

Testimony of Treasury Bradley Abelow  
Assembly Budget Committee  
May 15, 2007

Mr. Chairman, distinguished members of the Assembly Budget Committee. Good morning.

I am pleased to return and detail to you a revised revenue picture for the remainder of FY 2007 and for the new fiscal year beginning July 1.

I am joined today by David Rousseau, Budget and Fiscal Policy Advisor to the Governor, Michellene Davis, my Chief of Staff, and Charlene Holzbaur, the Director of the Office of Management and Budget.

As you just heard from Dr. David Rosen, the Office of Legislative Services and the Corzine Administration are closely aligned in our view of total revenues for fiscal years 2007 and 2008. While our estimates for some individual taxes may differ, we are pleased to see agreement in total net revenues for two budgets and \$65 billion in fiscal resources.

We come back to you today with a picture that is little changed from what the Governor proposed in his budget message in February. Absent from this update are any changes that the Legislature may considered as part of its budget review.

I would like to begin by presenting a broad overview of the budget, followed by some general, as well as more specific, summaries of revenues and spending adjustments for both the current and next fiscal years.

# FY 2008 Budget Update

Treasurer Bradley Abelow

May 15, 2007

# Overview

- FY 08 budget remains balanced at \$33.36 billion with property tax relief remaining the highest priority
- Revenues are generally where we thought they would be in February – our revised estimates are only \$58 million below our initial projections
- Mix of revenues, however, is quite different
- Difference between OLS and Executive is only \$29 million over the two year period – no individual tax is off by more than \$25 million
- No new policy initiatives since initial budget proposal – any additional spending is offset by higher lapses in FY 07 and additional reductions in FY 08

# Summary

- FY 07 revenues increased by \$60 million
- FY 07 lapses increased by \$136 million
- FY 07 supplemental appropriations increased by \$8 million
- FY 08 revenues decreased by \$118 million
- FY 08 net spending increased by \$70 million
- Net impact is \$600 million surplus is maintained

# Income Tax

- Overall income tax is projected very close to the February estimates
- Estimates for withholding, final April payments and quarterly estimated payments differ from earlier projections
- FY 07 slightly down from \$11.465 billion in February to \$11.454 billion now – decrease of \$11 million – growth rate of 9%
- FY 08 down from \$12.415 billion to \$12.351 billion – decrease of \$64 million – growth rate of 7.8%

# Sales tax

- Although sales tax revenues are still within the historical growth rates the revenue for the two years is significantly lower than either Administration or OLS initial estimates
- Appears to be national trend on slower sales tax growth
- FY 07 down from \$8.425 billion in February to \$8.2 billion now – decrease of \$225 million
- FY 08 down from \$8.778 billion to \$8.56 billion – decrease of \$218 million

# Corporate Tax

- Continues to be the most difficult tax to estimate
- FY 07 up from \$2.71 billion in February to \$2.95 billion now – increase of \$240 million
- FY 08 up from \$2.342 billion to \$2.52 billion – increase of \$178 million

# FY 07 Supplementals

- Net increase of \$8 million in anticipated supplemental needs for FY 2007
- Would increase the adjusted FY 07 appropriations from \$31.061 billion to \$31.069 billion
- Increases include added need for Abbott settlements and the audits of Abbott districts and other smaller items

# FY 08 Spending Adjustments

- Recognition of net increase of \$70 million in added spending needs for FY 2008
- Increases proposed \$33.292 billion budget to \$33.362 billion
- Majority of the increases are related to additional state aid to counties, schools and municipalities

# FY 08 Spending Adjustments

- Additional need of \$78 million to meet constitutional funding obligations for Abbott districts
- Budget increase will only be \$54 million since we have identified \$24 million within DOE to offset portion of this increased need

# FY 08 Spending Adjustments

- \$25 million to continue the local green acres program until a long term solution for the GSPT is enacted
- \$30 million to provide funding to upgrade voting machines to provide the voter verified paper trail

# FY 08 Spending Adjustments

- \$7 million added to the \$3.5 million already in the budget to fund the full cost of the added presidential primary in February 2008 relieving property taxpayers of this cost
- \$8 million to cover State and local match for FEMA aid related to latest flooding

# FY 08 Spending Adjustments

- Net reduction of \$24 million in debt service for K-12 school construction, county colleges and short term borrowing due to updated estimates
- \$25 million reduction in PAAD due to lower than projected current year spending
- Other smaller increases and decreases net to the \$70 million total

# FY 07 Additional Lapses

- Increase in FY 07 and FY 08 spending needs are more than offset by the \$136 million increase in lapses due primarily to spending constraints in the current year

# Conclusion

- Budget remains balanced
- \$16.6 billion in property tax relief
- No tax increases
- Tax decrease for low income families

*State of New Jersey*

**The FY 2008 Budget**

(\$ in Millions)

|                             | FY 2007   |           | FY 2008   |           |
|-----------------------------|-----------|-----------|-----------|-----------|
|                             | February  | May       | February  | May       |
| <b>Opening Surplus</b>      | \$ 1,779  | \$ 1,779  | \$ 1,941  | \$ 2,129  |
| Revenues                    |           |           |           |           |
| Income                      | 11,465    | 11,454    | 12,415    | 12,351    |
| EITC Expansion              |           |           | (64)      | (36)      |
| Sales                       | 8,425     | 8,200     | 8,778     | 8,560     |
| Corporate                   | 2,710     | 2,950     | 2,342     | 2,520     |
| Other                       |           |           |           |           |
| Base                        | 8,223     | 8,279     | 8,481     | 8,439     |
| <b>Total Revenues</b>       | \$ 30,823 | \$ 30,883 | \$ 31,952 | \$ 31,834 |
| Lapses                      | 400       | 536       |           |           |
| <b>Total Resources</b>      | \$ 33,002 | \$ 33,198 | \$ 33,893 | \$ 33,963 |
| Appropriations              |           |           |           |           |
| Original                    | \$ 30,819 | \$ 30,819 | \$ 33,292 | \$ 33,362 |
| Supplemental                | 242       | 250       |           |           |
| <b>Total Appropriations</b> | \$ 31,061 | \$ 31,069 | \$ 33,292 | \$ 33,362 |
| <b>Fund Balance</b>         | \$ 1,941  | \$ 2,129  | \$ 601    | \$ 601    |

State of New Jersey  
 Summary of Schedule 1 Revenues  
 Fiscal 2007  
 (in thousands) As of May 14, 2007

|  | CAFR<br>FY2006       | Approp Act<br>FY2007 | Revised GBM<br>FY2007 | May<br>Revised<br>FY2007 | May FY07<br>vs. FY07AA<br>\$ Change | May FY07<br>vs. GBM<br>\$ Change | % Growth<br>FY06 CAFR<br>FY07 May |
|--|----------------------|----------------------|-----------------------|--------------------------|-------------------------------------|----------------------------------|-----------------------------------|
| <b>Major Taxes</b>                                   |                      |                      |                       |                          |                                     |                                  |                                   |
| Sales Tax  | \$ 6,765,984         | \$ 8,483,600         | \$ 8,424,968          | \$ 8,199,968             | \$ (283,632)                        | \$ (225,000)                     | 21.2%                             |
| Sales Energy   | 87,434               | 238,000              | 342,563               | 417,400                  | 179,400                             | 74,837                           | 377.4%                            |
| Corporation Business                                 | 2,837,907            | 2,478,571            | 2,710,000             | 2,950,000                | 471,429                             | 240,000                          | 3.9%                              |
| Corporation Energy                                   | 169,923              | 128,500              | 88,200                | 66,400                   | (62,100)                            | (21,800)                         | -60.9%                            |
| Motor Fuels  | 550,908              | 553,000              | 566,000               | 564,000                  | 11,000                              | (2,000)                          | 2.4%                              |
| Motor Vehicle Fees                                   | 284,084              | 275,244              | 295,244               | 275,274                  | 30                                  | (19,970)                         | -3.1%                             |
| Transfer Inheritance                                 | 610,848              | 600,000              | 602,000               | 605,000                  | 5,000                               | 3,000                            | -1.0%                             |
| Insurance Premium                                    | 512,044              | 495,000              | 488,000               | 455,000                  | (40,000)                            | (33,000)                         | -11.1%                            |
| Cigarette  | 632,599              | 215,033              | 228,058               | 205,631                  | (9,402)                             | (22,427)                         | -67.5%                            |
| Petroleum Products Gross Receipts                    | 224,843              | 225,000              | 231,000               | 230,000                  | 5,000                               | (1,000)                          | 2.3%                              |
| Public Utility Excise                                | 10,931               | 10,912               | 10,931                | 10,931                   | 19                                  | -                                | 0.0%                              |
| Corporation Banks and Financial Institutions         | 153,839              | 120,000              | 100,000               | 140,000                  | 20,000                              | 40,000                           | -9.0%                             |
| Alcoholic Beverage Excise                            | 90,965               | 94,000               | 92,000                | 92,000                   | (2,000)                             | -                                | 1.1%                              |
| Realty Transfer                                      | 459,743              | 415,000              | 396,000               | 404,000                  | (11,000)                            | 8,000                            | -12.1%                            |
| Savings Institutions                                 | 22                   | -                    | -                     | -                        | -                                   | -                                | -100.0%                           |
| Tobacco Products Wholesale Sales                     | 13,840               | 16,000               | 14,000                | 13,000                   | (3,000)                             | (1,000)                          | -6.1%                             |
| <b>Total Major Taxes</b>                             | <b>\$ 13,405,914</b> | <b>\$ 14,347,860</b> | <b>\$ 14,588,964</b>  | <b>\$ 14,628,604</b>     | <b>\$ 280,744</b>                   | <b>\$ 39,640</b>                 | <b>9.1%</b>                       |
| <b>Miscellaneous Taxes, Fees, Revenues</b>           |                      |                      |                       |                          |                                     |                                  |                                   |
| Assessment on Real Property Greater Than \$1 Million | 86,316               | 113,000              | 150,000               | 135,000                  | 22,000                              | (15,000)                         | 56.4%                             |
| Medicaid Uncompensated Care                          | 499,282              | 349,831              | 368,888               | 374,688                  | 24,857                              | 5,800                            | -25.0%                            |
| Good Driver  | 80,959               | 77,450               | 77,450                | 77,450                   | -                                   | -                                | -4.3%                             |
| Motor Vehicle Inspection Fund                        | 80,347               | 78,900               | 78,900                | 78,900                   | -                                   | -                                | -1.8%                             |
| Hotel/Motel Occupancy Tax                            | 78,949               | 76,000               | 79,000                | 79,000                   | 3,000                               | -                                | 0.1%                              |
| Investment Earnings                                  | 20,894               | -                    | 23,000                | 48,000                   | 48,000                              | 25,000                           | 129.7%                            |
| Public Utility GRFT                                  | 82,202               | 75,000               | 82,200                | 82,200                   | 7,200                               | -                                | 0.0%                              |
| TEFA   | 253,975              | 250,924              | 221,660               | 217,427                  | (33,497)                            | (4,233)                          | -14.4%                            |
| Fringe Benefit Recoveries                            | 395,544              | 446,646              | 431,900               | 431,900                  | (14,746)                            | -                                | 9.2%                              |
| Other Miscellaneous Revenue                          | 1,186,705            | 1,308,665            | 1,269,787             | 1,269,840                | (38,825)                            | 53                               | 7.0%                              |
| <b>Total Miscellaneous Taxes, Fees, Revenues</b>     | <b>\$ 2,765,173</b>  | <b>\$ 2,776,416</b>  | <b>\$ 2,782,785</b>   | <b>\$ 2,794,405</b>      | <b>\$ 17,989</b>                    | <b>\$ 11,620</b>                 | <b>1.1%</b>                       |
| <b>Interfund Transfers</b>                           |                      |                      |                       |                          |                                     |                                  |                                   |
| State Lottery Fund                                   | 844,156              | 846,000              | 812,700               | 831,000                  | (15,000)                            | 18,300                           | -1.6%                             |
| Tobacco Settlement/Securitization                    | 12,482               | 27,278               | 14,746                | 14,746                   | (12,532)                            | -                                | 18.1%                             |
| All Other Funds                                      | 545,892              | 611,089              | 624,230               | 628,318                  | 17,229                              | 4,088                            | 15.1%                             |
| <b>Total Interfund Transfers</b>                     | <b>\$ 1,402,530</b>  | <b>\$ 1,484,367</b>  | <b>\$ 1,451,676</b>   | <b>\$ 1,474,064</b>      | <b>\$ (10,303)</b>                  | <b>\$ 22,388</b>                 | <b>5.1%</b>                       |
| <b>Total State Revenues General Fund</b>             | <b>\$ 17,573,617</b> | <b>\$ 18,608,643</b> | <b>\$ 18,823,425</b>  | <b>\$ 18,897,073</b>     | <b>\$ 288,430</b>                   | <b>\$ 73,648</b>                 | <b>7.5%</b>                       |
| Property Tax Relief Fund                             | 10,506,565           | 11,475,000           | 11,465,000            | 11,454,000               | (21,000)                            | (11,000)                         | 9.0%                              |
| EITC Expansion                                       | -                    | -                    | -                     | -                        | -                                   | -                                | -                                 |
| Casino Control Fund                                  | 68,049               | 72,039               | 75,684                | 75,534                   | 3,495                               | (150)                            | 11.0%                             |
| Casino Revenue Fund                                  | 502,296              | 468,087              | 458,027               | 455,256                  | (12,831)                            | (2,771)                          | -9.4%                             |
| Gubernatorial Election Fund                          | 501                  | 700                  | 700                   | 700                      | -                                   | -                                | 39.7%                             |
| <b>TOTAL STATE REVENUES</b>                          | <b>\$ 28,651,028</b> | <b>\$ 30,624,469</b> | <b>\$ 30,822,836</b>  | <b>\$ 30,882,563</b>     | <b>\$ 258,094</b>                   | <b>\$ 59,727</b>                 | <b>7.8%</b>                       |

State of New Jersey  
 Summary of Schedule 1 Revenues  
 Fiscal 2008  
 (in thousands) As of May 14, 2007

|  | GBM<br>Estimate<br>FY2008 | May<br>Estimate<br>FY2008 | May FY08<br>vs. GBM<br>\$ Change | % Growth<br>FY07 May vs.<br>FY08 May |
|--|---------------------------|---------------------------|----------------------------------|--------------------------------------|
| <b>Major Taxes</b>                                   |                           |                           |                                  |                                      |
| Sales Tax  | \$ 8,778,000              | \$ 8,560,000              | \$ (218,000)                     | 4.4%                                 |
| Sales Energy   | 410,178                   | 420,400                   | 10,222                           | 0.7%                                 |
| Corporation Business                                 | 2,342,000                 | 2,520,000                 | 178,000                          | -14.6%                               |
| Corporation Energy                                   | 91,700                    | 103,000                   | 11,300                           | 55.1%                                |
| Motor Fuels  | 580,000                   | 572,000                   | (8,000)                          | 1.4%                                 |
| Motor Vehicle Fees                                   | 278,444                   | 278,444                   | -                                | 1.2%                                 |
| Transfer Inheritance                                 | 602,000                   | 608,000                   | 6,000                            | 0.5%                                 |
| Insurance Premium                                    | 503,000                   | 468,000                   | (35,000)                         | 2.9%                                 |
| Cigarette  | 252,039                   | 236,809                   | (15,230)                         | 15.2%                                |
| Petroleum Products Gross Receipts                    | 237,000                   | 233,000                   | (4,000)                          | 1.3%                                 |
| Public Utility Excise                                | 10,931                    | 10,931                    | -                                | 0.0%                                 |
| Corporation Banks and Financial Institutions         | 100,000                   | 130,000                   | 30,000                           | -7.1%                                |
| Alcoholic Beverage Excise                            | 94,000                    | 93,000                    | (1,000)                          | 1.1%                                 |
| Realty Transfer                                      | 380,000                   | 380,000                   | -                                | -5.9%                                |
| Savings Institutions                                 | -                         | -                         | -                                | -                                    |
| Tobacco Products Wholesale Sales                     | 14,000                    | 13,000                    | (1,000)                          | 0.0%                                 |
| <b>Total Major Taxes</b>                             | <b>\$ 14,673,292</b>      | <b>\$ 14,626,584</b>      | <b>\$ (46,708)</b>               | <b>0.0%</b>                          |
| <b>Miscellaneous Taxes, Fees, Revenues</b>           |                           |                           |                                  |                                      |
| Assessment on Real Property Greater Than \$1 Million | 157,000                   | 140,000                   | (17,000)                         | 3.7%                                 |
| Medicaid Uncompensated Care                          | 464,845                   | 488,345                   | 23,500                           | 30.3%                                |
| Good Driver  | 71,950                    | 71,950                    | -                                | -7.1%                                |
| Motor Vehicle Inspection Fund                        | 77,200                    | 77,200                    | -                                | -2.2%                                |
| Hotel/Motel Occupancy Tax                            | 79,000                    | 79,000                    | -                                | 0.0%                                 |
| Investment Earnings                                  | -                         | -                         | -                                | -100.0%                              |
| Public Utility GRFT                                  | 82,200                    | 82,200                    | -                                | 0.0%                                 |
| TEFA   | 234,221                   | 232,104                   | (2,117)                          | 6.8%                                 |
| Fringe Benefit Recoveries                            | 475,993                   | 431,555                   | (44,438)                         | -0.1%                                |
| Other Miscellaneous Revenue                          | 1,269,242                 | 1,258,892                 | (10,350)                         | -0.9%                                |
| <b>Total Miscellaneous Taxes, Fees,<br/>Revenues</b> | <b>\$ 2,911,651</b>       | <b>\$ 2,861,246</b>       | <b>\$ (50,405)</b>               | <b>2.4%</b>                          |
| <b>Interfund Transfers</b>                           |                           |                           |                                  |                                      |
| State Lottery Fund                                   | 848,000                   | 848,000                   | -                                | 2.0%                                 |
| Tobacco Settlement/Securitization                    | 108,619                   | 113,308                   | 4,689                            | 668.4%                               |
| All Other Funds                                      | 531,675                   | 553,310                   | 21,635                           | -11.9%                               |
| <b>Total Interfund Transfers</b>                     | <b>\$ 1,488,294</b>       | <b>\$ 1,514,618</b>       | <b>\$ 26,324</b>                 | <b>2.8%</b>                          |
| <b>Total State Revenues General Fund</b>             |                           |                           |                                  |                                      |
|  | <b>\$ 19,073,237</b>      | <b>\$ 19,002,448</b>      | <b>\$ (70,789)</b>               | <b>0.6%</b>                          |
| Property Tax Relief Fund                             | 12,415,000                | 12,351,000                | (64,000)                         | 7.8%                                 |
| EITC Expansion                                       | (64,000)                  | (36,000)                  | 28,000                           | -                                    |
| Casino Control Fund                                  | 74,039                    | 73,889                    | (150)                            | -2.2%                                |
| Casino Revenue Fund                                  | 453,103                   | 441,728                   | (11,375)                         | -3.0%                                |
| Gubernatorial Election Fund                          | 700                       | 700                       | -                                | 0.0%                                 |
| <b>TOTAL STATE REVENUES</b>                          | <b>\$ 31,952,079</b>      | <b>\$ 31,833,765</b>      | <b>\$ (118,314)</b>              | <b>3.1%</b>                          |