



State of New Jersey

Department of the Treasury

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Treasurer Andrew P. Sidamon-Eristoff Presents Revenue Estimates

TRENTON – State Treasurer Andrew P. Sidamon-Eristoff's statement and revenue estimates, presented before the Senate Budget and Appropriations Committee on May 25, 2010.

STATE OF NEW JERSEY

Department of the Treasury

Andrew P. Sidamon-Eristoff, State Treasurer

Revenue Update Before The

New Jersey Senate Budget and Appropriations Committee

May 25, 2010

Chairman Sarlo, Budget Officer Bucco, distinguished members of the Senate Budget and Appropriations Committee, thank you for inviting me to present the Department of Treasury's updated revenue estimates for both Fiscal 2010 and 2011.

As in past appearances before this committee, I am pleased to be accompanied by OMB Director Charlene Holzbaaur, Deputy OMB Director Robert Peden, and other key members of the Treasury staff.

We have taken the liberty of distributing a presentation package for your review. With your permission, I would like to take a few minutes to point out some highlights before entertaining any questions you may have.

By way of introduction, I would note that our latest revenue estimates reflect the fact that New Jersey continues to suffer the lingering effects of a deep national recession. We are not alone. During the first week of May, the Rockefeller Institute of Government reported that the federal government's nonwithheld tax collections through April 30 were down 17.6 percent from a year earlier. Anecdotal evidence confirms that many of our sister states are experiencing very disappointing revenue results and the consequent need to institute severe budget cuts. The good news, however, is that, thanks to the painful but necessary actions taken earlier this Spring, New Jersey is in a better position than many to manage its ongoing budget challenges and, with your help, now has a real chance to position itself for renewed growth going forward.

Let me turn now to the page entitled "The Fiscal 2010 Budget." This table provides an overview of changes since the Governor presented his Budget Message on March 16. Cutting to the chase, the column at right indicates that we now expect our Gross Income Tax to generate \$300 million less than expected, our Sales Tax to generate \$58 million less, and our Corporate Business Tax \$44 million less than we had forecast in March. At the same time, we expect \$77 million in additional other categories of revenue. In total, we are reducing our revenue forecast for FY 2010 by \$325 million. Against this \$325 million decline in revenue, we have been able to identify an additional \$232 million in lapses, leaving us with a reduction in overall resources of \$93 million through the end of the year.

Moving further down the page, you will note that we have identified \$92 million in reductions to our projected supplemental appropriations. With rounding, this fully offsets the reduction in resources and thus allows us to end the fiscal year with a projected fund balance surplus of \$501 million, the same amount we had projected in March.

Before moving on, I should take cognizance of the fact that my distinguished colleague from the Office of Legislative Services, Dr. David Rosen, this morning testified that he expects FY 2010 revenue to fall \$401 million short of the March estimate, \$77 million more than our revised estimate. Although we assign some different values to changes in individual taxes, overall the difference between our revised estimates amounts to less than 0.3 percent of the March estimate.

The next page reviews the history of FY 2010 revenue estimates. I would point out that the change from March represents a decline of about 1.2 percent. To put that in some dynamic perspective, our March estimate represented a \$1 billion, or 3.6 percent, decline from the FY 2010 Appropriations Act estimate.

The page entitled "FY 2010 Revenues" offers another snapshot of the FY 2010 revenue saga. Of some note is the fact that the Gross Income Tax is now projected to yield fully \$383 million less in FY 2010 than it did in FY 2009, notwithstanding last year's very substantial temporary rate increases. Overall, we project a year-over-year reduction of \$1.362 billion or 4.7 percent.

The next two tables present a comparison of lapses and supplementals since the Governor delivered his Budget Message. Overall, we have identified \$232 million in net additional lapses and \$92 million in reduced supplementals. You will no doubt have questions on individual items. With your permission, I will defer questions for another few moments.

Let me now turn to FY 2011, beginning with a series of four graphs. The first graph demonstrates that our updated FY 2011 projected revenue of \$28.2 billion remains below the State's actual revenues for FY 2006. The next graph shows that our Gross Income Tax is still short of what it generated in FY 2006, notwithstanding significant tax increases and increases in federal reimbursement for the Earned Income Tax Credit. The third graph illustrates that we do expect modest growth in the Sales tax next year, but still short of what had been expected for FY 2010 at the Appropriations Act and short of actual results for FY 2007 and FY 2008. Finally, the last graph illustrates our expectations for modest growth in the Corporation Business Tax, but still far short of the Halcyon Days of FY 2007 and FY 2008. Once again, our projections for FY 2010 indicate that this tax will generate less in FY 2010 than it did in FY 2009 despite a temporary tax surcharge.

Allow me to now draw your attention to the table entitled "The FY 2011 Budget". We now project that net revenues in FY 2011 will be \$28.2 billion, \$115 million less than we had projected in March. As you will note, most of the decrease is in the Gross Income Tax. In addition, we are recognizing the need to increase appropriations by \$81 million. Together, these

adjustments will reduce our projected fund balance by \$197 million, leaving us with a projected surplus of \$305 million as of the end of FY 2011.

As you will recall from his testimony, Dr. Rosen's new estimate for total revenue in FY 2011 is almost \$250 million less than our revised estimate. Once again, this differential, while apparently large in absolute terms, represents less than one percent of the total estimate as of March.

Perhaps a few data points would help explain our approach:

- The Federal Reserve recently increased its economic growth forecast for this year, from a range of 2.8 percent to 3.5 percent to a range of 3.2 percent to 3.7 percent. The Fed has also lowered its forecast for both the unemployment and inflation rates, and has said it will hold interest rates at their current historic lows for an "extended period."
- We are seeing nascent signs of a local job recovery. New Jersey added 10,500 jobs in April, mostly in the private sector, the largest monthly increase since 2008.
- We are seeing signs of a recovery in new and existing home sales. April existing home sales were up 7.6 percent, and housing starts were up 5.8 percent. The National Association of Homebuilders' recently-released confidence index is now at its highest level in more than two and a half years. According to the National Realtors Association, New Jersey is currently outpacing the nation in home sales.

Finally, the last page presents an overview of the State's budget over the past ten years. In particular, it graphically and quite dramatically illustrates the role federal stimulus money has played in propping up our budget, and the catastrophic impact of letting our budget model run without instituting the corrective actions we began earlier this calendar year.

Perhaps this is a good place for me to stop and say "thank you," Mr. Chairman and members of the committee, for your attention and diligence over these past few weeks as you have reviewed the Governor's proposed FY 2011 budget in exhaustive detail. We recognize that this budget asks much of you in the Legislature as well as our fellow New Jerseyans. We recognize that it contains many, many tough and often controversial choices. Yet I also suspect that all of us --- representing a wide range of political and governmental philosophies --- now share in the inescapable realization that our current budget challenges offer us have a once-in-generation chance to chart a new path for New Jersey, one that features fiscal stability, opportunity, and sustained economic growth. I look forward to working with you to make the most of this opportunity as we move to the next phase of necessary dialogue and negotiation leading up to the adoption of a balanced and on-time budget.

Thank you. I will now welcome your questions.

***FY 2010 – FY 2011
UPDATES***

May 25, 2010

Fiscal Year 2010 Update

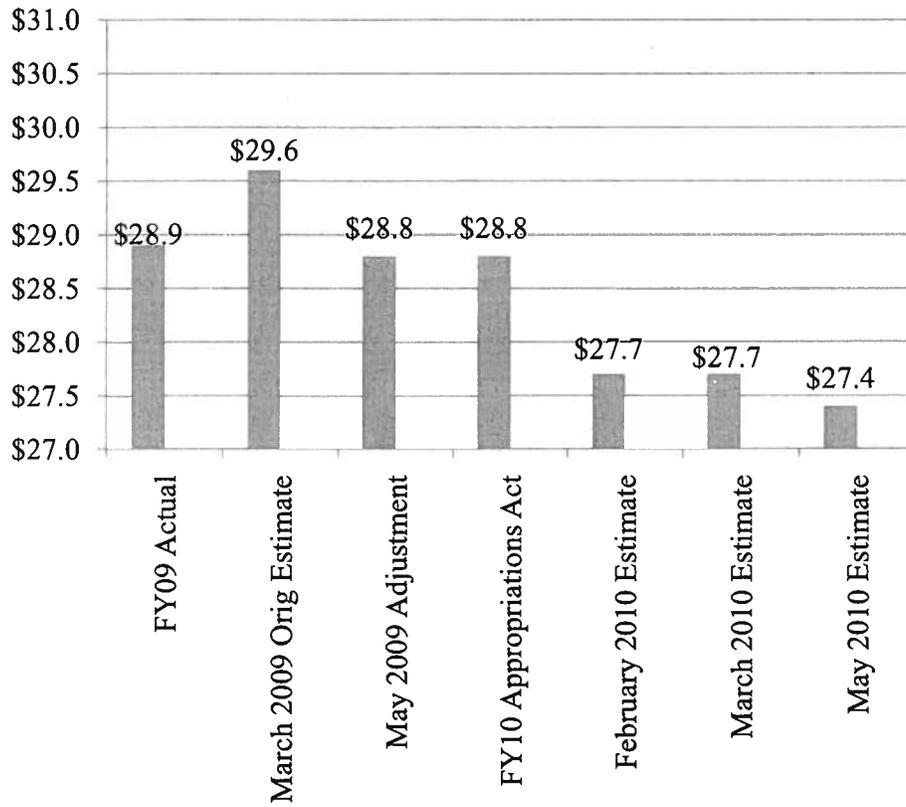
The FY 2010 Budget

(In Millions)

	<u>FY 2010</u> <u>Approp. Act</u>	<u>FY 2010</u> <u>Budget</u>	<u>FY 2010</u> <u>May</u>	<u>Change</u> <u>Budget - May</u>
Opening Surplus	\$ 735	\$ 614	\$ 614	\$ -
Revenues				
Income	10,393	10,393	10,093	(300)
Sales	7,965	7,523	7,465	(58)
Corporate	2,224	2,044	2,000	(44)
Other	8,175	7,760	7,837	77
Total Revenues	\$ 28,757	\$ 27,720	\$ 27,395	(325)
Lapses		\$ 2,029	2,261	232
Total Resources	\$ 29,492	\$ 30,363	\$ 30,270	\$ (93)
Appropriations				
Original	\$ 28,990	\$ 28,990	\$ 28,990	
Supplemental		872	780	(92)
Total Appropriations	\$ 28,990	\$ 29,862	\$ 29,770	\$ (92)
Projected Surplus	\$ 502	\$ 501	\$ 501	\$ (0)

History of FY 2010 Revenues

(In Billions)



FY 2010 Revenues

(In Millions)

	FY2009 CAFR	FY2010 Approp. Act	FY2010 Adjusted**	CAFR vs. Approp. Act Change		Approp. Act vs. Adj. Change	
				\$	%	\$	%
Income	\$ 10,476	\$ 10,393	\$ 10,093	\$ (83)	(0.8)	\$ (300)	(2.9)
Sales	7,723	7,965	7,465	242	3.1	(500)	(6.3)
Corporate	2,622	2,224	2,000	(398)	(15.2)	(224)	(10.1)
Other*	<u>8,064</u>	<u>8,175</u>	<u>7,837</u>	<u>111</u>	1.4	<u>(338)</u>	(4.1)
Total	<u>\$ 28,885</u>	<u>\$ 28,757</u>	<u>\$ 27,395</u>	<u>\$ (128)</u>	(0.4)	<u>\$ (1,362)</u>	(4.7)

* All Sales Tax and Corporation Taxes on Energy are included in Other

** FY 2010 includes solutions

Comparison of Lapses Since Budget

(In Thousands)

	Budget Message	May Revised	Difference
Lapse of Appropriation Balances	\$ 2,028,964	\$ 2,261,410	\$ 232,446
Significant Increases in Lapses			
Additional Federal Disproportionate Share Funds			\$ 85,033
Business Employment Incentive Program			70,000
State Disability Benefit Fund			25,000
Higher Education Debt Service			19,262
Interdepartmental Salary Balances			18,026
Nursing Homes - Reduced Trend			13,860
Retail Margin Fund			13,300
Motor Vehicle Commission			10,730
Parks Management			10,000
Lifeline - Reduced Trend			7,000
DEP Permitting - Excess Receipts			4,363
County College Debt Service			4,292
School Construction and Renovation Fund			4,000
County Solid Waste			2,879
Unused Sick Leave Payments			2,500
Other Lapses less than \$2 million			13,000
Total			\$ 303,245
Significant Decreases in Lapses			
Taxation Settlement Revenues			\$ (15,000)
School District Surpluses			(13,617)
PAAD Trend Savings (Restoration of Copay/Deductible)			(6,815)
Taxation Data Warehouse/PAMS			(6,700)
Homestead Rebates			(6,400)
NJ Family Care - Restricted Aliens			(4,968)
South Jersey Port Corporation - Property Tax Reserve Fund			(4,000)
Highlands Protection Fund			(3,300)
Health Benefit Contributions for Non-aligned Employees			(3,065)
Cancer Programs			(3,000)
Life Safety Improvements			(2,716)
Other Lapses less than \$2 million			(1,218)
Total			\$ (70,799)
Net Change in Lapses			\$ 232,446

Comparison of Supplementals Since Budget

(In Thousands)

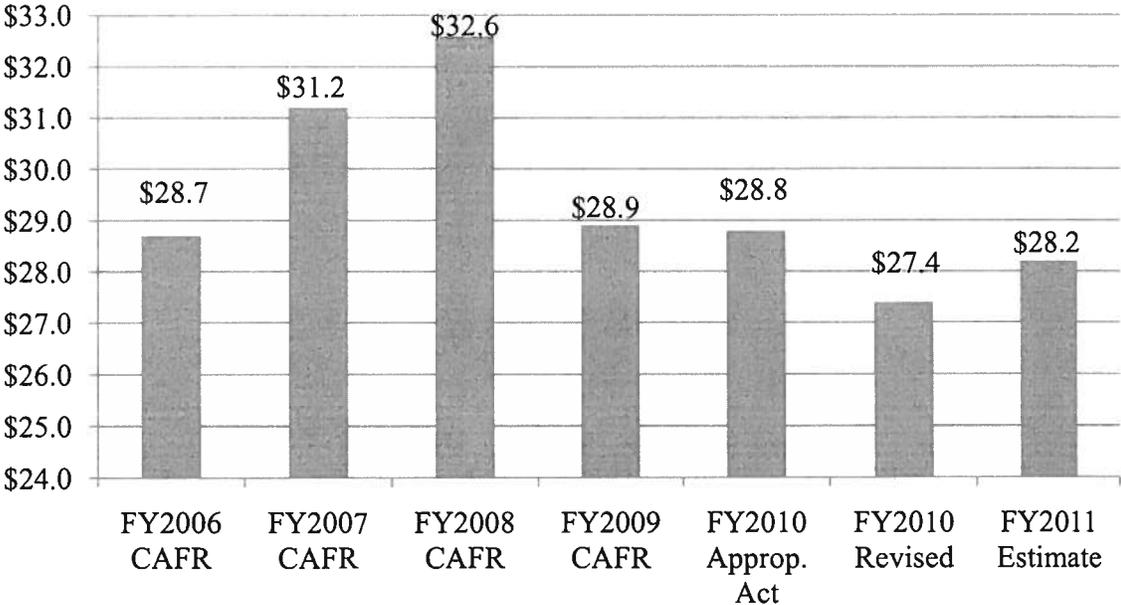
	<u>Budget Message</u>	<u>May Revised</u>	<u>Difference</u>
Supplementals	\$ 871,662	\$ 779,562	\$ (92,100)
Significant Increases in Supplementals			
Senior Services			\$ 45,009
Trenton Office Complex - Debt Refinance			9,000
Medicaid / General Assistance Medical Trend			8,154
Nonpublic School Aid			6,912 ^(a)
Mental Health Operational Shortfall			6,669
Other Supplementals less than \$2 million			4,907
Total			\$ 80,651
Significant Decreases in Supplementals			
Medicaid Clawback			\$ (116,609)
State Health Benefits			(33,000)
Welfare Caseload Trend			(9,712)
Child Care Caseload Trend			(5,049)
County Psychiatric Hospital Caseload Trend			(2,329)
Other Supplementals less than \$2 million			(6,052)
Total			\$ (172,751)
Net Change in Supplementals			\$ (92,100)

(a) No Impact on GF as this need is offset by additional revenues.

Fiscal Year 2011 Update

NJ State Revenue History: FY 2011 Projected Revenue Below FY 2006 Actual Revenue

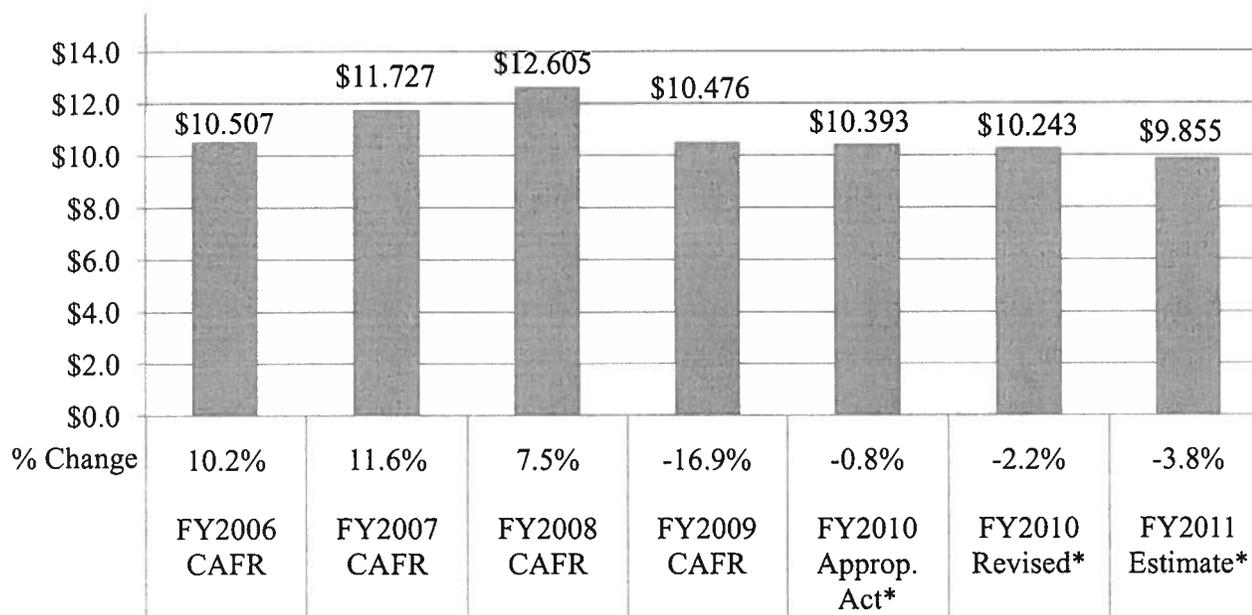
(In Billions)



CAFR – Comprehensive Annual Financial Report

Income Tax Revenue Below Actual FY 2006 Collections

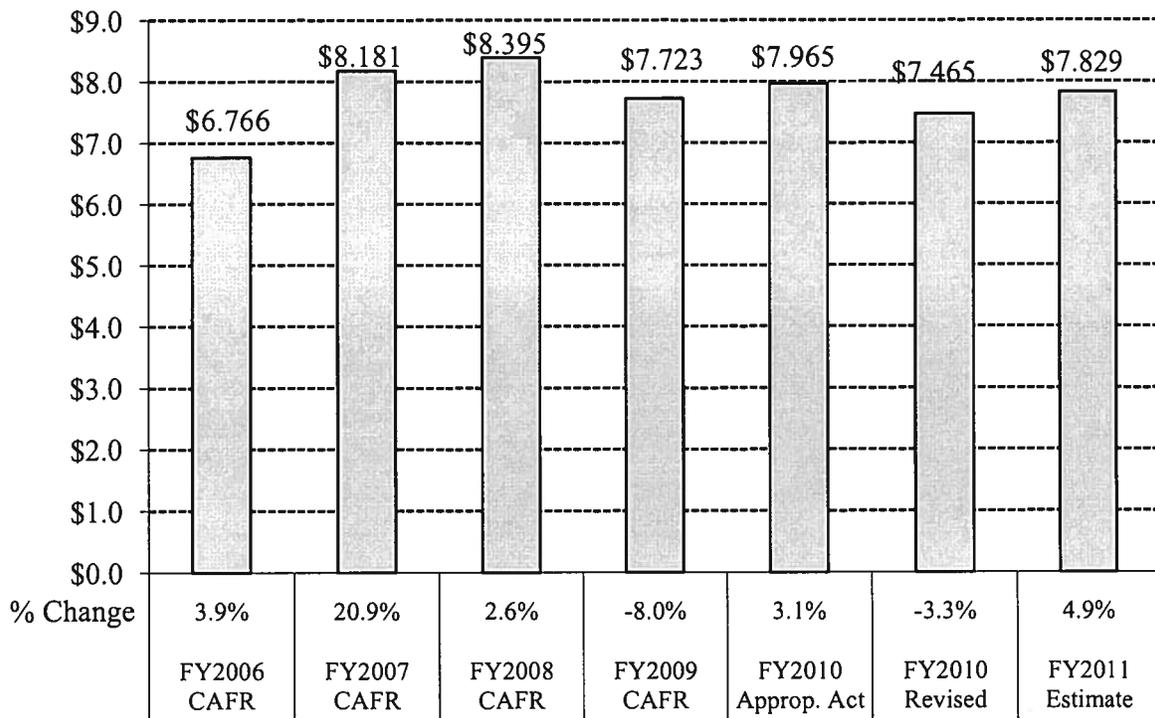
(In Billions)



* These revenues include changes in tax policy.
 FY 2009 - Incremental Change in EITC Expansion (\$60 million)
 FY 2009 - Includes \$88.9 million received from the Amnesty program.
 FY 2010 - Incremental Change in EITC (\$9.9 million)
 FY 2010 - EITC Federal Reimbursement (\$150 million)
 FY 2011 - EITC Federal Reimbursement (\$39 million)
 FY 2011 - Millionaire's Tax Expired 12/31/09
 CAFR - Comprehensive Annual Financial Report

Sales Tax

(In Billions)



FY2007 changes in tax policy:

- increased Sales Tax rate from 6% to 7%
- broadened Sales Tax base

FY2009 includes \$142.5 million received under the Amnesty program.

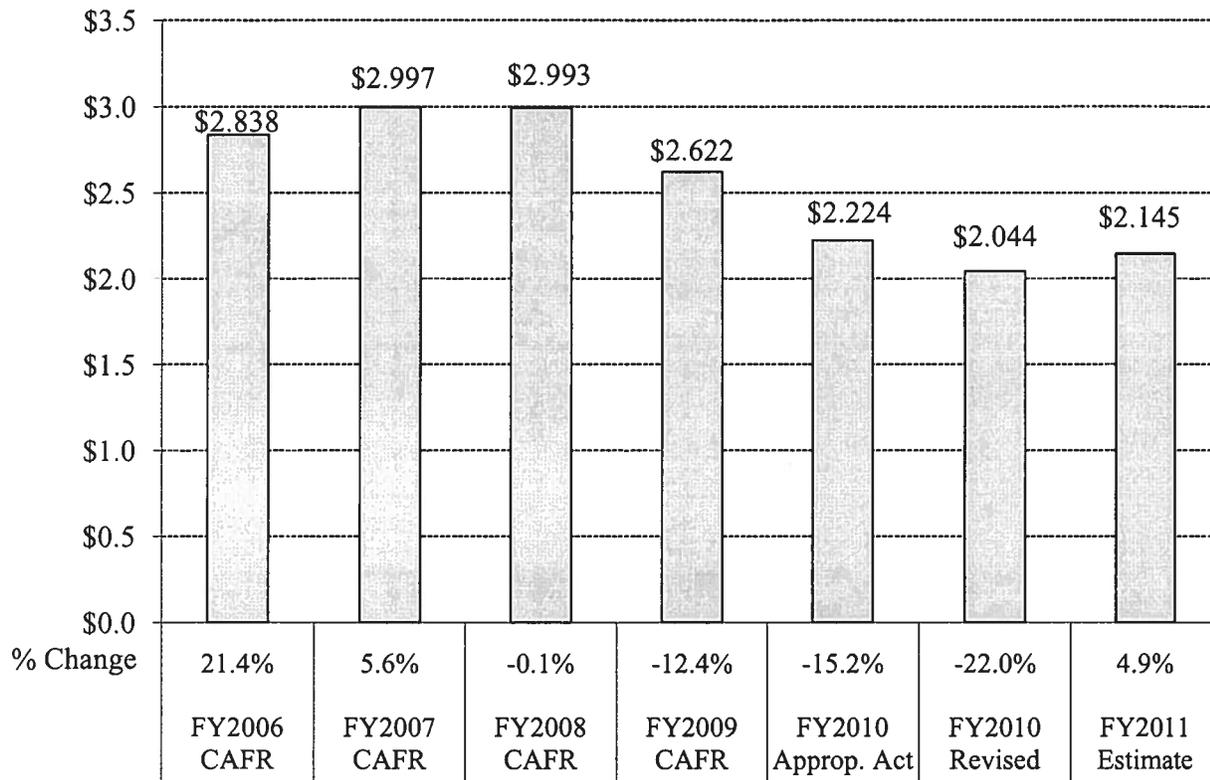
FY2010 includes \$65 million for repeal of blue laws

Sales Tax excludes the tax on energy.

CAFR – Comprehensive Annual Financial Report

Corporation Business Tax

(In Billions)



FY2009 includes \$392.6 million received under the Amnesty program.

Corporation Business Tax excludes the tax on energy.
 CAFR – Comprehensive Annual Financial Report

The FY 2011 Budget

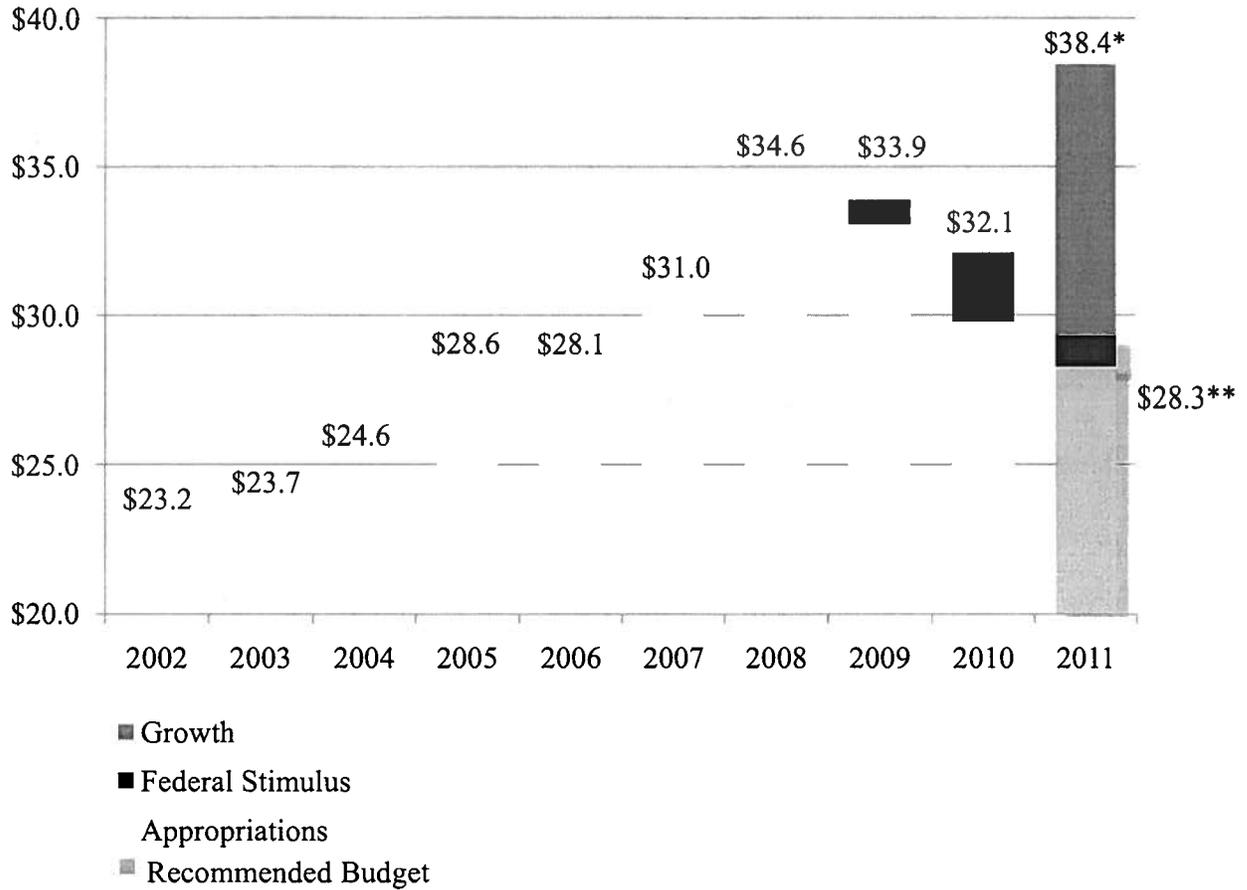
(In Millions)

	<u>FY 2011 Budget</u>	<u>FY 2011 May</u>	<u>Change \$</u>
Opening Surplus	\$ 501	\$ 501	\$ -
Revenues			
Income	9,945	9,816	(129)
Sales	7,855	7,829	(26)
Corporate	2,145	2,145	-
Other	8,322	8,362	40
Total Revenues	\$ 28,267	\$ 28,152	\$ (115)
ARRA Resources*	1,033	1,033	-
Total Resources	\$ 29,801	\$ 29,686	\$ (115)
Appropriations			
Original	\$ 28,267	\$ 28,348	\$ 81
Subtotal State Appropriations	\$ 28,267	28,348	\$ 81
ARRA Supported Appropriations*	1,033	1,033	-
Total Appropriations	\$ 29,300	\$ 29,381	\$ 81
Projected Surplus	\$ 501	\$ 305	\$ (197)

*Resources and Appropriations used for budget relief that otherwise would have needed a State Appropriation

State Budget For Past Ten Years

(In Billions)



*** The \$38.4 billion figure represents how much the State would be obligated to spend in FY11 if Governor Christie had not made tough, but vitally needed budget cuts.**

**** Christie Administration Revised Spending for FY 2011**