

August 18, 2020

Dear Governor Murphy, Speaker Coughlin, and President Sweeney:

New Jersey is facing enormous health and economic challenges fighting the COVID-19 pandemic, yet the state has risen to the occasion. The pandemic has caused an unexpected increase in state and local spending at the same time that revenues, especially from income and sales taxes, are falling, making balancing next year's operating budget exceptionally difficult.

Now is an appropriate time for the federal government to provide relief to states, an important measure Congress took during the Great Recession and more recently—though on too small a scale—in the CARES Act. There is only about \$400 million in New Jersey's rainy-day fund, one of the smallest such funds in the country. We are therefore concerned that the state will pursue counterproductive budget cuts. Large cuts would erode the health and social infrastructure needed to continue combatting COVID-19, increase inequality, and exacerbate the economic downturn. Instead of budget cuts, the state should look to raise revenues to balance its budget.

Cutting spending on housing, public transportation, and healthcare removes spending from New Jersey's economy when it is most needed and hurts the people who need it the most—those who have been disproportionately affected by COVID-19. Growing evidence indicates that these adverse effects are stratified by gender, race/ethnicity, and disability status, and they come at a time when the nation has pointed a spotlight on the need to eliminate such disparities, especially by race. Cutting local aid to cities and towns for services such as fire protection, park maintenance, and public works erodes public safety, household well-being, and the quality of our infrastructure. Reducing funding for early education, K-12, and higher education reverses our long-standing investment in human capital—including recent new commitments—with long-run consequences for worker productivity and economic growth.

We realize that New Jersey must run a balanced budget. In a recession, balancing the budget by cutting vital spending has a more negative impact on our citizens than balancing the budget by raising taxes. Both the personal income tax and the corporate tax are fair ways to do this. Modest adjustments to income tax rates on those earning \$250,000 and more would raise approximately \$1.5 billion in new revenue each year while making the overall tax code fairer. Extending the temporary corporate tax surcharge of 2.5 percent on businesses with profits of \$1 million or more would provide \$425 million in additional annual revenue to invest in critical assets and services.

As the leaders of our state government, you have the responsibility for setting priorities and making the difficult choices that lie ahead. We the undersigned encourage you to raise revenue rather than cut the social and physical infrastructure that will be necessary to protect the health and economic well-being of our people, our communities, and our state.

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