Before You Go, Governor Murphy....

THERE IS SOME UNFINISHED BUSINESS IN THE GARDEN STATE

MICHAEL LILLEY

APRIL 11, 2022

SUNLIGHT POLICY CENTER OF NEW JERSEY

BEFORE YOU GO, GOVERNOR MURPHY ....
There Is Some Unfinished Business in the Garden State

Executive Summary

It sure looks like New Jersey Governor Phil Murphy wants to run for president.

Politico recently ran an article about Murphy's national political ambitions, reporting that Murphy's wife and a top political aide were launching two Super PACs, which are ideal vehicles for a national campaign because they can raise and spend unlimited amounts of money. Murphy did much the same thing in his gubernatorial campaigns, starting a non-profit called New Start New Jersey before his initial run in 2017 and then having his campaign manager run the Super PAC New Direction New Jersey to pave the way for his re-election in 2021.

Perhaps in a sign of things to come, New Direction quickly became New Jersey's best-funded Super PAC, raising and spending over $13 million in support of Murphy. Notably, 80% of New Direction's funding came from New Jersey's largest government union and most powerful special interest, the New Jersey Education Association (NJEA).

Further enabling his national ambitions, Murphy has secured the chairmanship of the National Governors Association to go along with his current position as chair of the Democratic Governors Association. So he will have ample opportunity to travel around the country and build support, with his Super PACs in his wake. With the potential support of deep-pocketed national government unions, Murphy could have a lot of money to spread around.

But before Murphy leaves for the national campaign trail, there is some unfinished business in the Garden State.

In his quest to gain and retain the governor's office, Murphy has proved highly adept at aligning himself with powerful special interests – the NJEA most of all - and getting himself elected. As governor, he has catered to those same special interests and his quid pro quos have been numerous and consequential. New Jersey under Murphy: run by and for the special interests.

As a result, New Jersey has four major problems that remain unaddressed. In each case, rather than address the problem, Murphy sided with his special-interest supporters, led by the NJEA.

Pandemic-related learning loss. New Jersey students, and particularly minority students, have suffered substantial learning loss due to school closures. Murphy's Department of Education has been AWOL.

Murphy's response: The NJEA does not want to be held accountable for the learning loss caused by extended school closures. The NJEA wants to pretend that learning loss doesn't even exist. Despite Murphy's oft-repeated calls for "fairness" and "equity," his Department of Education has been silent on learning loss.

Underperforming economy and weak jobs recovery. New Jersey has long had one of the very worst climates for business in the nation, and Murphy has made it worse. Accordingly, when it comes to the economy and jobs, New Jersey has significantly underperformed the national economy before, during and after the pandemic recession.

Murphy's response: Murphy has increased the burdens on New Jersey businesses with his extended lockdowns and unemployment benefits, but most importantly he raised both income and corporate taxes in the middle of the pandemic. The NJEA and its government union allies are always and everywhere proponents for higher taxes because more government revenues mean more government spending on their priorities.

Worst-in-the-nation structural budget deficits. For 15 years running, New Jersey has had the worst structural budget deficit of any state. Despite billions in one-time revenue windfalls, Murphy has spent even more and New Jersey's structural budget gap remains.

Murphy's response: High and increasing government spending is the main culprit for the budget deficits, and the NJEA and its allies are always for high and increasing government spending. Under Murphy state spending has sky-rocketed. Further, in accordance with the NJEA's wishes, no effort has been made to reform the primary stop-gap used to "balance" the budget: debt in the form of unfunded pension liabilities (see below).

Unreformed and severely underfunded public pensions. Murphy has devoted an unsustainable 14% of the state budget for consecutive record pension payments, and record investment returns have bolstered the state's public pensions, but the state's largest fund – the teachers' fund - remains severely underfunded. It needs fundamental reform to put it on a sustainable path. When one-time revenue windfalls go away and returns normalize, the pension system will prove to be a crisis for future governors to deal with.

Murphy's response: Despite – or perhaps because of - a historical record that shows the NJEA as the primary cause of the underfunding, the NJEA has recently called for full funding, which is effectively throwing billions of good money after bad. And as it has always done, the NJEA has resisted all efforts at reform. Murphy has obliged on both counts.

So as Murphy crisscrosses the country drumming up support, potential supporters should take a hard look at how Murphy has actually governed. He was elected with the support of powerful special interests and has governed for their benefit. That's great for his political ambitions but not for New Jersey, which will have to deal with these major problems long after Murphy is gone.

But for Murphy, New Jersey has apparently served its purpose. Why would he change a thing?

BEFORE YOU GO, GOVERNOR MURPHY ....
There Is Some Unfinished Business in the Garden State

Introduction

It sure looks like Governor Murphy wants to run for president.

Matt Friedman of *Politico* recently reported on moves by Murphy that suggest he has "national political ambitions." Murphy's wife and a top administration staffer are launching two Super PACs (political action committees) can raise and spend unlimited amounts of money to support issues, groups and candidates across the nation. The Murphy Super PACs are 501(c)(4)s and thus do not have to disclose their donors, so they are ideal vehicles to garner early support.

Murphy did the much same thing in the lead-up to his successful 2017 gubernatorial run, starting a non-profit called New Start New Jersey. Once Murphy was elected, some of his top campaign staffers, including 2017 campaign head Brendan Gill, created the Super PAC New Direction New Jersey to promote the governor's agenda and pave the way for his successful 2021 re-election bid.

Perhaps in a sign of things to come, New Direction soon became New Jersey's best-funded Super PAC, raising and spending over $13 million in support of Murphy. Notably, 80% of New Direction's funding came from New Jersey's largest government union and most powerful special interest, the New Jersey Education Association (NJEA).

Further enabling his national ambitions, Murphy has secured the chairmanship of the National Governors Association to go along with his current position as chair of the Democratic Governors Association. So he will have ample opportunity to travel around the country and build support for a possible presidential run, with his Super PACs in his wake. With the potential support of deep-pocketed national government unions, Murphy could have a lot of money to spread around.

That makes for quite a few arrows pointing towards a presidential run. But before Murphy leaves New Jersey for the national campaign trail, there is a lot of unfinished business in New Jersey. First Lady Tammy Murphy got it right when she said: "there is still much work to be done."

Here are four areas where there is indeed much work to be done:

1) Pandemic-related learning loss. New Jersey students, and particularly minority students, have suffered substantial learning loss due to school closures. Murphy's Department of Education has been AWOL. What is Murphy's plan to address learning loss?

2) Underperforming economy and weak jobs recovery. Under Murphy, New Jersey's economy has been an underperformer, and its post-pandemic jobs recovery has significantly lagged the national average. New Jersey has long had one of the very worst climates for business in the nation, and it has worsened under Murphy.

3) Worst-in-the-nation structural budget deficits. Heading into the pandemic, New Jersey had the worst structural budget deficit of any state, and despite one-time windfalls like federal pandemic aid, emergency debt issuance, and record tax collections and state revenues, the structural budget gap has worsened. What happens when the one-time resources go away or a recession occurs or both?

4) Unreformed and severely underfunded public pensions. Murphy has touted his record pension payments and record investment returns have bolstered the state's public pensions, but the states largest fund – the teachers' fund - remains severely underfunded. When investment returns inevitably drop, the threat of a crisis will return. And when the one-time revenue windfalls disappear, the state will find it very difficult to devote 14% of the state budget to pensions.

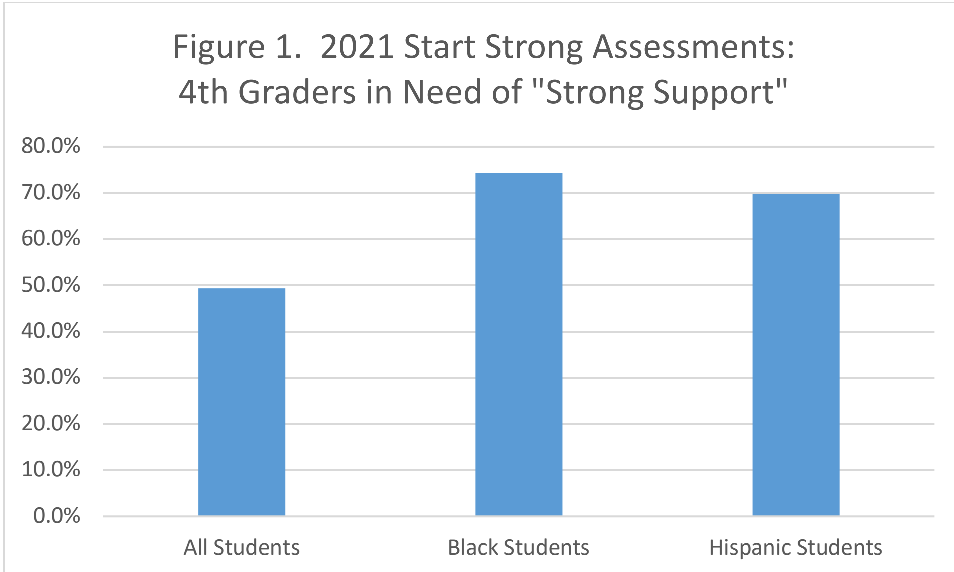
Before you go, governor, what are you going to do about these major problems?

1. Pandemic-Related Learning Loss

The Star-Ledger editorial board said it all: "The pandemic has become an educational crisis, too, just as experts feared. In New Jersey, the majority of students have fallen behind, with even worse numbers among lower income kids."

The Learning Loss Is Real and Hurts Minority and the Very Young the Most

Learning loss affected a very large proportion of kids across the state but hurt minority kids the most. As seen in Figure 1, according to NJ Education Report, the state's Start Strong assessments administered in Fall 2021 revealed that an astounding 49.3% of fourth graders scored in the lowest category (in need of "strong support"), with 74.3% of Black 4th graders and 69.7% of Hispanic 4th graders scoring in the lowest category.



Source: Department of Education, NJ Education Report

If kids are behind in 4th grade, and if remedial steps are not taken to rectify the learning loss, then that deficit will affect the quality of their education in later years as well. Ultimately, it will affect their life prospects. As State Senator Teresa Ruiz, outgoing head of the Senate Education Committee and current Senate Majority Leader, said: "What we are looking at is a potential pipeline to a lifetime of lost wages, lower quality of life, or a direct doorway into the criminal justice system."

A recent study by education group JerseyCAN found even more worrisome results. In an interview with the Star-Ledger, JerseyCAN's Patricia Morgan stated that a *substantial majority* of 4th-to-10th-grade students need support in math or English. In the winter of 2021, a JerseyCAN study found that only 1 in 4 students is projected to be on grade level in math and only 1 in 3 in English, which constitutes a "significant decrease from pre-pandemic levels." Once again, low-income students, students of color and special-needs students fared even worse. Once again, the youngest kids – kindergarten through 2nd grade – are having the biggest difficulties with the most long-lasting consequences.

Again Senator Ruiz sounds the alarm: "If you don't think this is a crisis … then I don't know what else will make it more alarming than this … What I want is what we are going to do about it."

So what is Governor Murphy doing about it?

"Very little, considering the crisis we face," says the Star-Ledger Editorial Board.

Murphy's Department of Education is AWOL.

Again the Star-Ledger editorial board: "The state Department of Education seems to be largely abdicating its role … New Jersey is behind other states on this."

JerseyCAN's Morgan asks: "What is the state's plan? And what's the objective measure of progress?" She states that the Department of Education (DOE) needs to explain what an education recovery looks like, creating plans, tools, best practices, objective measures of progress and even curricula to help school districts get kids back on track. The state needs to provide both short-term and long-term goals to guide the education recovery. And because of the disparate impacts of learning loss across New Jersey's 600 school districts, the state needs to prioritize its allocation of resources.

Murphy has the resources: $2.8 billion in federal dollars to address learning loss. Appropriately, the legislature required the DOE to track how the money is being used. But there is no DOE plan. Again, Morgan: "I would love to hear what the state's plan is for tracking these federal funds and weighing whether schools are really being effective in spending them." The Star-Ledger is more direct in its criticism: the DOE "has done virtually nothing to track the $2.8 billion in federal dollars going directly to schools that can be used for learning loss."

Yet Murphy's DOE did not show up to recent legislative hearings on the issue.

And the DOE was AWOL during the most recent omicron surge. According to a report by the Star-Ledger's Adam Clark, nearly 600 school districts and 100 local health agencies interpreting and enforcing their own rules led to "one of the most chaotic and disruptive weeks in education since the previous winter." More than 100 school districts – one in six - were forced to shift to remote learning for as much as two weeks after the Christmas holiday. This total included three of the state's largest districts - Newark, Paterson and Camden – in areas where learning loss had already hit the hardest and working parents had limited childcare options. According to NJ Education Report, the widely-used, remote-learning math program Zearn reported: "Students who missed the most learning during the 2020-21 school year are now missing the most again."

Clark describes the Murphy's administration as leaving schools "flailing without timely, decisive guidance." He quotes the president of the New Jersey PTA: "Our school districts and building leaders are getting mixed guidance or no guidance at all." Former State Senate Democratic majority leader Loretta Weinberg concurred: "schools need more guidance from him [Murphy] – 'a lot more.'"

Richard Bozza, executive director of the New Jersey Association of School Administrators: "These were all predictable things, and we should have and could have done better and done more to prepare for this." For example, the legislature anticipated that school nurses would need help in any resurgence of COVID and passed a law in 2020 that created a consulting position within the DOE to provide guidance, but the position remains unfilled nearly two years after the law was passed. Clearly, filling it was not a priority of the Murphy administration.

What of the future when Murphy is gone? Again the Star-Ledger: "... a fair and equitable education is a constitutional right in New Jersey. If we want well-rounded citizens and taxpayers, we need to make good investments early on, in the classroom – or we'll be paying dearly on the back end."

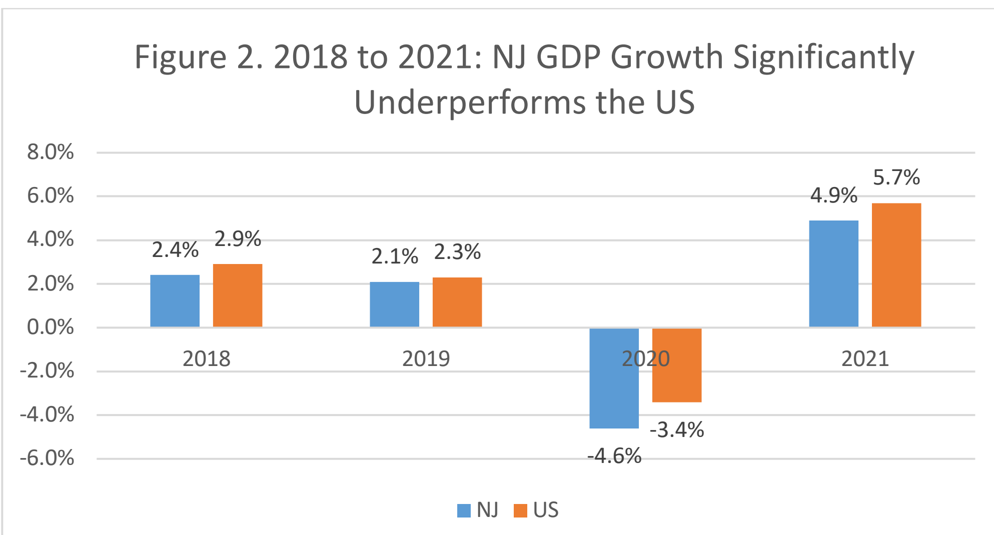
Governor Murphy, you are a self-described progressive and talk a lot about "fairness" and "equity," so will you address learning loss before you move on?

2. Underperforming Economy and Weak Jobs Recovery

For every year of Governor Murphy's first term, New Jersey's economy underperformed the rest of the nation.

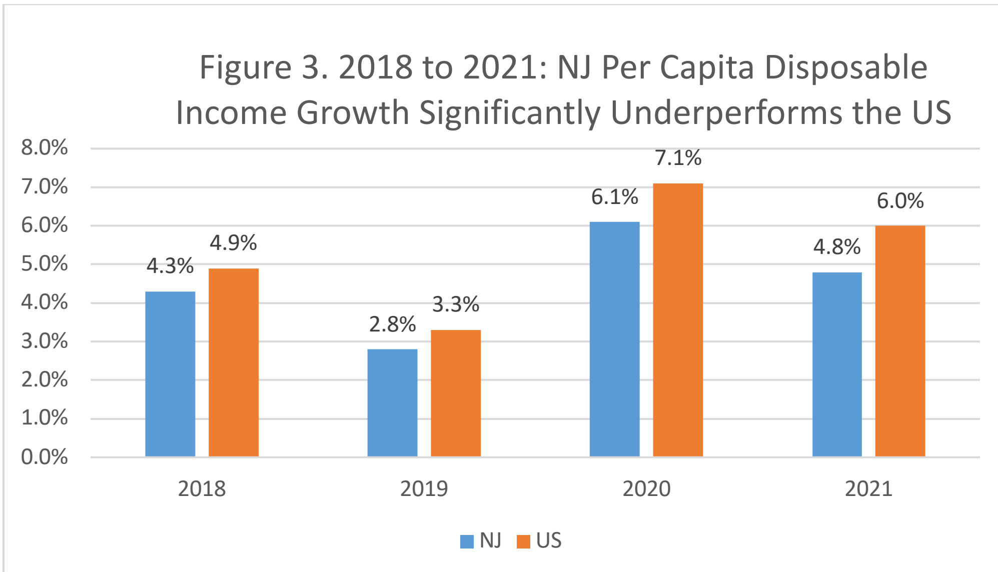
Before and During the Pandemic Lockdown

Leading up to, during and after the pandemic lockdown, New Jersey's GDP growth and disposable (after-tax) income growth were significantly lower than the US average. According to the Bureau of Economic Analysis (BEA), as shown in Figure 2, for the first two, pre-pandemic years 2018 and 2019, New Jersey's GDP growth lagged national average. This was also true in the pandemic lockdown year of 2020 when New Jersey's GDP dropped substantially more than the national average: -4.6% for New Jersey vs. a national average of -3.4%. Likewise, during the recovery year of 2021, the US GDP grew 5.7% while New Jersey's GDP grew 4.9%. The data show that New Jersey's economy underperformed the national average *for every year of Murphy's first term.*



Source: Bureau of Economic Analysis. Chain-weighted, real GDP.

As shown in Figure 3, BEA data shows that this was also true of New Jersey's per capita disposable (after-tax) income growth, which substantially lagged the national average for the two years prior to the pandemic. Despite negative GDP growth during the pandemic lockdown year of 2020, federal aid and a soaring stock market actually boosted incomes, but again New Jersey lagged the national average by significant 1.0%. During the recovery year of 2021, New Jersey's underperformance grew to 1.2%. Once again, New Jersey underperformed the national average *for every year of Murphy's first term*.



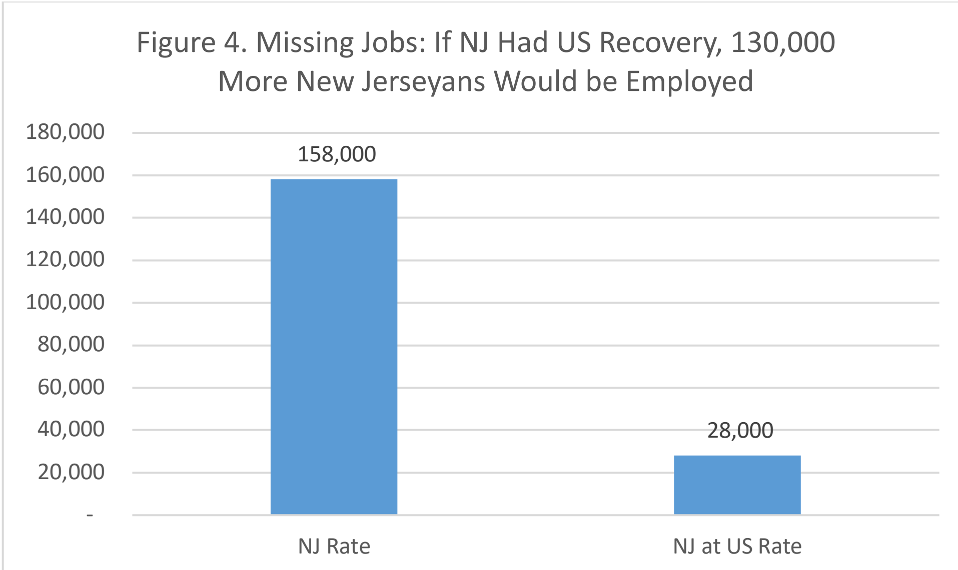
Source: Bureau of Economic Analysis. Non-inflation adjusted, current dollars.

Very Weak Jobs Recovery: Still 158,000 Jobs Short

Put simply, New Jersey's underperforming economy before, during and after the pandemic recession has resulted in a very weak jobs recovery: New Jersey has regained far fewer of its lost jobs than the nation has as a whole.

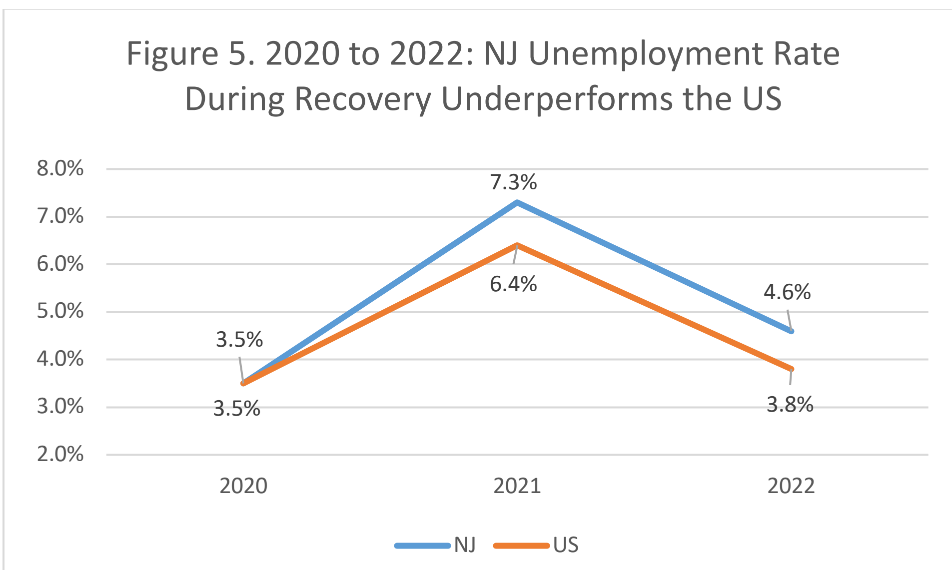
This is most clearly seen in Bureau of Labor Statistics (BLS) data, which show that New Jersey's total number of employed workers has not recovered at the same rate as the corresponding national number. Looking at the course of the pre- and post-pandemic recession jobs market, from peak employment in Winter 2020 through the trough in Spring 2020 and then through the recovery in 2021 and into 2022, New Jersey has only regained 592,000 of the 750,000 jobs lost, or 78.9%. By comparison, the national economy regained 24.4 million of the 25.3 million jobs lost, or 96.3%. As of February 2022, the New Jersey economy was still 158,000 jobs short of where it had been in January 2020. In terms of the overall employment rate, this makes for the 4th-worst recovery in the nation, according to Pew Charitable Trusts.

There is a real human cost to this underperformance. As shown in Figure 4, if New Jersey had recovered 96.3% of its lost jobs like the US did, New Jersey would only have 28,000 missing jobs rather than 158,000. In other words, 130,000 more New Jerseyans would be employed.



Source: Bureau of Labor Statistics. Seasonally adjusted.

New Jersey's weak jobs market can also be seen in its high unemployment rate. Figure 5 shows that from January 2020 to February 2022, New Jersey's unemployment rate went from performing in-line with the national economy pre-pandemic to a substantial underperformance during the 2021 recovery and into 2022. As of February 2022, the national unemployment rate stood at 3.8%, while New Jersey's stood at 4.6%.



Source: Bureau of Labor Statistics. Seasonally adjusted. January 2020, 2021 and February 2022.

Under Murphy, New Jersey Is One of the Very Worst States for Business

This economic underperformance occurred on Governor Murphy's watch, and it did not occur by happenstance. Under Murphy, New Jersey is simply a lousy place to do business. High taxes, heavy regulation, high levels of government spending and debt, and high cost of living all combine to make New Jersey one of the most inhospitable states for businesses. During the pandemic, Murphy's extended and stringent lockdowns, his acquiescence to prolonged school closures that kept workers at home, his extension of unemployment benefits that kept workers on the sidelines, and his raising personal income and corporate tax rates made it even tougher for New Jersey's struggling businesses, the main providers of jobs in the state. It is hardly surprising that New Jersey has had such a poor jobs recovery.

New Jersey's inhospitable environment for business is borne out by four national studies that rank the states according to their economic policies and performance. As seen in Table 1, all of these studies ranked New Jersey in the bottom five states for multiple years under Murphy, and the rankings are getting worse, not better. Murphy's recent proposal for temporary property tax rebates for FY2023 will do nothing to alter this sad state of affairs.

Table 1. Rankings of State Economic Policies and Performance

Study	2018	2019	2020
Tax Foundation	50	50	50
American Legislative Exchange Council	46	46	48
Chief Executive	47	47	47
Small Business & Entrepreneurship Council	49	50	-

Sources: Tax Foundation, American Legislative Exchange Council, *Chief Executive* magazine, Small Business & Entrepreneurship Council.

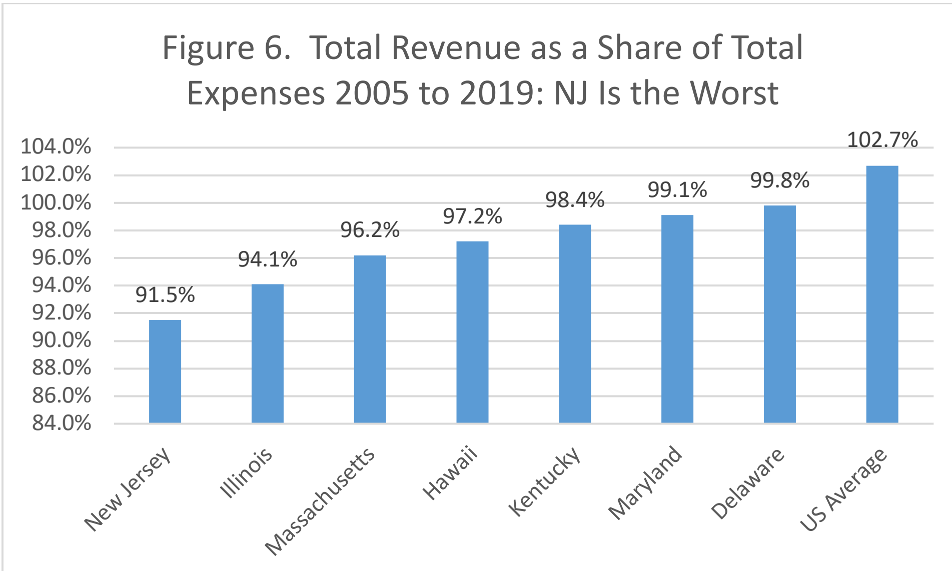
Table 1 makes clear that New Jersey is simply not competitive with other states when it comes to attracting and retaining businesses. No wonder Fortune 500 companies continue to flee New Jersey and take their jobs with them. As the data shows, this hurts New Jersey's economy and ultimately its citizens.

Will you take steps to improve the state's economic competitiveness before you go, Governor Murphy?

3. Poor and Unstable Fiscal Condition of New Jersey State Government

New Jersey's state government is in very poor fiscal condition and has been for a long time. It has had the *worst structural budget deficits of any state in the nation for the past 15 years*. Every year, recurring revenues have not matched recurring expenses and the gap has been filled with one-time resources. New Jersey's state government has simply not lived within its means.

As shown in Figure 6, according to the Pew Charitable Trusts, from 2005 to 2019, New Jersey's revenues only covered 91.5% of its expenditures, *the worst in the nation*. This compares to a national average of a surplus of 102.7%. New Jersey is one of only two states to have a budget deficit for 15 years in a row. That's why the [Volcker Alliance] gave New Jersey a "D" for its budget practices from 2015 to 2019. Governor Murphy actually [called out Governor Christie] for Christie's structural deficits, so Murphy knew full well what he was inheriting.



Source: Pew Charitable Trusts

Under Murphy, the Structural Deficits Got Worse

But as governor, Murphy's four first-term budgets did nothing to rectify the imbalances and in fact made it worse. A recent New Jersey municipal bond prospectus[1] says it all:

> "For Fiscal Year 2022, the State has relied on nonrecurring resources from its undesignated fund balance, Surplus Revenue Fund and Federal aid to enact a balanced budget … [T]he State's dependence on one-time resources to fund on-going appropriations *has significantly increased* [emphasis added]."[2]

Such one-time stop-gaps were 14.1% of State appropriations in FY2021 and 11% in FY 2022.[3] These are well in excess of New Jersey's worst-in-the-nation 8.5% structural deficits from 2005 to 2019, as calculated by Pew. So the record shows that for Murphy's actual budgets – those passed during his first term - rather than improve New Jersey's budget condition, Murphy has made it worse.

Murphy's proposed FY2023 budget reportedly [lessened the structural deficit to 5%] - mostly due to another very large, unsustainable pension payment - but, the Office of

---

[1] "Prospectus" is shorthand for the Preliminary Official Statement for New Jersey Transportation Trust Fund Authority Transportation Program Bonds, 2022 Series BB, dated January 13, 2022. https://www.nj.gov/njbonds/pdf/TTFA2022BBPOS.pdf. Hereinafter, "Prospectus."

[2] Prospectus, p. I-22.

[3] Prospectus, pp. I-22-23.

Legislative Services made clear that Murphy's proposed budget was still unsustainable: "A budget that relies on $1.7 billion in surplus to be balanced is not sustainable in the long run." In any event, according to the Pew data above, even at 5%, New Jersey would still have the second-worst structural budget deficit in the nation.

Despite Massive Federal Stimulus and Record Tax Collections and Revenues

Murphy's increase of structural deficits during his first term occurred despite the fact that New Jersey benefited from federal pandemic relief, record tax collections and record revenues.

According to the bond prospectus, the state benefited from multiple sources of increased revenues. The state government received $6.2 billion of direct federal aid for FY2021. Individuals and businesses received an additional $13.1 billion in federal pandemic relief, including $3.5 billion in federal stimulus money in December 2020 and January 2021, and an additional $9.6 billion in March and April 2021.[4] On top of that, the stock market soared, leading to more capital gains.

As a result, state tax collections for FY2021 hit an all-time peak. Total tax revenues increased to $44.2 billion, $5.9 billion above the previously peak in FY2019. Income taxes, sales taxes and corporate tax revenues were all at record highs.[5] Add in the $4.3 billion in proceeds from Murphy's issuance of pandemic emergency bonds, and overall, FY2021 state revenues increased by $10.5 billion to an all-time peak of $48.5 billion.[6]

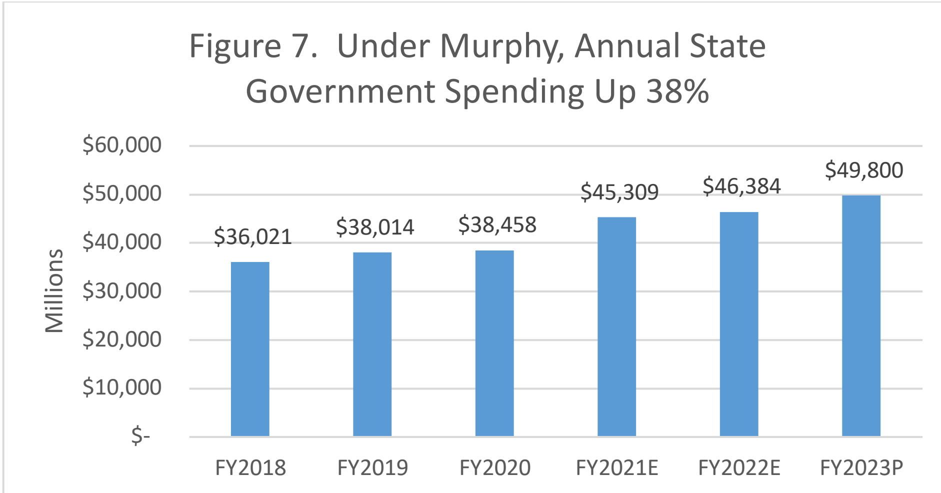
As shown in Figure 7, Murphy spent these revenues, increasing total spending by 17.8% for FY2021 and by another 2.4% for FY2022, both record levels. He even drained the state's "rainy day fund" to fill the budget gap he created.

Murphy's proposed budget for FY2023 does more of the same. Once again, tax collections are running $4 billion higher than budgeted, and $3 billion of the $6.2 billion in federal pandemic relief remains unspent. So government revenues are still being bolstered by extraordinary or non-recurring resources. And Murphy is once again planning to spend that money: another record budget at $48.9 billion representing another 5.3% increase in government spending. All-told, under Murphy, government spending has increased by 38% over Governor Christie's last budget.

[4] Prospectus, p. I-15.

[5] Prospectus, I-17.

[6] Ibid.



Sources: New Jersey Transportation Trust Fund Authority 2022 Series BB Official Statement, Proposed FY2023 budget.

Notwithstanding recent upgrades by bond-rating agencies Standard & Poor's and Moody's, Murphy's highly touted debt defeasance fund doesn't actually make much of a difference. Murphy dedicated $3.7 billion to the fund for FY2022, which prepaid bonds and other debt, but remember that Murphy also borrowed $3.7 billion in emergency bonds,[7] so the net effect is zero. He paid down debt with an equal amount of debt and any savings on interest expense were largely negated.

For his FY2023 budget, Murphy is proposing an additional $1.3 billion for the debt defeasance fund but the impact on New Jersey's long-term debt balance would be a reduction of a mere -3.5%. Perhaps this suffices for a ratings upgrade, but New Jersey will remain one of the most indebted states in the nation and will continue to pay over $4 billion a year in debt service.[8]

In other words, under Murphy, despite the record revenues, New Jersey's state government continues to live beyond its means.

What Happens When the One-Time Money Goes Away?

Despite its upgrade, Moody's is certainly aware of this risk and warns of the potential consequences of Murphy's legacy of structural budget deficits:

> "[I]ncreased spending on recurring programs in fiscal 2022, like education, creates structural budget gaps that *make the state vulnerable to budget risks* in a period of continued uncertainty and may challenge the state's ability to stay on a favorable trajectory." [Emphasis added}.

The state, itself, acknowledges this in the municipal bond prospectus:

---

[7] The $3.7 billion owed is less than the $4.3 billion in proceeds because the bonds were issued at substantial premiums over par. As a result, New Jersey must pay very high interest rates on the bonds.

[8] Prospectus, p. I-35.

> "But if the State's recurring revenues do not grow to the level of the State's recurring expenditures, *the State may face challenging structural deficits in future years*." [Emphasis added][9]

Pew makes clear what this means for future generations: long-running imbalances like New Jersey's "can create *an unsustainable fiscal situation*, pushing off to future taxpayers some past costs for operating government and providing services."

All of which is to say that Murphy's excessive spending left his budgets in serious structural imbalance, which "sets us up for a fiscal crisis once this rare moment of plenty passes," according to the Star-Ledger. This is not a satisfactory fiscal condition for the state.

With your enormous revenue windfalls, will you rectify New Jersey's unstable fiscal condition once and for all, Governor Murphy?

4. A Pension System that Is Still in Crisis

Recurring unfunded public pension liabilities are one of the biggest causes of New Jersey's worst-in-the-nation structural budget because the state is essentially borrowing money from future taxpayers to balance current budgets.

As has been loudly trumpeted by Murphy, his FY2022 and proposed FY2023 pension contributions are records and the first time full, required pension payments have been made since the 1990s. Normally, full pension payments would be considered a positive – as reflected in the bond-rating upgrades - but there are two major problems with these payments:

- The public pension system remains unreformed and in deep trouble; and
- Paying 14% of the state budget to fund pensions every year is not sustainable.

New Jersey's Public Pension System Is Still in Deep Trouble

The public pronouncements about Murphy's record pension payments and the use of overly optimistic assumptions in the state's standard pension funding calculations obscure the fact that New Jersey's public pensions are still severely underfunded.

This reality is captured by looking at New Jersey's largest public pension fund, the Teachers Pension and Annuity Fund (TPAF), which constitutes 42% of the pension system's overall unfunded liabilities.[10] Using Government Accounting Standards Board measures (GASB 67) that provide a more conservative and realistic calculation of

---

[9] Prospectus, p. I-2.
[10] As of July 1, 2020. Prospectus, p. I-62.

TPAF's condition, at the end of FY2020, TPAF's was only [24.6%] funded, one of the very worst-funded public pensions in the nation. In other words, New Jersey had less than 25 cents set aside for every dollar owed to retired teachers. At that point, TPAF was bleeding assets while its liabilities increased and was on a path to near-term insolvency.

Since then, several factors have improved the condition of TPAF. As noted above, New Jersey's budget condition improved dramatically due to several non-recurring revenue sources. Importantly, TPAF, itself, saw record investment returns of 28.6% for FY2021, which boosted TPAF's assets by over $6 billion. This constituted a positive "perfect storm" for TPAF.

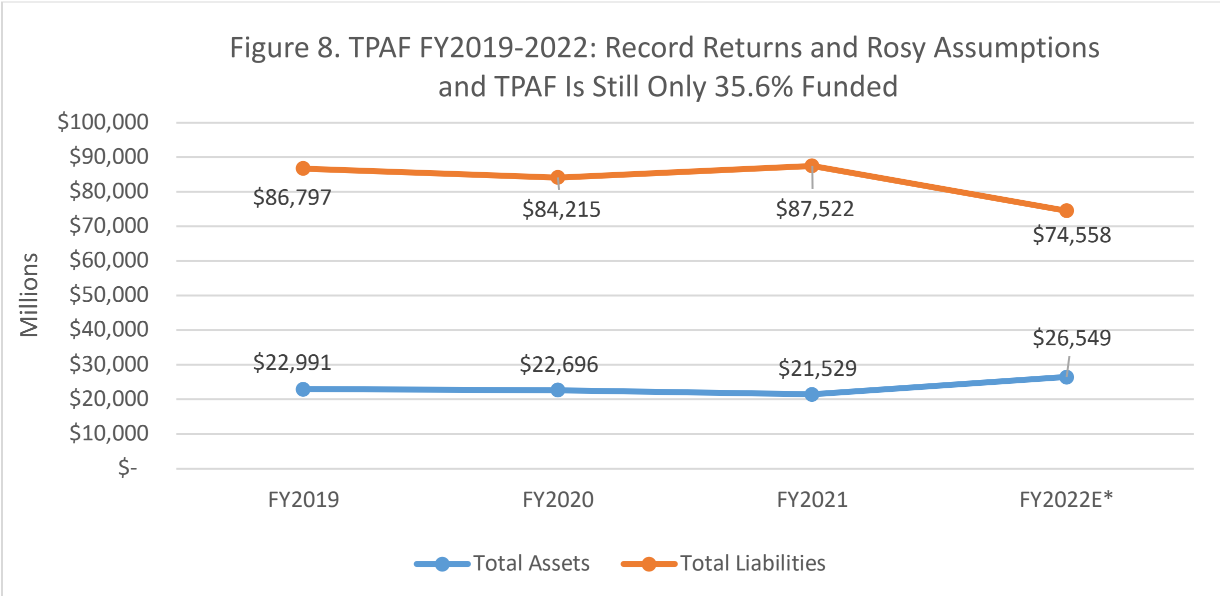
The recent municipal bond prospectus provides the most up-to-date picture of TPAF's condition. But even this picture is clouded by overly optimistic assumptions: The numbers in the prospectus reflect the assumption that the state will make 100% of the required pension contribution until 2047 (up from an assumption of 78% the prior year).[11] This is an unrealistically rosy assumption, given that FY2022 was the first time New Jersey made the full payment since the 1990s and that, as will be shown later, it would require an unsustainably large appropriation from the state budget.

As reflected in Figure 8, the impact of this 100%-payment assumption is dramatic: total liabilities decrease from $87.5 billion in FY2021 to $74.6 billion in FY2022, a drop of 15%. As the prospectus says, this change in funding assumptions was "the most significant contributor" to the decrease in liabilities."[12]

But even with record investment returns and unrealistically rosy assumptions, *TPAF remained only 35.6% funded*. In other words, New Jersey's largest public pension fund is still in crisis.

[11] Prospectus, p. I-63.

[12] Ibid.



Source: New Jersey Transportation Trust Fund Authority 2022 Series BB Official Statement

Underscoring this reality, a recent study of New Jersey's public pensions concluded that:

> "Restoring the pension plans to sound financial health will first require an acknowledgement that *they can no longer invest their way out of the state's fiscal hole*." [Emphasis added].

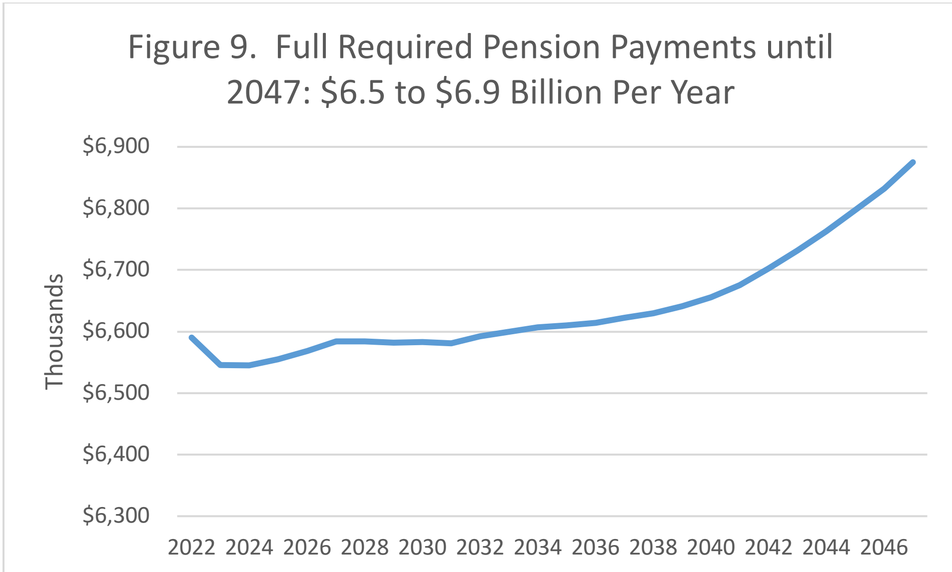
Simply put, Murphy's record payments and stellar investment returns cannot save New Jersey's largest public pension fund. It must be reformed.

Making the Full Required Pension Payment Is Not Sustainable

And in any event, making such large pension payments in not sustainable. Murphy was only able to make the record pension payments because he used non-recurring windfalls to fund recurring expenditures like pensions. When those non-recurring resources do not recur, what will fill the resulting budget gap?

As mentioned above, TPAF's 35.6% funded level assumes making the full required pension payments until 2047. Per Figure 9, in actual dollar amounts this means from $6.5 billion to up to $6.9 billion per year until 2047.[13]

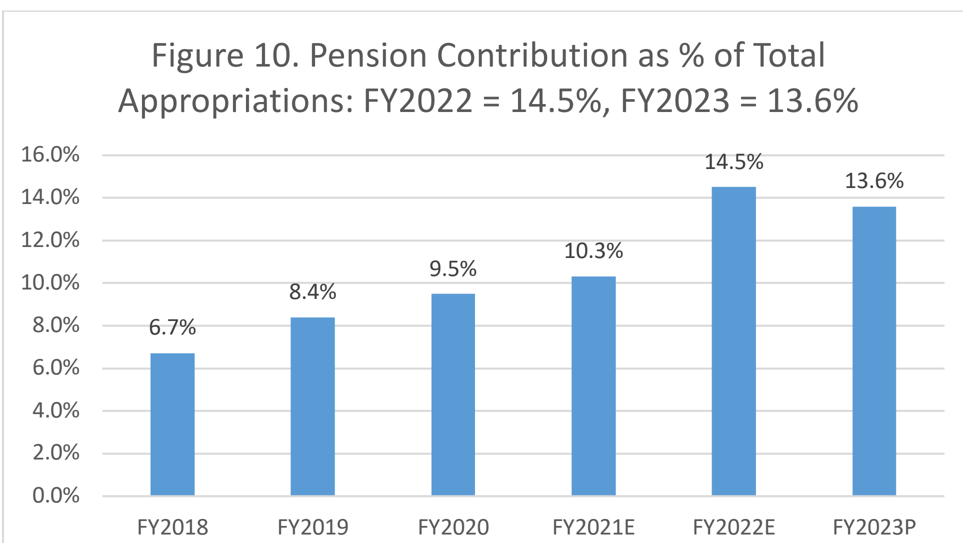
[13] Prospectus, p. I-49.



Lottery proceeds included. Source: New Jersey Transportation Trust Fund Authority 2022 Series BB Official Statement.

Given New Jersey's largest-in-the-nation structural deficits and the non-recurrence of so many one-time resources, $6.5 to $6.9 billion per year is simply not sustainable.

For FY2022, Murphy made a $6.9 billion pension payment, while the state is projecting total appropriations for FY2022 of $47.5 billion (including lottery proceeds). For FY2023, Murphy proposes to make a $6.8 billion pension payment against total appropriations (including lottery proceeds) of $50,012. As shown in Figure 10, this amounts to 14.5% and 13.6% of total appropriations, respectively, which represent substantially larger percentages of overall appropriations than the preceding four years.



Sources: New Jersey Transportation Trust Fund Authority 2022 Series BB Official Statement, Proposed FY2023 budget.

But, again, the FY2022 and FY2023 budgets benefited from numerous one-time resources, so 14.5% and 13.6% represent very large slices of very large budget pies. Many if not most of those revenue sources will not endure and economic recessions will inevitably occur, so in the future very large $6.5 - $6.9 billion slices will likely have to come out of smaller budget pies. Assuming 100% of the required payments until 2047 will prove overly optimistic.

When New Jersey does not make the full $6.5 - $6.9 billion payments, pension liabilities will increase commensurately. Add to that the inevitability that investment returns will revert to the mean - and occasionally be negative - and pension funding ratios will also fall. That means TPAF's very low 35.6% funding level will drop. The potential for a future pension crisis remains.

The sad truth is that Governor Murphy, with all the excess revenues that accrued to the state during his administration, missed an opportunity to reform the pension system when New Jersey had the money to reform it. Future generations of New Jerseyans will pay the price.

Will you do the hard work of reforming the pension system and ease its future burdens before you leave, Governor Murphy?

Conclusion

Unfortunately, the answer to each of the above four questions is very likely "no."

Why is Murphy so proficient when it comes to supporting his own election campaigns but not when it comes to addressing the state's major problems?

Because he is looking out for his biggest political donor and the most powerful special interest in New Jersey, the NJEA. The Star-Ledger describes it as Murphy's "unbending political alignment" with the NJEA.

Along with its government union allies, the NJEA has been Murphy's biggest political supporter since he first started his run for governor in 2017. Upon his election, the NJEA proudly boasted: "NJEA was all-in for Murphy from day one, gearing up a massive organizing campaign to mobilize our members through the primary and general elections."[14] The NJEA subsequently spent at least $15.5 million as part of another massive effort to get him re-elected in 2021 (including the $10.5 million via New Direction New Jersey mentioned above).

[14] New Jersey Education Association, "NJEA Report: Phil Murphy elected governor of New Jersey," *NJEA Review* 91, no. 5 (December 2017): 12.

Murphy's quid pro quos for the NJEA's backing are numerous and consequential: the millionaire's tax, increased corporate taxes, increased education spending, blocking charter school expansion, eliminating the PARCC exam, making a record pension payment, no reform of the pension system, so-called Chapter 78 relief, enhanced bargaining rights for education support personnel, among others. All were NJEA policy priorities. NJEA Vice President Steve Beatty summed it up: **"**There is no governor in the nation who has worked as closely and collaboratively with public employee unions than Gov. Murphy**."**

The four major problems confronting New Jersey outlined in this report should be seen in light of Murphy's cozy relationship with the NJEA and its government union allies:

1. **Learning loss**: The NJEA objected to the Start Strong assessments that were given in October 2021 because they would "play into the narrative of learning loss." These tests were already watered down from the Murphy-eliminated PARCC tests, but the NJEA does not want to be held accountable for the massive amount of learning loss that resulted from school closures, and apparently doesn't even want to acknowledge it exists. Murphy's DOE sure looks like it is playing along.

2. **Economy and Jobs:** Under Murphy, New Jersey is simply a lousy place to do business, and yet Murphy has only increased the burdens on businesses with his extended lock-downs, extra benefits that kept workers on the sidelines and most of all higher income and corporate taxes. The NJEA has been a longstanding and persistent advocate for higher state taxes because it means more revenues to fund more government spending on its priorities. Murphy has been happy to oblige.

3. **Budget deficit**: High and increasing government spending, high debt and massive unfunded pension liabilities make for structural budget deficits. The NJEA always wants more government spending and has been complicit in the one-time stop-gaps that used debt in the form of unfunded pension liabilities (see "Underfunded Pensions" below). New Jersey's worst-in-the-nation structural budget deficits simply reflect the fact that taxes can only be raised so much before politicians get booted from office. It's much easier for them to "balance" the budget with one-time fixes. Under Murphy, government spending has sky-rocketed and the structural deficits remain.

4. **Underfunded pensions**: Notwithstanding its recent push for full pension funding, history shows that the NJEA is the primary cause of New Jersey's severely underfunded pensions. The NJEA cut political deals that raided pension assets and fought every effort at reform. It continues to fight reform and demands that the state throw unsustainable billions of good money after bad. Murphy has devoted an unsustainable 14% of the state budget to pensions and yet the pension system remains a looming crisis. But Murphy will not cross the NJEA by reforming pensions.

With his sights set on Washington, D.C., Murphy appears to be content to kick the can down the road on these major problems and leave it to future generations to deal with them. New Jersey and its special-interest-dominated political system have apparently served their purpose as a springboard for Murphy's political ambitions. Why would he change a thing?