Task Force Meeting

of

ASSEMBLY TASK FORCE ON FISCAL RESPONSIBILITY

"A review of the State revenue estimation and certification process"

LOCATION: Committee Room 11
State House Annex
Trenton, New Jersey

DATE: July 31, 2002
10:00 a.m.

MEMBERS OF TASK FORCE PRESENT:

Assemblyman Joseph J. Roberts Jr., Chair
Assemblyman John J. Burzichelli
Assemblyman Wilfredo Caraballo
Assemblyman Jerry Green
Assemblywoman Joan M. Quigley
Assemblyman Paul A. Sarlo
Assemblyman Paul R. D'Amato
Assemblyman Michael J. Doherty
Assemblyman Guy R. Gregg

ALSO PRESENT:

Alan R. Kooney
Office of Legislative Services
Task Force Aide

Mary Messenger-Gault
Assembly Majority
Task Force Aide

Beth Schermerhorn
Assembly Republican
Task Force Aide

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ASSEMBLYMAN JOSEPH J. ROBERTS JR. (Chair): Ladies and gentlemen, let's get started. It's my pleasure to call this meeting of the Assembly Task Force to order. I think we have every member here, and I want to thank you very, very much for taking the final day in July and dedicating it to this process. It's reflective of your commitment to the Assembly and to the State. I'm grateful for it.

We have with us today the Treasurer of the State of New Jersey. We are here today to talk about the issue of revenue forecasting, revenue certification, and how that is intertwined and is really a central element in the State budget.

As some of the members may know, I have exchanged some correspondence with Assemblyman Gregg, who has made some points on behalf of the Republican members of this Task Force. He has suggested, and I have concurred, that our view of this issue needs to be a broad one. We clearly need to look backwards to try and get a sense of what went wrong and what the dimensions of problems in the past have been. But we need to do that in a thorough manner, and we need to look forward as well.

Let me just say, for the purposes of today, that the Treasurer will be our only witness today, but it's my expectation that our next meeting, which most likely will be next month, in August, will allow us to round out an exploration of this topic. I expect that we will have a representative from OLS here to talk in detail about their role with respect to revenue estimates and certifications and the snapshots that they do on a regular basis.

We will also have a witness from one of the relevant national legislative organizations, CSG or NCSL, that the State of New Jersey participates in. We will have others that may be suggested as well.

Beyond our meeting in August, we will continue our exploration of the budget and some of the themes associated with it, and we will continue looking at some of the topics such as the independent authorities that have not been the purview of the budget process in the past.

Assemblyman Gregg has made some excellent suggestions about the kinds of topics that we can look at as a Task Force, as have other members of this Committee (*sic*). I simply want to convey to you that, as we go forward, the goal is to have our time spent constructively and have the work product at the end of this process to be something that we can recommend, either for legislative action or for the consideration of our colleagues. I welcome all of your input as we attempt to do that.

Let me now call upon John McCormac, the Treasurer of the State of New Jersey. I think he has a few comments to make, and then I know that members have some questions as well.

Treasurer, good morning.

STATE TREASURER JOHN E. McCORMAC: Good morning.

I thank the Committee for inviting me and giving me an opportunity to speak at today's hearing. I also thank the Committee for its efforts in exploring this crucial aspect of State finance that goes to the heart of all State policy.

The importance of correct and reliable revenue forecasts cannot be overstated. Our entire budget is built on it. Education for our children; police patrols for our communities; programs to protect drinking water; and help for our senior citizens in the form of nursing care, pharmaceutical assistance, and direct property tax reimbursement checks -- all of these and much more depend entirely on our ability to provide a budget that is balanced and sound.

Beyond governmental responsibility and public compassion, the fact is the New Jersey Constitution mandates balance between revenues and appropriations. Every dollar to be spent must be accounted for on the revenue side. We are all sworn to uphold this Constitution, and therefore, we are all obligated to take the business of revenue forecasting very seriously.

We are not permitted morally, fiscally, and constitutionally to just appropriate expenditures and dish out dollars without an identified source of these dollars. It would be a violation of our oaths and of our public trust.

I am not appearing before you today to cast blame, point fingers, or make allegations about any of my predecessors or any previously elected public officials. Much of this has occurred, what needed to be said has been said. While I would be pleased and look forward to answering all of your questions on this critical matter, I do not believe there is anything constructive to be gained today by engaging in criticisms of the efforts and legacies of others.

Much has been spoken in these chambers, in Trenton, in the press, and probably in New Jersey’s diners, shopping malls, and train stations about the recession and about Wall Street and, perhaps, about how severely State budget revenues collapsed. It is a fact New Jersey revenues failed to come anywhere near meeting the appropriations approved 13 months ago. I know this as well as anyone. Working with Governor McGreevey and with lawmakers of both parties, we have spent countless hours into the nights and weekends to rebuild our budget and to put the State back on the path to a sound financial position.

I am proud of the work we have done and of the cooperation I have enjoyed with you and with other lawmakers of both parties. I look forward to more of it, and I extend, again, the invitation to each of you to visit me and to meet with me to discuss issues you consider pressing.

And, of course, as you know, our budget work for next year is already underway. When we took office in January, we had about two months to correct the situation and to roll out a complete budget proposal. Now the time line is a bit more generous. I have six months to repeat the entire process by examining every agency and every department line by line. As I have said before, this must continue to be a cooperative effort, and we will have to work together for years to get the job done right.

The key first step in any budget process is a correct forecast of revenue. It is the first building block of sound and constitutional budget practices. We avail ourselves of the best and most recent economic studies on an ongoing basis, as we attempt to identify and respond to national and state economic trends that affect our budget revenues. Monthly, quarterly, and annual reports from *economy.com*, Rutgers Economic Advisory Service, and DRI-WEFA are thoroughly reviewed and analyzed and related to our State's economic picture.

On literally a daily basis, data is released from the Federal and state governments on construction spending, new housing starts, wholesale trade, durable goods production, and other areas of importance to us. National indices, such as the Producer Price Index, Employment Cost Index, Industrial Production Index, and others are thoroughly reviewed for their impact on our economic situation.

We sample personal, sales, and corporation tax returns and gather particular information to assist in the projections of annual revenue. Personal return data analyzed includes interest, dividends, capital gains; and corporate tax return data includes gross revenues, gross profits, and other deductions and credits claimed.

And the ingredients are in place now, today, with us working together to make sure revenue forecasting is done correctly and properly. My office is committed to providing reliable revenue information to the Legislature. I think our track record of the past six months, when the news has been exclusively bad, speaks for itself. We recertified revenues promptly upon taking office. We developed revenue forecasts in March that were carefully measured. It was the first time in almost two years that our figures came in line with the independent Office of Legislative Services.

We responded rapidly and publicly to cope with the April revenue crisis, and we kept the Legislature promptly and fully informed. OLS and my office adjusted our numbers downward yet again for the 2003 Fiscal Year, and, now that the new fiscal year is underway, both of our forecasts for revenue remain close.

Since taking office, I have worked cooperatively with the Office of Legislative Services to share complete, correct, and updated revenue information, and we will continue to do it. When the OLS analysis of revenues differs significantly from our own administration forecast, it is your responsibility as lawmakers and my obligation as Treasurer to examine those differences closely and to understand if the difference in forecast is a sign of trouble in a particular revenue sector.

I believe we have a good system in New Jersey that gives the Treasurer and the Governor the assignment of delivering a new budget proposal, complete with all revenues, in January, about six months before enactment. That means, in any given fiscal year, we spend the last five or six months working on a budget for the subsequent fiscal year.

This practice means the Legislature -- all of you -- get revenue results, trends, outlooks, and forecasts early. You get them well before any appropriation hearings and final budget votes. We keep the information updated.

Revenue growth may have been taken for granted in the boom years of the late '90s and 2000, but, we have all learned, nothing can ever be taken for granted again. I welcome and encourage you to seek out your experts, do your own analyses and your own forecasts. I pledge to you today to look at all of these seriously, internal or external, as a way of double-checking and validating our own internal revenue work. I am counting on you to fulfill your part of this bargain. I will do whatever I can and whatever I must to make sure our revenue staff keeps you informed, so I can keep up the Treasurer's end of the bargain.

Thank you.

ASSEMBLYMAN ROBERTS: Treasurer, thank you very much.

We are going to begin with Assemblywoman Joan Quigley.

Assemblywoman.

ASSEMBLYWOMAN QUIGLEY: Thank you, Mr. Chairman.

Mr. Treasurer, as some of the members of this Committee have never served on either an appropriations or a budget committee, so it would be very helpful to us if you would just start with the basics. Could you walk us through the process of estimating revenue for a particular budget, through the Governor's actual certification of figures in the Appropriations Act.

TREASURER McCORMAC: Certainly, Assemblywoman.

The process begins, as I said in the testimony, essentially now for the next fiscal year. We will be working for the next six months in preparation of introducing a budget, from the mid to the end of January of 2003, for Fiscal Year 2004. With that in mind early on, the focus is primarily upon appropriations, as quarters finish up, to give us more information to base our revenues on. We will look at the third quarter of 2002 revenue estimates from Rutgers, from *economy.com*, and from DRI-WEFA. We will look at, obviously, collections through the entire July- through December-period, and, beginning in around December, start to formulate revenue projections for the next fiscal year. The month of December is very important, and the collections in January are very important. They give us a very good indication, based on the estimated payment schedules, of what the numbers will be in the next fiscal year.

We'll put all that together by mid- to end of January of 2003 for the 2004 year. Then we will have an ongoing process to monitor those projections. As many of you know, the bulk of our revenues comes in in April and May. So before the final adoption of the budget, we will have had the benefit of April tax collections for sales, and coming corporation taxes, as they come in throughout the second half of April and the first half of May. And then I would be testifying at the end of May next year with updated revenue numbers, before the Assembly and Senate Budget Committees, and then the budget would be passed next June 30.

ASSEMBLYWOMAN QUIGLEY: The Office of Legislative Services performs revenue-forecasting for us in the Legislature. But aside from the Treasury employees, what entities perform revenue-forecasting for the administration?

TREASURER McCORMAC: We have the ability to engage, in the outside, several different entities. For the most part, we have a regular ongoing monthly reporting relationship with *economy.com*, with the Rutgers Economic Center, and with the DRI-WEFA, which is a Wharton group. We have access to their data on a regular basis.

In the past, prior administrations have engaged independent accounting firms, or have expanded the relationship with those entities that I mentioned previously, to get more in-depth revenue forecasts. So we have a wide variety of entities that we can engage to assist us above and beyond just the normal monthly reports that we get from those entities.

ASSEMBLYWOMAN QUIGLEY: What is the Council of Economic Advisors? Do they have a role?

TREASURER McCORMAC: They do, but their timing of their forecast typically is after the first action of the administration, which is in January, and our final action is in June. Their information tends to come out-- It's useful, but the timing isn't as good as the other entities that we've availed ourselves of.

ASSEMBLYWOMAN QUIGLEY: Thank you.

Now, of all the forecasting that's performed during this process, and all the economic advice that you get -- is it binding, either on the Governor or the Legislature? How does that work?

TREASURER McCORMAC: Nothing on the outside is binding upon us or you as bodies. We have the ultimate responsibility to present to you the budget revenues that we believe are fair and responsible, and then you, as a body, have the responsibility to either accept or reject those estimates, and together, by June 30, we come to a, hopefully, mutually acceptable conclusion as to the revenue levels; but nothing on the outside is binding upon either us or you.

ASSEMBLYWOMAN QUIGLEY: Okay. You said a lot of people have responsibility. Who has the final say on what revenues are certified by the Governor when he signs the annual Appropriations Act?

TREASURER McCORMAC: The Governor.

ASSEMBLYWOMAN QUIGLEY: The Governor.

Thank you.

ASSEMBLYMAN ROBERTS: Assemblywoman, thank you very much.

Next is Assemblyman D'Amato.

ASSEMBLYMAN D'AMATO: Thank you very much.

Good morning.

TREASURER McCORMAC: Good morning.

ASSEMBLYMAN D'AMATO: I had the opportunity to read a report that was prepared for a very distinguished State Senator, former State Senator John Lynch, when he was President. This was dated -- the date of the report was in May, 1991, and it was from the Senate Forum on Budget and Revenue Alternatives. By any chance, are you familiar with this document?

TREASURER McCORMAC: No, sir, I am not.

ASSEMBLYMAN D'AMATO: There are a couple of recommendations that this report had for Senator Lynch that I would like to share with you for your comments -- only for the purpose of determining whether there are some other procedures which, for the future, we ought to employ.

The first one deals with the State Auditor. Just permit me to read the recommendation to you. This deals with management and performance audits. It says, and I quote, "We recommend that the scope of operations of the current State Auditor, a constitutional officer elected by the State Legislature, be expanded to include both management and performance audits. The State Auditor function, as we understand it, is limited to financial audits." Do you have any comments on that? Do you think the power of the State Auditor ought to go beyond just the financial audits to what we're talking about, the management and performance audits?

TREASURER McCORMAC: Yes. I believe that the auditor now has many of those powers, and I've seen some of the reports that that group has provided. They don't seem to me to be purely financial in nature. A lot of them get into areas of management and performance. So, I don't know how that developed over the years, being here only six months, but I've seen quite a few reports by the auditor. I read them all. I take them very seriously, especially the ones that involve the Treasury Departments.

So I do believe the State Auditor now has a lot of those powers and is performing a lot of those functions, but the time line, as to the relationship between the 1991 audit report that you refer to and now, I'm not aware of when that might have changed.

ASSEMBLYMAN D'AMATO: So we all understand, when we're talking about the difference between a financial audit and an audit that includes comments about management and performance -- would be what, as it relates to state government?

TREASURER McCORMAC: Well, a financial audit is involving, mostly, the numbers and whether or not they're fairly stated in accordance with generally accepted accounting principles. A management audit would look at the systems in place that generate those numbers and the systems in place that aren't even necessarily financial, but operational in nature, such as how applications are processed, or other areas. So there's a distinct difference between the financial and the management audit that the Office of Legislative Services, through the internal auditor, perform.

ASSEMBLYMAN D'AMATO: Okay. Now, the second recommendation I would like to discuss with you is as follows. It recommends, "That re-establishment of a permanent tax policy study commission, such as existed from 1945 to 1978." Now, it's my understanding, and I could be wrong on this, that at that time, in 1991, they were contemplating appointing professionals, citizens of the State of New Jersey, as well as representatives of both the Republican and Democratic State Legislature -- make it a representative group of this entire state. Any thoughts about some sort of commission that exists to advise the Governor and the State Legislature on a tax policy?

TREASURER McCORMAC: I'm aware now of one, at least. There's a Sales and Use Tax Commission that I recently received a report a couple of days ago for Fiscal 2002, where they track legislative initiatives. They are an independent citizen and businessmen-oriented group that does those issues. There are other groups that do it. I can't think of the exact names now, but there are other groups that are available to the Director of the Division of Taxation and to the Treasurer, to help.

We also, in the recently enacted Corporation Business Tax bill, authorized the naming of a nine-member corporate tax commission that is going to be named over the next 60 days to evaluate the corporation tax bill, to evaluate its performance against its objectives. So we agree with the theory that independent bodies have a role in assisting us in evaluating our tax policies. We fully support that.

ASSEMBLYMAN D'AMATO: In preparation for today's meeting, I had an opportunity to go on the infamous Internet, and I was fortunate enough to stumble across the state of Florida. I just want to share with you and my colleagues on this Task Force, because in Florida they do it different than we do in New Jersey, and perhaps this deserves some discussion in the future. And let me just briefly, if I may, tell you and my colleagues how they do it in Florida.

They basically establish a conference, and this conference consists of one member from each of the staffs of the Office of Governor, the Senate, the House of Representatives, a.k.a. their Assembly, and the Division of Economic and Demographic Research. These four representatives, they arrived at a consensus as to what would be the official revenue forecast. And, according to the article that I'm reading from, they believe that this approach is more nonpartisan. Now, albeit, it takes the power and responsibility away from the chief executive, the governor. But, it seems, in reading other commentary about this nonpartisan approach in Florida, that people say this is something to look at.

First of all, are you familiar with what I'm talking about, this conference in Florida?

TREASURER McCORMAC: No, sir. I just know that Florida, without a gross income tax, really is only estimating sales and corporate tax, which is certainly far easier. The issues in the State of New Jersey, over the past 18 months, and revenue forecast have all dealt with, predominantly, the gross income tax, which is our biggest source of revenues; and Florida, without that gross income tax, might make that an unfair comparison to New Jersey.

ASSEMBLYMAN D'AMATO: The only reason I bring this to your attention, and to the attention of this Committee, is that it seems that the structure of this conference lends itself so that one Democratic administration is not blaming the Republicans, and vice versa. Do you think that maybe over the next couple of months, and I know you're very, very busy -- I would appreciate, even informally, some day talking to you about the merits of this Florida system. Because, if we take the politics out of it, I think the citizens of this state might be happy with that approach.

TREASURER McCORMAC: Well, I think that we have a system now that takes the politics out of it. The Office of Legislative Services is independent. It's nonpartisan, it's objective. These are people who take very seriously their jobs. I have the utmost respect for them over my six months working here. Their task, in a nonpartisan way, is to give you, as an Assembly and a Senate, their recommendations for revenues. Then our job, as an Executive Branch, is to look at those, compare them to ours, and try to achieve a consensus and, if the consensus is not achieved, at least have a very good basis for why a consensus is not achieved.

I think the system now works very well, but I think we need to pay attention to it and follow it and listen to these people. Last May and June, they were \$1.2 billion to \$1.6 billion different than the Executive Branch's estimates at this time. I, as Treasurer at that time, if I was that far off of OLS, I would sit both of us in a room and talk about it, and wouldn't let anybody out until we at least figured out why we're different and get our differences down to a reasonable number. I don't think it's at all rational that we could be \$1.2 billion to \$1.6 billion off of an OLS number.

Since we've been in office -- our revenues in February, March, and May -- each time that we've projected revenues for Fiscal 2002 and Fiscal 2003 we've been within a very small margin of error of OLS. Again, I think they're very talented. They know exactly how we do it, and they offer you a complete independent analysis of our revenue forecast, but I think we just all need to look at them and take them a little more seriously. And, if they are that different from us, as they were a year ago, a little over a year ago at this time, I think we all need to know why.

ASSEMBLYMAN D'AMATO: Thank you, sir.

Thank you, Mr. Chairman.

ASSEMBLYMAN ROBERTS: Thank you, Assemblyman.

Assemblyman, let me just note -- that as you refer to Florida -- some of the data that I've had the chance to look at. I think there are more than 20 states that have a revenue estimating and certification process different than New Jersey. Florida is one example. It's interesting. You could argue that we have -- the Legislature's role is to play a role in certifying revenue, an implicit role by virtue of our approval of the budget. But that is something that's subject to whether or not the executive or the legislative are both represented by the same party, which is whether or not there is any safeguards.

I think one of the outcomes of this process will be that we will explore what other states do and come up with some suggestions, because it is clear that what happened in the last couple of years is something that we have to try and avoid. But, more than that, I think we need to anticipate the various political structures in the future and have something that is more institutional to protect the State on an ongoing basis.

But I thank you for referring to Florida. I think it's very instructive.

Next is Assemblyman Sarlo.

ASSEMBLYMAN SARLO: Thank you, Mr. Chairman, and thank you, Mr. Treasurer, for being here this morning.

Before we go forward and we start talking about the future and other alternatives to revenue forecasting, and other states, as a new legislator here, I've spent my first six months hearing a lot about, and studying a lot about, Fiscal Year 2002 and the revenue forecasting.

And, Mr. Treasurer, if I could just spend a few moments and focus on FY '02, I would appreciate your insight and input to some of my questions. Based upon FY '02, and based upon your transition period and your first few months in office, did you see any periods of -- did we follow the normal procedures in past years when they did the forecasting back in January of '01? Did you see any difference in normal patterns that we've done in past years?

TREASURER McCORMAC: No. When I had conversations, of course, only starting here January 16-- When I had conversations with the economic forecasters in the Tax Department, they assure me that the same procedures were followed for the Fiscal '02 budget that were followed in the past. The same research was used, the same sampling methods were used. Everything seemed, to me, pretty much on line with the prior years. I think, as I said to the prior questions from Assemblyman D'Amato, that-- I think the difference was that, for a change, the OLS numbers were so far off the administration's numbers. That's really what the difference was. The systems we used to generate our numbers seemed to have been the same. There seemed to have been warning signs that the numbers prepared by the administration were excessive -- OLS being the most obvious example of that.

But the systems that were used by the State seemed, from my conversations with the Tax Department, to have been the same.

ASSEMBLYMAN SARLO: When Governor Whitman had proposed her budget in January of 2001, which from what I understand was about 1.9 billion up over the previous years, it obviously contained some revenues estimated for the FY ’02. Were these assumptions consistent with the revenue outlook held, at times, by some of the independent agencies -- forget OLS for the minute -- but some of the independent agencies that you had mentioned earlier?

TREASURER McCORMAC: Well, certainly there were warning signs at the end of ’01 that the national economy and State economy were perhaps heading downward, I think particularly in the area of capital gains. There were warning signs that the capital gains for calendar year 2001 would not materialize as they had in the past, and, therefore, when the envelopes were opened in April in 2002, perhaps, the gross income tax collections would not be as high as they were for the prior year. The exact relationship between those warnings and the actions taken has been well documented. There’s been several memos between the Tax Department and the Treasury, the Treasury Department and the Front Office, that document many of these warnings. But certainly, in 2001, there were national and state signs of an economic downturn pending.

ASSEMBLYMAN SARLO: Thank you, Mr. Treasurer.

As you move through the FY ’02 process -- Governor Whitman has moved on and Governor DiFrancesco takes over, the Legislature has begun their process, the budget process, and we’re moving forward to preparing an annual appropriations act -- during this time, roughly the first six months of the calendar year 2001, in your best information, how did the FY '02 estimates from all the entities involved compare -- OLS compared to Treasury, compared to maybe some of these independent forecasters?

TREASURER McCORMAC: Well, I think you have a chart that kind of summarizes that.

ASSEMBLYMAN SARLO: If you could just walk me through briefly, I would appreciate that.

TREASURER McCORMAC: All right. (indicating chart) It's the colored bar chart that says, "Forecasts for Big Three Taxes." We combine corporate sales and gross income taxes, which account for probably two-thirds or more of our annual revenues. We tried to show a trend of estimates provided by the various entities, either the administration or OLS or an outside, third-party service bureau. You'll see a time line along the bottom as to when the reports were received and who was the author of the reports.

And, in each case, the red bar being a prior administration estimate; the blue bar being a current administration estimate; the gray bar represents Rutgers, which provides us with quarterly figures on revenues; the OLS numbers are in green; and there's various memos to and from the administration with additional, I'd say, warnings as to this amount of revenues that would ultimately be achieved. In each case, you can see that the red bars are significantly higher than anything around them. That's what I think is the root of the issue, in that the warning signs, before and after all the revenue forecasting that was done, clearly indicated that the revenues would not be as estimated in the original budget message and in the budget as finally adopted.

This kind of gives you a nice time line that lays out each and every time a revenue forecast was made, who made it, when they made it, and how it compares to the ones before and after it.

ASSEMBLYMAN SARLO: When you look at this chart and the colors stand out, I mean, actually, I think the colors should be the other way around. We should be on red for the independent forecasters, because its a much drastic difference in what the Treasury had projected. Any evidence why they would be that far off? Any particular event in time or any particular accounting procedure could have drastically-- Some of these are a billion dollars off.

TREASURER McCORMAC: I don’t think it’s any particular accounting procedure that led to that. And why decisions were made as to what numbers to put into the budget, I certainly can’t speak to. I can only point to the independent analyses that were provided and again point to the second half of the chart, or alleged third of the chart, which shows from ’02 on that, virtually in every case, we are right in line with the green bars of OLS, and the blue bars being ours.

ASSEMBLYMAN SARLO: Correct.

TREASURER McCORMAC: And I’m happy with that, and I take that very seriously -- the fact that we need to speak to OLS on an ongoing basis, and we do. I think that, had that been that far off of our numbers, I certainly would have at least found out why. If there’s a fundamental difference of opinion on capital gains or on sales--

ASSEMBLYMAN SARLO: Exactly.

TREASURER McCORMAC: --or on the economic downturn, that's one thing. I know of no actual explanation for the differences between the red bars and those around them.

ASSEMBLYMAN SARLO: Okay. Let me just move into June, as the actual final budget hearings are coming to a close. And from what I understand, what people tell me in the past years here in Trenton, it's kind of tradition that the Treasurer appears at the final Budget Committee hearings, if the chairman desires. I understand that, at the final Budget Committee hearings, that Treasurer Lawrance, at the time, did not appear, and then later on he was asked by Chairman Lance to appear for his final testimony. Do you know actually when the Treasury, at that point in time, put revised estimates on the table?

TREASURER McCORMAC: I believe that it was approximately May 15 of '01 when the Treasurer had revised numbers. As to appearing or not appearing, I can't speak to why that decision was made in the past. All I know is that in the six months I've been here I've made 10 appearances, 5 before the Senate, 5 before the Assembly -- 11 counting today. I'm willing, at any time, to come down, share what I know, share what research I have, share what statistics I have, with each of you. We've had a very open-door policy in the Treasurer's Office to speak to all the Budget Committee members and Appropriations Committee members. Some of you are on those, some of you are not, but we are open. We are available. We will, as many times as we need to, explain what we're thinking and why we're thinking it so that you, as a legislative body, can make the appropriate decisions as to whether these revenues and these appropriations are fairly stated in the budget.

ASSEMBLYMAN SARLO: What it appears -- it just appears that we never revise our estimates. The Treasury, at the time, never revised our estimates downward to bring it more in line with some of the independent forecasters and OLS, based upon this chart. I think that really tells a pretty good picture.

At this point in time, Mr. Chairman, I have no further questions.

I want to thank you, Treasurer, for your input.

ASSEMBLYMAN ROBERTS: Assemblyman, thank you.

Next is Assemblyman Burzichelli.

ASSEMBLYMAN BURZICHELLI: Thank you, Mr. Chairman.

Good morning to you, Mr. Treasurer. I thank you for joining us.

I'd like to continue, I think, for continuity purposes, with a few more questions on 2002. Before I do that, I want to express my frustration to the Chair, because, as my colleague just mentioned, it appeared that the previous Treasurer didn't have time to attend these sort of sessions, either at the Appropriation or Budget Committees. Had he been there-- Frankly, if we had him here now, some of these questions would even be answered in a clearer fashion. Because -- we have our present Treasurer almost at a disadvantage looking back -- what happened, what happened -- and we're only going to be able to get so much in the way of actual detailed answers. We're going to have good philosophical discussions and try and get a sense by going back and rebuilding that way.

But the previous Treasurer's absence during the budget process the last time around, and not having him here today, leaves us with a little bit of a disadvantage. But, if I may, if we can help build some of this, Mr. Treasurer--

Moving to the end of June, the budget is introduced on the 21st. Were there any significant differences between the estimates provided at any other time in June by the Treasurer and those contained in the proposed act, which was S-2500? If so, could you help explain to us those differences, and discuss any justification you may know of those changes?

TREASURER McCORMAC: The one thing, Assemblyman, that comes to mind, immediately, is the corporation tax. The original budget in January called for a $100 million estimate of an LLC loophole closure plan. And, what that basically meant was, companies had been establishing LLCs, as owners of pieces of it, and essentially sheltering income out of state. There was a plan to close that loophole. The original estimate was $100 million on January 15 or at the time the budget was introduced. By the time the budget was adopted that revenue had grown to 420 million, based on various conversations by the Treasurer and the Tax Department and administration. The sad news is that that number came in at $71 million and was a big piece of the ultimate Fiscal 2002 revenue shortfall. Basic corporation taxes were down significantly, but probably not as much as that one number, that loophole closure.

There were other reductions made to the budget from the point of introduction to adoption. Gross income tax started at 8.9 million, went down to 8.5. Sales tax started at 6.2, went down to 6.1. Again, corporation tax went up by that 300 million. It started at 1.5 and went to 1.8. But, once again, the important thing to note is that the OLS study -- at the same time of the adoption of the budget, while sales tax was approximately equal -- was 400-plus million below on the corporation business tax and 400-plus million below on the gross income tax.

So, at the time of the budget adoption, there were changes made from introduction to that point, but they still weren't fully taking into account the estimates provided by the Office of Legislative Services, nor do I have any documentation as to why there were those differences and what was done to evaluate them.

ASSEMBLYMAN BURZICHELLI: Do you think someone got confused? I mean, we hear so much discussion about living in a global economy. Do you think the currency issue was the question? Were these American dollars they were talking about going from 100 million to 400 million? Do you think maybe someone got it confused in that respect and suddenly switched to a difference currency and didn't bother to mention to anyone?

TREASURER McCORMAC: I certainly don't know, Assemblyman.

ASSEMBLYMAN BURZICHELLI: I say that just to try and lighten what's a difficult topic on a July day.

If I can continue then, in hindsight, after reviewing documents during the transition and beyond, was there any evidence, either way, about the previous administration's faith in its own estimated or certified revenues?

TREASURER McCORMAC: During transition, there was a bond issue for, I believe, the Transportation Trust Fund. It was approximately $2 billion. In all bond documents, the administration is required to provide a section, entitled Current Outlook, that would indicate its most recent estimate of the budget and the financial picture of the State, be it revenues or appropriations in that document, between the original -- what they call preliminary official statement that's issued in advance to potential purchasers of the debt, indicated perhaps a $700 million shortfall in the revenues, which was approximately early December. At the official statement point, when the issue is sold and there's now an official document prepared, that indicated 700 million, but perhaps as much as 1.4 billion.

That is the first time I know of anything official where the State's economic picture was documented by the prior administration. That would have been just prior to our taking office in the middle of January. It would have been done very early in January and the middle-to-late December of 2001.

ASSEMBLYMAN BURZICHELLI: And now, of course, you, more than anyone-- We all know the FY 2002 revenues fell far short. That was evidenced by declining revenues throughout the Fiscal Year 2002. Now 2002 is over, and we have a more complete picture. How much revenue is collected by the end of FY 2002, and how does that compare to the certified revenues contained with the 2002 annual Appropriations Act?

TREASURER McCORMAC: The actual numbers of corporation taxes was about 1.1 billion compared to a $1.8 billion target. The gross income tax-- Yes, actually, it's best to look at the total. Approximately 13.8 billion was the total of the top three taxes that were collected, compared to an introduced budget in January of 16.7 and an adopted budget in June of 16.5. So, as we said all along, we came into office on the 15th of January, by the 28th we had projected a $2.465 billion shortfall in revenues. Then, when the

April collections were made available, we then dropped the forecast by another $589 million. So, in total, the shortfall in revenues for the big three taxes for Fiscal 2002 was approximately $3 billion.

ASSEMBLYMAN BURZICHELLI: We read and we listen and we see everything going on that's around us. Most other states found themselves in financial trouble in Fiscal Year 2002, due, in part, from the declining economy, and, some would suggest, in part, to the events that happened on September 11. Was New Jersey's experience simply one more example of the national trend where targets were missed?

TREASURER McCORMAC: Well, certainly, Assemblyman, there was a national trend. I've seen data that suggests that New Jersey's shortfall in revenues was the second worst in the states, I believe, only to Colorado. Certainly, nobody knew how bad the national economy would decline. Certainly, between January and June of 2001, nobody knew the events of September 11 were going to happen. They had a major part in the entire economic downturn and, certainly, the State felt the effect of those two events.

But I point, again, to the fact that the warning signs were available of an economic downturn, again, not as bad as it happened. The warning signs don't appear to have been heeded. Once again, the OLS revenue forecast, which had the benefit of the collections in Fiscal 2001 from those April and May envelopes, warned of between a $1.2 billion and $1.6 billion shortfall. Not the entire 3 billion, because again nobody knew it would be that bad, not across any state in the country, knew it would be that bad. But we were the second worst between the original budget and the final numbers.

ASSEMBLYMAN BURZICHELLI: Thank you, Mr. Treasurer. Thank you again for not only your being here, but you've been helpful, I know, to my office, you've been accessible, and you've been very frank in your discussions on these very difficult topics.

And to the Chairman, I want to suggest-- I know there were correspondence about possible witnesses, and you mentioned, early on, the possible continuations of this Committee's work in this area. We should see if maybe it isn't practical to, at long last, to get the previous Treasurer to come in and visit with us.

Thank you, Mr. Chairman.

ASSEMBLYMAN ROBERTS: Assemblyman, thank you.

Now let me just amplify the one point that you made in your questioning. The notion that New Jersey was -- had the second largest deviation between what was anticipated and what was collected, clearly calling into question the quality of the revenue estimates. It's not an issue of being second by a little. You have Colorado, which had a 15 percent deviation; New Jersey, which had a 13 percent deviation; when most other states were in the range of 2 and 3, and 4 and 5, or 6. So I take no solace in the fact that Colorado was there with us; but we had a deviation as a result of revenue estimates that were in error, that is roughly triple what other states had to endure.

I have been consistently troubled by the notion that the problems that we've experienced in the last year can solely be attributed to September 11. It's clear that they cannot be.

Assemblyman, as you said, it's clear that individuals in the administration were aware of the magnitude of the problems that this State faced. They had warning signs. They failed to share them with the public, they failed to share them with the Legislature. This Legislature was not put in the position of being able to confront this issue and take corrective action. The consequences of what we're dealing with this year in this budget, I think, are directly attributable to the fact that information was available and was not shared in a manner that was professional or forthright.

We are going to spend some of our time looking at the past, because the past year or two years, with respect to the fiscal conduct of State government, has been an abomination. But we're going to use what has happened in the last couple of years as an opportunity to move forward and make sure that it never happens again.

Next is Assemblyman Gregg.

ASSEMBLYMAN GREGG: Thank you, Majority Leader.

Welcome Mr. Treasurer.

If I may begin my questioning by responding to the request to have the former Acting Treasurer here, I think that that would be very good. Quite frankly, it is my understanding that he would have been happy to be here today. So I would hope that we put that letter together and make sure that he does have an opportunity to make his presence known here. It does appear to be, in some ways, a bit one-sided here, and having him be able to defend some of his actions and points of view might be good for the Committee.

With that said, welcome, Mr. Treasurer. Over the last nine years, other than the year in the budget that you're in right now, do you have any idea how much money was actually in surplus, or over and above projections, by the original Executive Branch versus OLS, cumulatively?

TREASURER McCORMAC: No, sir.

ASSEMBLYMAN GREGG: It is my understanding, doing quick numbers, that it's about $2 billion. So, over the course of virtually a complete decade that the system and the administration and the individuals in place, while they haggled over numbers year after year -- some plus, some minus -- when the dust settled, we were ahead the better part of $2 billion; which does somewhat lead me to believe that this was a very special year, regardless of the party in power, quite frankly, and regardless of the system, even though I do agree that it does bear some review. I hope that this Task Force does come to some conclusions.

From a standpoint of estimation, it appears that we're talking here about how you guess how much money you're going to get coming in. New Jersey is a very special state. Mr. Treasurer, can you tell me how New Jersey ranks, in relation to the states that have an income tax, based on how much they rely on the income tax as a percentage of their budget?

TREASURER McCORMAC: I don't have any statistics in front of me, Assemblyman, but I'd be happy to provide them if they are available from the Tax Department.

ASSEMBLYMAN GREGG: I think that that, through the Chair, would be a good thing. We quite often are saying whether or not New Jersey had a more aggressive impact of the effects of the stock market, as well as the events of 9/11. But we are a unique state, we have our budget created differently than some states. Some states don't even have a personal income tax.

Mr. Treasurer, are you aware of any state that collects a state income tax? Did any of them actually collect more money than they did the year before?

TREASURER McCORMAC: Again, I'm not aware of the statistics. I would not think, based on conversations that I've had with other states and reports I've seen, but I would be happy to put that together, if we can, from information available in the Tax Department.

ASSEMBLYMAN GREGG: It is my understanding that none have. It was a universal issue on the personal income tax, but I think we should have that number. That's something that I think we need to look at because, quite frankly, there's been a lot of platitudes talked about today, but the real details are the ones that we have to really find. The devil is always in the details.

On the chart that you noted, Mr. Treasurer, I note that the administration, meaning your administration, projected in May of 2002 -- of the three big taxes you show in the blue color, when it transcends to May of 2002, which is two months later -- that there's a shortfall of $600 million. Would I be reading the chart correct?

TREASURER McCORMAC: That's correct.

ASSEMBLYMAN GREGG: And, if we were to extrapolate that guess mistake you had, would that transcend to basically $3.6 billion, if the trend that you had estimated continued?

TREASURER McCORMAC: No, sir.

ASSEMBLYMAN GREGG: If you shortfalled 600 million over two months, would not, at the end of that full year, the difference be 3.6 billion?

TREASURER McCORMAC: No, sir. Because the months that you're looking at are the prime collection months of April and May, and the original estimate was done in March. The second estimate was done at the end of May, and that's when virtually a quarter of our revenues come in, and that's when the final gross income tax payments are due, the first estimate of the next fiscal year's income tax payments, the final corporate business tax, the first estimate of that, and two months worth of sales tax. So, extrapolating a two-month period like that over twelve months would not be an accurate comparison.

ASSEMBLYMAN GREGG: Okay. Through the Chair then, using your numbers, then, if 25 percent comes within 16 percent of the time -- two/twelfths or one/sixth of the year -- you get 25 percent, then it wouldn't be difficult to say that if we extrapolated it, you'd be $2 billion short.

TREASURER McCORMAC: Absolutely not. Again, you have to look at what came in in that period.

ASSEMBLYMAN GREGG: I'm just using your words, so--

TREASURER McCORMAC: No, the numbers-- The comparison is not accurate in this case. You have to look at what came in during that period. The final payment of the 1040s is probably the most critical number, and it only comes in once a year. It only comes in April 15, as, correspondingly, the first payment of calendar year '02 is also due April 15, and virtually all of the corporate tax comes in during that period. So any extrapolation of that period, based on any kind of time frame of two months, or any kind of percentage of the budget, is not accurate based on the type of information that becomes available to us, and the sheer size of the numbers that become available to us, in that two-month period.

ASSEMBLYMAN GREGG: So, through the Chair, why were you so far off?

TREASURER McCORMAC: Well, $600 million was the difference between our original presentation back in February 11, through the end of March, against a $24 billion budget. The difference prepared by the OLS staff was consistent. We predicted more of the ultimate shortfall in Fiscal 2002 revenues earlier than virtually any state in the country. We came out on February 11 with a revised budget, on January 28 with a revenue recertification that placed our revenue shortfall at $2.5 billion. It wound up being approximately $3 billion. We hit more than 80 percent of our target earlier, which, again, compared to virtually every other state, was an achievement. There are still seven states that have not adopted budgets because they have not solved their revenue problems. There are several states that are borrowing to solve their budget problems.

We have a balanced budget. We have it adopted. We have not borrowed to cover it. So the performance of this administration in recognizing it's a very good shortfall, recognizing it early, dealing with it early, I think puts us on a very good stead compared to other states in the country.

ASSEMBLYMAN GREGG: So, through the Chair, what you're saying is in direct opposition to what the Majority Leader just stated, because you're saying that the other states really aren't doing so well. You've done a great job -- that many states haven't completed their budget process. They're in a crisis at this point as we sit here. As we sit here, other states are still in a crisis. So we are not worse than every state, by your own testimony -- that there are other states in worse condition.

TREASURER McCORMAC: No, sir. No, sir. What the Assemblyman said was the numbers of actual revenues compared to budgeted revenues for New Jersey were the second worst in the country. That's the problem. What I said was the solving of the problem was done by us earlier and swifter than virtually any other state, such that we finished Fiscal 2002 balanced. We finished with a positive surplus. We recognized our problem; we cut our budget. We've availed ourselves of every revenue possible, and we finished the year with a balanced budget. So there's a difference between the definition of the problem and the solution.

ASSEMBLYMAN GREGG: I think, through the Chair, what you're saying-- Say what you wish, but the reality is other states are having problems. That is your testimony, and I happen to agree with your testimony. You were off $700 million, which is a large percentage. We are here discussing how we guess. I'm not meaning to be difficult here, but it was a very difficult economic year, and, quite frankly, the last six months' estimates were not a heck of a lot better than the first six months' estimates. Other states are still having problems.

What we're here, really, to discuss is how we move forward. I am taking this line of questioning because I'm hoping that this Task Force

Committee moves in a positive direction, as opposed to trying to cast blame at how we got where we are.

ASSEMBLYMAN ROBERTS: Assemblyman, let me just -- just as a point of clarification, if I could. What I made reference to earlier was the difference between the revenues that were anticipated for the purposes of the budget and what the ultimate collection was. I indicated that Colorado was the worst in the nation with a 15 percent difference. New Jersey was the second worst with the 13 percent difference. California had extraordinary problems. Their difference was 7 percent. Comparable states, neighboring states, Connecticut was 4 percent, New York was 4 percent, Pennsylvania was 2 percent. I think that gives you a sense of the magnitude of the difference between what was anticipated and what was collected. It really does call into question the process that was used in the first place to estimate the certified revenues for the purposes of the budget.

ASSEMBLYMAN GREGG: Thank you for that clarification, and I think this Committee will have to deal with two issues, not only on the issue of the estimate, but, also, the methodology should also be discussed here. You can't just compare apples and oranges, that each state relies differently upon income tax versus sales tax, some have personal property taxes, some do not. There is revenue that is totally different in different states. They have different programs, different expenses. They bond differently. Some states have tremendous debt, some states have virtually no debt. So all of that, I think, needs to be brought to the table.

And I think when you look at dynamics here -- and I'll move over back to the Treasurer, we've had this discussion in the past. New Jersey, through the Chair, tends to be a state that relies heavily upon the income tax. Would that be a correct assumption?

TREASURER McCORMAC: Yes, it would.

ASSEMBLYMAN GREGG: And when you then break down the income tax, we tend to do, due to the progressiveness of our income tax, tend to rely more on affluent people than other states. Would that be correct in a direction?

TREASURER McCORMAC: Yes, it would.

ASSEMBLYMAN GREGG: So, in the event that the stock market has a tumble or there is a problem with investments, as opposed to necessarily direct employment, that that kind of economic dynamic would have a greater effect upon New Jersey because of its reliance on more affluent people than, perhaps, another state. Would that be a correct assumption?

TREASURER McCORMAC: That would all be correct. That's why, when *economy.com*, in the spring of '01, warned the administration that capital gain revenues could be down between 25 percent and 33 percent-- Nonetheless, the budget in Fiscal 2002 called for a 3.5 percent increase in capital gains. It's exactly that recognition of the upper income nature of our tax base, the capital gain issue of our tax base-- But, nonetheless, that warning went completely unheeded in the face of an economic downturn. An independent, nonpartisan, expert forecasting group like *economy.com* said, "You are going to lose between a quarter and a third of your capital gains." Nonetheless, they budgeted for the 3.5 percent increase.

ASSEMBLYMAN GREGG: Do you think, through the Chair, that perhaps New Jersey should consider reviewing its weight of how much it takes from that specific revenue source in order to have a more stable financing package, as we move forward?

TREASURER McCORMAC: No, that is not the purpose of this hearing, and I have not considered that. What I have done is to authorize the independent review, not of the numbers but of the system we use. We'll be going out with the request for proposal, in the next couple of weeks, for a firm to come in and evaluate the actual methods we use, the research we use, the sampling methods we use, all with an eye toward giving us an independent opinion as to the actual revenue forecasting methods. We know the numbers, and we know the relationship between the administration and OLS. We think we need an independent review of the actual systems used to see if we're perhaps taking advantage of everything that's available to us in the form of research. In the next several weeks, we will be issuing a request for proposals for a firm to come in and do this independent study of our revenue forecasting system.

ASSEMBLYMAN GREGG: The last thought for me at this point, I noted Assemblyman Roberts's note that when we, as a Legislature, vote for a budget we basically are certifying our revenue. We're not really doing it, but we're kind of being forced to do it in a vote. I think that what I'm hoping this Task Force does come to have the capacity to review is where the Legislature may play a greater role. We can bring in as many experts as we wish, but I don't think the public or, quite frankly, the Legislature is going to be comfortable with abdicating any more of our responsibility to private sector. However, the people who make that decision may need to be expanded. As we all know, the governor, constitutionally, in the State of New Jersey is probably one of the most powerful governors, because they don't have to report as often to us as in other states.

Do you think, as I think, that perhaps we in New Jersey now should review the role of the Legislature in the certification of revenue? Because, if we are the ones who have to vote and make that commitment on that budget on the spending side, should we not have more power on the revenue side?

TREASURER McCORMAC: Well, again, Assemblyman, I think you really have the power now, the ultimate decision at the end of the day as to what does or does not get into the budget, and the estimates made are yours. We provide, on a monthly basis, to the Assembly and Senate Majority and Minority staffs, reports on actual cash receipts for each revenue source, not just the big three taxes, but up and down the revenue schedule.

Once again, the Office of Legislative Services is your body. They work for the Legislature, they provide these estimates for you. I just think we need to listen to them more. I think, again, if we were between a billion-and-a-quarter and a billion-and-a-half dollars different than what a nonpartisan independent state body recommended for revenues, I just can't imagine how an administration could just let that go. I wouldn't accept being that far off of this group. If we were, there had better be a good explanation for why.

Maybe there's a fundamental difference between what we think the economy is going to do, or maybe there's a fundamental difference between where we think income is headed or what capital gains are, any number of different factors. But when you're off that much, there really has to be an explanation. That's what started us on the rocky road that we had in Fiscal 2002. As I said, certainly September 11, certainly an overall downturn had a major part in this dilemma we faced ourselves, with a $3-plus billion shortfall in '02 and 6-plus in '03. But it started last year, or 13 or 14 months ago, it started when the warning signs were given by the Legislature's own body, and those signs went unheeded.

ASSEMBLYMAN GREGG: Thank you for your answers. I agree with virtually everything you have just said, except for your conclusion. The Legislature has no place in revenue forecasting at all. There are 120 of us, and it's nice to say that we have the power to do something. But we don't have the power until there's a real live vote on something, a discussion that comes in front of us, and we have the capacity to look at those people in OLS, ask them the hard questions and ask them if they're willing to bet their soul on it. And I'm not going to cast my vote on the revenue side. Most legislators are very comfortable to cast their vote on the spending side, but they're not so excited about the other side. I think -- yes, I know -- on both sides of the aisle, I think that that really becomes the essence here of accountability.

I remind some of my colleagues on the other side of the aisle that while the Assistant Treasurer may not have been here, there was a time in a previous administration where no cabinet official desired to testify in front of the Budget and Appropriations Committee, so no one could ask any questions to any one related to any area, and the Treasurer handled all the questions. I'm not so sure either of those are the place I want to be. The way you make sure that people come in front of this Committee, whether it's our party or your party, is you are the ones who guarantee the revenue. Because if they have to come to you for that answer and that support and that review, that they will be much more likely to come, shall we say, with clearer perspective to what they tell this body.

I agree with everything you've said, and I thank you for your time and putting up with my questions. I hope we look very hard at empowering ourselves out of this Task Force. There will always be an administration, and sometimes it will be on our side of the aisle and sometimes it will be on their side of the aisle, but ultimately we should not be abdicating our responsibilities. We have to do the budget. The Legislature is responsible for the spending in this state, and quite frankly, we should have the final decision on the revenue numbers so we don't get where we are today.

Thank you, Mr. Chairman. You've been very kind in your time.

ASSEMBLYMAN ROBERTS: Assemblyman, thank you.

The point I've made to you privately, and then made publicly as well, is the test for all of us, in terms of our commitment to the process, is having some measure of consistency between what we say when we're in the minority and what we say when we're in the majority. I think that that's the best way to confront the opportunity for real structural change that serves the State well.

I appreciate your admonition, Assemblyman Gregg, that we should look forward and not backwards, as well. I had not extended to the former Acting Treasurer the opportunity to come in before this Task Force because he had declined the opportunity to come before the Legislature on two occasions. One, I think, now, Senator Lance had asked him to come in. I thought, frankly, that he would be unwilling to participate. But, I think in the interest of providing the full view about what went wrong last year, his participation would be an asset to this Committee, and I will certainly extend that invitation to him.

Now let me turn to Assemblyman Green, please.

ASSEMBLYMAN GREEN: Thank you very much, Mr. Chairman.

First of all, I would like to congratulate you and the Speaker for putting together such a Task Force. It's obvious that if we had had this Task Force last year, when we began to realize that we were going to have financial problems, that maybe we could have short-circuited some of the problems that we were having. And also, I would like to congratulate the Treasurer. I know for the first six months you had an open-door policy for all 120 legislators. That's very important, especially with what the Assemblyman said earlier. It seemed like last year the Treasurer and the Chief of Staff wasn't even on the same page, and for you to have the Governor and both Houses on the same page, I'd like to recommend that you have done a great job. Just opened up that dialogue.

I have a few questions. We talked about the process, and the revenue estimates, and the certifications that led to the FY 2002 debacle. I would like to talk a little bit more about how this all played out, and the role of the incoming administration. At what point did you become aware of the deepening shortfall in the FY 2002 budget? Was this something that you had to discover or was the previous administration forthcoming during the transition period?

TREASURER McCORMAC: Well, Assemblyman, I had the opportunity to serve in a capacity on the transition team among several other persons, and several transition teams were set in various areas of the state. The one I served on was, of course, the finance team. We began to ask questions about the State's picture knowing that the economy was certainly in a downturn. We received some information on revenues for the first quarter that was approximately 50 million below targets. We received information for October that it was 150 million below targets; and then, in November, 115, and finally December, I believe $489 million below the target.

So we were having dialogue wherever possible with members of the prior administration, and we had certain information that was publicly available in terms of revenue reports, which are provided monthly to the Legislature. We attempted to determine what the State's financial picture was in anticipation of taking office on January 15. So we had some ongoing dialogue. Most of the information we obtained was publicly available through the various legislative bodies.

ASSEMBLYMAN GREEN: When you assumed office, was the revenue already essentially falling, or did it more specifically fall during the course of the last six months?

TREASURER McCORMAC: Well, we knew the six months were down. We had indications in January that it was going further down, and that's why the Governor immediately asked me, upon taking office, to do a recertification of the revenues. Within 13 days, we did that. On January 28, we announced our revenue forecast. We predicted a big three tax decline of $2.465 billion. We identified approximately $462 million of supplemental appropriations that were passed from the start of the budget year till then, and essentially came out with a $2.927 billion shortfall.

We then went to work from that date until February 11. We had to solve that shortfall. Approximately $1.7 billion of the budget was cut. We looked at our surplus balance and reluctantly dropped what had been a 1.2-and-change surplus balance down to $500 million, and made several other revenue changes so that we could deal with that Fiscal 2002 nearly-$3 billion problem as promptly and responsibly as we could.

And then, of course, we had about six weeks to do the Fiscal 2003 budget, which we've had the effects of the revenue shortfall continuing -- some growth, not a whole lot, and a lot of statutory growth in the budget of about $2.8 billion. So, altogether, we looked at about 6 billion of solutions that we needed to come up with to solve the '03 budget. And, on March 26, the Governor presented his budget address that balanced the '03 budget. We worked together with both Houses, both parties, over the next three months. As you said, the Budget Committee, Budget and Appropriations in the Senate, Budget in the Assembly had ongoing discussions with me, in my office, and the OMB staff, and had all their questions answered. We appeared several times before those committees, and, ultimately, on June 30, achieved a balanced budget.

ASSEMBLYMAN GREEN: During the first six months of FY 2002, just before Governor McGreevey took office, what were the spending patterns of the legislative Governor's office?

TREASURER McCORMAC: Well, we've identified some appropriations that were made during that period, and again, it's about $462 million that was appropriated from July 1 of '01 through January 15 of '02.

ASSEMBLYMAN GREEN: Did the previous administration take any steps to correct those problems?

TREASURER McCORMAC: The administration identified some budgetary freezes that were made during that period to offset some of the appropriation increases, but, nonetheless, at the point of taking office, we still were nearly $3 billion short.

ASSEMBLYMAN GREEN: In January you took office -- what step did you take to bring about a balance between revenue and spending?

TREASURER McCORMAC: As I indicated to you, appropriations were cut from Fiscal '02 and a couple prior years by about $1.7 billion, about $788 million of surplus was utilized, and there were additional revenues that we identified from various sources, many of which needed legislative approval. And altogether, that package was presented to the Assembly and the Senate in a joint session on February 11. And with the cooperation of both Houses, both parties, between then and, I believe, the middle of March, approximately 10 bills were passed that brought the State back into balance for Fiscal '02, so that by the time the Governor presented the Fiscal '03 budget on March 26, all those bills had been adopted, and we were back in balance for '02. And then we had another 10 or 12 bills for Fiscal '03 that had to be debated and adopted by June 30.

ASSEMBLYMAN GREEN: At what point, if any, did you provide your first revised revenue estimate for FY 2002, and how did you go about establishing these new targets?

TREASURER McCORMAC: Our original estimate was done on January 28. That stayed essentially the same in the Governor's budget message for Fiscal ’03. We have to, of course, put ’02 revenues in. Once we realized the extent of the April collections, at some point I appeared here. I believe it was when the Human Services was scheduled to testify, and we asked Chairman Greenwald -- that was the next available session from when we had these numbers pinned down. That was the next available session, so we asked Assemblyman Greenwald, the Chairman, if we could appear for a short time before our Commissioner of Human Services, Ms. Long, testified. I spent about an hour before that Committee explaining the updated ’02 numbers. And, as Assemblyman Gregg said, about $589 million of additional revenue shortfall with a corresponding impact in ’03 of $628 million -- we explained that to that body. Then we announced that we would be looking for additional solutions, which we did. By June 30, as you know, both the ’02 and the ’03 budgets were balanced.

ASSEMBLYMAN GREEN: In closing with my comments, I would just, again, like to congratulate you. I feel you’ve done a great job this first six months. A lot of us, this morning, and I’ve listened to everyone’s comments, we don’t want to point the finger, and I think that’s the best way to go. I think that we have a lot of departments, which is very important to the State of New Jersey, but there’s not one department that’s more important to the State of New Jersey than the Treasury Department.

I’m hoping that all of us will work with you rather than put you on the spot, because I’d like to feel, for the first time in 11 years I’ve been here -- to have an opportunity to go one-on-one with the Treasurer to get a better idea, exactly, of the spending pattern and, as well, the income that’s coming to the State of New Jersey.

I think we're at a point now in the State that the public would welcome these type of dialogues, because, at the end of the day, it's the taxpayers' dollars that we have to be concerned about. So, again, you did a great job.

Again, Chairman, I think this is very important that we work together. At the end of the day, we're all here on behalf of the taxpayers in the State of New Jersey. If we don't give them any answers, we won't be here. So, again, I appreciate your honesty this morning.

TREASURER McCORMAC: Thank you.

ASSEMBLYMAN ROBERTS: Assemblyman Green, thank you very much.

Next is Assemblyman Caraballo.

ASSEMBLYMAN CARABALLO: Mr. Chairman, I have to tell you, I'm finding myself here with a little bit of discomfort. The reason for the discomfort is that I keep hearing about how we're not going to point fingers and we're not out to cast blame. I subscribe to that. I mean, I subscribe to that in the sense that it becomes important not to be unnecessarily partisan. It becomes important not to be unnecessarily whiny about what has gone on. But, you know, I think about this in the context of my own children, my older two in particular. My eight-year-old, I'm sure, will be making this kind of statement in the future. But with my own kids, as I try to correct them about future conduct, one of the things that they keep telling me that I constantly do is harp on what they've done in the past. I keep telling them that I need to do that, to remind them what mistakes they've made, in order to benefit from any advice that I may have for the future.

So I'm finding this a little bit uncomfortable in the sense that if we don't try to figure out how these three red lines were arrived at (indicating chart), which are so distinctly out of line with everything else, then how do we, as a Task Force, sit here and actually say to our Treasurer and the administration, "This is what you need to do in the future to make sure that we don't have these kinds of anachronisms," if you want to call it that? I would hope that what is, to my mind, legitimate inquiry and real questions about past conduct isn't simply viewed as harping on the past, blaming necessarily.

But I know of no other way to be able to move forward than to find out how this happened. To me, those questions become important, and they become important in the context of perhaps even bringing back, as was indicated previously and you agreed to, the former Treasurer to find out how those numbers were arrived at.

It would appear to me, and I'd like to ask a couple of questions of the Treasurer -- it would appear to me that in, the process of gathering or coming up with your numbers, you have to engage in fact finding, which means that you have to search out numbers. I would assume that you use independent sources, not only your internal sources, to come up with those numbers. Is that correct?

TREASURER McCORMAC: Yes, sir.

ASSEMBLYMAN CARABALLO: Could you tell us a little bit about -- you mentioned names previously, but-- You talked about the nonpartisan this and the independent that, but perhaps if you would have told us a little bit about these organizations and how they get their numbers, we might better understand how you get yours and how previous treasurers got theirs.

TREASURER McCORMAC: Well, it's a combination of two things. It's an analysis of the past and a prediction of the future. The analysis of the past is done primarily internally, and it just simply looks at trends and collections month to month. For gross income tax, there are several components. There's the estimated payments that are made four times a year. There's the monthly withholdings reported by employers twelve times a year. There's the final payment April 15 of each year, and, of course, there's the refunds between April and July of each year. Those are analyzed for trends, patterns, from probably three or four years prior to the current time, to see if anything can be predicted from that.

For example, sales tax probably is the most predictable of all three revenue sources. The first quarter, July to September, is virtually within 1 percent, at 25 percent of the annual collections. The second quarter is within 1 percent, 35 percent of annual collections. You can tell an awful lot from sales tax just by looking at the detail from prior quarters and prior months.

The same with gross income taxes. The difficulty there is the final estimated payment. You can't always tell; if the withholdings are small and the estimated payments are small, is that because the income is really down or is it because people are just not paying and are going to catch up at the end. There's all these kind of safe harbor rules for what people have to pay in order to have no penalties. But you can look at those kind of payments, but gross income tax becomes, probably, the most difficult to project.

The corporation tax the same way: you can look at sales and net income and credits and exclusions and all, from the prior years, and develop patterns, develop trends. Then you take the economic forecasting people. You take *economy.com*. You take Rutgers. You take Wharton. You look at what these groups say, on literally a monthly basis and a quarterly basis, and you try to predict where interest income is going, where is capital gains going, where are durable goods productions going, housing starts, new car purchases, corporate profits. These are all indices and statistics that are available regularly. We have a forward calendar that literally shows, each day, what statistic is coming out, and we know when it's coming out and what impact it will have on our forecast.

So it's a combination of past trend analysis and forward economic review. Those, together, become the basis for what the Tax Department and the Treasurer's Department recommends to the Governor as far as revenue forecasts.

ASSEMBLYMAN CARABALLO: Those analyses of the past are rather black and white. I mean, you know what happened. The analysis or the interpretation and looking into the future involves a lot more subjectivity--

TREASURER McCORMAC: That's accurate.

ASSEMBLYMAN CARABALLO: --in terms of how one views what may happen. Now, and this is the piece that becomes important, because therein lies, to my mind, the differences between some of the outside sources and some of the internal sources, I guess, if you want to use that word, because we have huge differences between those outside prognosticators and the internal prognosticators. Were your numbers that far off the numbers of the outside sources as you saw them?

TREASURER McCORMAC: No, sir. Our revised revenues on January 28 were within 1 percent of the OLS numbers that were released in April with more benefit of actual data. Their numbers were slightly lower, but within 1 percent of ours. Then our revised numbers were within the *economy.com* projections, within the Rutgers projections, and, most importantly, within the OLS projections. All four groups in the second quarter of 2002 had ’02 and ’03 revenue numbers that were consistent and within a very immaterial difference percentage of each other. I think that’s what is important.

I think these are bodies, again-- I have to say, over and over again, the respect I have for the OLS and the *economy.com* and the Rutgers and the Whartons of the world. These people specialize in this. They take it very seriously; they’re very good. They’re very independent, and I have comfort when the numbers we present to the Governor and to the Legislature are within the range of all these other outside bodies. If I’m not, and we’re not, then I really need to know why. So far we have been, though. So far everything we’ve presented has been within the numbers of these outside, independent, nonpartisan bodies that have supported our revenue forecast.

ASSEMBLYMAN CARABALLO: Okay. Let me take this back a step. Let’s look back two or three years, and we look at some of these differences. In looking at some of these differences, we find that the administration projections were much higher than any of the outside projections, given the fact that what we’re talking about is a great deal of subjectivity at this point. I mean, we're not just looking at facts now, right? We're now injecting into this process our beliefs about the system, the economic indicators, etc.

Would you-- I won't ask you this. I would assume that there was a much rosier outlook, at certain points, within the last two or three years, within the administration than there was by those outside sources. They didn't see the economy in the same way that the administration saw the economy, or they didn't see the numbers coming out the same way. We can do whatever we want later on about why those numbers are such, why the outlook was rosier, but it would seem to me that, when I look at this, it's the only explanation that I can think of.

One last question: Were there any significant changes made to revenues between May 9 and the time that the Governor signed the 2003 Appropriations Act?

TREASURER McCORMAC: Of 2002, Assemblyman?

ASSEMBLYMAN CARABALLO: Of 2003.

TREASURER McCORMAC: Of the '03 budget. No, I do not believe there was any significant change between our main numbers and what ultimately was approved by the Legislature on June 30. If there was, it was very, very immaterial.

ASSEMBLYMAN CARABALLO: So your numbers for the last bunch of months have been consistent, at least three or four months?

TREASURER McCORMAC: When we adjusted our '03 numbers, on whatever day that was in May, based on the April collections, there was no difference between those numbers and what ultimately was adopted in the budget.

ASSEMBLYMAN CARABALLO: Thank you very much.

ASSEMBLYMAN ROBERTS: Thank you, Assemblyman.

Next is Assemblyman Doherty.

ASSEMBLYMAN DOHERTY: Thank you, Chairman Roberts.

Good morning, Mr. Treasurer. Thank you for coming to this Assembly Task Force on Fiscal Responsibility. I have a couple questions, if you may.

Regarding the revenues, I understand there were some problems in the Fiscal Year 2002 budget. In any previous years prior to that, were there any years where revenues were actually above what was anticipated or projected?

TREASURER McCORMAC: I know of one -- had certain concerns based on some of the correspondence I've reviewed, particularly toward the end of Fiscal '01. Prior to that, I don't have any statistics in front of me.

ASSEMBLYMAN DOHERTY: Okay. So for '99 or '98 -- it is my understanding that there's certain years where revenues actually came in above what was initially projected. Is that understanding correct on my behalf, or is that incorrect, or you don't know?

TREASURER McCORMAC: I would say it's accurate based on the size of the surplus at June 30 of '01, that there had to have been years when revenues were certainly in excess. There may have been years where it was below, but, certainly, the surplus was built up.

ASSEMBLYMAN DOHERTY: Okay. So there were years where there were revenues projected, the budget was struck, and then by the end of that fiscal year they actually found out they had more revenues than they originally projected. That's correct?

TREASURER McCORMAC: Certainly.

ASSEMBLYMAN DOHERTY: There was some discussion about the amount of revenues for Fiscal Year 2002. There's an organization that I've been made aware of -- National Conference of State Legislatures -- and they prepare a report. They analyze budgets for various states. The information I have is that there were 43 states that actually suffered budget gaps in the Fiscal Year 2002. That appears to me that it was a nationwide problem. All states failed to accurately estimate revenues for 2002, or do you see it a different way?

TREASURER McCORMAC: No. I've heard 44, not 43, from what I've read, but certainly we've indicated that there was a national economic downturn. The effects of September 11 affected virtually every state. But, as Assemblyman Roberts pointed out, New Jersey's shortfall was, as a percentage of the original budget, the second worst in the nation.

ASSEMBLYMAN DOHERTY: I know you were -- jumped right in and you got on the budget for Fiscal Year 2003. On March 26, we heard the address by the Governor, and it projected-- Well, projected an estimated revenues at $23.78 billion. And then, less than two months later, after you got to rework the numbers and look at it a little bit more, actually, your revision for estimated revenues went down by $600 million. Is that correct?

TREASURER McCORMAC: That's correct.

ASSEMBLYMAN DOHERTY: So when you first looked at it, you had a certain estimate and then, as you looked at it some more and you saw the numbers come in, your estimate went -- the revision went down?

TREASURER McCORMAC: That's correct. We took all the appropriate steps necessary during that ensuing six weeks to bring the budget back into balance through additional budgetary appropriation reductions.

ASSEMBLYMAN DOHERTY: Why do you think -- how did that happen? Because it was your team who made the estimate on March 26, and then your team on May 16 had to revise it downward.

TREASURER McCORMAC: Well, as we said, the severity of the economic downturn was not forecast by anyone. No state in the country thought that the economic recession would be as bad as it is. But I point, again, to the signs that it was going to be bad that were ignored. There were three aspects of the budgetary problem in Fiscal 2002. There was the original budget estimates that were too high, there was the effects of September 11, and there was a national economic downturn. The most significant in those was the original budget projection, which was between $1.2 billion and $1.6 billion high, as OLS estimated.

On the chart that you have, the administration versus actual budget place us second worst in the country. The OLS versus actual places us at around 4 percent, which is in the bottom half of differences in the country. I keep pointing to the fact that the warning signs were there. The independent body, the Office of Legislative Services, had availability of this data and had warned, in a report in May of 2001, that the revenues were $1.6 billion too high, and that's the biggest reason. We had a $3 billion shortfall; 1.6 of it was essentially a warning a month before the budget was ultimately adopted.

ASSEMBLYMAN DOHERTY: Do you think there is a potential that the revenues for the rest of Fiscal Year 2003 may need to be revised?

TREASURER McCORMAC: Well, we will watch it closely. I get a daily report. I get monthly reports. It's certainly too early to tell in the month of July, very little happens. Most of what comes in in July is actually accrued back to 2002. The sales tax we collect now is a June 2002 revenue. Much of the other revenues we collect now go back. It's probably the least month for new revenues, so we watch it. We have access to it, but it's way too early to make a prediction. But, if there is a shortfall in revenues in '03, we'll identify it as early as possible, as we did in February for '02 and March for '03 and May for '03. We'll prepare solutions immediately, and if those solutions need legislative approval, we'll bring them right to the legislative body and ask for approval.

We've left ourselves some areas of revenues that we can look at should there be a shortfall, so we're prepared in case there is. But we watch it very closely. We look at it on a daily and monthly basis, and we'll come back to you as soon as we see a problem.

ASSEMBLYMAN DOHERTY: It is my understanding that the State of New Jersey gets approximately $9 billion from the Federal Government for various state programs, and $500 million of that this year are contingent on a Federal waiver. I'm not a budgetary expert nor an accountant, but the bottom line is that this $9 billion has been plugged in as revenue.

However, $500 million of it is contingent, it may never come in. What do you intend to do in that scenario?

TREASURER McCORMAC: Well, you're correct. There's $330 million in what they call the IGT Program, the Intergovernmental Transfer Program, that was set to expire September 30 of 2002. The State got in this program October 1 of 2000. It's a Medicaid waiver program. It's essentially -- the Federal Government believes a state should not be doing what they're doing to secure this money, and they've tried to get states out of the program. Many states realized this revenue opportunity earlier, and the longer states were in the program the more they're being given to phase out of the program.

New Jersey, by virtue of the fact that we're only in our second year, was cut off cold turkey. We are now appealing to the Federal Government for relief and to be treated the same as other states, in particular Wisconsin, New York, and Florida. Wisconsin is probably the closest to us. They got in the program exactly the same day we did. They were supposed to get out exactly the same day we did, and they, in the last several months, were given an eight-year extension to phase out of the program. We are confident that we will be treated the same as Wisconsin, and that's why we put this revenue in the budget.

The other number for the '03 budget is $148 million for the PAAD, Pharmaceutical Assistance for the Aged, program. In that case, we're pointing to Illinois as the exact same test case, for the way they're treated that we should be treated. So we're confident that these revenues will materialize. Nonetheless, we have other available revenues that we could use, or additional budgetary reductions in the appropriations side, should these revenues not materialize. We do realize, as you do, that there is a contingent nature to these revenues.

ASSEMBLYMAN DOHERTY: Just so it's clear. So, there's a possibility, even though I'm sure your staff has gone over these numbers hundreds of time, there's a possibility that there could be, overnight, a $500 million hole that develops, that you didn't anticipate, due to certain contingent events not occurring and the Federal Government doesn't come through with this $500 million?

TREASURER McCORMAC: Yes. This $478 million is certainly contingent upon the Federal Government acting favorably for us, yes.

ASSEMBLYMAN DOHERTY: Okay. Did you participate with the -- I imagine you did -- Governor's staff in coming up with the spending plan for Fiscal Year 2003?

TREASURER McCORMAC: Yes.

ASSEMBLYMAN DOHERTY: Okay. And part of that was a recognition that the -- this allegation that the Whitman administration left a $6 billion deficit and there was a big gap that had to be made up.

TREASURER McCORMAC: Yes.

ASSEMBLYMAN DOHERTY: Okay. Did you and the Governor's staff ever consider decreasing the level of spending for Fiscal Year 2003 or holding it at the same level as was spent in Fiscal Year 2002?

TREASURER McCORMAC: We ultimately passed a budget that was within one-half of a percent of the prior budget. The difference is approximately $80 million. Of that difference, it's almost entirely attributable to the Governor's personal initiatives of early childhood literacy for approximately 10 million, homeland security for approximately 53 million, and cancer research for approximately 20 million. They made up virtually the entire difference between the ’02 budget and the ’03 budget. Otherwise, it would have remained essentially flat.

When we came into office, we were provided with a list of $2.8 billion of statutory growth that would have been in the ’03 budget, absent any action by us. We went through that line by line. We made several decisions regarding those appropriations. Predominantly, we froze State aid to schools, State aid to towns -- which was an accomplishment, considering the size of the shortfall, that those areas were not cut, that we did maintain those levels of spending. We made other cuts throughout the budget to achieve a flat appropriation level compared to the prior year. In fact, the direct State services executive branch, which is probably the most controllable of all of the budget appropriations that we have -- State aid and grants and aid -- make up about 75 percent of the budget. The direct State services executive branch is down several percent from ’02 to ’03.

ASSEMBLYMAN DOHERTY: There were a number of taxes that were passed to get enough revenue for the Fiscal Year 2003 budget. Just some quick math, it was about $2 billion in additional taxes. Did you and the Governor’s staff ever think about cutting State spending by $2 billion, or at least cutting State spending, as opposed to raising $2 billion in new taxes?

TREASURER McCORMAC: Well, first of all, the 2 billion number is not accurate. The primary component of that, I’m assuming, is the corporation business tax. The Fiscal 2002 budget called for $1.823 billion in a corporate business tax. The actual receipts were about 1.1, but, nonetheless, the budget called for 1.823. Our 2003 budget also called for $1.823 billion.

The difference is that we have a plan to get it, and we presented a corporation tax reform bill that essentially closes the loopholes that have enabled companies to shift their income from New Jersey, either to other states or to other countries, and we have prepared a very comprehensive plan for making sure that the State does achieve, in 2003, the same amount that was budgeted in 2002. So I reject the notion that that's any kind of a tax increase, when the budget in '02 is exactly the same as '03. We simply have to be sure that we get it.

ASSEMBLYMAN DOHERTY: Well, I guess we're going to agree to disagree on the exact amount of the tax increase, but my understanding is there was a continuation of an estate tax that would have been sunset -- a cigarette tax, the corporate business tax, and also fees on things such as trucking companies, registrations. So there was a significant amount of tax increases. Did the Governor, you, and the Governor's staff ever consider, instead of increasing those taxes, whatever the amount was, to actually cut spending so that we have a balanced budget?

TREASURER McCORMAC: Well, again, you point to a couple of areas as a tax increase that I would think are not. The estate tax was a Federal decision, to change the way the states are taxed and to phase out the tax over a 10-year period, that was made over a year ago. We believe that we should not be letting the Federal government set our tax policy. We did not believe that was a fair decision by them, and we did not like the way it affected us, so all we did was recommend a bill, and it got passed, to decouple from that legislation. I would venture to say that the Federal government, going from a

$200 billion surplus, when the bill was passed, to a $200 billion dollar shortfall now, would potentially reconsider that action knowing the shape that they're in now. But we're not allowed to be at a deficit like the Federal government is, so we have to prepare and submit a balanced budget.

Sixty percent of our budget represents direct State aid to property taxpayers in the State of New Jersey. We have State aid to schools, State aid to towns, the senior property tax freeze program, the New Jersey Saver Tax Program, and the Homestead Rebate Program -- all represent 60 percent of the budget. The Governor was completely committed to keeping those programs in tact, and we're proud of that. Again, over 60 percent of the budget was maintained for property tax relief programs.

In all of the discussions that were had on the budget in the Assembly and the Senate, both parties, we've consistently said that any recommendations that were made for reduced spending to compensate for anything, either additional spending or reduced revenues -- that we would listen to those ideas, we would accept those ideas, we would evaluate those ideas. And, quite frankly, from March 26 to June 30, very little was brought to us as far as suggestions for cutting the budget. Even now, I'd be ready, willing, and able to discuss that with yourself, with any Assembly or Senate person, as to what areas you or anyone else believes could be reduced from the budget.

We're very proud of the fact that it's stable from last year to this year. We're proud of the fact that the initiatives of early childhood literacy, cancer research, and homeland security were able to be accomplished and still have a stable budget. And we're very pleased with the fact that all these property tax relief programs were protected.

ASSEMBLYMAN DOHERTY: So I guess, Mr. Treasurer, what I'm hearing is that there are programs that you wanted to fund and that the consideration of actually cutting the amount of spending was never really considered. That you're saying, "No, we never considered cutting the spending as opposed to increasing taxes."

ASSEMBLYMAN ROBERTS: Assemblyman, let me just note, if I could, I've extended you a lot of latitude today. We're here to talk about revenue estimates and forecasts, not tax policy. And I think, with all due respect to the Treasurer, your question was asked and answered already. If you have other questions about revenue forecasting, please continue.

ASSEMBLYMAN DOHERTY: Okay, Mr. Chairman, I'll just wrap up with a comment, if I may?

ASSEMBLYMAN ROBERTS: Sure.

ASSEMBLYMAN DOHERTY: I believe that we have the Assembly Task Force on Fiscal Responsibility-- And really, we're taking a look at revenues and how they're collected. That's very admirable, make sure it's done accurately. However, I think the real issue that confronts me is the question, why does the State of New Jersey spend so much money? I think that's encapsulated in fiscal responsibility. We in New Jersey are just simply spending too much money.

We have more full-time state employees per capita than any other state in the union. We have a $23 billion budget, which is as large as the state of Pennsylvania, which has four million more people and is eight times larger.

We need to be able to say, “No.” I have too many constituents in my neck of the woods that can’t afford the level of spending. The State of New Jersey is spending too much, and that’s the real issue. We need to stop that.

Mr. Chairman, if you may, I just have one quick question.

Going out the door, I had a constituent, she called me up and she said, “Mike, you’d better get an answer to this.” She wanted to know about the Homestead Rebate checks, Mr. Treasurer? I guess she was expecting it, and it didn’t come through. So I was wondering, usually she said she got it on July 31.

ASSEMBLYMAN ROBERTS: Assemblyman, let me just note, that’s not our topic for today. It is an issue I’m sure of interest to the citizens of New Jersey, so with this one exception, if the Treasurer has some information to provide, I’ll ask him to do that.

TREASURER McCORMAC: Well, as you know, Assemblyman, we began this fiscal year with a very low surplus balance. We have serious financial problems, and we believe we need to be very prudent in the way we address those problems. We are now in the process of getting those homestead rebate checks out. They will all be mailed during August, and everybody will have them prior to the end of August. We need to watch our cash flow very seriously and avoid taking on any unnecessary debt and interest charges. We will have all those checks out in the next several weeks, and certainly by the end of August.

ASSEMBLYMAN DOHERTY: Thank you, Mr. Chairman.

ASSEMBLYMAN ROBERTS: Thank you.

Assemblyman, given your commitment to fiscal discipline, which is one that I think is a sincere one, I'm sorry that you haven't been in the majority for the last eight years. I think that your input would have been of great value. (laughter)

I would note, in all seriousness, the point about the corporate business tax last year and this year is one I think that underscores the kind of structural problem that we face. I've had many of our colleagues acknowledge that the use of $1.8 billion as the revenue estimate for the CBT last year was a phony number, with the full realization that it would never be reached. And the fact that it was an underlying revenue estimate in something as important as the State budget shows the magnitude of the problem that we face.

This year the difference is that loopholes have been closed, and there is a plan to collect it so that we can be assured that the $1.8 billion number is a real number. It may be off by a bit, but it will certainly be a great deal closer than it was last year.

And I think that whole notion, of how to make sure that the numbers that underlie the policy decisions that we make in the budget are as real as they can possibly be, is what really drives this whole process.

I thank you for bringing that up.

Treasurer, I just have a couple of questions about where we go from here. You spoke a moment or two ago about the fact that you are soliciting proposals for, sort of, the underlying model or the methodology with respect to revenue forecasting. I wonder if you could say a little bit more about that, because I think that's the central issue.

TREASURER McCORMAC: Yes. Thank you, Assemblyman.

I believe an independent review is warranted. We've got enough support over the past several months, and I've seen documentation of the numbers over the past several years, where companies and entities come in and make their own projections of our numbers. I think we need to look at whether or not our system is sound. I don't believe it's been analyzed for the past several years. I think it's very prudent and responsible for us to ask for requests for proposals for a company to come in and evaluate how we do what we do. We've already got an evaluation of the results of what we do and the numbers we produce. But when I say we use Wharton and Rutgers and *economy.com*, and I say we look at this index or that statistic and what comes out from the Federal or State government, and this trend and this pattern, I think that it's entirely responsible to have some independent entity look at that system and let us know if they believe that we are on the right track and we are doing the right thing.

I think any new administration that comes in has the responsibility to evaluate what's been done and how it's been done. I think over -- I know over the next several weeks we'll be crafting this RFP and asking for firms to come in, and by the early fall, hopefully, select a company, after proposals are received and interviews are done, to do this analysis. And we'll certainly share the results of this study with either this body or other committees, as appropriate, or any one of you individually, so that you can also get the comfort of an independent line of thinking as to our process that we use.

ASSEMBLYMAN ROBERTS: Thank you very much.

I would ask that, as you go through this process, you stay in contact with OLS and with the budget staff, both in the majority and the minority of this House. I'm sure the Senate would appreciate the same courtesy.

I know that one of the things we rely on a lot are the revenue snapshots that OLS produces. I'm advised that on an average year they are produced about every -- about nine times a year. They rely upon the ability to work closely with you and with your office to make sure that your updating of the numbers is something that's going forward, and you're communicating with them. Give me a sense of how your office is relating to OLS now, and what you look forward to doing in the year ahead?

TREASURER McCORMAC: Well, I can only speak to how it is now. I don't know prior relationships, but-- I've had them in my office from the very beginning -- I think a late January meet and greet with Alan and David Rosen and Al Porroni to literally introduce ourselves to each other. We provide a monthly report that is sent to OLS and to the leaders of both Houses, both parties. On several occasions we've had contact with them, meet personally throughout the CBT process and the entire budget process. Last year I spent quite a bit of time with Mr. Rosen and our Tax Department, and our OMB staff spent quite a bit of time with them evaluating, and them asking us questions, us asking them questions. We're available to them 24/7. I'm sure they're available to us 24/7.

We're proud of the relationship we've established, their independence, yet we worked together toward achieving a consensus. And, again, as I said many times, I'm very happy with the fact that our numbers and their numbers, since we've been here, have been consistent. I think that's an achievement for both of us as entities.

We look forward to a continued good relationship with them. We'll be as open and as forthcoming with our data and our research and our studies as we need to be, and them with us and us with you, as a Legislature. I think, going forward, we have very much an open-door policy. I appreciate the comments that have been made about our willingness to talk to people. Both budget committees of the Senate and Assembly have been in and out of my office several times. We're available for phone calls, available to meet whenever is necessary. We truly respect the job that you have to do as a legislative body in evaluating our numbers and utlimately passing a budget. We'll be as open as we need to be throughout my career here.

ASSEMBLYMAN ROBERTS: Treasurer, as you said, this is your, I think, 11th appearance before a legislative committee. Although I feel sorry for you (laughter) I am grateful that you have been so forthcoming. Most of us find this process to be difficult, and we're not sitting where you are.

The leadership you've provided and the tone that you've set for the Governor's commitment for this state to live within its mean is something that we're very, very proud of.

I have a couple of, just, final questions about -- one particularly about the Revenue Forecasting Commission. I don't know if that's currently active. I know that's a vehicle that we've used in the past, and it's been of some value. Do you have any sense of where you see that going? Is that something that you plan to have utilized?

TREASURER McCORMAC: Well, what I'm told is that that body was not as much of a number-oriented body as a policy-oriented body, but I'm certainly willing to look at it. One of the questions came about other tax commissions, and I know of a couple that are active. I certainly would welcome any group that has input into how we forecast revenues. I'm willing to meet with them. I'm willing to discuss revisiting, restarting that commission, if that's the preference of this Task Force, or the Senate, or the Assembly as a whole. Anybody who knows anything that's of value to me, and my staff, and our process is welcome. We'd be happy to talk to anybody.

ASSEMBLYMAN ROBERTS: Great. Thank you.

Let me now recognize Assemblywoman Quigley, who has a final question.

ASSEMBLYWOMAN QUIGLEY: Thank you, Mr. Chairman.

I appreciate you calling this meeting. I certainly understand more about the process now than I did when I came in here. I'm also quite convinced that it's not the process that was at fault for the mess we found ourselves in at the start of this fiscal year. All the symptoms of a problem were there. We were sneezing, we were sniffling, we had a fever, and yet the State of New Jersey said that it wasn't sick. Well, now that we are one month into Fiscal Year '03, Mr. Treasurer, are we healthy?

TREASURER McCORMAC: I certainly hope so. And, as I said before, the month of July is not a very good measure because so little happens. But we just came through three rating agencies -- *Moody's*, Standard and Poor's, and Fitch -- all three maintained our rating, as a result of our recent note sale. We're very, very proud of that. They've looked at our revenues. They've looked at our appropriations. They've looked at our methods, our policies, and spent quite a lot of time with us over the past several weeks. We went in to visit one, the other two were here. We're very happy with that, that these three independent bodies, upon looking at our '03 budget, feel safe to maintain the ratings that we've established.

Again, I'll watch closely every month. July is far too early to make a conclusion. As soon as we see a problem, you can be assured that we will let you know, and we will let you know how we intend to solve that problem.

ASSEMBLYWOMAN QUIGLEY: Thank you.

ASSEMBLYMAN ROBERTS: Thank you, Assemblywoman.

Assemblyman Gregg.

ASSEMBLYMAN GREGG: Thank you, Mr. Chairman, and thank you in the manner you've conducted this hearing.

And thank you, Mr. Treasurer, for taking the time out and giving us the honest answers you have.

I just couldn't let us leave today without at least clarifying a couple of things I think are just important to be accurate on. We can talk about a lot of stuff, and we can throw numbers around, but I think it's important to realize that there hasn't been this huge discrepancy over these years that was discussed, perhaps, earlier by a couple of the members.

And just for clarification, in Fiscal Year 2001, in actuality the revenue projections of the original Executive Branch was 20,926,000,000, and the actual revenues were 20,960,000,000, which is actually above what the original Governor's Executive Branch budget said many, many months prior. The year before, the year 2000, it virtually was up over a billion dollars. So I want it to be very clear that over the last few years there haven't been huge discrepancies in, one, the actual revenue versus the original goal of the Executive Branch, and not different than the actual achieved numbers.

In the year we speak, the difficult year, I think it is important to understand those numbers as well. The original proposed Governor's budget was twenty-two billion, eight, and change. At that point, there was a discrepancy of about 800 million with the Office of Legislative Services, but that discrepancy wasn't until four months later. So they had the ability of four months worth of time to find a difference with the Executive Branch. And then, come June, the revised Executive Branch closed that gap to within 320 million, and that's all the way to June.

So no one here is going to argue that there was an incredible change in the economy that dramatically changed the revenue sources for the State of New Jersey -- a stock market that was weakened, a tragedy in a national economy. But I think some of the numbers that are thrown around are just not so. So, I think -- I hope we stay after we leave this Committee meeting and move forward towards actually talking about how we can do better. That's always a good thing. I think the process can be changed, I think it can be better. It's not just the process. I think having legislators involved in that certification process is a good thing. I hope we move and continue to talk more about that.

This is not about a witch hunt. This is not about trying to find billions that don't exist. It was always about hundreds of millions of dollars that dropped very, very quickly, not only in New Jersey, but in other states. And because of the richness of this State, because of our reliance on our most affluent people, and, quite frankly, our very successful businesses, which is an appropriate thing at times-- But when the bottom falls out, it falls much faster for us. So I think when we look at these numbers we should look at them accurately and openly, and realize, over a period of time, that while the Executive Branch was, as it is mostly, more optimistic than perhaps OLS, that optimism began to change very quickly come April and May and June, and it began to change. And at that point, unfortunately, the State suffered, and our citizens suffered, but I think that suffering was across the country.

I hope the Treasurer is accurate. I hope we are beginning to come up and out of this, and I hope that, as we move forward to the next budget, we have more control in the Legislature on ensuring that we don't have only political decisions based on how we declare revenue, but also the actual numbers, which is far better to the citizens in the State of New Jersey. I certainly look forward to the next hearing, Mr. Chair, and I want to thank you for your ability to allow us to speak freely.

And if you would give Mr. D'Amato a second -- he seems to be raising his hand -- I would be appreciative.

ASSEMBLYMAN ROBERTS: Certainly.

Assemblyman D'Amato.

ASSEMBLYMAN D'AMATO: Just a quick comment.

The Treasurer mentioned the *Moody's* report dated July 30, 2002. So that we can leave in a somewhat uplifted spirit after this hearing, despite everything, despite the commentary about the events of the last fiscal year, *Moody's* assigns an AA2 rating to New Jersey General Obligation Bonds. It cites several reasons, but the three most important are: The State's large and diverse economy, the resident wealth levels are among the highest in 50 states, and a historic record of strong financial management and controls. So when we talk about history, we know that there was a Republican administration for several years of the last 20 years, so I think we deserve some credit for getting this *Moody's* report. And everybody have a nice summer.

ASSEMBLYMAN GREGG: Not so fast. (laughter)

ASSEMBLYMAN ROBERTS: Assemblyman, thank you.

ASSEMBLYMAN GREGG: I heard August.

ASSEMBLYMAN ROBERTS: We're not quite concluded yet. If I could just have one moment, as the Chair.

Assemblyman Gregg made the point that the executive tends sometimes to be more optimistic than others. I gather that that's a constant. But the distinction needs to be between what is optimistic and what is frankly phony. The point needs to be made that as recently as January you had the administration with revenue estimates that were a full billion dollars apart from everyone else, everyone else. We're paying the price for this today. I think one of the outcomes of this process is to put in place a set of safeguards that will acknowledge -- that will try to counteract what occurred last year and make sure that it doesn't happen again.

We have an obligation, with respect to the budgets that we pass, to make sure that the numbers are real. We either do that by having an administration that we can trust, or we do it by putting in place safeguards that can protect us and the people who we represent. It is as clear as it can be that the train went off the tracks last year. Some of it is clearly because of September 11, but much of it is because of factors beyond September 11.

When you look at other states and their experience and compare New Jersey's, it's clear that our problems were particularly severe. It's clear that we need to take corrective action.

As was said, we will be getting together in August. What I'll do is ask the staff, give each of you a call, to see what your schedules are like so that we don't intrude too very much on your summer. As I said at the outset, any ideas that you have about folks who we should bring before this Committee, please let me know, because I want to make this process as constructive as it can possibly be.

Members, thank you very much.

Treasurer, thank you.

(MEETING CONCLUDED)