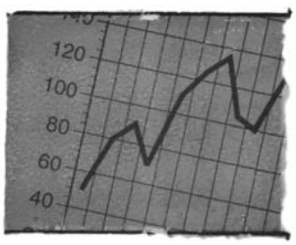


ANALYSIS OF THE NEW JERSEY BUDGET

TAX AND REVENUE OUTLOOK

FISCAL YEAR 2015 - 2016

PREPARED BY OFFICE OF LEGISLATIVE SERVICES
NEW JERSEY LEGISLATURE • MARCH 2015

NEW JERSEY STATE LEGISLATURE

SENATE BUDGET AND APPROPRIATIONS COMMITTEE

Paul A. Sarlo (D), 36th District (Parts of Bergen and Passaic), *Chair*
Brian P. Stack (D), 33rd District (Part of Hudson), *Vice-Chair*
Peter J. Barnes III (D), 18th District (Part of Middlesex)
Jennifer Beck (R), 11th District (Part of Monmouth)
Anthony R. Bucco (R), 25th District (Parts of Morris and Somerset)
Sandra B. Cunningham (D), 31st District (Part of Hudson)
Linda R. Greenstein (D), 14th District (Parts of Mercer and Middlesex)
Steven V. Oroho (R), 24th District (All of Sussex, and parts of Morris and Warren)
Kevin J. O'Toole (R), 40th District (Parts of Bergen, Essex, Morris and Passaic)
Nellie Pou (D), 35th District (Parts of Bergen and Passaic)
M. Teresa Ruiz (D), 29th District (Part of Essex)
Samuel D. Thompson (R), 12th District (Parts of Burlington, Middlesex, Monmouth and Ocean)
Jeff Van Drew (D), 1st District (All of Cape May, and parts of Atlantic and Cumberland)

GENERAL ASSEMBLY BUDGET COMMITTEE

Gary S. Schaer (D), 36th District (Parts of Bergen and Passaic), *Chair*
John J. Burzichelli (D), 3rd District (All of Salem, parts of Cumberland and Gloucester), *Vice-Chair*
Christopher J. Brown (R), 8th District (Parts of Atlantic, Burlington and Camden)
Anthony M. Bucco (R), 25th District (Parts of Morris and Somerset)
Gordon M. Johnson (D), 37th District (Part of Bergen)
John F. McKeon (D), 27th District (Parts of Essex and Morris)
Raj Mukherji (D), 33rd District (Part of Hudson)
Declan J. O'Scanlon, Jr. (R), 13th District (Part of Monmouth)
Eliana Pintor Marin (D), 29th District (Part of Essex)
Troy Singleton (D), 7th District (Part of Burlington)
Jay Webber (R), 26th District (Parts of Essex, Morris and Passaic)
Benjie E. Wimberly (D), 35th District (Parts of Bergen and Passaic)

OFFICE OF LEGISLATIVE SERVICES

David J. Rosen, *Legislative Budget and Finance Officer*
Frank W. Haines III, *Assistant Legislative Budget and Finance Officer*

Marvin W. Jiggetts, *Director, Central Staff*
David J. Rosen, *Section Chief, Revenue, Finance and Appropriations Section*

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 and Catherine Z. Brennan.

Questions or comments may be directed to the OLS Revenue, Finance and Appropriations Section (609-847-3835) or the Legislative Budget and Finance Office (609-847-3105).

The FY 2015 and FY 2016 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 2016 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 combined FY 2015 and FY 2016 revenues will be $16.1 million more than the estimates in the FY 2016 Governor's Budget Recommendation. Specifically:

- For FY 2015, the OLS revenue estimates are $22.5 million, or 0.07%, below the Executive budget estimates (page 2).

- For FY 2016, the OLS revenue estimates are $38.6 million, or 0.1%, above the Executive budget estimates (page 3).

Contents **Page**

Fiscal Year 2015 Revenue Estimates

Figure 1
Fiscal Year 2015 Revenue Estimates
($ millions)

		Governor's Budget Message			
	Appropriations Act Certified	Revised Amount	Change	OLS Est. Amount	OLS vs. GBM Difference
Gross Income Tax	$12,627.0	$13,007.0	$380.0	$13,007.0	$0.0
Sales Tax*	9,068.0	8,886.0	-182.0	8,865.0	-21.0
Corporation Bus. Tax*	2,590.0	2,590.0	0.0	2,575.0	-15.0
CBT Banks & Financials	210.0	159.0	-51.0	190.0	31.0
Realty Transfer Fee	305.0	280.0	-25.0	267.0	-13.0
State Lottery Fund	1,036.9	955.0	-81.8	955.0	0.0
Petroleum Products	215.0	208.5	-6.5	215.0	6.5
Inheritance Taxes	757.9	715.0	-42.9	715.0	0.0
Cigarette Tax	180.8	180.7	-0.1	174.7	-6.0
Alcoholic Beverage Excise	110.0	107.0	-3.0	107.0	0.0
Casino Revenue Fund	270.2	211.7	-58.4	206.7	-5.0
Other Revenues*	5,255.6	5,266.8	11.2	5,266.8	0.0
Grand Total, All Funds	**$32,626.3**	**$32,566.8**	**-$59.5**	**$32,544.2**	**-$22.5**

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 2015 revenue certification from the Appropriations Act (June 2014), the Executive's revisions as presented in the February 2015 Governor's Budget Message, and the OLS forecast. Highlights of the revenue estimates include:

Executive

- Revised estimates for total revenues are down by $59.5 million from the level certified in the FY 2015 Appropriations Act.
- The estimate for the gross income tax is up $380.0 million.
- The estimate for the sales tax is down $182.0 million.
- The estimate for the State Lottery Fund is down $81.8 million.
- Casino Revenue Fund revenues are down $58.4 million.
- CBT banks and financial estimate is down $51.0 million.
- The estimate for the realty transfer fee is down $25.0 million.

Office of Legislative Services

- The total revenue estimate for FY 2015 is **$22.5 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 $21.0 million below the Executive's.
- The estimate for the Corporation Business Tax is $15.0 million below the Executive's.
- The estimate for the Casino Revenue Fund is $5.0 million below the Executive's.
- The CBT banks and financial estimate is $31.0 million above the Executive's.
- The estimate for the realty transfer fee is $13.0 million below the Executive's.

Fiscal Year 2016 Revenue Estimates

Figure 2
Fiscal Year 2016 Revenue Estimates
($ millions)

	Governor's Budget Message		OLS Estimates		
	Amount	**Annual Growth**	**Amount**	**Annual Growth**	**OLS vs. GBM Difference**
Gross Income Tax	$13,652.0	5.0%	$13,725.0	5.5%	$73.0
Sales Tax*	9,199.0	3.5%	9,175.0	3.5%	-24.0
Corporation Bus. Tax*	2,646.3	2.2%	2,646.3	2.8%	0.0
CBT Banks & Financials	162.6	2.3%	190.0	0.0%	27.4
Realty Transfer Fee	320.0	14.3%	293.0	9.7%	-27.0
State Lottery Fund	1,020.0	6.8%	1,020.0	6.8%	0.0
Petroleum Products	215.0	3.1%	218.0	1.4%	3.0
Inheritance Taxes	755.0	5.6%	755.0	5.6%	0.0
Cigarette Tax	156.7	-13.3%	150.9	-13.6%	-5.8
Alcoholic Beverage Excise	113.0	5.6%	110.0	2.8%	-3.0
Casino Revenue Fund (CRF)	205.0	-3.2%	200.0	-3.3%	-5.0
Other Revenues*	5,361.1	1.8%	5,361.1	1.8%	0.0
Grand Total, All Funds	**$33,805.7**	**3.8%**	**$33,844.3**	**4.0%**	**$38.6**

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 2 displays the Executive FY 2016 revenue estimates as presented in the February 2015 Governor's Budget Message and the OLS forecast. Highlights of the revenue estimates include:

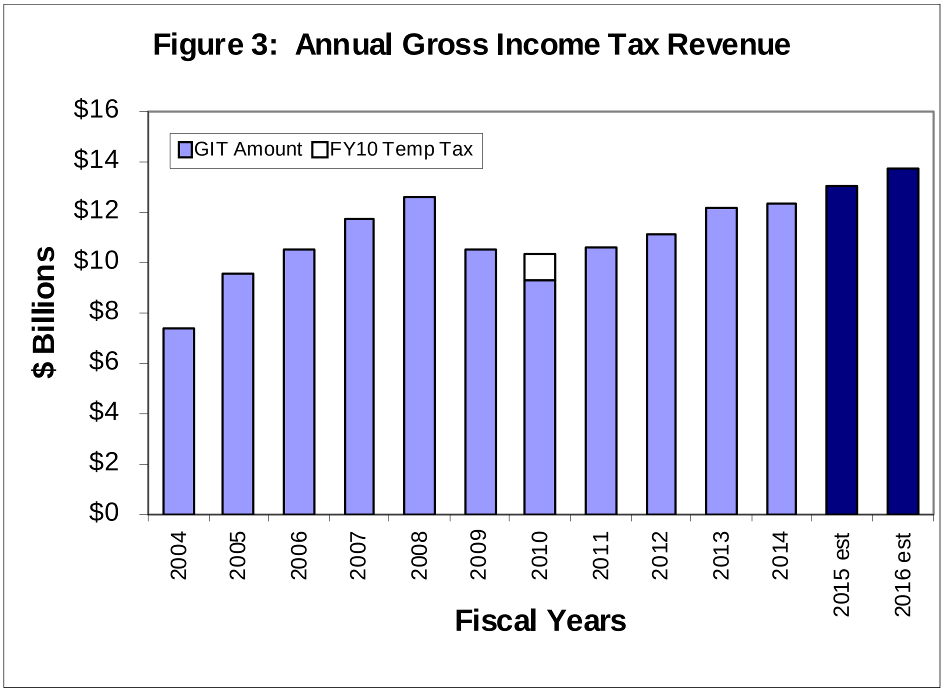
Executive

- The total revenue estimate is $1.239 billion above FY 2015, a 3.8% increase.
- The gross income tax estimate is up $645.0 million, or 5.0%.
- The sales tax estimate is up $313.0 million, or 3.5%.
- The corporation business tax estimate is up $56.3 million, or 2.2%.
- The Casino Revenue Fund estimate is down $6.7 million, or 3.2%.
- CBT banks and financial estimate is up $3.6 million, or 2.3%.
- The realty transfer fee estimate is up $40.0 million, or 14.3%.

Office of Legislative Services

- Total revenue estimate for FY 2016 is **$38.6 million above** the Executive's projection, 4.0% growth from a slightly lower base.
- The gross income tax estimate is $73.0 million above the Executive's.
- The sales tax estimate is $24.0 million below the Executive's.
- The corporation business tax estimate is the same as the Executive's.
- The Casino Revenue Fund estimate is $5.0 million below the Executive's.
- The CBT banks and financial estimate is $27.4 million above the Executive's.
- The realty transfer fee estimate is $27.0 million below the Executive's.

Gross Income Tax



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

At this time last year it was expected that FY 2014 gross income tax (GIT) collections would finally surpass FY 2008's peak collection of $12.6 billion. However, as discussed below, April 2014 final tax payments in New Jersey and across the nation dropped sharply, reducing tax collections well below targets. Looking forward, as **Figure 3** shows, FY 2015 and FY 2016 collections are now expected to produce new peak levels after a six-year trough.

Fiscal Year 2015

The Executive has increased its estimate for FY 2015 by $380.0 million from the amount certified in June, to $13.007 billion, 5.6% greater than FY 2014. The OLS agrees with the Executive's revised estimate.

Through the first eight months of FY 2015, the GIT is up 5.1% compared to the same period last year. Withholding receipts from employee wages are up 5.3%, while refund payments are up only 1.0%. Quarterly estimated payments are up 5.2% overall, but more encouragingly, those payments were up a combined 7.6% in December and January.

Growth in estimated payments in December and January, the last quarterly payments for the tax year, are often a leading indicator for the important final payments taxpayers make in April. The 7.6% increase seen during this two-month period suggests that high-income taxpayers had good income growth during 2014 and will make increased final tax payments in April. The OLS believes that growth of 7.0% is possible for April final payments, supporting the Executive's and OLS' overall GIT target of $13.007 billion in FY 2015.

Fiscal Year 2016

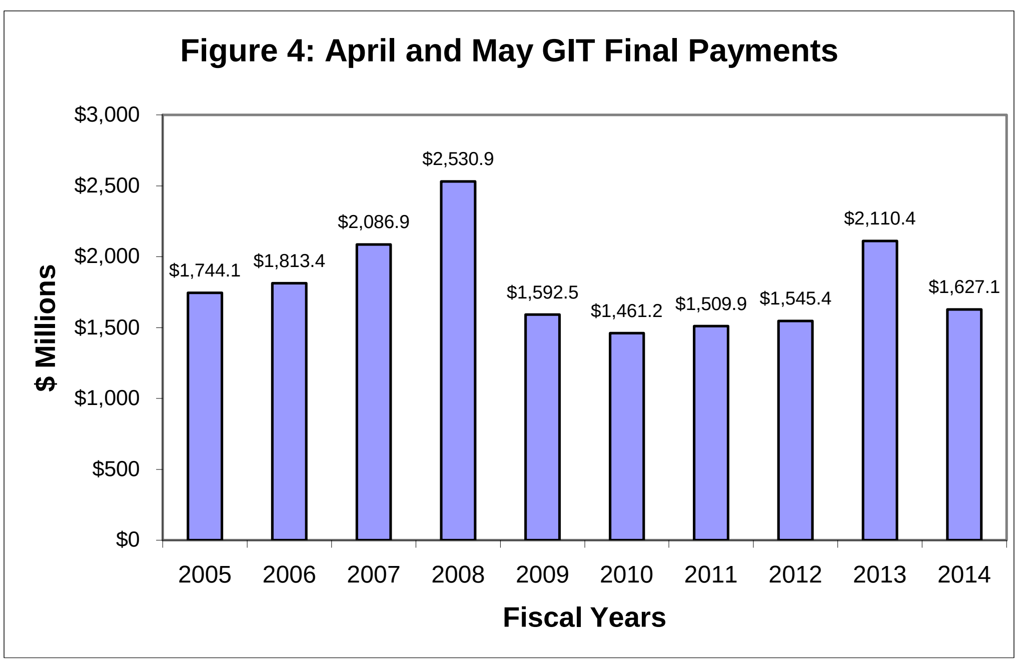
Both the Executive and OLS anticipate that the GIT growth will maintain a similar pace in FY 2016. The Executive projects 5.0% growth, yielding $13.652 billion. The OLS projects 5.5% growth, yielding $13.725 billion, $73.0 million more than the Executive.

The OLS' FY 2016 estimate assumes growth in withholding of 4.5%, in estimated payments of 6.0%, in final payments of 6.0%, and a 2.0% increase in refund payments. Estimated and final payments are paid primarily by higher-income taxpayers and predominantly reflect non-wage income sources. Indeed, the OLS believes there may be potential for additional growth. The long-term average growth of the GIT exceeds 6.0%, and as the economic recovery matures it is plausible that revenue growth may reach or exceed the long-term average.

Focus: Final Payments

The State's GIT revenues surged in the Spring of 2013 and then tumbled in the Spring of 2014 as the result of a change in federal tax law. As certain federal income tax rates were set to rise on January 1, 2013, some high-income individuals were able to shift income realization into Tax Year 2012 to avoid that rate increase. Nationwide, this produced a jump in taxable income reflected in 2013 final tax payments. This was followed by a drop in 2014, the magnitude of which caught most revenue forecasters, including those in New Jersey, by surprise.

The payments that accompany the April 15 filing of GIT returns would be the State's fourth largest revenue source if it were a stand-alone tax. As can be seen in **Figure 4**, New Jersey's final tax payments booked in April and May surged $565 million in FY 2013. Without that windfall, payments fell by $483 million the following year, and 2014 payments came in just $82 million above the level from two years earlier.



Indeed, except for the one-year spike in 2013, final payments in recent years failed to return to the levels seen prior to the Great Recession. GIT final payments grew by only 5.6% between 2012 and 2014, despite strong stock market performance (S&P 500 index up 40% over two years). Several years into an economic recovery, one would expect stronger growth, especially from higher income taxpayers.

However, recent national reports indicate that incomes among wealthier taxpayers have not yet returned to the peak prior to the Great Recession. Data from the Congressional Budget Office show that between 2007 and 2011, taxpayers with income in the top 1% of the nation saw their income decline by 27%, greater than other income groups. The New Jersey GIT statistics tell a similar story, with taxpayers who report income greater than $1.0 million (the top 0.5% of taxpayers) seeing average gross income fall from $3.11 million in 2007 to $2.73 million in 2011, a 12% drop. The top 0.5% account for more than one-quarter of GIT revenues and a disproportionate share of the April and May final payments.

While it is not unusual that wealthier people saw the sharpest decline during the recession (their income is much more volatile than people who rely on a regular paycheck), data also suggest that they have not seen the sharp income rebound that normally accompanies a recovery. Additional, but incomplete, national data for tax years 2012 and 2013 suggest an absence of the strong rebound that would be expected for high income individuals well into an economic recovery.

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.

Sales Tax

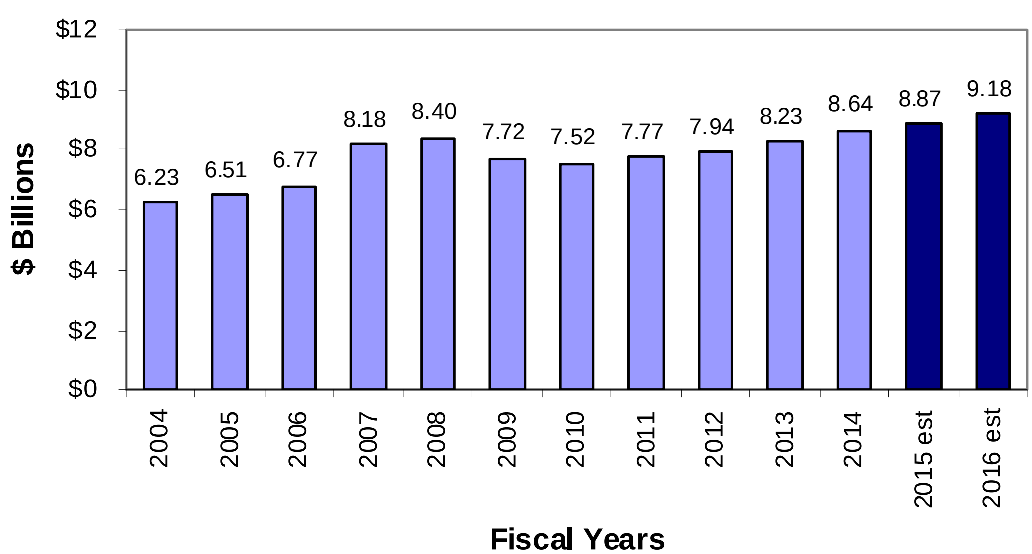
The sales tax is among the steadiest of the major tax revenues, generally providing reliable, moderate rates of growth. In the years following the Great Recession, growth has averaged 3.5%, and varied only within a narrow range of between 2.2% and 4.9% from FY 2011 through FY 2014.

Current growth in FY 2015 is closer to the lower end of the post-recession range, up 2.6% through the end of February compared to the same months last year. Due to this low rate of growth, the Executive reduced its estimate from the $9.068 billion certified last June to $8.886 billion, a drop of $182.0 million. The Executive expects growth to improve slightly in FY 2016, estimating sales tax revenue will increase by 3.5% to $9.199 billion.

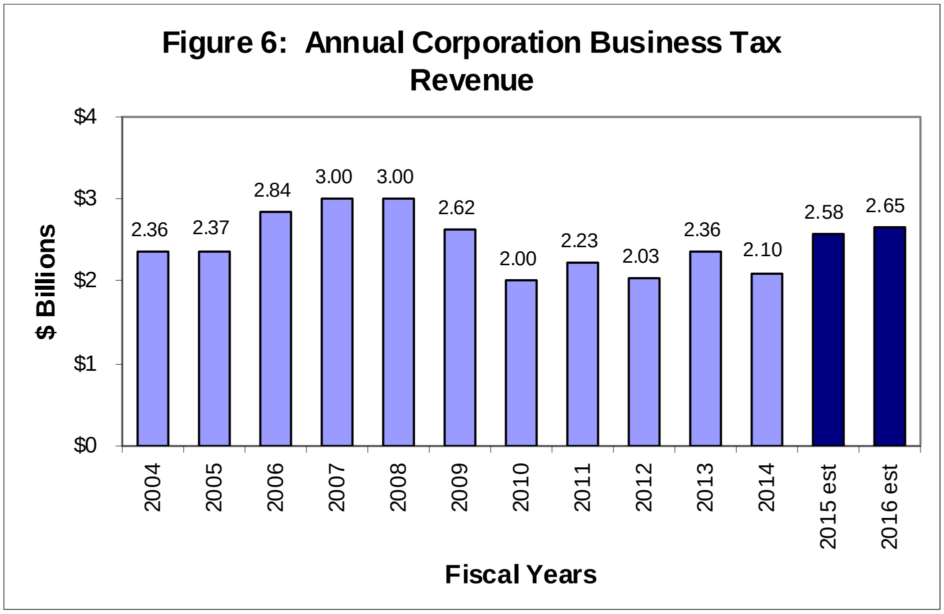
While the Executive's targets are reasonable, the OLS is slightly more cautious about the remainder of FY 2015. Growth for the most recent three-month period has slowed to only 0.9%. The OLS expects some improvement in the remaining months of FY 2015, but estimates $8.865 billion, $21.0 million less than the Executive. For FY 2016, the OLS agrees with the Executive that growth will return to the recent 3.5% annual average, but estimates $9.175 billion from a lower base, or $24.0 million below the Executive's projection.

Nationally, sales tax revenue growth has been modest, averaging 4.2% for the last 19 quarters, according to the Rockefeller Institute of Government. The Institute believes the low growth is in part due to tax dollars lost in online retail sales. In addition, New Jersey's population growth and economic recovery have lagged the nation overall. Low to moderate sales tax growth projections remain prudent for the next year or two.

Figure 5: Annual Sales Tax Revenue



Corporation Business Tax



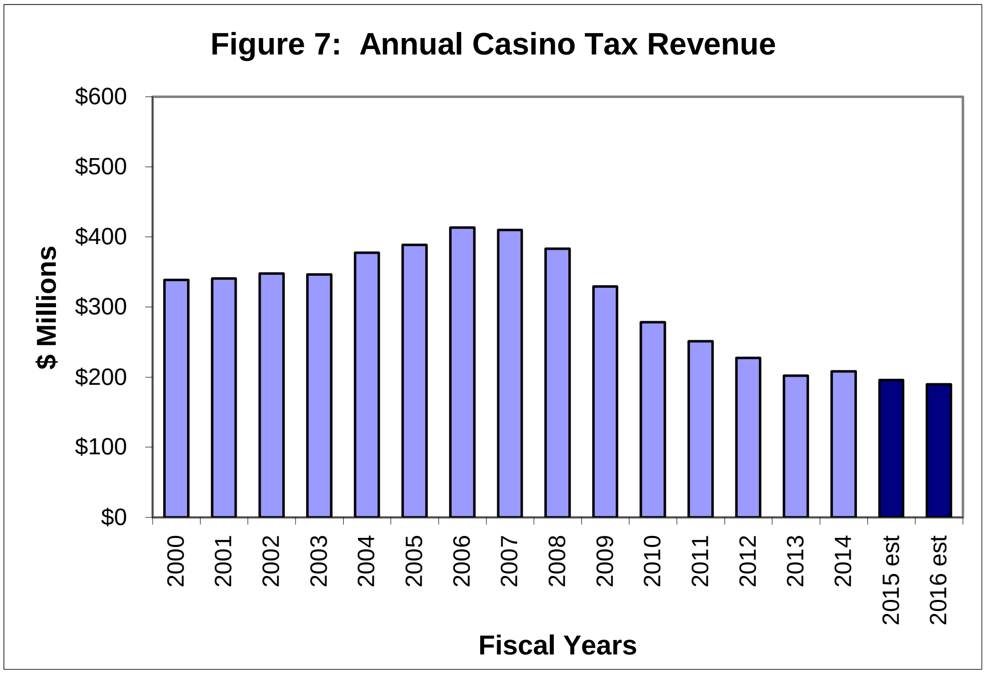
The corporation business tax (CBT) is among the most difficult revenues to project each year. Annual collections typically include both payments and refunds from multiple tax years. Also, factors such as corporate accounting practices and various tax credits can impact annual payment flows both within each year and between years. Detailed component data such as are available for the gross income tax each year are not available for the CBT. Analytically, the CBT is somewhat of a "black box" for revenue estimators.

Cash in the door is often the best data available, and CBT tax revenue in FY 2015 is up 23.6% through the end of February. The Executive believes this growth will largely continue through the remainder of FY 2015, projecting $2.590 billion, 23.1% above the prior year. However, for FY 2016 the Executive anticipates growth to moderate substantially, yielding $2.646 billion, an increase of only 2.2%. The Executive attributes this slowdown to a "recognition of the highly volatile nature of the tax and because it is not unusual to see moderation following strong growth." In addition, the Administration's ***Report on Tax Expenditures in New Jersey*** estimates that various CBT tax credits reduced, or will reduce, collections by $168.2 million in FY 2014, $231.0 million in FY 2015, and $264.1 million in FY 2016.

The OLS agrees that it is prudent to assume that the strong growth in FY 2015 will not continue. The OLS believes growth for the remainder of the year will be slightly weaker than does the Executive. Current growth has been boosted by a drop in refund payments, which are down 13.6% so far in FY 2015. Adjusting for this drop, gross CBT receipts are up about 16.5% through February. To the extent that refund payments increase in the remainder of FY 2015, net CBT collections growth should also moderate.

Accordingly, the OLS estimates $2.575 billion in FY 2015, $15.0 million below the Executive. The OLS agrees that growth into FY 2016 should continue to moderate, but that the Executive's target of $2.646 billion remains reasonable, 2.8% above the lower OLS estimated base in FY 2015.

Casino Tax Revenue



From FY 2006 to FY 2013, casino tax collections deposited into the Casino Revenue Fund plummeted 51%, from $413.3 million to $201.9 million. The decline halted briefly in FY 2014, as the $208.1 million total was boosted by new internet gaming revenues. But the decline is expected to resume in FY 2015 and FY 2016. **Figure 7** displays the downward trend that has persisted even with the subsequent slow economic recovery.

Although the Great Recession added to the decline, competition from new casinos in other states is seen as the primary cause of the fall. The decline of customers in Atlantic City drove down gambling activity and the State's casino tax revenue. Then in 2014, four of Atlantic City's casinos closed.

Internet gaming began late in the Fall of 2013, with initial Executive projections in excess of $160 million in annual tax revenues. Actual collections in FY 2014 yielded $10.7 million. Through the first seven months of FY 2015, internet gaming has matched the $1.5 million per month recorded in FY 2014. The OLS anticipates slow growth in this component of the casino tax revenues.

The Executive has sharply reduced its overall FY 2015 casino tax estimate, from $257.6 million certified last June to $200.8 million, a decline of $56.8 million. The Executive projects a continued decline for FY 2016, to $194.7 million. The OLS estimates $5.0 million less than the Executive in each fiscal year: $195.8 million for FY 2015 and $189.7 million for FY 2016.

Other Selected Revenues

Figure 8: Cigarette Tax Estimates and Distributions

Millions of Dollars

	Actual	Executive Estimates		OLS Estimates		OLS Difference	
	FY2014	FY2015	FY2016	FY2015	FY2016	FY2015	FY2016
Total Collections All Sources	**$712.6**	**$688.6**	**$661.1**	**$682.6**	**$655.3**	**-$6.0**	**-$5.8**
Less, Health Care Subsidy Fund	-396.5	-396.5	-396.5	-396.5	-396.5	0.0	0.0
Less, Dedication for Debt Service	-92.0	-111.4	-107.9	-111.4	-107.9	0.0	0.0
Total Collections On-Budget	**$224.1**	**$180.7**	**$156.7**	**$174.7**	**$150.9**	**-$6.0**	**-$5.8**

Cigarette Tax

In recent fiscal years, the cigarette tax has generated about $700 million in annual State receipts. But only a portion of this amount appears as budgeted General Fund revenue (see **Figure 8**). In FY 2014, for example, the State received $712.6 million in cigarette tax collections. Of that total, $396.5 million supported the off-budget Health Care Subsidy Fund, $224.1 million was accounted for on-budget as General Fund revenue, and the remaining $92.0 million was used off-budget to pay debt service on cigarette tax revenue securitization bonds.

The Executive projects $180.7 million in FY 2015 on-budget cigarette tax receipts. This estimate assumes a 3.4% rate of decline in taxed cigarette sales from FY 2014. However, through January 2015, the rate of decline was a higher 4.3%. The OLS deems it improbable that sales will post the more subdued 1.3% decrease required in the remaining months of FY 2015 to reach the Executive's revenue estimate. Consequently, the OLS forecasts $174.7 million in FY 2015 collections, a 4.2% decrease in taxed cigarette sales from FY 2014, and a 4.0% year-on-year drop in the remaining months of FY 2015.

For FY 2016, the Executive and the OLS both assume that taxed cigarette sales will recede by 4.0%. The difference in the estimates is therefore entirely attributable to the disparate FY 2015 base projections. Specifically, the Executive forecasts $156.7 million in FY 2016 on-budget General Fund receipts, or a 13.3% decline from its FY 2015 estimate. The OLS, in turn, pegs the FY 2016 number at $150.9 million, or a 13.6% decline from its FY 2015 estimate. The relatively dramatic anticipated year-on-year decreases reflect the structure of the cigarette tax's revenue allocation. That is, 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 remaining on-budget portion of cigarette tax collections will absorb the entire revenue loss from the anticipated 4.0% decline in taxed cigarette sales. In FY 2016, the on-budget portion of cigarette tax collections would drop at an even larger rate were it not for a decrease in required off-budget debt service payments on cigarette tax revenue securitization bonds. The debt service payments will drop by $3.5 million from $111.4 million in FY 2015 to $107.9 million in FY 2016.

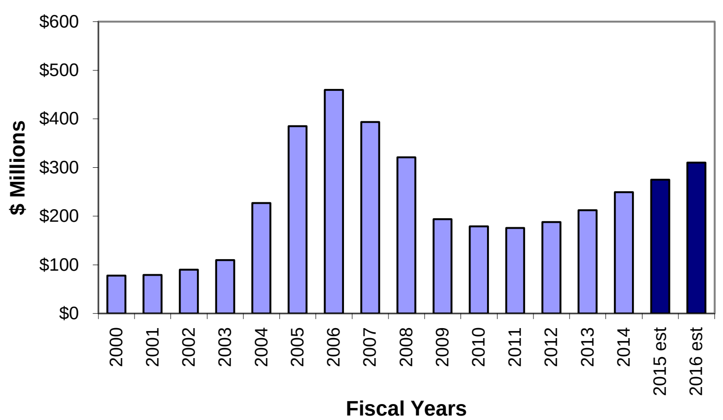
Realty Transfer Fees

Since FY 2003, the realty transfer fee has experienced a boom-and-bust cycle whose highs and lows have been more pronounced than those of any other major State revenue. **Figure 9** 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. Even without rate increases, however, the boom in the real estate market would have propelled annual collections upwards by about 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 third consecutive annual increase in FY 2014. The upward trajectory has continued in FY 2015, although growth seems to be leveling off.

The Executive estimates $280.0 million in FY 2015 realty transfer fee revenue, or 12.4% growth over FY 2014, and $320.0 million in FY 2016, or 14.3% growth over FY 2015. Although the OLS shares the Executive's perspective that fee collections will rise in FY 2015 and FY 2016, it remains somewhat more cautious. FY 2015 year-to-date collections through January are up only 5.4%, the six-month moving average 2.8%, and the three-month moving average 2.6%. It would take a 24.5% bounce for the remaining months of the fiscal year to reach the Executive's year-end projection. The OLS thus estimates a lower $267.0 million in FY 2015 fee revenue and $293.0 million in FY 2016. The FY 2015 estimate reflects a 7.1% growth rate over FY 2014 and the FY 2016 estimate a 9.7% growth rate over FY 2015.

The yield of the separate one-percent assessment on property sales valued over $1 million is also growing, and at a more sustained rate than realty transfer fee collections. The Executive forecasts $118.0 million in FY 2015 assessment collections and $129.0 million in FY 2016 collections. The targets reflect an 18.5% growth rate in FY 2015 and a 9.3% growth rate in FY 2016. Through January of the fiscal year actual collections are up 20.3% over FY 2014, the six-month moving average 18.8%, and the three-month moving average 20.2%. Given that the Executive's FY 2015 estimate is close to the band of these growth metrics, the OLS agrees with the Executive's FY 2015 estimate. The OLS also agrees with the Executive's projection that revenue growth will decelerate in FY 2016 and concurs with the Executive's $129.0 million estimate.

Figure 9: Annual Realty Transfer Fee Revenue



CBT on 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. Through the end of February, this tax is running 21.2% behind the same period last year. The Executive sharply reduced its estimate for FY 2015 from the $210.0 million certified last June to $159.0 million. For FY 2016 the Executive is assuming modest growth of 2.3% for an estimated total of $162.6 million.

The OLS has the advantage of additional months of data not available to the Executive when the revenue revisions were prepared. Preliminary data for March in the State accounting system indicate a rebound in receipts for the CBT on banks and financial institutions. Accordingly, the OLS estimates $190.0 million in FY 2015, slightly above the FY 2014 total and $31.0 million more than the Executive's revised estimate. For FY 2016, the OLS estimates flat revenues of $190.0 million, $27.4 million above the Executive.

Petroleum Products Tax

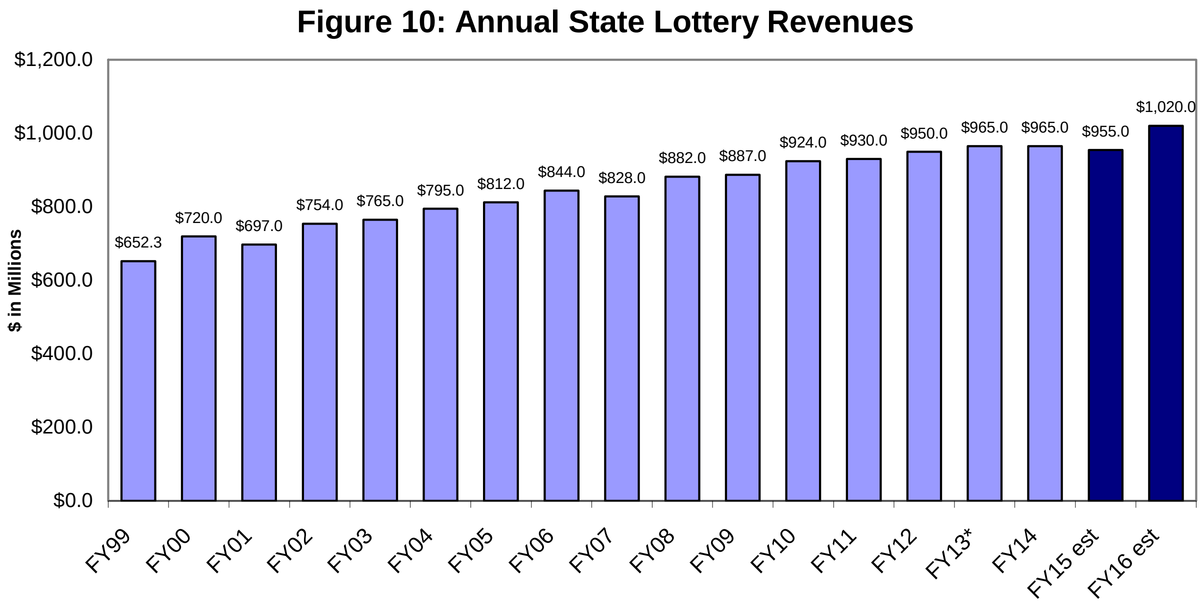
The Executive reduced its FY 2015 estimate for the petroleum products tax from the certified level of $215.0 million to $208.5 million. For FY 2016, the Executive estimates 3.1% growth to $215.0 million.

Year-to-date through February, the petroleum products tax is running almost flat with last year at the same time. The Executive's revised estimate of $208.5 million assumes a 3.8% decline in FY 2015. The OLS is not as pessimistic and estimates $215.0 million in FY 2015, $6.5 million more than the Executive, and estimates $218.0 million in FY 2016, $3.0 million more than the Executive.

Alcoholic Beverage Excise Tax

The alcoholic beverage excise tax is among the smaller of the State's major tax revenues, yielding just over $100.0 million annually. The Executive reduced its estimate from the $110.0 million certified for FY 2015 to $107.0 million. In FY 2016 the Executive estimates $113.0 million. The Executive's estimates assume 2.7% growth in FY 2015 and 5.6% growth in FY 2016.

Current growth of this tax revenue through the end of February is 1.6%. The OLS agrees that the Executive's FY 2015 target is achievable and adopts the $107.0 million estimate. However, in FY 2016 the OLS estimates $110 million, and a more cautious 2.8% growth rate, yielding $3.0 million less than the Executive.



* FY13 excludes the $120 million one-time contractor prepayment. FY15 and FY16 estimated.

State Lottery Fund

In recent years, the State Lottery Fund has contributed in excess of $900 million in annual revenue to the General Fund (**Figure 10**). Last year the State entered into a new management contract for the Lottery's sales and marketing functions, and anticipated continued growth in revenue. In June the Governor certified $1.037 billion for FY 2015, 7.4% growth from the $965.0 million booked in FY 2014. However, through February, actual collections are down 5.1% from the same period last year. The Executive revised the FY 2015 estimate downward to $955.0 million, a reduction of $81.85 million. For FY 2016, the Executive estimates $1.02 billion, a robust increase of 6.8%.

It is unclear if the weak lottery revenue in FY 2015 is an anomaly or part of a broader national trend. There are indications of potential saturation in the maturing U.S. lottery market. For example, Powerball sales declined for the first time nationally in FY 2014, and early in FY 2015 both Powerball and Mega Millions sales are down by double-digit rates.

The OLS agrees with the Executive that the estimate should be reduced in FY 2015. January and February receipts have shown some improvement, and the OLS agrees with their revised estimate for FY 2015. The OLS also accepts the Executive's growth estimate for FY 2016. However, the broader national lottery trends are a concern and the OLS will monitor this revenue in the coming months to consider if further reductions in the forecast are warranted.

The Budget's Year-End Balance

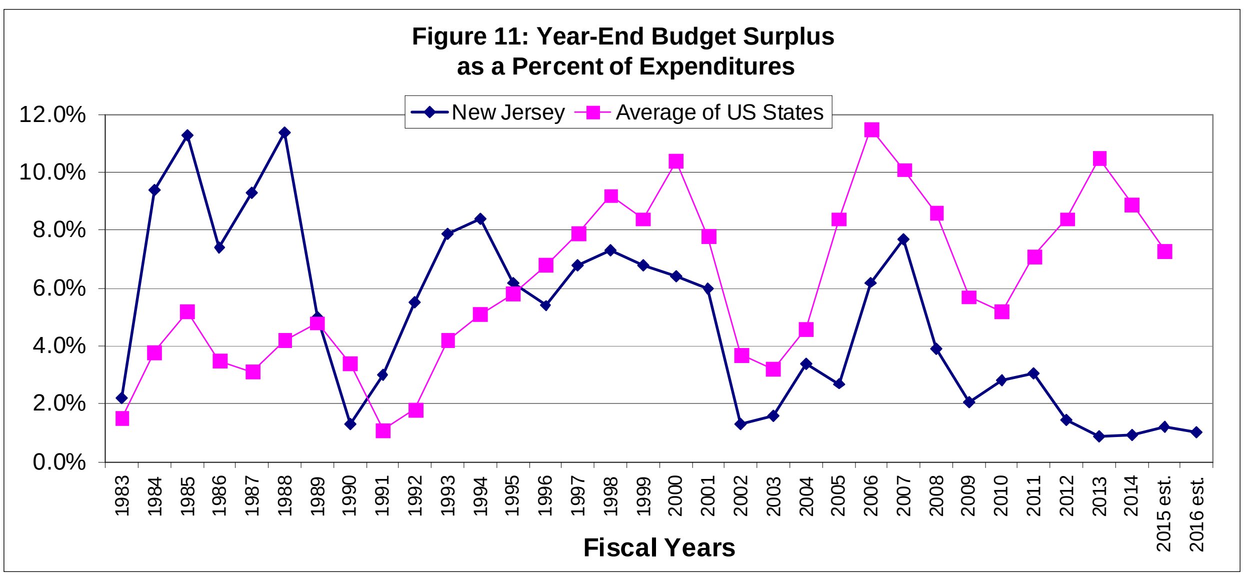
The Executive projects an FY 2016 year-end balance of $350.1 million, or about 1.0% of budgeted expenditures. As part of its annual analysis, the OLS recalculates the State's year-end budgeted balance based solely on the revenue forecast differences between the Executive and the OLS.

Combined over the two-year period, the OLS revenue estimates are $16.1 million more than the Executive's: $22.5 million less in FY 2015, but $38.6 million more in FY 2016. All other things being equal, the slightly higher OLS revenue estimates would produce a year-end surplus of $366.2 million.

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.

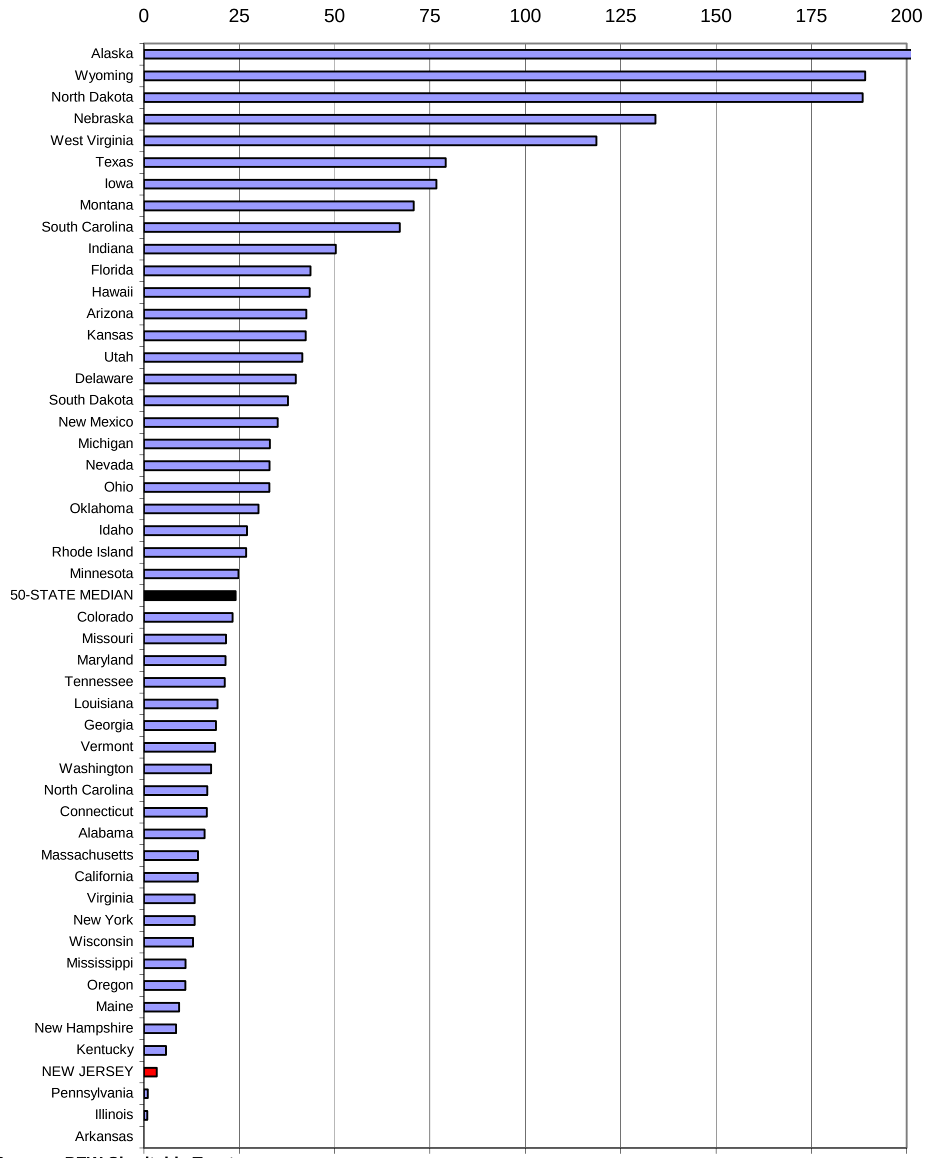
The Executive's *projected* 1.0% surplus is very low by historical and national standards. As is shown in **Figure 11**, over the last 33 years the State's *actual* surplus has exceeded 2% of expenditures 25 times. Two of the seven years with surpluses below 2% were during economic recessions (FY 1990 and FY 2002). New Jersey's five most recent years report actual or estimated surpluses below 2% of expenditures, including the only years with surpluses under 1%.

In contrast, the national average of all states' surpluses has exceeded 4% for more than a decade and topped 8% since FY 2012, based on survey data compiled by the National Association of State Budget Officers. The long-run average state surplus is 6.0%.



The PEW Charitable Trusts maintains a database of state fiscal trends. **Figure 12** displays PEW's analysis of how long each state could have run on its reserve funds in FY 2014, the most recently completed year. The 50-state median is 24 days. New Jersey ranks 47th with only enough reserve funds to support 3.3 days of state spending. The states with the largest reserves are typically energy-producing states such as Alaska, North Dakota, and Texas. Such states also face the greatest volatility of tax revenues due to fluctuations in energy markets. Alaska's reserves are a sizeable outlier, able to cover 664 days, or nearly two full fiscal years (and exceeding Figure 12's maximum point). No other states exceed 190 days and only nine states exceed 50 days worth of reserve funds.

Figure 12: Days Each State Could Run on Reserve Funds, FY14 (Preliminary)



Source: PEW Charitable Trusts

Appendices Contents

Detailed Fiscal Year 2015 Revenue Estimates

Millions of $

Revenue Source	Appropriations Act (June 2014)	Executive Revised	OLS	Diff: OLS - Executive
Major Taxes:				
Sales Tax, Total	**$8,620.0**	**$8,386.7**	**$8,365.7**	**-$21.0**
Sales Tax, Base	*9,068.0*	*8,886.0*	*8,865.0*	*-21.0*
Dedicated Transfer to PTRF	*-693.0*	*-676.0*	*-676.0*	*0.0*
Sales Tax, Energy	*245.0*	*176.7*	*176.7*	*0.0*
Corporation Business Tax, Total	**$2,610.0**	**$2,602.0**	**$2,587.0**	**-$15.0**
Corporation Business Tax, Base	*2,590.0*	*2,590.0*	*2,575.0*	*-15.0*
Corporation Business Tax, Energy	*20.0*	*12.0*	*12.0*	*0.0*
Inheritance Taxes	757.9	715.0	715.0	0.0
Motor Fuels Tax	541.0	535.0	535.0	0.0
Insurance Premiums Tax	627.0	617.5	617.5	0.0
Realty Transfer Fee	305.0	280.0	267.0	-13.0
Motor Vehicle Fees	432.4	440.0	440.0	0.0
Cigarette Tax	180.8	180.7	174.7	-6.0
Petroleum Products Gross Receipts Tax	215.0	208.5	215.0	6.5
Corporation Business - Banks and Financial	210.0	159.0	190.0	31.0
Alcoholic Beverage Excise Tax	110.0	107.0	107.0	0.0
Tobacco Products Wholesale Tax	21.7	21.8	21.8	0.0
Public Utilities Excise Tax	14.0	15.0	15.0	0.0
Subtotal, Major Taxes	**$14,644.8**	**$14,268.2**	**$14,250.7**	**-$17.5**
Misc. Taxes, Fees and Revenues				
Assessment on Property Sold Over $1 Million	118.0	118.0	118.0	0.0
Settlements	150.0	280.5	280.5	0.0
Public Utility Taxes (State Retention)	115.0	117.2	117.2	0.0
Medicaid Uncomp. Care Reimbursement	441.0	417.3	417.3	0.0
Telephone Assessment	120.0	121.6	121.6	0.0
Hotel Occupancy Tax	105.0	100.0	100.0	0.0
Tobacco Settlement - MSA Payments	56.0	52.2	52.2	0.0
Interdepartmental Accounts	607.0	567.4	567.4	0.0
Other	1,098.7	1,085.7	1,085.7	0.0
Subtotal, Misc. Revenues	**$2,810.7**	**$2,860.0**	**$2,860.0**	**$0.0**
Interfund Transfers				
State Lottery Fund	1,036.9	955.0	955.0	0.0
Unclaimed Personal Property Trust Fund	139.1	139.1	139.1	0.0
State Disability Benefit Fund	38.4	38.7	38.7	0.0
Clean Energy Fund	0.0	39.0	39.0	0.0
Enterprise Zone Assistance Fund	80.6	85.9	85.9	0.0
Other	205.6	207.4	207.4	0.0
Subtotal, Interfund Transfers	**$1,500.6**	**$1,465.1**	**$1,465.1**	**$0.0**
TOTAL GENERAL FUND	**$18,956.0**	**$18,593.4**	**$18,575.9**	**-$17.5**
Property Tax Relief Fund (Income Tax)	**$12,627.0**	**$13,007.0**	**$13,007.0**	**$0.0**
PTRF Transfer from GF (Sales Tax)	***$712.0***	***$697.4***	***$697.4***	***$0.0***
Casino Revenue Fund (CRF)	**$270.2**	**$211.7**	**$206.7**	**-$5.0**
CRF Taxes	$257.6	$200.8	$195.8	-$5.0
CRF Other	$12.6	$10.9	$10.9	$0.0
Casino Control Fund	**$60.4**	**$56.6**	**$56.6**	**$0.0**
Gubernatorial Elections Fund	**$0.7**	**$0.7**	**$0.7**	**$0.0**
GRAND TOTAL, ALL FUNDS	**$32,626.3**	**$32,566.8**	**$32,544.3**	**-$22.5**

Detailed Fiscal Year 2016 Revenue Estimates

Millions of $

Revenue Source	February 2015 Gov's Budget	GBM % Change	March 2015 OLS	OLS % Change	Diff: OLS - Executive
Major Taxes:					
Sales Tax, Total	**$8,681.0**	**3.5%**	**$8,657.0**	**3.5%**	**-$24.0**
Sales Tax, Base	*9,199.0*	3.5%	*9,175.0*	3.5%	*-24.0*
Dedicated Transfer to PTRF	*-698.0*		*-698.0*		
Sales Tax, Energy	*180.0*	1.9%	*180.0*	1.9%	*0.0*
Corporation Business Tax, Total	**$2,658.6**	**2.2%**	**$2,658.6**	**2.8%**	**$0.0**
Corporation Business Tax, Base	*2,646.3*	2.2%	*2,646.3*	2.8%	*0.0*
Corporation Business Tax, Energy	*12.3*	2.5%	*12.3*	2.5%	*0.0*
Inheritance Taxes	755.0	5.6%	755.0	5.6%	0.0
Motor Fuels Tax	541.0	1.1%	541.0	1.1%	0.0
Insurance Premiums Tax	660.0	6.9%	660.0	6.9%	0.0
Realty Transfer Fee	320.0	14.3%	293.0	9.7%	-27.0
Motor Vehicle Fees	484.6	10.1%	484.6	10.1%	0.0
Cigarette Tax	156.7	-13.3%	150.9	-13.6%	-5.8
Petroleum Products Gross Receipts Tax	215.0	3.1%	218.0	1.4%	3.0
Corporation Business - Banks and Financial	162.6	2.3%	190.0	0.0%	27.4
Alcoholic Beverage Excise Tax	113.0	5.6%	110.0	2.8%	-3.0
Tobacco Products Wholesale Tax	21.8	0.0%	21.8	0.0%	0.0
Public Utilities Excise Tax	15.5	3.3%	15.5	3.3%	0.0
Subtotal, Major Taxes	**$14,784.8**	**3.6%**	**$14,755.4**	**3.5%**	**-$29.4**
Misc. Taxes, Fees and Revenues					
Assessment on Property Sold Over $1 Million	129.0	9.3%	129.0	9.3%	0.0
Settlements	110.0	-60.8%	110.0	-60.8%	0.0
Public Utility Taxes (State Retention)	118.0	0.6%	118.0	0.6%	0.0
Medicaid Uncomp. Care Reimbursement	413.8	-0.8%	413.8	-0.8%	0.0
Telephone Assessment	121.6	0.0%	121.6	0.0%	0.0
Hotel Occupancy Tax	105.0	5.0%	105.0	5.0%	0.0
Tobacco Settlement - MSA Payments	52.2	0.0%	52.2	0.0%	0.0
Interdepartmental Accounts	734.1	29.4%	734.1	29.4%	0.0
Other	1,124.8	3.6%	1,124.8	3.6%	0.0
Subtotal, Misc. Revenues	**$2,908.5**	**1.7%**	**$2,908.5**	**1.7%**	**$0.0**
Interfund Transfers					
State Lottery Fund	1,020.0	6.8%	1,020.0	6.8%	0.0
Unclaimed Personal Property Trust Fund	139.1	0.0%	139.1	0.0%	0.0
State Disability Benefit Fund	38.7	0.0%	38.7	0.0%	0.0
Clean Energy Fund	0.0	-100.0%	0.0	-100.0%	0.0
Enterprise Zone Assistance Fund	80.5	-6.4%	80.5	-6.4%	0.0
Other	201.1	-3.0%	201.1	-3.0%	0.0
Subtotal, Interfund Transfers	**$1,479.4**	**1.0%**	**$1,479.4**	**1.0%**	**$0.0**
TOTAL GENERAL FUND	**$19,172.7**	**3.1%**	**$19,143.3**	**3.1%**	**-$29.4**
Property Tax Relief Fund (Income Tax)	**$13,652.0**	**5.0%**	**$13,725.0**	**5.5%**	**$73.0**
PTRF Transfer from GF (Sales Tax)	***$720.1***		***$720.1***		
Casino Revenue Fund (CRF)	**$205.0**	**-3.2%**	**$200.0**	**-3.3%**	**-$5.0**
CRF Taxes	$194.7	-3.1%	$189.7	-3.1%	-$5.0
CRF Other	$10.3	-5.6%	$10.3	-5.6%	$0.0
Casino Control Fund	**$55.2**	**-2.5%**	**$55.2**	**-2.5%**	**$0.0**
Gubernatorial Elections Fund	**$0.7**	**0.0%**	**$0.7**	**0.0%**	**$0.0**
GRAND TOTAL, ALL FUNDS	**$33,805.7**	**3.8%**	**$33,844.3**	**4.0%**	**$38.6**

Revenue from Taxes on Energy and Utility Services

Energy utilities are subject to the corporation business tax (CBT) and collect and remit sales tax on their energy sales. 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 2016. 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 2013 through FY 2016 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 $320.9 million in FY 2015 and $325.8 million in FY 2016.

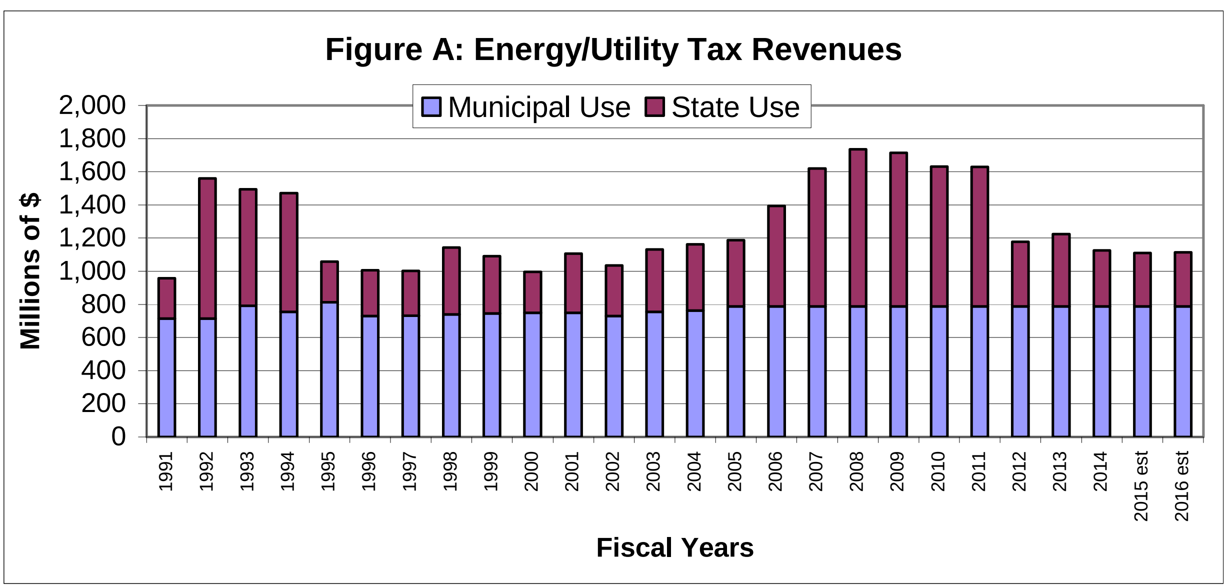


Figure B
Actual Energy/Utility Tax Revenue Fiscal Year 2013
Millions of $

Revenue Source	On-Budget (State Use)	Off-Budget (Municpal 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 C
Actual Energy/Utility Tax Revenue Fiscal Year 2014
Millions of $

Revenue Source	On-Budget (State Use)	Off-Budget (Municpal Use)	Total
Sales and Use Tax	$188.4	$766.5	$954.9
Corporation Business Tax	$12.0	$22.0	$34.0
Transitional Energy Facilities Assessment (TEFA)	$4.5		$4.5
Franchise and Gross Receipts Tax Water and Sewer Utilities	$117.2		$117.2
Public Utility Excise Tax Water and Sewer Utilities	$15.0		$15.0
Total	**$337.1**	**$788.5**	**$1,125.6**

Source: Department of Treasury, March 2015.

Figure D

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	$176.7	$766.5	$943.2
Corporation Business Tax	$12.0	$22.0	$34.0
Transitional Energy Facilities Assessment (TEFA)	$0.0		$0.0
Franchise and Gross Receipts Tax Water and Sewer Utilities	$117.2		$117.2
Public Utility Excise Tax Water and Sewer Utilities	$15.0		$15.0
Total	**$320.9**	**$788.5**	**$1,109.4**

Source: Department of Treasury, March 2015.

Figure E

Anticipated Energy/Utility Tax Revenue Fiscal Year 2016

Millions of $

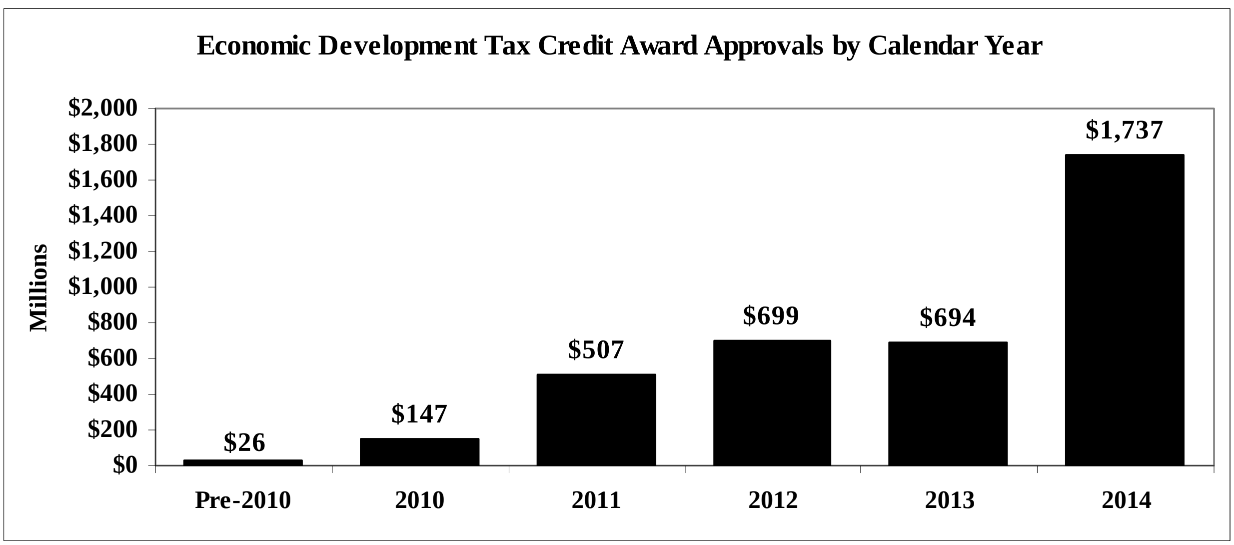
Revenue Source	On-Budget (State Use)	Off-Budget (Municpal Use)	Total
Sales and Use Tax	$180.0	$766.5	$946.5
Corporation Business Tax	$12.3	$22.0	$34.3
Transitional Energy Facilities Assessment (TEFA)	$0.0		$0.0
Franchise and Gross Receipts Tax Water and Sewer Utilities	$118.0		$118.0
Public Utility Excise Tax Water and Sewer Utilities	$15.5		$15.5
Total	**$325.8**	**$788.5**	**$1,114.3**

Source: Department of Treasury, March 2015.

Economic Development Tax Credit Awards

State tax collections are beginning to absorb the delayed effects of the recent escalation of economic development tax credit approvals. According to the Division of Taxation's "2015 New Jersey Tax Expenditure Report," the division expects taxpayers to increase their use of Urban Transit Hub Tax Credits (UTHTC) against corporation business tax (CBT) liabilities from $30.0 million in FY 2014 to $103.4 million in FY 2015 and $135.9 million in FY 2016. The growing tax credit use depresses CBT collections and, given its scale, is rapidly becoming a relevant factor in CBT revenue projections.

When the Economic Development Authority (EDA) board approves a tax credit application, conditions are imposed on the applicant and the tax credit may only be used after those conditions are met. The graph below depicts the brisk acceleration of economic development tax credit application approvals since calendar year 2010. Before then, the EDA had approved only a cumulative $26.4 million in economic development tax credit applications. But in calendar year 2010 it approved $146.9 million in such applications, while calendar year 2014 approvals stood at $1.7 billion. In sum, the EDA approved some $3.8 billion in economic development tax credit applications through the end of 2014, predominantly reflecting recently enacted legislation establishing new tax credit programs and expanding existing ones.



The rapid accumulation of economic development tax credit application approvals is not limited to the UTHTC program, as the table on the following page indicates. The EDA operated only one economic development tax credit program prior to 2010. Under the Business Retention and Relocation Assistance Grant (BRRAG) tax credit program, it approved $26.4 million in tax credits between 2005 and 2009. Economic development tax credit approvals began to take off in 2010 with the implementation of the UTHTC program. In 2011, BRRAG tax credit approvals temporarily shot up following substantial revisions to the statutory program. In 2012, the Grow New Jersey Assistance (GROW NJ) program commenced operations. A 2013 law then closed the BRRAG and UTHTC programs to new applicants, substantially revised the GROW NJ tax credit program, and created the Economic Redevelopment and Growth (ERG) tax credit program for residential redevelopment projects. The revised GROW NJ tax credit program accounted for the jump in economic development tax credit approvals in 2014.

Economic Development Tax Credit Award Approvals by Calendar Year							
Program	**Pre-2010**	**2010**	**2011**	**2012**	**2013**	**2014**	**TOTAL**
BRRAG (Legacy)	$26,392,300	$2,208,500	$86,863,500	$9,353,250	$236,250	$0	**$125,053,800**
UTHTC (Legacy)	$0	$144,650,000	$419,664,772	$412,809,103	$342,596,970	$0	**$1,319,720,845**
GrowNJ (Legacy)	$0	$0	$0	$276,657,293	$265,074,000	$0	**$541,731,293**
GrowNJ	$0	$0	$0	$0	$86,222,500	$1,563,921,375	**$1,650,143,875**
ERG	$0	$0	$0	$0	$0	$173,419,598	**$173,419,598**
TOTALS	**$26,392,300**	**$146,858,500**	**$506,528,272**	**$698,819,646**	**$694,129,720**	**$1,737,340,973**	**$3,810,069,411**

As the approvals gradually turn into actual finalized tax credit awards, they are slated to weigh ever more heavily on State tax collections in the coming years. But the $3.8 billion in approved tax credits may overstate final tax credit awards. This is so because the EDA approves projects for tax credits based on project specifications that applicants present before work begins on the projects. But the EDA does not finalize credit awards for taxpayer use until it has verified a project's specifications after project completion. It is therefore possible for applicants to receive less than the amount for which they were approved if realized projects fall short of tax credit agreement requirements. Approved credits may also never turn into actual credits if realized projects fail to meet minimum program requirements or if applicants never carry out the projects for which they received tax credit approvals.

The timing of taxpayers' eventual tax credit use is also uncertain, given that the EDA's final tax credit authorizations are conditional upon project completion. But taxpayers may only use their finalized tax credit awards in annual installments over, depending on the specific program, up to 20 years. Therefore, the $3.8 billion in approved tax credit awards will not lower State tax collections all at once but will do so dispersed over more than two decades.

In general, this background paper focuses exclusively on the nominal dollar value of approved tax credit applications. It is acknowledged, however, that the tax credits' direct revenue loss may potentially be offset, in whole or in part, by indeterminate indirect tax collections that might accrue from additional economic activity that the tax credits may directly catalyze.

Lastly, this discussion considers only economic development tax credit programs. It leaves aside incentive awards in the form of grant payments whose disbursement is subject to annual appropriations: the ERG grant program for commercial redevelopment projects and the Business Employment Incentive Program (BEIP). But grant awards could at a later date turn into tax credits. For example, the Governor's FY 2016 Budget proposal recommends the enactment of legislation that would allow BEIP grant recipients to voluntarily convert their outstanding grant payments into refundable tax credits starting in FY 2017. The State had approximately $640 million in outstanding BEIP grant payment obligations as of June 30, 2014.

Description of Economic Development Tax Credit Programs

Five programs comprise the economic development tax credit pre-approval data series.

BRRAG (Legacy): P.L.2004, c.65 established the original Business Retention and Relocation Assistance Grant (BRRAG) tax credit program. Following several changes, P.L.2013, c.161 closed the program to new applicants effective on September 18, 2013, but honored any approved but not yet used tax credit award. Since inception, the EDA executed BRRAG agreements totaling $125.1 million in tax credits for 85 projects representing an estimated $2.08 billion in capital investments and 31,654 in retained jobs. In reply to EDA Discussion Point #7 in the OLS FY 2014-2015 Department of the Treasury Budget Analysis, the EDA shared that taxpayers were still scheduled to use $97.1 million in BRRAG tax credits from 2014 through 2021. The EDA lists all BRRAG agreements at http://www.njeda.com/web/pdf/BRRAG_activity.pdf.

BRRAG's latest permutation had a $20 million cap on the total dollar value of tax credits that taxpayers may apply against tax liabilities in a given tax period with a requirement that credits may only be used in the tax periods for which they were issued. Tax credits were available under the corporation business and insurance premiums taxes to businesses that relocated operations within New Jersey and retained jobs or that maintained jobs at a current location and made a qualified capital investment. The per-employee tax credit ranged from $1,500 to $9,000, depending on the number of full-time positions retained. Businesses earned a tax credit bonus of 50 percent of the base amount if they relocated at least 2,000 jobs from a location in New Jersey into a designated urban area. They could earn another 50 percent bonus if their capital investment was at least twice the amount of tax credits granted prior to the application of a bonus. In addition to the receipt of the tax credit being a material factor in the business' decision to retain full-time positions in New Jersey, an applicant had to demonstrate that the tax credit would yield a net fiscal benefit to the State. Tax credit awards were only certified for use upon project completion.

UTHTC (Legacy): P.L.2007, c.346 originally established the Urban Transit Hub Tax Credit (UTHTC) program. Applicants first qualified for tax credit awards in 2010. Following several program changes, P.L.2013, c.161 closed the program to new applicants effective on September 18, 2013, but honors any approved but not yet used tax credit awards. Since inception, the EDA executed UTHTC agreements totaling $1.32 billion in tax credits for 27 projects representing an estimated $3.63 billion in capital investments and 3,540 in new jobs. The EDA lists all approved UTHTC agreements at: http://www.njeda.com/web/pdf/HUB_Activity.pdf.

Under the UTHTC program the EDA awarded tax credits to taxpayers who invested at least $50 million in real property situated in urban transit hubs. Subject to certain qualifying criteria, capital investments in business facilities that were to house at least 250 full-time positions could earn tax credits of 100 percent of the capital investment if at least 200 of the full-time positions were new to the State or of 80 percent of the investment if fewer than 200 of the full-time positions were new to the State. Residential investments, in turn, could earn tax credits of up to 35 percent of the investment and mixed use projects either of up to 35 percent for the entire investment or of up to 35 percent for the project's residential component if it represented at least a $17.5 million capital investment and of up to 100 percent for the project's business facility component if it represented at least a $17.5 million capital investment. Taxpayers receive their finalized tax credit awards in ten equal annual installments beginning after project completion. Urban transit hubs were the area within a one-half mile radius around a rail or light rail station in Camden, East Orange, Elizabeth, Hoboken, Jersey City, Newark, New Brunswick, Paterson, and Trenton, with the Camden urban transit hub covering the area within a one-mile radius around a rail or light rail station. In addition, there was an urban transit hub in the area within a one-mile radius of a rail or light rail station that was subject to a Choice Neighborhoods Transformation Plan. (The only New Jersey Choice Neighborhood was in Jersey City at the McGinley Square – Montgomery Corridor.) Acute care medical facilities and closed hospitals located within a one-mile radius of a rail or light rail station also qualified for tax credits.

GROW NJ (Legacy): P.L.2011, c.149 established the legacy Grow New Jersey (GROW NJ) Assistance Program. Applicants qualified for tax credit awards in 2012 and 2013 only. P.L.2013, c.161 closed the program to new applicants effective on September 18, 2013, but honors any approved but not yet used tax credit awards. The EDA executed legacy GROW NJ agreements totaling $542 million in tax credits for 19 projects representing an estimated $1.05 billion in capital investments, 2,723 in new jobs, and 6,685 in retained jobs. All agreements are listed at: http://www.njeda.com/web/pdf/Approved_GrowNJ_Legacy.pdf.

The legacy GROW NJ program provided tax credits to businesses for: a) making a minimum $20 million capital investment in a business facility in a qualified area and b) at that business facility either retaining at least 100 full-time positions with health benefits in New Jersey or creating at least 100 new full-time positions with health benefits in an industry the EDA identified as desirable to maintain or attract. Tax credits were awarded only if: a) the project yielded a positive fiscal net benefit to the State; b) the tax credit award was a material factor in the business decision to create or retain eligible full-time positions; and c) the project did not involve a point-of-final-purchase retail facility. Notwithstanding these general restrictions, the EDA could waive the material factor requirement for businesses that were required to respond to requests for proposal and to fulfill a contract with the federal government and that submitted a tax credit application by March 31, 2012. (Lockheed Martin Corporation was the only credit recipient meeting the latter requirement.)

The credit equaled ten annual installments of $5,000 each per full-time position created or retained as long as the number of new full-time jobs for which a business received a tax credit did not exceed the number of retained full-time jobs for which a business received a credit, unless the business qualified by creating at least 100 new full-time positions in an industry identified by the EDA as desirable for the State to attract or maintain. The annual credit amount increased to $8,000 if: a) the business operated in an industry the EDA identified as desirable to maintain or attract; b) the business was in proximity to a qualified area adjacent to or within walking distance or short-distance-shuttle service of a public transit facility; c) the full-time jobs created carried salaries in excess of New Jersey's average full-time salary or d) the qualified area was negatively affected by the approval of a "qualified business facility" under the UTHTC program.

A qualified area was: a) a vacant commercial building having over 400,000 square feet of office, laboratory or industrial space available; b) an area designated for development within the Highlands, Meadowlands, and Pinelands; c) Fort Monmouth; and d) areas designated as Planning Area 1 (Metropolitan), Planning Area 2 (Suburban), or as an urban, regional or town designated center under the State Development and Redevelopment Plan.

GROW NJ: P.L.2013, c.161 instituted the current GROW NJ program with lower eligibility thresholds than the legacy program and an expanded geographic reach. P.L.2014, c.63 further adjusted the program's eligibility and award calculation parameters. Through February 26, 2015, the EDA signed GROW NJ agreements totaling $1.74 billion in tax credits under the program's current configuration for 91 projects representing an estimated $1.4 billion in eligible capital investments, 10,469 in new jobs, and 12,995 in retained jobs. The EDA lists all approved GROW NJ agreements at: http://www.njeda.com/web/pdf/Approved_GrowNJ_EOA.pdf.

The GROW NJ tax credit program is intended to encourage job creation and retention. There is no cap on the aggregate dollar amount of tax credit awards, but the EDA may only consider applications submitted prior to July 1, 2019. GROW NJ tax credits are available for eligible projects located in certain geographic areas that meet two financial conditions. First, the financial assistance must be a material factor in a project's realization. Second, the project must yield fiscal benefits to the State over a period of up to 20 years (or up to 30 years in the case of a "mega project" or a project in one of five municipalities designated as a Garden State Growth Zone, or up to 35 years if a project is located in the city of Camden) that equal or exceed 110 percent of the tax credit amount (or 100 percent in the case of the city of Camden). Minimum capital investment and full-time employment requirements vary depending on project characteristics. The EDA may grant individual tax credits for up to ten years in amounts ranging from $500 to $15,000 per year for each job created, depending on project attributes. Credit amounts for retained jobs are generally the lesser of 50 percent of those for new jobs or one-tenth of the capital investment divided by the number of retained and new full-time jobs (except that certain limited projects earn job retention tax credits equal to the 100-percent rate of new full-time positions). Tax credit recipients must maintain the project and related employment for 1.5 times the period in which they receive tax credits. Tax credits are certified for taxpayer use only after project completion.

ERG: P.L.2013, c.161 newly established the Economic Redevelopment and Growth (ERG) tax credit program for residential redevelopment projects. Through February 26, 2015, the EDA signed ERG agreements totaling $179.5 million in tax credits for 13 projects representing an estimated $750 million in capital investments. The EDA lists all approved ERG agreements at: http://www.njeda.com/web/pdf/Approved_ERG_EOA.pdf. (The list also includes ERG grant awards for commercial redevelopment projects.)

The $600 million ERG tax credit program applies to residential redevelopment projects in eligible geographic areas. Projects may receive ERG tax credits if they meet two financial conditions. First, the financial assistance must close a project financing gap that otherwise would be likely to prevent a project's realization. Second, the project must have minimum project costs ranging from $5.0 million to $17.5 million, depending on its specific location. The program does not require residential redevelopment projects to generate fiscal benefits to the State in excess of the incentive amount. Tax credit awards are authorized for taxpayer use in up to ten annual installments following project completion and cannot exceed 30 percent of total project cost in conjunction with any municipal ERG award (or 40 percent in the five Garden State Growth Zone municipalities). The application deadline is July 1, 2016 and projects must obtain temporary certificates of occupancy by July 28, 2018.

State Taxes on Inheritance

State inheritance taxes have received increasing public attention in recent years. New Jersey is one of just two states (along with Maryland) imposing both a transfer inheritance and an estate tax. While the former taxes some beneficiaries for the receipt of assets from a New Jersey resident decedent (depending on the beneficiary's relationship to the decedent), the latter taxes certain estates of resident decedents.

The New Jersey estate tax exemption amount of $675,000 falls significantly below the federal estate tax exemption of $5.43 million, and is the lowest among the 16 states (**Figure 1**) imposing an estate tax.[1]

Figure 1
State Estate Tax Filing Thresholds

State	Exemption
Delaware	$5,430,000
Hawaii	$5,430,000
Tennessee	$5,000,000
Illinois	$4,000,000
New York	$3,125,000
Vermont	$2,750,000
Washington	$2,054,000
Connecticut	$2,000,000
Maine	$2,000,000
Maryland	$1,500,000
Rhode Island	$1,500,000
Minnesota	$1,400,000
Massachusetts	$1,000,000
Oregon	$1,000,000
District of Columbia	$1,000,000
New Jersey	$675,000

New Jersey's relatively low estate tax filing threshold is a legacy of the federal Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA), Pub.L.107-16, and the State Legislature's response to EGTRRA. Historically, the New Jersey estate tax was imposed in an amount equal to the credit allowed under federal estate tax law for any state inheritance taxes paid. Under this credit, states had been permitted to absorb (or "pick up") the value of any federal credit allowed for state inheritance taxes.

However, beginning in 2001, Congress began a phase-out of the federal credit mechanism. In reaction, the State Legislature enacted 2002 legislation "decoupling" the State estate tax from the federal estate tax. This subsequent enactment tied the calculation of the State estate tax to the federal estate tax in effect at the end of calendar year 2001, and fixed the State's threshold at $675,000. Since 2001, the federal estate tax threshold has increased, and was set at $5.0 million in 2012[2] with annual indexing for inflation.

Inheritance tax collections, combining the transfer inheritance tax and estate tax revenues, are a significant contributor to the State budget.[3] With collections roughly evenly divided between the two taxes, total collections from the estate and transfer inheritance taxes are projected to generate $715 million and $755 million in FY 2015 and FY 2016, respectively (**Figure 2**). Thus, total inheritance tax collections currently represent the fourth largest source of State revenues (behind only the Gross Income Tax, Sales Tax and Corporation Business Tax).

[1] Six states, including New Jersey, impose a transfer inheritance tax.

[2] The American Taxpayer Relief Act of 2012, Pub.L.112-240.

[3] Revenue collections from taxes on inheritance are included in reports of the State's "major taxes." When reporting these data, the Department of the Treasury uses the broad terminology "inheritance tax," or just as frequently "Transfer Inheritance tax," to reflect the combined collections of both the Transfer Inheritance tax and the New Jersey estate tax.

Figure 2
Combined Estate and Inheritance Tax Revenue, Totals and Annual Growth Rates ($ Millions)

	FY05	FY06	FY07	FY08	FY09	FY10	FY11	FY12	FY13	FY14	FY15(e)	FY16(e)
Total	$520.8	$610.8	$604.7	$698.7	$653.4	$581.6	$642.2	$641.9	$623.8	$684.4	$715.0	$755.0
% Growth	0.92%	17.30%	-1.01%	15.50%	-6.48%	-10.99%	10.41%	-0.05%	-2.81%	10.19%	4.01%	5.60%

Given the relative importance of inheritance tax revenues to the State budget, it is notable that annual collections can be both volatile and difficult to estimate, as the amount collected depends upon the number of wealthy residents who die in a particular year and the magnitude of their wealth. Data recently obtained from the Division of Taxation, however, provide some insight into the incidence of the tax relative to the number of deaths in the State and to the distribution, by net taxable estate, of revenues collected.

Specifically, the tax filing data conveyed by the Division of Taxation and mortality statistics available from the New Jersey Department of Health (DOH) suggest that approximately 4.7 percent of deaths of New Jersey residents result in a New Jersey estate tax liability. This estimate is based on the actual number of taxable estate tax filings (3,266) for FY 2013, the most recent year for which data are available, and the DOH's preliminary projection for the number of deaths (71,403) in 2013.

The number of estates filing under the transfer inheritance tax in FY 2013 was 6,143. (Although the transfer inheritance tax is imposed on beneficiaries, the estate of a decedent is responsible for the filing of the tax.) Thus, approximately 8.6 percent of estates filed under the transfer inheritance tax, each on behalf of one or more beneficiaries. The greater number of filings under the transfer inheritance tax relative to the estate tax reflects the transfer inheritance tax's much lower exemptions amounts.[4]

Some estates file for both taxes, and payments under the transfer inheritance tax are creditable against estate tax liability.[5] OLS estimates that just under 11 percent of deaths of New Jersey residents results in any State inheritance tax liability.

While the proportion (4.7 percent) of New Jersey estates subject to the New Jersey estate tax is small, a much smaller proportion is subject to the federal estate tax. At the current federal estate tax threshold, "Only the estates of the wealthiest 0.2 percent of Americans — roughly 2 out

---

[4] While transfers to immediate family are fully exempt from taxation, transfers to "Class C" beneficiaries (siblings and sons- and daughters-in law) are taxed at a rate of 11 to 16 percent, with the first $25,000 exempt, while transfers to "Class D" beneficiaries (nieces/nephews, cousins, non-relatives) are taxed at a rate of 15 to 16 percent with the first $5,000 exempt.

[5] The universe of estates having a liability under the estate tax (3,266) and the number of estates filing under the transfer inheritance tax but NOT having an estate tax liability can be calculated to derive an approximate number of annual unique tax filings under the two taxes. Specifically, of the 6,143 estates filing under the transfer inheritance tax, an estimated 4,486 are likely to have had NO liability under the estate tax based on the size of the taxable estate (net taxable assets of $675,000 or less). Thus, the total universe of unique taxable filings under *either tax* is estimated at 7,752 (or 3,266 + 4,486).

of every 1,000 people who die — owe any estate tax."[6] Indeed, if the New Jersey estate tax threshold were to increase to $2,500,000, the average filing threshold in effect in the 16 states imposing an estate tax, the number of taxable estate filings in New Jersey would drop from approximately 3,300 returns per year currently to approximately 425 returns, or less than one percent of all NJ deaths annually.

Estate tax revenue data (**Figure 4**) reveal the New Jersey estate tax to be relatively progressive. Of the 3,266 taxable estate tax filings in FY 2013, just 109 returns (or 3.3 percent of all taxable returns) with a net taxable estate of $5.0 million or more paid almost 42 percent of all estate tax revenues, with an average tax of $1.25 million. In contrast, net taxable estates between $675,000 and $1.0 million (40 percent of returns), yielded approximately 8.7 percent of total estate tax revenues, with an average levy of $21,754 per return for a total of $28.2 million from 1,298 estates filings. Moreover, the estimated effective tax rate for a $1.0 million estate with an approximate $33,000 tax liability is just 3.3 percent compared to an effective tax rate of 7.84 percent for a $5.0 million estate paying $392,000 in estate taxes.

Figure 3: Estate Tax Revenues by Size of Net Taxable Estate

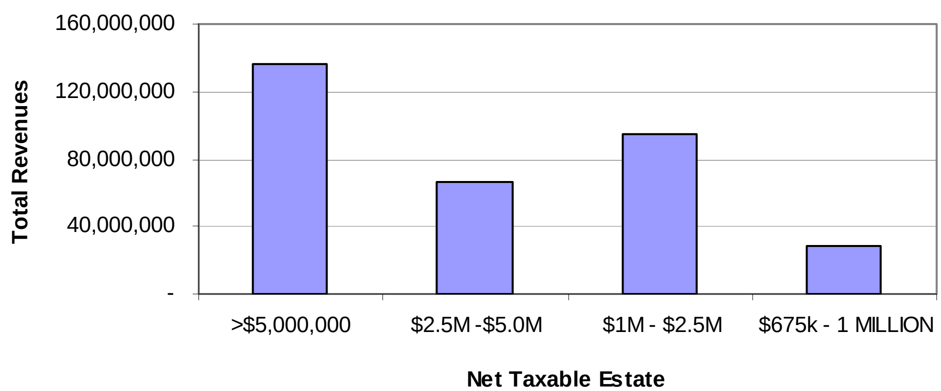


Figure 4
Estate Tax Collections -- FY2013

Net Taxable Estate	# Returns	Total tax	Average Tax
$5,000,000 & Above	109	$136,207,362	$1,249,609
$2.5M -$5.0M	312	$66,467,932	$213,038
$1M - $2.5M	1,547	$94,419,537	$61,034
$675k - 1 MILLION	1,298	$28,236,237	$21,754
	3,266	$325,331,068	$99,611

[6] Ten Facts You Should Know About the Federal Estate Tax, Updated March 23, 2015, http://www.cbpp.org/cms/index.cfm?fa=view&id=2655

As **Figures 3 and 5** illustrate, the revenue collection pattern for the estate and the transfer inheritance tax differ. While 58 percent of the revenue (or $171.4 million out of the total $294.5 million) realized under the transfer inheritance tax comes from net taxable estates of $1.0 million or more, the overwhelming number of taxable filings (83 percent) come from estates with net taxable assets at or below $1.0 million. Although immediate family members (spouses, domestic partners, grandparents and children) are exempt from the imposition of this tax, more distant relatives as well as non-relatives pay relatively high tax rates. Depending on the amount transferred and the relationship of the beneficiary to the decedent, rates under the transfer inheritance tax range from 11 percent to 16 percent with the effective tax rates being nearly identical to the actual statutory rates due to very low exemption amounts.

Figure 5: Transfer Inheritance Tax Revenues by Size of Net Taxable Estate

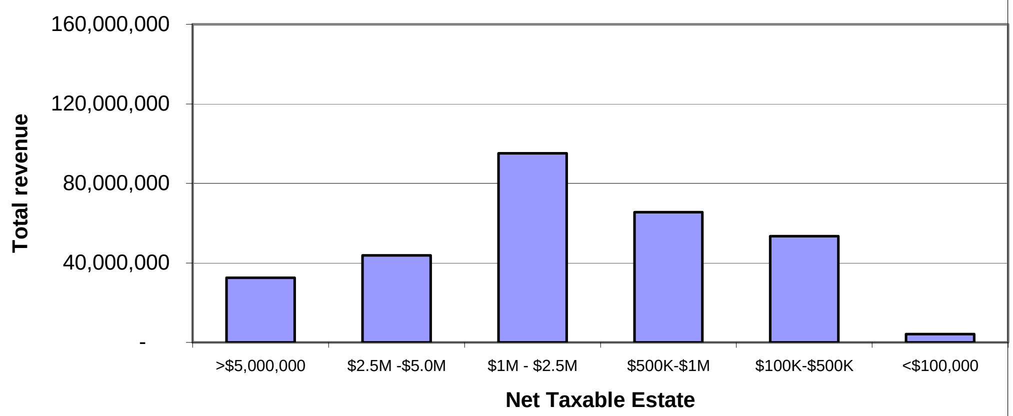


Figure 6 Transfer Inheritance Tax Collections -- FY2013			
Net Taxable Estate	**# Returns**	**Total Tax**	**Average Tax**
$5,000,000 & Above	90	$32,527,941	$361,422
$2.5M -$5.0M	165	$43,712,712	$264,926
$1M - $2.5M	785	$95,207,787	$121,284
$500K-$1M	1,223	$65,542,802	$53,592
$100K-$500K	2,487	$53,368,210	$21,459
Less Than $100,000	1,399	$4,124,353	$2,948
	6,149	$294,483,805	

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 2016 budget are encouraged to contact:

Legislative Budget and Finance Office
State House Annex
Room 140 PO Box 068
Trenton, NJ 08625
(609) 847-3105 • Fax (609) 777-2442