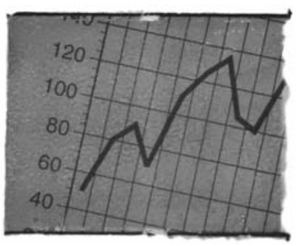

ANALYSIS OF THE NEW JERSEY BUDGET

TAX AND REVENUE OUTLOOK

FISCAL YEAR 2014 - 2015

PREPARED BY OFFICE OF LEGISLATIVE SERVICES
NEW JERSEY LEGISLATURE • APRIL 2014

NEW JERSEY STATE LEGISLATURE

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This report was prepared by the Revenue, Finance and Appropriations Section of the Office of Legislative Services under the direction of the Legislative Budget and Finance Officer. The primary author was Martin Poethke with additional contributions by Thomas Koenig.

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The FY 2014 and FY 2015 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 2015 appropriations bill. The OLS revenue estimates rely on a review of current State revenue collections, revisions to statutory law, historical revenue collection patterns, and a variety of economic data and forecasts, as well as professional judgment.

The OLS projects that FY 2014 and FY 2015 revenues will be $525.9 million less than the estimates in the FY 2015 Governor's Budget Recommendation. Specifically:

- For FY 2014, the OLS revenue estimates are $216.6 million, or 0.7%, below the Executive budget estimates (page 2).
- For FY 2015, the OLS revenue estimates are $309.4 million, or 0.9%, below the Executive budget estimates (page 3).
- Also for FY 2015, the Executive's estimates include $240.0 million in new State revenue from various tax initiatives that require legislation (page 16). For this analysis, the OLS assumes the enactment of this legislation and that the amounts projected by the Executive will be achieved.

Contents	Page

Fiscal Year 2014 Revenue Estimates

Figure 1
Fiscal Year 2014 Revenue Estimates
($ millions)

		Governor's Budget Message			
	Appropriations Act Certified	Revised Amount	Change	OLS Est. Amount	OLS vs. GBM Difference
Gross Income Tax	$13,039.0	$12,927.8	-$111.2	$12,840.0	-$87.8
Sales Tax*	8,680.0	8,680.0	0.0	8,625.0	-55.0
Corporation Bus. Tax*	2,416.0	2,419.7	3.7	2,419.7	0.0
CBT Banks & Financials	202.0	197.0	-5.0	220.0	23.0
Realty Transfer Fee	297.0	287.0	-10.0	257.6	-29.4
Assessm. on $1 Mil. Property	112.0	108.0	-4.0	94.4	-13.6
Insurance Premiums	608.0	612.0	4.0	600.0	-12.0
Inheritance Taxes	715.0	715.0	0.0	685.0	-30.0
Cigarette Tax	237.0	221.4	-15.6	236.6	15.2
Tobacco Settlement	49.2	148.0	98.8	148.0	0.0
Casino Revenue Fund	383.6	256.8	-126.8	230.4	-26.4
Other Revenues*	6,074.2	5,989.6	-84.6	5,989.1	-0.6
Grand Total, All Funds	**$32,813.0**	**$32,562.3**	**-$250.7**	**$32,345.8**	**-$216.6**

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 1 presents the FY 2014 revenue certification from the Appropriations Act (June 2013), the Executive's revisions as presented in the February 2014 Governor's Budget Message, and the OLS forecast. Highlights of the revenue estimates include:

Executive

- Revised estimates for total revenues are down by $250.7 million from the level certified in the FY 2014 Appropriations Act.
- The estimate for the gross income tax is down $111.2 million.
- The estimate for the sales tax is unchanged.
- The estimate for the Casino Revenue Fund is down $126.8 million.
- Tobacco Settlement Fund revenues are up $98.8 million.

Office of Legislative Services

- The total revenue estimate for FY 2014 is **$216.6 million below** the Executive's revised projection.
- The estimate for the gross income tax is $87.8 million below the Executive's.
- The estimate for the sales tax is $55.0 million below the Executive's.
- The estimate for the Casino Revenue Fund is $26.4 million below the Executive's.

Fiscal Year 2015 Revenue Estimates

Figure 2
Fiscal Year 2015 Revenue Estimates
($ millions)

	Governor's Budget Message		OLS Estimates		
	Amount	Annual Growth	Amount	Annual Growth	OLS vs. GBM Difference
Gross Income Tax	$13,988.2	8.2%	$13,875.0	8.1%	-$113.2
Sales Tax*	9,212.0	6.1%	9,108.0	5.6%	-104.0
Corporation Bus. Tax*	2,583.0	6.7%	2,583.0	6.7%	0.0
CBT Banks & Financials	210.0	6.6%	220.0	0.0%	10.0
Realty Transfer Fee	325.0	13.2%	291.7	13.2%	-33.3
Assessm. on $1 Mil. Property	120.0	11.1%	108.6	15.0%	-11.4
Insurance Premiums	650.0	6.2%	630.0	5.0%	-20.0
Inheritance Taxes	757.9	6.0%	750.0	9.5%	-7.9
Cigarette Tax	180.8	-18.4%	195.4	-17.4%	14.6
Tobacco Settlement	56.0	-62.2%	56.0	-62.2%	0.0
Casino Revenue Fund (CRF)	310.7	21.0%	266.1	15.5%	-44.6
Other Revenues*	6,053.8	1.1%	6,054.2	1.1%	0.4
Grand Total, All Funds	**$34,447.4**	**5.8%**	**$34,138.0**	**5.5%**	**-$309.4**

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 2 displays the Executive FY 2015 revenue estimates as presented in the February 2014 Governor's Budget Message and the OLS forecast. Highlights of the revenue estimates include:

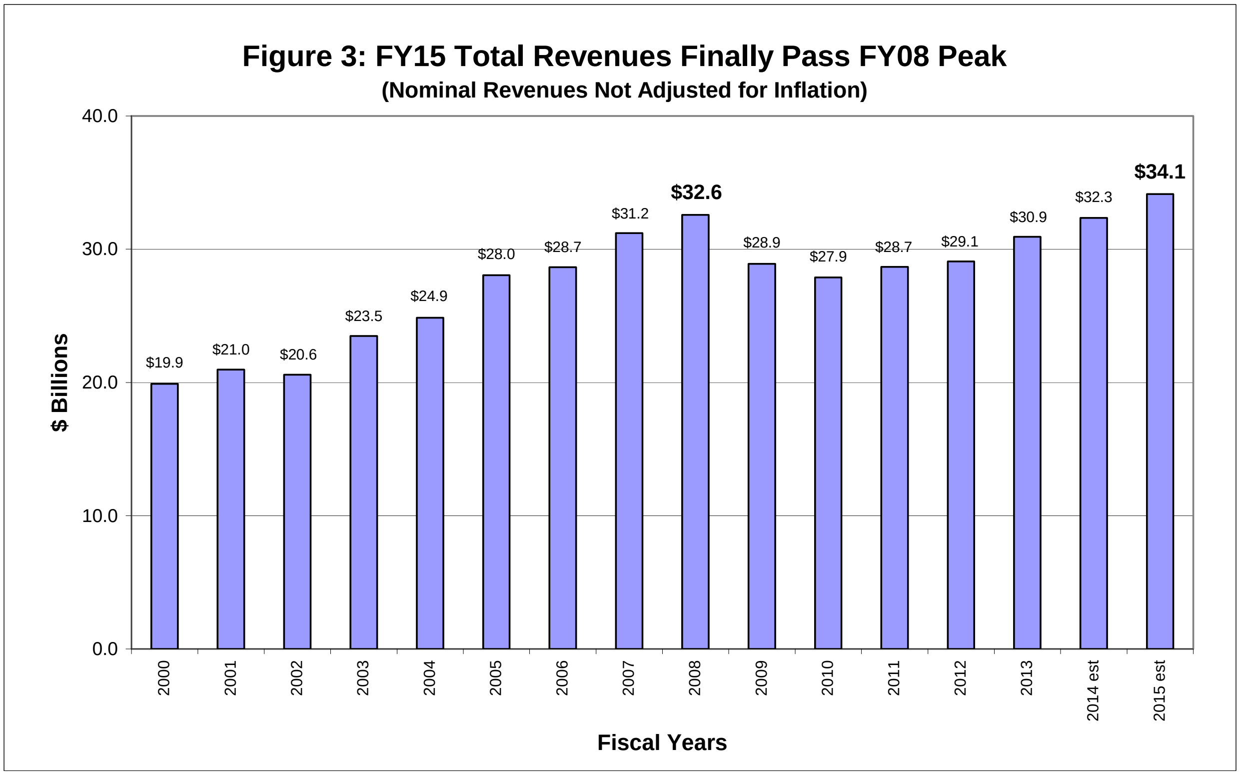
Executive

- The total revenue estimate is $1.885 billion above FY 2014, a 5.8% increase.
- The gross income tax estimate is up $1.060 billion, or 8.2%.
- The sales tax estimate is up $532.0 million, or 6.1%.
- The corporation business tax estimate is up $163.3 million, or 6.7%.
- The Casino Revenue Fund estimate is up $53.9 million, or 21.0%.

Office of Legislative Services

- Total revenue estimate for FY 2015 is **$309.4 million below** the Executive's projection, 5.5% growth from a lower base.
- The gross income tax estimate is $113.2 million below the Executive's.
- The sales tax estimate is $104.0 million below the Executive's.
- The corporation business tax estimate is the same as the Executive's.
- The Casino Revenue Fund estimate is $44.6 million below the Executive's.

Recent Revenue Trends



In 2009, economists Carmen M. Reinhart and Kenneth S. Rogoff[1] concluded that the slump following a severe financial crisis, such as the one experienced in 2008 and 2009, tends to be protracted and severe. Recovery can take many years.

As is shown in **Figure 3**, New Jersey's State revenues, in nominal terms (unadjusted for inflation), have not quite returned to the prerecession peak. Budgeted revenues in FY 2008 were $32.6 billion, slumped to $27.9 billion in FY 2010, and are expected to exceed $34.1 billion in FY 2015. Thus it appears it will take a full seven years to achieve nominal parity with our peak.

Another perspective on revenue recovery is provided by the Pew Charitable Trusts. Pew analyzed how tax revenue collections in all 50 states were affected by the Great Recession and how collections have responded since. Pew used the quarterly tax data collected by the Census Bureau for the period running from before the recession through the second quarter of calendar 2013. They adjusted the data for inflation, so that changes could be viewed in constant dollars, and for seasonal variations.[2]

Looking at **Figure 4**, the graph of aggregate tax collection for all 50 states on the next page, the revenue high point prior to the

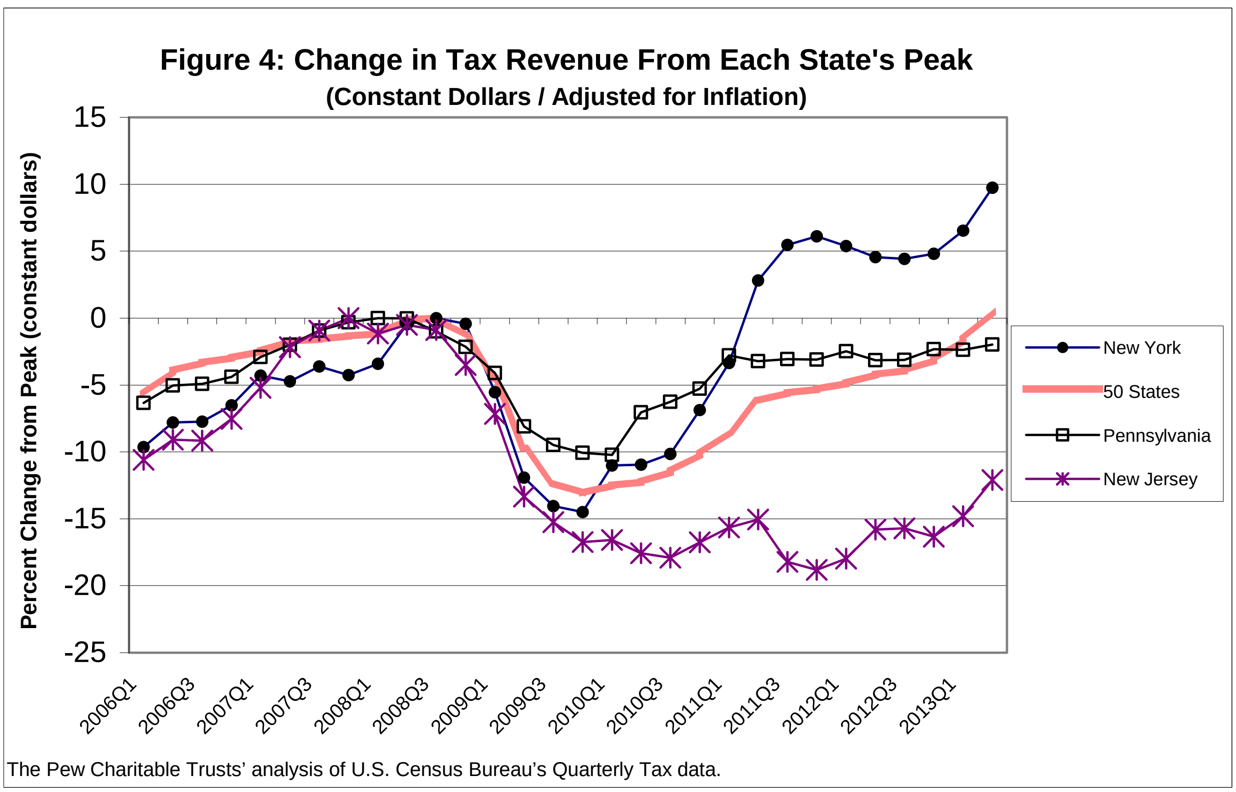
[1] Reinhart, Carmen M., and Rogoff, Kenneth S., *The Aftermath of Financial Crises*, Working Paper 14656, National Bureau of Economic Research, January 2009.

[2] The Pew data differ from the revenue totals in Figure 3 in that they are in constant dollars, are limited to tax revenues (as opposed to all revenues) and are quarterly amounts (as opposed to fiscal year totals) which have been converted into four-quarter moving averages.

recessionary plunge was achieved in the third quarter of calendar year 2008 and the bottom was reached in the fourth quarter of 2009 – at a level 13.1% below the peak. It took until the second quarter of 2013 for collections to return to the prior high point, as measured in constant dollars. However, in New Jersey the recessionary decline started sooner, went deeper and lasted longer. Our revenue peak came in the fourth quarter of 2007 and the decline continued through the third quarter of 2010 - falling to a level 17.9% below the peak. And New Jersey's recovery has been markedly slower. By the third quarter of 2013, when the 50-state total had finally turned positive (0.5% above the peak), New Jersey was still 12.1% below its prior peak.

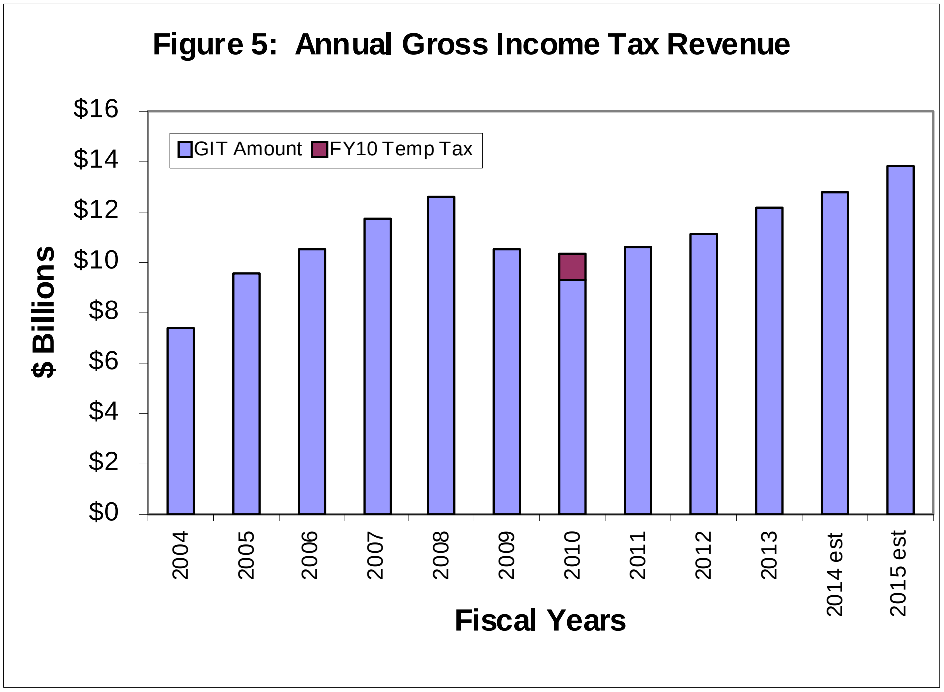
Not only did New Jersey lag the national trend, we also trailed our neighbors. New York returned to its peak in the second quarter of 2011 and was 9.7% above that prior peak by the second quarter of 2013. Pennsylvania had not yet returned to its peak in 2013, but was down only 2%. Maryland and Massachusetts, two states that bear demographic and tax structure similarities to New Jersey remained just below (0.3% and 0.2%, respectively) their earlier peaks by 2013.

It is important to note that not all of New Jersey's revenue underperformance compared to the other states is attributable to weaker economic growth. Some states enacted tax increases during the period and others experienced boosts from the recent surge in energy production. However, it is also true that for this period New Jersey's growth in jobs, personal income and gross state product has lagged the nation.



Source: The Pew Charitable Trusts' analysis of the U.S. Census Bureau's Quarterly Summary of State and Local Taxes, as adjusted by the Nelson A. Rockefeller Institute of Government in its State Government Tax Revenue by State: 1994-2013 table, accessed Dec. 9, 2013. Data adjusted for inflation using the U.S. Bureau of Economic Analysis' implicit price deflator for gross domestic product, accessed Dec. 9, 2013.
http://www.pewstates.org/research/data-visualizations/fiscal-50-state-trends-and-analysis-85899523649#ind0

The Gross Income Tax



Note: Unless otherwise referenced, all graphs display actual or OLS estimated revenues.

Six years after the FY 2008 peak of $12.6 billion, nominal gross income tax (GIT) collections should finally top that peak in FY 2014 and FY 2015. As is shown in **Figure 5**, following the Great Recession of 2008-2009, GIT revenues lagged for five fiscal years, but growth resumed in FY 2011.

Fiscal Year 2014

The Executive has decreased its estimate for FY 2014 by $111.2 million from the amount certified in June, to $12.928 billion, 6.8% greater than FY 2013. The OLS projects $12.840 billion in FY 2014, 6.0% growth over last year, but $87.8 million below the Executive.

Through the first eight months of FY 2014, the GIT is up only 3.4% compared to the same period last year, or half the growth rate necessary to achieve the Executive's year-end target. The recent trend has been weak. Through the end of November, GIT receipts were growing by a solid 6.6%, but combined collections for December, January and February were up only 0.5% from the same months last year. Collections for the most recent month, February, fell 8.8% below February 2013.

Multiple factors impact the FY 2014 GIT. Both Treasury and the OLS understand that a delay in the refund payment pattern last year is depressing current growth. Last year refunds paid by the State through February were below normal levels, which made the net revenues unusually large. This year, as refund payments have returned to their historical levels, growth in net collections looks weak because of the artificially high levels last year against which they are measured. By the end of FY 2014 this distortion will have corrected itself. For this reason, both the Executive and the OLS are projecting a rebound from the currently low 3.4% growth rate.

The cause of greater uncertainty than the refund processing issue are two opposing factors that will influence the always important April tax payments. First, growth in payments this April will be held down by an artificial bump in payments last year. As certain federal income tax rates were set to rise on January 1, 2013, some high-income filers were able to shift income realization into Tax Year 2012 to avoid that increase. This behavior produced a jump in taxable income and for New Jersey (and other states), a jump in tax payments last year. New Jersey's GIT collections surged 29% last April. Not only will the windfall from that jump not recur, but some of the income that would have otherwise been realized in Tax Year 2013 was probably taken in late 2012 instead. Treasury estimates the one-time revenue infusion may have been worth $180 million last year, while the OLS assumes an amount closer to $250 million.

While last year's infusion will have an adverse effect on this April's GIT growth, the strong performance of the stock market will have a positive impact. During Tax Year 2013 the S&P 500 index jumped 29% and that will enhance collections this spring. The OLS anticipates the boost will outweigh the loss of the one-time revenues from the tax base, and that April collections will rise by about 5% over last April. Presumably Treasury expects growth in April as well, but OLS does not have access to Treasury's monthly GIT projections. Once the April returns are tabulated by the middle of May, it will become clear if the "April Surprise" will be a positive or a negative one for FY 2014.

Fiscal Year 2015

The complicating effects of refund delays and one-time revenues should be gone in FY 2015. Both the Executive and OLS anticipate that the GIT will increase by close to the long-run average growth rate. The Executive projects 8.2% growth, yielding $13.988 billion. The OLS projects 8.1% growth, but off a lower prior year base, yielding $13.875 billion, $113.2 million less than the Executive. Since the growth rates are nearly identical, the difference in FY 2015 is due to the difference in the FY 2014 estimates.

The OLS's FY 2015 estimate is a function of assumed growth in withholding of 5%, growth in estimated payments of 15% trending to 10%, growth in final payments of about 10%, and flat refund payments. Estimated and final payments are driven by stock market growth, which has been strong for several consecutive years.

The Executive includes an $18 million addition for a proposal to penalize "bad" electronic tax payments the same as "bad" checks. The OLS assumes the enactment of the required legislation, and that the amount projected by the Executive will be achieved.

The OLS GIT forecast is constructed from an analysis of the four separate components of the GIT cash flow:

- **Withholding**: Paid throughout the year by employers from amounts deducted from workers' paychecks (including bonuses and some stock options);
- **Estimated Payments**: Generally paid quarterly in April, June, September, and December/January by taxpayers with significant non-wage income, such as capital gains, dividends, and partnership income;
- **Final Year-End Payments**: Due each April, reconciling the prior tax year liability. Generally paid by taxpayers with significant non-wage income;
- **Refund Payments**: Paid by the State to taxpayers whose April tax filings show tax payments exceeding tax liability.

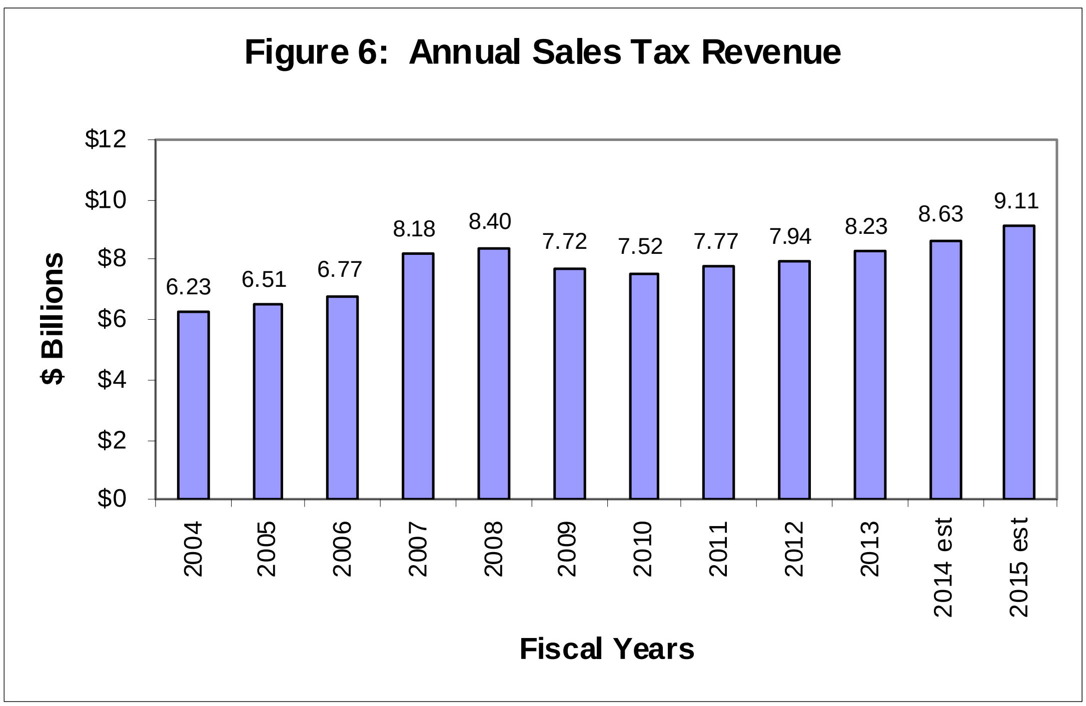
The Sales Tax

The sales tax has continued its moderate recovery from the Great Recession, averaging 3.1% growth during Fiscal Years 2011, 2012, and 2013. Through the end of February, sales tax revenue is up 5.6% over the same period last year. The Executive expects this growth to continue, ending FY 2014 at $8.68 billion for 5.4% growth overall. In FY 2015 the Executive projects $9.212 billion, an increase of 6.1% above the FY 2014 level. That increase includes baseline growth moderating to 5.0% plus $98.0 million from three tax initiatives that will require legislation.

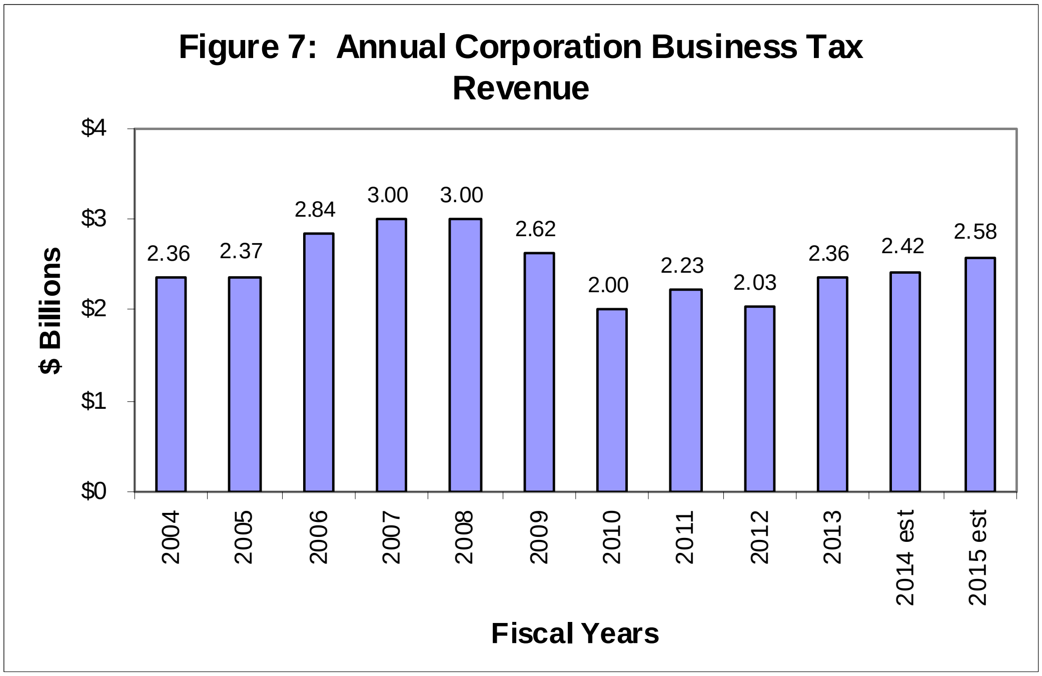
The OLS is slightly more cautious regarding sales tax collections for the remainder of FY 2014 and for FY 2015. The sales tax is growing off a base that was significantly weaker in the first half of FY 2013 than in the second half. Accordingly, the robust 10.0% growth rate through November slowed recently to only 0.4% for December through February. The OLS projects a pick up to 3.5% growth for the remaining months of FY 2014, yielding a total of $8.625 billion, $55.0 million less than the Executive's estimate. For FY 2015 the OLS projects baseline growth will improve to 4.5% and adds the three tax initiatives, for a total of $9.108 billion, $104 million less than the Executive's estimate.

The OLS assumes the enactment of the legislation required for the Executive's tax initiatives, and that the amounts projected by the Executive will be achieved. Those initiatives consist of:

- $70.0 million from taxing certain business-to-business transactions in Urban Enterprise Zones;
- $25.0 million from revising the nexus test for certain internet vendors; and
- $3.0 million from penalizing "bad" electronic payments the same as "bad" checks.



Corporation Business Tax



The Executive has slightly increased its estimate of corporation business tax (CBT) revenue in FY 2014. The revised estimate is $2.42 billion, an increase of $3.7 million over the certified level. For FY 2015, the Executive estimates $2.58 billion, an increase of 6.7%. Underlying growth is 3.1%, plus an additional $89 million for various tax initiatives.

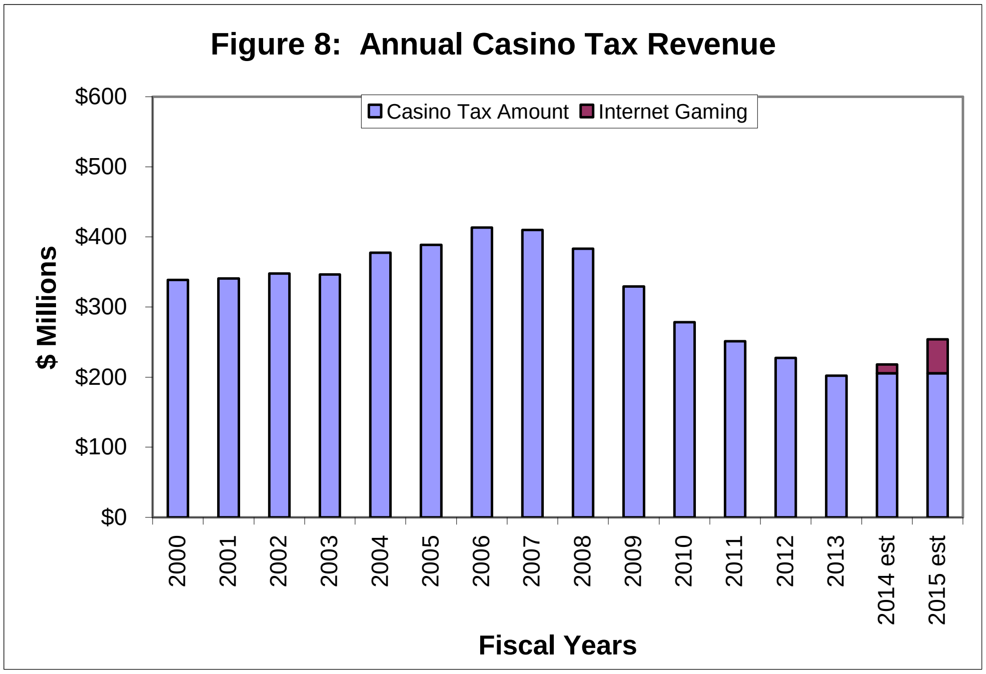
The OLS concurs with the Executive's CBT estimate for FY 2014. Through the end of February, the CBT is performing at a better rate than is necessary to reach the Executive's year-end target for FY 2014. However, February refund payments dropped sharply below the previous year and below historical standards. Early March refund payments are also lagging historical patterns. The OLS is concerned that this refund drop may be temporarily boosting net CBT revenues and inflating the current growth rate. Accordingly, the OLS believes the Executive's FY 2014 target remains a reasonable one. If refunds remain low in the coming months, an upward revision in this revenue forecast is possible in May.

Likewise, the OLS also concurs with the Executive's FY 2015 CBT target. Given the volatility of the CBT, the assumption of baseline growth of 3.1% is a cautious but achievable target within the long-run historical range.

The OLS assumes the enactment of the legislation required for the Executive's FY 2015 tax initiatives, and that the $89.0 million projected by the Executive will be achieved. Those initiatives consist of:

- $65.0 million from taxing certain nonresident partner income;
- $20.0 million from disallowing certain net operating losses related to indebtedness; and
- $4.0 million from penalizing "bad" electronic payments the same as "bad" checks.

Casino Tax Revenue



From FY 2006 to FY 2013, casino tax collections deposited into the Casino Revenue Fund (CRF) plummeted 51%, from $413.3 million to $201.9 million. Competition from new casinos in other states is seen as the primary cause of the fall, although the Great Recession added to the decline. **Figure 8** displays the downward trend that has persisted even with the subsequent slow economic recovery.

The revenue decline appears to have bottomed out in FY 2013, and in FY 2014 the traditional "brick and mortar" casino tax revenues are running slightly ahead of last year through the end of February. Beginning with FY 2014, the CRF also benefits from internet gaming tax revenues.

Figure 9 on the following page, displays the CRF revenue estimates for FY 2014 and FY 2015. The Executive has sharply reduced its FY 2014 estimate from $383.6 million to $256.8 million, a decline of $126.8 million. However, the Executive has not revealed how much of the $126.8 million reduction in FY 2014 is attributable to the long-standing 8% casino tax and how much is from the new 15% internet gaming tax. Likewise, the Executive's FY 2015 CRF estimate of $310.7 million does not distinguish between the two taxes.

The OLS estimates $26.4 million less than the Executive for FY 2014 CRF revenues and $44.6 million less than the Executive for FY 2015. **Figure 9** displays OLS estimates for each tax. The OLS projects $205.8 million in each year from the 8% casino tax. For the 15% internet gaming tax, the OLS projects $12.0 million in FY 2014, growing to $48.0 million in FY 2015.

Figure 9: Casino Revenue Fund and Component Amounts -- FY 2014 and FY 2015
$ in Millions

	FY 2014 Estimates				FY 2015 Estimates		
	Approp. Act Certified	Executive Revised	OLS Revised	Difference Revised Est.	Executive Revised	OLS Revised	Difference Revised Est.
Casino Revenue Fund (CRF)							
CRF 8% Tax	$209.1	n/a	$205.8	n/a	n/a	$205.8	n/a
CRF 15% Internet Gaming Tax	$160.0	n/a	$12.0	n/a	n/a	$48.0	n/a
CRF Other	$14.5	$12.6	$12.6	$0.0	$12.3	$12.3	$0.0
Casino Revenue Fund Total	**$383.6**	**$256.8**	**$230.4**	**-$26.4**	**$310.7**	**$266.1**	**-$44.6**

The Executive has not provided distinct estimates for the 8% casino tax and the 15% internet gaming tax.
Through the end of February, 2014, the Division of Gaming Enforcement reports $4.22 million in FY 2014 internet gaming tax revenue.

Internet Gaming

Last year in February and May, the Executive projected $180 million from the 15% internet gaming tax in FY 2014. In May, after consulting with officials in the casino industry and reviewing published analyses available online, the OLS estimated $30.0 million during the first (partial) year of operations. In June the Governor certified $160.0 million for the FY 2014 Appropriations Act.

The State now has several months of actual collections data. New Jersey's internet gaming began operations at the end of November 2013. Based on monthly reports from the Division of Gaming Enforcement, through the end of February, the initial period of three months and one week produced total State tax revenues of $4.22 million. The monthly yield has been growing, from about $1.1 million in December, to $1.4 million in January, and $1.5 million in the short month of February.

Given the current internet gaming revenue trend, the OLS anticipates that a monthly average approaching $2.0 million is achievable for the remaining four months of FY 2014. Therefore, the OLS estimates $12.0 million total for FY 2014.

For FY 2015, the OLS is optimistic that monthly tax receipts will continue to rise as internet gaming evolves and implementation obstacles are overcome. If the average monthly tax revenue improves to $2.0 million by the end of FY 2014, the OLS believes it is reasonable to assume continued growth, producing an average monthly receipt of $4.0 million for FY 2015 overall. That would yield an estimated tax revenue amount of $48.0 million in FY 2015. A comparison with, or analysis of, the Executive's 15% internet gaming tax revenue projection is not possible at this time, since a distinct forecast for this tax has not been provided.

Other Selected Revenues

Figure 10: Cigarette Tax Estimates and Distributions

Millions of Dollars

	Actual	Executive Estimates		OLS Estimates		OLS Difference	
	FY2013	FY2014	FY2015	FY2014	FY2015	FY2014	FY2015
Total Collections All Sources	**$731.9**	**$709.9**	**$688.6**	**$725.1**	**$703.3**	**$15.2**	**$14.7**
Less, Health Care Subsidy Fund	-396.5	-396.5	-396.5	-396.5	-396.5	0.0	0.0
Less, Dedication for Debt Service	-88.5	-92.0	-111.4	-92.0	-111.4	0.0	0.0
Total Collections On-Budget	**$246.9**	**$221.4**	**$180.8**	**$236.6**	**$195.4**	**$15.2**	**$14.7**

Cigarette Tax

The cigarette tax generates about $700 million in State receipts each fiscal year, but only a portion of this amount appears as budgeted General Fund revenue (see **Figure 10**). In FY 2013, for example, the State received $731.9 million in cigarette tax collections. Of that total, $396.5 million supported the off-budget Health Care Subsidy Fund, $246.9 million was accounted for on-budget as General Fund revenue, and the remaining $88.5 million was used off-budget to pay debt service on cigarette tax revenue securitization bonds.

The Executive projects $221.4 million in FY 2014 on-budget cigarette tax receipts. This estimate assumes a 3.0% rate of decline in taxed cigarette sales from FY 2013. However, through January 2014, the rate of decline was merely 0.3%. The OLS deems it improbable that the revenue source will post the 8.6% decrease required in the remaining months of FY 2014 to fall to the Executive estimate. Consequently, the OLS forecasts $236.6 million in FY 2014 collections, a 1.0% decrease in taxed cigarette sales from FY 2013, and a 2.3% year-on-year drop in the remaining months of FY 2014.

For FY 2015, the Executive and the OLS both assume that taxed cigarette sales will recede by 3.0%. The difference in the estimates is therefore entirely attributable to the disparate FY 2014 base projections. Specifically, the Executive forecasts $180.8 million in FY 2015 on-budget General Fund receipts, or an 18.3% decline from its FY 2014 estimate. The OLS, in turn, pegs the FY 2015 number at $195.4 million, or a 17.4% decline over its FY 2014 estimate. The relatively dramatic anticipated year-on-year decreases reflect two intricacies inherent to the cigarette tax's revenue allocation. First, statutory law shields from the effects of eroding cigarette sales the fixed $396.5 million off-budget Health Care Subsidy Fund dedication and, up to a point, the required off-budget debt service payments on cigarette tax revenue securitization bonds. Consequently, the subordinate on-budget portion of cigarette tax collections will absorb the entirety of the revenue loss from the anticipated 3.0% decline in taxed cigarette sales. Second, required off-budget debt service payments on cigarette tax revenue securitization bonds will grow by $19.4 million from $92.0 million in FY 2014 to $111.4 million in FY 2015. This sum will thus not be available to the subordinate on-budget portion of cigarette tax collections.

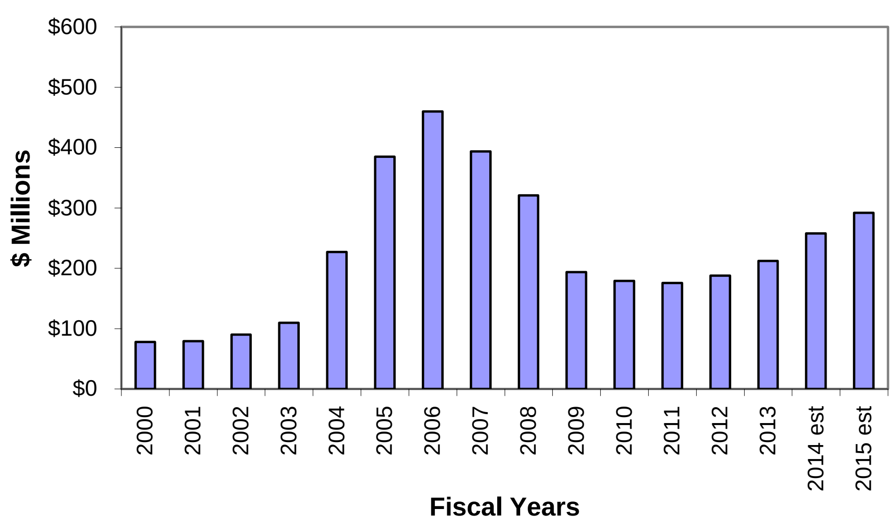
Realty Transfer Fees

Since FY 2003, the realty transfer fee has traversed a boom-and-bust cycle whose highs and lows have been more pronounced than those of any other major State revenue. **Figure 11** shows that fee collections more than quadrupled from $109.3 million in FY 2003 to $459.7 million in FY 2006. Most of that surge was attributable to FY 2004 and FY 2005 rate increases. Without the rate increases, the boom in the real estate market still propelled annual collections upwards by an astounding 65% over the three-year period. From the FY 2006 peak, collections then tumbled by 62% through FY 2011. Since then, the real estate market has started to rebound and realty transfer fee collections have as well. After five straight years of at times dramatic decline, the revenue source posted its second consecutive annual increase in FY 2013. The upward trajectory has continued at an accelerated clip in FY 2014.

The Executive estimates $287.0 million in FY 2014 realty transfer fee revenue, or 35.3% over FY 2013, and $325.0 million in FY 2015, or 13.2 percent growth. Although the OLS shares the Executive's perspective that fee collections will grow in FY 2014 and FY 2015, it remains somewhat more cautious. FY 2014 year-to-date collections through January are up 21.2%, but it would take a 56.2% bounce for the remaining months of the fiscal year to reach the Executive's projection. The OLS thus estimates $257.6 million in FY 2014 fee revenue and $291.7 million in FY 2015. The FY 2014 estimate reflects a 21.5% growth rate over FY 2013 and the FY 2015 estimate a 13.2% growth rate over FY 2014.

The yield of the separate one-percent assessment on property sales valued over $1 million is also growing, albeit at a more subdued rate than realty transfer fee collections. The Executive forecasts $108.0 million in FY 2014 assessment collections and $120.0 million in FY 2015 collections. The targets reflect a 30.9% growth rate in FY 2014 and a 11.1% growth rate in FY 2015. Through January of the fiscal year, however, actual collections are only up 14.0% over FY 2013. Accordingly, the OLS estimates $94.4 million in FY 2014 assessment revenue and $108.6 million in FY 2015. The FY 2014 estimate reflects a 14.4% growth rate over FY 2013 and the FY 2015 estimate a 15.0% growth rate over FY 2014.

Figure 11: Annual Realty Transfer Fee Revenue



Inheritance Taxes

The two taxes on inheritance (Estate and Transfer Inheritance) combine to be the State's fourth largest on-budget tax revenue, after the GIT, sales tax, and CBT. Collections through the end of February are running 11.9% ahead of the same period last year. The Executive estimates this revenue source will yield $715.0 million for FY 2014 and $757.9 million for FY 2015.

The Executive's targets require growth of 14.6% in FY 2014 and 6.0% in FY 2015. The OLS believes somewhat less robust growth of 9.8% is likely in the current year, since growth in this revenue strengthened last spring and summer, and is therefore estimating $685.0 million in FY 2014, $30.0 million less than the Executive. For FY 2015, the OLS does not expect a significant slow-down, projecting growth of 9.5% to $750.0 million, $7.9 million less than the Executive.

Insurance Premiums Tax

For the Insurance Premiums Tax, the Executive estimates $612.0 million in FY 2014, 8.7% growth, and $650.0 million in FY 2015, a 6.2% increase. However, initial receipts at the beginning of March from the first of two annual payments suggest some weakness in this revenue. Accordingly, the OLS is more cautious and estimates $600.0 million in FY 2014, 6.5% growth, and $630.0 million in FY 2015, a 5.0% increase. The OLS estimates are $12.0 million and $20.0 million less than the Executive's respective estimates.

CBT for Banks and Financial Institutions

The Corporation Business Tax on Banks and Financial Institutions typically raises less than one-tenth the revenue of the regular CBT. The Executive is estimating $197.0 million in FY 2014, 20.0% growth, and $210.0 million in FY 2015, a 6.6% increase.

Through the end of February, this tax is running 37.0% ahead of the same period last year, well ahead of the Executive's target growth for FY 2014. While such a robust rate of growth may not be sustainable, the OLS estimates $220.0 million in FY 2014, 34.0% growth, and $220.0 million again in FY 2015, more than the Executive by $23.0 million and $10.0 million respectively.

Motor Fuels & Petroleum Products Taxes

The Executive reduced its FY 2014 estimates for both the motor fuels tax and the petroleum products tax from the certified levels. Motor fuels tax revenue is now estimated at $536.0 million and petroleum products tax revenue at $213.0 million.

For FY 2015 the Executive assumes very moderate growth rates of 0.9% for each of these tax revenues, yielding $541.0 million from the motor fuels tax and $215.0 million for the petroleum products tax. The OLS concurs with the Executive's targets.

Tobacco Products Wholesale Sales Tax

The Executive estimates $21.7 million for the tobacco products wholesale sales tax in FY 2014, jumping to $56.7 million in FY 2015. The entire projected $35.0 million increase is due to the proposal to tax "e-cigarettes" at a rate comparable to that charged to conventional cigarettes. For the purposes of this report, the OLS assumes the enactment of the required legislation and that the projected amounts will be achieved.

Tobacco Settlement Fund

For FY 2014, the Executive estimates a significant jump in revenues from the Tobacco Settlement Fund. The revenue certification assumed $49.2 million, but the amount is now estimated at $148.0 million. The total is boosted by the inclusion of a one-time $91.6 million payment from the Tobacco Settlement Financing Corporation. The arrangement that produces this revenue will also result in a reduction of General Fund revenue of $406.7 million over six or more years beginning in FY 2017, and the prospect of substantial additional General Fund revenue beginning in FY 2041.

Leading United States tobacco product manufacturers reached a multi-state Tobacco Master Settlement Agreement (MSA) on November 23, 1998. The MSA settled New Jersey's claims for relief with respect to the costs it had previously incurred from residents' cigarette smoking. As announced in the MSA, New Jersey was expected to receive approximately $7.6 billion in payments through 2025 with unquantified payments continuing in perpetuity thereafter.

Under authority of P.L.2002, c.32, which created the Tobacco Settlement Financing Corporation, the State sold its rights to all future MSA payments to the Corporation. The Corporation then sold two series of bonds backed by those payments, which generated General Fund revenue of $1.557 billion in FY 2003 and $1.611 billion in FY 2004.

In 2007 the Corporation issued Tobacco Settlement Asset-Backed Bonds Series 2007-1, totaling $3.62 billion, to refund those prior bonds. In doing so it pledged 76.26 percent of the future MSA payments to bondholders, and the State reacquired from the Corporation the unpledged 23.74 percent share of MSA payments also known as the residual payments. Those payments, an anticipated $56.0 million in FY 2015, have since been used for general State purposes.

Two classes of the 2007 refunding bonds are capital appreciation (or zero-coupon bonds), meaning there are no annual payments of interest or principal. Instead, the Corporation issued those bonds at steep discounts relative to their face value and will pay bondholders a $1.28 billion maturity value on June 1, 2041, or a lesser value earlier if pledged revenues are sufficient.

In early March of 2014, the Corporation, which is headed by the State Treasurer, entered into a new pledge agreement concerning those two bond classes. Seemingly, the holders of those bonds sought this transaction in reaction to projections that the collateral amounts pledged to bond repayment by 2041 would be insufficient. According to the "Bond Enhancement Memorandum," dated March 6, 2014, in return for a bond enhancement premium from those bondholders, the Corporation will pay the bonds off early.

Specifically, the State sold the unsecuritized 23.74 percent residual payments starting in FY 2017 to the Corporation. The Corporation pledged those payments to early repayment of the two bond classes until they are fully paid off. This is expected to occur in FY 2023 after $406.7 million in payments to bondholders. In return for the additional revenue pledge and payment acceleration the State received a $91.6 million bond enhancement premium in FY 2014, net of transaction costs. Afterwards, the 23.74 percent of the MSA payments will become available again for general State purposes. Because of the early repayment of these bonds, the Executive also projects to recover the original pledged revenues (76.26%) that it believes would otherwise remain pledged and paid to bondholders during the period FY 2042 through FY 2049.

Executive Revenue Initiatives Requiring Legislation

For FY 2015, the Executive is proposing a series of revenue initiatives which will require legislation. **Figure 12** displays those initiatives and the Executive's estimate of how much revenue will be raised. Combined, these proposals are expected to provide the FY 2015 Budget with $240.0 million in new revenues. The OLS assumes the enactment of the required legislation, and that the amount projected by the Executive will be achieved. An independent analysis may be possible when legislation is introduced and the OLS has had the opportunity to review the details of these initiatives.

Figure 12: FY 2015 Executive Revenue Initiatives Requiring Legislation
$ in Millions

		Estimated Amount
1	Gross Income Tax -- Penalties for "bad" electronic payments	$18.0
2	Corporation Business Tax -- Penalties for "bad" electronic payments	$4.0
3	Corporation Business Tax -- Tax treatment of certain nonresident partner gains	$65.0
4	Corporation Business Tax --Tax treatment of net operating losses for certain indebtedness	$20.0
5	Sales Tax -- Penalties for "bad" electronic payments	$3.0
6	Sales Tax -- Revised nexus test for internet vendors	$25.0
7	Sales Tax -- Impose Tax on certain business-to-business transactions in Urban Enterprise Zones	$70.0
8	Tobacco Product Wholesale -- E-Cigarette Tax	$35.0
	Total	**$240.0**

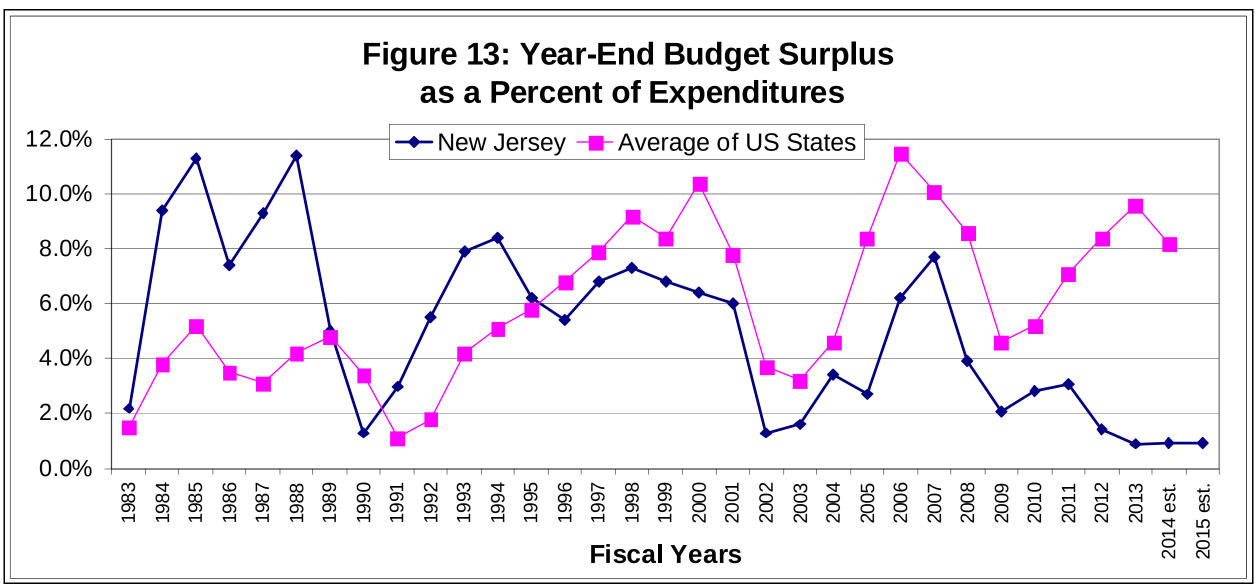
Budgetary Impact of OLS Revenue Estimates

Combined over the two-year period, the OLS revenue estimates are $525.9 million less than the Executive's -- $216.6 million less in FY 2014 and $309.4 million less in FY 2015.

The Executive projects an FY 2015 year-end balance of $312.8 million, or about 0.9% of budgeted expenditures. As part of its annual analysis, the OLS recalculates the State's year-end budgeted balance based solely on the revenue forecast differences between the Executive and the OLS. **All other things being equal, the lower OLS revenue estimates would produce a year-end deficit of $213.1 million.** In addition, the OLS notes that the Executive is proposing a series of revenue initiatives that require legislative enactments. For the purposes of this report, the OLS assumes these proposals will be enacted and yield $240.0 million that the Executive is projecting. However, should any of the proposals not become law or should any fail to produce the estimated amounts, the fund balances would be further reduced.

As the State Constitution requires a balanced budget, the actual year-end 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* 0.9% surplus is very low by historical and national standards. As is shown in **Figure 13**, over the last 32 years the State's *actual* surplus has exceeded 2% of expenditures 25 times. Two of the seven years with surpluses below 2% were during economic recessions (FY 1990 and FY 2002). New Jersey's four most recent years report actual or estimated surpluses below 2% of expenditures, including the only three years with surpluses under 1%. In contrast, the national average of all states' surpluses has exceeded 4% for more than a decade and 8% since FY 2012, based on survey data compiled by the National Association of State Budget Officers.



Appendices Contents Page

Detailed Fiscal Year 2014 Revenue Estimates

Millions of $

Revenue Source	Appropriations Act (June 2013)	Executive Revised	OLS	Diff: OLS - Executive
Major Taxes:				
Sales Tax, Total	**$8,248.0**	**$8,231.0**	**$8,176.0**	**-$55.0**
Sales Tax, Base	*8,680.0*	*8,680.0*	*8,625.0*	*-55.0*
Dedicated Transfer to PTRF	*-662.0*	*-662.0*	*-662.0*	*0.0*
Sales Tax, Energy	*230.0*	*213.0*	*213.0*	*0.0*
Corporation Business Tax, Total	**$2,461.0**	**$2,442.7**	**$2,442.7**	**$0.0**
Corporation Business Tax, Base	*2,416.0*	*2,419.7*	*2,419.7*	*0.0*
Corporation Business Tax, Energy	*45.0*	*23.0*	*23.0*	*0.0*
Inheritance Taxes	715.0	715.0	685.0	-30.0
Motor Fuels Tax	547.0	536.0	536.0	0.0
Insurance Premiums Tax	608.0	612.0	600.0	-12.0
Realty Transfer Fee	297.0	287.0	257.6	-29.4
Motor Vehicle Fees	437.1	438.5	438.5	0.0
Cigarette Tax	237.0	221.4	236.6	15.2
Petroleum Products Gross Receipts Tax	228.0	213.0	213.0	0.0
Corporation Business - Banks and Financial	202.0	197.0	220.0	23.0
Alcoholic Beverage Excise Tax	118.5	108.0	106.0	-2.0
Tobacco Products Wholesale Tax	21.4	21.7	21.7	0.0
Public Utilities Excise Tax	14.0	14.0	15.4	1.4
Subtotal, Major Taxes	**$14,134.0**	**$14,037.3**	**$13,948.5**	**-$88.8**
Misc. Taxes, Fees and Revenues				
Assessment on Property Sold Over $1 Million	112.0	108.0	94.4	-13.6
Passaic River Settlement	40.0	0.0	0.0	0.0
Public Utility Taxes (State Retention)	115.0	115.0	115.0	0.0
Medicaid Uncomp. Care Reimbursement	404.1	402.3	402.3	0.0
Telephone Assessment	123.0	121.0	121.0	0.0
Hotel Occupancy Tax	102.0	98.0	98.0	0.0
Interdepartmental Accounts	765.4	752.2	752.2	0.0
Other	1,120.1	1,168.8	1,168.8	0.0
Subtotal, Misc. Revenues	**$2,781.5**	**$2,765.2**	**$2,751.6**	**-$13.6**
Interfund Transfers				
State Lottery Fund	1,020.0	993.0	993.0	0.0
Unclaimed Personal Property Trust Fund	150.2	170.0	170.0	0.0
State Disability Benefit Fund	38.2	38.4	38.4	0.0
Tobacco Settlement	49.2	148.0	148.0	0.0
Enterprise Zone Assistance Fund	94.8	90.5	90.5	0.0
Clean Energy Fund	152.2	162.2	162.2	0.0
Other	234.8	233.7	233.7	0.0
Subtotal, Interfund Transfers	**$1,739.4**	**$1,835.8**	**$1,835.8**	**$0.0**
TOTAL GENERAL FUND	**$18,655.0**	**$18,638.4**	**$18,536.0**	**-$102.4**
Property Tax Relief Fund (Income Tax)	**$13,039.0**	**$12,927.8**	**$12,840.0**	**-$87.8**
PTRF Transfer from GF (Sales Tax)	***$681.0***	***$681.0***	***$681.0***	***$0.0***
Casino Revenue Fund (CRF)	**$383.6**	**$256.8**	**$230.4**	**-$26.4**
CRF 8% Tax	$209.1	n/a	$205.8	
CRF 15% Internet Gaming Tax	$160.0	n/a	$12.0	
CRF Other	$14.5	$12.6	$12.6	$0.0
Casino Control Fund	**$53.8**	**$57.7**	**$57.7**	**$0.0**
Gubernatorial Elections Fund	**$0.7**	**$0.7**	**$0.7**	**$0.0**
GRAND TOTAL, ALL FUNDS	**$32,813.0**	**$32,562.3**	**$32,345.7**	**-$216.6**

Detailed Fiscal Year 2015 Revenue Estimates

Millions of $

Revenue Source	February 2014 Gov's Budget	GBM % Change	April 2014 OLS Original	OLS % Change	Diff: OLS - Executive
Major Taxes:					
Sales Tax, Total	**$8,736.0**	**6.1%**	**$8,632.0**	**5.6%**	**-$104.0**
Sales Tax, Base	*9,212.0*	6.1%	*9,108.0*	5.6%	*-104.0*
Dedicated Transfer to PTRF	*-701.0*		*-701.0*		
Sales Tax, Energy	*225.0*	5.6%	*225.0*	5.6%	*0.0*
Corporation Business Tax, Total	**$2,618.0**	**7.2%**	**$2,618.0**	**7.2%**	**$0.0**
Corporation Business Tax, Base	*2,583.0*	6.7%	*2,583.0*	6.7%	*0.0*
Corporation Business Tax, Energy	*35.0*	52.2%	*35.0*	52.2%	*0.0*
Inheritance Taxes	757.9	6.0%	750.0	9.5%	-7.9
Motor Fuels Tax	541.0	0.9%	541.0	0.9%	0.0
Insurance Premiums Tax	650.0	6.2%	630.0	5.0%	-20.0
Realty Transfer Fee	325.0	13.2%	291.7	13.2%	-33.3
Motor Vehicle Fees	444.4	1.3%	444.4	1.3%	0.0
Cigarette Tax	180.8	-18.4%	195.4	-17.4%	14.6
Petroleum Products Gross Receipts Tax	215.0	0.9%	215.0	0.9%	0.0
Corporation Business - Banks and Financial	210.0	6.6%	220.0	0.0%	10.0
Alcoholic Beverage Excise Tax	110.0	1.9%	109.0	2.8%	-1.0
Tobacco Products Wholesale Tax	56.7	161.3%	56.7	161.3%	0.0
Public Utilities Excise Tax	14.0	0.0%	15.4	0.0%	1.4
Subtotal, Major Taxes	**$14,858.7**	**5.9%**	**$14,718.6**	**5.5%**	**-$140.2**
Misc. Taxes, Fees and Revenues					
Assessment on Property Sold Over $1 Million	120.0	11.1%	108.6	15.0%	-11.4
Passaic River Settlement	147.5		147.5		
Public Utility Taxes (State Retention)	115.0	0.0%	115.0	0.0%	0.0
Medicaid Uncomp. Care Reimbursement	443.0	10.1%	443.0	10.1%	0.0
Telephone Assessment	120.0	-0.8%	120.0	-0.8%	0.0
Hotel Occupancy Tax	105.0	7.1%	105.0	7.1%	0.0
Tobacco Settlement (shift from Interfund)	56.0	-62.1%	56.0	-62.1%	0.0
Interdepartmental Accounts	776.5	3.2%	776.5	3.2%	0.0
Other	1,125.4	-3.7%	1,125.4	-3.7%	0.0
Subtotal, Misc. Revenues	**$3,008.4**	**8.8%**	**$2,997.0**	**8.9%**	**-$11.4**
Interfund Transfers					
State Lottery Fund	1,036.9	4.4%	1,036.9	4.4%	0.0
Unclaimed Personal Property Trust Fund	139.1	-18.2%	139.1	-18.2%	0.0
State Disability Benefit Fund	38.4	0.0%	38.4	0.0%	0.0
Enterprise Zone Assistance Fund	80.6	-10.9%	80.6	-10.9%	0.0
Clean Energy Fund	0.0	-100.0%	0.0	-100.0%	0.0
Other	205.3	-12.1%	205.3	-12.1%	0.0
Subtotal, Interfund Transfers	**$1,500.3**	**-18.3%**	**$1,500.3**	**-18.3%**	**$0.0**
TOTAL GENERAL FUND	**$19,367.4**	**3.9%**	**$19,215.8**	**3.7%**	**-$151.6**
Property Tax Relief Fund (Income Tax), Total	**$13,988.2**	**8.2%**	**$13,875.0**	**8.1%**	**-$113.2**
PTRF Transfer from GF (Sales Tax)	***$720.0***		***$720.0***		
Casino Revenue Fund (CRF)	**$310.7**	**21.0%**	**$266.1**	**15.5%**	**-$44.7**
CRF 8% Tax	n/a		$205.8	0.0%	
CRF 15% Internet Gaming Tax	n/a		$48.0	300.0%	
CRF Other	12.3	-2.4%	12.3	-2.4%	$0.0
Casino Control Fund	**$60.4**	**4.7%**	**$60.4**	**4.7%**	**$0.0**
Gubernatorial Elections Fund	**$0.7**	**0.0%**	**$0.7**	**0.0%**	**$0.0**
GRAND TOTAL, ALL FUNDS	**$34,447.4**	**5.8%**	**$34,138.0**	**5.5%**	**-$309.4**

Revenue from Taxes on Energy and Utility Services

Energy utilities are subject to the sales and use tax and the corporation business tax (CBT). Telecommunications utilities are subject to the CBT, while other utilities are taxed on the basis of their gross receipts. 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 2015. 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 E** display the actual and anticipated revenues from FY 2012 through FY 2015 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 been held at $788.5 million by annual budget language since FY 2005.

After allocation of $788.5 million to the ETR Fund, the remaining revenues come "on-budget" for State use in the General Fund. Some of this on-budget State use portion was the Transitional Energy Facility Assessment (TEFA), which was originally scheduled to end in FY 2002. However, TEFA was extended several times and ran through FY 2013.

The portion of energy revenue from the CBT and the sales tax not allocated to the ETR Fund has varied over time, rising from $72.2 million in FY 2005 to a peak of $590.7 million in FY 2008, but slipping back to $149.2 million by FY 2012. Total State use “on-budget” collections from all energy and utility sources are estimated at $365.0 million in FY 2014 and $389.0 million in FY 2015.

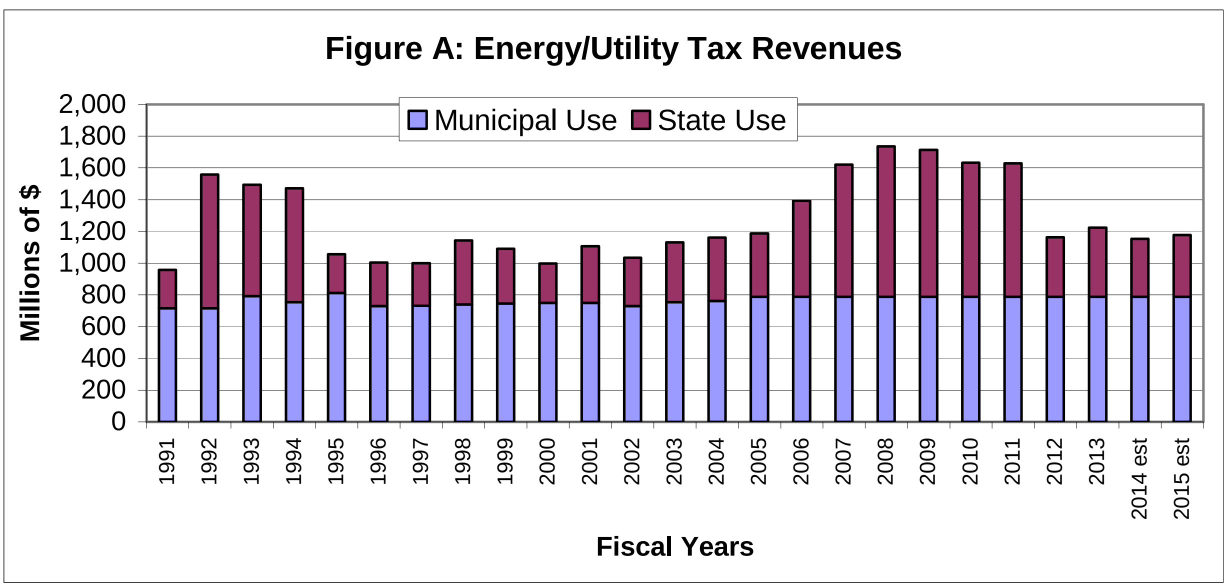


Figure B
Actual Energy/Utility Tax Revenue Fiscal Year 2012
Millions of $

Revenue Source	On-Budget (State Use)	Off-Budget (Municipal Use)	Total
Sales and Use Tax	$144.4	$754.7	$899.1
Corporation Business Tax	$4.8	$33.8	$38.6
Transitional Energy Facilities Assessment (TEFA)	$111.5		$111.5
Franchise and Gross Receipts Tax Water and Sewer Utilities	$114.6		$114.6
Public Utility Excise Tax Water and Sewer Utilities	$14.0		$14.0
Total	**$389.3**	**$788.5**	**$1,177.8**

Source: Department of Treasury, March 2013.

Figure C
Actual Energy/Utility Tax Revenue Fiscal Year 2013
Millions of $

Revenue Source	On-Budget (State Use)	Off-Budget (Municipal Use)	Total
Sales and Use Tax	$199.7	$753.1	$952.8
Corporation Business Tax	$6.9	$35.4	$42.3
Transitional Energy Facilities Assessment (TEFA)	$98.4		$98.4
Franchise and Gross Receipts Tax Water and Sewer Utilities	$115.1		$115.1
Public Utility Excise Tax Water and Sewer Utilities	$15.4		$15.4
Total	**$435.5**	**$788.5**	**$1,224.0**

Source: Department of Treasury, March 2014.

Figure D

Anticipated Energy/Utility Tax Revenue Fiscal Year 2014

Millions of $

Revenue Source	On-Budget (State Use)	Off-Budget (Municpal Use)	Total
Sales and Use Tax	$213.0	$773.5	$986.5
Corporation Business Tax	$23.0	$15.0	$38.0
Transitional Energy Facilities Assessment (TEFA)	$0.0		$0.0
Franchise and Gross Receipts Tax Water and Sewer Utilities	$115.0		$115.0
Public Utility Excise Tax Water and Sewer Utilities	$14.0		$14.0
Total	**$365.0**	**$788.5**	**$1,153.5**

Source: Department of Treasury, March 2014.

Figure E

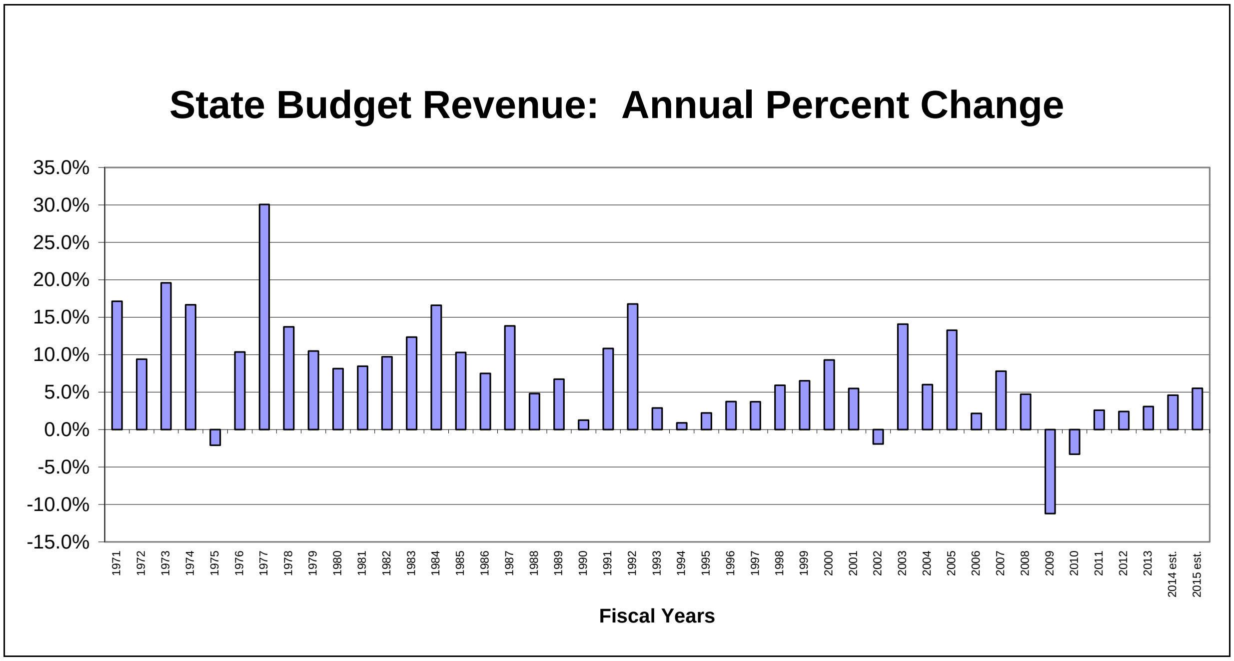
Anticipated Energy/Utility Tax Revenue Fiscal Year 2015

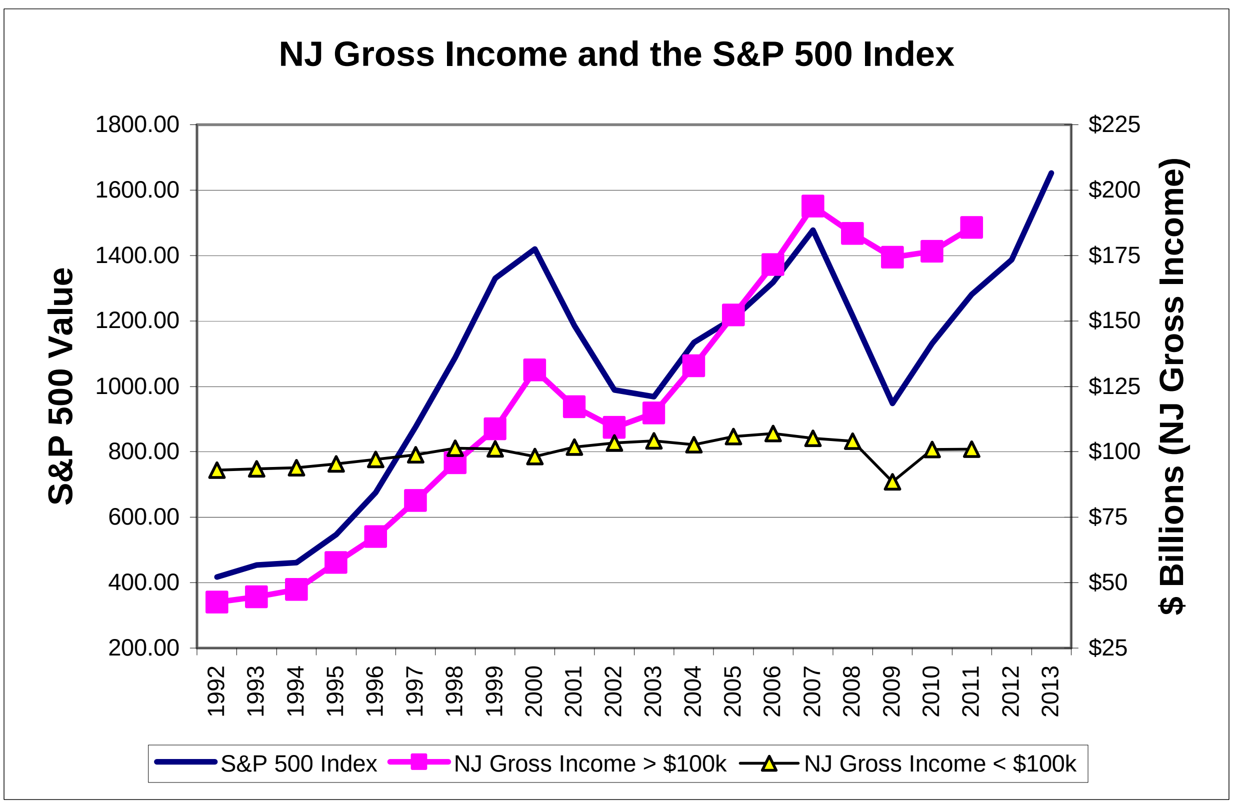
Millions of $

Revenue Source	On-Budget (State Use)	Off-Budget (Municpal Use)	Total
Sales and Use Tax	$225.0	$766.5	$991.5
Corporation Business Tax	$35.0	$22.0	$57.0
Transitional Energy Facilities Assessment (TEFA)	$0.0		$0.0
Franchise and Gross Receipts Tax Water and Sewer Utilities	$115.0		$115.0
Public Utility Excise Tax Water and Sewer Utilities	$14.0		$14.0
Total	**$389.0**	**$788.5**	**$1,177.5**

Source: Department of Treasury, March 2014.

Selected Historical Revenue Charts





OFFICE OF LEGISLATIVE SERVICES

The Office of Legislative Services provides nonpartisan assistance to the State Legislature in the areas of legal, fiscal, research, bill drafting, committee staffing and administrative services. It operates under the jurisdiction of the Legislative Services Commission, a bipartisan body consisting of eight members of each House. The Executive Director supervises and directs the Office of Legislative Services.

The Legislative Budget and Finance Officer is the chief fiscal officer for the Legislature. The Legislative Budget and Finance Officer collects and presents fiscal information for the Legislature; serves as Secretary to the Joint Budget Oversight Committee; attends upon the Appropriations Committees during review of the Governor's Budget recommendations; reports on such matters as the committees or Legislature may direct; administers the fiscal note process and has statutory responsibilities for the review of appropriations transfers and other State fiscal transactions.

The Office of Legislative Services Central Staff provides a variety of legal, fiscal, research and administrative services to individual legislators, legislative officers, legislative committees and commissions, and partisan staff. The central staff is organized under the Central Staff Management Unit into ten subject area sections. Each section, under a section chief, includes legal, fiscal, and research staff for the standing reference committees of the Legislature and, upon request, to special commissions created by the Legislature. The central staff assists the Legislative Budget and Finance Officer in providing services to the Appropriations Committees during the budget review process.

Individuals wishing information and committee schedules on the FY 2015 budget are encouraged to contact:

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