

Remarks of David J. Rosen
Legislative Budget and Finance Officer
To the Assembly Budget Committee
May 21, 2013

We appeared before you six weeks ago to offer our revenue forecasts for the remainder of this fiscal year and for Fiscal Year 2014. Now that the April collections are in the books we have the opportunity to update those forecasts. While the April collections led to some adjustments in our estimates, several other revenue developments may prove more consequential.

Let's talk first about April. The April Surprise this year is that there was no April surprise. Unlike some other years, collections for the personal and corporate income taxes did not significantly exceed or miss our targets. Some revenues have done a bit better than expected, some have done a bit worse. On balance for the major revenues the outlook is marginally more positive than we had expected. Based on collection trends and interfund transfer changes, we have adjusted those forecast amounts upward by a net \$269 million over the two years.

However, we are revising our forecasts for energy taxes and the tax on internet gaming downward by a combined \$498 million over the two fiscal years.

Overall OLS has reduced its two-year forecast by \$229 million since early April.

As the Treasurer will discuss this afternoon the Executive estimates are being reduced by \$165 million from the Governor's Budget Message (GBM) in February.

Compared to those revised revenue forecasts, we anticipate \$259.4 million less revenue in FY 2013 and \$441.2 million less in FY 2014, for a two-year gap of \$700.6 million. Six weeks ago that gap was \$637 million.

Over the two year period, the largest revenue differences are for the corporation business tax (\$220 million), internet gaming (\$150 million), transfer inheritance tax (\$90 million), sales and use tax (\$62 million), and the realty transfer fee (\$54 million). In each instance the Executive's estimate is higher. Interestingly, for the largest revenue source, the Gross Income Tax (GIT), the Executive and OLS are in virtual agreement with a two-year difference of \$42 million, less than two-tenths of one percent.

Turning to OLS estimates for individual taxes, the bright spot, as it has been since December, is the GIT – the revenue for which April collections are often critical. Owing to the performance of the stock market in calendar year 2012 and the windfall from Federal tax changes, we anticipated a very strong April for the GIT and actual collections were a bit higher than those expectations. Based on the new data we have increased our FY 2013 GIT forecast by \$85 million and our FY 2014 forecast by \$170 million.

Moving from the observed GIT growth for this year to the projection for next year is complicated. It is clear that a portion of this year's growth, reflected in strong December/January estimated payments and a 39% increase in the April final payments, constitutes a one-shot revenue resulting from high income taxpayers seeking to realize income before the 2013 Federal tax law changes. Adjusting for this one shot reduces the "real" growth rate for the current year and lowers the base for calculating next

year. Of course, nobody's tax return identifies the income as a "one-shot" and even if it did, OLS would not be able to look at it. Thus we had to rely on analytical work done in some other states and apply it to the surge in revenue we are seeing this Spring. Based on this analysis we are assuming that \$250 million of the FY 2013 growth is non-recurring.

If we adjust the FY 2013 GIT numbers by removing the one shot, the underlying growth rate for this year is 7.0%, a nice increase from 4.8% in the prior year. Again adjusting for the one-shot, OLS is assuming underlying GIT growth of 9.4% in FY 2014. This is an admittedly aggressive growth rate assumption but, as we have often discussed, the GIT moves with the market and so far this year the market indices are up about 17%.

I should note that at this time two years ago we increased our GIT forecast for the following fiscal year based on the year-to-date performance of the stock market. Two days after we testified, the markets began what turned out to be a 20% correction - - rendering our forecast too high.

In addition to the higher forecast for the GIT, we have upped our two-year projections for the sales, cigarette and insurance premium taxes, while reducing the forecasts for motor fuels, petroleum products, transfer inheritance, realty transfer, and alcoholic beverage taxes as well as the casino revenue from brick and mortar operations. Over the two years the net impact of these changes to General Fund major revenues is a downward revision of \$65 million. This revision was more than offset by a net \$79 million upward adjustment for miscellaneous non-tax revenues (principally from additional tobacco settlement payments and a larger transfer from the unclaimed property fund.)

The big May news, as it was last May, is a significant underperformance of the energy taxes. Based on available data, OLS projects that for FY 2013 energy taxes will miss expectations by \$200 million and we are projecting a shortfall of \$148 million in FY 2014. Collections for this year are likely to be in the same range as last year, while the budget assumed a substantial rebound from FY 2012, a year in which we saw a major decline. We are not yet in a position to sort out the relative impact on these collections from energy pricing and consumption trends and the interruptions attendant to Sandy. We do know that electricity and natural gas prices remained relatively low during the year. Over- or under-performance on energy taxes can be dramatic because the first \$788 million of revenue remains off-budget for municipal aid. The amount reflected in the budget is the portion remaining above \$788 million. While we are projecting that total energy tax collections will miss the budget assumption this year by about 16%, after the municipal aid account receives 100% of its \$788 million, the on-budget energy tax accounts absorb a 47% reduction.

The Treasurer has also announced a significant reduction in the Executive's energy tax forecasts. Over the two-year period, the OLS energy tax forecast is \$20 million higher than the Executive forecast.

The other significant adjustment is to the forecast of the contribution to the Casino Revenue Fund from internet gaming. In our original FY 2014 Revenue analysis we wrote:

OLS remains skeptical that such a significant FY 2014 revenue receipt will be realized. The OLS will continue to review any new information about internet gaming in New Jersey that may be made available in the coming months. However, a significant downward revision in the \$180 million estimate is possible when the OLS presents revised revenue estimates to the Budget Committees in May.

We have engaged in a careful review of the material published by participants in, and analysts of, the casino industry. We have also engaged in private discussions with a number of these individuals. There seems to be a general consensus that the first 12 months of internet gaming in New Jersey could generate about \$40 million for the Casino Revenue Fund. Indications are that internet gaming will not be operational before the second quarter of the fiscal year, so we are assuming only a \$30 million revenue gain in FY 2014 - - \$150 million below the Executive forecast.

When we spoke to you last time, we mentioned two potential non-tax revenue issues. The GBM assumes that the General Fund will receive a \$166 million infusion (reduced from \$200 million in the appropriations act) from municipal affordable housing trust funds in FY 2013. When discussing this matter with the Assembly Budget Committee earlier this month, the Commissioner of the Department of Community Affairs said that the actual amount would not be known until after the municipalities present information to Council on Affordable Housing on May 22 and then he said, “[M]aybe it will not be \$164 million, maybe it’s \$100 million, maybe it’s \$60 million, maybe it’s \$50 million.” Subsequent to those comments, the Appellate Division of Superior Court issued a stay of the state’s taking of the funds and scheduled oral argument for June 5.

Thus with administrative and judicial determinations still pending, there may be substantial risk in assuming the realization of this revenue in the current fiscal year.

The GBM also assumes that the State will receive a payment of \$120 million in FY 2013 from the vendor selected to operate the State Lottery. On May 3, the Treasurer indicated that several unions “filed a protest of the Intent to Award the Lottery marketing and sales operations to Northstar, which precluded any final

contract award.” Yesterday the Treasurer indicated that a resolution of this issue is imminent.

One final note of clarification - - at this time last year the OLS revenue forecast for FY 2013 was \$474 million lower than the Executive’s. As of this week, the Executive has reduced their FY 2013 forecast by a total of \$539 million.

We will be pleased to answer your questions.

Table A
Revised Fiscal Year 2013 Revenue Estimates
Millions of \$

<u>Revenue Source</u>	<u>Executive Estimate</u> <u>Feb 2013</u>	<u>Executive Revised</u> <u>May 2013</u>	<u>Executive</u> <u>Change Feb to</u> <u>May</u>	<u>OLS Revised</u> <u>May 2013</u>	<u>Difference</u> <u>OLS May -</u> <u>Exec May</u>
Major Taxes:					
Sales Tax, Total	\$7,920.0	\$7,811.0	-\$109.0	\$7,790.0	-\$21.0
<i>Sales Tax, Base</i>	8,216.0	8,241.0	\$25.0	8,230.0	-11.0
<i>Dedicated Transfer to PTRF</i>	-636.0	-630.0	\$6.0	-630.0	0.0
<i>Sales Tax, Energy</i>	340.0	200.0	-\$140.0	190.0	-10.0
Corporation Business Tax, Total	\$2,295.0	\$2,277.0	-\$18.0	\$2,163.0	-\$114.0
<i>Corporation Business Tax, Base</i>	2,232.0	2,257.0	\$25.0	2,150.0	-107.0
<i>Corporation Business Tax, Energy</i>	63.0	20.0	-\$43.0	13.0	-7.0
Inheritance Taxes	680.0	650.0	-\$30.0	615.0	-35.0
Motor Fuels Tax	545.0	540.0	-\$5.0	525.0	-15.0
Insurance Premiums Tax	560.0	560.0	\$0.0	570.0	10.0
Realty Transfer Fee	240.0	228.0	-\$12.0	214.0	-14.0
Motor Vehicle Fees	466.4	454.7	-\$11.7	454.7	0.0
Cigarette Tax	263.0	263.0	\$0.0	258.3	-4.7
Petroleum Products Gross Receipts Tax	228.0	220.0	-\$8.0	207.0	-13.0
Corporation Business - Banks and Financial	165.0	177.0	\$12.0	165.0	-12.0
Alcoholic Beverage Excise Tax	110.0	109.0	-\$1.0	103.0	-6.0
Tobacco Products Wholesale Tax	20.4	20.4	\$0.0	20.4	0.0
Public Utilities Excise Tax	14.0	14.0	\$0.0	14.0	0.0
Subtotal, Major Taxes	\$13,506.8	\$13,324.1	-\$182.7	\$13,099.4	-\$224.7
Misc. Taxes, Fees and Revenues					
Assessment on Property Sold Over \$1 Million	100.0	90.0	-\$10.0	90.5	0.5
Transitional Energy Facility Assessment	101.5	98.4	-\$3.1	98.4	0.0
Public Utility Taxes (State Retention)	115.0	115.0	\$0.0	115.0	0.0
Medicaid Uncomp. Care Reimbursement	422.5	425.2	\$2.7	425.2	0.0
Telephone Assessment	124.0	124.0	\$0.0	124.0	0.0
Hotel Occupancy Tax	95.0	93.5	-\$1.5	93.5	0.0
Affordable Housing (Fair Housing)	194.2	194.2	\$0.0	194.2	0.0
Other	1,685.6	1,688.8	\$3.2	1,688.8	0.0
Subtotal, Misc. Revenues	\$2,837.8	\$2,829.0	-\$8.8	\$2,829.5	\$0.5
Interfund Transfers					
State Lottery Fund	1,095.0	1,095.0	\$0.0	1,095.0	0.0
Unclaimed Personal Property Trust Fund	193.0	215.7	\$22.7	215.7	0.0
State Disability Benefit Fund	38.2	38.2	\$0.0	38.2	0.0
Tobacco Settlement/Securitization	53.3	94.0	\$40.7	94.0	0.0
Enterprise Zone Assistance Fund	102.2	102.2	\$0.0	102.2	0.0
Clean Energy Fund	89.0	89.0	\$0.0	89.0	0.0
Other	292.6	292.7	\$0.1	292.7	0.0
Subtotal, Interfund Transfers	\$1,863.3	\$1,926.8	\$63.5	\$1,926.8	\$0.0
TOTAL GENERAL FUND	\$18,207.9	\$18,079.9	-\$128.0	\$17,855.7	-\$224.2
Property Tax Relief Fund (Income Tax)					
<i>PTRF Transfer from GF (Sales Tax)</i>	\$654.7	\$648.7	-\$6.0	\$648.7	\$0.0
Casino Revenue Fund	\$235.4	\$217.6	-\$17.8	\$215.4	-\$2.2
Casino Control Fund	\$55.1	\$55.1	\$0.0	\$55.1	\$0.0
Gubernatorial Elections Fund	\$0.7	\$0.7	\$0.0	\$0.7	\$0.0
GRAND TOTAL, ALL FUNDS	\$31,326.8	\$31,195.0	-\$131.8	\$30,935.6	-\$259.4

Table B
Revised Fiscal Year 2014 Revenue Estimates

Millions of \$

<u>Revenue Source</u>	<u>Executive Budget</u> Feb 2013	<u>Executive</u> <u>Revised May</u> 2013	<u>Executive</u> <u>Change Feb to</u> May	<u>OLS Revised</u> May 2013	<u>Difference</u> <u>OLS May -</u> <u>Exec May</u>
Major Taxes:					
Sales Tax, Total	\$8,307.0	\$8,244.0	-\$63.0	\$8,213.0	-\$31.0
<i>Sales Tax, Base</i>	8,606.0	8,676.0	\$70.0	8,625.0	-51.0
<i>Dedicated Transfer to PTRF</i>	-664.0	-662.0	\$2.0	-662.0	0.0
<i>Sales Tax, Energy</i>	365.0	230.0	-\$135.0	250.0	20.0
Corporation Business Tax, Total	\$2,483.0	\$2,458.0	-\$25.0	\$2,362.0	-\$96.0
<i>Corporation Business Tax, Base</i>	2,388.0	2,413.0	\$25.0	2,300.0	-113.0
<i>Corporation Business Tax, Energy</i>	95.0	45.0	-\$50.0	62.0	17.0
Inheritance Taxes	728.0	715.0	-\$13.0	660.0	-55.0
Motor Fuels Tax	556.0	547.0	-\$9.0	535.0	-12.0
Insurance Premiums Tax	598.0	598.0	\$0.0	608.0	10.0
Realty Transfer Fee	285.0	297.0	\$12.0	256.8	-40.2
Motor Vehicle Fees	433.0	437.1	\$4.1	437.1	0.0
Cigarette Tax	237.0	237.0	\$0.0	237.1	0.1
Petroleum Products Gross Receipts Tax	228.0	228.0	\$0.0	210.0	-18.0
Corporation Business - Banks and Financial	185.0	200.0	\$15.0	185.0	-15.0
Alcoholic Beverage Excise Tax	118.5	118.5	\$0.0	105.0	-13.5
Tobacco Products Wholesale Tax	20.4	20.4	\$0.0	20.4	0.0
Public Utilities Excise Tax	14.0	14.0	\$0.0	14.0	0.0
Subtotal, Major Taxes	\$14,192.9	\$14,114.0	-\$78.9	\$13,843.4	-\$270.6
Misc. Taxes, Fees and Revenues					
Assessment on Property Sold Over \$1 Million	116.0	112.0	-\$4.0	108.6	-3.4
Transitional Energy Facility Assessment	0.0	0.0	\$0.0	0.0	0.0
Public Utility Taxes (State Retention)	115.0	115.0	\$0.0	115.0	0.0
Medicaid Uncomp. Care Reimbursement	399.2	399.2	\$0.0	399.2	0.0
Telephone Assessment	124.0	124.0	\$0.0	124.0	0.0
Hotel Occupancy Tax	106.0	106.0	\$0.0	106.0	0.0
Affordable Housing (Fair Housing)	28.2	28.2	\$0.0	28.2	0.0
Other	1,884.2	1,897.1	\$12.9	1,897.1	0.0
Subtotal, Misc. Revenues	\$2,772.6	\$2,781.5	\$8.9	\$2,778.1	-\$3.4
Interfund Transfers					
State Lottery Fund	1,020.0	1,020.0	\$0.0	1,020.0	0.0
Unclaimed Personal Property Trust Fund	150.2	150.2	\$0.0	150.2	0.0
State Disability Benefit Fund	38.2	38.2	\$0.0	38.2	0.0
Tobacco Settlement/Securitization	53.3	49.2	-\$4.1	49.2	0.0
Enterprise Zone Assistance Fund	89.6	89.6	\$0.0	89.6	0.0
Clean Energy Fund	152.2	152.2	\$0.0	152.2	0.0
Other	234.8	240.0	\$5.2	240.0	0.0
Subtotal, Interfund Transfers	\$1,738.3	\$1,739.4	\$1.1	\$1,739.4	\$0.0
TOTAL GENERAL FUND	\$18,703.8	\$18,634.9	-\$68.8	\$18,360.9	-\$274.0
Property Tax Relief Fund (Income Tax), Total					
<i>PTRF Transfer from GF (Sales Tax)</i>	\$12,969.0	\$13,039.0	\$70.0	\$13,030.0	-\$9.0
Casino Revenue Fund (CRF)	\$255.8	\$223.6	-\$32.2	\$215.4	-\$8.2
CRF Internet Gaming	\$180.0	\$180.0	\$0.0	\$30.0	-\$150.0
Casino Control Fund	\$53.8	\$53.8	\$0.0	\$53.8	\$0.0
Gubernatorial Elections Fund	\$0.7	\$0.7	\$0.0	\$0.7	\$0.0
GRAND TOTAL, ALL FUNDS	\$32,846.1	\$32,813.0	-\$33.1	\$32,371.8	-\$441.2