

Statement by
David J. Rosen, Legislative Budget and Finance Officer
to the Assembly Budget Committee
May 21, 2014

When we appeared before you eight weeks ago, we forecast revenues \$526 million lower than the Executive over fiscal years 2014 and 2015. Based on the April collections for GIT and the trends for several other revenues, we are compelled to substantially reduce our revenue estimates for this year and next.

As a result of the additional collection information that has become available over the past eight weeks, we have reduced our forecasts - - principally for the GIT, but also for several other revenues - - by very large amounts. Compared to the GBM, we now project shortfalls of \$1.1 billion in FY2014 and \$1.74 billion in FY2015.

Figures 1 and 2 show the differences between the GBM and the May OLS forecasts.

Figure 1

FY 2014 Revenue Estimates			
<i>\$ in Millions</i>			
	Executive Estimate Feb 2014	OLS Revised May 2014	Difference
Gross Income Tax	\$12,927.8	\$12,050.0	-\$877.8
Sales Tax	\$8,680.0	\$8,560.0	-\$120.0
Corporation Business Tax	\$2,419.7	\$2,440.0	\$20.3
All Other Revenues	\$8,534.8	\$8,412.1	-\$122.7
Total Budget Revenues	\$32,562.3	\$31,462.1	-\$1,100.2

Figure 2

FY 2015 Revenue Estimates			
<i>\$ in Millions</i>			
	Executive Estimate Feb 2014	OLS Revised May 2014	Difference
Gross Income Tax	\$13,988.2	\$12,803.0	-\$1,185.2
Sales Tax	\$9,212.0	\$8,969.0	-\$243.0
Corporation Business Tax	\$2,583.0	\$2,609.0	\$26.0
All Other Revenues	\$8,664.2	\$8,325.2	-\$339.0
Total Budget Revenues	\$34,447.4	\$32,706.2	-\$1,741.2

So what happened?

Two months ago we discussed the GIT issue in our Revenue Analysis:

The cause of greater uncertainty ... are two opposing factors that will influence the always important April tax payments. First, growth in payments this April will be held down by an artificial bump in payments last year. As certain federal income tax rates were set to rise on January 1, 2013, some high-income filers were able to shift income realization into Tax Year 2012 to avoid that increase. This behavior produced a jump in taxable income and for New Jersey..., a jump in tax payments last year. New Jersey's GIT collections surged 29% last April. Not only will the windfall from that jump not recur, but some of the income that would have otherwise been realized in Tax Year 2013 was probably taken in late 2012 instead. Treasury estimates the one-time revenue infusion may have been worth \$180 million last year, while the OLS assumes an amount closer to \$250 million.

While last year's infusion will have an adverse effect on this April's GIT growth, the strong performance of the stock market will have a positive impact. During Tax Year 2013 the S&P 500 index jumped 29% and that will enhance collections this spring. The OLS anticipates the boost will outweigh the loss of the one-time revenues

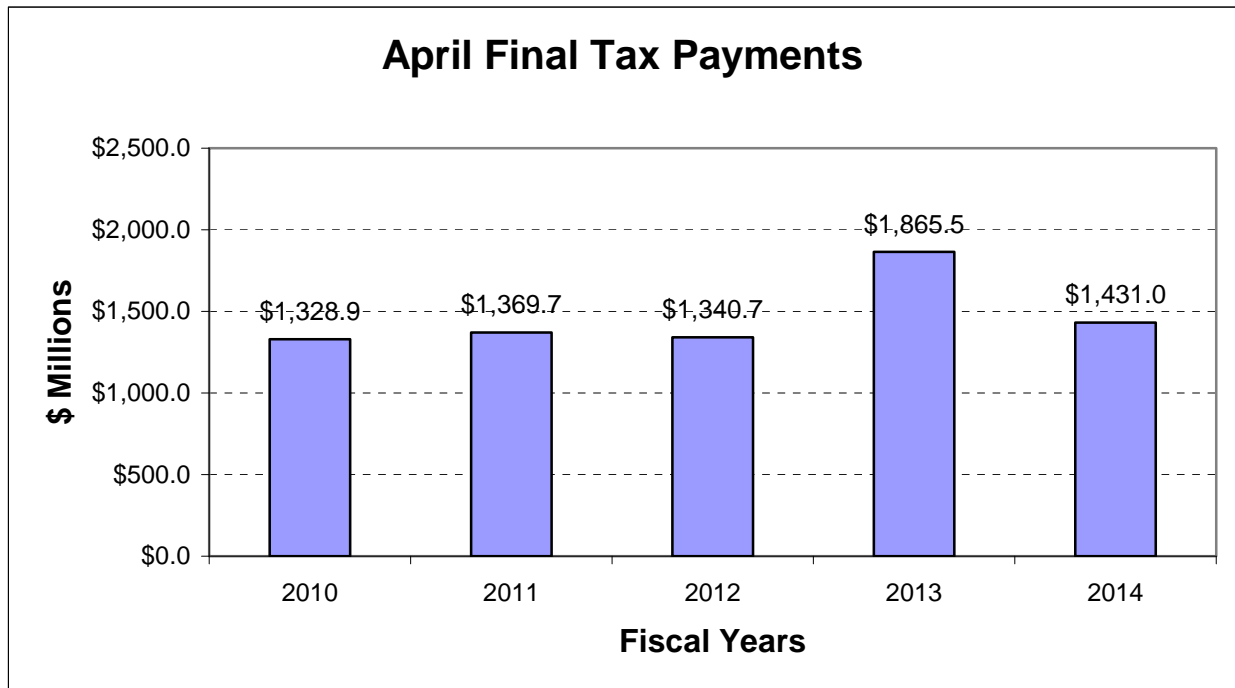
from the tax base, and that April collections will rise by about 5% over last April. ... Once the April returns are tabulated by the middle of May, it will become clear if the “April Surprise” will be a positive or a negative one for FY 2014.

Sadly we now know the answer.

As you can see from Figure 3, final payments jumped \$525 million last April. This surge was greater than expected at the time and provided welcome budget relief last year. In fact, the windfall last Spring was considerably larger than the FY 2013 closing balance.

In the absence of data that would allow us to disentangle the causes, we assumed that about half of the jump was a one shot, with the rest attributable to a strong year in the stock market. In retrospect it is clear that our assumption was wrong.

Figure 3

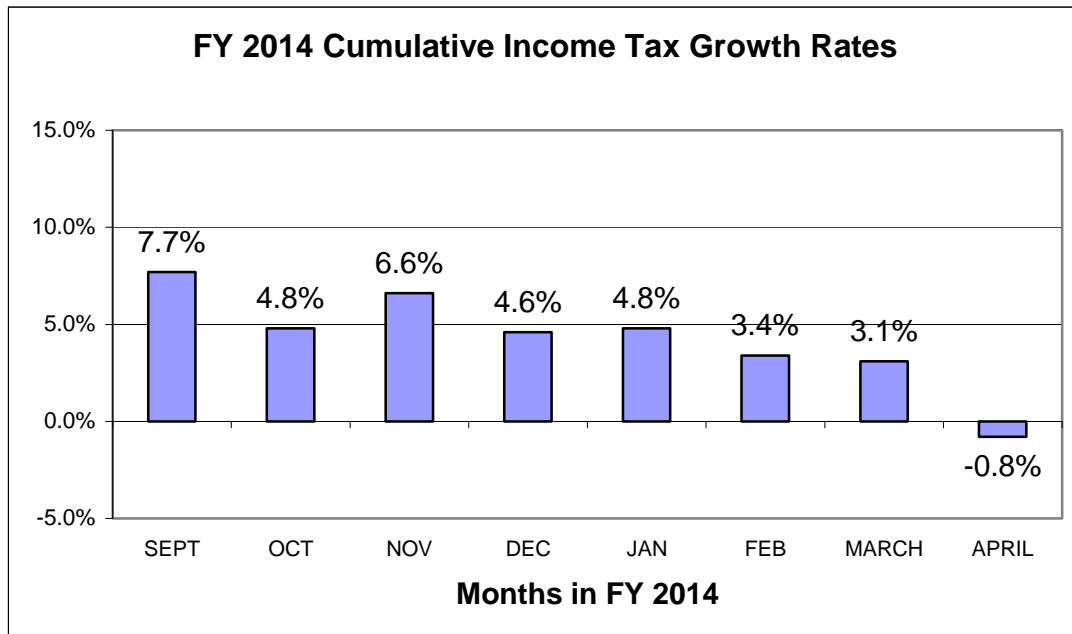


Final payments this April came in \$435 million below last April. Two conclusions can be drawn from these data. First, the one shot was

much larger than we expected – at least \$400 million. Second, and perhaps more troublingly, the one shot obscured the fact that over recent years the revenue boost that would have been expected from the strong stock market was largely absent.

Another way to look at the GIT situation is provided by Figure 4, which shows year-to-date collections (from all of the components of the income tax, not just the final payments) throughout the fiscal year compared to the same periods in the prior fiscal year. Through January collections were running 4.8% ahead of last year. This rate was weaker than that needed to reach the certified target and was the basis for the lower OLS projection. The growth slipped some during the next two months, as refunds were processed more quickly than in the prior year. But the dramatic reversal occurred in April as the year-to-date total fell below the comparable figure for the year before.

Figure 4

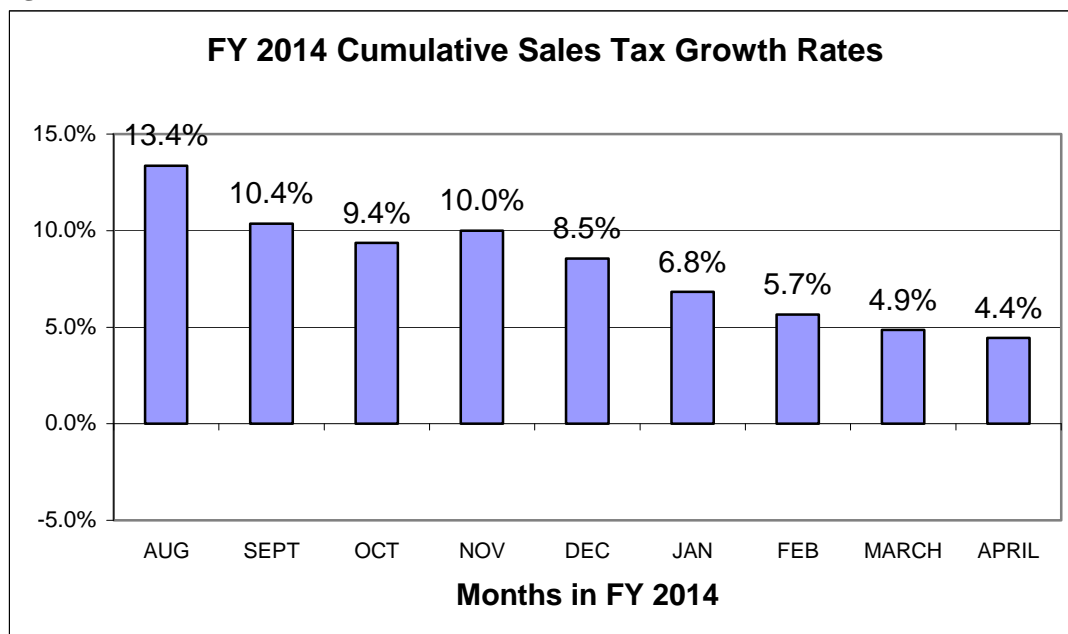


Based on the revelation that the underlying growth of the income tax was weaker in fiscal years 2013 and 2014 than we had assumed, we have tempered our growth assumption for FY2015. Over the two fiscal years our current forecast for the GIT is more than \$2 billion below the estimates used in the Governor’s Budget Message.

Less dramatic than the income tax, but still significant, we project sales tax collections this year \$120 million below the GBM and for FY2015 we are anticipating \$254 million less than the Executive did back in February.

Figure 5 depicts the cumulative sales tax growth rate compared to the prior year after each month, that is, the 10.4% for September means that collections through September of FY2014 were 10.4% greater than they were through September of FY2013.

Figure 5



Back in the Fall when the sales tax was showing double digit growth, we cautioned in our monthly Snapshots that this was misleading because the base from the prior year was so weak. The accuracy of our caution was borne out. Over the past four months sales tax growth has averaged a negative 0.25% compared to the same months last year. While we do expect some improvement going forward, we now project that by the end of this fiscal year the cumulative growth rate will slip further, from the current 4.4% to 3.9%. For FY2015 we have lowered our projected growth rate to 3.5%.

The GIT and Sales tax account for 91.5% of our two-year differences with the GBM. Another 4% of the difference is attributable to casino tax forecasts.

I should also point out that our projections assume the enactment of the \$240 million of tax law changes that were outlined in the Governor's Budget Message and further assume that the revenue yields from those changes will match the Executive's expectations. Also embedded in the revenue totals are the fee increases of which we became aware several weeks ago.

When we testified eight weeks ago, I spoke of the difficult budget choices you faced. The revenue situation revealed by the Treasurer several weeks ago and described in our forecasts today has made those choices considerably more challenging. As always, the staff of the Office of Legislative Services stands ready to provide whatever assistance we can.

Table A
Revised Fiscal Year 2014 Revenue Estimates
Millions of \$

<u>Revenue Source</u>	<u>Executive Estimate</u> Feb 2014	<u>Executive</u> <u>Revised May</u> 2014	<u>Executive</u> <u>Change Feb to</u> <u>May</u>	<u>OLS Revised</u> May 2014	<u>Difference OLS</u> May - Exec May
Major Taxes:					
Sales Tax, Total	\$8,231.0	\$8,177.0	-\$54.0	\$8,140.0	-\$37.0
<i>Sales Tax, Base</i>	8,680.0	8,597.0	-\$83.0	8,560.0	-37.0
<i>Dedicated Transfer to PTRF</i>	-662.0	-660.0	\$2.0	-660.0	0.0
<i>Sales Tax, Energy</i>	213.0	240.0	\$27.0	240.0	0.0
Corporation Business Tax, Total	\$2,442.7	\$2,443.0	\$0.3	\$2,450.0	\$7.0
<i>Corporation Business Tax, Base</i>	2,419.7	2,433.0	\$13.3	2,440.0	7.0
<i>Corporation Business Tax, Energy</i>	23.0	10.0	-\$13.0	10.0	0.0
Inheritance Taxes	715.0	715.0	\$0.0	710.0	-5.0
Motor Fuels Tax	536.0	536.0	\$0.0	534.0	-2.0
Insurance Premiums Tax	612.0	587.0	-\$25.0	587.0	0.0
Realty Transfer Fee	287.0	257.0	-\$30.0	252.0	-5.0
Motor Vehicle Fees	438.5	426.7	-\$11.8	426.7	0.0
Cigarette Tax	221.4	226.0	\$4.6	225.0	-1.0
Petroleum Products Gross Receipts Tax	213.0	213.0	\$0.0	218.0	5.0
Corporation Business - Banks and Financial	197.0	197.0	\$0.0	200.0	3.0
Alcoholic Beverage Excise Tax	108.0	108.0	\$0.0	106.0	-2.0
Tobacco Products Wholesale Tax	21.7	21.7	\$0.0	21.7	0.0
Public Utilities Excise Tax	14.0	14.0	\$0.0	15.4	1.4
Subtotal, Major Taxes	\$14,037.3	\$13,921.4	-\$115.9	\$13,885.8	-\$35.6
Misc. Taxes, Fees and Revenues					
Assessment on Property Sold Over \$1 Million	108.0	103.0	-\$5.0	94.4	-8.6
Fringe Benefit Recoveries	727.1	674.4	-\$52.8	674.4	0.0
Public Utility Taxes (State Retention)	115.0	115.0	\$0.0	115.0	0.0
Medicaid Uncomp. Care Reimbursement	402.3	401.3	-\$0.9	401.3	0.0
Hotel Occupancy Tax	98.0	98.0	\$0.0	98.0	0.0
Other	1,314.8	1,353.1	\$38.3	1,353.1	0.0
Subtotal, Misc. Revenues	\$2,765.2	\$2,744.8	-\$20.4	\$2,736.2	-\$8.6
Interfund Transfers					
State Lottery Fund	993.0	965.0	-\$28.0	965.0	0.0
Tobacco Settlement	148.0	140.2	-\$7.8	140.2	0.0
Other	694.8	728.9	\$34.0	728.9	0.0
Subtotal, Interfund Transfers	\$1,835.8	\$1,834.1	-\$1.7	\$1,834.1	\$0.0
TOTAL GENERAL FUND	\$18,638.4	\$18,500.3	-\$138.1	\$18,456.1	-\$44.2
Property Tax Relief Fund (Income Tax)					
<i>PTRF Transfer from GF (Sales Tax)</i>	\$681.0	\$679.0	-\$2.0	\$679.0	\$0.0
Casino Revenue Fund (CRF)	\$256.8	\$229.7	-\$27.1	\$218.6	-\$11.1
Casino Control Fund	\$57.7	\$58.0	\$0.3	\$57.7	-\$0.3
Gubernatorial Elections Fund	\$0.7	\$0.7	\$0.0	\$0.7	\$0.0
GRAND TOTAL, ALL FUNDS	\$32,562.3	\$31,517.7	-\$1,044.6	\$31,462.1	-\$55.6

Table B
Revised Fiscal Year 2015 Revenue Estimates
Millions of \$

<u>Revenue Source</u>	<u>Executive Budget</u> Feb 2014	<u>Executive</u> <u>Revised May</u> 2014	<u>Executive</u> <u>Change Feb to</u> May	<u>OLS Revised</u> May 2014	<u>Difference</u> <u>OLS May -</u> <u>Exec May</u>
Major Taxes:					
Sales Tax, Total	\$8,740.0	\$8,685.0	-\$55.0	\$8,516.0	-\$169.0
<i>Sales Tax, Base</i>	9,212.0	9,138.0	-\$74.0	8,969.0	-169.0
<i>Dedicated Transfer to PTRF</i>	-697.0	-698.0	-\$1.0	-698.0	0.0
<i>Sales Tax, Energy</i>	225.0	245.0	\$20.0	245.0	0.0
Corporation Business Tax, Total	\$2,618.0	\$2,610.0	-\$8.0	\$2,629.0	\$19.0
<i>Corporation Business Tax, Base</i>	2,583.0	2,590.0	\$7.0	2,609.0	19.0
<i>Corporation Business Tax, Energy</i>	35.0	20.0	-\$15.0	20.0	0.0
Inheritance Taxes	757.9	757.9	\$0.0	760.0	2.1
Motor Fuels Tax	541.0	541.0	\$0.0	539.0	-2.0
Insurance Premiums Tax	650.0	627.0	-\$23.0	627.0	0.0
Realty Transfer Fee	325.0	305.0	-\$20.0	286.0	-19.0
Motor Vehicle Fees	444.4	432.4	-\$12.0	432.4	0.0
Cigarette Tax	180.8	180.8	\$0.0	184.0	3.2
Petroleum Products Gross Receipts Tax	215.0	215.0	\$0.0	220.0	5.0
Corporation Business - Banks and Financial	210.0	210.0	\$0.0	200.0	-10.0
Alcoholic Beverage Excise Tax	110.0	110.0	\$0.0	109.0	-1.0
Tobacco Products Wholesale Tax	56.7	56.7	\$0.0	56.7	0.0
Public Utilities Excise Tax	14.0	14.0	\$0.0	15.4	1.4
Subtotal, Major Taxes	\$14,862.7	\$14,744.8	-\$118.0	\$14,574.5	-\$170.3
Misc. Taxes, Fees and Revenues					
Assessment on Property Sold Over \$1 Million	120.0	118.0	-\$2.0	108.6	-9.4
Fringe Benefit Recoveries	744.2	580.3	-\$163.9	580.3	0.0
Public Utility Taxes (State Retention)	115.0	115.0	\$0.0	115.0	0.0
Medicaid Uncomp. Care Reimbursement	443.0	441.0	-\$2.0	441.0	0.0
Hotel Occupancy Tax	105.0	105.0	\$0.0	105.0	0.0
Other	1,481.2	1,457.9	-\$23.3	1,457.9	0.0
Subtotal, Misc. Revenues	\$3,008.4	\$2,817.2	-\$191.1	\$2,807.8	-\$9.4
Interfund Transfers					
State Lottery Fund	1,036.9	1,036.9	\$0.0	1,036.9	0.0
Other	463.4	463.7	\$0.3	463.7	0.0
Subtotal, Interfund Transfers	\$1,500.3	\$1,500.6	\$0.3	\$1,500.6	\$0.0
TOTAL GENERAL FUND	\$19,371.4	\$19,062.5	-\$308.8	\$18,882.8	-\$179.7
Property Tax Relief Fund (Income Tax), Total					
<i>PTRF Transfer from GF (Sales Tax)</i>	\$716.0	\$717.0	\$1.0	\$717.0	\$0.0
Casino Revenue Fund (CRF)	\$310.7	\$270.2	-\$40.6	\$242.3	-\$27.9
Casino Control Fund	\$60.4	\$60.4	\$0.0	\$60.4	\$0.0
Gubernatorial Elections Fund	\$0.7	\$0.7	\$0.0	\$0.7	\$0.0
GRAND TOTAL, ALL FUNDS	\$34,447.4	\$32,737.8	-\$1,709.6	\$32,706.2	-\$31.6