State of New Jersey

Department of the Treasury

For Immediate Release
May 17, 2011

For Information Contact:
Andy Pratt or Bill Quinn
(609) 984-6493

Treasurer Andrew Sidamon-Eristoff Testifies before Assembly Budget Committee

Attached are New Jersey Treasurer Andrew Sidamon Eristoff's opening remarks before the Assembly Budget Committee on Tuesday, May 17, 2011 along with supporting graphs.

STATE OF NEW JERSEY

Department of the Treasury

Andrew P. Sidamon-Eristoff, State Treasurer

Revenue Update Before The
New Jersey Assembly Budget Committee
May 17, 2011

Chairman Greenwald, Budget Officer O'Scanlon, distinguished members of the Assembly Budget Committee, thank you for inviting me to present the Department of Treasury's updated revenue estimates for both Fiscal 2011 and 2012. I am pleased to be accompanied by Dr. Charles Steindel, Treasury's Chief Economist, and Dr. Roger Cohen, Director of the Office of Revenue and Economic Analysis, as well as other key members of the Treasury staff.

Before entertaining your questions, I would request the opportunity to walk you through the detailed presentation that we have distributed for your review today.

Let me preface this discussion with an overview of the state of the New Jersey economy.

Forecasters are anticipating U.S. GDP will be growing at around a three percent rate through 2012, with national job growth averaging around 200,000 a month and the unemployment rate moving down gradually throughout this period.

There are growing signs that New Jersey's recovery is starting to move closer to that of the nation. Private sector jobs in March were at their highest level since July 2009, and were 20,100 above their level of a year earlier. New Jersey consumers are feeling more upbeat, with motor vehicle sales in March the highest in several years.

We see job growth gaining momentum, and anticipate that about 125,000 more private jobs will be created in the state by the end of next year. Furthermore, since much of the retrenchment in government employment is now behind us, our anticipation is that the overall state job market will be visibly better.

There are still pitfalls ahead. The rise in gasoline prices has sapped some household purchasing power. Federal stimulus spending is now behind us, and it's likely that further spending cuts are in the offing. Outside the U.S., Japan is struggling to recover from its catastrophe, and a renewal of the European debt crisis could unhinge capital markets.

Closer to home, we have yet to re-establish the foundations of a housing recovery. With millions of foreclosed properties weighing on the market, buyers face the risk of further price declines. The regulatory and institutional structure of housing finance is still a work in progress. Since real estate is such a critical part of New Jersey's economy, this weakness plays an important role in our recovery, so far, being rather limited.

Let me turn now to the page titled "The Fiscal 2011 Budget." This table provides an overview of changes since the Governor presented his Budget Message on February 22.

The column at right indicates that we now expect our Gross Income Tax and Sales Tax to generate $460 million and $72 million more, respectively, than we had expected at the time of the Governor's Budget Message in February. At the same time, we are reducing our Corporate Business Tax estimate by $213 million, and our other revenue sources are down $77 million. Including $100 million in additional projected lapses, we expect total resources to be $342 million above projections made at the time that the 2011 budget was adjusted in February.

Moving further down the page, we have identified an additional $35 million in supplemental spending needs since February and have included a fifty percent increase in our recommended contribution toward the Fiscal 2012 statutory pension payment assuming, of course, the passage of meaningful pension reforms before the end of the current fiscal year in conjunction with the necessary appropriations authority. I will return to a discussion of this item in a few moments.

Net of all adjustments, we project a $54 million increase in our ending fund balance for Fiscal 2011 to $403 million. This amount is still far short of comfortable given our cash flow needs and the size of our overall budget, but it is $100 million better than projected at the time of the Appropriations Act.

The following pages entitled "History of FY 2011 Revenues" and "FY2011 Revenues" offer additional views of our revenue position. The former illustrates that we have, in fact, experienced *stabilization* as opposed to *acceleration*. The latter details the adjustments in respect of our major tax types.

Of some note is that, setting aside last year's changes to the Earned Income Tax Credit, the Gross Income Tax is now projected to yield fully $710 million or 7.2 percent more in Fiscal 2011 than we had expected as of the Appropriations Act. Significantly, this is $213 million more than actual results for Fiscal 2010, notwithstanding the expiration of the temporary rate surcharges and the loss of property tax deductions for some taxpayers approved under the prior administration.

Some observers will argue that we should push our GIT estimates for Fiscal 2011 and 2012 even more aggressively, based on a mechanical application of "normal" or average year to year growth rates and trends to completed final settlements for tax year 2010. For several reasons, I will respectfully demur and maintain a cautionary outlook.

First, there is little that has been "normal" about this recovery's impact on jobs and revenue. I suspect we are all frustratingly familiar with the inconsistencies in recent employment statistics and revenues across the different tax types. The strength in Gross Income Tax revenues appears largely attributable to improved incomes. Although we do not, as yet, have detailed information on 2010 incomes, it is likely that much of the gain was in bonus-type income in higher income households, who are taxed at substantially higher-than-average rates under our markedly progressive income tax.

As such, this gain would show up as withholding around the turn of the year and in final settlements, not necessarily as a sustainable increase in withholding through the end of the current fiscal year and beyond. The 2010 gain at the top is a reversal of 2008 and 2009, when a plunge in high incomes led to sharp drops in income tax paid, only partly offset by the temporary increase in taxes in 2009. Correcting for the impact of the 2009 tax hike, underlying growth in Gross Income Tax receipts in FY11 appears to be close to 8%.

Second, it's likely that many high income individuals took advantage of last year's filing extension, shifting final settlements from April to May of 2010. This would help explain some of the growth in this year year's April final settlements, but recommends caution with respect to this May's year over year growth expectations.

Third, we believe that Fiscal 2011 tax collections were impacted as some households brought income forward into calendar year 2010 to avoid the scheduled 2011 expiration of the 2001 federal tax cuts. This swelled some of our payment streams earlier in the fiscal year and likely boosted April's final settlements.

Finally, we believe that one of the clearest lessons of the last three years of uncertain and volatile revenue collections in New Jersey is this: Caution and discipline must temper revenue forecasts, or the State risks building expectations for higher spending that cannot be sustained and opens itself to yet another potential budget crisis that would have to be addressed under the worst possible, emergency conditions.

Offsetting the strength in Gross Income Tax has been ongoing softness in the growth of Corporation Business Tax collections, which are now expected to fall 1.8 percent below our original projections, and a $319 million or 3.8 percent decrease in other taxes.

We are studying the sources of the weak recovery in corporate taxes, which is occurring in an environment of robust corporate earnings. Preliminarily, it appears that, in a number of instances, major taxpayers overpaid their 2010 liabilities. These companies applied these overpayments to their 2011 tax bills in making their final settlements this spring. The upshot is that our 2010 corporate tax revenues, which included significant amounts of these overpayments, may have been too high a base from which to project 2011 and 2012 growth, and we have thus brought down the path of anticipated revenues.

In the other taxes category, we are recognizing significant reductions in our estimates for Sales Energy, Corporation Business Energy, Insurance Premium, and Motor Fuels taxes.

The Sales Tax continues to generate inconsistent month-to-month results. Accordingly, we are recognizing only a small additional amount of growth for Fiscal 2011.

The next two tables present a comparison of lapses and supplemental since the Governor delivered his Budget Message. Overall, we have identified $100.3 million in net additional lapses, offsetting somewhat $287.7 million in net supplementals.

Earlier, I noted the fact that we now recommend an increase in the proposed pension payment for Fiscal 2011. Our reasoning is simple: Making a pension payment must be our highest budget priority to the extent that we have unexpected additional resources in Fiscal 2011. As outside observers have noted repeatedly, our various pension systems are woefully underfunded to the point of having negatively impacted our credit rating, thus making it more expensive for the State and our localities to finance critical infrastructure and other capital needs.

As I am sure you appreciate, the current statutory framework for making pension contributions contemplates losing additional ground with respect to our funded ratios in each of the next seven years until we finally make the full actuarially recommended contribution. Without obviating the critical need for fundamental reform, anything we can do to boost contributions in the short and near term will be of material help as we transition to full funding over the next few years.

Let me now to turn to FY 2012, beginning with a series of five graphs. The first presents an overview of the adjustments to fund balances. As you will note, we start with a slightly higher opening fund balance and recognize an additional

$269 million in projected net revenues. Downward revisions in the Corporation Business Tax and some of the other taxes offset a significant increase in the Gross Income Tax.

We are projecting Gross Income Tax revenues for Fiscal 2012 of $11.132 billion, $604 million more than we had expected at the time the Governor delivered his budget message and $596 million, or about 5.7 percent more than our revised forecast for Fiscal 2011. This reflects our view that income growth will become more evenly distributed, with middle and lower income households gaining as the labor market improves.

However, this highly welcome development will work to moderate the growth of income tax revenue, especially given our previously expressed view that some households brought income forward into calendar year 2010 to avoid the scheduled 2011 expiration of the 2001 federal tax cuts. Thus, while we expect another gain, we do not anticipate that income tax growth in FY2012 will be as rapid as the underlying 2011 pace.

The fund balance table also reflects our recommendation that we use the bulk of the additional resources we have identified to increase Homestead Benefit property tax relief by $225 million in Fiscal 2012, thus tripling the Fiscal 2011 benefit level. Let me be clear. The Governor has amended his budget proposal to double the Homestead Benefit from Fiscal 2011 levels and to make the difference between doubling and tripling the benefit contingent on achieving fundamental health benefits reform.

We know you share our view of the critical importance of mitigating the crushing burden of New Jersey's very high property taxes on our middle and lower income homeowners, notwithstanding the positive impact of the two percent levy cap reform law that you and the Governor approved last year.

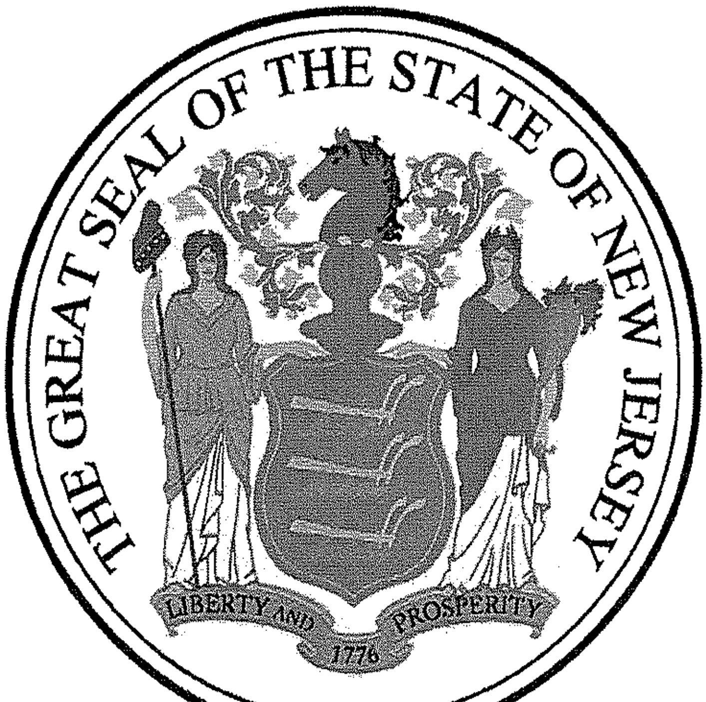
The second graph demonstrates that our updated FY 2012 projected revenue of $29.6 billion remains $3 billion below the State's actual revenues for 2008 and $1.6 billion below actual 2007 revenue. The third graph shows that our Gross Income Tax estimate is $1.5 billion short of what that tax generated in FY 2008. The fourth graph illustrates that we do expect modest growth in the Sales Tax next year, but still short of what had been collected in the pre-recession days of FY 2007 or FY 2008. Finally, the fifth graph illustrates our expectations for modest growth in the Corporation Business Tax.

Finally, the last page presents an overview of the State's budget over the past 10 years. In particular, it quite dramatically illustrates the role federal stimulus money has played in propping up past budgets. The fiscal 2012 budget will be the first in four years that doesn't depend on federal stimulus dollars to achieve balance. Assuming that the pension payment is made as the Governor has proposed in the current fiscal year, the 2012 budget will spend less money than any budget in the last six.

Perhaps this is a good place for me to stop and proceed to the next phase of the hearing. I hope you will not begrudge my closing with a final appeal to exercise caution and avoid being overly optimistic with respect to Fiscal 2012 revenues. We are just now emerging from an extremely difficult period in which, I believe, the volatility of our revenues actually compounded the negative program impacts of having to scale back unsustainable spending to achieve budget balance under extreme duress. Let us not drag our citizens through yet another cycle of inflated and ultimately unrealized expectations

Thank you for giving me this opportunity. I look forward to working with you in these remaining days of the budget process. With that, I am happy to respond to your questions.

FY 2012 Budget



May 17, 2011

FY 2011 – FY 2012
UPDATES

Fiscal Year 2011 Update

The FY 2011 Budget

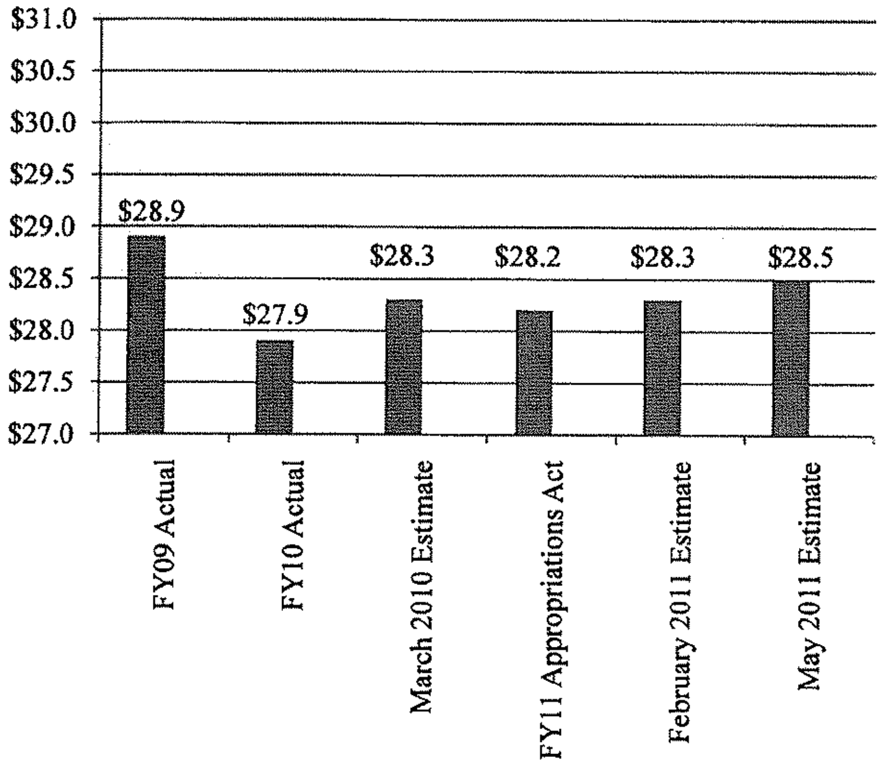
(In Millions)

	Approp. Act	Budget	May	Change Budget - May
Opening Surplus	**$ 505**	**$ 804**	**$ 804**	**$ -**
Revenues				
Income	9,855	10,076	10,536	460
Sales	7,829	7,775	7,847	72
Corporate	2,145	2,320	2,107	(213)
Other	8,333	8,091	8,014	(77)
Total Revenues	$ 28,162	$ 28,262	$ 28,504	242
ARRA Resources*	$ 1,033	$ 876	876	-
Lapses		$ 605	705	100
Total Resources	**$ 29,700**	**$ 30,547**	**$ 30,889**	**$ 342**
Appropriations				
Original including ARRA Funding	$ 29,397	$ 29,240	$ 29,240	-
Supplemental		$ 452	$ 487	35
Pension Contribution		506	759	253
Total Appropriations	**$ 29,397**	**$ 30,198**	**$ 30,486**	**$ 288**
Projected Surplus	**$ 303**	**$ 349**	**$ 403**	

*Resources and Appropriations used for budget relief that otherwise would have needed a State Appropriation.

History of FY 2011 Revenues

(In Billions)



FY 2011 Revenues

(In Millions)

	FY 2010 CAFR	FY 2011 Approp. Act	FY 2011 Budget	FY 2011 May	May vs. Approp. Act Change $	May vs. Approp. Act Change %	May vs. Budget Change $	May vs. Budget Change %
Income	$ 10,323	$ 9,855	$ 10,076	$ 10,536	$ 681	6.9	$ 460	4.6
Sales	7,523	7,829	7,775	7,847	18	0.2	72	0.9
Corporate	1,999	2,145	2,320	2,107	(38)	(1.8)	(213)	(9.2)
Other*	8,035	8,333	8,091	8,014	(319)	(3.8)	(77)	(1.0)
Total	**$ 27,880**	**$ 28,162**	**$ 28,262**	**$ 28,504**	**$ 342**	1.2	**$ 242**	0.9

* All Sales Tax and Corporation Taxes on Energy are included in Other
CAFR – Comprehensive Annual Financial Report

Comparison of Lapses Since Budget

(In Thousands)

	Budget Message	May Revised	Difference
Lapse of Appropriation Balances	**$ 605,039**	**$ 705,300**	**$ 100,261**
Significant Changes in Lapses			
Corrections Operating Surplus			$ 22,800
Higher Education Capital Improvement Fund Debt Service *			17,027
Mental Health Community Care Projection			12,349
Employer Unemployment Insurance Projection			6,344
Teacher's Social Security Tax Projection			5,700
Dormitory Safety Trust Fund Debt Service *			5,666
Children & Families Caseload and Operating Projection			4,440
Teacher's Post Retirement Medical and Non-Contributory Insurance Projection			3,886
Alternate Benefit Program Projection			3,660
Correctional Inmate Medical Projection			3,200
State Health Benefits Projection			3,035
Homestead Benefit Program Projection			2,700
Early Intervention Caseload Projection			1,465
DFD General Assistance Caseload Projection			1,310
Health Lab Utilities - Delay in Opening			1,300
Employee Benefits - FICA Projection			1,253
Children & Families Title IV-E Balances			(2,062)
PAAD Projection			(4,632)
School Construction & Renovation Fund Debt Service			(4,756)
Other Changes			15,576
Net Change in Lapses			**$ 100,261**

* Offset by revenue

Comparison of Supplementals Since Budget

(In Thousands)

	Budget Message	May Revised	Difference
Supplementals	**$ 957,823**	**$ 1,245,545**	**$ 287,722**
Significant Changes in Supplementals			
Pension Contribution			$ 253,000
Education ARRA Jobs MOE			44,000
County Jail Projection			3,200
Taxation - Fees for Collection Services			2,695
Unused Sick Leave			2,000
General Assistance Waiver - Federal Medicaid Match			1,451
Liberty Science Center			1,200
Supplemental Security Income Caseload			(1,670)
Snow Removal			(2,000)
Title IV-E Rate Step Down			(2,062)
Human Services Central Office Salary / Non-Salary Shortfall			(7,476)
Enhanced FMAP Funding Shortfall			(14,923)
Other Supplemental Changes (net)			8,307
Net Change in Supplementals			**$ 287,722**

Fiscal Year 2012 Update

The FY 2012 Budget

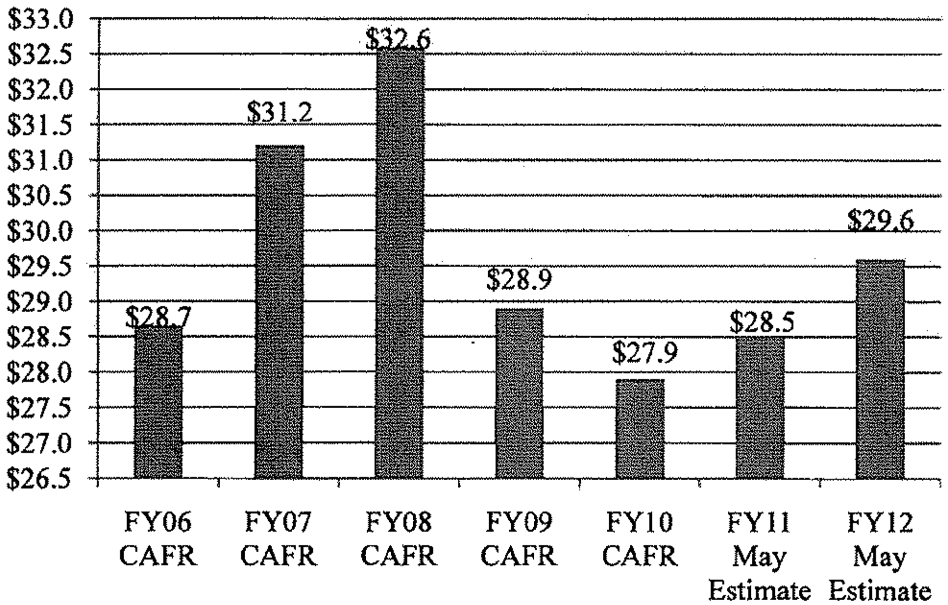
(In Millions)

	FY 2011 May Adjusted Approp.	FY 2012 Budget	FY 2012 May	FY 2012 May vs. Budget Change $	%
Opening Surplus	**$ 804**	**$ 349**	**$ 403**	**$ 54**	**15.4 %**
Revenues					
Income	10,536	10,528	11,132	604	5.7
Sales	7,847	8,078	8,153	75	0.9
Corporate	2,107	2,430	2,261	(169)	(7.0)
Other	8,014	8,338	8,097	(241)	(2.9)
Total Revenues	$ 28,504	$ 29,374	$ 29,643	$ 269	0.9 %
ARRA Resources*	$ 876	$ -	$ -	$ -	
Lapses	705	-	-	-	
Total Resources	**$ 30,889**	**$ 29,723**	**$ 30,046**	**$ 323**	**1.1 %**
Appropriations					
Original including ARRA Funding	$ 29,240	$ 29,420	$ 29,420	$ 0	0.0 %
Supplemental	487	-	-	-	
Pension Contribution	759	-	-	-	
Homestead Credits	-	-	225	225	
Total Appropriations	**$ 30,486**	**$ 29,420**	**$ 29,645**	**$ 225**	**0.8 %**
Target Fund Balance	**$ 403**	**$ 303**	**$ 401**	**$ 98**	**32.4 %**

*Resources and appropriations used for budget relief that otherwise would have needed a State Appropriation

History of Total Revenues
FY2012 Still Less Than FY2007

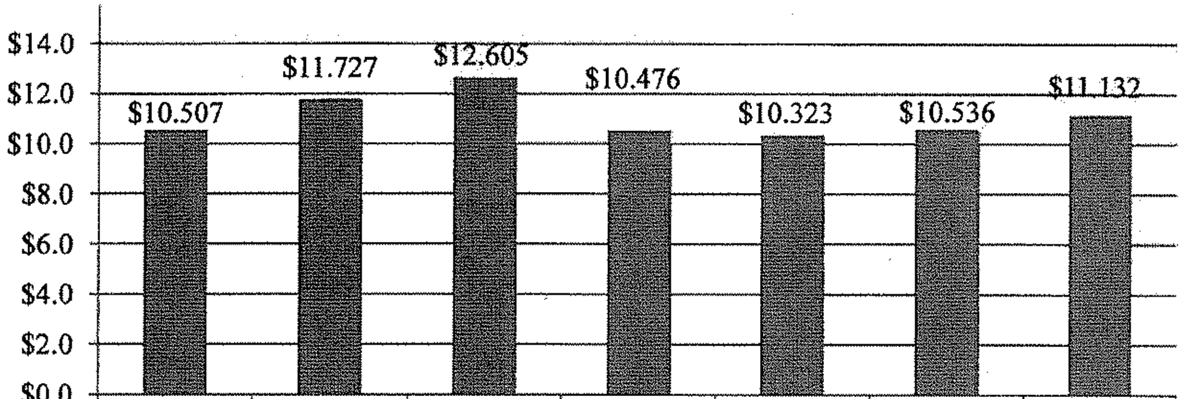
(In Billions)



CAFR – Comprehensive Annual Financial Report

Income Tax Revenue Below Actual FY 2007 Collections

(In Billions)

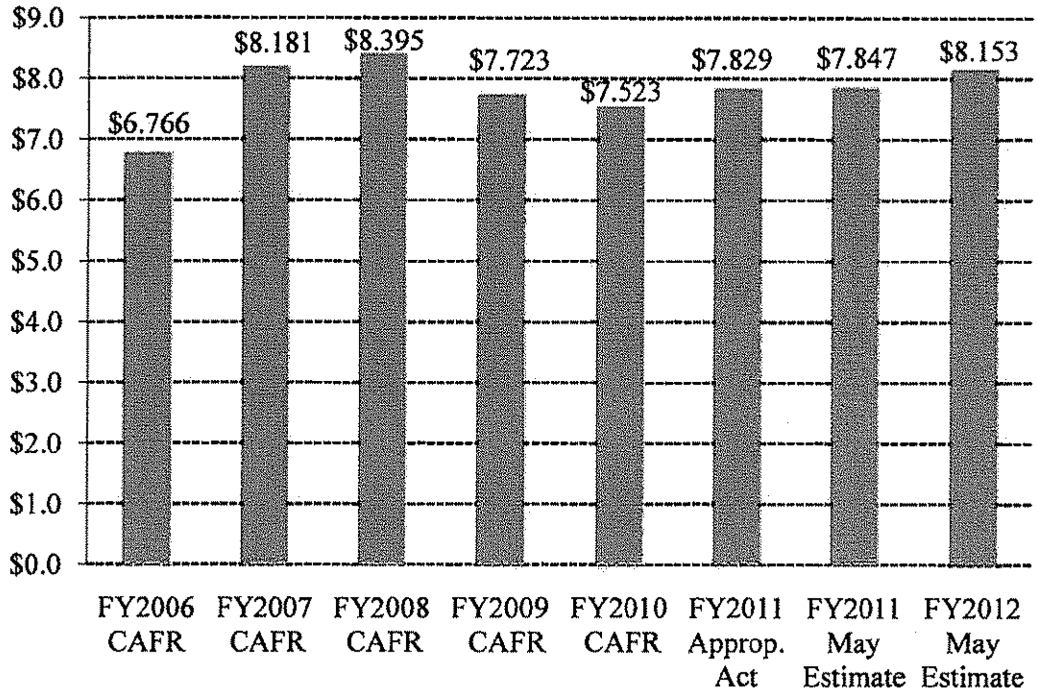


% Change	10.2%	11.6%	7.5%	-16.9%	-1.5%	2.1%	5.7%
	FY2006 CAFR	FY2007 CAFR	FY2008 CAFR	FY2009 CAFR	FY2010 CAFR*	FY2011 May Estimate*	FY2012 May Estimate*

* These revenues include changes in tax policy.
FY 2009 - Incremental Change in EITC Expansion ($60 million)
FY 2009 - Includes $88.9 million received from the Amnesty program.
FY 2010 - Incremental Change in EITC ($9.9 million)
FY 2010 - EITC Federal Reimbursement ($150 million)
FY 2011 - EITC Federal Reimbursement ($39 million)
FY 2011 - Millionaire's Tax Expired 12/31/09
FY 2012 - Tax Cut ($23 million)
CAFR - Comprehensive Annual Financial Report

Sales Tax

(In Billions)



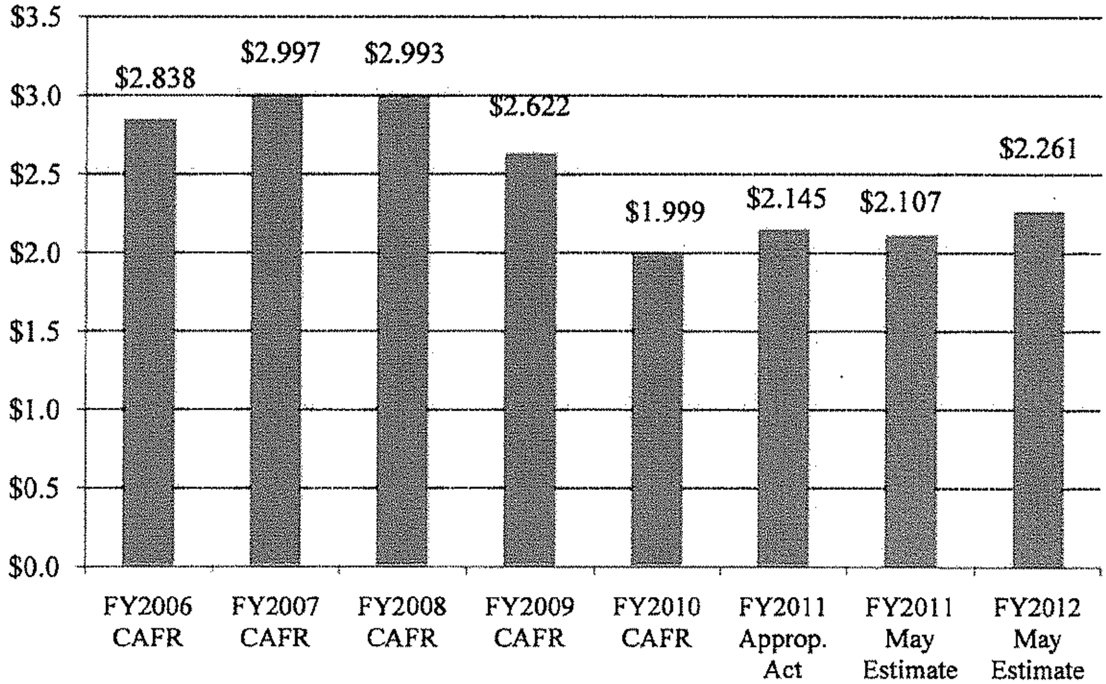
FY2007 tax increases:
- increased Sales Tax rate from 6% to 7%
- broadened Sales Tax base

FY2009 includes $142.5 million received under the Amnesty program
FY2012 includes $2.5 million in tax cuts

Sales Tax excludes the tax on energy
CAFR – Comprehensive Annual Financial Report

Corporation Business Tax

(In Billions)

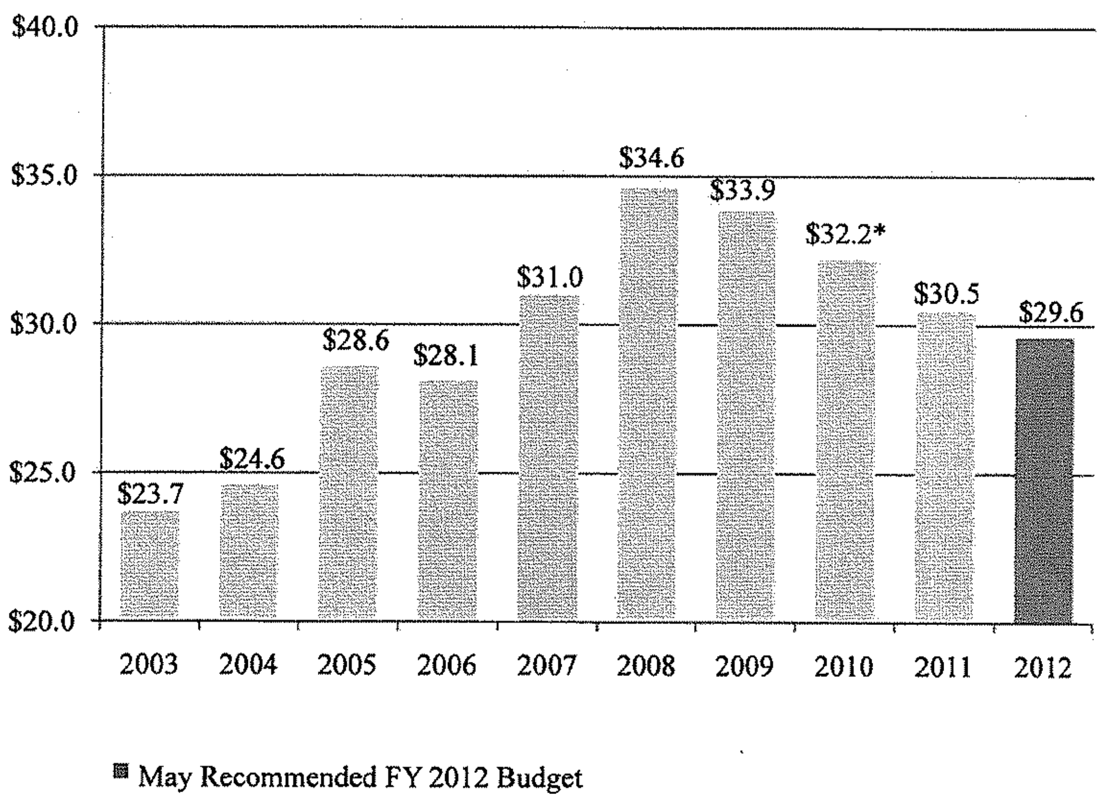


FY2009 includes $392.6 million received under the Amnesty program
FY2011 4% Surcharge expired
FY2012 includes $100.2 million in tax cuts

Corporation Business Tax excludes the tax on energy
CAFR – Comprehensive Annual Financial Report

State Budget For Past Ten Years

(In Billions)



FYs 2003-2011 reflect Adjusted Approp. except *FY 2010 reflects the FY 2011 Budget presentation because of subsequent de-appropriations. FY 2009-2011 includes federal stimulus funds that replaced State funding.