

ANALYSIS OF THE NEW JERSEY BUDGET

**TAX AND
REVENUE OUTLOOK**

FISCAL YEAR

2010 - 2011

NEW JERSEY STATE LEGISLATURE

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The FY 2010 and FY 2011 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 2011 appropriations bill. The OLS revenue estimates rely on a review of current State revenue collections, enacted and proposed revisions to statutory law, historical revenue collection patterns, a variety of economic data and forecasts and professional judgment.

The OLS projects that FY 2010 and FY 2011 revenues will be \$249.4 million less than the estimates in the FY 2011 Governor's Budget Recommendation. Specifically:

- For FY 2010, the OLS revenue estimates are \$81.7 million below the Executive budget estimates (page 6).
- For FY 2011, the OLS revenue estimates are \$167.7 million below the Executive budget estimates (page 7).

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State Revenues: Historic Declines

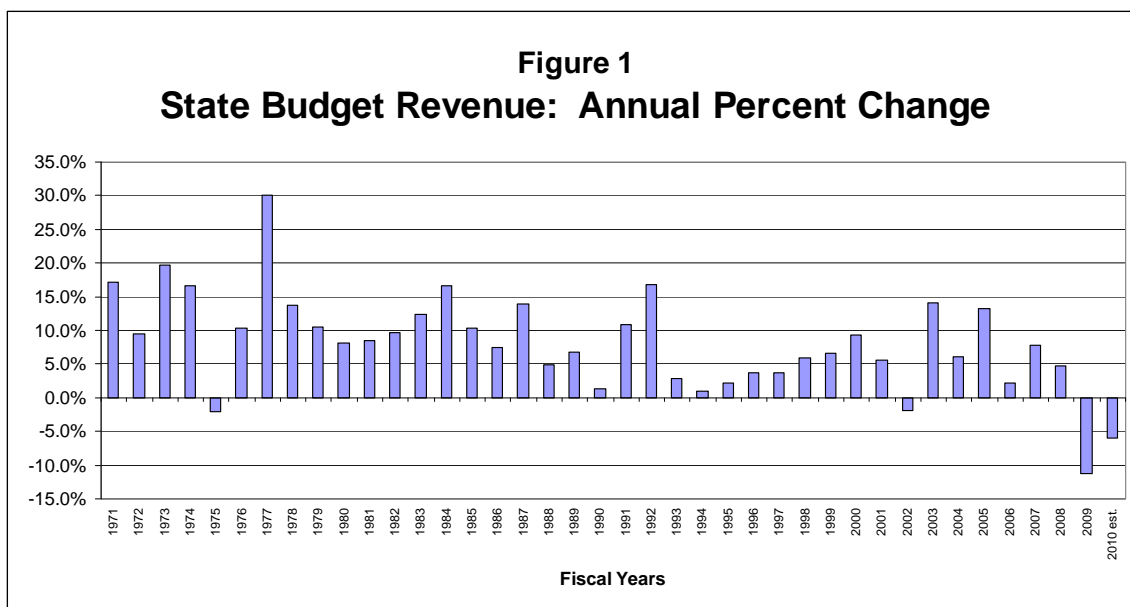
Last year and this year saw New Jersey State tax revenues decline by the largest percentages in modern history. As **Figure 1 shows, FY 2009 State budget revenues dropped by 11.2% and FY 2010 revenues fell by an additional 6.1%, the two worst years in the last four decades.** The declines would have been even greater except for a \$748.9 million Tax Amnesty collection in FY 2009 and a temporary one-year income tax increase worth an estimated \$1.0 billion in FY 2010. The only other State revenue declines during this period were in FY 1975 and FY 2002, each down by about 2.0%.

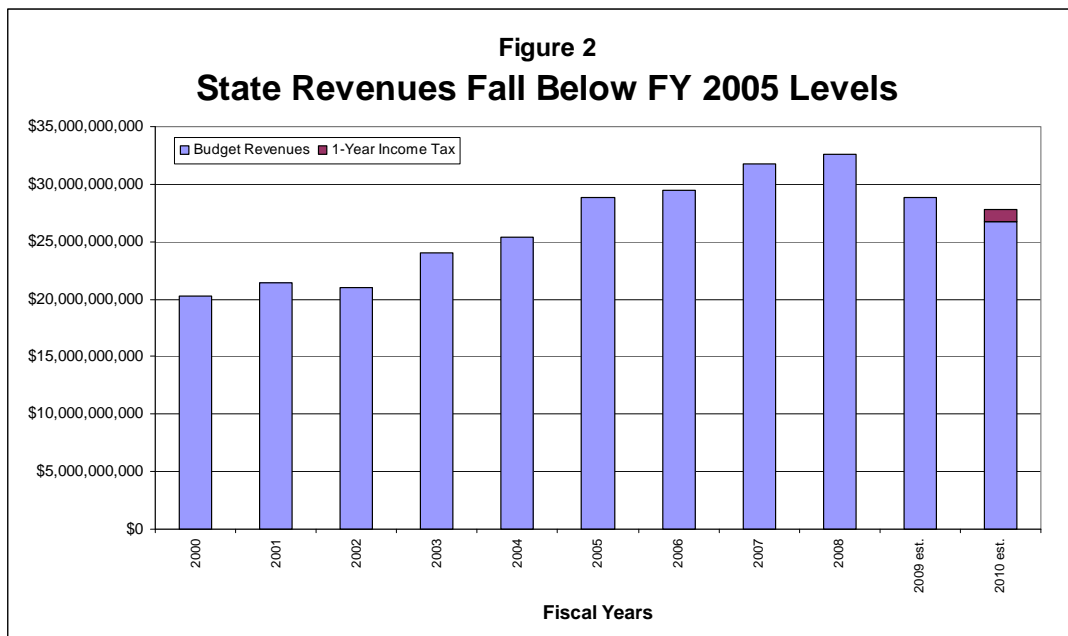
New Jersey’s sharp revenue drop was echoed in other state capitals. According to the Rockefeller Institute of Government, the three quarters beginning in January 2009 and ending in September 2009 were the worst for state government revenue collections in more than five decades. Compared to the same quarter in 2008, total state revenues fell by 11.6% in the first quarter of 2009, by 16.4% in the second quarter of 2009, and by 10.9% in the third quarter. State revenues in the

fourth quarter of 2009 (the most recent quarter with national data available) continued to decline, but by a less dire 4.1% from the fourth quarter of 2008.

The United States entered what has been referred to as the “Great Recession” in December of 2008, according to the National Bureau of Economic Research (NBER), a private, nonpartisan research group. While some analysts believe the recession may have ended in the summer of 2009, there has not yet been an official determination made by the NBER.

National economic data during the Great Recession has been grim. The U.S. lost 8.4 million jobs since the beginning of the recession. Annual retail sales are off 7.8% since 2007. National building permits for new privately owned housing units are down 73.4% since the peak in 2005. The Standard and Poor’s 500 Index value is down 25% from its peak in October of 2007, which is an improvement from the 56% plunge at the low point of 2009.





New Jersey’s poor economic conditions mimic the national picture. Employment is down 5.6% from the December 2007 peak, a loss of about 228,300 jobs. The unemployment rate is up from about 4.2% through most of 2007 to 9.8% in February 2010. New vehicle registrations are down by about one-third in the last two years. The state housing market is in a five-year slump in which private dwelling building permits are down more than 70% since the peak in 2005. Housing values in New Jersey fell 18% between 2006 and the low point in early 2009, before rebounding somewhat since then.

Reflecting the downbeat economic news, nearly all major State tax revenues have dropped, many to levels not seen in several years. **Figure 2** shows total State revenues having slumped below FY 2005 levels in FY 2009 and FY 2010, notwithstanding a temporary one year gross income tax change estimated to yield about \$1.0 billion for FY

2010. Gross income tax revenues, the state’s single largest revenue, are below FY 2006 collections. Sales tax revenues are down below FY 2007 levels. Corporation business tax revenue has slipped below the FY 2003 level. Inheritance tax revenues approximate FY 2003 levels. Realty transfer fee revenues have plummeted to less than amounts collected in FY 2004. Years of revenue growth have evaporated.

The period of economic recovery required to produce earlier collection levels is uncertain. The Rockefeller Institute estimates that in a “normal” recovery, states would need between three to five years to return to the prior peak. A slow-growth recovery, which many analysts expect, would take even longer. In New Jersey, if tax revenue were to return to the average long-term growth of about 5.0% annually, it would take until FY 2014 to return to the FY 2008 State revenue peak.

FY 2010 Revenue Snapshot

Eight months into FY 2010, most State tax revenues are performing below last year's levels. In particular, the "Big Three" revenues – the gross income tax, the sales tax, and the corporation business tax – are all lagging last year's pace through the end of February, as shown in **Figure 3**, below.

Figure 4, on the next page, displays details for most major tax revenues for FY 2010 through the end of February. March revenues were not available as this report was being printed. (Monthly *OLS Revenue Snapshots* are posted

at the following Legislative web address: <http://www.njleg.state.nj.us/legislativepub/snapsnot.asp>). The gross income tax is down 3.1% so far this year compared to the same point in FY 2009, sales tax revenues are down 4.6%, corporation business tax revenues by 13.8%, realty transfer fees by 20.6%, casino taxes by 16.9%, and transfer inheritance tax revenues are declining at a 21.2% rate. Motor fuels and petroleum products taxes are also down. The March revenue figures should be available by April 15.

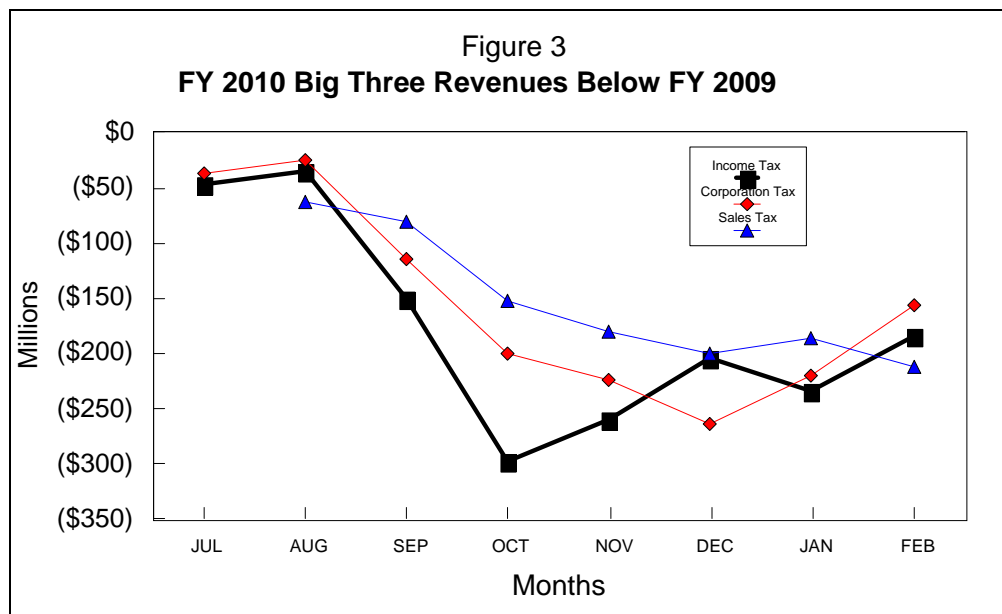


Figure 4
FY 2010 Year-To-Date
Selected Revenue Comparison
Through the End of February 2010 vs. February 2009
(\$ Millions)

	FY 2009 Actual Through Feb.	FY 2010 Actual Through Feb.	Percent Change	Executive Revised Year- End % Change
Gross Income Tax	\$5,890.7	\$5,707.5	-3.1%	0.1%
Sales Tax *	4,566.5	4,354.7	-4.6%	-0.8%
Corporation Business Tax	1,131.2	975.6	-13.8%	-8.3%
Lottery	555.2	591.0	6.4%	3.0%
Motor Fuels Tax *	316.9	313.4	-1.1%	-1.5%
Casino Tax	233.9	194.3	-16.9%	-9.7%
Inheritance Taxes	465.3	366.7	-21.2%	-20.0%
Insurance Premiums Tax	171.4	160.1	-6.6%	-1.7%
Petroleum Products *	132.2	125.8	-4.9%	-3.7%
Alcohol Excise Tax *	49.6	54.0	8.9%	13.3%
CBT -- Banks & Financials	25.7	52.6	105.0%	0.0%
Realty Transfer Fee *	130.0	103.3	-20.6%	-24.6%

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 2010 contained in the proposed FY 2011 Governor's Budget Message.

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

Fiscal Year 2010 Revenue Estimates

Figure 5
Fiscal Year 2010 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)	\$10,393.0	\$10,393.0	\$0.0	\$10,463.0	\$70.0
Sales Tax*	7,965.0	7,523.0	-442.0	7,370.0	-153.0
Corporation Business Tax*	2,224.0	2,044.0	-180.0	2,000.0	-44.0
Inheritance Taxes	645.0	506.7	-138.3	520.0	13.3
Insurance Premiums Tax	542.0	423.5	-118.5	423.5	0.0
Realty Transfer Fee	199.0	146.0	-53.0	166.3	20.3
Assessment on Prop. > \$1 Mil.	61.0	38.7	-22.3	50.0	11.3
Cigarette Tax (on-budget)	203.5	200.2	-3.3	185.0	-15.2
CBT - Banks and Financials	104.0	94.4	-9.6	110.0	15.6
Other Revenues*	6,420.2	6,350.7	-69.6	6,350.7	0.0
Grand Total, All Funds	\$28,756.7	\$27,720.2	-\$1,036.6	\$27,638.5	-\$81.7

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 5 presents the FY 2010 revenue certification from the Appropriations Act (June 2009), the Executive's revisions as presented in the March 2010 Governor's Budget Message (GBM), and the OLS forecast. Highlights of the revenue estimates include:

Executive

- Revised estimates for total revenues are down by \$1.04 billion from the level certified in the FY 2010 Appropriations Act.
- The estimate for the gross income tax is unchanged from the certified level.
- The estimate for the sales tax is down \$442.0 million.
- The estimate for the corporation business tax is down \$180.0 million.
- The estimates for all other revenues are down by a combined \$414.6 million.

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- The total revenue estimate for FY 2010 is **\$81.7 million below** the Executive's revised projection.
- The estimate for the income tax is \$70.0 million above the Executive's.
- The estimate for the sales tax is \$153.0 million below the Executive's.
- The estimate for the corporation business tax is \$44.0 million below the Executive's.
- The estimates for all other revenues are \$45.3 million above the Executive's.

Fiscal Year 2011 Revenue Estimates

Figure 6
Fiscal Year 2011 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)	\$9,945.1	-4.3%	\$10,000.0	-4.4%	\$54.9
Sales Tax*	7,855.0	4.4%	7,695.0	4.4%	-160.0
Corporation Business Tax*	2,145.0	4.9%	2,200.0	10.0%	55.0
Inheritance Taxes	583.1	15.1%	575.0	10.6%	-8.1
Insurance Premiums Tax	478.0	12.9%	450.0	6.3%	-28.0
Realty Transfer Fee	228.9	56.8%	200.0	20.3%	-28.9
Assessment on Prop. > \$1 Mil.	64.0	65.4%	64.0	28.0%	0.0
Cigarette Tax (on-budget)	200.0	-0.1%	185.0	0.0%	-15.0
CBT - Banks and Financials	164.0	73.7%	130.0	18.2%	-34.0
Other Revenues*	6,604.3	4.0%	6,600.7	3.9%	-3.6
Grand Total, All Funds	\$28,267.4	2.0%	\$28,099.7	1.7%	-\$167.7

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 2011 revenue estimates as presented in the March 2010 Governor's Budget Message and the OLS forecast. Highlights of the revenue estimates include:

Executive

- Total revenue estimates are \$547.3 million above FY 2010, a 2.0% increase.
- The baseline gross income tax estimate is down \$447.9 million, or 4.3% below FY 2010.
- The sales tax estimate is up \$332.0 million, or 4.4% over FY 2010.
- The corporation business tax estimate is up \$101.0 million, or 4.9% above FY 2010.
- All other revenue estimates are up by \$562.2 million.

Office of Legislative Services

- Total revenue estimates for FY 2011 are **\$167.7 million below** the Executive's projection.
- The income tax estimate is \$54.9 million above the Executive's.
- The sales tax estimate is \$160.0 million below the Executive's.
- The corporation business tax estimate is \$55.0 million above the Executive's.
- The OLS estimates for all other revenues are \$117.6 million below the Executive's.

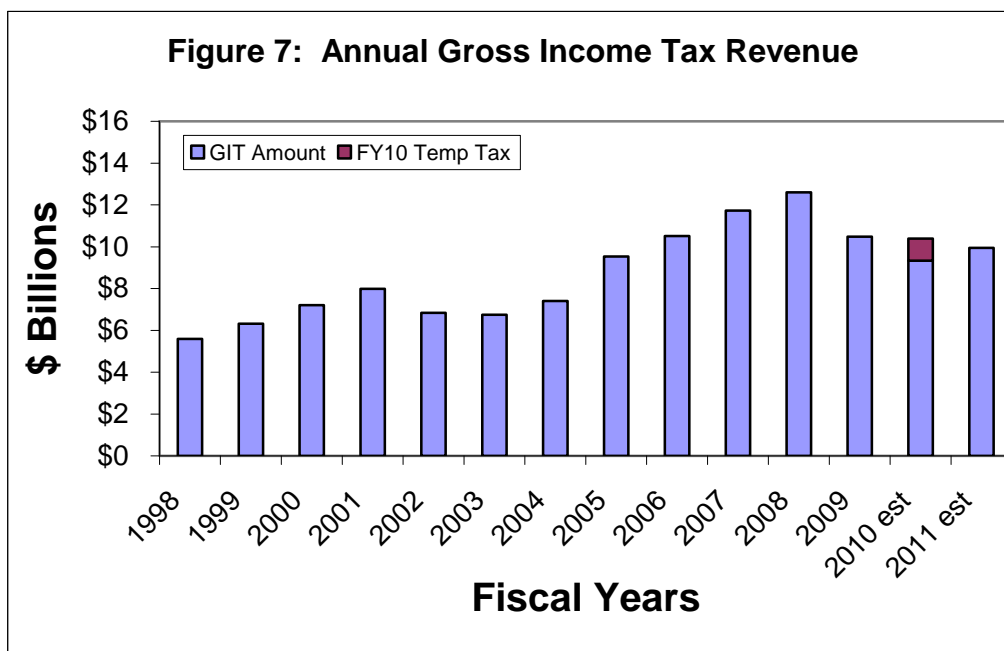
The Gross Income Tax

The Gross Income Tax (GIT) is the State's largest tax revenue, typically accounting for close to 40% of budgeted revenues. Because of its size and volatility, the GIT's results are critical to the overall revenue forecast. As **Figure 7** and **Figure 8** show, the GIT grew significantly (up 87%) between FY 2003 (\$6.74 billion) and FY 2008 (\$12.61 billion), boosted by steady economic growth, a stock market boom and a tax rate increase on taxpayers earning over \$500,000 (worth about \$1.0 billion annually). Since the peak, the GIT has plunged toward levels not seen since FY 2005.

The 16.9% decline of FY 2009 was the largest in this tax's history, and one of only four annual declines on record. FY 2010 is expected to decline further, even with a temporary one-year tax change worth an estimated \$1.0 billion, partially offset by an estimated \$300 million loss in credits for resident taxpayers subject to higher rates in New York State. **The Executive estimates \$10.393 billion in FY 2010, down 0.8% from**

FY 2009. The Executive estimates an additional decline to **\$9.945 billion in FY 2011**, as underlying growth partially offsets the expired temporary tax. When adjusting for the temporary tax, the underlying growth for FY 2011 is estimated at about 6.4%.

Collections through the end of February are down 3.1% compared to the same period last year. The recent collection pattern has been encouraging, with three of the last four months posting increases over the same month last year. Also, the bulk of the revenues from the temporary rate increase are expected to come in with the April 15 payments, so that the remainder of FY 2010 should see additional growth in the GIT. Accordingly, **the OLS estimates \$10.463 billion for FY 2010, \$70 million above the Executive estimate. The OLS estimates \$10.0 billion for FY 2011, \$54.9 million more than the Executive.** Underlying growth is estimated at about 6.2%, after adjusting for the temporary tax in FY 2010.



GIT Components

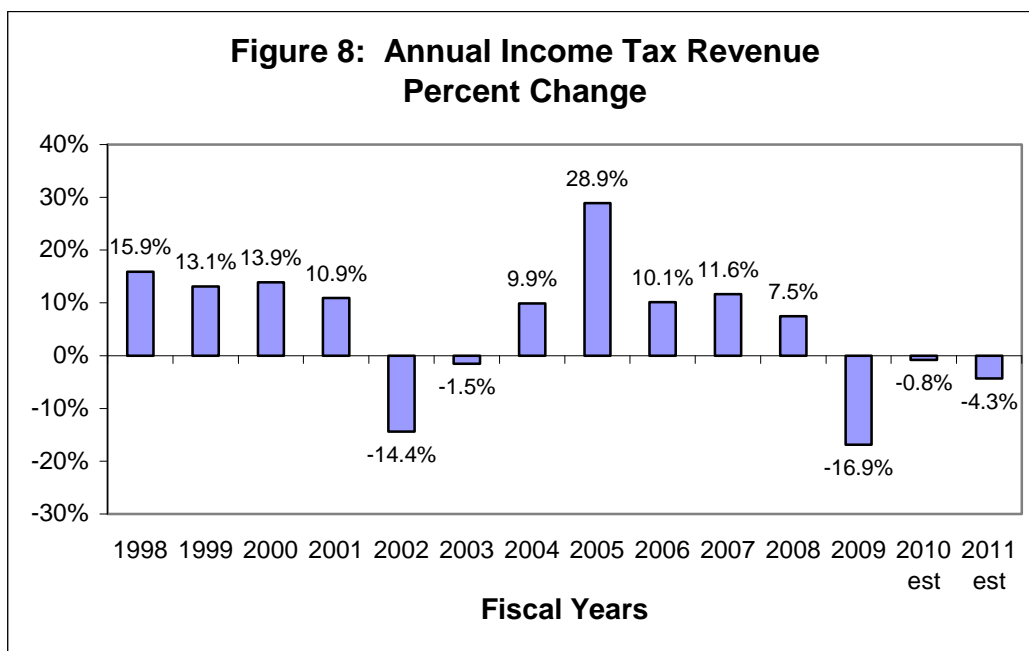
Withholding receipts, primarily from employee wages, are running even with last year through the end of February, exceeding prior OLS expectations of a 5.0% decline. **Increased projections for the overall GIT are driven largely by the improved prospects for withholding collections**, which should begin to show growth in the coming months and into next year.

Quarterly estimated payments are down 11.3% so far this year, indicating that taxpayers with significant sources of non-wage income, such as capital gains, dividends, and partnership income, have lower tax liabilities. The OLS expects this decline to reverse and assumes about 5.0% growth during next fiscal year, as the economy slowly rebounds and as non-wage income, particularly from capital gains, begins to grow again.

Normally, declining estimated payments signal declines in taxpayers **final payments** each April. The OLS believes baseline final

payments will be down, but that the impact of the temporary one-year tax increase on higher income taxpayers will yield net growth in April’s final returns. This aspect of the forecast is the most tenuous. Last year the Executive estimated about \$1.0 billion from the temporary tax and a loss of about \$300 million due to increased credits for New Jersey resident filers who work out of State and must pay higher taxes to New York State. Most of the net \$700 million should be remitted in April, but until those returns are processed by mid-May, the actual amount will be uncertain. If last year’s estimates for the temporary tax and the New York State impact are wrong, the April returns could yield either a positive or negative surprise.

As the OLS has noted in the past, the State is highly dependent on the GIT, and the GIT itself is highly dependent on non-wage income from high-income taxpayers. April is the most significant payment month of the year for these taxpayers, and that leaves a significant amount of uncertainty looming late into each fiscal year.



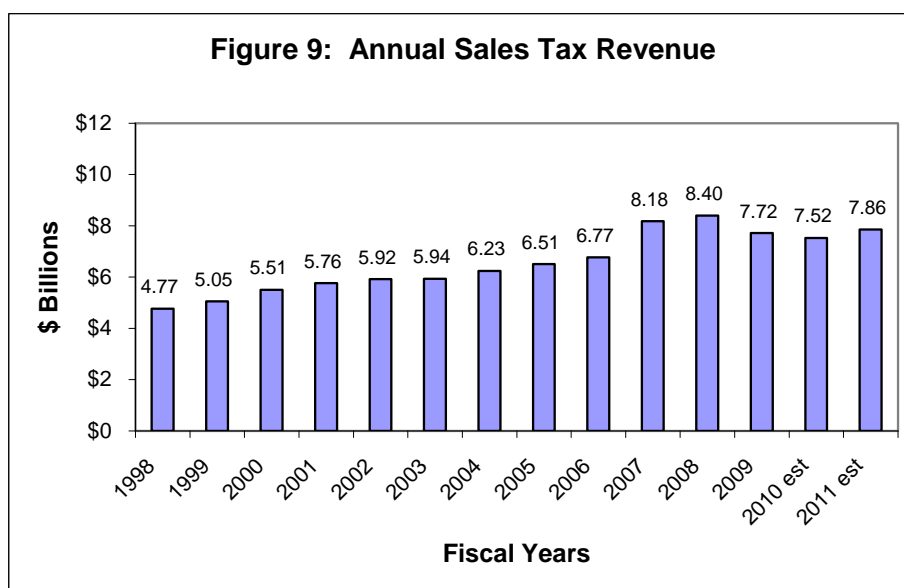
The Sales Tax

New Jersey's sales tax is mired in the greatest contraction in its history. Since its inception over 40 years ago, the annual sales tax has declined in only three years: FY 1993, when revenues fell by 9.6% following a 14% reduction in the tax rate; FY 2003, when receipts fell by 1.0% during a recession; and FY 2009 as collections dropped by 7.3% during the Great Recession. In FY 2010, the Executive estimates a fourth annual decline by 2.4% to \$7.523 billion. The Executive projects 4.4% growth in FY 2011, to \$7.855 billion (also displayed in **Figure 9**).

The scale of the sales tax collapse is unprecedented. Beginning in June of 2008 and continuing through December of 2009, sales tax collections declined for 19 consecutive months, compared to the same month in the prior year. During the worst 10 months between November 2008 and August 2009, the average monthly decline was 11.8%. Since then, monthly declines have continued, though at a less severe 3.9% average. Even the Executive's reduced FY 2010 projection of \$7.523 billion would

require significant growth of 5.1% for the remainder of the current fiscal year, a rate which the OLS believes is unlikely. For FY 2011 the Executive estimates year-over-year growth of 4.4%, which may be reasonable if recovery from the recession is underway, and also assumes the inclusion of an estimated \$65 million from the repeal of Bergen County blue laws.

Based on weak current collection trends for the sales tax, **the OLS remains very concerned, projecting \$7.370 billion in FY 2010 and \$7.695 billion in FY 2011. These OLS estimates are \$153.0 million less than the Executive for the current year and \$160.0 million less next year.** The OLS assumes the remainder of FY 2010 will see growth of 2.0%, and that underlying growth will increase modestly to 3.5% in FY 2011. In addition, the OLS accepts the estimated \$65 million in FY 2011 from changes in Bergen County blue laws, which brings total growth to 4.4%. Stronger or weaker growth is possible depending on the recovery.



Other Selected Revenues

Corporation Business Taxes

The Executive estimates a decline in corporation business tax (CBT) collections for FY 2010, followed by a modest rebound in FY 2011. The FY 2010 Executive estimate is \$2.044 billion, 8.3% below the prior year, and a drop of \$180.0 million from the \$2.224 billion certified last June. The FY 2011 CBT estimate of \$2.145 billion assumes growth of 4.9%, including the expiration of the CBT surcharge (estimated at \$80.0 million) and the elimination of certain high tech and film production tax credits (estimated at \$45.0 million).

Through the end of February, actual CBT collections are down 13.8% from last year at the same time. **Based on the most recent receipts, the OLS believes that collections will be lower than the Executive estimate. The OLS estimates \$2.0 billion in FY 2010, \$44.0 million less than the Executive. However, the OLS believes a more robust increase is possible in FY 2011 as net income rises during the economic recovery. The OLS estimates \$2.2 billion in FY 2011, \$55.0 million more than the Executive.**

The CBT is historically one of the most volatile revenues sources, and one of the most difficult to project. Public data on corporate profits do not directly correlate with CBT revenue collections. Tax receipts in each fiscal year include a mixture of payments, adjustments, refunds, and credits from a number of different tax years.

For the smaller **corporation business tax on banks and financial institutions**, the Executive estimates \$94.4 million in FY 2010 and \$164.0 million in FY 2011. This revenue is even more volatile than the larger CBT from year to year. **Based on year-to-date collections trends, the OLS estimates a slightly higher amount of \$110.0 million in**

FY 2010. However, the OLS does not anticipate the Executive's 73.7% increase for next year. While growth during the recovery is likely, the OLS estimates \$130.0 million in FY 2011, up 18.2% from the prior year.

Realty Transfer Fees and Taxes

New Jersey realty transfer fee collections suggest an end to the dramatic and protracted decline in the real estate market. While current receipts are down to only 37% of the peak level some four years ago, recent months may have reached a turning point. December 2009 and January 2010 marked the first two-month period since the summer of 2006 that year-to-year realty transfer fee collections increased.

The Executive is projecting that FY 2010 budgeted realty transfer fee collections will be \$146.0 million, 24.6% below actual FY 2009 collections, and that FY 2011 budgeted collections will be \$228.9 million, or a 56.8% increase over the Executive's FY 2010 forecast. In addition, the Executive estimates that revenues from the one percent assessment on property sales exceeding \$1 million will be \$38.7 million in FY 2010, a 41.4% drop from FY 2009, and \$64.0 million in FY 2011, a 65.4% increase over the Executive's FY 2010 estimate.

Reflecting the recent signs of revenue growth, the OLS projects higher collections in FY 2010 than the Executive for both levies on real estate transactions. **The OLS forecasts that budgeted FY 2010 realty transfer fee revenues will be \$166.3 million, \$20.3 million above the Executive estimate but still 14.1% below actual FY 2009 revenues; and that FY 2010 revenues from the one percent assessment on property sales exceeding \$1 million will reach \$50.0 million, \$11.3**

million more than the Executive but still 24.3% below FY 2009 receipts.

For FY 2011, the OLS concurs with the \$64.0 million Executive forecast for the one percent assessment, a 28.0% increase over the OLS's FY 2010 estimate. However, the OLS projects only \$200.0 million in budgeted FY 2011 realty transfer fee proceeds, \$28.9 million below the Executive forecast, but still 20.3% growth from the OLS estimate for FY 2010.

The Cigarette Tax

The cigarette tax analysis is complicated by the significant portion of this revenue being dedicated to off-budget accounts. Overall, this tax generates over \$700 million each year, but only about \$200 million is accounted for in budgeted General Fund revenues (see the appendix for a detailed display of budgeted and off-budget allocations).

This tax is being affected by three important factors: 1) a long-term national decline in sales of about 2.0% annually; 2) a large 62¢ increase in the federal excise tax per pack of cigarettes (effective April 1, 2009); and 3) a 12.5¢ State cigarette tax increase to \$2.70 per pack (effective July 1, 2009). Total cigarette tax revenues through the end of February are running about 2.1% below the same period last year, indicating that collections from the State's rate increase have been largely offset by revenue declines from the three factors.

Excluding the portion dedicated to off-budget accounts, the Executive now projects \$200.2 million in FY 2010 receipts, a 5.8% decline from FY 2009; and a virtually unchanged \$200.0 million in FY 2011. Based on current trends, **the OLS forecasts \$185.0 million in FY 2010 budgeted cigarette tax revenue; \$15.3 million less than the Executive and 12.8% less than in FY 2009.** Like the

Executive, the OLS assumes flat budgeted cigarette tax collections in FY 2011, but at the lower level of \$185.0 million, or \$15.0 million below the Executive projection.

The OLS estimate for FY 2011 reflects the recently enacted federal Prevent All Cigarette Trafficking Act (PACT Act). The act facilitates the collection of cigarette tax liabilities for online cigarette purchases and prohibits the shipment of cigarettes through the United States Postal Service (DHL, FedEx, and UPS are already refusing to ship cigarettes). The PACT Act could conceivably convert current online cigarette purchases in New Jersey (on which most residents neglect to pay State cigarette taxes) into New Jersey sales on which the tax would be collected. The OLS assumes that the State revenue gain from the PACT Act will offset the long-term trend of declining cigarette sales in FY 2011.

Motor Fuels and Petroleum Revenues

The Executive is projecting \$528.1 million from the motor fuels tax in FY 2010 and \$558.9 million in FY 2011. The FY 2011 amount includes an additional \$18 million from a modification of the tax on diesel fuels that shifts the point of collection in a manner that is expected to decrease annual collection costs. For the petroleum products tax, the Executive projections are \$212.0 million in FY 2010 and \$217.5 million in FY 2011.

The OLS believes these estimates are reasonable, given current revenue trends through the end of February, and concurs with the Executive estimates. For the purposes of this report, the OLS also accepts the estimate of \$18 million from the collection modification of the tax on diesel fuels.

Transfer Inheritance Tax

The Executive estimates \$506.7 million for the transfer inheritance tax in FY 2010, a significant drop of \$138.3 million from the \$645.0 million certified in June. Year-to-date collections through February have been down 21.2%, presumably due to declining asset values during the recession. While the OLS agrees that the certified amount will not be obtained in the current fiscal year, declines in recent months have eased. **The OLS estimates \$520.0 million for FY 2010, \$13.3 million above the Executive.**

For FY 2011, the Executive assumes a strong rebound to \$583.1 million, or 15.1% growth. The OLS estimates \$575.0 million, for 10.6% growth above FY 2010 levels.

Insurance Premiums Tax

For FY 2010, the Executive estimates \$423.5 million from the insurance premiums tax, a drop of \$118.5 million from the amount certified in June. Current collection trends for this revenue have been down sharply this year, so **the OLS concurs with the FY 2010 estimate.**

In FY 2011 the Executive estimates a strong rebound to \$478.0 million, an increase of 12.9% over FY 2010. **The OLS is more cautious with this difficult to estimate revenue, estimating \$450.0 million in FY 2011, \$28.0 million less than the Executive.**

Budgetary Impact of OLS Revenue Estimates

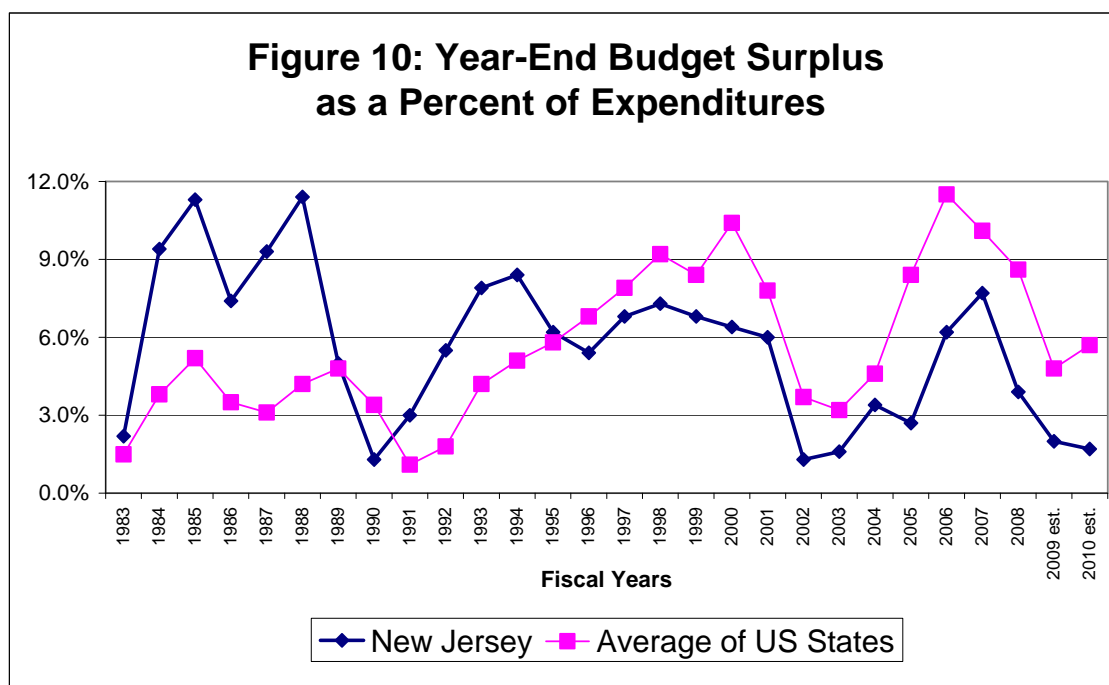
Combined over the two-year period, the OLS revenue estimates are \$249.4 million less than the Executive's – \$81.7 million less in FY 2010 and \$167.7 million less in FY 2011.

The Executive projects an FY 2011 year-end balance of \$500.9 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 balance of \$251.5 million, or about 0.8% of budgeted expenditures.**

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 10**, 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.



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Detailed Fiscal Year 2010 Revenue Estimates				
<i>Millions of \$</i>				
<u>Revenue Source</u>	<u>Appropriations Act (June 2009)</u>	<u>Executive Revised</u>	<u>OLS</u>	<u>Diff: OLS - Executive</u>
Major Taxes:				
Sales Tax, Total	\$7,939.7	\$7,480.7	\$7,327.7	-\$153.0
<i>Sales Tax, Base</i>	7,965.0	7,523.0	7,370.0	-153.0
<i>Dedicated Transfer to PTRF</i>	-639.0	-586.0	-586.0	0.0
<i>Sales Tax, Energy</i>	613.7	543.7	543.7	0.0
Corporation Business Tax, Total	\$2,336.0	\$2,175.9	\$2,131.9	-\$44.0
<i>Corporation Business Tax, Base</i>	2,224.0	2,044.0	2,000.0	-44.0
<i>Corporation Business Tax, Energy</i>	112.0	131.9	131.9	0.0
Inheritance Taxes	645.0	506.7	520.0	13.3
Motor Fuels Tax	551.0	528.1	528.1	0.0
Insurance Premiums Tax	542.0	423.5	423.5	0.0
Realty Transfer Fee	199.0	146.0	166.3	20.3
Motor Vehicle Fees	392.6	363.8	363.8	0.0
Cigarette Tax	203.5	200.2	185.0	-15.2
Petroleum Products Gross Receipts Tax	223.0	212.0	212.0	0.0
Corporation Business - Banks and Financial	104.0	94.4	110.0	15.6
Alcoholic Beverage Excise Tax	100.0	107.0	107.0	0.0
Tobacco Products Wholesale	15.0	14.5	14.5	0.0
Public Utilities Excise	12.2	12.2	12.2	0.0
Subtotal, Major Taxes	\$13,263.0	\$12,265.0	\$12,102.0	-\$163.0
Misc. Taxes, Fees and Revenues				
Assessment on Property Sold Over \$1 Million	61.0	38.7	50.0	11.3
Transitional Energy Facility Assessment	239.7	226.4	226.4	0.0
Public Utility Taxes (State Retention)	94.6	94.6	94.6	0.0
Medicaid Uncomp. Care Reimbursement	486.7	431.6	431.6	0.0
Telephone Assessment	132.0	128.0	128.0	0.0
Hotel Occupancy Tax	76.0	65.0	65.0	0.0
Human Services Misc. Revenue	1.5	155.7	155.7	0.0
Interdepartmental Accounts	559.8	545.1	545.1	0.0
Other	952.9	927.6	927.6	0.0
Subtotal, Misc. Revenues	\$2,604.2	\$2,612.7	\$2,624.0	\$11.3
Interfund Transfers				
State Lottery Fund	893.8	913.8	913.8	0.0
Unclaimed Personal Property Trust Fund	106.0	120.0	120.0	0.0
State Disability Fund General Account	104.5	104.7	104.7	0.0
Tobacco Settlement/Securitization	63.8	63.8	63.8	0.0
Enterprise Zone Assistance Fund	21.0	1.2	1.2	0.0
Global Warming Solutions Fund	0.0	0.0	0.0	0.0
Other	262.2	261.5	261.5	0.0
Subtotal, Interfund Transfers	\$1,451.4	\$1,465.0	\$1,465.0	\$0.0
TOTAL GENERAL FUND	\$17,318.6	\$16,342.8	\$16,191.1	-\$151.7
Property Tax Relief Fund (Income Tax)	\$10,393.0	\$10,393.0	\$10,463.0	\$70.0
<i>PTRF Transfer from GF (Sales Tax)</i>	<i>\$639.0</i>	<i>\$602.3</i>	<i>\$602.3</i>	<i>\$0.0</i>
Casino Revenue Fund	\$335.4	\$311.6	\$311.6	\$0.0
Casino Control Fund	\$70.0	\$69.8	\$69.8	\$0.0
Gubernatorial Elections Fund	\$0.7	\$0.7	\$0.7	\$0.0
GRAND TOTAL, ALL FUNDS	\$28,756.7	\$27,720.2	\$27,638.5	-\$81.7

Detailed Fiscal Year 2011 Revenue Estimates					
<i>Millions of \$</i>					
<u>Revenue Source</u>	<u>March 2010 Gov's Budget</u>	<u>GBM % Change</u>	<u>April 2010 OLS Original</u>	<u>OLS % Change</u>	<u>Diff: OLS - Executive</u>
Major Taxes:					
Sales Tax, Total	\$7,823.4	4.6%	\$7,663.4	4.6%	-\$160.0
<i>Sales Tax, Base</i>	7,855.0	4.4%	7,695.0	4.4%	-160.0
<i>Dedicated Transfer to PTRF</i>	-610.0		-610.0		
<i>Sales Tax, Energy</i>	578.4	6.4%	578.4	6.4%	0.0
Corporation Business Tax, Total	\$2,262.5	4.0%	\$2,317.5	8.7%	\$55.0
<i>Corporation Business Tax, Base</i>	2,145.0	4.9%	2,200.0	10.0%	55.0
<i>Corporation Business Tax, Energy</i>	117.5	-10.9%	117.5	-10.9%	0.0
Inheritance Taxes	583.1	15.1%	575.0	10.6%	-8.1
Motor Fuels Tax	558.9	5.8%	558.9	5.8%	0.0
Insurance Premiums Tax	478.0	12.9%	450.0	6.3%	-28.0
Realty Transfer Fee	228.9	56.8%	200.0	20.3%	-28.9
Motor Vehicle Fees	393.2	8.1%	393.2	8.1%	0.0
Cigarette Tax	200.0	-0.1%	185.0	0.0%	-15.0
Petroleum Products Gross Receipts Tax	217.5	2.6%	217.5	2.6%	0.0
Corporation Business - Banks and Financial	164.0	73.7%	130.0	18.2%	-34.0
Alcoholic Beverage Excise Tax	105.9	-1.0%	105.9	-1.0%	0.0
Tobacco Products Wholesale	18.7	29.0%	15.0	3.4%	-3.7
Public Utilities Excise	12.2	0.0%	12.2	0.0%	0.0
Subtotal, Major Taxes	\$13,046.4	6.4%	\$12,823.7	6.0%	-\$222.7
Misc. Taxes, Fees and Revenues					
Assessment on Property Sold Over \$1 Million	64.0	65.4%	64.0	28.0%	0.0
Transitional Energy Facility Assessment	235.8	4.2%	235.8	4.2%	0.0
Public Utility Taxes (State Retention)	94.6	0.0%	94.6	0.0%	0.0
Medicaid Uncomp. Care Reimbursement	460.2	6.6%	460.2	6.6%	0.0
Telephone Assessment	128.0	0.0%	128.0	0.0%	0.0
Hotel Occupancy Tax	74.5	14.6%	74.5	14.6%	0.0
Human Services Misc. Revenue	40.5	-74.0%	40.5	-74.0%	0.0
Interdepartmental Accounts	546.3	0.2%	546.3	0.2%	0.0
Other	992.4	7.0%	992.4	7.0%	0.0
Subtotal, Misc. Revenues	\$2,636.3	0.9%	\$2,636.3	0.5%	\$0.0
Interfund Transfers					
State Lottery Fund	953.0	4.3%	953.0	4.3%	0.0
Unclaimed Personal Property Trust Fund	202.6	68.8%	202.6	68.8%	0.0
State Disability Fund General Account	54.7	-47.8%	54.7	-47.8%	0.0
Tobacco Settlement/Securitization	55.4	-13.2%	55.4	-13.2%	0.0
Enterprise Zone Assistance Fund	92.9	7641.7%	92.9	7641.7%	0.0
Global Warming Solutions Fund	65.2		65.2		0.0
Other	247.7	-5.3%	247.7	-5.3%	0.0
Subtotal, Interfund Transfers	\$1,671.5	14.1%	\$1,671.5	14.1%	\$0.0
TOTAL GENERAL FUND	\$17,354.1	6.2%	\$17,131.4	5.8%	-\$222.7
Property Tax Relief Fund (Income Tax), Total					
<i>PTRF Transfer from GF (Sales Tax)</i>	\$9,945.1	-4.3%	\$10,000.0	-4.4%	\$54.9
Casino Revenue Fund	\$274.6	-11.9%	\$274.6	-11.9%	\$0.0
Casino Control Fund	\$65.9	-5.5%	\$65.9	-5.5%	\$0.0
Gubernatorial Elections Fund	\$0.7	0.0%	\$0.7	0.0%	\$0.0
GRAND TOTAL, ALL FUNDS	\$28,267.4	2.0%	\$28,099.6	1.7%	-\$167.8

Executive Tax and Revenue Changes Requiring Legislation

The table below summarizes the Executive’s tax and revenue changes for FY 2011 that require legislation. 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. Based on future study and research, future OLS Fiscal Notes analyzing the specific bills implementing these proposals may present different amounts than shown in this report.

FY 2011 Executive Tax and Revenue Changes Requiring Legislation
\$ in Millions

Tax or Revenue Change		Estimated Amount
1	Unclaimed Personal Property Reforms	\$79.6
2	Sales Tax - Repeal of Bergen County Blue Laws	\$65.0
3	Earned Income Tax Credit -- 20% of Federal Benefit	\$45.1
4	Lift Cap on 0.53% Assessment of Hospital Revenues	\$38.7
5	Lift Cap on Ambulatory Facility Assessment	\$6.5
6	Corporation Business Tax - Eliminate High Tech Credits	\$30.0
7	Corporation Business Tax - Eliminate Film Production Credits	\$15.0
8	Insurance - Special Purpose Assessment	\$20.0
9	Diesel Motor Fuels Tax - Distributor Level Administration	\$18.0
10	Business Filing Fees - 25% Increase	\$5.0
Total		\$322.8

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 2011. 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 2011 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, TEFA has been extended several times and now runs through FY 2013. The Executive estimates TEFA payments of \$226.4 million in FY 2010 and \$235.8 million in FY 2011.

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 \$695.9 million by FY 2011. 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 \$1,008.8 million in FY 2010 and \$1,038.5 million in FY 2011, up from \$400.2 million in FY 2005.

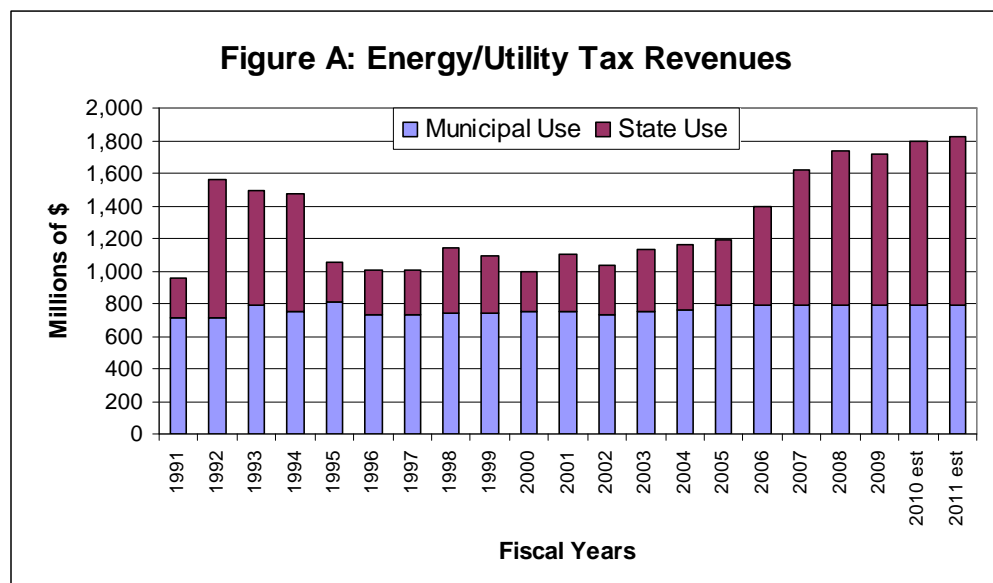


Figure B
Actual Energy/Utility Tax Revenue Fiscal Year 2008
Millions of \$

<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	\$541.5	\$667.5	\$1,209.0
Corporation Business Tax	\$43.2	\$121.0	\$164.2
Transitional Energy Facilities Assessment (TEFA)	\$234.3		\$234.3
Franchise and Gross Receipts Tax			
Water and Sewer Utilities	\$94.6		\$94.6
Public Utility Excise Tax Water and Sewer Utilities	\$12.2		\$12.2
Total	\$925.8	\$788.5	\$1,714.3

Source: Department of Treasury, March 2010.

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	\$543.7	\$670.9	\$1,214.6
Corporation Business Tax	\$131.9	\$117.6	\$249.5
Transitional Energy Facilities Assessment (TEFA)	\$226.4		\$226.4
Franchise and Gross Receipts Tax			
Water and Sewer Utilities	\$94.6		\$94.6
Public Utility Excise Tax Water and Sewer Utilities	\$12.2		\$12.2
Total	\$1,008.8	\$788.5	\$1,797.3

Source: Department of Treasury, March 2010.

Figure E
Anticipated Energy/Utility Tax Revenue Fiscal Year 2011
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	\$578.4	\$670.9	\$1,249.3
Corporation Business Tax	\$117.5	\$117.6	\$235.1
Transitional Energy Facilities Assessment (TEFA)	\$235.8		\$235.8
Franchise and Gross Receipts Tax			
Water and Sewer Utilities	\$94.6		\$94.6
Public Utility Excise Tax Water and Sewer Utilities	\$12.2		\$12.2
Total	\$1,038.5	\$788.5	\$1,827.0

Source: Department of Treasury, March 2010.

Cigarette Tax Details FY 2010 and FY 2011

Cigarette Tax Estimates and Distributions							
<i>Millions of Dollars</i>							
	<u>Actual FY2009*</u>	<u>Executive Estimates FY2010</u>	<u>FY2011</u>	<u>OLS Estimates</u>		<u>OLS Difference</u>	
				<u>FY2010</u>	<u>FY2011</u>	<u>FY2010</u>	<u>FY2011</u>
Total Collections All Sources	\$727.6	\$741.7	\$741.5	\$726.5	\$726.5	-\$15.2	-\$15.0
Less, Health Care Subsidy Fund	-370.0	-396.5	-396.5	-396.5	-396.5	0.0	0.0
Less, Dedication for Debt Service	-145.1	-145.0	-145.0	-145.0	-145.0	0.0	0.0
Total Collections On-Budget	\$212.5	\$200.2	\$200.0	\$185.0	\$185.0	-\$15.2	-\$15.0

* FY 2009 excludes \$3.788 million from tax amnesty receipts.

Historical Cigarette Tax Rates		
(\$ per pack of 20 cigarettes)		
Date of Change	Tax Rate	Law
1-Jul-48	\$0.03	P.L.1948, c.65, s.101
1-Apr-56	\$0.05	P.L.1956, c.10, s.1
6-Jan-61	\$0.06	P.L.1960, c.158, s.1
1-Jul-62	\$0.07	P.L.1962, c.75, s.1
31-May-63	\$0.08	P.L.1963, c.45, s.1
16-Jun-66	\$0.11	P.L.1966, c.105, s.1
4-Jun-68	\$0.14	P.L.1968, c.51, s.1
16-May-72	\$0.19	P.L.1972, c.24, s.1
June 18, 1982*	\$0.24*	P.L.1982, c.40, s.1*
1-Jul-90	\$0.40	P.L.1990, c.39, s.15
1-Jan-98	\$0.80	P.L.1997, c.264, s.1
1-Jul-02	\$1.50	P.L.2002, c.33, s.1
1-Jul-03	\$2.05	P.L.2003, c.115, s.1
1-Jul-04	\$2.40	P.L.2004, c.67, s.1
15-Jul-06	\$2.58	P.L.2006, c.37, s.1
1-Jul-09	\$2.70	P.L.2009, c.70, s.1

* From June 1982 through June 1990, the cigarette tax included a surtax on the average wholesale price of cigarettes (P.L.1982, c.40, s.1). The surtax was equal to the sales and use tax rate and imposed in lieu of that tax. When the State began to levy the sales and use tax on cigarette sales on July 1, 1990, the surtax was discontinued (P.L.1990, c.39, s.15).

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Individuals wishing information and committee schedules on the FY 2011 budget are encouraged to contact:

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