

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

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

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

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

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

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

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

FY 2008 Budget Update

Treasurer Bradley Abelow

May 15, 2007

Overview

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

Summary

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

Income Tax

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

Sales tax

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

Corporate Tax

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

FY 07 Supplementals

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

FY 08 Spending Adjustments

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

FY 08 Spending Adjustments

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

FY 08 Spending Adjustments

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

FY 08 Spending Adjustments

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

FY 08 Spending Adjustments

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

FY 07 Additional Lapses

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

Conclusion

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

State of New Jersey

The FY 2008 Budget

(\$ in Millions)

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

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

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

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

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