our "pension" a/k/a 401K is only as plush as we make it. As for employer contributions, you become vested by length of employment, not employment alone.

Health care costs have risen for everyone in the private sector - why are we burdened with our own increasing costs, while at the same time forced to support those same cost increases for public employees?

This State needs a serious wake-up call. We can no longer sustain the burden of a bloated budget, increased taxes and nonsense fees imposed by millionaires that we elect, who have absolutely no idea what it's like to live paycheck to paycheck.

Imagine if you overspent your budget the way our State does. Do you then get to go to work Monday morning and demand a salary increase to cover your extravagant expenditures? You'd be laughed out of a job. This is exactly what our State is doing to the taxpayers.

Think of the new taxes that have been instituted in the past 5 years. What ever happened to terms such as "double taxation" and "taxation without representation"? No one needs to be told that these taxes are nothing more than BS ways to gain revenue for the State, which revenue is spent more quickly than it can be collected. Overspending, short and simple.

We have the most densely populated state in the nation. We have an enormous amount of personal wealth in this state, as well as an applaudable industrial/business tax base - look at all the pharmaceutical companies and other large corporations that call NJ home. Why, with this number of people and companies contributing taxes to the State coffers, are we in such disarray? The answer is easy - bloated government, out of control spending, mismanagement at every level, entitlements, corruption.

It is only now that we are in a recession that people's eyes are opening and citizens are realizing that our State is taking us to the cleaners. 4 years ago our citizens were just as happy to blind themselves to the overspending, since many of them were doing the same thing. This mess has been bred by irresponsibility, and it's time to boot those who have put us in this mess. Elect some blue collar and middle class people to the State government. Who cares if you were never in government before - you want to balance the budget, elect people who know how to follow a budget on a limited income, who can spend within their means, someone who could give a hoot about special interest groups and instead will focus on a balanced budget.

Bravo to Mike Doherty and the other elected politicians who practice fiscal responsibility and are demanding change in government. These are the people we want representing NJ taxpayers!

Posted: Sun Mar 09, 2008 7:53 am

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