



PORKROLL REPORT

Breaking Down the Budget, Slice by Slice

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SPENDING DOWN THE CUSHION NEW JERSEY'S SURPLUS IS SHRINKING

For the past several years, New Jersey has operated with an unusually large financial cushion. Driven by federal aid and strong tax collections, the state built up a surplus that peaked at more than \$8 billion, one of the largest in its history.

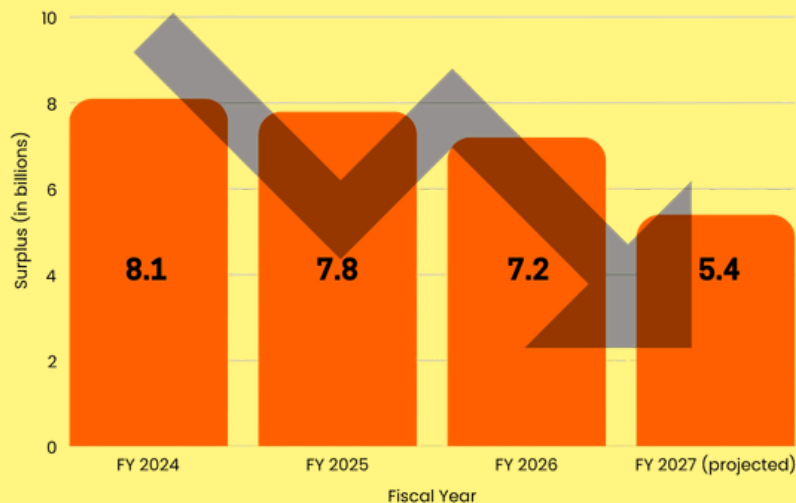
That cushion is now shrinking.

In just a few short years, New Jersey has effectively cut its surplus by nearly 40%.

The proposed FY2027 budget begins with roughly \$7.26 billion in reserves and plans to end the year with about \$5.36 billion, a decline of nearly \$1.9 billion in a single year. Even after identifying \$2.6 billion in budget cuts, including nearly \$2 billion in cuts, the state still relies on reserves to close the gap.

At the same time, the administration acknowledges a structural deficit of approximately \$3 billion. Taken together, these numbers tell a clear story. New Jersey is no longer building reserves. It is beginning to use them, and doing so before fully resolving the underlying imbalance between recurring spending and recurring revenue.

New Jersey Budget Surpluses



**Recurring spending still exceeds recurring revenue.
Even after cuts and revenue changes, the state still needs
reserves to balance.**

HOW DID WE GET HERE?

FOUR MAJOR FORCES THAT FORMED THE SURPLUS:



Federal Aid Replacing State Spending

Federal COVID-era aid flowed into the state at an unprecedented scale. These dollars were used to support programs and services that would normally be funded with state revenue. As a result, state tax collections were preserved and allowed to accumulate in the surplus.



Surge in Tax Collections

At the same time, revenues grew rapidly. Strong income tax collections, particularly from high earners and capital gains, combined with elevated corporate business tax revenues, produced levels that exceeded expectations. Inflation also increased nominal collections across multiple revenue sources.



Temporary Gap Between Revenue and Spending

Spending did increase, but not as quickly as revenues and federal inflows. That temporary gap between what the state collected and what it spent allowed reserves to grow quickly over a short period of time.



Borrowing and Liquidity Support

New Jersey also issued billions in debt during the pandemic to manage uncertainty and maintain operations. While this borrowing did not directly create the surplus, it provided liquidity and reduced the need for immediate spending cuts, helping to preserve cash in the short term.

Taken together, these factors created a rare fiscal environment where revenues were elevated, costs were partially offset, and reserves could grow quickly.

PORK ROLL PERSPECTIVE

New Jersey's declining surplus is more concerning in context.

Even at its recent peak, the state ranked toward the lower end nationally in reserves relative to total spending. As the surplus shrinks, New Jersey has less margin for error than many other states.

At the same time, some of the projected savings in the FY2027 budget may prove less durable than they appear. The budget includes a significant reduction in road operations and maintenance, approaching \$200 million, which covers core functions such as snow removal. It also eliminates funding for the Preserve New Jersey program, which spent approximately \$220 million last year on open space acquisition.

Both areas fund activities that are ongoing and variable. In years with severe winter weather, snow removal costs can rise quickly and require additional funding. Open space preservation has also been supported on a recurring basis, even if the funding structure changes from year to year.



If these costs return through supplemental appropriations, the savings reflected in the budget may not fully materialize.

This points to a broader issue. Some of the deficit reduction may reflect shifts in timing rather than permanent changes in spending.

As a result, the structural gap facing the state could be larger than it appears, while the surplus available to absorb that risk continues to decline.

A smaller cushion combined with uncertain savings leaves the state in a more exposed fiscal position.

THE BIGGER QUESTIONS

Is New Jersey moving toward structural balance, or relying on temporary fixes?

How durable are the proposed reductions?

How exposed is the budget to volatility?

RESOURCES

FY 2027 BUDGET
IN BRIEF



FY 2027 BUDGET
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