



State of New Jersey

OFFICE OF THE GOVERNOR

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CHRIS CHRISTIE
Governor

March 31, 2010

Dear Business Leader:

Throughout the course of my first ten weeks in office you have seen how seriously I have taken my commitment to improve the business climate in our state. Whether through the Executive Order restoring common sense to rule making, empowering the Red Tape Review Group to strip away unnecessary bureaucracy, or proposing a budget that forces us to live within our means, bold steps are being taken to help New Jersey emerge from this recession positioned for success.

There is, however, one issue that threatens to stall or delay our recovery -- the insolvent unemployment insurance compensation fund.

By statute, the Department of Labor assesses the unemployment insurance fund balance every March 31 to determine its health and viability. That review -- being made today -- will show a seriously deficient financial situation built up over many years that will trigger the maximum increase allowed under the law. Unless action is taken, this statutorily mandated tax increase will cause employers to pay on average an additional \$400 or more per employee beginning in July.

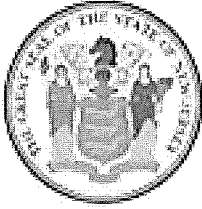
We cannot allow that to happen. A little over a month ago I proposed reforms that will assure the long term stability of the state's unemployment fund. These reforms will bring our benefits package more in line with the rest of the country, minimize the tax increase and maintain the financial safety net those without employment so desperately need. In addition, the reforms I have proposed will bring fiscal stability to our unemployment insurance program sooner than with the huge tax increase that will occur if no action is taken. These reforms will also end the employer tax increase faster than competing legislative proposals. If these steps are not taken, true reform of our unemployment insurance system will elude us, and we will find ourselves with an insolvent unemployment fund well into the future.

On this day when the financial health of our unemployment insurance fund is being measured, I ask that you continue to work with me to reform and strengthen New Jersey's unemployment insurance system. Our system is in shock. The pending employer tax increase could arrest our financial recovery. True reform is the only prescription.

Sincerely,

A handwritten signature in black ink, appearing to read "Chris Christie".

Chris Christie
Governor



STATE OF NEW JERSEY OFFICE OF THE GOVERNOR

Protecting New Jersey's Small Businesses and Laying the Foundation for Job Creation Christie Plan Provides Critical Relief During Economic Crisis

In the face of a fiscal emergency and skyrocketing unemployment, Governor Chris Christie is taking action to stave off a devastating, automatic tax hike for New Jersey employers. Governor Christie's proposal recognizes that with a 9.8% unemployment rate and a business climate that ranks dead last in the nation, now is not the time to further burden our small businesses.

The impending employer tax increase will impose the highest rate created under the law, forcing small business owners to pay on average an increase of 52 percent or \$400 per employee. Small businesses already struggling to survive against the highest taxes in the nation are now being asked to bear the burden of a depleted Unemployment Compensation Fund, when nearly \$4.6 billion of employer and employee contributions were previously diverted for other purposes.

Under the Christie Plan, small businesses will see manageable payroll tax increases that will dramatically limit the impact on employers. Instead of a 52 percent increase, averaging \$400 per employee, the Christie Plan reduces the rate, allowing for a 17 percent rise of \$130 per employee. While law mandates these automatic increases, this phase in gives employers room to breathe, the flexibility to prepare for them in advance, and the ability to assume the costs over time.

At a time when New Jersey is struggling to create jobs, Governor Christie's plan will give small businesses some needed flexibility and provide critical relief during these tough economic times.

THE CHRISTIE PLAN TO PROTECT NEW JERSEY'S SMALL BUSINESSES

Reducing the Automatic Tax Increase Threatening Struggling Small Businesses. The Christie Plan reduces the employer tax increase required under current law. The impending employer tax increase will impose the highest rate created under the law (it jumps from the second lowest rate to the highest column E + 10). This change would increase the employer tax on average by 52 percent or \$400 per employee. Never before has the rate increased as dramatically as it is slated to do July 1st. The Christie Plan reduces this increase to one step on the tax table. Consequently, on July 1, 2010 employers will experience on average an increase of \$130 per employee.

Capping the Rate Change to Allow Small Businesses to Plan for the Future. The Plan limits future legally required increases to one column per year. The practical effect of this change is to cap the rate increases expected in July 2011 through July 2013. These increases will be limited to one column per year in order to mitigate the "tax shock" that employers would experience if the legally required increase was implemented. This gives small businesses breathing room during these tough economic times and the ability to plan ahead.

Bringing New Jersey Unemployment Benefits In-line with Other States. Right now New Jersey is an outlier compared to other states when it comes to unemployment benefits. While it is important to help those New Jerseyans who are looking for work, the State's current benefits exceed what practically every other state in the nation provides. In order to keep the Unemployment Compensation Fund solvent for the future, changes need to be made.

- **Bringing New Jersey's Weekly Benefit More In-Line with the Rest of the Country.** Only six states pay weekly benefits in excess of \$500, making New Jersey the state with the second highest benefits level in the country. Under this proposal, New Jersey would rank third highest, with a weekly benefit maximum of \$550. Annually, this change from \$600 to \$550 will save \$295 million.

- **Implementing Practical One-Week Wait Period Like Neighboring States.** Forty states have a “wait period,” including New York and Pennsylvania. This change will not shorten the maximum duration of the regular benefit period. If a claimant qualifies for the full 26 weeks, then he/she will receive benefits for that period. Annually, this change will save \$67 million.
- **Tougher Eligibility Standards for Dismissal as a Result of Misconduct.** The Plan requires employees dismissed for misconduct to obtain other employment for a prescribed period of time before they can once again qualify for an unemployment benefit. While virtually all states have more stringent standards for individuals dismissed due to misconduct, New Jersey’s treatment of these individuals is more lenient. This change would save an estimated \$189 million.
- **Using Federal Dollars for Extended Benefits.** The Plan will make the “extended benefit” provision dependent on the continuation of 100 percent federal funding of benefit costs. This is a provision that has been adopted in 21 other states, including three neighboring states. This would result in \$1.6 billion in savings over the next two years.

Preventing Future Diversions from the Trust Fund. The Christie Plan supports a constitutional amendment (SCR-60) on the ballot this November to prevent future raids of the Unemployment Compensation Fund.

Request Federal Action to Help Avoid Job-Killing Payroll Tax Increases. The Plan would call on the federal government to continue full federal funding for extended benefits and to help states avoid job-killing payroll tax increases. Twenty-eight states have insolvent unemployment insurance funds and are now receiving federal loans. It is anticipated that 40 states will be receiving loans by the end of this calendar year.