Testimony prepared for presentation to the
Assembly Budget Committee
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Good morning Chair and members of the Assembly Budget Committee. Before I begin my official remarks, I would like to thank the members of the Legislature for your patience and willingness to accommodate the needs of Legislative staff through this challenging time. Like yourselves and so many other workplaces, the Office of Legislative Services has adjusted to operating under constrained conditions while meeting a similar or greater set of demands than before the COVID-19 pandemic became an emergency in New Jersey.

You have asked us here to comment on the Governor's proposal to manage the State budget through the recently extended fiscal year, now ending on September 30. Frank Haines will speak generally to the spending recommendations in that proposal. My remarks will focus on the macroeconomic environment we are facing right now and the OLS analysis of the Governor's revenue forecasts.

By now you might be tired of hearing that this economic moment is unprecedented. The reason we analysts keep saying this is because so many of the indicators that we typically rely on are no longer telling us what we're used to:

- April tax collections plummeted compared to expectations, a result of the delay in tax filing and payment deadlines for most major State taxes.
- The unemployment rate is at Great Depression levels – yet overall household income is being propped up, and in some cases enhanced, thanks to the boosted unemployment insurance system.
- High corporate and government debt levels before the outbreak of COVID-19 might have indicated that a financial crisis would be the natural consequence of a global economic shock – yet credit markets and the stock market are recovering after a crunch in February and March, largely due to extraordinary actions by the Federal Reserve.
- Consumer confidence indicators plunged in April, but the same surveys suggest that consumers expect conditions to improve in the near future.

Once the public health emergency passes, we hope that the "normal" economy will return quickly, but we have never seen a modern global recession triggered by a pandemic, and so economists are far from a consensus on how to model such an event. There are potential macroeconomic hazards looming ahead that could debilitate recovery efforts: COVID-19 might resurge in the summer or fall; the major relief programs authorized by Congress are scheduled to end in the summer; state and local governments are likely to cut spending, increasing unemployment and reducing public services; and businesses exhausting their reserves and ability to borrow may increasingly close their doors if their customers can't or won't return.

On May 22, the State Treasurer delivered the "Report on the Financial Condition of the State Budget for Fiscal Years 2020 and 2021." That report includes a forecast of $10 billion less in State revenues over the two-year period, as compared to the Governor's Budget Message delivered in February. Approximately $1 billion of this change is the result of excluding proposed policy initiatives and tax increases, while the rest is reduction in baseline expectations. The OLS has analyzed the Executive estimates and concluded that they are within the range of plausible outcomes given the current circumstances. Other state revenue estimates from independent analysts and other states vary quite a lot from one another, but the Executive forecast is not a major outlier in its expected proportional decline in revenues.

OLS estimates for the current 12-month fiscal period and the three-month extension are also in the same ballpark as the Executive's, as shown in the materials we have provided you. We have not provided a forecast for the nine-month period beginning in October, because the Legislature is not currently poised to pass budget legislation for that period. We also expect any such forecast to change significantly as events develop over the next few months. In total, our forecast for the extended Fiscal Year 2020 is approximately half a billion dollars higher than the Executive's. That certainly seems like a lot of money, but it is small in the context of a highly uncertain $10 billion drop. It is possible that we will both prove to be wrong by a magnitude in the billions of dollars.

Ultimately an adopted budget must be based on anticipated revenues certified by the Governor, and actual spending must result in a positive fund balance. Revenue forecasts are just predictions – the true limits to the State's ability to spend are the policy preferences and risk tolerance of the Legislature and the Governor that are expressed in the Appropriations Act, and the money actually received in the State treasury. The risk of forecasting error is higher than it has ever been in our memory. This committee, along with the rest of New Jersey's budget makers, should be prepared to be flexible in the face of this unfamiliar economic situation.