

ANALYSIS OF THE NEW JERSEY BUDGET

**TAX AND
REVENUE OUTLOOK**

FISCAL YEAR

2009 - 2010

NEW JERSEY STATE LEGISLATURE

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The FY 2009 and FY 2010 Tax and Revenue Outlook

Introduction

The Office of Legislative Services (OLS) has prepared this report to assist the Senate Budget and Appropriations Committee and the Assembly Budget Committee as they develop the FY 2010 appropriations bill. The OLS revenue estimates rely on a review of current State revenue collections, revisions to statutory law, historic revenue collection patterns, a variety of economic data and forecasts and professional judgment.

The OLS projects that FY 2009 and FY 2010 revenues will be \$605.8 million less than the estimates in the FY 2010 Governor's Budget Recommendation. Specifically:

- For FY 2009, the OLS revenue estimates are \$383.1 million below the Executive budget estimates (page 6).
- For FY 2010, the OLS revenue estimates are \$222.7 million below the Executive budget estimates (page 7).
- The OLS estimates for FY 2009 reflect an 11.0% decrease from FY 2008. The FY 2010 estimates reflect an additional 0.6% decline, although the decline would be 3.7% absent the Executive's proposed tax policy changes.

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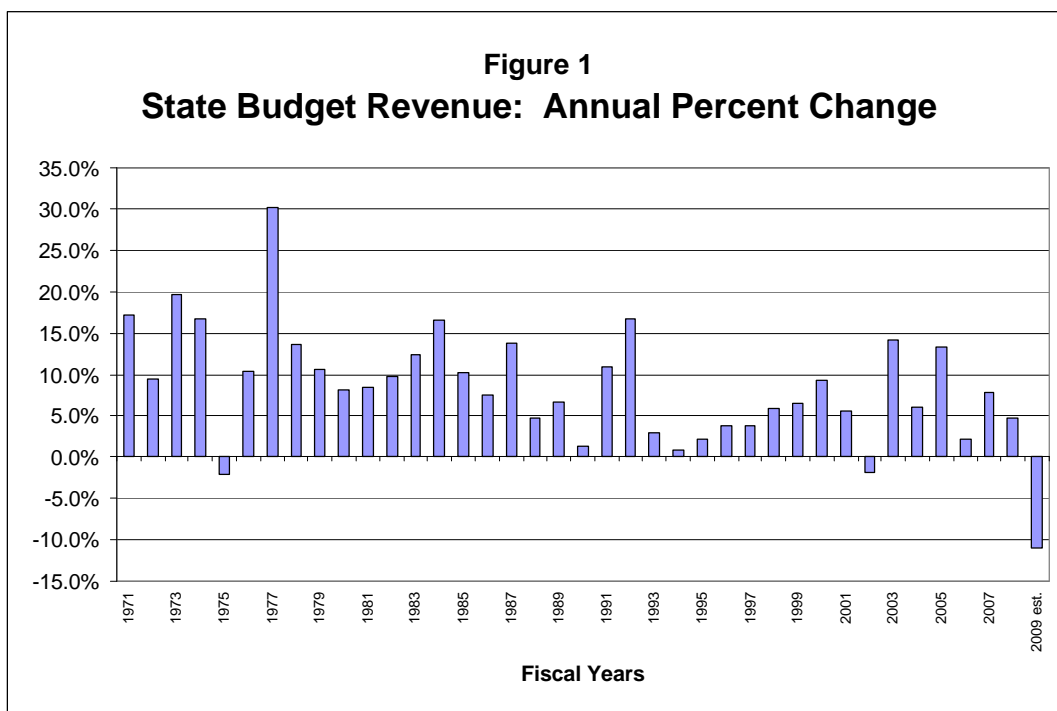
The Revenue Crisis of FY 2009

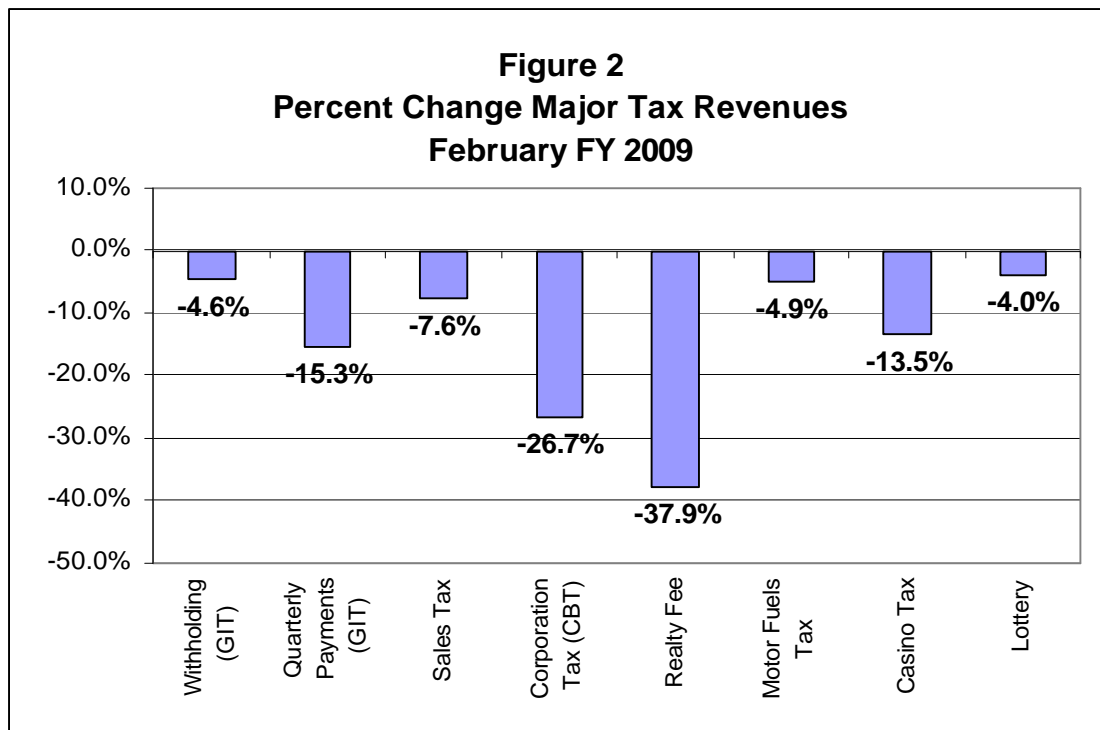
New Jersey faces its most significant State revenue downturn in modern history. As **Figure 1** shows, only twice in the prior 38 years has New Jersey experienced a year over year revenue decline: 2.1% in FY 1975 and 1.9% in FY 2002. According to the OLS estimates discussed in this report, revenues for FY 2009 will be down 11.0% from FY 2008.

As recently as the fourth quarter of FY 2008, major revenues increased by 4.0%, providing little indication that an historic tax revenue collapse was looming just a few months later. Reflecting the consensus view of economists about the duration of the recession, revenue forecasts for FY 2009 anticipated little or no growth. The first quarter of the fiscal year showed some weakness and suggested that revenue forecasts might have to be trimmed. However, in the second quarter major State

revenues fell by more than 8.0%, the worst performance of any quarter in at least the last three decades. The decline in the second quarter was led by an 11.7% drop in sales and use tax collections. Preliminary data for the third quarter and OLS projections for the fourth quarter suggest that the State’s major tax revenues in the second half of the fiscal year will fall by 14.0% from the prior year. This second half decline will be led by the income tax and the corporation business tax.

New Jersey’s sudden tax revenue drop is consistent with experiences throughout the US, and state revenue woes reflect the national economy’s rapid slump. The US Bureau of Economic Analysis reported that gross domestic product (GDP) fell by an annualized 6.2% at the end of 2008, the worst quarterly decline since the first quarter of 1982.





The sharp drop in national GDP is a product of a complex series of factors. A liquidity boom in this decade, fueled by record low interest rates, encouraged increasingly risky lending and investment decisions. A credit binge ensued, with the housing market the major beneficiary. As home prices soared to unsustainable levels, an asset price bubble inflated.

When that asset bubble burst, the housing market eroded rapidly, with repercussions that spread across the global economy. Investors panicked and fled mortgage-backed assets. Trust in financial institutions' solvency dissipated and the liquidity boom became a credit crunch. International credit markets were paralyzed in the Autumn of 2008 and major banks required massive federal bailouts to stave off bankruptcy. Stock values plunged below the depths of the prior stock market crash, the value of individual and institutional investment portfolios crumbled, and consumer confidence collapsed.

In response, state revenue estimators across the country revised their projections downward. The Nelson A. Rockefeller Institute of Government reported that at least 35 states face declining revenues. The National Conference of State Legislatures reported budget gaps in 43 states. In the midst of the economic and fiscal turmoil in the final months of 2008, the National Bureau of Economic Research¹ announced in December of 2008 that the U.S. economy had peaked in December of 2007, and had been in recession *since the beginning of 2008*.

The FY 2009 revenue downturn is distinguished from prior downturns by its severity and breadth. **Figure 2** displays the declining trends for seven of the State's largest tax revenue sources in FY 2009.

¹ The NBER, a private, nonpartisan research group established in 1920, has become the official organization that ascertains when U.S. business cycles begin and end.

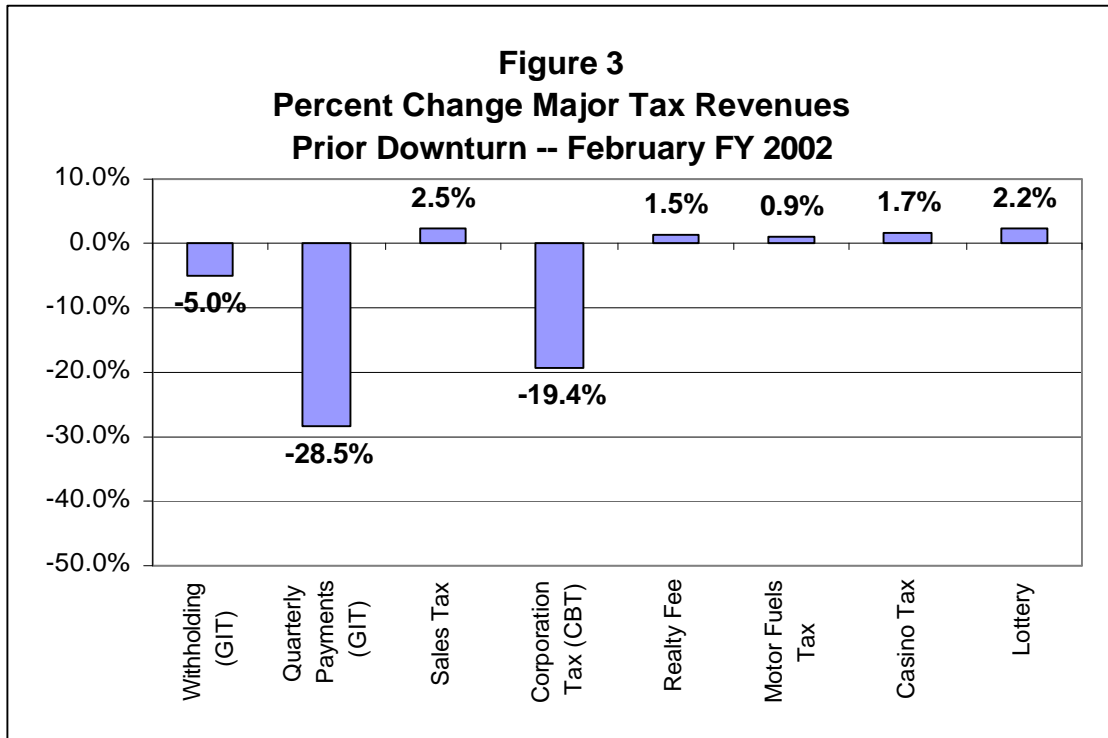


Figure 2 breaks out the FY 2009 Gross Income Tax (GIT) into two of its primary components – *withholding receipts* (primarily from employee wages) and *quarterly estimated payments* (primarily from taxpayers with significant sources of non-wage income such as capital gains and partnership income). GIT withholding is down by 4.6% and quarterly payments are off by 15.3%. Corporation business tax (CBT) revenue has plummeted by 26.7%, and recorded a dubious distinction when net receipts in January and February combined were negative due to refund payments exceeding cash collections. Also down from last year are realty transfer fees, motor fuels taxes, casino taxes, and lottery revenues.

Figure 3 shows that the prior revenue downturn in FY 2002 was limited to fewer revenue sources. While quarterly estimated payments under the GIT fell by 28.5% and corporate business tax (CBT) revenues dropped by 19.4%, sales taxes, realty fees, motor fuels taxes, casino taxes, and the lottery all reported modest rates of growth.

Although non-wage income and corporate profits fell along with the stock markets, the credit markets and consumer behavior remained sound.

The FY 2009 revenue crisis is a fundamentally broader phenomenon. Consumer confidence is at historic lows and spending on automobiles, appliances, furniture, and more has dried up. Unlike the FY 2002 crisis, in FY 2009 consumer behavior, constrained in part by limited credit, has aggravated the downturn and most major revenues are falling.

Figure 4, on the next page, displays additional details for most major tax revenues for FY 2009. Realty transfer fees are down 37.9%, the third consecutive year of declining revenues from the depressed housing market. Casino taxes are down 13.5% and lottery revenues are off by 4.0%. Motor fuels taxes and motor vehicle fee revenues are also down. The only tax revenue showing growth is the alcohol beverage excise tax, which is up 1.3%.

Figure 4
FY 2009 Year-To-Date
Selected Revenue Comparison
Through the End of February 2009 vs. February 2008
(\$ Millions)

	FY 2008 Actual Through Feb.	FY 2009 Actual Through Feb.	Percent Change	Executive Revised Year- End % Change
Gross Income Tax	\$6,482.4	\$5,890.7	-9.1%	-10.8%
Sales Tax *	4,943.1	4,566.5	-7.6%	-5.6%
Corporation Business Tax	1,543.5	1,131.2	-26.7%	-21.7%
Lottery	578.4	555.2	-4.0%	0.7%
Motor Fuels Tax *	333.2	316.9	-4.9%	-3.7%
Casino Tax	270.4	233.9	-13.5%	-13.9%
Inheritance Taxes	475.3	465.3	-2.1%	-3.8%
Insurance Premiums Tax	190.6	171.4	-10.1%	-9.1%
Petroleum Products *	137.4	132.2	-3.8%	-2.7%
Alcohol Excise Tax *	49.0	49.6	1.3%	0.7%
CBT -- Banks & Financials	39.0	25.7	-34.1%	-23.0%
Realty Transfer Fee *	209.5	130.0	-37.9%	-18.9%

Sources: Year-To-Date revenues are from Treasury's monthly cash reports.

The Executive revised year-end percentage change is based on the March revised revenue estimates for FY 2009 contained in the proposed FY 2010 Governor's Budget Message (GBM).

* Revenues represent seven months of cash collections. All others represent eight months of cash collections.

Fiscal Year 2009 Revenue Estimates

Figure 5
Fiscal Year 2009 Revenue Estimates
(\$ millions)

	<u>Appropriations</u> <u>Act Certified</u>	<u>GBM Revised</u> <u>Estimate</u>	<u>GBM Change</u>	<u>OLS</u> <u>Estimate</u>	<u>OLS vs.</u> <u>GBM</u> <u>Difference</u>
Gross Income Tax (GIT)	\$12,700.0	\$11,249.0	-\$1,451.0	\$11,140.0	-\$109.0
Sales Tax*	8,578.0	7,925.0	-653.0	7,885.0	-40.0
Corporation Business Tax*	2,670.0	2,350.0	-320.0	2,200.0	-150.0
Inheritance Taxes	671.9	671.9	0.0	671.9	0.0
Motor Fuels Tax	557.8	542.6	-15.2	535.0	-7.6
Petroleum Products Tax	229.8	224.4	-5.4	220.0	-4.4
Insurance Premiums Tax	446.6	466.0	19.4	455.0	-11.0
Realty Transfer Fee	352.7	260.0	-92.7	210.0	-50.0
Assessment on Prop. > \$1 Mil.	122.5	91.1	-31.4	80.0	-11.1
Cigarette Tax	234.4	236.8	2.4	236.8	0.0
Federal Stabilization	0.0	250.0	250.0	250.0	0.0
Other Revenues*	5,804.7	5,713.2	-91.5	5,713.2	0.0
Grand Total, All Funds	\$32,368.4	\$29,980.0	-\$2,388.4	\$29,596.9	-\$383.1

See Appendix for additional detail. Numbers may not add due to rounding.
GBM = Governor's Budget Message. * Sales and corporate energy revenues are in Other Revenues.

Figure 5 presents the FY 2009 revenue certification from the Appropriations Act (June 2008), the Executive's revisions as presented in the March 2009 Governor's Budget Message (GBM), and the OLS forecast. Highlights of the revenue estimates include:

Executive

- Revised estimates for total revenues are down by \$2.39 billion from the level certified in the FY 2009 Appropriations Act.
- The estimate for the income tax is down \$1.45 billion.
- The estimate for the sales tax is down \$653.0 million.
- The estimate for the corporation business tax is down \$320.0 million.
- The Executive anticipates \$250.0 million from federal stabilization funds.
- The estimates for all other revenues are down by a combined \$214.4 million.

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- The total revenue estimate for FY 2009 is **\$383.1 million below** the Executive's revised projection.
- The estimate for the income tax is \$109.0 million below the Executive's.
- The estimate for the sales tax is \$40.0 million below the Executive's.
- The estimate for the corporation business tax is \$150.0 million below the Executive's.
- The assumed amount of federal stabilization funds is the same.
- The estimates for all other revenues are \$84.1 million below the Executive's.

Fiscal Year 2010 Revenue Estimates

Figure 6
Fiscal Year 2010 Revenue Estimates
(\$ millions)

	<u>GBM Estimate</u>	<u>Annual Growth</u>	<u>OLS Estimate</u>	<u>Annual Growth</u>	<u>OLS vs. GBM Difference</u>
Gross Income Tax (GIT)	\$10,500.0	-6.7%	\$10,470.0	-6.0%	-\$30.0
GIT -- Proposed Changes	788.0		788.0		0.0
Sales Tax*	8,085.0	2.0%	8,045.0	2.0%	-40.0
Corporation Business Tax*	2,030.0	-13.6%	2,000.0	-9.1%	-30.0
Inheritance Taxes	671.9	0.0%	640.0	-4.7%	-31.9
Motor Fuels Tax	553.4	2.0%	540.0	0.9%	-13.4
Petroleum Products Tax	228.9	2.0%	222.0	0.9%	-6.9
Insurance Premiums Tax	475.3	2.0%	464.0	2.0%	-11.3
Realty Transfer Fee	234.0	-10.0%	210.0	0.0%	-24.0
Assessment on Prop. > \$1 Mil.	82.0	-10.0%	72.0	-10.0%	-10.0
Cigarette Tax	255.3	7.8%	230.0	-2.9%	-25.3
Federal Stabilization	0.0	-100.0%	0.0	-100.0%	0.0
Other Revenues*	5,737.5	0.4%	5,737.5	0.4%	0.0
Grand Total, All Funds	\$29,641.3	-1.1%	\$29,418.6	-0.6%	-\$222.7

See Appendix for additional detail. Numbers may not add due to rounding.
GBM = Governor's Budget Message. * Sales and corporate energy revenues are in Other Revenues.

Figure 6 displays the Executive FY 2010 revenue estimates as presented in the March 2009 Governor's Budget Message and the OLS forecast. Highlights of the revenue estimates include:

Executive

- Total revenue estimates are down by \$338.7 million, or 1.1% below FY 2009.
- The baseline income tax estimate is down \$749.0 million, or 6.7% below FY 2009.
- The Executive also proposes \$788.0 million in one-year changes to the income tax code.
- The sales tax estimate is up \$160.0 million, or 2.0% over FY 2009.
- The corporation business tax estimate is down \$320.0 million, or 13.6% below FY 2009.
- All other revenue estimates are down by \$217.7 million, including the non-recurrence of federal stabilization funds.

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- Total revenue estimates for FY 2010 are **\$222.7 million below** the Executive's projection.
- The income tax estimate is \$30.0 million below the Executive's.
- The OLS assumes enactment of proposed tax changes for comparison purposes.
- The sales tax estimate is \$40.0 million below the Executive's.
- The corporation business tax estimate is \$30.0 million below the Executive's.
- The OLS estimates for all other revenues are \$122.7 million below the Executive's.

Budgetary Impact of OLS Revenue Estimates

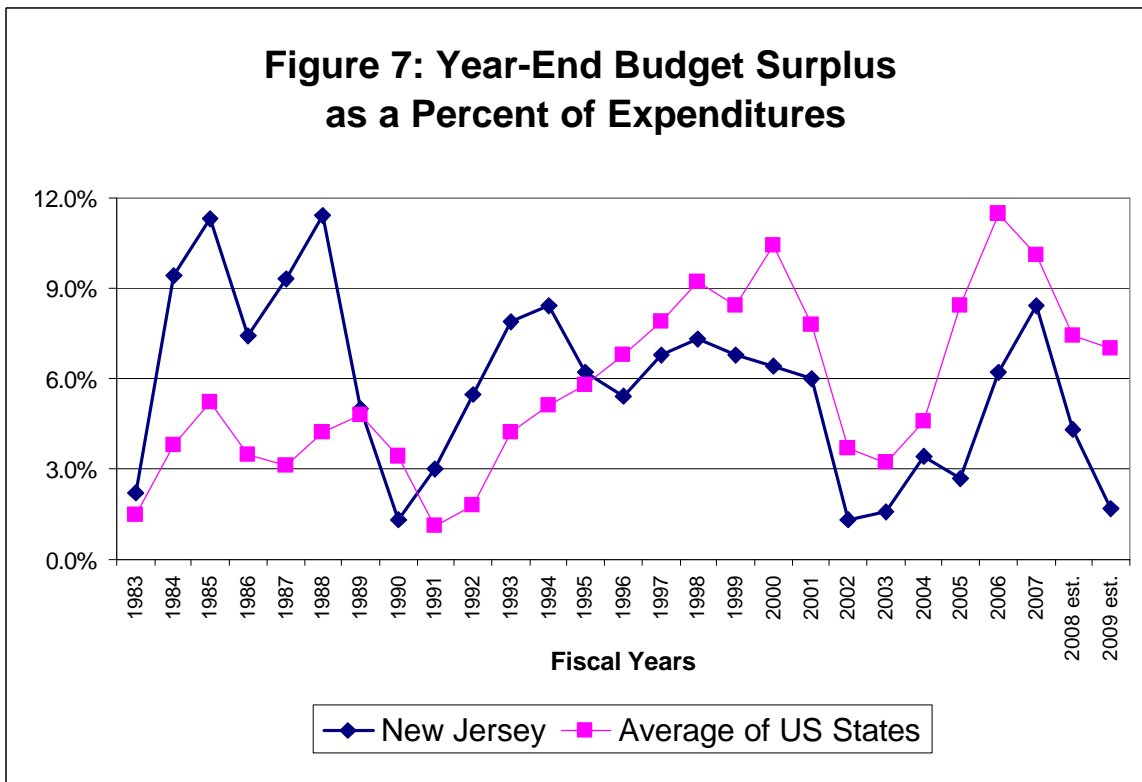
Combined over the two-year period, the OLS revenue estimates are \$605.8 million less than the Executive's -- \$383.1 million less in FY 2009 and \$222.7 million less in FY 2010.

The Executive projects an FY 2010 year-end balance of \$502.1 million, or about 1.7% of budgeted expenditures. As part of its annual analysis, the OLS recalculates the State's year-end budgeted balance based solely on the revenue forecast differences between the Executive and the OLS. All other things being equal, the lower OLS revenue estimates would produce a year-end deficit of \$103.7 million, that would need to be resolved in the budget process.

The actual balance will be determined by numerous spending decisions as well as

revenue collections. Decisions on these and other matters will be made by the Executive, both budget committees and the full Legislature during the next three months and throughout the next fiscal year.

The Executive's *projected* 1.7% surplus is low by historical standards for New Jersey. As is shown in Figure 7, over the last quarter century the State's *actual* surplus has exceeded 1.7% of expenditures all but three years, and two of those three years were during economic recessions (1990 and 2002). Moreover, the national average of all states' surpluses has exceeded New Jersey's level every year since FY 1996, based on survey data compiled by the National Association of State Budget Officers.



The Gross Income Tax

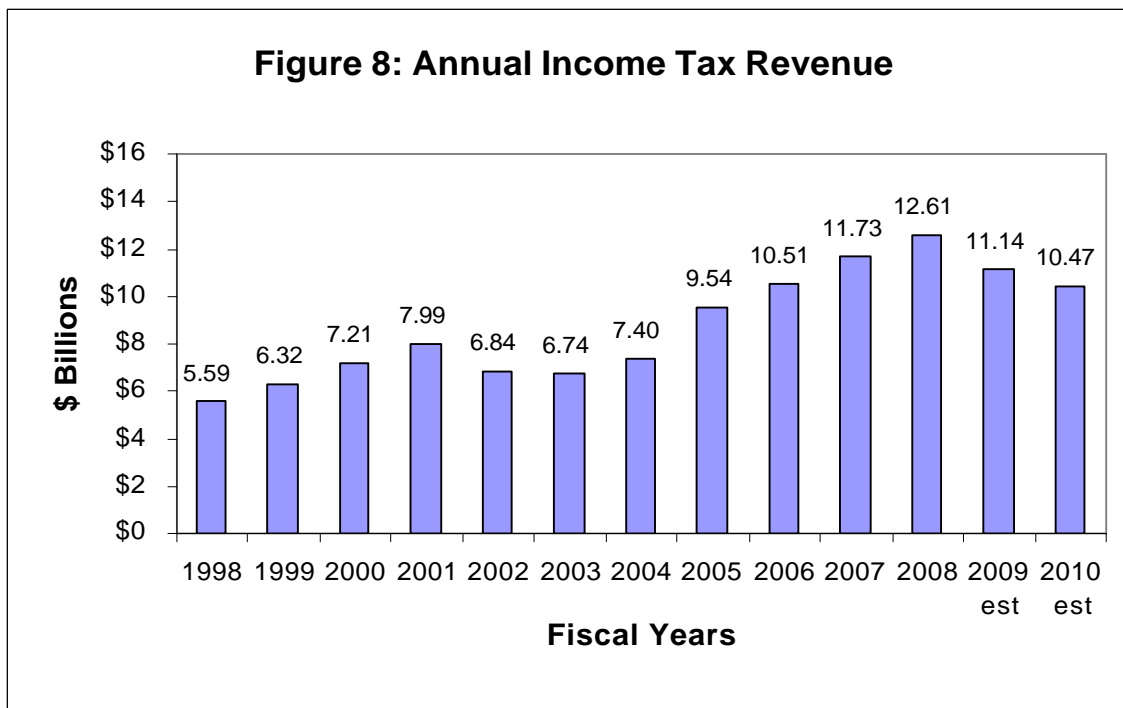
The Executive and the OLS are anticipating a multi-year revenue slump for the Gross Income Tax (GIT), similar to the downturn experienced in FY 2002 and FY 2003. During these two years the GIT declined for the first time in its history, a stunning 14.4% drop in FY 2002 and a subsequent 1.5% drop in FY 2003, visible in **Figure 8** and **Figure 9**. GIT revenues did not surpass the FY 2001 peak until four years later, in FY 2005, when collections jumped by \$2.1 billion due to economic growth and a \$1.1 billion tax increase.

Faced with a national recession and a stock market slump, the Executive has revised FY 2009 GIT revenues down by \$1.45 billion from certified levels. Total receipts of \$11.249 billion in the current year would be 10.8% below collections in FY 2008, the second worst decline in the GIT's history. For FY 2010, the Executive projects a further

deterioration of baseline GIT revenues to \$10.5 billion, a 6.7% decline from FY 2009.

The OLS believes current conditions warrant additional caution in estimating the GIT. Accordingly, the OLS projects \$11.14 billion in FY 2009, \$109.0 million less than the Executive, and a 11.6% drop from FY 2008. OLS projects \$10.47 billion in FY 2010, \$30.0 million less than the Executive, and a 6.0% decline from FY 2009.

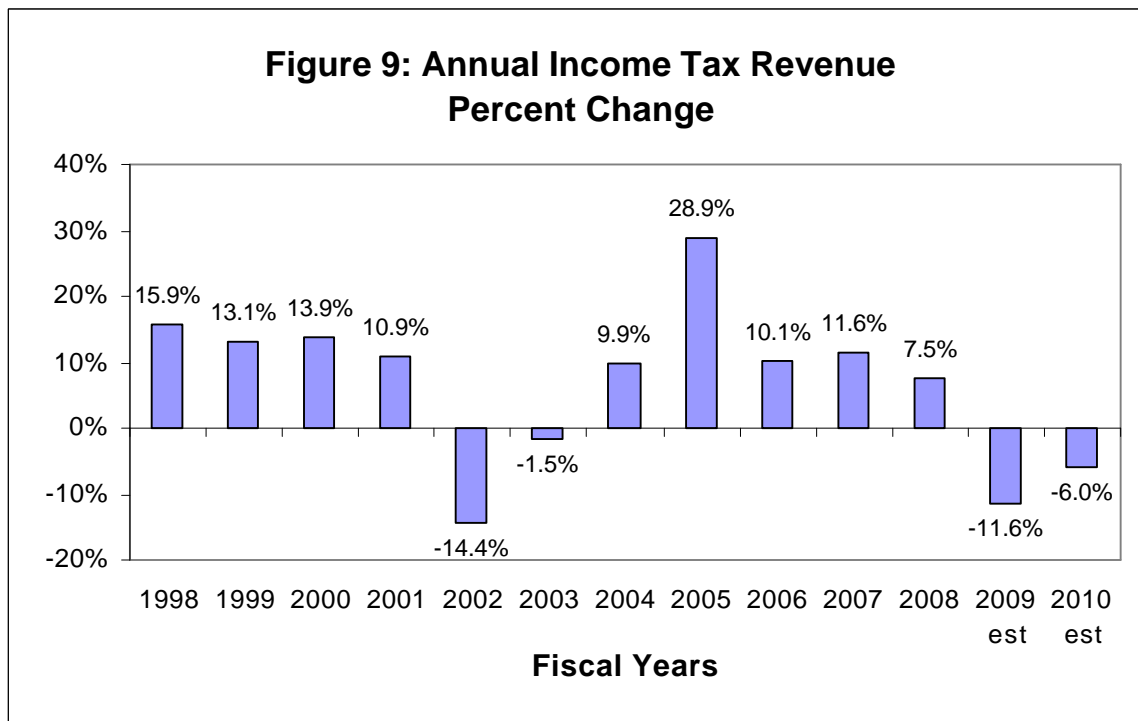
Through the end of February, GIT **withholding receipts**, primarily from wage income, are down 4.6% from the same period last year. Given the current labor market trends, the OLS expects withholding to weaken further for the remainder of FY 2009, stabilize in early FY 2010 and turn slightly positive by the end of FY 2010. Withholding typically accounts for more than two-thirds of annual GIT collections.



Quarterly estimated payments are down 15.3% so far this year, indicating that taxpayers with significant sources of non-wage income, such as capital gains, dividends, and partnership income, are anticipating lower tax liabilities. The OLS expects this decline to continue well into the next fiscal year. Moreover, declining estimated payments have historically signaled similar declines in final payments, which are due on April 15 for the prior tax year. Accordingly, the OLS projects final payments, which are processed in April and May, to also fall by about 15% this year and by another 10% next year. These projections for estimated and final payments are consistent with the patterns seen during the FY 2002 and FY 2003 GIT declines.

Lastly, GIT refund payments are up by 10.8% through the end of February, another indication that taxpayer liabilities are down, as filers claim refunds for overpayments made during 2008. The OLS expects continued growth in refund payments for the remainder of FY 2009, with some moderation in FY 2010.

In addition to these baseline GIT revenues, the Executive is also proposing a one-year tax change affecting high-income taxpayers, generating an estimated \$788.0 million in FY 2010. For comparison purposes, the OLS accepts the Executive's estimate of \$788.0 million in tax policy changes. However, that amount is not included in Figure 8 or Figure 9 in order to better display the projected impact of economic conditions on the GIT.



Other Selected Revenues

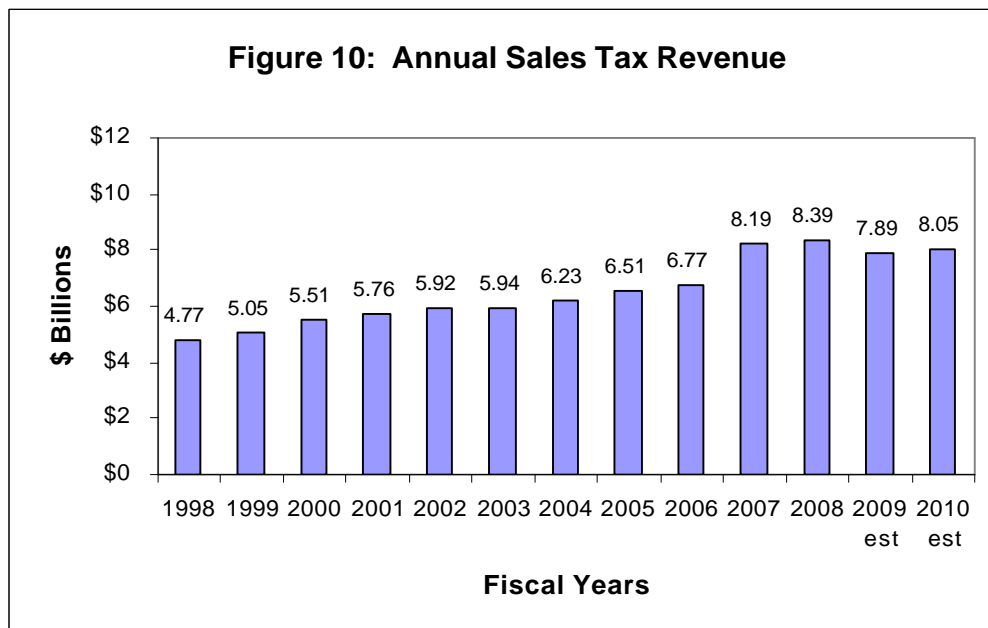
Sales Tax

New Jersey sales tax collections are facing an unprecedented decline in FY 2009. The Executive has revised the estimate downward by \$653.0 million to \$7.925 billion, a 5.6% drop from FY 2008. Since the inception of this tax some 40 years ago, the only year with a greater revenue decline was FY 1993, when revenues fell by 9.6% following a 14% reduction in the tax rate. For FY 2010, the Executive estimates \$8.085 billion, growth of only 2.0%. Based on current collection trends, **the OLS is slightly more cautious about sales tax revenues, projecting \$7.885 billion in FY 2009 and \$8.045 billion in FY 2010, \$40.0 million less than the Executive each year.**

The collapse of sales tax collections in the second quarter of FY 2009 was remarkable. During the most important sales tax period of the year, when consumers do their holiday shopping, **second quarter receipts fell 11.7%, the worst quarter in sales tax history**, including the tax rate decrease of FY 1993. According to the Rockefeller Institute survey, 35 of the 45 states imposing a sales tax reported declines for that same quarter.

Sales tax revenue is driven by purchases of autos, durable goods, electronics, and furnishings by households and firms. The most recent *New Jersey Economic Indicators* publication (New Jersey Department of Labor and Workforce Development) reports that national year-to-year retail sales were down 9.8% in December, and auto dealer sales were off 24.6%. Building permits fell to historic lows at the end of 2008, half the level of one year earlier. The Conference Board's Consumer Confidence Index fell nearly 60% in 2008 for the Middle Atlantic Region. Consumers retrenched significantly in 2008, and a gradual recovery in sales tax revenue will require an improvement in consumer spending.

Early collections data for the third quarter, while somewhat better than the dismal second quarter, remain at historically weak levels. If consumer spending remains depressed, further downward revisions to sales tax revenue estimates are possible.



Corporation Business Tax

In Fiscal Years 2006, 2007, and 2008 the Executive initially projected significant declines in corporation business tax (CBT) revenue. Nevertheless, each year this revenue remained stable or grew and the estimates were ultimately revised upward.

Estimates for FY 2009 have broken dramatically with the recent pattern. While CBT collections actually grew by 2.8% in the first quarter of FY 2009, second quarter revenues plummeted by 24.0% and subsequent months have continued to fall. Indeed, for perhaps the first time in the State's history, total CBT refunds for January and February combined exceeded total CBT payments – the CBT actually paid out \$45.1 million more in those two months than it took in. Through the end of February, CBT collections are now down 26.7% below the same period last year.

Accordingly, the Executive estimates a significant drop in collections for FY 2009 and again in FY 2010. FY 2009 Executive estimates have been reduced to \$2.35 billion, a drop of \$320 million below the \$2.67 billion certified last June, and 21.7% below FY 2008. The FY 2010 CBT estimate of \$2.03 billion assumes a further decline of 13.6% from FY 2009.

The OLS, based on the most recent receipts, believes that collections will be even lower than does the Executive. The OLS estimates \$2.20 billion in FY 2009, \$150.0 million less than the Executive, and \$2.00 billion in FY 2010, \$30.0 million less than the Executive.

The CBT is historically one of the most volatile revenues sources, and one of the most difficult to project. Annual estimates of corporate profits do not directly correlate with the payments corporations send the State. Tax receipts in each fiscal year include a mixture of payments, adjustments, refunds,

and credits from a number of different tax years.

Realty Transfer Fees and Taxes

The national real estate market is in the midst of a multi-year downturn that has affected not only realty transfer fee and tax revenues directly, but economic activity, financial institutions, and the stock markets. Home resales and new home construction are down, prices have fallen, and foreclosures are up. Through the end of February, realty transfer revenue collections are down 37.9% in FY 2009, following an 18.6% drop in FY 2008 and a 14.3% drop in FY 2007. The Executive has reduced FY 2009 revenue estimates to \$260.0 million, 18.9% below last year, and projects \$234.0 million in FY 2010, another 10.0% drop.

The OLS projects even lower realty transfer revenues of \$210.0 million in FY 2009, \$50.0 million below the Executive estimate, and \$210 million in FY 2010, \$24.0 million below the Executive. In addition, the OLS estimates that revenues from the assessment on sales of property valued at over \$1.0 million will be lower than the Executive estimates by \$11.1 million in FY 2009 and by \$10.0 million in FY 2010.

The Cigarette Tax

Cigarette tax collections have been accruing roughly as anticipated in the FY 2009 Appropriations Act. The Executive now forecasts that on-budget FY 2009 cigarette tax collections will be \$236.8 million after depositing the requisite sums in the off-budget Health Care Subsidy Fund and the off-budget Dedicated Cigarette Tax Revenue Fund. **The OLS concurs with the FY 2009 forecast.**

For FY 2010, the Executive projects on-budget cigarette tax collections of \$255.3

million. The projected \$18.5 million increase over FY 2009 reflects the net impact of a 2.9% consumption decline in line with long-term trends, and a \$26.5 million net revenue gain from the proposed 12.5¢ State cigarette tax increase from \$2.575 per pack to \$2.70.

The OLS projects \$230 million in FY 2010 on-budget cigarette tax revenue, \$25.3 million less than the Executive. Alternative calculations for the impact of the 62¢ increase in the federal excise tax per pack of cigarettes effective April 1, 2009 account for the difference. The OLS builds an additional 3.7% consumption decline into its FY 2010 estimate, to account for the higher federal tax.

Motor Fuels and Petroleum Revenues

The Executive is projecting \$542.6 million from the motor fuels tax in FY 2009, down 3.7% from the prior year. The FY 2010 estimate is \$553.4 million, up 2.0%. However, this revenue is down 4.9% through the end of February, so the OLS estimates \$535.0 million in FY 2009, \$7.6 million less than the Executive, and \$540.0 million in FY 2010, \$13.4 million less. Over the last two years, fuel consumption appears to be more responsive to economic activity than fuel prices.

Likewise, the OLS is projecting slightly lower revenues from the petroleum products tax. In FY 2009, this revenue is running 3.8% below last year. The Executive estimates \$224.4

million this year, down 2.7% from last year, and estimates \$228.9 million in FY 2010, growth of 2.0%. The OLS projects \$220.0 million in FY 2009, \$4.4 million less than the Executive, and \$222.0 million in FY 2010, \$6.9 million less than the Executive. These are not significant differences, but rather a slightly more cautious reading of current collections trends.

Insurance Premiums Tax

For FY 2009, the Executive estimates \$466.0 million from the insurance premiums tax, increasing by 2.0% in FY 2010 to \$475.3 million. The first significant payments from this tax occurred in February and early March, and appear to be down by more than 15.0% from last year. Based on these weak collections, the OLS forecasts \$455.0 million in FY 2009 and \$464.0 million in FY 2010, about \$11.0 million less in each year.

Alcoholic Beverage Tax

The Executive is proposing an increase of 25% in the tax rate on alcoholic beverages, excluding beer. The OLS accepts the estimated \$22.0 million revenue gain from this rate increase for comparison purposes. The OLS agrees with the Executive's estimate of \$93.8 million in FY 2009 and \$117.3 million in FY 2010.

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Detailed Fiscal Year 2009 Revenue Estimates				
<i>Millions of \$</i>				
<u>Revenue Source</u>	<u>Appropriations Act (June 2008)</u>	<u>Executive Revised</u>	<u>OLS</u>	<u>Diff: OLS - Executive</u>
Major Taxes:				
Sales Tax, Total	\$8,453.0	\$7,812.3	\$7,772.3	-\$40.0
<i>Sales Tax, Base</i>	8,578.0	7,925.0	7,885.0	-40.0
<i>Dedicated Transfer to PTRF</i>	-683.0	-636.0	-636.0	0.0
<i>Sales Tax, Energy</i>	558.0	523.3	523.3	0.0
Corporation Business Tax, Total	\$2,811.6	\$2,442.3	\$2,292.3	-\$150.0
<i>Corporation Business Tax, Base</i>	2,670.0	2,350.0	2,200.0	-150.0
<i>Corporation Business Tax, Energy</i>	141.6	92.3	92.3	0.0
Inheritance Taxes	671.9	671.9	671.9	0.0
Motor Fuels Tax	557.8	542.6	535.0	-7.6
Insurance Premiums Tax	446.6	466.0	455.0	-11.0
Realty Transfer Fee	352.7	260.0	210.0	-50.0
Motor Vehicle Fees	391.7	380.5	380.5	0.0
Cigarette Tax	234.4	236.8	236.8	0.0
Petroleum Products Gross Receipts Tax	229.8	224.4	220.0	-4.4
Corporation Business - Banks and Financial	86.4	54.6	54.6	0.0
Alcoholic Beverage Excise Tax	93.3	93.8	93.8	0.0
Tobacco Products Wholesale	16.9	13.9	13.9	0.0
Public Utilities Excise	10.8	12.2	12.2	0.0
Subtotal, Major Taxes	\$14,356.9	\$13,211.2	\$12,948.3	-\$263.0
Misc. Taxes, Fees and Revenues				
Assessment on Property Sold Over \$1 Million	122.5	91.1	80.0	-11.1
Transitional Energy Facility Assessment	245.7	234.5	234.5	0.0
Public Utility Taxes (State Retention)	87.2	87.6	87.6	0.0
Medicaid Uncomp. Care Reimbursement	454.8	493.0	493.0	0.0
Telephone Assessment	129.0	132.0	132.0	0.0
Hotel Occupancy Tax	90.0	80.0	80.0	0.0
Federal Stabilization	0.0	250.0	250.0	0.0
Interdepartmental Accounts	599.2	555.6	555.6	0.0
Other	1,031.6	1,030.7	1,030.7	0.0
Subtotal, Misc. Revenues	\$2,760.0	\$2,954.5	\$2,943.4	-\$11.1
Interfund Transfers				
State Lottery Fund	888.0	888.0	888.0	0.0
Unclaimed Personal Property Trust Fund	158.0	106.5	106.5	0.0
State Disability Fund General Account	29.2	79.8	79.8	0.0
Tobacco Settlement/Securitization	62.1	68.4	68.4	0.0
Other	240.7	344.6	344.6	0.0
Subtotal, Interfund Transfers	\$1,378.0	\$1,487.3	\$1,487.3	\$0.0
TOTAL GENERAL FUND	\$18,494.9	\$17,653.1	\$17,379.0	-\$274.1
Property Tax Relief Fund (Income Tax)	\$12,700.0	\$11,249.0	\$11,140.0	-\$109.0
<i>PTRF Transfer from GF (Sales Tax)</i>	\$683.0	\$636.0	\$636.0	\$0.0
Casino Revenue Fund	\$414.8	\$366.3	\$366.3	\$0.0
Casino Control Fund	\$75.1	\$74.9	\$74.9	\$0.0
Gubernatorial Elections Fund	\$0.7	\$0.7	\$0.7	\$0.0
GRAND TOTAL, ALL FUNDS	\$32,368.5	\$29,980.0	\$29,596.9	-\$383.1

Detailed Fiscal Year 2010 Revenue Estimates					
<i>Millions of \$</i>					
<u>Revenue Source</u>	<u>March 2009 Gov's Budget</u>	<u>GBM % Change</u>	<u>April 2009 OLS Original</u>	<u>OLS % Change</u>	<u>Diff: OLS - Executive</u>
Major Taxes:					
Sales Tax, Total	\$8,063.2	3.2%	\$8,023.2	3.2%	-\$40.0
<i>Sales Tax, Base</i>	8,085.0	2.0%	8,045.0	2.0%	-40.0
<i>Dedicated Transfer to PTRF</i>	-649.0		-649.0		
<i>Sales Tax, Energy</i>	627.2	19.9%	627.2	19.9%	0.0
Corporation Business Tax, Total	\$2,141.5	-12.3%	\$2,111.5	-7.9%	-\$30.0
<i>Corporation Business Tax, Base*</i>	2,030.0	-13.6%	2,000.0	-9.1%	-30.0
<i>Corporation Business Tax, Energy</i>	111.5	20.8%	111.5	20.8%	0.0
Inheritance Taxes	671.9	0.0%	640.0	-4.7%	-31.9
Motor Fuels Tax	553.4	2.0%	540.0	0.9%	-13.4
Insurance Premiums Tax	475.3	2.0%	464.0	2.0%	-11.3
Realty Transfer Fee	234.0	-10.0%	210.0	0.0%	-24.0
Motor Vehicle Fees	400.1	5.2%	400.1	5.2%	0.0
Cigarette Tax*	255.3	7.8%	230.0	-2.9%	-25.3
Petroleum Products Gross Receipts Tax	228.9	2.0%	222.0	0.9%	-6.9
Corporation Business - Banks and Financial	54.6	0.0%	54.6	0.0%	0.0
Alcoholic Beverage Excise Tax*	117.3	25.1%	117.3	25.1%	0.0
Tobacco Products Wholesale	14.2	2.2%	14.2	2.2%	0.0
Public Utilities Excise	12.2	0.0%	12.2	0.0%	0.0
Subtotal, Major Taxes	\$13,221.8	0.1%	\$13,039.1	0.7%	-\$182.7
Misc. Taxes, Fees and Revenues					
Assessment on Property Sold Over \$1 Million	82.0	-10.0%	72.0	-10.0%	-10.0
Transitional Energy Facility Assessment	239.7	2.2%	239.7	2.2%	0.0
Public Utility Taxes (State Retention)	87.6	0.0%	87.6	0.0%	0.0
Medicaid Uncomp. Care Reimbursement	490.3	-0.5%	490.3	-0.5%	0.0
Telephone Assessment	137.0	3.8%	137.0	3.8%	0.0
Hotel Occupancy Tax	85.0	6.3%	85.0	6.3%	0.0
Federal Stabilization	0.0	-100.0%	0.0	-100.0%	0.0
Interdepartmental Accounts	573.4	3.2%	573.4	3.2%	0.0
Other	905.8	-12.1%	905.8	-12.1%	0.0
Subtotal, Misc. Revenues	\$2,600.8	-12.0%	\$2,590.8	-12.0%	-\$10.0
Interfund Transfers					
State Lottery Fund	928.8	4.6%	928.8	4.6%	0.0
Unclaimed Personal Property Trust Fund	101.0	-5.2%	101.0	-5.2%	0.0
State Disability Fund General Account	79.5	-0.4%	79.5	-0.4%	0.0
Tobacco Settlement/Securitization	63.8	-6.7%	63.8	-6.7%	0.0
Other	285.9	-17.0%	285.9	-17.0%	0.0
Subtotal, Interfund Transfers	\$1,459.1	-1.9%	\$1,459.1	-1.9%	\$0.0
TOTAL GENERAL FUND	\$17,281.7	-2.1%	\$17,089.0	-1.7%	-\$192.7
Property Tax Relief Fund (Income Tax), Total					
<i>Tax Changes</i>	\$788.0		\$788.0		
<i>PTRF Transfer from GF (Sales Tax)</i>	\$649.0		\$649.0		
Casino Revenue Fund	\$351.8	-4.0%	\$351.8	-4.0%	\$0.0
Casino Control Fund	\$70.1	-6.4%	\$70.1	-6.4%	\$0.0
Gubernatorial Elections Fund	\$0.7	0.0%	\$0.7	0.0%	\$0.0
GRAND TOTAL, ALL FUNDS	\$29,641.3	-1.1%	\$29,418.6	-0.6%	-\$222.7

* Corporation business tax, cigarette tax, and alcoholic beverage excise tax include Executive proposed tax changes.

Executive Tax Policy Changes Requiring Legislation

The table below summarizes the Executive's tax policy changes for FY 2010 that require legislation. This information reflects the Executive's adjusted proposals, released after the initial Governor's Budget Message. On March 10, 2009, the Executive's tax policy changes included a lesser increase in the top marginal gross income tax rate to 9.75% and the elimination of the property tax deduction for all non-senior filers. Subsequently, the Executive revised these two one-year proposals as displayed in the table.

The OLS believes the Executive's estimates are reasonable and adopts the specific amounts for the purposes of comparing total revenues within this report. Legislation has not yet been introduced. Future OLS Fiscal Notes analyzing the specific bills implementing these policy proposals may present different amounts than shown in this report.

FY 2010 Executive Proposed Tax Policy Changes Requiring Legislation		
<i>\$ in Millions</i>		
Tax Change	Description	Estimated Amount
Gross Income Tax -- One year rate increase for incomes over \$500,000	Top marginal tax rate would increase from 8.97% to 10.25% for Tax Year 2009.	\$620.0
Gross Income Tax -- One year suspension of property tax deduction for incomes over \$150,000	Filers with income over \$150,000 would not be able to claim the property tax deduction for Tax Year 2009.	\$160.0
Gross Income Tax -- Apply tax to lottery winnings above \$10,000	Any lottery prize winning amount greater than \$10,000 would be subject to NJ gross income tax.	\$8.0
Corporation Business Tax -- extend 4% surcharge	This surcharge was to expire, but would be continued.	\$80.0
Cigarette Tax -- Increase rate	A 12.5 cents increase in the tax rate, from \$2.575 to \$2.70 per pack.	\$26.0
Alcohol Beverage Tax -- Increase rate	A 25% increase in tax rates on alcoholic beverages, excluding beer.	\$22.0
Total		\$916.0

Revenues from Taxes on Energy Providers

Energy utilities are subject to the sales and use tax, the corporation business tax (CBT) and the transitional energy facility assessment (TEFA), a tax intended to phase out over time. Telecommunications utilities are subject to the CBT. The revenues are divided into two categories: **municipal use**, which are "off budget" and **State use**, which are "on budget."

Figure A displays public utility revenues between FY 1991 and FY 2010. Collections through FY 1997 were under the old public utility tax system. Since FY 1998, taxes have been collected under the current law. Figures B through D display the actual and anticipated revenues between FY 2008 and FY 2010 in greater detail.

From a budgeting perspective, the municipal use tax revenues are credited to the Energy Tax Receipts Property Tax Relief Fund (ETR Fund), and allocated to municipalities under a statutory formula. These amounts, considered "off budget," are not included in either the anticipated Schedule 1 revenues or the amount of State aid appropriated in the

annual appropriations act. This amount has stabilized at \$788.5 million annually since FY 2005.

After allocating \$788.5 million to the ETR Fund, the remaining revenues come "on budget" for use in the State General Fund. Some of this on budget portion is the TEFA, which was originally scheduled to end in FY 2002. However, P.L.2001, c.433, P.L.2006, c.40, and P.L.2008, c.32 extended the TEFA payments through FY 2013. The Executive estimates TEFA payments of \$230.9 million in FY 2009 and \$237.9 million in FY 2010.

The portion of energy revenue from the CBT and the sales tax not allocated to the ETR Fund has grown significantly, rising from \$72.2 million in FY 2005 to an expected \$738.7 million by FY 2010. Economic growth and the 2006 sales tax rate increase have contributed to this rise. Total "on budget" collections from energy and utility sources are estimated at \$946.2 million in FY 2009 and \$1.076 billion in FY 2010, up from \$400.2 million in FY 2005.

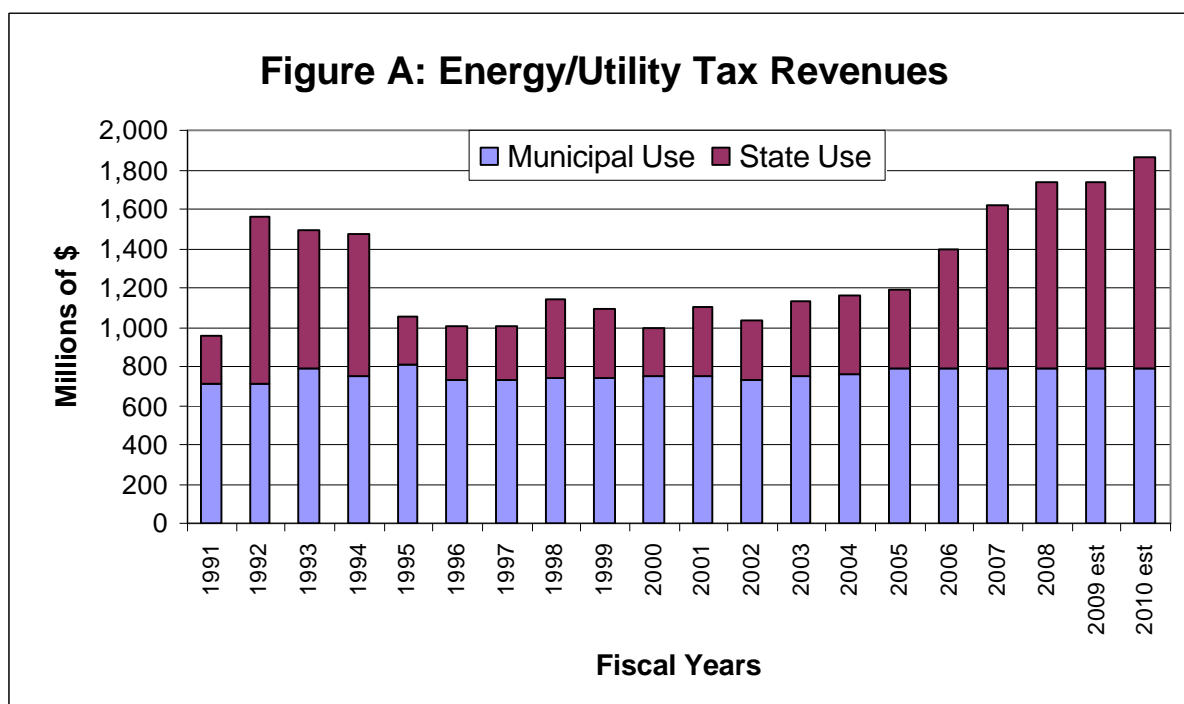


Figure B
Actual Energy/Utility Tax Revenue Fiscal Year 2008
Millions of \$

<u>Revenue Source</u>	<u>On-Budget (State Use)</u>	<u>Off-Budget (Municipal Use)</u>	<u>Total</u>
Sales and Use Tax	\$520.9	\$653.8	\$1,174.7
Corporation Business Tax	\$69.8	\$134.7	\$204.5
Transitional Energy Facilities Assessment (TEFA)	\$257.2		\$257.2
Franchise and Gross Receipts Tax			
Water and Sewer Utilities	\$87.6		\$87.6
Public Utility Excise Tax Water and Sewer Utilities	\$12.2		\$12.2
Total	\$947.7	\$788.5	\$1,736.2

Source: Department of Treasury, March 2009.

Figure C
Anticipated Energy/Utility Tax Revenue Fiscal Year 2009
Millions of \$

<u>Revenue Source</u>	<u>On-Budget (State Use)</u>	<u>Off-Budget (Municipal Use)</u>	<u>Total</u>
Sales and Use Tax	\$523.3	\$677.1	\$1,200.4
Corporation Business Tax	\$92.3	\$111.4	\$203.7
Transitional Energy Facilities Assessment (TEFA)	\$230.9		\$230.9
Franchise and Gross Receipts Tax			
Water and Sewer Utilities	\$87.5		\$87.5
Public Utility Excise Tax Water and Sewer Utilities	\$12.2		\$12.2
Total	\$946.2	\$788.5	\$1,734.7

Source: Department of Treasury, March 2009.

Figure D
Anticipated Energy/Utility Tax Revenue Fiscal Year 2010
Millions of \$

<u>Revenue Source</u>	<u>On-Budget (State Use)</u>	<u>Off-Budget (Municipal Use)</u>	<u>Total</u>
Sales and Use Tax	\$627.2	\$677.1	\$1,304.3
Corporation Business Tax	\$111.5	\$111.4	\$222.9
Transitional Energy Facilities Assessment (TEFA)	\$237.9		\$237.9
Franchise and Gross Receipts Tax			
Water and Sewer Utilities	\$87.5		\$87.5
Public Utility Excise Tax Water and Sewer Utilities	\$12.2		\$12.2
Total	\$1,076.3	\$788.5	\$1,864.8

Source: Department of Treasury, March 2009.

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Individuals wishing information and committee schedules on the FY 2010 budget are encouraged to contact:

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