

ANALYSIS OF THE NEW JERSEY BUDGET

**TAX AND
REVENUE OUTLOOK**

FISCAL YEAR

2011 - 2012

NEW JERSEY STATE LEGISLATURE

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The FY 2011 and FY 2012 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 2012 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 2011 and FY 2012 revenues will be \$125.1 million less than the estimates in the FY 2012 Governor's Budget Recommendation. Specifically:

- For FY 2011, the OLS revenue estimates are \$71.8 million, or 0.3%, below the Executive budget estimates (page 6).
- For FY 2012, the OLS revenue estimates are \$53.3 million, or 0.2%, below the Executive budget estimates (page 7).

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State Revenues: Issues in Forecasting

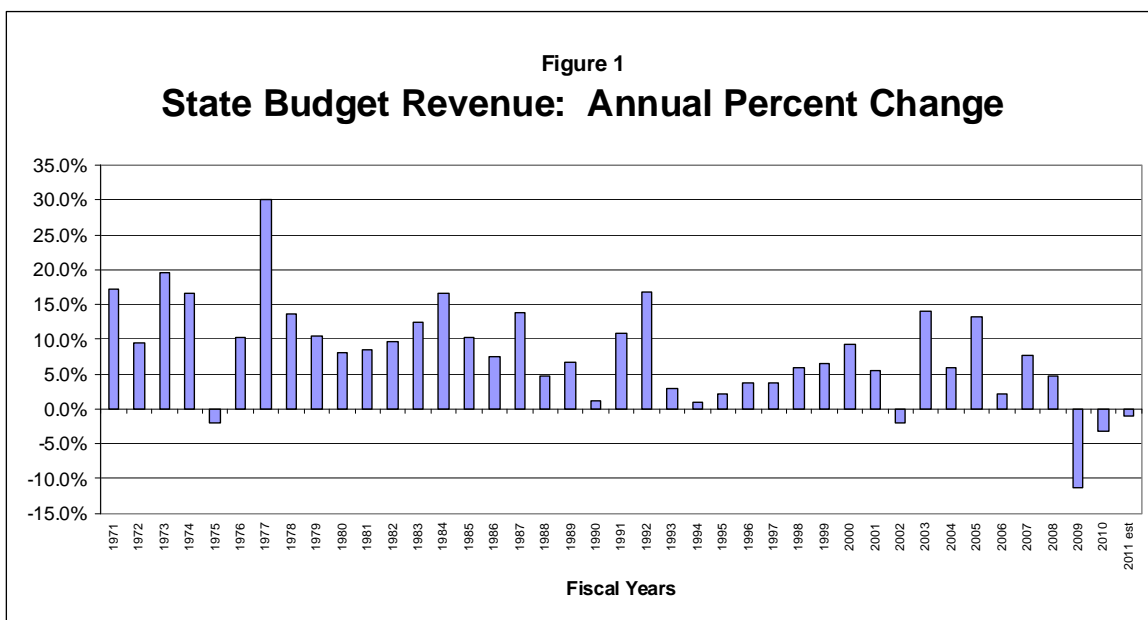
The Great Recession produced unprecedented declines in state tax revenue collections across the nation. The experience in New Jersey mirrored the national pattern. **FY 2009 New Jersey budget revenues dropped by 11.2% and FY 2010 revenues fell by 3.3%, the two worst years in the last four decades (Figure 1).** It is estimated that FY 2011 revenues will drop by 1.0%, due largely to an expiring temporary tax increase. The only other State revenue declines during this period were in FY 1975 and FY 2002, each down by about 2.0%.

It is during rapid turns that revenue forecasting is most difficult. During the recent downturn, Executive and OLS revenue forecasts could not keep up with the spiraling collection patterns. The collapse impacted all of the State’s major revenues, from the “Big Three” (income tax, sales tax, and corporation business tax), to smaller taxes such as realty, inheritance, and motor fuels. In the end, audited collections for the Big Three

revenues, which account for over two thirds of budgeted revenues annually, were 13.2% below certified budget amounts in FY 2009 and 4.5% below certified amounts in FY 2010.

According to a recent national study by the Pew Center on the States and the Rockefeller Institute of Government (*States’ Revenue Estimating: Cracks in the Crystal Ball*, March 2011) (hereafter the “Pew Study” or “Study”), errors in state revenue estimating have worsened nationally during the last three economic downturns. Over the 23 year period studied, the median estimating error, whether high or low, was 3.5%. The median error among all states in the recent 2009 downturn was a 10.2% overestimate, while nearly three quarters of all forecasts overestimated revenues by 5% or more. During the 2001-2003 contraction only about one half of all forecasts exceeded a 5% error, while during the 1990-1992 downturn only one quarter of forecasts exceeded a 5% error.

“States generally rely heavily on recent experience when making revenue estimates – until the economy is about to pivot. The trouble is predicting the pivot point.”
Pew Center on the States



In general, the Pew Study found that forecasters were more likely to underestimate, rather than overestimate, actual collections, but the size of the errors was greatest in years when the forecast was above actual collections. Unfortunately, the Pew Study did not find measurable differences in the accuracy of various forecasting methods or techniques. Nor did the Study find any significant differences between states that use or do not use consensus forecasting processes.

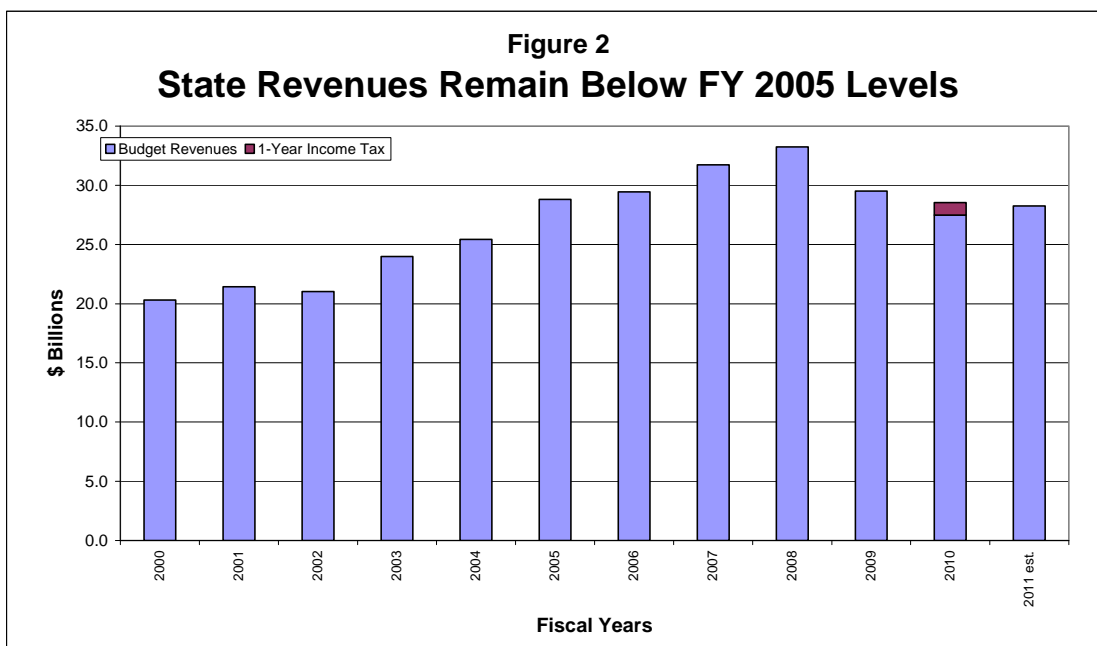
Of particular relevance for New Jersey, the Study identified a growing dependence on income tax revenues as a primary source of greater revenue estimating errors. As the income tax has become more dependent on income other than wages, it has become more erratic. Also of consequence was the volatility resulting from a very small number of large taxpayers accounting for the bulk of corporate tax collections.

The Pew Study also found that errors during stable economic periods are significantly less than during economic turning points. The

key to successful revenue forecasting is correctly anticipating those turning points.

The Study suggested a number of potential actions to reduce forecasting errors, or at least the budgetary impact of forecasting errors. Among the options were making more frequent revenue estimates, adding forecasting expertise, ensuring independence of the revenue estimating process, increasing “rainy day” funds, restricting the ways the most volatile revenue sources are used, and restricting spending to a specified percentage of the revenue estimate (98% or 95% for example).

The Study noted that for most states “revenues were so beaten down by the Great Recession that it may be several years before many states recover to levels seen before the 2008 fiscal year.” **Figure 2** shows how this point may be appropriate for New Jersey, as total State revenues slumped below FY 2005 levels in FY 2009 and FY 2010 (notwithstanding a temporary one year gross income tax change) and again in FY 2011. A return to the revenue peak may still be years away.



Fiscal Year 2011 Revenue Snapshot

The challenge for forecasters this Spring is discerning if FY 2011 is in fact the beginning of a revenue upturn. After two years of steady declines, State revenues in FY 2011 have begun to stabilize and some major revenues are reporting growth. Each of the Big Three revenues is ahead of last year's pace through the end of February, as shown in **Figure 3**, below.

Year-to-date revenue collections are an important factor in estimating annual receipts, and the specific revenues will be discussed in greater detail later in this report. **Figure 4**, on the next page, displays collections for most major tax revenues in FY 2011 through the end of February. So far this year compared to the same point in FY 2010, the gross income tax is up 3.0%, though some declines are anticipated this April as the complete impact

of the expired temporary tax increase is accounted for. Sales tax revenues are up by 2.9%, corporation business tax revenues are up by 7.9%, the smaller corporation tax on banks and financial institutions is up by a robust 43.5%, and transfer inheritance tax revenues are growing at an 11.7% rate.

On the other hand, the motor fuels tax, petroleum products tax, casino revenues, insurance premiums taxes, and lottery revenues are down. The March revenue figures should be available by mid April.

Monthly **OLS Revenue Snapshots** are posted at the following Legislative web address: <http://www.njleg.state.nj.us/legislativepub/snapsnot.asp>.

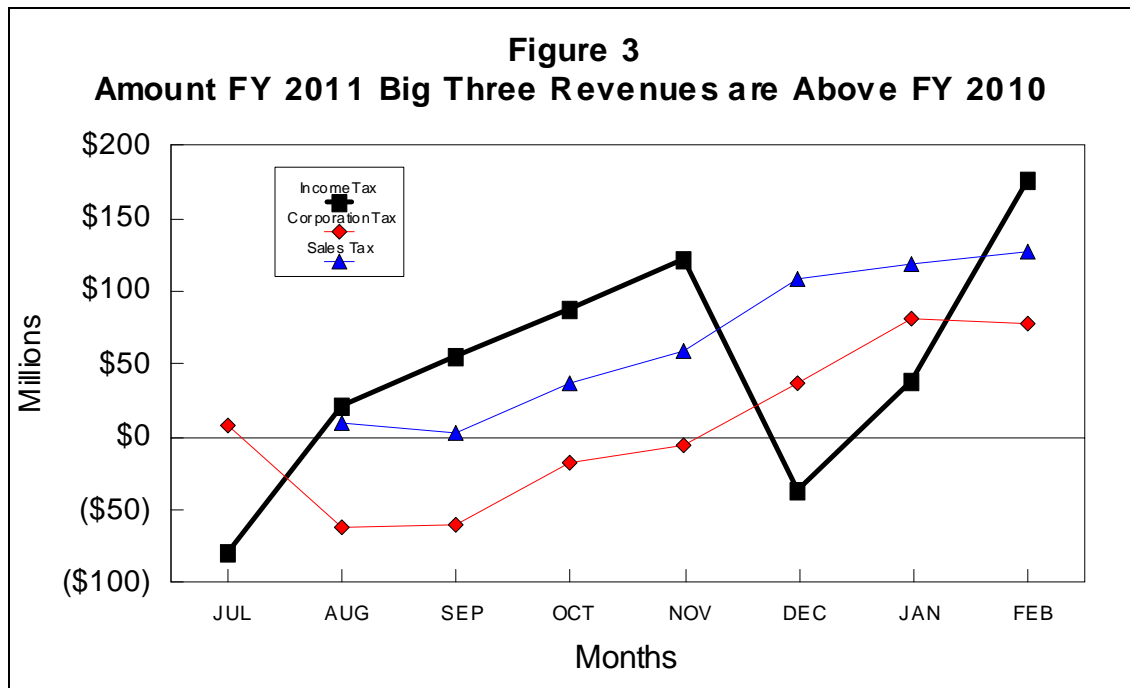


Figure 4
FY 2011 Year-To-Date
Selected Revenue Comparison
Through the End of February 2011 vs. February 2010
(\$ Millions)

	FY 2010 Actual Through Feb.	FY 2011 Actual Through Feb.	Percent Change Through Feb.	Executive Revised Year- End % Change
Gross Income Tax	\$5,819.4	\$5,996.4	3.0%	-2.4%
Sales Tax *	4,354.7	4,482.4	2.9%	3.4%
Corporation Business Tax	975.6	1,053.0	7.9%	16.1%
Lottery	591.0	584.5	-1.1%	0.7%
Motor Fuels Tax *	313.4	294.3	-6.1%	1.1%
Casino Tax	194.3	175.7	-9.6%	-12.5%
Inheritance Taxes	366.7	409.7	11.7%	8.0%
Insurance Premiums Tax	160.1	144.7	-9.6%	3.7%
Petroleum Products *	125.8	126.6	0.6%	1.7%
Alcohol Excise Tax *	54.0	51.4	-4.7%	-5.2%
CBT -- Banks & Financials	52.6	75.5	43.5%	52.5%
Realty Transfer Fee *	103.3	105.4	2.1%	-4.4%

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

The Executive revised year-end percentage change is based on the February revised revenue estimates for FY 2011 contained in the proposed FY 2012 Governor's Budget Message.

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

Fiscal Year 2011 Revenue Estimates

Figure 5
Fiscal Year 2011 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	\$9,855.1	\$10,076.1	\$221.0	\$10,076.1	\$0.0
Sales Tax*	7,829.0	7,775.0	-54.0	7,775.0	0.0
Corporation Business Tax*	2,145.0	2,320.0	175.0	2,300.0	-20.0
Cigarette Tax	199.0	200.6	1.6	207.5	6.9
Insurance Premiums Tax	478.0	499.0	21.0	480.0	-19.0
Realty Transfer Fee	228.9	170.9	-58.0	160.0	-10.9
Assessment on Prop. > \$1 Mil.	83.0	57.5	-25.5	61.0	3.5
Motor Fuels & Petroleum	798.8	760.9	-37.9	745.0	-15.9
CBT - Banks and Financials	164.0	198.9	34.9	180.0	-18.9
Alcohol Beverage Excise	99.0	88.5	-10.5	91.0	2.5
Other Revenues*	6,282.5	6,114.8	-167.7	6,114.7	0.0
Grand Total, All Funds	\$28,162.2	\$28,262.1	\$99.9	\$28,190.3	-\$71.8

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

Figure 5 presents the FY 2011 revenue certification from the Appropriations Act (June 2010), the Executive's revisions as presented in the February 2011 Governor's Budget Message, and the OLS forecast. Highlights of the revenue estimates include:

Executive

- Revised estimates for total revenues are up by \$99.9 million from the level certified in the FY 2011 Appropriations Act.
- The estimate for the gross income tax is increased by \$221.0 million.
- The estimate for the sales tax is down \$54.0 million.
- The estimate for the corporation business tax is up \$175.0 million.
- The estimates for all remaining revenues are down by a combined \$242.1 million.

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- The total revenue estimate for FY 2011 is **\$71.8 million below** the Executive's revised projection.
- The estimate for the gross income tax is the same as the Executive's.
- The estimate for the sales tax is the same as the Executive's.
- The estimate for the corporation business tax is \$20 million below the Executive's.
- The estimates for all remaining revenues are \$51.8 million below the Executive's.

Fiscal Year 2012 Revenue Estimates

Figure 6
Fiscal Year 2012 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	\$10,528.3	4.5%	\$10,580.0	5.0%	\$51.7
Sales Tax*	8,077.5	3.9%	8,077.5	3.9%	0.0
Corporation Business Tax*	2,429.9	4.7%	2,410.0	4.8%	-19.8
Cigarette Tax	202.9	1.1%	207.5	0.0%	4.6
Insurance Premiums Tax	519.2	4.0%	500.0	4.2%	-19.2
Realty Transfer Fee	191.1	11.8%	176.0	10.0%	-15.1
Assessment on Prop. > \$1 Mil.	64.3	11.7%	68.0	11.5%	3.8
Motor Fuels & Petroleum	783.8	3.0%	745.0	0.0%	-38.8
CBT - Banks and Financials	221.9	11.6%	200.0	11.1%	-21.9
Alcohol Beverage Excise	93.6	5.8%	95.0	4.4%	1.4
Other Revenues*	6,261.7	2.4%	6,261.7	2.4%	0.0
Grand Total, All Funds	\$29,374.1	3.9%	\$29,320.7	4.0%	-\$53.3

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

Figure 6 displays the Executive FY 2012 revenue estimates as presented in the February 2011 Governor's Budget Message and the OLS forecast. Highlights of the revenue estimates include:

Executive

- Total revenue estimates are \$1.112 billion above FY 2011, a 3.9% increase.
- The gross income tax estimate is up \$452.2 million, or 4.5% above FY 2011.
- The sales tax estimate is up \$302.5 million, or 3.9% over FY 2011.
- The corporation business tax estimate is up \$109.9 million, or 4.7% above FY 2011.
- All remaining revenue estimates are up by \$247.4 million.

Office of Legislative Services

- Total revenue estimates for FY 2012 are **\$53.3 million below** the Executive's projection.
- The gross income tax estimate is \$51.7 million above the Executive's.
- The sales tax estimate is the same as the Executive's.
- The corporation business tax estimate is \$19.8 million below the Executive's.
- The OLS estimates for all remaining revenues are \$85.2 million below the Executive's.

The Gross Income Tax

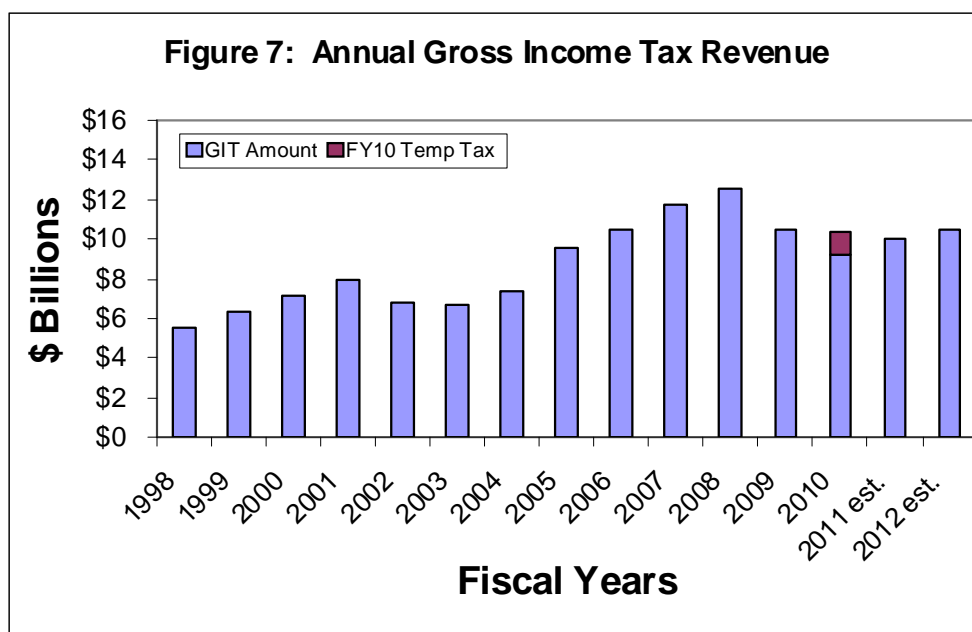
The gross income tax (GIT) has been the State’s largest tax revenue almost since its inception in the late 1970’s, typically accounting for close to 40% of budgeted revenues. Because of its size and volatility, the GIT is critical to the overall revenue forecast. As **Figure 7** and **Figure 8** show, the GIT grew 87% between FY 2003 and FY 2008 (from \$6.74 billion to \$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). Off its FY 2008 peak, the GIT plunged a startling 16.9% in FY 2009, and still remains below the FY 2006 level.

As was noted on pages 4 and 5, the GIT is growing once again, up 3.0% through the end of February 2011. However, declines are expected in the Spring with year-end tax filings, as the impact of the expired temporary one-year tax increase is fully realized. Originally estimated at about \$1.0 billion (page 63, [FY 2012 Executive Budget Summary](#)), subsequent Treasury analysis suggests the total may be closer to \$600

million, the bulk of which impacted April 2010 receipts and will not recur.

Based on year-to-date collections and these stated expectations for the Spring, the Executive estimates \$10.076 billion in FY 2011, down 2.4% from FY 2010. The Executive estimates an increase to \$10.528 billion in FY 2012, or 4.5% growth. The OLS accepts the Executive estimate for FY 2011 as a reasonable target. For FY 2012, the OLS is slightly more optimistic and estimates \$10.580 billion, or 5.0% growth.

However, the OLS notes that the FY 2011 forecast contains significant levels of uncertainty. Final tax payments in April prove difficult to predict due to large annual fluctuations in income for high-income taxpayers. This year, additional uncertainty derives from potential errors in estimating last year’s temporary tax increases and the interaction between New Jersey and New York State tax changes that impact State residents who work in New York. **An upward or downward “April surprise” remains distinctly possible.**



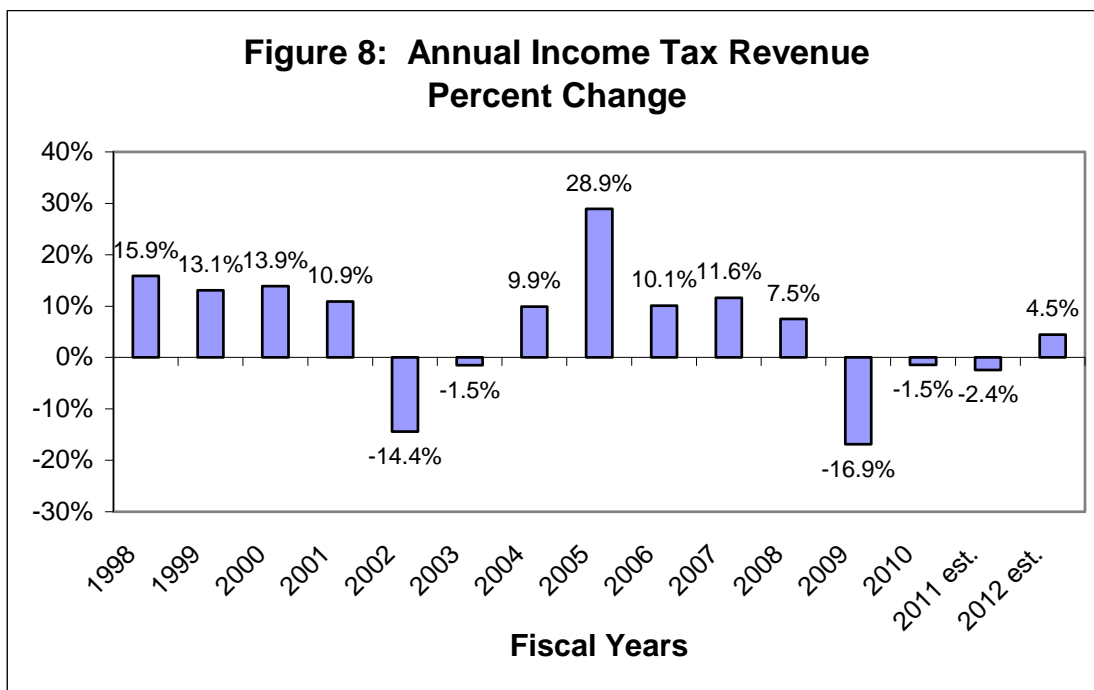
GIT Components

Withholding receipts, primarily from employee wages, typically account for more than 70% of total GIT revenues each year. Through the end of February, withholding revenues are up 3.4% in FY 2011. The OLS believes that withholding will continue to improve with the economy, coming off two strong months, and grow by about 5% for the remainder of this year and into FY 2012.

Quarterly estimated payments are down 1.6% 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. Presumably the expiration of the temporary tax increases on high-income taxpayers is influencing this decline, and the OLS expects some growth in estimated payments in FY 2012.

Final payments each April largely reflect non-wage income received in the prior tax year from higher-income taxpayers. FY 2011 final payments are expected to be lower than in FY 2010, because the FY 2010 total was inflated by the temporary one-year tax increase. Much of the impact of this tax change should be seen in April’s final payments. Both Treasury and OLS anticipate that final payments could decline by about 30% below last year as a result. The OLS estimate assumes growth of about 10% next Spring.

Historically, the GIT has been a volatile revenue source due to the importance of variable sources of non-wage income from the stock market, business income, and commissions. The expiration of the temporary tax increase adds additional uncertainty in FY 2011. April is the largest payment month of the year for high-income taxpayers, and that leaves a significant amount of uncertainty looming late into the fiscal year.

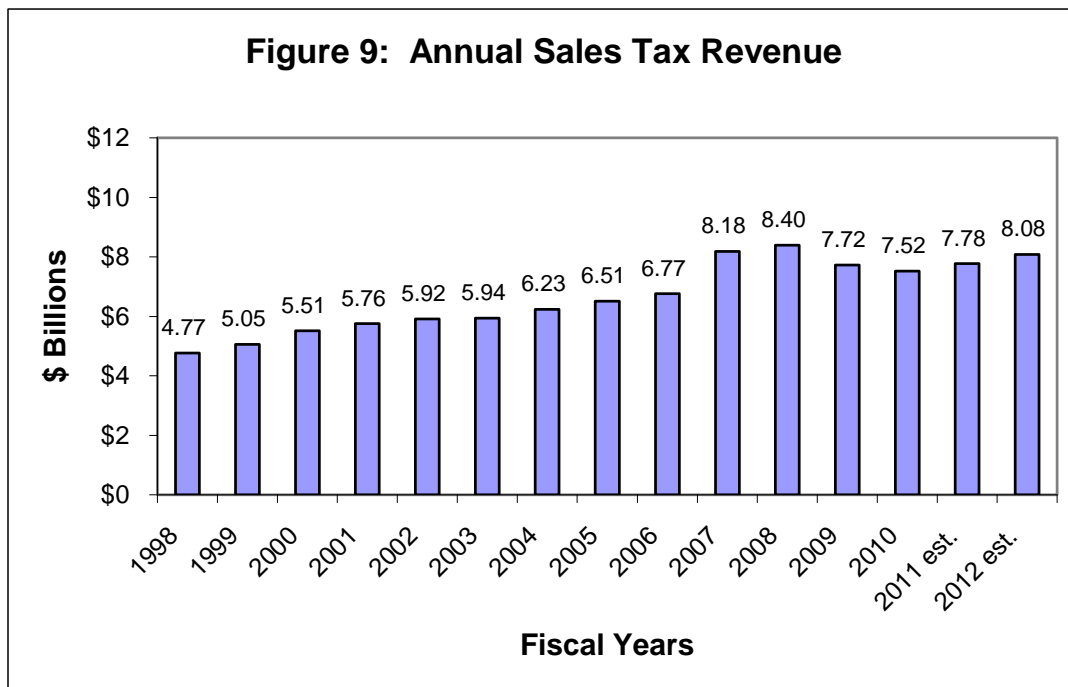


The Sales Tax

Following the greatest contraction in its history during FY 2009 and FY 2010, the sales tax is growing once again, although modestly. Collections through February are up 2.9%, consistent with reports of improving retail activity and a pickup in important sectors such as automobile sales. **The Executive projects overall growth of 3.3% in FY 2011, yielding a total of \$7.75 billion. For FY 2012, the Executive projects \$8.078 billion, an increase of 3.9%.**

The Executive’s FY 2011 target requires growth of 4.0% for the remainder of the fiscal year. The OLS agrees that such growth is possible, despite weak rates of growth in January and February. Accordingly, **the OLS estimates FY 2011 and FY 2012 sales tax revenues at the same levels as the Executive.**

Both forecasts project the return of growth following an unprecedented collapse in the sales tax during the previous two years. 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 year-over-year monthly decline was 11.8%. Total revenues fell by just over \$1.0 billion from the FY 2008 peak, an 11.6% tumble across two fiscal years. **Yet, even with the Executive and OLS projecting growth, FY 2012 sales tax revenues are expected to finish below FY 2007 levels.**



Corporation Business Taxes

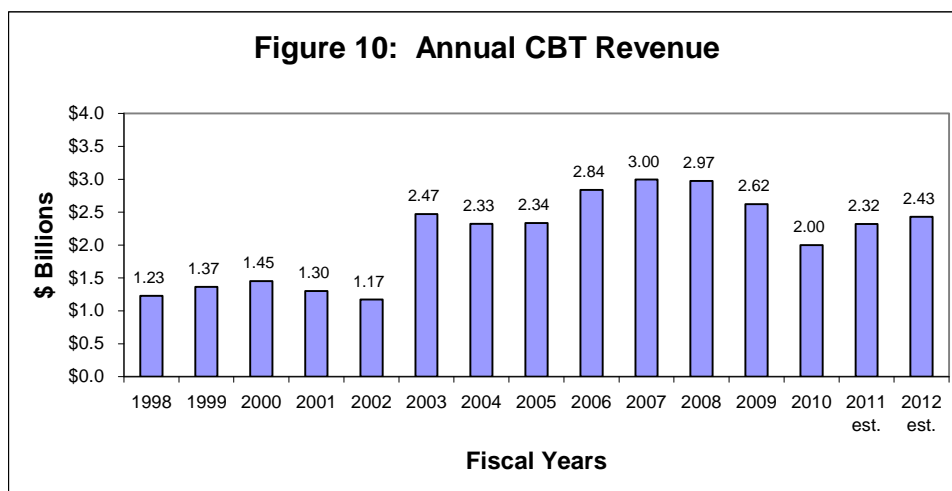
Between FY 2008 and FY 2010, the corporation business tax (CBT) plummeted by nearly \$1.0 billion, from \$2.97 billion to \$2.0 billion, a drop of 33%. Encouragingly, **the CBT is up 7.9% through the end of February**. The Executive is assuming net CBT growth will accelerate by 24% for the remaining four months of the fiscal year. **The Executive estimates \$2.320 billion in FY 2011, 16.1% above the prior year. For FY 2012 the Executive estimates \$2.430 billion, including an offset for \$70.2 million in proposed tax reductions (see page A-4 in the appendix), for a net growth of 4.7% over FY 2011.**

The OLS believes that the Executive’s targets for FY 2011 and FY 2012 are plausible, but also contain significant risks. The receipts for the fourth quarter of FY 2010 were the lowest in eight years, and proportionately one of the worst fourth quarters in decades. A significant rebound this year is possible given that low base and national reports of improved corporate profits. **Nevertheless, the OLS is slightly more cautious for FY 2011, estimating \$2.300 billion.** The OLS estimate would also require significant growth and a return to a normal fourth quarter, which would mark a turning point for CBT revenues. **In FY 2012 the OLS estimates**

\$2.410 billion, assuming similar growth as the Executive, but off a slightly smaller base. For the purposes of this report the OLS accepts the estimated \$70.2 million reduced revenues from the proposed tax changes in FY 2012.

As always, the CBT remains one of the most volatile revenues sources, and one of the most difficult to project. Public data on corporate profits do not directly correlate annually 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. Moreover, in FY 2011 additional risk results from the assumption that this Spring will reflect a significant turning point for the CBT.

The Executive estimates \$198.9 million in FY 2011 and \$221.9 million in FY 2012 for the smaller CBT on Banks and Financial Institutions. These amounts assume 52.5% growth in FY 2011 and 11.6% growth in FY 2012. The OLS outlook is slightly more guarded in both years, as current growth is 43.5% through the end of February. **Growth should remain strong, but the OLS projects \$180.0 million in FY 2011 and \$200.0 million in FY 2012.**



Other Selected Revenues

Realty Transfer Fees and Taxes

Perhaps no tax source is more emblematic of the State's economic downturn and multi-year revenue collapse than the realty transfer fees and taxes. The transfer fee peaked in FY 2008 at \$459.7 million and since has tumbled relentlessly, now down an estimated 63% from that level. The US housing market remains in a historic slump.

The Executive estimates \$170.9 million from realty transfer fees in FY 2011 and \$191.1 million in FY 2012, or 11.8% growth, the first increase in six years. The OLS remains more cautious. FY 2011 collections are up slightly through the end of February, but the base from last Spring was artificially enhanced by federal tax incentives and growth off that base seems unlikely. **The OLS estimates \$160.0 million in FY 2011 and \$176 million in FY 2012, for 10% growth.**

On the other hand, the OLS is more optimistic about the separate one percent assessment on properties valued over \$1.0 million. **The Executive estimates \$57.5 million in FY 2011 and \$64.3 million in FY 2012. The OLS projects \$61.0 million in FY 2011 and \$68.0 million in FY 2012.** National data suggest that high-income taxpayers are increasing purchases faster than general consumers. The OLS expects this to also impact purchases of high-value residential properties, more so than commercial properties.

The Cigarette Tax

For the first time in many years, the cigarette tax is not complicated by either New Jersey or federal tax law changes. Overall, this tax generates more than \$700 million each year, but only about \$200 million appears as budgeted General Fund revenues (see page

A-8 in the appendix for a detailed display of all cigarette tax allocations).

The Executive projects \$200.6 million in FY 2011 on-budget receipts and some modest growth to \$202.9 million in FY 2012. Based on current trends, **the OLS forecasts \$207.5 million in FY 2011 budgeted cigarette tax revenue and \$207.5 million again in FY 2012.** Overall receipts have not declined as much as expected through February of this year, perhaps aided by federal tax law changes regarding ordering and delivering of cigarettes across state borders. For FY 2012, additional enforcement changes in neighboring states are expected to offset the historic decline in cigarette sales in New Jersey.

Motor Fuels and Petroleum Revenues

The Executive is projecting \$540.9 million from the motor fuels tax in FY 2011, 1.0% growth over last year, and \$560.0 million in FY 2012, for an additional 3.5% growth. The OLS cannot at this time forecast growth on these revenues, given a series of price increases that began in late 2010 and the impact of recent international events. Current motor fuels revenues are down 6.1% through the end of February. Accordingly, **the OLS estimates \$530.0 million in FY 2011 and \$530.0 million again in FY 2012.** Global economic and political conditions will continue to influence fuel prices and consumption patterns for the foreseeable future.

The Executive estimates \$220.0 million for the petroleum products tax in FY 2011, and \$223.8 million in FY 2012. However, while this revenue is up a small 0.6% through February collections, the trend in the two most recent months has been downward and growth in the near term is unlikely.

Therefore, **the OLS estimates lower amounts of \$215.0 million in FY 2011 and \$215.0 million again in FY 2012.**

Insurance Premiums Tax

The insurance premiums tax is particularly difficult for the Executive to project when releasing its budget in February, because the first payments for this tax are not due until March 1 each year. For FY 2011, the **Executive estimated \$499.5 million. In FY 2012 the Executive estimates \$519.2 million, an increase of 4.0% over FY 2011.**

The initial insurance premiums payments from the March 1 date appear to be down by about 20% overall (booked across the months of February and March). The reasons for this

sharp decline are unclear at this time, since a full accounting through the end of March is incomplete. The Executive expects a robust recovery with the June 1 payments. However, **the OLS is more cautious with this difficult to forecast revenue, estimating \$480.0 million in FY 2011 and \$500.0 million in FY 2012.**

Alcohol Beverage Excise Tax

The Executive estimates \$88.5 million for FY 2011 and \$93.6 million for FY 2012. However, collections in recent months have improved, so the OLS estimates slightly higher amounts of \$91.0 million in FY 2011 and \$95 million in FY 2012.

Budgetary Impact of OLS Revenue Estimates

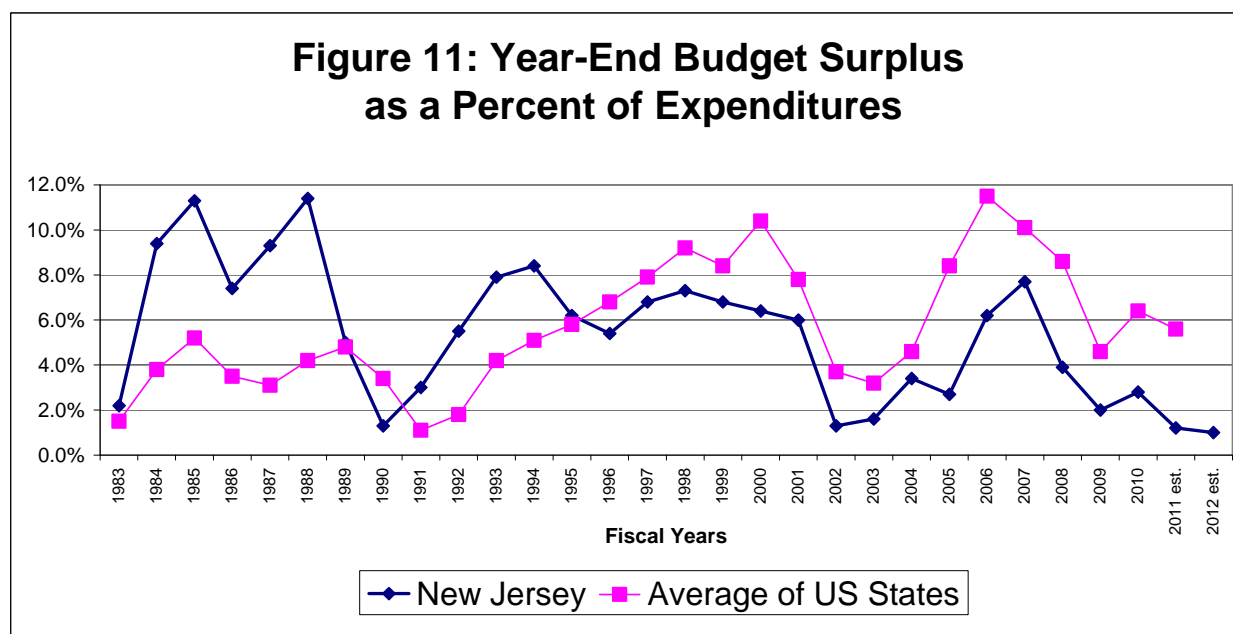
Combined over the two-year period, the OLS revenue estimates are \$125.1 million less than the Executive's – \$71.8 million less in FY 2011 and \$53.3 million less in FY 2012.

The Executive projects an FY 2012 year-end balance of \$303.2 million, or about 1.0% 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 \$178.1 million.**

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* 1.0% surplus is low by historical standards for New Jersey, and substantially smaller than the 3.5% median national forecasting error identified in the Pew Study, discussed earlier in this report. As is shown in **Figure 11**, over the last quarter century the State's *actual* surplus has exceeded 2.0% of expenditures in all but three completed fiscal years since 1983. 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 2011 Revenue Estimates				
<i>Millions of \$</i>				
<u>Revenue Source</u>	<u>Appropriations</u> <u>Act (June 2010)</u>	<u>Executive</u> <u>Revised</u>	<u>OLS</u>	<u>Diff: OLS -</u> <u>Executive</u>
Major Taxes:				
Sales Tax, Total	\$7,727.3	\$7,607.3	\$7,607.3	\$0.0
<i>Sales Tax, Base</i>	7,829.0	7,775.0	7,775.0	0.0
<i>Dedicated Transfer to PTRF</i>	-608.0	-601.0	-601.0	0.0
<i>Sales Tax, Energy</i>	506.3	433.3	433.3	0.0
Corporation Business Tax, Total	\$2,291.0	\$2,391.9	\$2,371.9	-\$20.0
<i>Corporation Business Tax, Base</i>	2,145.0	2,320.0	2,300.0	-20.0
<i>Corporation Business Tax, Energy</i>	146.0	71.9	71.9	0.0
Inheritance Taxes	587.7	628.2	628.2	0.0
Motor Fuels Tax	572.6	540.9	530.0	-10.9
Insurance Premiums Tax	478.0	499.0	480.0	-19.0
Realty Transfer Fee	228.9	170.9	160.0	-10.9
Motor Vehicle Fees	398.5	412.0	412.0	0.0
Cigarette Tax	199.0	200.6	207.5	6.9
Petroleum Products Gross Receipts Tax	226.2	220.0	215.0	-5.0
Corporation Business - Banks and Financial	164.0	198.9	180.0	-18.9
Alcoholic Beverage Excise Tax	99.0	88.5	91.0	2.5
Tobacco Products Wholesale	22.0	19.4	19.4	0.0
Public Utilities Excise	13.2	13.3	13.3	0.0
Subtotal, Major Taxes	\$13,007.4	\$12,990.9	\$12,915.6	-\$75.3
Misc. Taxes, Fees and Revenues				
Assessment on Property Sold Over \$1 Million	83.0	57.5	61.0	3.5
Transitional Energy Facility Assessment	235.8	240.4	240.4	0.0
Public Utility Taxes (State Retention)	100.6	100.6	100.6	0.0
Medicaid Uncomp. Care Reimbursement	500.7	507.4	507.4	0.0
Telephone Assessment	128.0	126.0	126.0	0.0
Hotel Occupancy Tax	74.5	65.0	65.0	0.0
Interdepartmental Accounts	546.0	537.6	537.6	0.0
Other	987.2	973.4	973.4	0.0
Subtotal, Misc. Revenues	\$2,655.8	\$2,607.8	\$2,611.3	\$3.5
Interfund Transfers				
State Lottery Fund	953.0	930.0	930.0	0.0
Unclaimed Personal Property Trust Fund	202.6	202.6	202.6	0.0
State Disability Fund General Account	54.7	55.3	55.3	0.0
Tobacco Settlement/Securitization	55.4	54.4	54.4	0.0
Enterprise Zone Assistance Fund	92.9	89.1	89.1	0.0
Global Warming Solutions Fund	65.2	65.2	65.2	0.0
Other	257.8	248.3	248.3	0.0
Subtotal, Interfund Transfers	\$1,681.6	\$1,644.9	\$1,644.9	\$0.0
TOTAL GENERAL FUND	\$17,344.8	\$17,243.7	\$17,171.9	-\$71.8
Property Tax Relief Fund (Income Tax)	\$9,855.1	\$10,076.1	\$10,076.1	\$0.0
<i>PTRF Transfer from GF (Sales Tax)</i>	<i>\$625.9</i>	<i>\$618.0</i>	<i>\$618.0</i>	<i>\$0.0</i>
Casino Revenue Fund	\$269.9	\$257.0	\$257.0	\$0.0
Casino Control Fund	\$65.9	\$66.7	\$66.7	\$0.0
Gubernatorial Elections Fund	\$0.7	\$0.7	\$0.7	\$0.0
GRAND TOTAL, ALL FUNDS	\$28,162.2	\$28,262.1	\$28,190.3	-\$71.8

Detailed Fiscal Year 2012 Revenue Estimates					
<i>Millions of \$</i>					
<u>Revenue Source</u>	<u>February 2011 Gov's Budget</u>	<u>GBM % Change</u>	<u>March 2011 OLS Original</u>	<u>OLS % Change</u>	<u>Diff: OLS - Executive</u>
Major Taxes:					
Sales Tax, Total	\$7,917.6	4.1%	\$7,917.6	4.1%	\$0.0
<i>Sales Tax, Base</i>	8,077.5	3.9%	8,077.5	3.9%	0.0
<i>Dedicated Transfer to PTRF</i>	-625.0		-625.0		
<i>Sales Tax, Energy</i>	465.1	7.3%	465.1	7.3%	0.0
Corporation Business Tax, Total	\$2,582.2	8.0%	\$2,562.3	8.0%	-\$19.8
<i>Corporation Business Tax, Base</i>	2,429.9	4.7%	2,410.0	4.8%	-19.8
<i>Corporation Business Tax, Energy</i>	152.3	111.8%	152.3	111.8%	0.0
Inheritance Taxes	666.9	6.2%	666.9	6.2%	0.0
Motor Fuels Tax	560.0	3.5%	530.0	0.0%	-30.0
Insurance Premiums Tax	519.2	4.0%	500.0	4.2%	-19.2
Realty Transfer Fee	191.1	11.8%	176.0	10.0%	-15.1
Motor Vehicle Fees	492.7	19.6%	492.7	19.6%	0.0
Cigarette Tax	202.9	1.1%	207.5	0.0%	4.6
Petroleum Products Gross Receipts Tax	223.8	1.7%	215.0	0.0%	-8.8
Corporation Business - Banks and Financial	221.9	11.6%	200.0	11.1%	-21.9
Alcoholic Beverage Excise Tax	93.6	5.8%	95.0	4.4%	1.4
Tobacco Products Wholesale	20.9	7.7%	20.9	7.7%	0.0
Public Utilities Excise	13.3	0.0%	13.3	0.0%	0.0
Subtotal, Major Taxes	\$13,706.0	5.5%	\$13,597.2	5.3%	-\$108.8
Misc. Taxes, Fees and Revenues					
Assessment on Property Sold Over \$1 Million	64.3	11.7%	68.0	11.5%	3.8
Transitional Energy Facility Assessment	177.8	-26.1%	177.8	-26.1%	0.0
Public Utility Taxes (State Retention)	100.6	0.0%	100.6	0.0%	0.0
Medicaid Uncomp. Care Reimbursement	441.5	-13.0%	441.5	-13.0%	0.0
Telephone Assessment	126.0	0.0%	126.0	0.0%	0.0
Hotel Occupancy Tax	75.0	15.4%	75.0	15.4%	0.0
Interdepartmental Accounts	531.9	-1.1%	531.9	-1.1%	0.0
Other	1,020.5	4.8%	1,020.5	4.8%	0.0
Subtotal, Misc. Revenues	\$2,537.6	-2.7%	\$2,541.3	-2.7%	\$3.8
Interfund Transfers					
State Lottery Fund	1,040.0	11.8%	1,040.0	11.8%	0.0
Unclaimed Personal Property Trust Fund	192.0	-5.2%	192.0	-5.2%	0.0
State Disability Fund General Account	37.9	-31.5%	37.9	-31.5%	0.0
Tobacco Settlement/Securitization	54.6	0.4%	54.6	0.4%	0.0
Enterprise Zone Assistance Fund	94.0	5.5%	94.0	5.5%	0.0
Global Warming Solutions Fund	0.0		0.0		0.0
Other	236.5	-4.8%	236.5	-4.8%	0.0
Subtotal, Interfund Transfers	\$1,655.0	0.6%	\$1,655.0	0.6%	\$0.0
TOTAL GENERAL FUND	\$17,898.5	3.8%	\$17,793.5	3.6%	-\$105.0
Property Tax Relief Fund (Income Tax), Total	\$10,528.3	4.5%	\$10,580.0	5.0%	\$51.7
<i>PTRF Transfer from GF (Sales Tax)</i>	\$642.5		\$642.5		
Casino Revenue Fund	\$248.1	-3.4%	\$248.1	-3.4%	\$0.0
Casino Control Fund	\$55.9	-16.2%	\$55.9	-16.2%	\$0.0
Gubernatorial Elections Fund	\$0.7	0.0%	\$0.7	0.0%	\$0.0
GRAND TOTAL, ALL FUNDS	\$29,374.1	3.9%	\$29,320.7	4.0%	-\$53.3

Executive Tax and Revenue Changes Requiring Legislation

The table below summarizes the Executive’s tax and revenue changes for FY 2012 that require legislation. The OLS adopts the specific amounts for the purposes of comparing total revenues within this report. Legislation has been introduced for some but not all of these proposed changes. Based on future study and research, subsequent OLS Fiscal Notes analyzing the specific bills implementing these proposals may present different amounts than shown in this report. For example, the estate tax

change, if effective on January 1, 2012, may not begin impacting State revenues until some 9 months later, when estate tax returns are due. There are also initial indications that the revenue loss estimates from the proposed increased R&D credits under the corporation business tax may be overstated. The OLS will keep the Committees informed with subsequent information as it becomes available.

FY 2012 Executive Tax and Revenue Changes Requiring Legislation
\$ in Millions

Tax or Revenue Change		Estimated Amount
1	Gross Income Tax -- Phase-in of 50% business income/loss netting and carry-forward	\$23.00
2	Corporation Business Tax -- Phase-in single sales factor	\$24.00
3	Corporation Business Tax -- Reduce S-Corp minimum tax 25%	\$13.00
4	Corporation Business Tax -- Exempt non-exempt Agricultural co-ops	\$0.15
5	Corporation Business Tax -- Increase R&D credit to 100%	\$33.00
6	Sales Tax -- Exempt installation/support certain business software	\$2.50
7	Estate Tax -- Raise exemption to \$1 million	\$11.50
Total		\$107.15

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 from FY 1991 through FY 2012. 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 from FY 2009 through FY 2012 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 allocation of \$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 \$240.4 million in FY 2011 and \$177.7 million in FY 2012, reflecting the next step of the phase-out.

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 \$617.4 million by FY 2012. 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 \$859.5 million in FY 2011 and \$909.0 million in FY 2012, up from \$400.2 million in FY 2005.

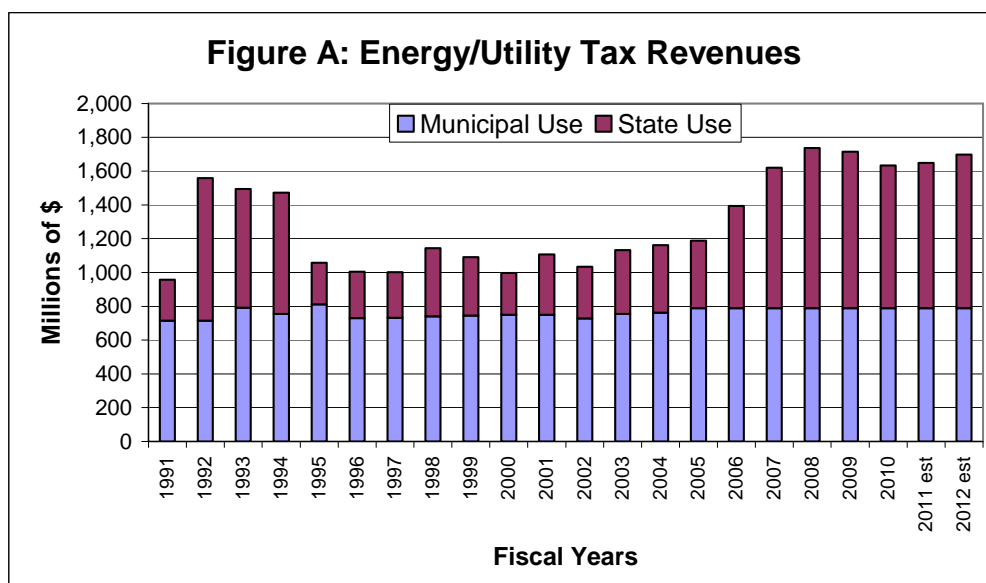


Figure B
Anticipated Energy/Utility Tax Revenue Fiscal Year 2009
Millions of \$

Revenue Source	<u>On-Budget</u> (State Use)	<u>Off-Budget</u> (Municipal Use)	Total
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 C
Anticipated Energy/Utility Tax Revenue Fiscal Year 2010
Millions of \$

Revenue Source	<u>On-Budget</u> (State Use)	<u>Off-Budget</u> (Municipal Use)	Total
Sales and Use Tax	\$356.7	\$671.4	\$1,028.1
Corporation Business Tax	\$145.8	\$117.1	\$262.9
Transitional Energy Facilities Assessment (TEFA)	\$227.4		\$227.4
Franchise and Gross Receipts Tax			
Water and Sewer Utilities	\$100.6		\$100.6
Public Utility Excise Tax Water and Sewer Utilities	\$13.2		\$13.2
Total	\$843.7	\$788.5	\$1,632.2

Source: Department of Treasury, March 2011.

Figure D
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	\$433.3	\$672.7	\$1,106.0
Corporation Business Tax	\$71.9	\$115.8	\$187.7
Transitional Energy Facilities Assessment (TEFA)	\$240.4		\$240.4
Franchise and Gross Receipts Tax			
Water and Sewer Utilities	\$100.6		\$100.6
Public Utility Excise Tax Water and Sewer Utilities	\$13.3		\$13.3
Total	\$859.5	\$788.5	\$1,648.0

Source: Department of Treasury, March 2011.

Figure E
Anticipated Energy/Utility Tax Revenue Fiscal Year 2012
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	\$465.1	\$672.7	\$1,137.8
Corporation Business Tax	\$152.3	\$115.8	\$268.1
Transitional Energy Facilities Assessment (TEFA)	\$177.7		\$177.7
Franchise and Gross Receipts Tax			
Water and Sewer Utilities	\$100.6		\$100.6
Public Utility Excise Tax Water and Sewer Utilities	\$13.3		\$13.3
Total	\$909.0	\$788.5	\$1,697.5

Source: Department of Treasury, March 2011.

Cigarette Tax Details FY 2011 and FY 2012

Cigarette Tax Estimates and Distributions							
<i>Millions of Dollars</i>							
	<u>Actual</u>	<u>Executive Estimates</u>		<u>OLS Estimates</u>		<u>OLS Difference</u>	
	<u>FY2010</u>	<u>FY2011</u>	<u>FY2012</u>	<u>FY2011</u>	<u>FY2012</u>	<u>FY2011</u>	<u>FY2012</u>
Total Collections All Sources	\$742.1	\$736.4	\$739.4	\$745.0	\$745.0	\$8.6	\$5.6
Less, Health Care Subsidy Fund	396.5	396.5	396.5	396.5	396.5	0.0	0.0
Less, Dedication for Debt Service	140.7	139.3	140.0	141.0	141.0	1.7	1.0
Total Collections On-Budget	\$204.9	\$200.6	\$202.9	\$207.5	\$207.5	\$6.9	\$4.6

Historical Cigarette Tax Rates		
<i>(\$ per pack of 20 cigarettes)</i>		
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 2012 budget are encouraged to contact:

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