The Record

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Critics: Budget a boon to the rich

N.J. will cut taxes but borrow billions

By DUNSTAN McNICHOL
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TRENTON — As they win national acclaim for income tax cutting, Governor Whitman and lawmakers have crafted a second state budget that pinches the urban poor, asks municipalities and schools to tighten their belts or raise property taxes, and heightens tensions between urban and suburban communities.

"It's pretty basic," said Sen. Richard J. Codey, D-Essex County, during Monday's marathon debates over the proposed state budget, which will take effect Saturday. "Choices have to be made."

Republicans say the $16 billion budget they endorsed chooses tight fiscal policies and a tax cut over unchecked government growth.

"Promises made, promises kept," Rep. Richard A. Zimmer, R-N.J., said in a statement to Congress praising the state budget. "The New Jersey message reso-

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BUDGET: Cuts taxes, borrows billions

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nates throughout the nation and should be remembered in this chamber."

But Democrats say the Whitman budget chooses to give a nearly $600 million tax dividend to wealthy residents at the same time the state is borrowing billions of dollars to pay for such basics as transportation services and higher education construction.

Behind the rhetoric, the 251-page budget document contains an impartial accounting of the choices that add up to the state's largest budget and its biggest cut in income taxes ever. Among the highlights:

● **The tax cut**

The state's 3.4 million taxpayers will share $586 million in tax relief. One-third of the money — $194 million — will go to taxpayers earning more than $100,000 a year, about one-tenth of the state's taxpayers.

The 57 percent of the state's taxpayers who earn below $40,000 annually will share about half as much — $104 million or about 17 percent of the total tax cut, a legislative analysis shows.

● **Aid to urban hospitals**

Often cited as the front lines of service to the needy, urban hospitals — like St. Joseph's Hospital and Medical Center in Paterson and the University of Medicine and Dentistry of New Jersey in Newark — are among the hardest hit in Whitman's new budget.

The state's decision to cut Medicaid payments by 20 percent cost hospitals that serve the poor a total of $135 million in state and federal support. Ten hospitals in the state's largest cities lost about $67 million.

Those same hospitals lost another $21.9 million when state lawmakers adjusted the formula under which the state distributes $400 million in special assistance to hospitals that serve needy patients.

"We've had to hold the budget down," said Sister Jane Frances Brady, administrator of St. Joseph's. "I can't say we've closed major programs."

WINNERS AND LOSERS

Winners

■ **Businesses:** A series of tax cuts gives businesses a $67 million tax break, although the cuts will not take effect until April and July of 1996.

■ **Taxpayers:** The average income tax bill will drop by about $173 as a result of the latest tax cut, a 15 percent reduction for most taxpayers.

■ **Urban schools:** About $100 million in additional state aid will go to the state's 30 poorest school districts, known as special-needs districts.

Losers

■ **Municipalities:** State aid to municipalities stays about the same for the second consecutive year, despite inflation and other new costs.

■ **Urban hospitals:** Cuts in Medicaid will reduce money to hospitals for treating the poor by $135 million.

■ **State workers:** Nearly 1,200 state employees received pink slips last month in anticipation of the budget's approval.

● **Municipal aid**

Aid to the state's 567 municipalities will rise slightly under the new budget, to $1.616 billion from $1.608 billion. The Legislature revived a $33 million aid program Whitman had chosen not to fund, and there was an unexpected surge in returns from a special tax paid by utility companies.

Whitman and her supporters call the stable levels of aid a sufficient hedge against any need to raise local property taxes. But mayors, who say they have struggled to keep costs and taxes in check for years, say the state's failure to boost aid in the face of inflation and rising public employee contract costs is forcing them to pass the added costs onto local taxpayers.

"We're trying desperately to make ends meet," said Assemblyman William J. Pascrell Jr., D-Paterson, who is also mayor of Paterson. "There's just so much belt-tightening you can do, and the state has to respond."

Some communities in Bergen County, which in the past received special aid from the state under a program called Aid to Densely Populated Municipalities, absorbed actual cuts in state assistance. The governor's drive to phase out that program cost Hackensack $595,000 and Fort Lee $945,000.

● **School aid**

Lawmakers added $11 million to Whitman's proposed school-aid distribution, bringing the total amount to be distributed to $3.947 billion. That's an increase of $133 million over last year's aid total. The bulk of that is attributable to a $100 million in special aid targeted to the state's 30 poor special needs districts to satisfy a court order.

For the bulk of Bergen County's school districts, the new fiscal year's state aid will roughly equal the current level. In Garfield, which is a special needs district, aid will jump about $2 million, to $8.7 million from $6.7 million.

● **Services to the poor**

Whitman's budget counts on millions of dollars in reduced expenditures for Medicaid (health care for the poor), general assistance (welfare for single adults), and a host of other programs that serve the poor. Among other things, her budget shaves $11.8 million off the $177 million general assistance budget by capping the amount hotels can charge for tenants covered by the program.

She saves $50,000 because federal cutbacks in a program to distribute surplus food to the poor will mean less administrative overhead, and she plans to replace $250,000 in state funds cut from the Public Defender's Office.

● **Drivers**

For automobile owners and drivers, Whitman's new budget is a mixed bag. Lawmakers removed a $5 fee Whitman had wanted to impose on thousands of transactions that take place in motor vehicle agencies. But the lawmakers so far have failed to dissuade Whitman from a plan to save $4 million by closing three agencies and turning 23 state-run offices over to private contractors.

The revamping of the Transportation Trust Fund, the state's main source of road and mass transit money, also carries new costs for drivers. A $120 million-per-year registration surcharge, scheduled to expire next year, will be tapered back only gradually in order to help repay billions of dollars in bonds expected to keep the fund solvent for the next four years.

In the budget year ending Friday, drivers contributed more than $60 million in new and increased fees. In all, since Whitman took office, the state's collection of fees from drivers has jumped to the $420 million projected in the upcoming budget, from $342 million in 1993.

TAXES

Whitman Delivers Cuts Year Ahead of Schedule

By IVER PETERSON

TRENTON, June 26 — But can she afford it?

From the beginning of Gov. Christine Todd Whitman's wonderful adventure in tax cutting 18 months ago, the skepticism that she met with was rarely about money and mostly about politics. Cutting the income tax rate by 30 percent over three years was dismissed by over-confident Democrats and even some Republicans as a political impossibility, an interruption in the ever-increasing flow of money from Trenton to the suburbs and the cities that had continued unabated, through Democratic and Republican administrations alike.

News Analysis

Today, Mrs. Whitman delivered her promise in full and a year ahead of schedule, and her soaring popularity has answered any doubts about the politics of tax cutting. But now she is faced with a more nettlesome question that has come closer than any merely partisan division to scuttle her plans: will state revenues be sufficient to cover the $247 million in lost income taxes under the cut?

Several Democrats and even some of Governor Whitman's fellow Republicans insist that the answer is no. "I do not believe the revenues will be there to pay for it," Senator Robert E. Littell, the Republican chairman of the Senate Budget Committee, said last week of the tax cut, which will take effect in January, and will save taxpayers $616 million for the 1996 tax year.

Like other skeptics, Mr. Littell points to the following uncertainties:

¶New Jersey and the rest of the country's economies show signs of slowing down, which would immediately depress income from business-sensitive taxes, the only taxes to show a healthy growth so far this year.

¶Even without an economic slowdown, the nonpartisan Office of Legislative Services reports that the Governor's Treasury Department has overestimated revenues for the coming fiscal year by $380 million, a gap in forecasting that the State Treasurer has yet to explain away, despite his assurances that it would not be a problem.

¶With both the Republican-controlled Congress and President Bill Clinton agreeing to cut Federal spending to balance the budget by the next century, the $5.8 billion in Federal money New Jersey receives per year is in jeopardy. As Assemblyman Joseph J. Roberts Jr., a Democrat from Camden, pointed out in debating the tax cut today, "a 5 percent reduction in Federal aid would open up a $250 million hole in the budget."

defensive," Mr. Linky said. "She is going to have to keep a very careful eye on short-term spending and I think that may distract them from doing the long-term analysis of their plans that they would have had more time for under the three-year plan."

Mr. Linky also raised questions about the Whitman budget's reliance on savings from turning over the management of more than two dozen state operations to private contractors. It is still an untested idea whose true savings potential might have been more carefully explored with a few trial cases if the Governor had not been in such a rush to act, Mr. Linky said.

For example, the administration hoped for important savings by putting management of the New Jersey Veterans Home in Paramus, which costs the state $18.5 million a year, in private hands. One bid came in at more than the state's operating costs, however, and two others promised savings of just half a million dollars, a meager sum considering the political costs to legislators from angry public employees, who face displacement by the privatization plans.

Despite these warning signs, Governor Whitman has never publicly wavered in her confidence. The budget has a $500 million surplus to cushion any surprises, she says, and the Republican Congress has promised that any cuts in aid to the states will be accompanied by greater freedom on how to spend it.

In addition, the Governor has agreed to Mr. Littell's creation of a special reserve fund to cover any cuts in Federal dollars that could not be offset by changing the way the money is spent. And she has agreed to postpone for another year some $68 million in business tax cuts she had wanted to take effect with the new budget. With these nods toward fiscal prudence, administration officials say, why should anyone doubt the state's ability to pay for a highly popular income tax cut?

The answer will start to take shape in about a month, when state officials are scheduled to travel to Wall Street and open their books to the bond rating companies.

IMPACT

The Second Cut

New Jersey income tax liability for married couples filing jointly. The figures assume two dependents with $5,000 in total exemptions. Tax liability is based on taxable portion of gross income.

the budget.

¶The Internal Revenue Service has notified the state that it has concerns about $769 million taken out of the state employee pension fund in 1992, before Mrs. Whitman became Governor. The Governor's refusal to release the letter has only increased the Democrats' claim that she is concealing a demand for the money to be repaid.

These questions hanging over Governor Whitman's moment of triumph would be much smaller if she had stayed with her original plan and drawn the cuts out over three, instead of two years, said Donald Linky, director of the Public Affairs Research Institute, a nonprofit fiscal watchdog.

"The decision to go with the full implementation a year early has clearly put the administration on the

income:

GROSS INCOME	TAX LIABILITY 1993	1996
$ 10,000	100	70
25,000	400	280
35,000	650	455
45,000	900	630
55,000	1,150	805
75,000	1,850	1,295
100,000	3,325	2,474
150,000	6,575	5,236
200,000	10,050	8,379

Source: New Jersey's Governor's Office

A CLOSER LOOK

Whitman's Budget

Gov. Christine Todd Whitman's budget plan for the 1996 fiscal year fulfills her campaign promise of cutting income taxes by 30 percent. The income tax reduction for the 1996 fiscal year will be $614 million. The reduction in 1995 was $469 million. Here are some highlights of the Governor's budget.

COST-SAVING MEASURES

REDUCING AID Aid to municipalities

Fiscal year '95	$1.60 billion
'96	1.57 billion

SLOWING GROWTH Increase of 4.5 percent to education is well below increases of up to 25 percent during the Florio years.

Fiscal year '95	$3.9 billion
'96	4.1 billion

BUDGET CUTS 2,900 layoffs. In addition, these savings are expected within departments.

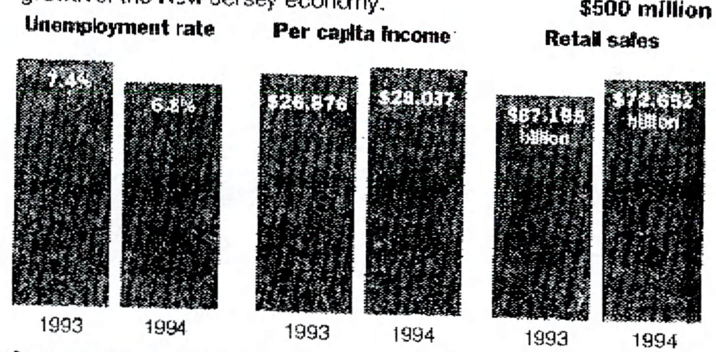
Human Services	$131 million
Corrections	46 million
Transportation	18 million
All other departments	36 million

INCREASES IN REVENUE

ADDED INCOME Many state fees like those paid for teacher certification and membership in professional associations have been increased. **$9 million**

ONE-TIME BUDGET ADJUSTMENTS Includes a Medicaid surplus payment of $60 million carried over from previous year and $15 million from the sale of the Garden State health plan. **$348 million**

INCOME FORECAST The Governor forecasts an increase in sales and corporate taxes, fees and other revenues. Of this total increase, $148 million is in sales tax. This forecast depends on the continued growth of the New Jersey economy. **$500 million**



Source: New Jersey's Governor's Office, Rutgers Economic Advisory Service

The New York Times

THE DEMOCRATS

Outmaneuvered on Taxes, Opposition Searches for a Strategy

By JOSEPH F. SULLIVAN

TRENTON, June 26 — Since the modern State Constitution was passed here in 1949, New Jersey Democrats have largely dominated state government. Then 18 months ago, with the election of Gov. Christine Todd Whitman, the Republicans took control of the executive and legislative branches for only the second time in 45 years, leaving the Democrats in search of a strategy that will give them a leg up for the State Assembly races this fall.

But if Democrats had a unified plan of action, it did not surface today during the Legislature's passage of bills to cut income tax rates by 15 percent. Indeed, 12 of the 28 Democrats in the Assembly joined the Republicans today in voting for Governor Whitman's tax cut.

And Democratic votes were crucial to pass the income-tax rate cut in the Senate. The bill passed on a 27 to 9 vote with 21 needed for passage. Republicans supplied 20 votes with Democrats providing the comfortable winning margin. Seeing the Democratic support, the Republican leadership allowed two of its Senators from urban areas, Senator Richard J. LaRossa of West Trenton and Peter A. Inverso of Hamilton, to abstain.

Republicans hold a 52 to 28 majority in the 80-member Assembly and, given the popularity of the Republican Governor and the continued absence of any unifying statewide controversy, it is unlikely that the Democrats will close the gap on their rivals, much less regain control of the House.

The tax cut, which is scheduled to take effect in January, will enable Governor Whitman to make good on her pledge to cut tax rates by 30 percent, a year earlier than her self-imposed deadline of three years. Completion of the tax-cut program will be the centerpiece of the Republican drive to retain its lopsided Assembly majority, which essentially

Up against a highly popular Republican Governor.

has turned Democrats into spectators over the last two years.

Assemblywoman Loretta Weinberg, a Democrat from Teaneck, who voted against Mrs. Whitman's tax cut, saying it will lead to higher taxes in the future, said today on the floor, "I regret to say there is no single Democratic position on this tax cut.

"Some of my members believe that any tax cut is better than none at all."

"Others oppose this concept," she continued, "but they know the realities of big-money politics in the media age, and they will vote yes because they know they could be unfairly branded in an upcoming election." She added that still others will abstain for fear of "being caught between a rock and a hard place."

The tax cut passed the Assembly by a vote of 63 to 14. Democrats provided all the opposing votes. Besides the 12 Democrats who voted for the cut, two, including the Assembly minority leader Joseph V. Doria of Bayonne, abstained.

With no easy response to a tax cut delivered by a popular Republican Governor, B. Thomas Byrne, the state Democratic chairman, said the party's candidates in the fall will have to convince voters that cutting tax rates while the budget is growing is irresponsible and certain to produce higher local property taxes in the near term and higher state taxes eventually in order to balance future budgets. "Many people don't realize that the budget has gone up by $1 billion during Whitman's tenure," he said.

"I've always said we could reasonably support a tax cut that was fair and paid for, but this neither," he said. "Each round of elections more and more Democrats are coming around, and lately some Republicans have been saying the latest cut should have been delayed until we have a clearer picture of the economy and state revenues."

The Senate minority leader, John A. Lynch of New Brunswick, has been one of the most outspoken critics of the Governor's economic policies and has sharpened his attacks in recent weeks.

"Revenues are flat, spending is up 8 percent and the Governor declares a dividend by pushing through a cut in tax rates," he said today. "How do you do that?"

"They're cooking the books and the issue is, do we have the courage to go out and make that case to the public?"

Mr. Lynch and Senator Bernard F. Kenny, a Hoboken Democrat, have

If Democrats have a unified plan of action, it hasn't surfaced yet.

gone to court to try to force the Whitman administration to release a letter from the Internal Revenue Service, regarding some changes in the state's pension system. Those changes, enacted by Gov. Jim Florio with the cooperation of the Republican Legislature two years ago, were portrayed as an accounting change that would help the state present a balanced budget.

Mr. Lynch said that the state could eventually be forced to come up with $1 billion to satisfy the I.R.S. and that legislators had a right to see the letter before being asked to vote for the budget or the tax cut. Mrs. Whitman has said the letter is merely an invitation to discuss the pension changes, and her legal advisers say the accounting procedures will pass muster.

But Mrs. Whitman has refused to make the letter public and has defeated the Democrats' court challenge at the trial level. Late last week, after reading the letter, a two-judge panel of the Appellate Division of Superior Court said it should be made public. The administration won a stay of that ruling while it pursues an appeal. The seven-member New Jersey Supreme Court conferred today by telephone and sent the matter back to the trial court for additional fact-finding. A decision on releasing the letter is not expected for at least few weeks.

Mr. Lynch said that if the state must come up with increased tax payments to the I.R.S., even if they are stretched out over a few years "this could be the straw that breaks the camel's back." He said that by the middle of 1997 the state could be looking at a budget gap of more than $4 billion when the diversion of hundreds of millions in pension payments ends and the bill for the state takeover of the court system comes due.