

Testimony prepared for presentation to the
Senate Budget and Appropriations Committee
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September 8, 2020

Good afternoon Chair and members of the committee. My job today is to present and discuss the Office of Legislative Services' forecast of revenues to support the State's spending for the upcoming fiscal period. Like the Treasurer, we have provided you with numbers representing the 12-month period from July 2020 through June 2021, as well as a breakdown of that period into the 3-month extension of Fiscal Year 2020 and the 9-month FY 2021.

This time around, the OLS revenue forecast is quite a bit higher than the Treasurer's – by about \$1.37 billion over the 12-month period, or about 3.8% of the total projected revenues. To the best of my knowledge, this is the largest difference our two agencies have ever had. Given the uncertainties surrounding COVID-19 and our current economy, maybe that's not surprising. Still, that puts us above Fiscal Year 2018 total collections, but below FY 2019 total collections, a significant setback compared to a world where the coronavirus never appeared.

There was and continues to be real human suffering in the State caused by the Coronavirus disease and the economic disruption it has caused. However, the "COVID recession" appears – from a State revenue perspective – to be less of a problem than it seemed in the spring.

- Employee compensation accounts for at least 70% of gross income annually, and income tax withholding payments did not drop as much as anticipated. This is likely because the surge in unemployment has been so concentrated in low-wage sectors where New Jersey income tax rates are much lower. The Treasurer's forecast assumes that withholding will be 3% lower year-over year; we assume that payments will be about equal to last year's.
- Our collections on income from high-earning individuals and corporations suffered in the spring, but we think that was driven mostly by a rational impulse in the face of a crisis to preserve cash, rather than being driven solely by declining taxable incomes. Consequently, we anticipate future payments will rebound. Stock market valuations are reaching historic highs again after their drop in the spring, but both stock prices and their relationship to revenues have long been culprits of volatility. The Executive forecast assumes that Gross Income Tax estimated and final payments will decline 20% year-over year and Corporation Business Tax will decline by 30%. For the reasons just stated, our assumptions are closer to a 10% decline in GIT estimated and final payments and 12% in CBT payments.
- Sales tax revenues have continued to perform better each month, with this August actually out-performing last August, despite many COVID-19 safety measures remaining in place. The revised budget proposal does not specify its assumptions regarding sales tax collections in numbers, but it appears that our forecasting difference lies mainly in the OLS' more optimistic view of the summer and fall months of this year.

To be clear, our forecasts assume that revenues will continue to bounce back and somewhat stabilize, but we are not expecting overall growth or to reach Fiscal Year 2019 levels. All forecasters are relying on data of only a few very strange months, trying to isolate the things we think are one-off oddities and projecting forward the things we think are real trends. Considering how little reliable data we have, the variation between different forecasts is not unreasonable or unexpected. A second wave of infections that forces new economic restrictions would almost certainly prove us wrong. Change in federal policy from the Federal Reserve, Congress, or the White House could either assist or derail the recovery.

This will likely be the most challenging budget this Legislature has adopted in decades. The OLS is available to assist in whatever manner the Legislature requires and our expertise allows.

Fiscal Year 2021 Revenue Estimates (12-month)

Millions of \$

| | FY 2021 GBM Executive Estimate (Feb-20) | Executive FY 2021 Estimate (May-20) | Executive FY 2021 Estimate (Aug-20) | OLS FY 2021 Estimate (Sep- 20) | Difference: OLS - Executive |
|---------------------------------------|--|--|--|---|--|
| Gross Income Tax | \$17,795.3 | \$13,840.4 | \$14,990.6 | \$15,867.5 | \$876.9 |
| Sales Tax | \$10,774.0 | \$9,246.5 | \$9,814.1 | \$10,041.7 | \$227.6 |
| Corporation Business Tax (CBT) | \$3,831.0 | \$2,603.0 | \$3,074.6 | \$3,355.0 | \$280.4 |
| <u>Other Revenues</u> | | | | | |
| Energy Tax Receipts - Sales Tax | \$788.5 | \$788.5 | \$788.5 | \$788.5 | \$0.0 |
| Sales - Energy | \$50.5 | \$50.5 | \$11.6 | \$11.6 | \$0.0 |
| Sales Tax Dedication - PTRF | -\$852.3 | -\$737.1 | -\$777.0 | -\$757.9 | \$19.1 |
| CBT Energy | \$22.0 | \$6.5 | \$3.8 | \$3.8 | \$0.0 |
| Motor Fuels Tax | \$470.5 | \$399.5 | \$440.2 | \$422.5 | -\$17.7 |
| Motor Vehicle Fees | \$463.5 | \$515.3 | \$515.6 | \$515.6 | \$0.0 |
| Transfer Inheritance Tax | \$403.0 | \$359.0 | \$358.7 | \$359.8 | \$1.1 |
| Estate Tax | \$10.0 | \$10.0 | \$10.0 | \$10.0 | \$0.0 |
| Casino Revenue | \$308.9 | \$296.5 | \$259.6 | \$259.6 | \$0.0 |
| Insurance Premiums Tax | \$557.5 | \$543.5 | \$555.0 | \$560.0 | \$5.0 |
| Cigarette Tax | \$257.5 | \$53.6 | \$193.0 | \$192.5 | -\$0.5 |
| Petroleum Products Gross Receipts Tax | \$1,422.5 | \$1,219.5 | \$1,283.6 | \$1,283.6 | \$0.0 |
| PPGRT Capital Reserve | -\$619.6 | -\$345.6 | -\$440.2 | -\$440.2 | \$0.0 |
| CBT - Banks | \$175.5 | \$119.7 | \$160.0 | \$139.6 | -\$20.4 |
| Alcoholic Beverage Excise Tax | \$117.0 | \$107.0 | \$120.2 | \$120.2 | \$0.0 |
| Realty Transfer Fee | \$398.5 | \$264.0 | \$361.4 | \$361.4 | \$0.0 |
| Tobacco Products | \$33.6 | \$31.1 | \$25.2 | \$25.2 | \$0.0 |
| Public Utility | \$29.5 | \$29.0 | \$18.7 | \$18.7 | \$0.0 |
| Interfund Transfers | \$512.0 | \$568.6 | \$526.7 | \$526.7 | \$0.0 |
| Other Revenues and Adjustments | 4,212.6 | 3,985.2 | \$4,097.4 | \$4,097.4 | \$0.0 |
| Total Budgeted Revenues: | \$41,161.5 | \$33,954.2 | \$36,391.3 | \$37,762.8 | \$1,371.5 |

This is a work product of the New Jersey Office of Legislative Services (OLS).

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Extended FY 2020 Revenue Estimates

(July 1, 2020 through September 30, 2020)

Millions of \$

| | Executive Estimates | OLS Estimates | Difference: OLS - Executive |
|---------------------------------------|--------------------------------|--------------------------|--|
| Gross Income Tax | \$2,620.5 | \$2,552.4 | -\$68.1 |
| Sales Tax | \$2,534.5 | \$2,713.0 | \$178.5 |
| Corporation Business Tax (CBT) | \$674.7 | \$743.7 | \$69.0 |
| <u>Other Revenues</u> | | | |
| Energy Tax Receipts - Sales Tax | \$0.0 | \$0.0 | \$0.0 |
| Sales - Energy | \$0.0 | \$0.0 | \$0.0 |
| Sales Tax Dedication - PTRF | -\$188.8 | -\$204.8 | -\$16.0 |
| CBT Energy | \$0.2 | \$0.2 | \$0.0 |
| Motor Fuels Tax | \$112.0 | \$106.6 | -\$5.4 |
| Motor Vehicle Fees | \$167.7 | \$167.7 | \$0.0 |
| Transfer Inheritance Tax | \$87.6 | \$98.6 | \$11.0 |
| Estate Tax | \$3.0 | \$3.0 | \$0.0 |
| Casino Revenue | \$59.3 | \$59.3 | \$0.0 |
| Insurance Premiums Tax | \$0.0 | \$5.0 | \$5.0 |
| Cigarette Tax | \$0.5 | \$0.0 | -\$0.5 |
| Petroleum Products Gross Receipts Tax | \$316.4 | \$316.4 | \$0.0 |
| PPGRT Capital Reserve | -\$62.9 | -\$62.9 | \$0.0 |
| CBT - Banks | \$40.0 | \$43.6 | \$3.6 |
| Alcoholic Beverage Excise Tax | \$18.8 | \$18.8 | \$0.0 |
| Realty Transfer Fee | \$91.0 | \$91.0 | \$0.0 |
| Tobacco Products | \$2.6 | \$2.6 | \$0.0 |
| Public Utility | \$0.0 | \$0.0 | \$0.0 |
| Interfund Transfers | \$274.8 | \$274.8 | \$0.0 |
| Other Revenues and Adjustments | 949.1 | 949.1 | \$0.0 |
| Total Budgeted Revenues: | \$7,701.0 | \$7,878.1 | \$177.1 |

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FY 2021 Revenue Estimates

(October 1, 2020 through June 30, 2020)

Millions of \$

| | Executive Estimates | OLS Estimates | Difference: OLS - Executive |
|---------------------------------------|--------------------------------|--------------------------|--|
| Gross Income Tax | \$12,370.1 | \$13,315.1 | \$945.0 |
| Sales Tax | \$7,279.6 | \$7,328.7 | \$49.1 |
| Corporation Business Tax (CBT) | \$2,399.9 | \$2,611.3 | \$211.4 |
| <u>Other Revenues</u> | | | |
| Energy Tax Receipts - Sales Tax | \$788.5 | \$788.5 | \$0.0 |
| Sales - Energy | \$11.6 | \$11.6 | \$0.0 |
| Sales Tax Dedication - PTRF | -\$588.2 | -\$553.1 | \$35.1 |
| CBT Energy | \$3.6 | \$3.6 | \$0.0 |
| Motor Fuels Tax | \$328.2 | \$315.9 | -\$12.3 |
| Motor Vehicle Fees | \$347.9 | \$347.9 | \$0.0 |
| Transfer Inheritance Tax | \$271.1 | \$261.2 | -\$9.9 |
| Estate Tax | \$7.0 | \$7.0 | \$0.0 |
| Casino Revenue | \$200.3 | \$200.3 | \$0.0 |
| Insurance Premiums Tax | \$555.0 | \$555.0 | \$0.0 |
| Cigarette Tax | \$192.5 | \$192.5 | \$0.0 |
| Petroleum Products Gross Receipts Tax | \$967.2 | \$967.2 | \$0.0 |
| PPGRT Capital Reserve | -\$377.3 | -\$377.3 | \$0.0 |
| CBT - Banks | \$120.0 | \$96.0 | -\$24.0 |
| Alcoholic Beverage Excise Tax | \$101.4 | \$101.4 | \$0.0 |
| Realty Transfer Fee | \$270.4 | \$270.4 | \$0.0 |
| Tobacco Products | \$22.6 | \$22.6 | \$0.0 |
| Public Utility | \$18.7 | \$18.7 | \$0.0 |
| Interfund Transfers | \$251.9 | \$251.9 | \$0.0 |
| Other Revenues and Adjustments | 3,148.3 | 3,148.3 | \$0.0 |
| Total Budgeted Revenues: | \$28,690.3 | \$29,884.7 | \$1,194.4 |

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