New Jersey's Fiscal Future III

NJ's Fiscal Cliff: Current Services Budget Projections, Long-Term Economic Forecast, and the Five-Year Revenue Gap

By Charles Steindel and the Multi-Year Budget Workgroup

STEVE SWEENEY CENTER
FOR PUBLIC POLICY

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Preface: The Multi-Year Budget Workgroup

Two years ago, the Sweeney Center for Public Policy at Rowan University formed the Multi-Year Budget Workgroup (MYBW), a bipartisan team of former high-ranking administration and legislative budget officials, policy experts, economists and academics, to provide independent analysis of the long-term budget problems facing New Jersey.

New Jersey has consistently graded low on the Volcker Alliance's State Budget Report Cards primarily because of its failure to implement multi-year budgeting and consensus revenue forecasting. The MYBW was created to provide that service, which is performed in most states by government officials or quasi-government agencies.

The MYBW was modeled after the blue-ribbon *Facing Our Future* panel put together by the Council of New Jersey Grantmakers in 2010 to develop multi-year revenue projections and analyze whether those revenues would be sufficient to cover the cost of maintaining state services at current levels for the next five years. Richard Keevey and Ray Caprio, who developed the projections for *Facing Our Future*, serve on our workgroup.

To avoid conflicts of interest, the MYBW does not include any current state officials or candidates for state office. Former Senate President Steve Sweeney, who was initially a driving force in this effort, has withdrawn from participation in the MYBW. We are pleased to add to the group former Senate Republican Leader Steve Oroho and former Democratic Senator Bob Gordon, who recently retired from the NJ Transit Board and the Board of Public Utilities.

Dr. Charles Steindel, who developed economic forecasts for the Federal Reserve Bank of New York and the New Jersey Treasury Department, serves as our chief economist. His forecasts are the starting point for our multi-year budget analyses, which are developed by consensus. As fiscal policy practitioners serving in multiple roles with different perspectives, we can agree on the numbers and the challenges, but reserve the right to disagree on the solutions.

The MYBW will continue to provide economic forecasts and five-year revenue and expenditure projections to the Governor and the Legislature in February and June each year, and expenditure updates based on the adopted budget in September. We plan to do so until New Jersey joins the 38 other states who engage in consensus revenue forecasting and transparent long-term fiscal planning along the lines of the bill proposed by former Senator Oroho and Senate Budget Chair Paul Sarlo.

Like our earlier reports, this analysis seeks to provide insights and inform the public debate on the fiscal policy challenges that New Jersey faces as the Administration and legislative leaders prepare to enter into debate over the FY25 state budget.

Members of the Multi-Year Budget Workgroup

- Mark Magyar, director of the Sweeney Center for Public Policy, College of Humanities & Social Sciences, Rowan University, and former deputy director of the New Jersey Senate Majority Office;
- Charles Steindel, Ph.D., resident scholar at Ramapo College's Anisfield School of Business, former New Jersey Treasury Department chief economist and former senior vice president at the Federal Reserve Bank of New York;
- Richard Keevey, senior policy fellow at Rutgers University and former assistant secretary of the U.S. Department of Housing and Urban Development, former undersecretary of U.S. Defense Department and former New Jersey state budget director and controller;
- David Rousseau, former New Jersey state treasurer;
- Raphael J. Caprio, Ph.D., University Professor, Rutgers University, and director of Bloustein Local, a research unit of the Center for Urban Policy Research at the Bloustein School of Planning and Public Policy at Rutgers;
- Lucille E. Davy, former New Jersey education commissioner and current member of the Rowan School Regionalization Institute;
- Matthew D'Oria, healthcare consultant, former New Jersey deputy health commissioner and deputy Medicaid director;
- Steve Oroho, former Senate Minority Leader and former co-chair of Legislature's Economic and Fiscal Policy Workgroup;
- Bob Gordon, former commissioner of state Board of Public Utilities, former member of NJ Transit Board of Director and former state senator (D-Bergen);
- Chris Emigholz, vice president of government affairs for the New Jersey Business and Industry Association and former New Jersey Senate Republican budget director;
- Marc Pfeiffer, assistant director of Bloustein Local and former deputy director of New Jersey Division of Local Government Services. Marcela Ospina Maziarz, vice president for community and government affairs at Thomas Edison State University and former New Jersey deputy health commissioner;
- Marcela Ospina Maziarz, vice president for community and government affairs at Thomas Edison State University and former New Jersey deputy health commissioner;
- Michael Vrancik, Sweeney Center Policy Fellow, former director of government relations for the New Jersey School Boards Association and former New Jersey Treasury Office of Management and Budget manager
- Deborah Bierbaum, senior tax policy adviser for Multistate and former New York State deputy commissioner of tax policy;
- Mark Blum, executive director of America's Agenda, Washington, D.C.
- Stuti Jha, Associate Professor of Economics, College of Humanities and Social Sciences, Rowan University
- Jeff Kaszerman, vice president of government relations for the New Jersey Society of Certified Public Accountants;

Sweeney Center for Public Policy Graduate Assistants

- Arisahi Mora Lazaro, Rowan University Master of Public Policy program
- Valerie Ruscansky, Rowan University Master of Public Policy program

Executive Summary

Last February, in our annual Economic Forecast, Dr. Charles Steindel, the Multi-Year Budget Workgroup's chief economist, projected that New Jersey would continue to experience strong income growth and that any recession – if it even occurred -- would be "relatively mild and short."

This year's Economic Forecast is even more positive than last year, with Dr. Steindel projecting that the Federal Reserve "has achieved its desired 'soft landing' and it appears that inflation will continue to move down to a desired rate and the economy will continue to grow without a recession."

Nevertheless, the state's looming fiscal crisis over the next four budget years is more dire heading into the Governor's Annual Budget Message two weeks from today than it was last June heading into final budget negotiations.

The state budget for Fiscal Year 2024 adopted last June 30 proposed spending $54.35 billion -- $1.55 billion more than the Treasury anticipated in revenues, tapping the state surplus to make up the difference.

The remaining $8.2 billion surplus projected to be available going into the FY25 budget is still near record levels, but the gap between expected revenues and the projected costs of maintaining government services and funding state aid and major programs at promised levels is substantial.

Even if Treasury achieves its $52.802 billion revenue projection for FY24, the Multi-Year Budget Workgroup projects that New Jersey faces a deeper fiscal crisis than we projected last year.

Based on our economic forecast, revenue projections and Current Services Budget analysis, the MYBW projects that there is an 80% likelihood that state revenues will fall $3.2 billion to $7.1 billion short of the amount needed to continue state programs and state aid at current service levels each budget year from FY25 to FY28. Even under the most optimistic scenario, state revenues will fall $1.9 billion to $3.1 billion short annually.

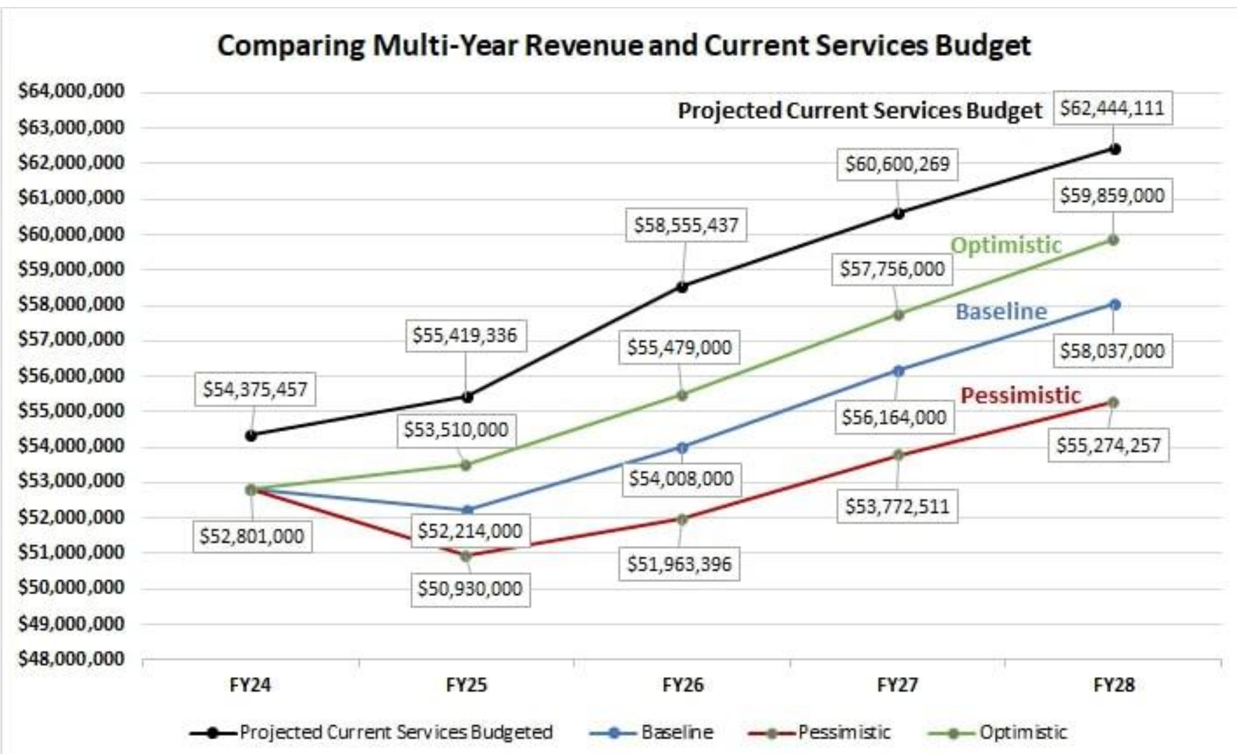
Under the more likely baseline and pessimistic scenarios, the MYBW's fiscal policy experts and economists project that revenue collections will fall short between $16 billion and $25 billion in total of the projected expenditures needed to continue current services and state aid and implement major programs from FY25 to FY28.

The Current Services Budget assumes 3% growth for most existing programs. The 3% figure was arrived at using the methodology incorporated by former Senate Minority Leader Steve Oroho (R-Sussex) and Senate Budget Committee Chair Paul Sarlo (D-Bergen) in Senate Bill 654, the bipartisan legislation they introduced that would have required the Governor and Legislature to implement consensus revenue forecasting with five-year revenue forecasts and expenditure projections using a Current Services Budget model.

The MYBW's Current Services Budget projects state spending to increase from $54.35 billion in the current FY24 budget to $62.44 billion in FY28, up significantly from the $59.74 billion figure we projected last June prior to adoption of the final budget.

The Current Services Budget includes funding to complete the ramp-up to full funding of the school funding formula under the School Funding Fairness Act of 2018 (S2), the full cost of both the StayNJ and revised ANCHOR property tax relief programs, and $500 million a year from FY25 to FY27 to cover a significant portion of the NJ Transit operating deficit that will be left after federal Covid-19-related funding runs out. Relatively flat or reduced funding for pensions, debt service and municipal aid is largely offset by a projected 5.1% increase in state healthcare costs and in health benefits costs for current state workers and both teacher and state worker retirees based on federal projections.

Following the same methodology as last year, the MYBW developed three sets of revenue projections: Baseline (50% likely), Pessimistic (30% likely) and Optimistic (20% likely) and matched those forecasts with the Current Services Budget projections for each year.



Five-Year Gap Between Current Services NJ State Budget and Revenue Projections							
In each budget year from FY25 to FY28 and under all three revenue scenarios, projected expenditures exceed projected revenues, which would quickly eat away the state's $6.6 billion surplus. The situation is most severe under the Baseline and Pessimistic scenarios, where state revenues will fall $3.2 billion to $7.2 billion short each year from FY25 to FY28 of the amount needed to maintain current service and state aid levels and fund newly enacted programs. Under both scenarios, the surplus would be completely exhausted in two years, leaving a significant deficit that would require billions in new revenues, restrained growth and cuts in projected spending. Even under the Optimistic scenario, revenues would fall $1.9 billion to $3.1 billion short each year of the amount needed to maintain service and state aid levels along with a healthy surplus. Because the New Jersey Constitution requires a balanced budget, the Governor and Legislature cannot run year-to-year budget deficits.							
	FY2022	FY2023	FY2024	FY2025	FY2026	FY2027	FY2028
Projected Current Services Budget	$48,787,000	$54,642,000	$54,357,457	$55,419,336	$58,555,437	$60,600,269	$62,444,111
(Assuming 3% Annual Growth)							
Treasury Revenue Projections	$53,052,000	$52,840,000	$52,801,265				
Treasury Projected Closing Surplus	$10,736,000	$9,986,704	$8,180,172				
Baseline							
Projected Revenue			$52,801,265	$52,214,000	$54,008,000	$56,164,000	$58,037,000
Difference between projected revenue and projected spending			-$1,556,192	-$3,205,336	-$4,547,437	-$4,436,269	-$4,407,111
Remaining surplus if applied to cover gap			$6,623,980	$3,418,644	-$1,128,793	-$5,565,062	-$9,972,173
Pessimistic							
Projected Revenue			$52,801,265	$50,930,000	$51,963,396	$53,772,511	$55,274,257
Difference between projected revenue and projected spending			-$1,556,192	-$4,489,336	-$6,592,041	-$6,827,758	-$7,169,854
Remaining surplus if applied to cover gap			$6,623,980	$2,134,644	-$4,457,397	-$11,285,155	-$18,455,009
Optimistic							
Projected Revenue			$52,801,265	$53,510,000	$55,479,000	$57,756,000	$59,859,000
Difference between projected revenue and projected spending			-$1,556,192	-$1,909,336	-$3,076,437	-$2,844,269	-$2,585,111
Remaining surplus if applied to cover gap			$6,623,980	$4,714,644	$1,638,207	-$1,206,062	-$3,791,173

- Under the Baseline scenario, revenues for FY25 to FY28 would result in a cumulative $16.5 billion shortfall of total collections needed to cover projected Current Services Budget costs.
- Under the Pessimistic scenario, revenues for FY25 to FY28 would be a cumulative $25 billion below the revenue needed to continue to fund state services and state aid at Current Services Budget levels.
- Under the Optimistic scenario, revenue collections from FY25 to FY28 would be $10.4 billion short of the revenues needed to cover the full cost of the Current Services Budget.

While the state is projected to finish FY24 with a health $8.2 billion surplus, that cushion would quickly be eaten away by the FY26 budget, when both the NJ Transit fiscal cliff and the implementation cost for the StayNJ program would hit in the same budget year. The Governor and Legislature would be expected to begin to cut programs or seek additional revenue for future budgets, rather than letting the surplus plummet to unacceptably low levels.

The three Wall Street bond rating agencies that have twice upgraded New Jersey's credit rating in the past two years would certainly look askance at future treasurers spending that surplus down below $3 billion, which would be just 5% of the projected budget.

New Jersey Economic Outlook

New Jersey's economic performance was mixed in 2023. The state's job count continued to move up to again set new highs, but the unemployment rate increased sharply. Income and output increased, although at a slower rate than the nation as a whole. As we move into 2024, inflation is moving down, risks of recession have been reduced, although not eliminated, and the stock market has completely reversed its 2022 losses. Housing activity is ebbing, but prices remain extraordinarily high. Avoidance of a recession, and the potential for rebounds in capital gains, suggests that downside risks to state revenues are somewhat reduced, but sharp increases seem rather unlikely over the next few years.

Unemployment underperformance

Preliminary estimates show that the number of jobs in New Jersey increased nearly 70,000 between December 2022 and December 2023. Growth was slightly lower in the second half of the year than in the first. The state's 1.6% job rise over the course of 2023 was close to the national increase (Job figures for 2023 are still subject to the regular annual revision, which will be released in March. It appears that the average level of jobs in New Jersey 2023 has been underestimated slightly). Unlike recent years, job growth in 2023 was stronger in the public than the private sector, though the government job count at year-end remained under its pre-pandemic level.

The data for unemployment has been dramatically, and quite puzzlingly, different. The state's unemployment rate rose from 3.3% at the end of 2022 to 4.8% in December--one of the highest figures in the nation, very far above the 3.7% national average, though comparable to New York's 4.5%. In the first half of the year, there were marked gains in both resident employment and the labor force, but after mid-year employment plunged and the labor force contracted. There are no clear reasons for the discrepancy between the two reports on the labor market, and it is possible that the regular revisions to these data will smooth out the monthly patter, conceivably showing less strength in the first half of the year and less deterioration later on.

For 2023 as a whole, New Jersey's unemployment rate averaged 4.0%, which is a moderate increase from 2022's 3.7%, (the nation averaged 3.6% in both years), while the average number of residents employed grew about the same amount as the average gain in jobs.

State GDP and income on the rise

The data on state output and income reinforce the better parts of the news on the labor front. Over the first three quarters of 2023, the personal income of New Jersey residents averaged 4.4% higher than in the comparable period of 2022—little different than the national increase of 4.7%. Probably the key component of personal income is "net earnings," which consists of wages and other forms of employee compensation, plus an estimate of the income of unincorporated businesses. This component (corrected to remove out-of-state earnings) was, on average 4.5% higher thana year earlier in the first three quarters of 2023—a decent increase, higher than price gains over that period, but somewhat short of the national gain.

The current-dollar Gross Domestic Product of New Jersey—a reasonable proxy for the aggregate revenue base of state and local governments—rose 6.0% over the same period, quite similar to the national gains. However, as had been expected, in 2023 the State of Washington's GDP edged passed that of New Jersey. This is the first time, certainly in decades, that a state with a smaller population than New Jersey is reported to have a larger aggregate economy (the differences, though, are so small that even very minor future revisions could put New Jersey back ahead). Given Washington State's very different and much more high-tech industry base, this milestone may be indicative of the relative slowness of New Jersey's adjustment to the changing structure of the national and world economy.

Housing sales, construction starts down

New Jersey's housing market in 2023 continued its 2022 trend. The number of units sold continued to fall, while prices continued to rise. New Jersey Realtors reported that the number of single-family homes sold in 2023 was down 23.2% from 2022, while the average price was 7.6% higher than in 2022 (the average price surpassed $600,000 in late 2023, while median price was around $500,000). These figures suggest a substantial drop in the aggregate value of transactions, which is consisted with the sharp declines that have been seen in collections of realty transfer taxes.

Despite the extraordinary prices of homes, and higher interest rates, the Mortgage Bankers Association reports that the fraction of New Jersey mortgages in the foreclosure process or otherwise seriously delinquent was lower in the third quarter of 2023 than in 2022.

On the construction front, preliminary data from the U.S. Census Bureau show that permits for new housing units in the state in 2023 were 11.1% lower than in 2022. The weakness was mostly in the large (five or more units) multifamily sector, likely reflecting the ebbing of the marked expansion in that area in recent years. The total number of permits issued in 2023 was, according to this preliminary count, 31,571, a figure is insufficient to reverse the aging of the state's housing stock, as has been the case for many years.

The Outlook: The Soft Landing Achieved?

In the latter part of 2023, inflation fell back substantially, while output and employment continued to grow. The retreat of inflation caused the Federal Reserve to cease increasing its targeted short-term interest rates in the summer, and by the start of 2024 expectations were high that the Fed will start reducing its rates this year. The anticipation of short-term rate cuts has provoked declines in long-term interest rates, including mortgages, and that, coupled with the sustained economic expansion, has apparently spurred the stock market to new record highs.

At this time, it looks like that the Fed has achieved its desired "soft landing" and it appears that inflation will continue to move down to a desired rate and the economy will continue to grow without a recession, even though geopolitical tensions have ratcheted up and, despite gaping deficits, the end of COVID relief has meant that federal policies are no longer providing additional stimulus.

Favorable developments include an ongoing boom in manufacturing investment (in part the consequence of "Build Back Better" incentives) and what appears to be improved consumer attitudes, as indicated by higher readings in attitude surveys, and demonstrated by strong holiday sales.

While the environment suggests that recession risks have dissipated greatly, they are not completely gone. Notably, the Chinese economy is under considerable strain as debt problems threaten the sustainability of its extraordinarily investment-led (and debt-financed) model of growth. While a softened Chinese economy is likely to bring down prices of many products and so add to disinflationary pressure, such reductions would strain producers elsewhere.

The wars in Ukraine and Gaza continue to have the potential to disrupt major markets and supply channels. The tight U.S. labor market could spill over into renewed upward pressure on prices, ending the decline in inflation and provoking another round of interest rate hikes. And, of course, the outcome of this year's national elections could change U.S. policy in some unanticipated ways.

Still, the balance of risks looks considerably more favorable than last year, and the baseline forecast no longer includes a recession. Substantive downside risks do remain, but it is also conceivable that new technologies, notwithstanding all the social concerns that have been maintained, have the potential to boost growth.

Impact on State Finances

Turning to state finances, in the first six months of Fiscal 2024 major revenues were 2.8% lower than in the comparable period of Fiscal 2023. This is in contrast to the projection that revenues will grow 1.5% over the course of the entire fiscal year, comparing the Certified 2023 revenue level to the estimates embodied in the Appropriation Act. The actual amount collected so far in Fiscal 2023 has been more than $800 million lower than if the projected 1.5% increase had occurred in this period.

While there are many unknowns that will affect revenues in the second half of the fiscal year, it does not seem imprudent now to assume that they will be noticeably more than $1 billion lower than the amount assumed in the Appropriations Act. It should be noted, though, that given the enormity of the stock market's gain in late 2023, it is possible that April final payments of Gross Income Tax, stemming from capital gains realizations, will be strong and trim the size of the revenue shortfall.

However, clear information on the size of final payments will not be available until late April (in part reflecting the state's continuing to allow all final payments to be remitted by paper check, rather than requiring large payments to be transmitted electronically).

Revenue Scenarios

The Multi-Year Budget Workgroup evaluated the revenue consequences of three scenarios: 1. Baseline, 2. Pessimistic, and 3. Optimistic.

The Baseline Scenario

The Baseline scenario assumes that the economy has achieved a "soft landing," with inflation falling to the Federal Reserve's target, and growth in output and employment growing consistent with long-run trends.

The Federal Reserve will gradually unwind much of the interest rate increases of the past two years. While the federal deficit will remain extremely large, there will be no important new spending or tax initiatives. Locally, New Jersey's unemployment rate will drift down to around the national one.

While this outlook is better than the baseline envisioned last spring, downward pressure will be exerted on New Jersey state revenues in the near term, reflecting in part the end of the corporate tax surcharge and the ongoing retrenchment in home sales. Moreover, while the pullback in inflation is welcome, it inhibits the growth of sales tax revenue.

However, further out on the forecast horizon, moderate revenue growth resumes—the sharp rebound in the stock market is expected to lead to a rebound in capital gains realizations, adding to wage growth as a source of income tax revenue.

BASELINE SCENARIO	23						
Economic Assumptions and Revenue Projections							
(numbers in 1000s)							
	CY22	CY23	CY24	CY25	CY26	CY27	CY28
National Outlook							
Real Gross Domestic Product Growth (% year over year)	1.9	2.5	2.2	2.2	2.2	2.2	2.2
Nominal Gross Domestic Product Growth	9.1	6.3	4.5	4.5	4.5	4.5	4.5
Current Dollar Consumer Spending Growth	9.2	6.0	4.6	4.4	4.4	4.4	4.4
Personal Income Growth	2.6	5.2	2.8	3.8	4.4	4.4	4.4
Capital Gains Realizations (billions)	$1,200,000	$1,250,000	$1,400,000	$1,450,000	$1,500,000	$1,500,000	$1,550,000
Personal Income Plus Capital Gains Realizations (growth)	-1.1	5.1	0.5	3.1	4.3	4.0	4.0
Consumer Price Index Growth	8.0	4.1	2.5	2.5	2.5	2.5	2.5
Unemployment Rate	3.6	3.8	4.0	4.0	4.0	4.0	4.0
New Jersey							
Taxable Consumer Spending Growth (% year over year)	8.2	5.0	3.6	3.4	3.4	3.4	3.4
Personal Income Plus Capital Realizations Growth	-1.6	4.6	0.0	2.6	3.8	3.5	3.5
Unemployment Rate	3.7	4	4.4	4.2	4.1	4.0	4.0
	FY22	FY23	FY24	FY25	FY26	FY27	FY28
New Jersey State Budget Revenue Projections							
Sales Tax	$13,415	$13,981	$14,424	$14,943	$15,451	$15,977	$16,520
Gross Income Tax Plus PT Business Alternative Tax	$24,717	$23,160	$23,596	$23,599	$24,214	$25,125	$26,016
Corporation Income Tax	$5,800	$5,576	$5,347	$5,484	$5,830	$6,197	$6,587
Other Revenues	9121	10123	9434	8188	8513	8865	8914
Total Revenue	**$53,053**	**$52,840**	**$52,801**	**$52,214**	**$54,008**	**$56,164**	**$58,037**
METHODOLOGY: FY23 and FY24 use Treasury assumptions for all taxes. Sales tax for FY25-FY28 calculated as increment by growth							
of taxable consumer spending in previous CY. Gross Income Tax and Pass-Through Business Alternative Tax for FY25-FY28 calculated							
as increment by growth of personal income plus capital gains realizations. Corporation Income Tax for FY25-FY28 calculated as increment							
by formula related to n+A1:K32ational nominal Gross Domestic Product growth.							

The Pessimistic Scenario

The Pessimistic scenario assumes a softer near-term outlook than the baseline, in part reflecting a pullback in consumer exuberance after the recent surge, and somewhat deeper damage to housing activity as lagged effects of higher levels of interest rates weigh on the sector. The economy drifts into a growth recession, or mild recession, but then recovers.

Under this scenario, state revenues are under greater stress in the near future. In particular, markets are less buoyant, and the rebound in capital gains and other sources of business income is more gradual. The subsequent path in revenues is similar to that in the baseline, but at a lower level.

PESSIMISTIC SCENARIO	23						
Economic Assumptions and Revenue Projections							
(numbers in 1000s)							
	CY22	CY23	CY24	CY25	CY26	CY27	CY28
National Outlook							
Real Gross Domestic Product Growth (% year over year)	1.9	2.5	0.5	1.2	1.8	1.8	1.8
Nominal Gross Domestic Product Growth	9.1	6.3	2.8	3.5	4.1	4.1	4.1
Current Dollar Consumer Spending Growth	9.2	6.0	2.0	2.8	4.0	4.0	4.0
Personal Income Growth	2.6	5.2	1.3	2.2	4.0	4.0	4.0
Capital Gains Realizations (billions)	$1,200	$1,250	$800	$850	$950	$1,000	$1,050
Personal Income Plus Capital Gains Realizations (growth)	-1.1	5.1	0.5	3.1	4.3	4.0	4.0
Consumer Price Index Growth	8.0	4.1	2.0	2.5	2.5	2.5	2.5
Unemployment Rate	3.6	3.8	4.2	4.0	4.0	4.0	4.0
New Jersey							
Taxable Consumer Spending Growth (% year over year)	8.2	5.0	1.0	1.8	3.0	3.0	3.0
Personal Income Plus Capital Realizations Growth	-1.6	4.6	0.0	2.6	3.8	3.5	3.5
Unemployment Rate	3.7	4	4.4	4.2	4.1	4.0	4.4
	FY22	FY23	FY24	FY25	FY26	FY27	FY28
New Jersey State Budget Revenue Projections							
Sales Tax	$13,415	$13,981	$14,424	$14,568	$14,830	$15,275	$15,734
Gross Income Tax Plus PT Business Alternative Tax	$24,717	$23,160	$23,596	$23,599	$24,214	$25,125	$26,016
Corporation Income Tax	$5,800	$5,576	$5,347	$4,575	$4,406	$4,507	$4,611
Other Revenues	$9,121	$10,123	$9,434	$8,188	$8,513	$8,865	$8,914
Total Revenue	**$53,053**	**$52,840**	**$52,801**	**$50,930**	**$51,963**	**$53,773**	**$55,274**
METHODOLOGY: FY23 and GY24 use Treasury assumptions for all taxes. Sales tax for FY25-FY28 calculated as increment by growth of taxable consumer spending in previous CY. Gross Income Tax and Pass-Through Business Alternative Tax for FY25-FY28 calculated as increment by growth of personal income plus capital gains realizations. Corporation Income Tax for FY25-FY28 calculated as increment by formula related to national nominal Gross Domestic Product growth.							

The Optimistic Scenario

In the Optimistic scenario, growth this year is firmer than in the Baseline, largely because consumer confidence and spending is stronger as the reality that inflation has fallen without a recession. Markets are stronger, and capital gains realizations are higher.

Looking out further, aggregate growth is a bit higher than in the other scenarios, as some credence is given to recent indicators suggesting that the pace of productivity growth has improved.

OPTIMISTIC SCENARIO							
Economic Assumptions and Revenue Projections							
(numbers in 1000s)							
	CY22	CY23	CY24	CY25	CY26	CY27	CY28
<u>National Outlook</u>							
Real Gross Domestic Product Growth (% year over year)	1.9	2.5	2.2	2.2	2.2	2.2	2.2
Nominal Gross Domestic Product Growth	9.1	6.3	4.5	4.5	4.5	4.5	4.5
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Unemployment Rate	3.6	3.8	4.0	4.0	4.0	4.0	4.0
<u>New Jersey</u>							
Taxable Consumer Spending Growth (% year over year)	8.2	5.0	3.6	3.4	3.4	3.4	3.4
Personal Income Plus Capital Realizations Growth	2.1	5.0	5.0	3.3	3.8	3.6	3.8
Unemployment Rate	3.7	4	4.4	4.2	4.1	4.0	4.0
	FY22	FY23	FY24	FY25	FY26	FY27	FY28
<u>New Jersey State Budget Revenue Projections</u>							
Sales Tax	$13,415	$13,981	$14,424	$14,943	$15,451	$15,977	$16,520
Gross Income Tax Plus PT Business Alternative Tax	$24,717	$23,160	$23,596	$24,783	$25,598	$26,582	$27,552
Corporation Income Tax	$5,800	$5,576	$5,347	$5,484	$5,830	$6,197	$6,587
Other Revenues	$9,121	$10,123	$9,434	$8,300	$8,600	$9,000	$9,200
Total Revenue	$53,053	$52,840	$52,801	$53,510	$55,479	$57,756	$59,859
METHODOLOGY: FY23 and GY24 use Treasury assumptions for all taxes. Sales tax for FY25-FY28 calculated as increment by growth of taxable consumer spending in previous CY. Gross Income Tax and Pass-Through Business Alternative Tax for FY25-FY28 calculated as increment by growth of personal income plus capital gains realizations. Corporation Income Tax for FY25-FY28 calculated as increment by formula related to national nominal Gross Domestic Product growth.							

In this scenario, near-term New Jersey revenues are firmer than in the baseline, with FY25 seeing some increase from FY24. The higher level and slightly higher growth are sustained through the end of the projection horizon.

Likelihood of the Scenarios and Their Implications

We see only a 20% probability for the optimistic scenario. There is as yet no firm evidence that the surge in markets will continue, nor that that the recent upsurge in productivity growth truly suggests a fundamental improvement. We are reasonably optimistic that the likelihood of a marked retrenchment in the economy is less than a continuation of recent trends, so assign a lower probability to the pessimistic (30%) than to the baseline (50%) scenario.

We again note that these scenarios are based on the FY24 level of revenues assumed in the Appropriations Act. Revenue growth has so far this fiscal year been noticeably short of the full year growth rate consistent with the Appropriations Act level. A presumption that the shortfall will persist may be reasonable; however, the very marked surge in the stock market in recent months provides some prospect that income tax revenues could rebound, if not at the close of FY24 then later on.

Current Services Budget

The Current Services Budget for FY25 to FY28 is a baseline spending plan that shows the projected costs of continuing state services and state aid at current levels with normal inflation, along with the cost of major spending commitments made by the Governor and Legislature, including a ramp-up to full funding of state education aid under S2, continued full actuarial pension payments, and the A1 StayNJ property tax credit legislation enacted June 30.

As such, it differs from a true Multi-Year Budget that would include recommendations for major policy changes in the years ahead to improve services, cut costs and meet policy priorities. While our revenue forecasts are identical to those that would be required under Senate Bill 654, our Current Services Budget is similar in approach, though less detailed, than the document that would have been required under the Oroho-Sarlo consensus revenue forecasting bill introduced in the 2022-23 legislative session.

Like the 2010 *Facing Our Future* report that was the last to provide a five-year current services projection for the state budget prior to the Multi-Year Budget Workgroup studies we issued in June 2022 and June 2023, our Current Services Budget for FY24 to FY28 provides an aggregate picture at the macro level in major spending areas, particularly those programs that make up large cost centers or have been the subject of large increases.

Over a six-year period, budget expenditures rose from $35 billion in FY2018 to $54.35 billion in the current FY2024 budget year. In addition to normal inflationary increases and Covid 19-related spending, the increase was driven by a $5 billion ramp-up to the full Actuarially Required Contribution to the pension system for teachers and state workers that had been underfunded for more than 20 years, a $4 billion increase in state aid to education under the School Funding Fairness Act of 2018, and implementation of the new $2 billion ANCHOR property tax relief program.

Overall state expenditures – including federal aid, the Transportation Trust Fund, and revolving and dedicated funds that provide funding in addition to the $54.35 billion supported by state revenues – grew with equal rapidity. In response to the Covid crisis, federal funding jumped from $13.9 billion in FY19 to $16.3 billion in FY20 and peaked at $23.billion in FY23 before dipping to $21.8 billion for the current fiscal year.

Last June, as the Governor and Legislature were entering into the final weeks of budget negotiations, the Multi-Year Budget Workgroup issued its second Current Services Budget, projecting that spending would rise from the $53.1 billion recommended in the Governor's Budget for FY24 to $59.508 billion in FY28 – a total increase of 12.8% that averaged out to just 3.2% a year. At those spending levels, New Jersey was already facing a long-term fiscal crisis, with state revenues projected to fall $3 billion to $4 billion short of covering Current Services Budget costs each year from FY25 to FY28, even with a massive $9.9 surplus to close out the fiscal year.

That surplus was cut to $8.2 billion as the final FY24 budget rose to $54.35 billion in expenditures, spending $1.5 billion more than the $52.8 billion Treasury expected to collect. More importantly for future budget projections, the Governor and Legislature enacted the A1 StayNJ property tax relief program that is designed to cut property taxes in half for most senior citizens starting in 2026 and to simultaneously expand the ANCHOR property tax relief program enacted the previous year. Coupled with a projected 5.1% medical inflation rate that will continue to drive up Department of Human Services and employee health benefit costs, the expanded property tax relief program costs increased our Current Services Budget projections significantly.

Overall, we now project Current Services Budget expenditures to rise $8 billion over the next four fiscal years from $54.35 billion in FY24 to $62.44 billion in FY28. Even with an improved economic outlook making a recession unlikely, New Jersey revenues are currently projected to fall $3.2 billion to $7.1 billion short of the amount needed to fund projected Current Services Budget costs each year from FY25 to FY28 under the Baseline and Pessimistic revenue scenarios considered most likely to occur in our economic forecast.

It is important to note that this $8 billion increase does not include the $926 million in one-shot targeted budget add-ons for specific towns, districts, colleges, non-profits and programs in the FY24 budget that we took out of the base Current Services Budget for the purpose of calculating future spending; this is an important change in methodology we decided to make because the so-called "Christmas tree list" changes from year to year and has been virtually eliminated in years of fiscal crisis.

The largest increases in our projected Current Services Budget over the next four fiscal years are:

- Property Tax Relief: The StayNJ program and the expansion of the ANCHOR program are projected to add more than $4 billion to Current Services Budget scenario costs over the four fiscal years, with the biggest single-year cost increase of $800 million coming in the FY26 budget that would be enacted just over four months before the governorship and the Assembly are up for election in November 2025.

- NJ Transit: We project that the state budget will need to provide $500 million a year in operating assistance to NJ Transit, also starting in FY26, when the federal Covid-19 operating assistance money fully runs out, leaving the agency with an $810 million fiscal cliff, even with a 12.5% to 15% fare hike proposed to go into effect in FY25. The $500 million a year would total $1.5 billion from FY26 to FY28.

- Healthcare Costs: Based on the federal Centers for Medicare and Medicaid Services (CMMS) healthcare inflation multiplier of 5.1%, we project that increases in Medicaid, public employee health benefits and other healthcare spending will add $7 billion to aggregate state spending over the four-year period.

- State Aid to Education: State aid to education, which is the largest single spending item in the budget, is projected to rise from $10.7 billion to $12.4 billion over the next four years as the Governor keeps his pledge to fully fund the S2 school funding formula in FY25; we anticipate 3% increases in succeeding years.

PROJECTED CURRENT SERVICES BUDGET

Completes S2 ramp-up to full funding in FY25. Funding for debt service projected lower. Targeted $926 million in one-shot appropriations removed from Current Serv ice Budget calculations in future years. Medicaid, CHIP, DMAVA veterans homes, and health benefits for current stateworkers and teacher and state worker retirees projected at 5.1% growth from FY25 to FY28. Pension costs are actuarial projections from April bond offering. Replacement of Federal Covid-19 subsidies for NJ Transit calculated as FY25-FY28 current services gap. All other spending increased 3% annually for inflation.

	FY22 Actual Expenditure	FY23 Projccted Expenditure	FY24 Projected Appropriation	FY25 Projected Appropriation	FY26 Projected Appropriation	FY27 Projected Appropriation	FY28 Projected Appropriation	Difference FY25-FY28
TOTAL NJ STATE BUDGET APPROPRIATIONS								
Projected Appropriation with MYBW Methodology & Calculations	$51,096,125	$52,839,642	$54,357,547	$55,419,336	$58,555,437	$60,600,289	$62,444,111	$19,588,985
Projected Percent Increase in Current Services Budget				1.95%	5.66%	3.49%	3.04%	14.88%
Projected Appropriation with 3% Annual Increase (minus One--Shots)			$54,357,547	$55,034,493	$56,685,528	$58,386,094	$60,137,677	$12,813,605
Difference between Itemized Budget and 3% Growth				$384,843	$1,869,909	$2,214,194	$2,306,434	$6,775,381
MAJOR SPENDING INCREASES								
Previously Committed Spending Growth								
1. K-12 School Formula Aid	$9,127,256	$9,920,000	$10,750,000	$11,450,000	$11,690,500	$12,041,215	$12,402,451	$4,584,166
% Change		10.9%	8.4%	5.6%	3.0%	3.0%	3.0%	
(includes complete ramp-up to full formula funding in FY25)								
2. Direct Property Tax Relief Programs								
Governor's Budget (ANCHOR, Senior Freeze, etc.)	$1,386,300	3,009,500	$3,018,000	$3,026,523	$3,035,070	$3,043,641	$3,052,236	$85,469
StayNj program (A1)			$102,000	$200,000	$1,050,000	1,450,000	$1,550,000	$3,842,000
ANCHOR increases in A1			$141,700	$159,200	$163,976	$168,895	$173,962	$99,233
Total Direct Property Tax Relief	$1,386,300	$3,009,500	$3,261,700	$3,385,723	$4,249,046	$4,662,536	$4,776,198	$4,026,703
3. Medicaid/Healthcare Cost Increases)								
(FY25-FY28 increases reflect new CMS 5.1% inflation projection)								
a. Department of Human Services								
Department of Human Services (Budget Bill)	$7,040,291	$8,307,958	9,100,577	$9,564,706	$10,052,506	$10,565,184	$11,104,009	$4,884,098
Medicaid/Children's Health Insurance Program (CHIP)	$4,509,000	$4,454,000	$5,777,000	$6,071,627	$6,381,280	$6,706,725	$7,048,768	$3,100,400
(Adjustments to Medicaid/CHIP reflect $665.2M being returned to General Fund due to continued increased federal Covid-19 aid, $116.2M increase to NJ FamilyCare to replace lost Covid-19 aid)		-$665,200	$116,000					
b. Public Employee Health Benefits								
Health Benefits for Current State Employees	$1,496,364	$1,677,764	$1,760,945	$1,850,753.20	$1,945,141.61	$2,044,343.83	$2,148,605.37	$945,064
Post-Retirement Medical Benefits for Teachers, State Employees	$1,946,460	$2,113,587	$2,310,885	$2,428,740.14	$2,552,605.88	$2,682,788.78	$2,819,611.01	$1,240,206
Health Benefits Total, Active and Retirees	$3,396,342	$3,791,351	$4,071,830	$4,279,493	$4,497,747	$4,727,133	$4,968,216	$2,185,270
% Change		11.6%	7.4%	5.1%	5.1%	5.1%	5.1%	
c. DMAVA Veterans Nursing Homes	$67,888	$70,645	$72,582	$76,284	$80,174	$84,263	$88,560	$38,953
4. NJ Transit Post-Covid Funding Operating Deficit								
NJ Transit Budget	$2,678,100	$2,710,500	$2,866,600	$2,964,300	$3,051,500	$3,143,045	$3,237,336	$929,781
Covid-19 Relief (CARES, CRRSAA, ARPA)	$1,030,700	479,200	$808,800	$749,300	$0	$0	$0	-$2,485,900
NJ Turnpike Funding	$325,000	$721,000	$440,000	$455,000	$470,000	$484,100	$500,000	$149,100
NJ Transit State Operating Subsidy	$100,000	$100,000	$140,000	$140,000	$140,000	$144,200	$148,526	$12,726
Farebox Revenue (projects 15% fare hike in FY25 to raise $100M)	$536,700	$687,200	$776,300	$895,400	$913,300	$940,699	$968,920	$613,119
Continued TTF Capital to Operating Transfers	$432,200	$362,000	$334,000	$334,000	$334,000	$334,000	$334,000	$0
Clean Energy Fund	$82,100	$82,100	$70,100	$70,100	$70,100	$70,100	$70,100	$0
Commercial Revenue/Other Reimbursements	$321,600	$317,100	$297,400	$301,100	$306,300	$311,500	$316,700	$46,000
NJ Transit Revenue Subtotal	$2,828,300	$2,748,600	$2,866,600	$2,944,900	$2,233,700	$2,284,599	$2,338,246	-$1,664,955
NJ Transit Revenue -to-Expenditure Differential	$150,200	$38,100	$0	($19,400)	($817,800)	($858,446)	($899,090)	-$2,594,736
Likely Increase in State Aid or Operating Subsidy					$500,000	$500,000	$500,000	$1,500,000
MAJOR EXPENDITURES PROJECTED AT NO GROWTH OR BELOW 3%								
1. Pension Contribution from State Budget								
State Pension Contribution	$5,543,157	$5,472,720	$5,677,000	$5,761,000	$5,834,000	$5,899,000	$5,951,000	$737,000
State Lottery Contribution			$1,116,000	$1,126,000	$1,135,000	$1,147,000	$1,157,000	$101,000
Total State Pension Funding			$6,793,000	$6,887,000	$6,969,000	$7,046,000	$7,108,000	$838,000
2. Debt Service		$4,300,000	$4,155,000	$4,100,000	$4,100,000	$4,050,000	$4,050,000	-$320,000
Decrease reflects savings from Debt Defeasance Fund expenditures								
3. Targeted One-Shot Expenditures			$926,000					
Not continuing appropriation so excluded from Current Services Budget								
4. Health Care Accessibility and Affordability Fund (Horizon Payment)		$600,000	$100,000					
Subtotal for State Expenditures Listed			$41,288,489	$41,958,206	$44,690,474	$46,319,376	$47,734,771	$15,548,872
Projected % Growth in Expenditures Listed				1.6%	6.5%	3.6%	3.1%	
Expenditures not listed (3% growth factored in FY25-FY28)			$13,069,058	$13,461,130	$13,864,964	$14,280,913	$14,709,340	$4,040,114
Total Current Services Budget (Expenditures Itemized)	$0	$0	$54,357,547	$55,419,336	$58,555,437	$60,600,289	$62,444,111	$19,588,985
Total Current Services Budget if limited to 3% Growth			$54,357,547	$55,034,493	$56,685,528	$58,386,094	$60,137,677	$12,813,605
Difference between Itemized Budget and 3% Growth				$384,843	$1,869,909	$2,214,194	$2,306,434	$6,775,381

These major increases are offset partially by virtually flat funding for the state's pension system now that the full Actuarially Required Contribution is being made; a projected slight reduction in debt service payments despite higher interest rates because of expenditures from the Debt Defeasance Fund; and the expected continuation of flat funding for municipal aid, which has been frozen at less than $1.6 billion for more than two decades.

All other spending is projected to grow at a 3% annual rate.

Property Tax Relief

The StayNJ initiative that would cut property taxes in half for virtually all senior citizens. If funded as laid out in the legislation, the StayNJ program – which included $10 million set aside in the FY24 budget, would include a $200 million set-aside in FY25, and would cost $1.05 billion in FY26, $1.45 billion in FY27 and $1.5 billion in FY28 as it is fully implemented.

In addition, as part of the StayNJ agreement, the ANCHOR property tax relief program was expanded at a cost of $142 million in FY24 that is projected to rise to $174 billion by FY28. Implementation of the ANCHOR program in FY23 increased direct property tax relief programs in New Jersey from $1.4 billion to $3.1 billion.

NJ Transit's Funding Cliff

NJ Transit is the only state agency require by law to provide a multi-year budget, which is the reason that fiscal experts are fully aware that the agency is heading into a major budget crisis starting in FY26.

NJ Transit's announcement of a planned 12.5% to 15% rail, bus and light rail fare increase would raise $100 million and resolve the agency's $106.6 million FY25 budget gap, but still leave more than an $800 million shortfall in FY26 that fare hikes clearly cannot fill.

The state budget provided more than $400 million in operating support to NJ Transit in FY20 and legislation had been introduced that spring to provide the agency with a permanent source of dedicated funding. However, NJ Transit and other transit agencies received billions of dollars in federal aid in the three federal pandemic relief packages to cover Covid 19-related ridership losses, enabling the state to cut its NJ Transit operating subsidy to just $100 million.

Heading into the FY23 budget year, NJ Transit still had $2.037 billion in Covid relief funds left, but it spent $479 million that year, allocated another $808 million to balance its FY24 budget and will spend the remaining $749 million in FY25. Even with a 12.5% to 15% fare increase, NJ Transit would face a budget gap of more than $810 million in FY26 that would equal 27% of its total $3 billion budget, and that already includes $470 million in dedicated NJ Turnpike Authority funding.

The MYBW Current Services Budget assumes that the Legislature will increase its current $100 million NJ Transit operating subsidy by providing an additional $500 million a year to the agency either from existing state revenue or from a dedicated funding source starting in FY26 to avert massive service cuts and/or additional fare hikes.

Medicaid and Healthcare Spending

Overall, healthcare costs are expected to rise faster than other programs. The MYBW's Current Services Budget applies a 5.1% annual Healthcare Costs Multiplier to the $9.1 billion budget for the Department of Human Services, the $4.1 billion budget for healthcare benefits for current state employees and teacher and state worker retirees, and the $72 million budget for Department of Military and Veterans Affairs nursing homes. However, there is increased uncertainty as

The FY 2024 budget assumed two significant changes in Medicaid funding: The elimination of 6.2% in enhanced federal matching funds related to the Public Health Emergency (PHE) was to be offset by reduced Medicaid enrollment as the state was now able to redetermine Medicaid eligibility. The Public Health Emergency ended on May 11, 2023. In July 2023, the state began the process of redetermining eligibility and through December 2023 Medicaid enrollment declined by 210,000, or about 9%.

Assuming this trend continues, Medicaid enrollment will decline to pre-pandemic levels by the end of FY 2024, a reduction of nearly 20%. Actual state savings from the reduction are dependent on the federal matching rate for each subcategory of enrollee, i.e., children, adults, elderly and disabled. Notably, half of the reduction to date was in the "Expansion adults" category which has a federal matching rate of 90%. To date, the average federal matching rate for those who have been disenrolled is approximately 70%, leaving a net state savings rate of 30%.

Using the average annual costs for each group that were included in the 2024 Governor's Recommended Budget, overall Medicaid costs have decreased by approximately $1.6 billion, of which the state share is approximately $350 million to 400 million, some portion of which was assumed in the FY 2024 estimates. It would be unrealistic to assume this rate of attrition would continue through FY 2025 given historical enrollment levels. Longer term, the impact of minimum wage increases (and wage inflation in general) coupled with low unemployment should keep enrollment flat with perhaps modest downside.

Education Funding

Formula aid to education, which makes up almost 20% of the budget, is projected to increase from $10.75 billion in the FY24 budget to $11.45 billion in FY25 to complete the seven-year ramp-up to full funding under the provisions of S2.

That increase includes the $600 million needed to reach full funding under the formula, plus an additional $100 million in aid for districts impacted sharply by S2 funding reductions whose school aid cuts were reduced by a $100 million supplemental appropriation in April 2023. It is assumed that this additional funding will be added to the base going forward, rather than being a one-time enhancement, because reducing the districts to their original S-2 levels would mean much deeper cuts in their 2024-2025 school year budgets.

Education aid is expected to continue to increase 3% in FY26 and beyond. Potential challenges in the future, including addressing learning loss resulting from the pandemic and inflationary, are likely to add pressure on the Legislature to increase school funding further.

Appendix A

Five-Year Revenue Forecast Assumptions and Methodology

Revenue Projections

For purposes of projection, New Jersey state revenues are placed into 4 categories:

1. Personal income taxes, consisting of the Gross Income Tax (GIT) and the Business Alternative Income Tax (BAIT). The BAIT, which is fully deductible against federal tax liabilities, can be credited against either the GIT or the Corporate Business Tax (CBT), but since its recent promulgation, experience suggests that it can be viewed as essentially an alternate way to pay GIT liabilities.
2. Corporate taxes, consisting of the CBT plus the separately reported taxes on energy and financial corporations.
3. Sales taxes, consisting of the Sales and Use Tax (SUT) plus the separately reported energy component.
4. All other revenues, consisting of a wide variety of taxes and fees. These include real estate transaction taxes, taxes on insurance premiums, lodging, motor fuels, tobacco products and marijuana sales, casino gaming revenues, and alcohol, as well as the transfer inheritance tax and motor vehicle license fees.
5. Personal income and sales taxes account for the largest share of revenues, followed distantly by corporate taxes (these have often been referred to as the “Big 3’). Personal and corporate income tax revenues are notoriously volatile. However, due to its much larger size, errors in the certified projections for income taxes have been historically more consequential for overall state revenues than those for corporate taxes, even though corporate tax revenues are more volatile.

Determinants of Revenues

Aside from policy changes, revenue growth is essentially determined by New Jersey’s economy. In turn, since New Jersey is a large economically diverse state, changes in the national economy can be a significant determinant of New Jersey’s economic performance. Medium-term changes in New Jersey’s revenues (again barring significant policy changes) are generally reflective of changes in the national economy over that period.

Personal Income Taxes

A reasonable proxy for the growth of New Jersey's taxable income base for a fiscal year is the growth of the state's personal income in the previous calendar year, plus capital gains realizations by state residents.[1] Based on an analysis of available data, New Jersey's growth of its personal income base tends to be about a half percent a year less than the nation as a whole. Large movements in the capital gains proportion will have significant implications for New Jersey income tax revenue, given the pronounced progressivity of New Jersey income tax rates, and the disproportionate share of capital gains realizations earned by households in high income brackets.

Corporate Taxes

The exact relationship, even at the national level, between corporate tax receipts and economic activity is hard to pin down, due to the frequent changes in tax policy. We assume that in the medium-term New Jersey's corporate tax revenues in a fiscal year will be related to the growth of national pre-tax operating earnings in the previous calendar year.[2] We also assume that these earnings will typically grow faster than current-dollar (nominal) Growth Domestic Product (GDP), given the trends of the last generation. If GDP grows faster than usual, the corporate tax base will grow even faster.[3] Likewise, profit growth will be much slower when GDP grows less than average. The upshot is that we assume that New Jersey's corporate tax base will grow 4.3 percent when national (nominal, or current-dollar) GDP grows at a trend rate of 4.3 percent.[4] If national growth is 3 percent, New Jersey's corporate taxes would be assumed to fall 8.7 percent.[5][5]

Under any scenario or set of assumptions, the projection of corporate revenues is likely to be uncertain, given the wide divergence between New Jersey corporate tax rules and those of other states and the federal government. An error band of as much as $1 billion—or close to 20 percent of New Jersey corporate tax revenue earned in recent years—is conceivable around any projection, even if all elements of the economic projection are correct. We believe that the risks are weighted to the downside, given the unique nature of New Jersey's corporate tax system and the unanticipated surge in revenues in recent years. Additionally, since we assumed that the rollback of New Jersey's corporate 2.5 percent surcharge on net income over $1 million would go forward as scheduled for calendar year 2024, there is some additional reduction to corporate revenues projected for Fiscal 2025.

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[1] Timely New Jersey personal income figures are available from the US Bureau of Economic Analysis. Our estimates and projections for capital gains realizations in recent years are based on the latest available IRS data for the nation as a whole, as well as the Treasurer's May testimony, in which she reported numbers on New Jersey taxpayer realizations in 2021 and 2022.
[2] Pre-tax operating earnings are profits with inventory valuation and capital consumption adjustments.
[3] We assume 10 percent more for every percent of more rapid GDP growth.
[4] The national tax base is assumed to have grown 5.3 percent at that time.
[5] The 4.3 percent trend reduced by 13 percent, which is the product of the 1.3 percent growth shortfall and 10 percent.

Sales Taxes

Although New Jersey collects sales tax on some forms of business-to-business transactions, more than half of the revenue comes from retail purchases. US Bureau of Economic Analysis data suggest that annual growth of spending in New Jersey on taxable items is typically about 1 percentage point less than national aggregate consumer spending, based on annual business expense data. The divergence reflects not only slower population and economic growth in New Jersey but also the tendency for consumer spending to shift to nontaxable services such as housing, health care, and education. We assume that sales tax growth in a fiscal year will be one percent slower than growth in national (current-dollar) consumer spending in the prior year.

Other Revenues

Some taxes in this group—most notably real estate transaction taxes, but also lodging taxes—clearly do reflect economic conditions, while the transfer-inheritance tax is more responsive to market swings which affect the value of estates. Other taxes, however, have little or no clear trends (motor vehicle license fees, for instance); others are determined by fairly complex mechanisms (casino revenues, motor fuel, cigarette taxes, etc.). The recent surge in home sales has been a major factor in collecting more than $9 billion in miscellaneous revenue (exclusive of the FY2021 receipt of emergency COVID borrowing). Our baseline assumes that going forward these receipts will generally equal the average of the previous 5 fiscal years (again, not taking into account the FY2021 borrowing, as well as the Horizon transaction), though we anticipate that the recent surge in real estate transaction revenues will roll back and anticipate that the state will realize less in investment earnings from its surplus than the large sums assumed for Fiscal years 2023 and 2024.