



# **Opportunity Lost:**

## ***How Earmarks Undermine New Jersey's Competitiveness and Affordability***

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# Executive Summary and Background

## Introduction

New Jersey is currently mired in an affordability crisis. Residents face the highest property taxes in the nation, a high cost of living, and a state debt exceeding \$200 billion when accounting for bonded debt, unfunded pensions, and retiree healthcare obligations,<sup>1</sup> representing more than \$56,000 of obligations per New Jersey household. One recent analysis ranked New Jersey the second most indebted state in the country, behind California.<sup>2</sup> Each year, New Jersey families must make difficult financial choices while the legislature pursues a very different set of choices.

While the formal budget process is often presented as a rigorous debate over essential services like education and infrastructure, a parallel, less transparent budget has exploded in size and scope. In Fiscal Year 2026 alone, the legislature added \$860 million in discretionary spending - funding that was not requested by the Governor and was often inserted into the budget with zero public debate or competitive bidding.

This report reveals a troubling shift in state stewardship: a 450% increase in the number of private and nonprofit organizations receiving state tax dollars over just two years. From multimillion-dollar subsidies for private festivals to hyper-local park improvements in wealthy zip codes, this “extra” budgeting is more than just a transparency issue. It is a direct tax on every New Jerseyan, costing the average household roughly \$240 per year—money that could otherwise fund a 4% across-the-board income tax cut or pay down 5% of the state’s massive bonded debt.

Trenton’s current path is unsustainable. This analysis examines who is receiving this funding, which departments rely on this less transparent funding model, and why this pattern of spending hinders New Jersey’s economic growth.

## Background on New Jersey’s Budget

During the Administration of Governor Phil Murphy, between 2018 and 2025, the state of New Jersey’s spending grew by nearly 25 percent in real, inflation-adjusted terms. During the same period, state taxes and fees increased by 21 percent in real, inflation-adjusted terms. How does spending increase more than revenues when the state has a constitutional balanced-budget requirement?<sup>3</sup>

Over the recent past, the state of New Jersey has operated with a structural budget deficit that is effectively financed through cash accumulated in prior periods – that is, New Jersey maintains a

1 See page 8 of the State of New Jersey Debt Report Fiscal Year 2024, available at: [https://www.nj.gov/treasury/public\\_finance/pdf/DebtReportFY2024.pdf](https://www.nj.gov/treasury/public_finance/pdf/DebtReportFY2024.pdf).

2 See Reason Foundation, Financial Transparency Project, available at: <https://reason.org/transparency-project/gov-finance-2025/state/>.

3 For details, see *When In a Hole, Stop Digging: New Jersey’s Budget Woes and How to Address Them*, available at: <https://www.gardenstateinitiative.org/research/when-in-a-hole-stop-digging-new-jerseys-budget-woes-and-how-to-address-them/>.

fund balance that can be used to ensure spending does not outstrip revenues in any single year. While this fund balance permits the state to meet its required balanced budget requirements, New Jersey's finances are structurally out of balance - with spending in most years exceeding revenues (from taxes, fees, and the federal government), violating the spirit of balanced budget requirements.

Because New Jersey can use this fund balance to offset certain expenditures, public officials can increase other spending or point to "surpluses" that make the state appear more financially healthy than it truly is. As a result, New Jersey's budget process includes extra earmarked appropriations that raise state spending with limited transparency. For example, nearly \$120 million in extras were approved in a lame-duck legislative session after the state's January 2026 primary elections, negotiated behind closed doors over the weekend, and signed into law by the outgoing governor. Importantly, these additional appropriations require real money that New Jersey citizens ultimately pay through higher taxes and fees than would be necessary without these spending items. This report details and analyzes these earmarks and highlights why they are problematic to state taxpayers.

## I. Mechanisms of Discretionary Spending: Earmarks in the New Jersey Budget Process

The governor's annual budget proposal includes hundreds of appropriations for municipalities, counties, school districts, special districts and authorities, nonprofit organizations (including hospitals), and higher education institutions. As part of budget negotiations, the state legislature includes its own funding requests for the same types of organizations – sometimes adjusting the governor's recommendation or adding additional ones. These legislative earmarks (sometimes called "Christmas tree" or "Pork" items) lack a public or, in other cases, a competitive bidding process. The result is that these earmarks further inflate the amount of state spending each year, while also reducing transparency into what the state is funding and why. Instead of being included in a transparent budgeting process, these spending "add-ons" often emerge only after the budget has been approved. For example, after a 2025 campaign for Governor and the State Assembly largely devoted to the need for improved affordability for state residents, the legislature returned in the January 2026 lame duck session and approved nearly \$120 million in add-ons at the end of the terms. ***Further, and perhaps most importantly, budget justifications for these spending items have also lagged budget adoption, meaning public oversight of such spending is nearly impossible since the funds have already been appropriated.***

Earmarked appropriations typically fall into four broad categories, which are determined by how the funds will be used: direct state services, grants-in-aid, state aid, or capital. Direct state services are funds that are dedicated to programs operated directly by the state. In contrast, grants-in-aid are funds for state services provided through a third party; for example, Medicaid, tuition assistance programs, and grants to colleges and universities are all grants-in-aid. State aid represents funds from the state to local governments so that these local governments can provide some service to the public; school aid, for example, is state aid. Capital appropriations fund long-lived assets that

are financed on a pay-as-you-go basis rather than through long-term borrowing.<sup>4</sup> Between 2024 and 2026, nearly 58 percent of the earmarked appropriations were grants-in-aid, nearly 35 percent were state aid, 7 percent were direct state services, and none were capital.

## Legislative Earmarks Increase the Cost of Government Operations and Reduce Transparency

Earmarks in New Jersey are often awarded without a competitive bidding process, meaning that these are largely driven by political or other considerations. As a result, the selection of recipients is not always based on standardized, data-driven criteria for addressing public needs. In addition, while these earmarks represent a certain amount of real cash spending by New Jersey, each grant also requires a contract, administrative processing, and oversight. All these drive up the state's cost of operations as well, for no real benefit to the statewide public at large. It is effectively a cost resulting from decreased budgetary transparency.

## II. Data: Growth and Concentration

### Amount of Earmarks

The number of these legislative earmarks is not inconsequential and has grown over the past few years. While the data for fiscal year 2024 may not capture all legislative appropriations, it can at least be considered a conservative baseline. Overall, the use of these earmarks has increased by nearly 50 percent in real terms between fiscal year 2024 (\$563.1 million) and fiscal year 2026 (\$860 million). Further, the number of entities receiving funding in this manner has more than quadrupled in just two years. This increases the incentive for potential recipients to subvert the traditional budget process and instead maximize political connections to obtain taxpayer resources.

**TABLE 1: NUMBER AND AMOUNT OF LEGISLATIVE ADD-ONS, 2024-2026**

Fiscal Year	Total Legislative Adds (\$)	Number of Receiving Entities
2024	\$563,106,000	101
2025	\$692,707,250	347
2026	\$860,039,000	462

### Where Is the “Extra Spending” Concentrated?

The legislative earmarks are not spread across public agencies evenly. In 2026, two-thirds of the spending is concentrated in just four departments: community affairs, human services, education, and state.

<sup>4</sup> See “How the Budget Is Organized” available at <https://www.nj.gov/treasury/omb/organizedbudget.shtml>.

**TABLE 2: CONCENTRATION OF LEGISLATIVE ADD-ONS BY DEPARTMENT FOR 2026**

Department	Total Legislative Adds (\$)	Share of Total (%)	Project Count	Unique Entities
Community Affairs	\$262,101,000	19.70%	232	210830
Human Services	\$262,101,000	19.70%	232	210830
Education	\$194,317,000	14.60%	55	43
State	\$191,759,000	14.40%	100	51

In 2026, Community Affairs distributed the bulk of the awards – in both dollars and numbers. The State Department handles 100 projects, which include many grants to museums, cultural groups, etc.

### Many Legislative Earmarks Do Not Fund Statewide Public Goods or Services

In fiscal year 2026, more than one-quarter of earmarks - representing over \$216 million in spending - were awarded to private or nonprofit organizations rather than public agencies. The number of awards to private or nonprofit organizations increased from 39 entities in 2024 to 210 in 2026. Earmarks to private or nonprofit organizations are used in some cases to provide public services instead of public agencies.

In 2026, there were 208 legislative adds of \$250,000 or less. These smaller appropriations generally do not require competitive bidding and receive limited public scrutiny, but they involve taxpayer funding. Projects funded by these small appropriations include municipal park improvements, recreation projects, theater operations, private security at a music festival, and commissions that work with foreign governments.

For example, the municipalities of Westfield, Colts Neck, Princeton, Hoboken, and Metuchen received a combined total of nearly \$5 million in legislative earmarks for recreational and park improvements. Many of these earmarks fund projects that appear to be worthy. After all, improving public parks and spaces, funding the arts, and public safety are arguably worthwhile projects. What is problematic is the lack of transparency around how this funding is approved, the process of allocating money to specific organizations, and the question of whether these projects are more appropriately funded at the local level rather than by the state itself.

## III. The Cost to Taxpayers and the New Jersey Economy

### Does It Matter for New Jersey Taxpayers?

Fundamentally, this extra spending is growing as a share of New Jersey’s budget. By 2026, the state added nearly \$1 billion in additional spending that had little transparency or oversight. If New Jersey were to use the money devoted to these earmarks for business tax reductions instead of unnecessary spending, the corporation business tax could have been eliminated for all businesses report-

ing \$1 million in net income or less.<sup>5</sup> This would have provided real tax relief for small businesses struggling under the current tax regime, increased their profits, and perhaps increased employment. Or, the state could eliminate income taxes on taxpayers earning \$50,000 or less, which would improve the state’s affordability for its poorest residents.<sup>6</sup> Or, the state could have provided property tax relief that would have kept the average \$475 increase in 2026 to only about half as much.<sup>7</sup>

It also affects individuals. Using US Census estimates of state population and number of households, the cost to a typical New Jersey resident or family is shown below.<sup>8</sup>

**TABLE 3: LEGISLATIVE ADD-ONS PER HOUSEHOLD AND PER CAPITA, 2024-2026**

Fiscal Year	Estimated Amount per Household	Estimated Amount Per Capita
2024	\$159	\$59
2025	\$194	\$73
2026	\$240	\$90

### Legislative Earmarks Drive Up the Cost of Living in New Jersey

While these numbers appear small, they collectively are not. If the state chose instead to reduce income tax rates rather than spend these earmarks, the average New Jersey taxpayer would see his or her income tax liability decline by more than 4 percent, or his or her property taxes decline by nearly 2.5 percent.<sup>9</sup> While politicians lament the cost of living state residents are facing, eliminating these earmarks and reducing the taxes that fund them would immediately improve New Jersey’s affordability.

To put the cost of these budgetary add-ons into further perspective, New Jersey legislators cost an average family of four enough to purchase the equivalent of a new refrigerator every two years. Or, an individual earning the state’s average hourly wage rate would have to work nearly 2.5 hours just to pay their share of the legislature’s extra budget.<sup>10</sup>

### The Real-World Consequences of Extra Spending

The nearly \$1 billion “extra budget” operated by the legislature has cascading effects on New Jersey’s economic ecosystem. When \$860 million is diverted without a transparent and competitive process, the state loses its most powerful tool for economic competition: fiscal predictability.

» **Impact on Affordability:** For the average family, the “extra spending tax” of \$240 per year is a direct extraction of household wealth. In a state already burdened by the highest property

5 Based on State of New Jersey, Department of the Treasury, Office of Revenue and Economic Analysis “New Jersey Corporation Business Tax: Statistical Report for Return Years 2016-2018” available at: <https://www.nj.gov/treasury/economics/documents/pdf/stats/CBT-100-SOI-TY2016-2018.pdf>.

6 Based on Gross Income Tax (GIT) Filers and Liability by Income Level from the State of New Jersey Annual Comprehensive Financial Report for FY2025, page 390.

7 Increase from Guide to NJ Property Taxes Details Where the Money Goes, and How to Get Some Back, published February 25, 2026 at <https://bloustein.rutgers.edu/guide-to-nj-property-taxes-details-where-the-money-goes-and-how-to-get-some-back/>.

8 From <https://www.nj.gov/labor/labormarketinformation/demographics/population-household-estimates/index.shtml>.

9 Based on average tax collections per capita estimated by the Tax Foundation, available at: <https://taxfoundation.org/location/new-jersey/page/2/>.

10 Based on average private hourly earnings estimated by the US Bureau of Labor Statistics, available at: <https://www.bls.gov/charts/state-employment-and-unemployment/average-hourly-earnings-and-weekly-hours-and-earnings-by-state.htm>.

taxes in the nation, these earmarks represent the difference between a family being able to save for education or merely treading water.

- » **Business Growth and Retention:** New Jersey’s business climate is hampered by a tax structure designed to fund these “extra “ items. When businesses decide where to expand, they look for transparency and return on investment. A budget process that prioritizes hand-picked projects over structural tax reform signals to the private sector that the state is an unpredictable partner.
- » **The “Real Impact on Operations:** Beyond the grants themselves, the administrative burden of managing 462 unique recipients drives up the state’s internal operating costs. Every niche grant requires a state employee to monitor it, creating a self-perpetuating bureaucracy of non-essential spending.

## IV. The Path Forward

### Could these Funds Be Better Used for Other Statewide Purposes?

New Jersey currently has over \$41 billion in debt outstanding, not including its massive pension and retiree healthcare obligations that are largely unfunded. If New Jersey had used these legislative earmarks over the past few years to reduce its outstanding debt instead, over \$2.1 billion (about 5 percent) of this bonded debt could have been paid off, saving state taxpayers millions of dollars in interest costs. New Jersey spends about \$4.7 billion in debt service (principal and interest) annually. The fiscal year 2026 earmarks of \$860 million represent nearly 20 percent of the annual state debt payments.

# Conclusion: A Return to Stewardship

New Jersey is at a fiscal crossroads. While the state faces a structural deficit and a gaping pension debt, the legislature has chosen to triple the number of recipients of discretionary spending in just two years. This behavior is a violation of the spirit of New Jersey's constitutional balanced-budget requirement.

The state can no longer afford to treat the budget without complete transparency and fiscal responsibility. If the \$2.1 billion spent on these earmarks over the past few years had instead been used to pay down debt, state taxpayers would have saved millions in interest costs alone. To restore New Jersey's affordability and business competitiveness, the state must:

1. Eliminate non-competitive legislative add-ons.
2. Redirect earmark funds toward broad-based tax relief or debt reduction.
3. Mandate full transparency and public bidding for any grant-in-aid to third-party organizations.

Only by ending the era of "extra" unchecked budgeting can New Jersey provide the long-term relief its residents and businesses desperately need.

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*Professor Calabrese is a co-author of the GSI report *Toward a Fiscally Sustainable New Jersey: Analysis & Recommendations* which was issued in September 2021.*