New Jersey's Fiscal Future

Comparing Multi-Year Revenue Forecasts With Current Services Budget Projections

Interim Report of the Multi-Year Budget Workgroup
June 8, 2022

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Preface: About the Project

Ten weeks ago, the newly formed Sweeney Center for Public Policy at Rowan University announced the formation of a Multi-Year Budget Workgroup as its first major initiative. The New Jersey state government was collecting record state revenues and building an unprecedented surplus, but the state's economy had been fueled by tens of billions of dollars in federal Covid-19 stimulus and by years of low inflation and interest rates that were rising rapidly. Would revenues continue to grow or was the state facing a fiscal cliff that would force tax increases or budget cuts if a recession hit?

That question is the subject of this interim report by the Multi-Year Budget Workgroup, a team of former high-ranking administration and legislative budget officials, policy experts, economists and academics put together by the Sweeney Center that held its first meeting on March 31.

The Multi-Year Budget Workgroup is modeled after the blue-ribbon Facing Our Future panel put together by the Council of New Jersey Grantmakers in 2010 that was the last group 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.

This report seeks to provide insights and inform the public debate on the fiscal policy challenges that New Jersey faces as the administration and legislative leaders enter into the final weeks of negotiations on a state budget for Fiscal Year 2023, which begins July 1.

To develop those answers, the Workgroup met three times as a full group, but most of the work was done in specialized subcommittee meetings that met 18 times over the past eight weeks, traded ideas and drafts between meetings, and reached out to outside experts. Five subcommittees were formed to focus on Economic and Revenue Forecasting, Overall State Budget Expenditures, State Aid, Medicaid and Healthcare Spending, and NJ Transit.

The group included Democrats and Republicans, many of whom remain deeply involved in state government issues through their jobs, but they were able to reach consensus on the numbers and the challenges New Jersey faces.

Like the first Facing Our Future report, *New Jersey's Fiscal Future: Comparing Multi-Year Revenue Forecasts with Current Services Budget Projections* is limited in scope to providing an analysis of whether revenue collections will be adequate to continue state services at the current level over the next five years.

A true multi-year budget would make recommendations on policy initiatives to improve services, cut costs and redirect resources. It would assess whether current programs are sufficient to meet the state's long-term policy goals and seek to develop consensus solutions to some of the most complex policy issues facing the state.

That will be the mission of the Multi-Year Budget Workgroup in the months ahead and will be the focus of our next report in January. The workgroup will add policy experts in other areas of specialization and will expand its public outreach. It will continue to update its multi-year revenue and expenditure projections. It will seek to "develop public policy in public" by bringing together various stakeholders from throughout the state to seek common ground on achievable policy initiatives that can win broad, bipartisan support.

Members of the Multi-Year Budget Workgroup

- Steve Sweeney, general vice president of the International Association of the Bridge, Structural, Ornamental and Reinforcing Iron Workers union and former Senate president;
- 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;
- 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 Associates and former New York State deputy commissioner of tax policy;
- Mark Blum, executive director of America's Agenda, Washington, D.C.
- Raphael J. Caprio, Ph.D., University Professor, Rutgers University, and director of the Rutgers Local Government Research Bureau;
- Janna Chernetz, former New Jersey director for the Tristate Transportation Campaign;
- Lucille E. Davy, education policy consultant and former New Jersey education commissioner;
- Matthew D'Oria, healthcare consultant, former New Jersey deputy health commissioner and deputy Medicaid director
- Chris Emigholz, vice president of government affairs for the New Jersey Business and Industry Association and former New Jersey Senate Republican budget director;
- Thomas J. Healey, president of Healey Development Company, Senior Fellow at Harvard University's. John F. Kennedy School of Government and former assistant secretary of the U.S. Treasury Department;
- Stuti Jha, Ph.D., associate professor of economics, Rowan University;
- Kul Kapri, Ph.D., assistant professor of economics, Rowan University;
- Richard Keevey, senior policy fellow at Rutgers University, former assistant secretary of U.S. Department of Housing and Urban Development and undersecretary of U.S. Defense Department, former New Jersey state budget director under Democratic and GOP governors;
- Eugene Lepore, former New Jersey Senate Democratic budget director and executive director;
- Yupeng Li, Ph.D., assistant professor of economics, Rowan University;
- Marcela Ospina Maziarz, vice president for community and government affairs at Thomas Edison State University and former New Jersey deputy health commissioner;
- Joel Naroff, Ph.D., president of Naroff Economics LLC;
- Marc Pfeiffer, assistant director of Rutgers University's Bloustein Bureau of Local Government Research and former deputy director of New Jersey Division of Local Government Services;
- Sheila Reynertsen, senior policy analyst at New Jersey Policy Perspective and author of a 2021 report calling for consensus revenue forecasting and a multi-year budget;

- David Rousseau, former New Jersey state treasurer and deputy state treasurer, and former Senate Democratic Director of Budget and Fiscal Policy
- Charles Steindel, Ph.D., Editor of *Business Economics,* former 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; and
- Ralph Thomas, CEO and executive director of the New Jersey Society of Certified Public Accountants

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Executive Summary

As the governor and legislature craft a final Fiscal Year 2023 budget, New Jersey tax collections are coming in at a record $51 billion, with income, corporate and realty transfer taxes all coming in 20% or more above pre-pandemic highs.

Treasury projects that the state will end the FY2022 budget year with a $10.7 billion surplus on June 30 – twice the previous record of $4.4 billion set last June at the end of the FY21 budget.

Last year, the state made its full Actuarially Required Contribution to the pension system for teachers and state workers, ending a nine-year ramp-up in which most of the state's annual revenue growth went straight into the pension fund.

Nevertheless, New Jersey is most likely facing a fiscal cliff in the years ahead, based on multi-year revenue forecasts and a current services budget projection developed by our Multi-Year Budget Workgroup.

The workgroup's fiscal policy experts and economists agree that there is an 80% probability that revenue collections from FY24 to FY27 will fall $10.5 billion to $20.5 billion short of the projected expenditures needed in those four budget years to continue current services and state aid with normal inflation and to make up for budget holes left when federal Covid aid is used up.

These projections underscore the concerns raised by Senate Budget Chair Paul Sarlo, who called for a minimum $6 billion surplus in the face of a potential recession, and Treasurer Liz Muoio, whose warning to the Assembly Budget Committee about a potential $5 billion revenue drop for two years if recession hits are more dire than our projections.

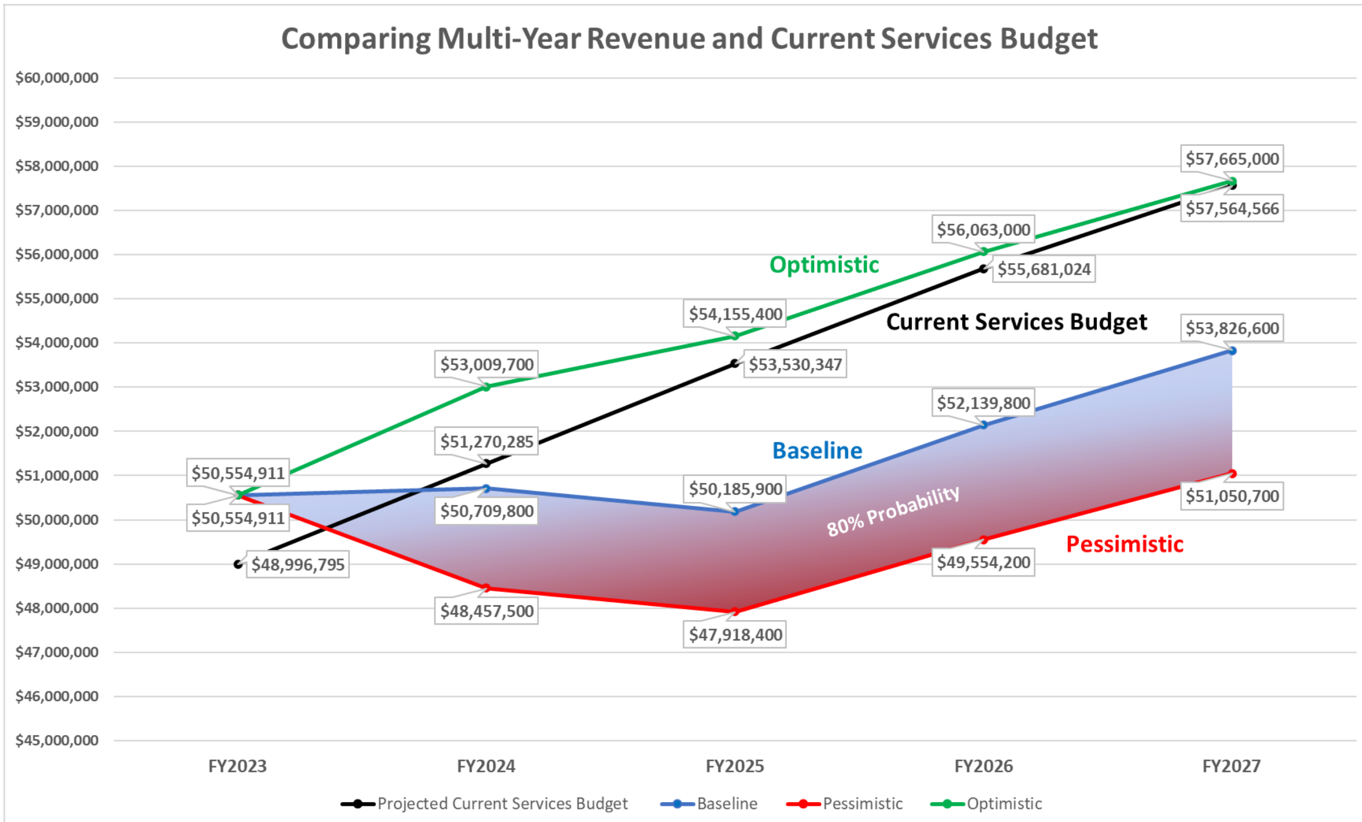
The consensus revenue forecasting group used Treasury's May 16 revenue forecast, which already projects a $950 million revenue decline from FY22 to FY23, as a base, then developed three sets of revenue projection scenarios for FY24-FY27. In order to continue current services and state aid with normal inflation and provide the funding needed to replace

- Under the **Baseline** projection, revenues for FY24 to FY27 would fall $10.5 billion short of covering the costs of the projected **Current Services Budget**.

- Under the **Pessimistic** projection, state revenues would come in $20.5 billion below projected costs during the four-year period.

- Under the **Optimistic** projection – which is assigned a 20 percent probability – revenue growth would exceed projected **Current Services Budget** costs by $3.2 billion.

The consensus of the revenue forecasting team is that the final numbers will fall somewhere between the **Baseline** and the **Pessimistic** scenarios, as shown in the graphic below:



Graphic by Michael Zupko, Rowan University

The Baseline Scenario

The Baseline scenario assumes that the Federal Reserve's increase in interest rates, shrinking of its portfolio, the phase-out of federal COVID relief, higher energy prices and continuing supply chain issues will cause a marked slowdown in economic growth in 2023 and 2024. Growth would rebound in 2025, but the stock market would remain under downward pressure, reducing capital gains. Income tax receipts would stagnate through FY25, and the end of the housing boom would hurt sales tax and realty transfer tax revenues.

The Baseline projection shows FY24 and FY25 revenues hovering close to Treasury's $50.5 billion estimate for FY23, then rising to $52.1 billion and $53.6 billion in FY26 and FY27. This represents a net increase of just $2.3 billion over FY22's record $51.5 billion in revenue and a total increase of just 4.5% over four years, which is well below the historic average of 2.5% to 3%.

Pessimistic Scenario

The Pessimistic scenario assumes that the same economic forces that are at work in the Baseline projection push the economy into an outright recession in 2023, with a modest recovery beginning in FY24 and gaining in FY25. Capital gains will drop sharply, cutting into income tax collections, and corporate income tax collections will contract as profits fall. The drop in consumer spending will lower sales tax receipts, and real estate and inheritance tax revenues will also decline.

As a result, state revenues would drop by over $2 billion in FY24 and by another $500 million to $47.9 billion – a 7% decline from the $51.5 billion collected in FY22. Revenue growth would bounce back to $49.5 billion in FY26 and $51 billion in FY27, but would still be slightly below the FY22 high.

The Optimistic Scenario

Under the Optimistic scenario, the economy proves more resilient than now feared. Energy price hikes abate, supply chain issues are resolved, and inflation declines on its own, enabling the Federal Reserve to moderate planned interest rate hikes. Corporate profits continue strong and the stock market rises, pushing up capital gains. Income, sales and corporate taxes all continue to rise steadily.

Under this scenario, state revenues would jump $2.5 billion in FY24 to a record $53 billion, surpassing the FY22 record, and rise by another $4.7 billion over the next three years to $57.7 billion, fully covering increases in the projected Current Services Budget each year and adding to the state's surplus.

Implications of the Baseline and Pessimistic Scenarios

It is important to note that even the pessimistic scenario envisions a mild, relatively short recession, not at all comparable in severity to the Great Recession of 2008-2010 when the sub-prime mortgage crisis sent housing prices and the stock market crashing and caused high unemployment. During the Great Recession, state revenues plunged $4.5 billion in a single year on a $33 billion base – a decline of 13% that forced major budget cuts

Unlike past years, when New Jersey carried surpluses averaging $300 million to $400 million in most years, the state's projected surplus of $11.974 billion at the end of FY23 – minus new spending added in final budget negotiations this month – provides a cushion that other governors would have envied.

Under the Baseline scenario, there would still be $780 million remaining at the end of FY27. Under the Pessimistic scenario, however, over $8 billion in surplus would be needed just to cover the projected revenue shortfall caused by a mild recession in FY24 and FY25. The state would face shortfalls in both FY26 and FY27, with the FY27 shortfall topping $9 billion.

How Year-to-Year Revenue Shortfalls Would Draw Down Surplus

Current Services Budget and Revenue Projections						
	FY2022	FY2023	FY2024	FY2025	FY2026	FY2027
Projected Current Services Budget	**$48,787,000**	**$48,996,795**	**$51,270,285**	**$53,530,347**	**$55,681,024**	**$57,564,566**
Treasury Revenue Projections (May)	**$51,500,900**	**$50,554,900**				
Treasury Projected Surplus	**$10,736,000**	**$11,974,000**				
Baseline						
Projected Revenue			***$50,709,800***	***$50,185,900***	***$52,139,800***	***$53,826,600***
Difference between projected revenue and projected spending			***-$560,485***	***-$3,344,447***	***-$3,541,224***	***-$3,737,966***
Remaining surplus if applied to cover gap			***$11,413,515***	***$8,069,068***	***$4,527,844***	***$789,878***
Pessimistic						
Projected Revenue			**$48,457,500**	**$47,918,400**	**$49,554,200**	**$51,050,700**
Difference between projected revenue and projected spending			**-$2,812,785**	**-$5,611,947**	**-$6,126,824**	**-$6,513,866**
Surplus if applied to cover gap / deficit by FY26			**$9,161,215**	**$3,549,268**	**-$2,577,556**	**-$9,091,422**
Optimistic						
Projected Revenue			**$53,009,700**	**$54,155,400**	**$56,063,000**	**$57,665,000**
Difference between projected revenue and projected spending			***$1,739,415***	***$625,053***	***$381,976***	***$100,434***
Surplus continues to grow			***$13,713,415***	***$14,338,468***	***$14,720,444***	***$14,820,878***

Current Services Budget

The Current Services Budget for FY24 to FY27 is essentially a baseline spending plan that shows the projected costs of continuing state services and state aid at current levels with normal inflation.

To maintain current service levels, total spending would rise from $49 billion in FY23 to $57.6 billion in FY27 – an average increase of 4.3%.

The multi-year budget includes $250 million in FY24 and $144 million in FY25 for Medicaid for programs that were funded with federal Covid aid that will end in those years. It also budgets an additional $549 million in FY26 and $236 more in FY27 in the state subsidy for NJ Transit, which has been funding its rail and bus operations since FY20 with an average of $700 million a year in federal Covid aid that will run out early in FY26.

The current services budget includes $300 million increases in school formula aid in FY24 and FY25 to complete the ramp-up to full funding under the provisions of S2, the School Funding Fairness Act of 2018. It also includes $300 million increases in FY24 and FY25 to complete the implementation of the ANCHOR property tax relief program that begins in the FY23 budget.

The remaining $5.8 billion increase over four years averages out to 2.95% annually and is roughly in line with post-2023 inflation projections.

The current services budget applies a 4.75% healthcare inflation multiplier to the $8 billion budget for Human Services, the $3.9 billion in health benefits for active employees and retirees and the $80 million budget for the DMAVA nursing homes

These increases are largely offset by a decline in state pension contributions from $5.73 billion to $5.7 billion, flat funding for debt service, which went up $225 million in FY23 to cover the cost of the $4.2 billion in borrowing in November 2020 during Covid, and continued flat funding for the state's $1.585 billion municipal aid program.

A 3% annual increase is applied to all other spending, which is based upon expectations that inflation is expected to moderate to 2.5% to 3% by 2024.

The Five-Year Revenue Forecast
Assumptions and Methodology

Revenues

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.

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 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 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 collectionsax 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]

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, we assume that the rollback of New Jersey's corporate 2.5 percent surcharge on net income over $1 million will go forward as scheduled for calendar year 2024, reducing the level of corporate tax revenue by an estimated 15 percent starting in FY2025.

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 roughly 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

[1] Timely New Jersey personal income figures are available from the US Bureau of Economic Analysis. Our recent estimates and projections for capital gains realizations are based on the latest IRS data (2019), as there are no public data available after 2016 for capital gains reported on New Jersey Gross Income Tax returns.
[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 will grow 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.

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 $8 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), though we anticipate that the recent surge in real estate transaction revenues will roll back—which would imply a modest fallback from the FY2023 level. In the pessimistic scenario we assume that there will be substantively lower levels of real estate and inheritance tax revenues over this period, while in the optimistic scenario these revenues would be modestly higher.

Economic Scenarios

We evaluate the revenue consequences of three scenarios: 1. Baseline; 2. Pessimistic; 3. Optimistic.

Baseline

BASELINE SCENARIO						
Economic Assumptions and Revenue Projections						
(Numbers in thousands)						
	CY22	**CY23**	**CY24**	**CY25**	**CY26**	**CY27**
National Outlook						
Real Gross Domestic Product Growth (year over year)	3%	1.5%	1.8%	2.3%	2%	2%
Current Dollar Consumer Spending Growth	8.5%	2.8%	3.6%	4.4%	4%	4%
Personal Income Growth	2%	3.7%	3.8%	4.6%	4%	4%
Capital Gains Realizations (level, thousands)	$1,200,000,000	$1,000,000,000	$800,000,000	$900,000,000	$1,000,000,000	$1,000,000,000
Growth in Personal Income plus Capital Realizations	2.8%	2.6%	2.8%	4.9%	4.1%	1.8%
Consumer Price Index Growth	7%	4.5%	2.2%	2.5%	2.5%	2.5%
Unemployment Rate	6.5%	4.3%	4.2%	4%	4%	4%
Nominal Gross Domestic Product Growth	8.5%	3.7%	3.2%	4.3%	4%	4%
New Jersey						
Taxable Consumer Spending Growth	7.5%	1.8%	2.6%	3.4%	3%	3%
Growth in Personal Income plus Capital Realizations	2.3%	2.1%	2.3%	4.5%	3.8%	3.3%
Unemployment Rate	4.2%	4.5%	4.3%	4.1%	4%	4%
	FY22	**FY23**	**FY24**	**FY25**	**FY26**	**FY27**
New Jersey State Budget Revenue Projections						
Sales Tax	$13,213,919	$13,470,598	$13,713,069	$14,069,609	$14,547,975	$14,984,414
Gross Income Tax plus PTBAIT	$24,046,000	$23,485,000	$23,508,485	$23,579,010	$24,875,856	$26,069,897
Corporation Income Tax	$5,612,680	$5,330,000	$5,239,390	$4,155,098	$4,333,767	$4,390,106
Other Revenues	$8,628,346	$8,269,313	$8,248,830	$8,382,163	$8,382,163	$8,382,163
Total Revenue	**$51,500,945**	**$50,554,911**	**$50,709,774**	**$50,185,880**	**$52,139,761**	**$53,826,580**
METHODOLOGY: FY22 and FY23 use Treasury assumptions for all taxes. Sales tax for FY24-27 calculated as increment by growth of taxable consumer spending in previous CY.						
Gross Income Tax and PTBAIT calculated as increment by growth of personal income plus realizations in previous CY (less 2% in FY24 and FY25, plus 1% in FY26.						
Corporation Income Tax calculated as increment by growth reflecting formula based on 4.3% New Jersey trend plus increment related to previous CY's nominal GDP growth						
divergence from 4.3% national trend; 15% reduction applied in FY25 reflecting scheduled reduction in Corporation Income Tax rate.						
Other Revenues equal to average of preceding five years, further reducing FY24 by $200 million and not taking into account FY21 revenue from emergency debt issue.						

The baseline scenario is based on three key assumptions: (1) the Federal Reserve's lifting of short-term interest rates and shrinkage of its portfolio, (2) the lagged effects of the phase-out of federal COVID relief, (3) the consequences of higher energy prices and ongoing supply-chain issues. The result is a marked slowdown in the economy over the next 18 months, with only modest year over year growth in both 2023 and 2024. Unemployment will rise moderately, but inflation rates will decline, leading to the cessation of the Fed's tightening cycle. Growth will rebound by 2025, aided by the continual improvement in the supply chain and the waning of the energy price shock (energy prices may still be high, but no longer rising). The stock market will be under some downward pressure for most of the period, and capital gains realizations will fade.

In this scenario, New Jersey's income tax receipts will stagnate from FY2022 to FY2025. Revenue gains will be more marked in FY's 2026 and 2027, but overall revenue in FY2027 will be less than 5 percent higher than in FY2022. As noted, we anticipate that a cessation of the housing boom will work to hold down other revenues.

Pessimistic

PESSIMISTIC SCENARIO						
Economic Assumptions and Revenue Projections						
(Numbers in thousands)						
	CY22	**CY23**	**CY24**	**CY25**	**CY26**	**CY27**
National Outlook						
Real Gross Domestic Product Growth (year over year)	2.5%	-1%	2%	2.5%	2%	2%
Current Dollar Consumer Spending Growth	7.5%	1.5%	4%	5%	4%	4%
Personal Income Growth	2%	2.5%	3%	4.5%	4%	4%
Capital Gains Realizations (level, thousands)	$1,000,000,000	$600,000,000	$400,000,000	$500,000,000	$700,000,000	$900,000,000
Growth in Personal Income plus Capital Realizations	1.9%	0.6%	2%	4.9%	4.7%	4.7%
Consumer Price Index Growth	7%	4.5%	2.8%	2.5%	2.5%	2.5%
Unemployment Rate	4%	5%	4.8%	4%	4%	4%
Nominal Gross Domestic Product Growth	8%	1.5%	3.5%	4.5%	4%	4%
New Jersey						
Taxable Consumer Spending Growth	6.5%	0.5%	3.0%	4.0%	3%	3%
Growth in Personal Income plus Capital Realizations	1.4%	0.1%	1.5%	4.4%	4.2%	4.2%
Unemployment Rate	4.5%	5.0%	4.7%	4.5%	4.3%	4%
	FY22	**FY23**	**FY24**	**FY25**	**FY26**	**FY27**
New Jersey State Budget Revenue Projections						
Sales Tax	$13,213,919	$13,470,598	$13,537,951	$13,944,090	$14,501,853	$14,936,909
Gross Income Tax plus PTBAIT	$24,046,000	$23,485,000	$22,803,935	$22,689,915	$23,688,272	$24,683,179
Corporation Income Tax	$5,612,680	$5,330,000	$4,066,790	$3,328,871	$3,538,590	$3,584,591
Other Revenues	$8,628,346	$8,269,313	$8,048,830	$7,955,496	$7,825,496	$7,845,496
Total Revenue	**$51,500,945**	**$50,554,911**	**$48,457,506**	**$47,918,372**	**$49,554,211**	**$51,050,175**
METHODOLOGY: FY22 and FY23 use Treasury assumptions for all taxes. Sales tax for FY24-27 calculated as increment by growth of taxable consumer spending in previous CY.						
Gross Income Tax and PTBAIT calculated as increment by growth of personal income plus realizations in previous CY (less 2% in FY24 and FY25, plus 1% in FY26.						
Corporation Income Tax calculated as increment by growth reflecting formula based on 4.3% New Jersey trend plus increment related to previous CY's nominal GDP growth						
divergence from 4.3% national trend; 15% reduction applied in FY25 reflecting scheduled reduction in Corporation Income Tax rate.						
Other Revenues drop from baseline reflecting weaker real estate and inheritance revenues, followed by gradual improvement.						

The pessimistic scenario assumes that the same forces at work in the baseline are accentuated, and the economy goes into an outright recession in 2023, with a modest recovery starting in 2024, and picking up some speed in 2025. In this weaker environment, consumer spending is constrained substantially in 2023 and capital gains realizations drop sharply. Corporate tax revenue will contract markedly, and real estate and inheritance taxes will also be held down. The result would be a nearly 7 percent decline in state revenue from FY2022 to FY2025. Revenue growth will resume in FY2026, but FY2027 revenue will not have fully recovered to FY2022 levels.

Optimistic

OPTIMISTIC SCENARIO						
Economic Assumptions and Revenue Projections						
(Numbers in thousands)						
	CY22	**CY23**	**CY24**	**CY25**	**CY26**	**CY27**
National Outlook						
Real Gross Domestic Product Growth (year over year)	3.6%	3%	2.5%	2.5%	2.3%	2.3%
Current Dollar Consumer Spending Growth	9.1%	5%	4.5%	4.3%	4.1%	4.1%
Personal Income Growth	2%	5.3%	4.8%	4.8%	4.5%	4.5%
Capital Gains Realizations (level, thousands)	$1,200,000,000	$1,300,000,000	$1,400,000,000	$1,500,000,000	$1,500,000,000	$1,500,000,000
Growth in Personal Income plus Capital Realizations	2.8%	5.5%	5.1%	4.9%	4.2%	4.3%
Consumer Price Index Growth	6.5%	2.5%	2%	2.2%	2.5%	2.5%
Unemployment Rate	3.6%	3.5%	3.4%	3.7%	3.7%	3.7%
Nominal Gross Domestic Product Growth	9.1%	5.3%	4.5%	4.5%	4.3%	4.3%
New Jersey						
Taxable Consumer Spending Growth	8.1%	4%	3.5%	3.3%	3.1%	3.1%
Growth in Personal Income plus Capital Realizations	2.3%	5%	4.5%	4.2%	3.3%	3.8%
Unemployment Rate	4%	3.8%	3.5%	3.7%	3.7%	3.7%
	FY22	**FY23**	**FY24**	**FY25**	**FY26**	**FY27**
New Jersey State Budget Revenue Projections						
Sales Tax	$13,213,919	$13,470,598	$14,009,422	$14,499,752	$14,978,243	$15,442,569
Gross Income Tax plus PTBAIT	$24,046,000	$23,485,000	$24,659,250	$25,768,916	$26,851,211	$27,737,301
Corporation Income Tax	$5,612,680	$5,330,000	$6,092,190	$5,504,598	$5,851,388	$6,102,998
Other Revenues	$8,628,346	$8,269,313	$8,248,830	$8,382,163	$8,382,163	$8,382,163
Total Revenue	**$51,500,945**	**$50,554,911**	**$53,009,692**	**$54,155,429**	**$56,063,005**	**$57,665,031**

METHODOLOGY: FY22 and FY23 use Treasury assumptions for all taxes. Sales tax for FY24-27 calculated as increment by growth of taxable consumer spending in previous CY.
Gross Income Tax and PTBAIT calculated as increment by growth of personal income plus realizations in previous CY.
Corporation Income Tax calculated as increment by growth reflecting formula based on 4.3% New Jersey trend plus increment related to previous CY's nominal GDP growth divergence from 4.3% national trend; 15% reduction applied in FY25 reflecting scheduled reduction in Corporation Income Tax rate.
Other revenues equal to average of preceding five years, further reducing FY24 by $200 million and not taking into account FY21 revenue from emergency debt issue.

Under the optimistic scenario, the economy is more resilient than expected; supply chain issues are resolved, energy cost pressures dissipate, and inflation moves down largely on its own, limiting the extent of intervention by the Federal Reserve. Growth stays strong through at least 2023, and the stock market and capital gains realizations increase for some time.

In this scenario, New Jersey revenues resume growth after the assumed FY2023 pause. The strong pace of economic growth increases operating profits, but any corporate tax revenue gains are largely offset by the scheduled sunset of the corporate surcharge.

We see the revenue gain in the optimistic scenario as noticeably larger than the revenue loss in the pessimistic one. However, even with the noticeably stronger outlook, average revenue growth from FY2022 to FY2027 will be a relatively modest 2 .25 percent per year.

We also put a fairly low probability of 20 percent on the optimistic scenario versus 45 percent on the baseline scenario and 35 percent on the pessimistic scenario.[6]

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[6] These probabilities are in line with the dispersion of forecasts among respondents to the Federal Reserve Bank of Philadelphia's May 2022 *Survey of Professional Forecasters*.

The Current Services Budget: Assumptions and Methodology

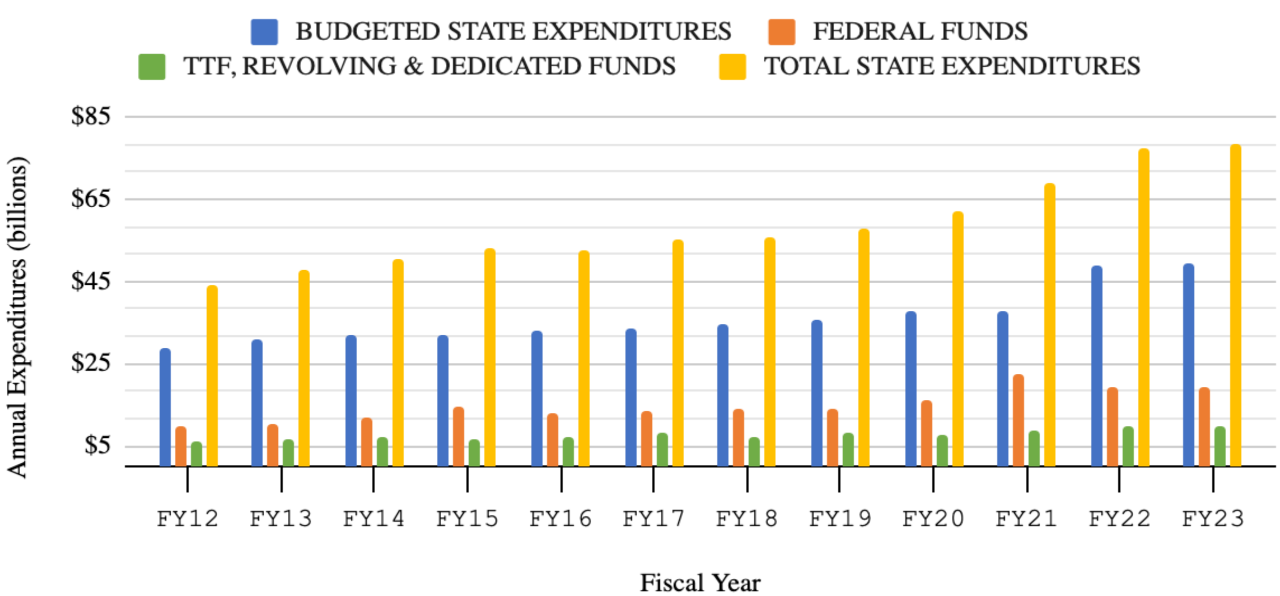
The Current Services Budget for FY24 to FY27 is essentially a baseline spending plan that shows the projected costs of continuing state services and state aid at current levels with normal inflation. In that regard, it differs from a true Multi-Year Budget that would include recommendations for major policy changes in the years ahead to improve services, cut costs and meet policy priorities.

Like the 2010 *Facing Our Future* report put together that was the last to provide a five-year current services projection for the state budget, the current services budget developed by the Multi-Year Budget Workgroup provides an "aggregate picture" at the macro level in major spending areas.

State budget expenditures have risen by 50% since FY17, driven largely by a $5 billion ramp-up to make the full Actuarially Required Contribution to the pension system for teachers and state workers that had been underfunded for decades and by a $2.5 billion increase in state aid to education under the provisions of the School Funding Fairness Act of 2018.

Overall state expenditures – including federal aid, the Transportation Trust Fund, and revolving and dedicated funds – grew at almost an equal percentage. In response to the Covid crisis, federal funding jumped from $13.9 billion in FY19 to $16.3 billion in FY20, $22.5 billion in FY21 and is expected to remain at $19.3 billion in FY23, as the chart below shows.

Actual and Estimated Annual State Expenditures FY12-FY23



Under the Current Services Budget developed by the Multi-Year Budget Workgroup, total spending is projected to rise from $49 billion in FY23 to $57.6 billion in FY27 – a total increase of 17.4% over four years that averages out to 4.4% a year.

That increase includes $1.2 billion in spending increases to replace federal Covid subsidies for Medicaid and NJ Transit operations that will run out, plus another $1.2 billion in FY24 and FY25 to complete the ramp-up to full funding of the school aid formula and implementation of the ANCHOR property tax relief program that is scheduled to start in the FY23 budget.

The remaining in increases in the current services budget total $6.2 billion over four years, which averages out to 3.2% annually and is roughly in line with post-2023 inflation projections. Medicaid and healthcare spending is projected to increase in cost at a 4.75% annual rate, while most areas of the budget are projected to grow by 3%.

These increases are offset by flat funding in three other major spending categories:

- Pension contributions for teacher and state worker retirement funds are projected by the state actuary to decrease from $5.73 billion to $5.7 billion by FY27 as a result of the state ramping up to make its full Actuarially Required Contribution in FY22 for the first time in over two decades.
- Debt service, which already went up $225 million in FY23 to cover the cost of the $4.2 billion in state borrowing in November 2020 during the Covid crisis, is projected to remain flat despite rising interest rates.
- Municipal aid, which has not increased significantly over the past two decades, is projected to remain at the current $1.585 billion level for the four years

Formula aid to education, which makes up almost 20% of the budget, is projected to increase from $9.9 billion in the FY23 budget to $11.8 billion, including a pair of $300 million increases in the FY24 and FY25 budgets to complete the seven-year ramp-up to full funding under the provisions of the School Funding Fairness Act of 2018.

The budget also includes $300 million increases in both FY24 and FY25 to fund the second and third years of the ANCHOR property tax relief program scheduled to begin in FY23.

NJ Transit was able to tap $3.1 billion in federal Covid aid to subsidize its rail, bus and light rail operations, but that funding will run out early in FY26, requiring the state to add $549 million to its operating subsidy that year and an additional $236 million in FY27 to maintain current services. NJ Transit was budgeted for a $407 million state operating subsidy in FY20, but that amount was cut to $100 million a year when the federal aid starting flowing.

PROJECTED CURRENT SERVICES BUDGET

Completes funding for school aid ramp-up and 3-year ANCHOR property tax relief program. Replaces expiring federal Covid funding for Medicaid and NJ Transit. Funding for pensions, debt service and municipal aid held flat. Uses 4.75% multiplier for healthcare costs and 3% annual increase for rest of budget.

(Expenditures is 000s)

	FY22 Treasury Projection	FY23 Treasury Projection	FY24 Projected Expenditure	FY25 Projected Expenditure	FY26 Projected Expenditure	FY27 Projected Expenditure
MAJOR SPENDING INCREASES						
Previously Committed Spending Growth						
1, K-12 School Formula Aid	$9,270,000	$9,920,000	$10,517,600	$11,133,128	$11,467,122	$11,811,135
% Change		*7.01%*	*6.02%*	*5.85%*	*3.00%*	*3.00%*
Includes $300 million increases in FY24 and FY25						
to complete ramp-up to full formula funding						
2. Direct Property Tax Relief Programs	$1,386,300	$1,959,200	$2,317,976	$2,687,515	$2,768,141	$2,851,185
% Change		*41.33%*	*18.31%*	*15.94%*	*3.00%*	*3.00%*
Includes $300 million increases in FY24 and FY25						
to complete ANCHOR program						
Medicaid/Healthcare Cost Increases (4.75% annually)						
1. Department of Human Services	$7,404,961	$8,283,210	$8,926,662	$9,494,679	$9,945,676	$10,418,096
Medicaid spending	$3,730,662	$4,498,024	$4,961,680	$5,341,360	$5,595,075	$5,860,841
Includes $250 million in FY24 and $144 million in FY25		$200,000	$250,000	$144,000		
to replace expiring federal Covid funding for Medicaid						
DHS % Change		*11.86%*	*7.77%*	*6.36%*	*4.75%*	*4.75%*
2. Public Employee Health Benefits						
Health Benefits for Current State Employees	$1,496,364	$1,714,656	$1,796,102	$1,881,417	$1,970,784	$2,064,397
Post-Retirement Medical Benefits for Teachers, Sta	$1,946,460	$1,964,840	$2,058,170	$2,155,933	$2,258,340	$2,365,611
Health Benefits Total, Active and Retirees	$3,396,342	$3,679,496	$3,854,272	$4,037,350	$4,229,124	$4,430,008
% Change		*8.34%*	*4.75%*	*4.75%*	*4.75%*	*4.75%*
3. DMAVA Veterans Nursing Homes	78,400	80,100	83,905	87,890	92,065	96,438
% Change		*4.75%*	*4.75%*	*4.75%*	*4.75%*	*4.75%*
Restoring State Subsidy to NJ Transit after Covid Aid Runs Out						
NJ Transit Budget	$2,579,200	$2,755,500	$2,859,800	$2,944,300	$3,031,500	$3,122,445
Covid-19 Relief (CARES, CRRSAA, ARPA)	$945,300	$429,100	$738,700	$726,900	$216,800	$0
NJ Turnpike Funding	$325,000	$721,000	$440,000	$455,000	$470,000	$485,000
NJ Transit State Operating Subsidy	$100,000	$100,000	$100,000	$100,000	$649,300	$885,579
Increases state funding to make up for $549 million gap						
in FY26 and $785,579 in FY27 left after Covid 19 relief ends						
MAJOR EXPENDITURES PROJECTED AT ZERO GROWTH						
1. Pension Contribution from State Budget	$5,796,900	$5,729,100	$5,713,000	$5,706,400	$5,703,900	$5,703,200
Pension costs decline slightly with funding at 100% of ARC.						
Pension also receives $1 billion annually from NJ State Lottery.						
2. Debt Service	$395,207	$620,745	$620,745	$620,745	$620,745	$620,745
Debt service increase to cover $4B in borrowing during						
pandemic already added to base in FY23.						
3. Municipal Aid	$1,585,600	$1,585,600	$1,585,600	$1,585,600	$1,585,600	$1,585,600
Municipal aid has been historically flat for two decades.						
REMAINING BUDGET EXPENDITURES						
Other Budget Expenditures		$17,039,344	$17,550,524	$18,077,040	$18,619,351	$19,177,932
3% inflation factor applied to other budget areas			*3.00%*	*3.00%*	*3.00%*	*3.00%*
PROJECTED CURRENT SERVICES BUDGET		**$48,996,795**	**$51,270,285**	**$53,530,347**	**$55,681,024**	**$57,564,566**
Projected annual % increase			***4.6%***	***4.4%***	***4.0%***	***3.4%***

Medicaid and Healthcare Spending

Medicaid also will need additional funding when federal Covid aid runs out. The FY23 budget already includes $200 million to cover expiring federal funding for Medicaid, but an additional $250 million is needed in FY24 and $144 million in FY25

The CARES Act provided enhanced federal funding to support states during the Public Health Emergency. An additional 6.2% in Medicaid federal matching funds was included to allow states to keep families insured through the pandemic. Once the PHE ends, the additional match ends, and states will begin disenrolling individuals no longer eligible for Medicaid (offsetting some of the loss in matching funds).

The FY 2023 Governor's Recommended Budget assumed that the federal PHE would expire in April 2022 however that deadline was extended through July 2022 and is expected to be extended again through October 2022. The extension through October 2022 effectively means the additional 6.2% federal matching will continue for at least the first six months of FY 2023, an additional six months beyond the original budget estimate pushing the need to replace these funds into FY 2024. Based on these extensions, the state estimates it will need $210 million to replace the federal funding in FY 2024.

The American Rescue Plan Act (ARP) provided states with a temporary 10% in federal matching funds for Medicaid home and community-based services (HCBS). States are required to fully expend these temporary funds by March 2024.

The state spending plan for HCBS services increases several rate for services including personal care, assisted living and intensive mobile services for I/DD, all of which will require additional state funds to be sustained beyond March 2024. Based on this spending plan, state will need approximately$40 million to continue these services through FY 2024 and an additional $144 million in FY 2025.

Health care costs are projected to go up across the board. The current services budget applies the 4.75% U.S. Health Care Costs multiplier to the $8 billion budget for Human Services, the $3.9 billion in health benefits for active employees and retirees and the $80 million budget for the DMAVA nursing homes. The state's Health Care Affordability, Responsibility and Transparency program said it expected New Jersey to track the national average in a March 2022 report.

Opinion: This planning tool could help NJ weather looming fiscal storm

RICHARD F. KEEVEY | APRIL 8, 2021 | OPINION, BUDGET

A big budget surplus masks potential problems; a current-services projection would help officials sort things out

Richard F. Keevey

As I noted in a recent article, New Jersey is in the best overall fiscal shape it has experienced in quite some time. However, these good times are not likely to last. As such, the state should be mindful of its current budget decisions, and especially their long-term fiscal implications. This caution applies to both spending and tax/revenue policy decisions. But there's an important policy tool for identifying any potentially adverse long-term impacts of current tax and spending policies as well as policy changes currently under consideration.

A current-services budget projection shows the future — i.e., over the next three to five years — implications of budget decisions made today, given likely future demographic trends, inflation, and potential changes in the economy. Current-services projections are especially useful in that many fiscal policies are back-loaded, with the lion's share of impacts occurring in outlying years. If a current-services projection is implemented as a part of the state's budgeting process, less volatile and more informed policy decisions will be the likely result, boding well for the state's residents, businesses, economy, and future state budgets.

The current situation

The governor's proposed 12-month budget for the fiscal year beginning July 1, 2021 (FY 2022) is presently before the Legislature. During the next three months, the budget committees of the state Assembly and Senate will review the spending recommendations with each of the cabinet officers. The professional staff of the nonpartisan Office of Legislative Services (OLS) will assist the committees with analyses of the proposals and most importantly by analyzing the governor's revenue estimates.

There is little to no drama this year in that there is no doubt the state will have a balanced budget with a sizeable surplus — primarily because the state unnecessarily recently sold nearly $4 billion in bonds for operating purposes. As presently structured, the state will end the current fiscal year with a surplus (including both the year-end surplus and the state's Rainy Day Fund) of $6.3 billion. However, all good things must come to an end, and the expected FY21 surplus is expected to decline to $2.1 billion by the end of FY2022.

An even more sobering set of numbers is the proposed FY2022 spending level of $44.8 billion, but with a base revenue of only $40.8 billion — a projected gap of some $4 billion. Moreover, there are several one-time revenues reflected in these numbers that will not be repeated, which will make the projected gap even greater with subsequent state budgets.

However, another silver lining (i.e., a revenue windfall) has just appeared. The federal American Rescue Act will provide an estimated $6.4 billion in revenue, which the state can use pretty much as it wishes over the next several years. As such, a long list of desired spending items will likely be considered; some are good ideas while others are not so good in my view.

As I have previously noted, now is the time to think carefully about how best to use this new-found money, particularly with a multibillion-dollar gap facing the state next year.

The state needs to prepare a current-services projection for the next three to five years to better understand the future implications of both spending and tax/revenue choices currently under consideration.

Three components

A current-services budget projection provides policymakers with multiyear budget projections and information about likely future revenues and program costs, based on current statutes, contracts, commitments and economic and demographic trends.

Ideally, the projections would have three major components:

- Revenue forecasts, given current state tax and nontax revenue policies;
- Projections of baseline spending (what will it cost to continue existing programs given demographic trends and inflation);
- Future cost implications for any spending expansion and/or tax policy changes being considered.

The baseline spending element, for example, would indicate how Medicaid spending will be affected as the state's population reflects a larger proportion of elderly and children and the inevitable medical-cost inflation or caseload changes. Costs for current policies would also include monies to fund fully the constitutionally required K-12 school formula, state pension obligations, and the Homestead Rebate program. Similarly, future costs implications would reflect policies being initiated this year, such as the expansion of free tuition for certain college students.

Equally important, and perhaps most challenging, are projections of the future flow of revenues. Those projections would reflect any phaseout of state taxes, or any tax-rate changes already enacted by the Legislature. No doubt such projections would have to include multiple scenarios regarding the state of the economy, and changes beyond the control of the state (such as interest rates).

What's needed

Sometimes policymakers are a bit naive when it comes to revenue/tax projections, always assuming a constantly expanding economy. However, we know that is not always possible. So, multiple projections incorporating alternative economic assumptions are necessary in producing a current-services projection for the state. A useful projection for spending would include at least four columns for each program line-item, over a three- to five-year period:

- Current appropriation level;
- Projected amount for base budget needs (i.e., assuming no spending or tax policy changes, while adjusting for changes in population, inflation, and interest rate changes);
- Future implications of any expanded and/or new proposals currently under consideration; and
- A total long-term recommendation.

This type of budget presentation would improve the state budget process in four major ways:

- It would provide an assessment of the state's future spending needs compared to the current year;
- It would allow legislators and the public to understand the likely consequences for service and programs;
- It would provide a neutral and consistent way to evaluate base needs versus proposed policy changes;
- And it would improve efficiency as it would force policymakers to examine the long-term implications of proposed new programs, program changes, and tax/revenue policy changes.

Some thoughts

The state faces no current budget shortfall problems as we have the largest projected surplus in the history of the state. However, under the most plausible future scenarios, that budget surplus will decrease soon and significantly. More importantly, the projected gap for future years, in my opinion, will raise the prospect of large tax increases and/or large program reductions as sizeable future budget shortfalls loom.

One cannot increase the current spending base by using a one-time bond revenue and not face significant and potentially sizeable future problems. (Recall that we currently are supporting $44.8 billion of spending with a revenue base of $40.8 billion).

Would a New Jersey current-services projection be hard to produce? Maybe yes and maybe no. Other states do such an exercise. The federal Congressional Budget Office (CBO) prepares such projections twice a year. Are the numbers always accurate? Pretty much so. Do they capture the nature of the federal budget gap? Yes.

Does Congress always consider the CBO current-services projections in developing federal budget policies? No! However, the major difference between New Jersey and the federal government is that the feds can legally run operating deficits (and print money!), while New Jersey cannot.

Based on my previous experiences as the state budget director, I am confident that the state's Office of Management and Budget already has the necessary information or something similar and the expertise needed to produce a current-services projection, and has internally already made such projections. Are the governor, the Legislature and the public aware of the availability of such information? Likely not. Should they be? Yes.

So, now is the time to initiate this current-services projections process and formally integrate it as an ongoing part of the state's budgeting process.

Conclusion

The state has a welcomed $6.5 billion surplus. Now is not the time to spend this money foolishly. We need to carefully plan the next three to five years and make a series of good decisions, including the use of federal funds from the American Rescue Act of 2021. A current-services projection would enable the state to identify future budget problems of both in-place policies and policy changes currently under consideration.

Armed with that information. New Jersey policymakers can make more informed budgetary decisions and avoid introducing much of the volatility associated with making sharp, abrupt, and significant year-to-year changes. And that would create a better and more stable economic environment for the state's residents, businesses, and even future state budgets.

THE VOLCKER ALLIANCE

Truth and Integrity in State Budgeting

PREPARING FOR THE STORM

Five-Year Review: Fiscal 2015–19

NEW YORK • 2021

PREFACE

THIS REPORT MARKS the Volcker Alliance's fourth comprehensive assessment of the budget practices of the fifty US states and provides an analysis of fiscal actions from fiscal 2015 through 2019. During the period, many states took advantage of a record-long economic recovery and growing tax revenues to strengthen their budget processes as well as their rainy day funds and other emergency cash reserves. While no one could have foreseen the public health, economic, and fiscal stresses caused by the onset in 2020 of the COVID-19 pandemic, actions taken by states during the boom times for employment and gross domestic product left many better prepared for hard times than they were only a few years earlier.

Like *Truth and Integrity in State Budgeting* reports published in 2017, 2018, and 2020, this study grades states' success in pursuing transparent and fiscally sustainable procedures as they attempt to keep revenues and expenditures in balance from the beginning to the end of each year. And as we did in the three previous reports, we gave states grades of A to D-minus, the lowest possible mark, for their practices in five building blocks of budgeting:

- Budget forecasting, in which we evaluate how and whether states estimate revenues and expenditures for the coming fiscal year and the long term;
- Budget maneuvers, in which dependence on one-time actions to offset recurring expenditures is measured;
- Legacy costs, in which we assess how well states are funding promises made to public employees to cover retirement costs, including pensions and retiree health care;
- Reserve funds, in which the condition of general fund reserves as well as rainy day funds and rules governing their use and replenishment are scrutinized; and
- Budget transparency, in which we examine the disclosure of budget information, including debts, tax expenditures, and the estimated cost of deferred infrastructure maintenance.

In this report, we also provide states' annual budgetary grades for each of the five years covered and provide individual report cards for each state across the five budget categories.

Budget Forecasting

Whether enacted annually or every other year, budgets should ensure that state governments maintain balance between the amount coming into the general fund and the amount going out. (Thirty-one states have annual budgets; nineteen use biennial ones.)[19]

Preserving budgetary balance can be difficult when states lack strong processes for forecasting revenues and expenditures in the coming year or biennium and, ideally, for multiple future years. Inaccurate forecasts can force states to cut spending or increase taxes unexpectedly or to resort to one-time actions to return the budget to balance.

Though forecasting sometimes refers to revenues exclusively, estimating the spending part of the equation is equally important. For example, understanding the affordability of tax cuts, without depending on borrowing or one-time revenues to finance them, is contingent on the state's ability to estimate and control expenditures. Equally important is being able to estimate the impact of changes in the nation's economy on state finances.

With these considerations in mind, the Volcker Alliance sought answers to four questions about the way states estimate future revenues and expenditures. The average five-year grade for the states in this category was C.

BUDGET FORECASTING BASICS **When assessing a state's budget forecasting procedures, Volcker Alliance researchers considered these questions:**

RESEARCH QUESTIONS	WHY IT'S IMPORTANT
Does the state utilize a consensus revenue estimate for the forthcoming fiscal year or biennium in budget and planning documents?	Consensus revenue estimates are a projection of revenues developed in agreement between the executive and legislative branches, sometimes with input from outside economists or business groups. While this method may not produce forecasts that are more accurate than ones produced solely by the governor's office, it reduces the risk of revenue forecasts being politically manipulated; focuses budgeting on a single, agreed-on revenue figure; and helps policymakers concentrate on spending decisions.
Does the state provide a reasonable, detailed rationale to support revenue growth projections at time of the initial budget?	To help determine the validity of revenue estimates, it is important for states to disclose the methodology used in calculating the figures. For example, without knowing that estimates in energy-producing states such as Wyoming largely depend on severance taxes, the reasoning behind the forecasts is lost.
Does the state utilize multiyear revenue forecasts for at least three full fiscal years in budget and planning documents?	Revenues come mainly from taxes, fees, federal aid, fines, legal settlements, and returns on investment. It is only through a multiyear forecast that a budget shows users how stable the state's revenues are. Such a forecast will indicate gaps that may appear when the current year's budget is based on temporary revenue sources. A multiyear forecast will also reveal the impact of changes in tax law.
Does the state utilize multiyear expenditure forecasts for at least three full fiscal years in budget and planning documents?	States should carefully examine possible contributors to expanding or declining expenditures in future years. A long-term estimate, for example, might consider evidence that a slowing economy could lead to increases in Medicaid caseloads and strain a state's fiscal stability. Such a scenario might suggest a need for spending cuts or tax increases to close future budget deficits.

States that showed improvements in this category include Texas. Since fiscal 2018, the Legislative Budget Board has been required to provide the information necessary to make ten-year forecasts for revenues and expenditures, a somewhat longer period than in most other states.[20] Whether similar long-term projections continue will depend on the legislature's evaluation of the new process.

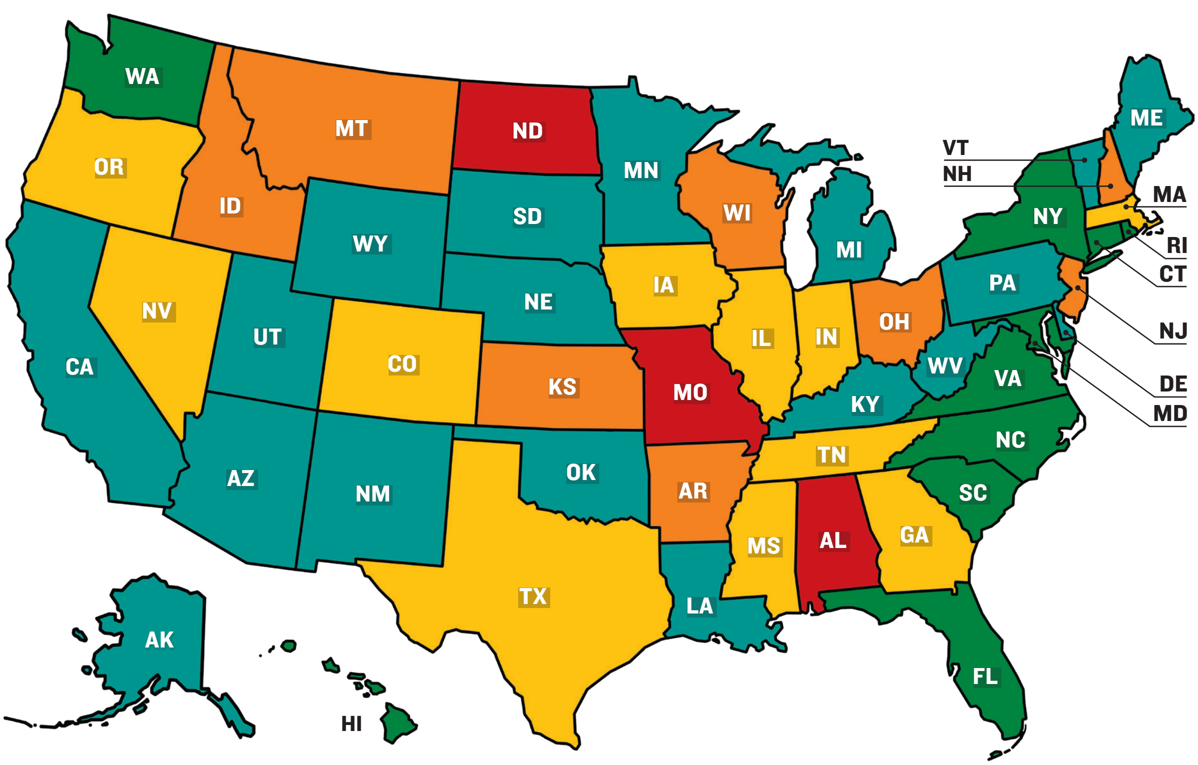
As a result of changes like this, the annual average in this category for all fifty states rose from a C in 2015, 2016, and 2017 to a B in 2018 and 2019.

Budget Forecasting

This table contains assessments of the scope and quality of states' budgetary forecasting for fiscal 2015 through 2019. States are graded on a scale of A to D-minus, the lowest possible mark, based on whether they used consensus revenue estimates for the coming year or biennium in budget documents; provided a reasonable, detailed rationale to support revenue growth projections at the time of the initial budget; utilized multiyear revenue forecasts for at least three full fiscal years in budget and planning documents; and utilized multiyear expenditure forecasts for at least three full fiscal years in budget and planning documents.

KEY

GRADE (5-Year Average)	
A	Scored 81%–100%
B	Scored 61%–80%
C	Scored 40%–60%
D	Scored 20%–39%
D-	Scored 0%–19%



BUDGET FORECASTING

STATE	GRADE (5-YEAR AVERAGE)	TREND (FISCAL YEAR '15 '16 '17 '18 '19)
Connecticut	A	
Florida	A	
Hawaii	A	
Maryland	A	
New York	A	
North Carolina	A	
Rhode Island	A	
South Carolina	A	
Virginia	A	
Washington	A	
Alaska	B	
Arizona	B	
California	B	
Delaware	B	
Kentucky	B	
Louisiana	B	
Maine	B	
Michigan	B	
Minnesota	B	
Nebraska	B	
New Mexico	B	
Oklahoma	B	
Pennsylvania	B	
South Dakota	B	
Utah	B	
Vermont	B	
West Virginia	B	
Wyoming	B	
Colorado	C	
Georgia	C	
Illinois	C	
Indiana	C	
Iowa	C	
Massachusetts	C	
Mississippi	C	
Nevada	C	
Oregon	C	
Tennessee	C	
Texas	C	
Arkansas	D	
Idaho	D	
Kansas	D	
Montana	D	
New Hampshire	D	
New Jersey	D	
Ohio	D	
Wisconsin	D	
Alabama	D-	
Missouri	D-	
North Dakota	D-	
US AVERAGE	C	

NEW JERSEY Budget Report Card

REFLECTING DECADES of underfunding public worker pension and other postemployment benefits (OPEB), principally health care, New Jersey was one of only seven states to receive a D-minus average, the lowest possible grade, in legacy costs for fiscal 2015 through 2019. In budget maneuvers, the state was one of just four receiving a D average, with neighboring Pennsylvania the sole state ranking lower.

Although New Jersey has increased its pension contributions in recent years, its 2019 appropriation was still only 61 percent of the actuarial recommendation. That year, New Jersey had the second-worst-funded state pension system in the US, with assets equal to 40 percent of promised benefits, up from 31 percent in 2016. It also failed to provide annual contributions for OPEB in line with actuarial recommendations and instead funded its $13.8 billion net liability on a pay-as-you-go basis.

New Jersey's budget maneuvers grade reflected numerous one-time actions to cover recurring expenditures and achieve balance. From 2015 to 2018, the state used the sale of assets and up-front revenues on financing transactions to shore up the budget, covered recurring expenditures with debt, deferred expenditures, and shifted revenues from special funds into the general fund to pay for recurring costs.

The state made fewer one-time moves in 2019. It continued to rely on transfers from special accounts to bolster the general fund, however, including shifting $82 million from the state's Clean Energy Fund to cover New Jersey Transit utility costs that are usually paid from general fund dollars. Another $47.5 million from the energy fund was used for utility costs in state facilities. The state also shifted $179.5 million to the general fund from the New Jersey Turnpike Authority—although that was $13.5 million less than in fiscal 2018.

New Jersey's shortcomings in the budget forecasting category, which resulted in a D average, have remained constant through the study period. It does not use the consensus method of revenue forecasting, and budget documents fail to provide multiyear projections for revenues or expenditures.

MID-ATLANTIC STATES SIDE BY SIDE: Five-Year Average Grades, Fiscal 2015–19

	BUDGET FORECASTING	BUDGET MANEUVERS	LEGACY COSTS	RESERVE FUNDS	TRANSPARENCY
New Jersey	D	D	D-	B	B
New York	A	D	B	B	B
Pennsylvania	B	D-	D	C	B
US AVERAGE	C	B	C	B	B

NOTE States are grouped by US Census Bureau divisions.

Average grades are based on annual numerical scores. For more information, download *Truth and Integrity in State Budgeting: Preparing for the Storm* at VolckerAlliance.org.

NEW JERSEY Budget Report Card, Fiscal 2015–19

BUDGET FORECASTING

	2015	2016	2017	2018	2019	TREND '15	'16	'17	'18	'19
CATEGORY GRADE	D	D	D	D	D					
Consensus Revenue Forecasts	✗	✗	✗	✗	✗					
Multiyear Expenditure Forecasts	✗	✗	✗	✗	✗					
Multiyear Revenue Forecasts	✗	✗	✗	✗	✗					
Revenue Growth Projections	✓	✓	✓	✓	✓	●	●	●	●	●
5-YEAR AVERAGE D										

BUDGET MANEUVERS

	2015	2016	2017	2018	2019	TREND '15	'16	'17	'18	'19
CATEGORY GRADE	D	D	D	D	B					
Deferring Recurring Expenditures	✓	✓	✗	✗	✓					
Revenue and Cost Shifting	✗	✗	✗	✗	✗					●
Funding Recurring Expenditures with Debt	✗	✗	✗	✓	✓					
Using Asset Sales and Up-Front Revenues	✗	✗	✓	✗	✓	●	●	●	●	
5-YEAR AVERAGE D										

LEGACY COSTS

	2015	2016	2017	2018	2019	TREND '15	'16	'17	'18	'19
CATEGORY GRADE	D-	D-	D-	D-	D-					
Public Employee OPEB Funding	✗	✗	✗	✗	✗					
Public Employee Pension Funding	✗	✗	✗	✗	✗					
Public Employee Pension Funded Ratio*	37%	31%	36%	38%	40%					
5-YEAR AVERAGE D-						●	●	●	●	●

RESERVE FUNDS

	2015	2016	2017	2018	2019	TREND '15	'16	'17	'18	'19
CATEGORY GRADE	B	B	B	B	B					
Positive Reserve or General Fund Balance	✓	✓	✓	✓	✓					
Reserve Funds Disbursement Policy	✓	✓	✓	✓	✓	●	●	●	●	●
Reserve Funds Replenishment Policy	✓	✓	✓	✓	✓					
Reserves Tied to Revenue Volatility	✗	✗	✗	✗	✗					
5-YEAR AVERAGE B										

TRANSPARENCY

	2015	2016	2017	2018	2019	TREND '15	'16	'17	'18	'19
CATEGORY GRADE	B	B	B	B	B					
Consolidated Budget Website	✓	✓	✓	✓	✓					
Provides Debt Tables	✓	✓	✓	✓	✓	●	●	●	●	●
Discloses Deferred Infrastructure Replacement Costs	✗	✗	✗	✗	✗					
Discloses Tax Expenditures	✓	✓	✓	✓	✓					
5-YEAR AVERAGE B										

KEY

✓	Followed best practice
✗	Did not follow best practice

BUDGET FORECASTING evaluates whether and how states estimated long-term revenue and expenditure trends. **BUDGET MANEUVERS** evaluates whether states used one-time revenues, borrowings, asset sales, and other measures to achieve short-term budgetary balance. **LEGACY COSTS** evaluates whether states provided adequate funding, as defined by retirement system actuaries, for pensions and other promised retirement benefits for public workers. **RESERVE FUNDS** evaluates states' rainy day funds and other fiscal reserves, as well as any policies governing their use and replenishment. **TRANSPARENCY** evaluates the accessibility to the public of states' budget practices.

* **SOURCE** Bloomberg.

Exhibit A

Item 2203-17
Budget Proposal Transmittal

MARCH 2022

NJ TRANSIT
The Way To Go.

Agenda

Exhibit A

Four-Year Budget Outlook

($ in millions)	FY21	FY22	FY22	FY23	FY24
RESOURCES	**Actual**	**Budget**	**Forecast**	**Gov Budget**	**Prelim. Est.**
Farebox	$ 299.1	$ 590.7	$ 514.2	$ 766.2	$ 839.6
Commercial Revenue	101.6	79.6	91.5	118.7	121.0
State Operating Subsidy	214.5	100.0	100.0	100.0	100.0
Turnpike Funding [1]	129.0	325.0	325.0	721.0	440.0
Clean Energy Fund	82.1	82.1	82.1	82.1	82.1
Capital Preventive Maint.	352.8	362.0	362.0	362.0	362.0
Other Reimbursements	206.3	154.7	159.1	176.4	176.4
COVID-19 Relief	979.0	955.4	945.3	429.1	738.7
Coronavirus Relief Fund (CRF)	30.0	-	-	-	-
TOTAL RESOURCES	**$ 2,394.4**	**$ 2,649.5**	**$ 2,579.2**	**$ 2,755.5**	**$ 2,859.8**
Δ from Prior Yr (%)		**10.7%**	**-2.7%**	**6.8%**	**3.8%**
EXPENSES					
Labor	$ 799.0	$ 875.4	$ 847.4	$ 929.0	$ 970.8
Fringe Benefits	695.5	715.2	728.8	746.4	780.0
Services	225.8	192.4	197.4	205.4	209.5
Fuel & Power	99.9	112.1	99.0	113.0	117.5
Utilities	46.5	48.8	48.6	53.9	55.5
Purchased Transportation	232.8	287.0	253.6	281.4	292.7
Materials & Supplies	183.9	181.2	180.2	189.3	193.1
Tolls, Trackage & Fees	93.9	103.1	102.7	114.6	116.9
Claims & Insurance	50.7	83.3	83.1	70.8	72.9
All Other Expenses	35.2	51.0	38.4	51.7	50.9
TOTAL EXPENSES	**$ 2,463.0**	**$ 2,649.5**	**$ 2,579.2**	**$ 2,755.5**	**$ 2,859.8**

[1] *Does not reflect an additional $25.0m in FY22, FY23 and FY24 for the Portal North Bridge capital project*

Resources

- No Fare increase in FY23
- Passenger revenue in FY23 returns to 75% pre-COVID levels
- State Subsidy, Clean Energy, and PM funding remains flat to FY22 Budget
- Turnpike funding as per April 2021 MOU
- COVID-19 Relief to offset revenue need

Expenses

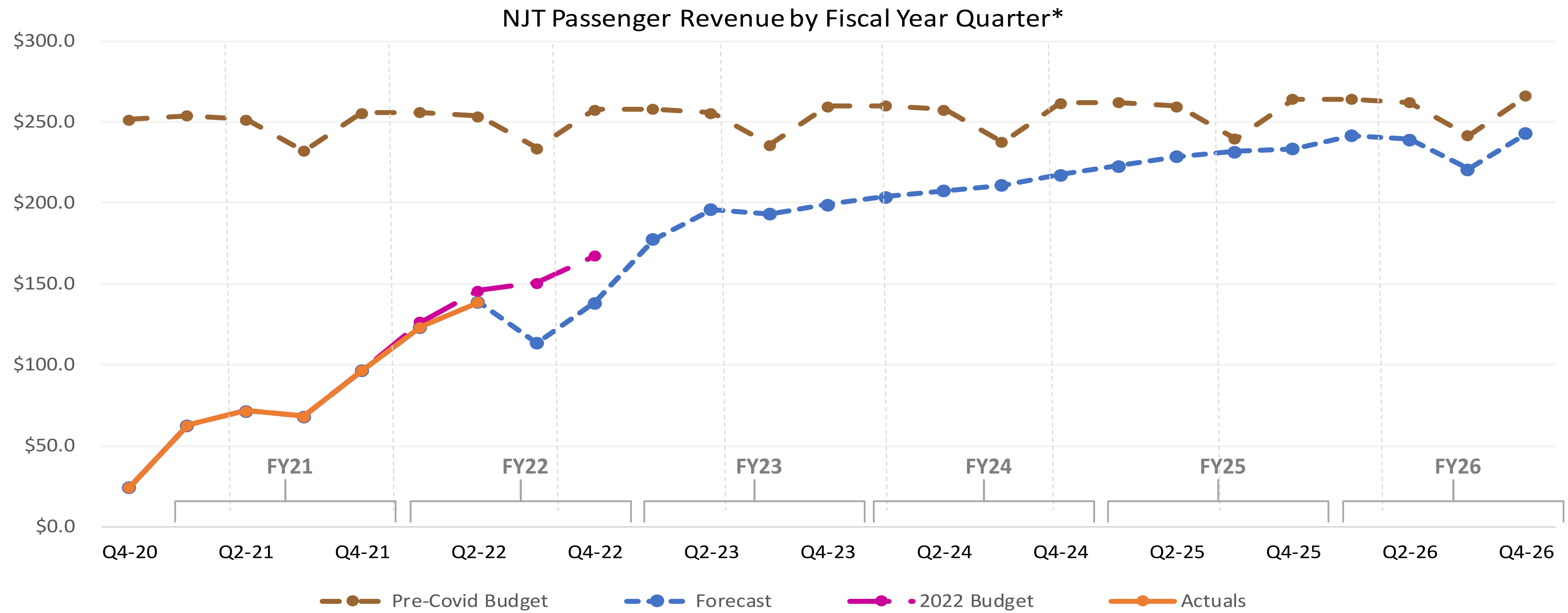
- Recent labor agreements fully funded at 3% average growth
- 3% salary adjustment for non-agreement
- Bus service improvements in summer 2022, delayed from summer 2020
- Increase operations and safety (including PD) staffing
- Buildout of General Counsel
- Continue investments to build an accountable, innovative and inclusive organization

NJTRANSIT The Way To Go.

Exhibit A

COVID 19 Challenges - Farebox Revenue by Fiscal Year Quarter

$ in millions



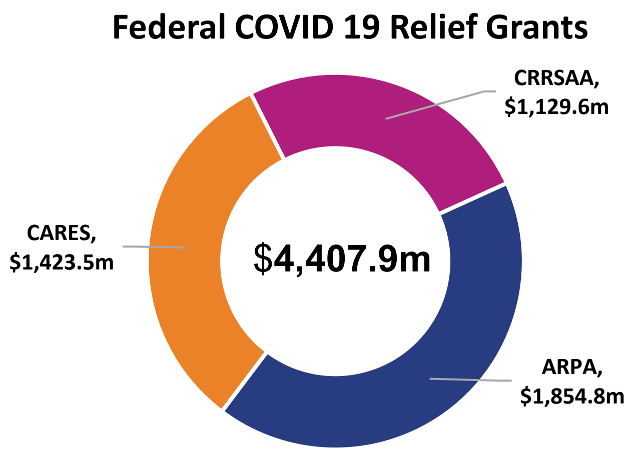
- Assumes no fare increases
- FY21 Actual $299.1m or ~30% Pre-COVID
- FY22 Forecast $514.2m is ~51% Pre-COVID
  - ($76.5m) lower than FY22 Budget of $590.7m or ~59% Pre-COVID
- FY23 $766.2m is ~77% of Pre-COVID
- Return to 90% Pre-COVID in FY25 and beyond
- 10% - 15% of Passengers working remotely or flexible work arrangement

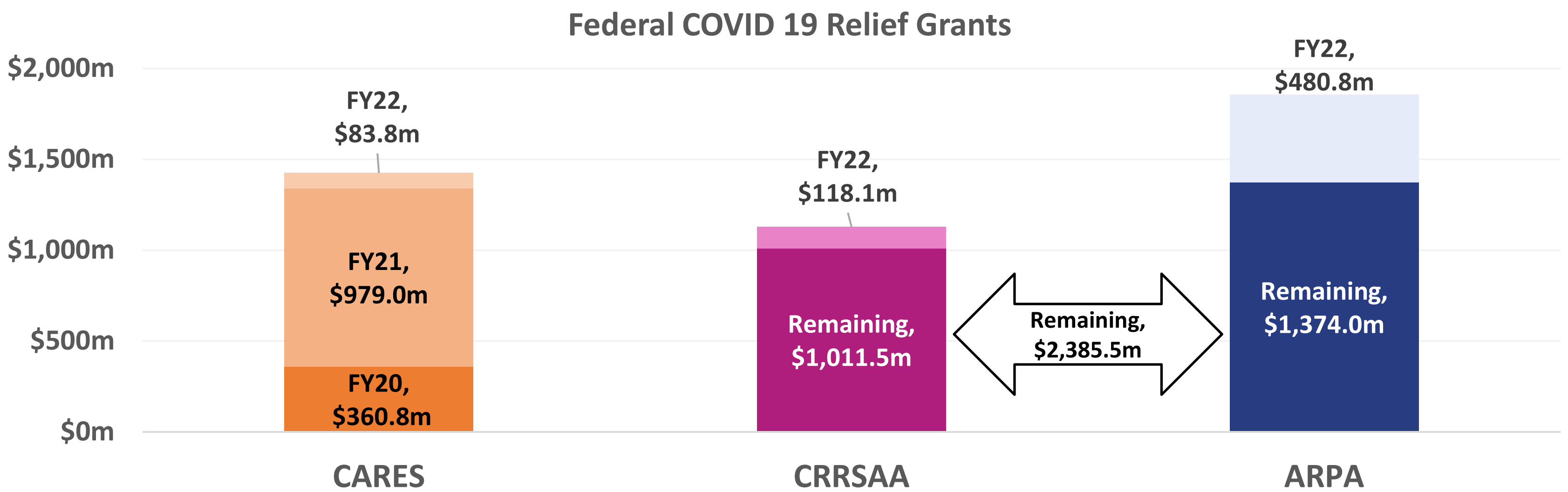
*Developed by NJ Transit Finance and Planning in consultation with external consultant

NJTRANSIT The Way To Go.

Federal Stimulus Funding Overview[1]

Exhibit A





[1] *As of 2/28/2022. Excludes 5310 and 5311 funding. Excludes $75m pending ARPA Additional Assistance.*

NJ TRANSIT The Way To Go.

FY22 Budget to FY26 Forecast

Exhibit A

Scenario Planning

Resources	FY22 Budget	FY23 Gov Budget	FY24 Prelim. Est.	FY25 Forecast	FY26 Forecast
Farebox Revenues	$590.7	$766.2	$839.6	$917.1	$945.0
Commercial Revenue	79.6	118.7	121.0	124.7	128.4
State Operating Subsidy	100.0	100.0	100.0	100.0	100.0
Turnpike Funding	325.0	721.0	440.0	455.0	470.0
Clean Energy Fund	82.1	82.1	82.1	82.1	82.1
Federal Preventive Maintenance	362.0	362.0	362.0	362.0	362.0
Other Reimbursements	154.7	176.4	176.4	176.4	177.9
COVID-19 Relief (CARES, CRRSAA, ARPA)	955.4	429.1	738.7	726.9	216.8
Total Resources	**$2,649.5**	**$2,755.5**	**$2,859.8**	**$2,944.3**	**$2,482.2**
Total Expenditures	**$2,649.5**	**$2,755.5**	**$2,859.8**	**$2,944.3**	**$3,031.5**
Funding Needed	**$0.0**	**$0.0**	**$0.0**	**$0.0**	**($549.3)**
COVID-19 Relief Funding Remaining	***$2,111.5***	***$1,682.4***	***$943.8***	***$216.8***	***$0.0***

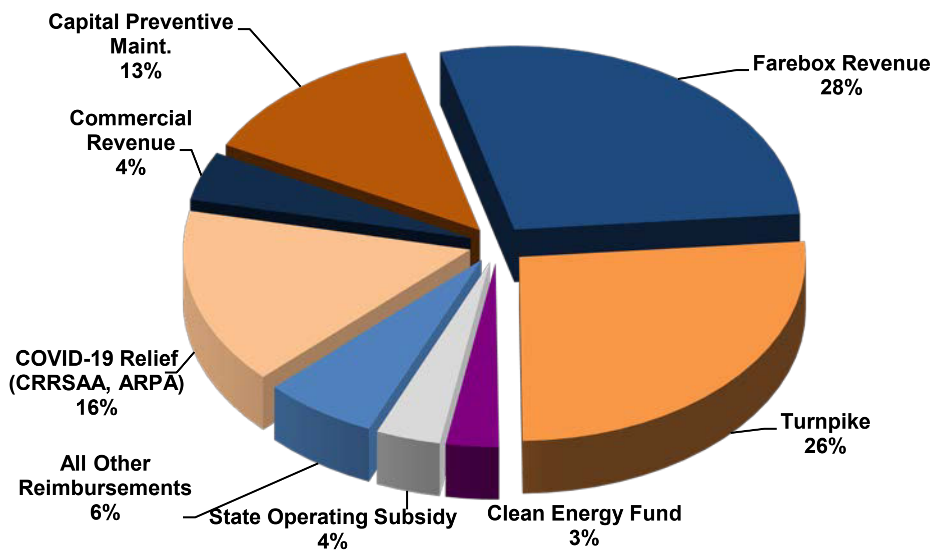
COVID-19 relief funding fully utilized in Q1 FY26

- Farebox revenue:
  - Assumes no fare increases
  - Return to 90% of Pre-Covid levels in FY25
  - 10% - 15% of Passengers working remotely or flexible work arrangement
- Major annual funding assumptions:
  - $362m Preventive & Capital Maintenance
  - $100m State Operating Subsidy
  - $82m Clean Energy Fund

NJ TRANSIT The Way To Go.

FY23 Governor's Proposed Budget – Revenue

Exhibit A

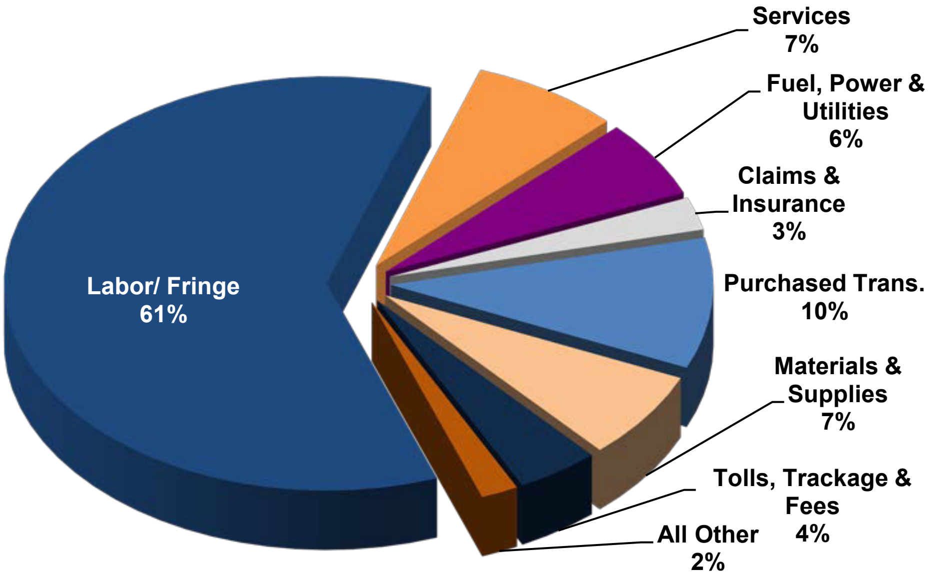


($ in millions)	FY22 Budget	FY22 Forecast	FY23 Gov Budget	FY23B vs. FY22B Δ $	FY23B vs. FY22B Δ %	FY23B vs. FY22F Δ $	FY23B vs. FY22F Δ %
Farebox	$ 590.7	$ 514.2	$ 766.2	$ 175.5	29.7%	$ 252.0	49.0%
Commercial Revenue	79.6	91.5	118.7	39.1	49.1%	27.2	29.7%
State Operating Subsidy	100.0	100.0	100.0	-	-	-	-
Turnpike Funding	325.0	325.0	721.0	396.0	121.8%	396.0	121.8%
Clean Energy Fund	82.1	82.1	82.1	0.0	0.0%	-	-
Capital Preventive Maint.	362.0	362.0	362.0	-	-	-	-
Other Reimbursements	154.7	159.1	176.4	21.7	14.0%	17.3	10.9%
COVID-19 Relief	955.4	945.3	429.1	(526.3)	(55.1%)	(516.2)	(54.6%)
Coronavirus Relief Fund (CRF)	-	-	-	-	-	-	-
Total Resources	**$ 2,649.5**	**$ 2,579.2**	**$ 2,755.5**	**$ 106.0**	**4.0%**	**$ 176.3**	**6.8%**

NJ TRANSIT The Way To Go.

FY23 Governor's Proposed Budget – Expenses

Exhibit A



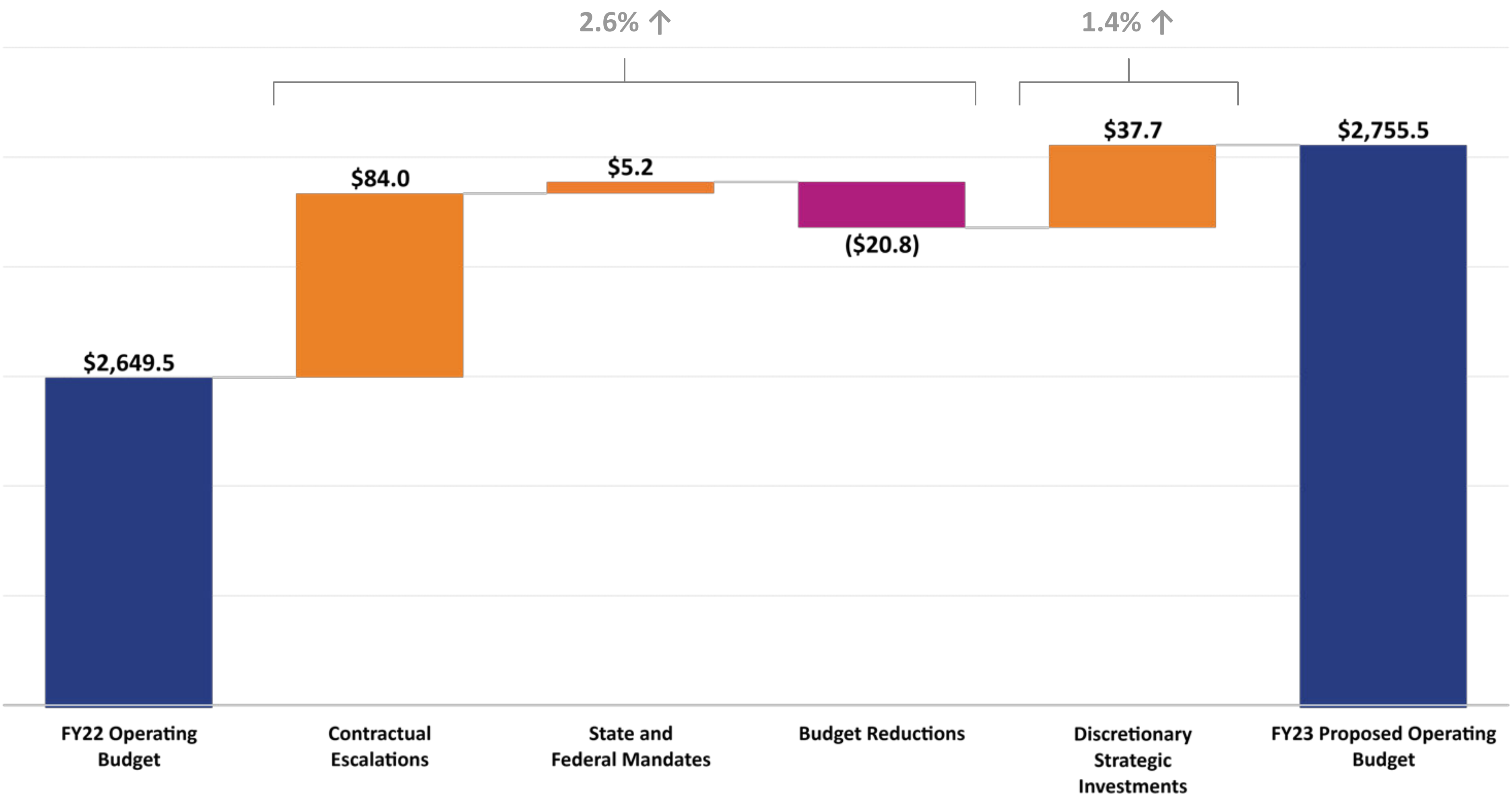
($ in millions)	FY22 Budget	FY22 Forecast	FY23 Gov Budget	FY23B vs. FY22B Δ $	FY23B vs. FY22B Δ %	FY23B vs. FY22F Δ $	FY23B vs. FY22F Δ %
Labor	$ 875.4	$ 847.4	$ 929.0	$ 53.6	6.1%	$ 81.6	9.6%
Fringe Benefits	715.2	728.8	746.4	31.3	4.4%	17.6	2.4%
Services	192.4	197.4	205.4	13.0	6.7%	8.0	4.1%
Fuel & Power	112.1	99.0	113.0	0.9	0.8%	14.0	14.1%
Utilities	48.8	48.6	53.9	5.1	10.4%	5.3	10.8%
Purchased Transportation	287.0	253.6	281.4	(5.6)	(2.0%)	27.8	11.0%
Materials & Supplies	181.2	180.2	189.3	8.0	4.4%	9.1	5.0%
Tolls, Trackage & Fees	103.1	102.7	114.6	11.5	11.2%	11.9	11.6%
Claims & Insurance	83.3	83.1	70.8	(12.5)	(15.0%)	(12.3)	(14.8%)
All Other Expenses	51.0	38.4	51.7	0.7	1.4%	13.3	34.7%
Total Expenses	**$ 2,649.5**	**$ 2,579.2**	**$ 2,755.5**	**$ 106.0**	**4.0%**	**$ 176.3**	**6.8%**

NJ TRANSIT The Way To Go.

Exhibit A

FY23 Governor's Proposed Budget – Expense Components

$ in millions



NJ TRANSIT The Way To Go.

Exhibit A

FY23 Gov.'s Proposed Budget – 2.6% Mandatory & Contractual Increases

Contractual Escalations 0 FTE, $84.0m

- Contractual labor agreements
- Security contract
- PABT Bus toll and parking
- Amtrak trackage fees
- Existing IT contract cost increases
- Wireless carrier cost increases including that of Bus onboard ticket validators

State and Federal Mandates 20 FTE, $5.2m

- Staffing and funding for General Counsel Department
- Expanded Rail mechanical training programs
- Additional Capital Program FTE to support expanded capital improvement programs
- EEO management training
- Contractual increase for Drug & Alcohol Oversight Program
- Additional HC for whistle-blower program

Reductions ($20.8m)

- Liability insurance premium budget reduction
- Adjustment for pace of hiring vacant positions
- Purchased transportation budget reduction
- Consolidate software spending
- Bus parts budget reduction due to new bus warranties
- Reduced bank fees and armored car services

NJ TRANSIT The Way To Go.

Exhibit A

FY23 Gov.'s Proposed Budget – 1.4% Discretionary Increases

Discretionary Improvements 62 FTE, $37.7m

Ensure the reliability and continued safety of our transit system

- Additional operational staffing in Rail Infrastructure / Engineering, Mechanical, and Transportation departments (30 FTE, $10.1m)
- Increased Light Rail vehicle maintenance ($350k)
- Additional Police positions: increase police visibility across all modes (10 FTE, $1m)
- Additional System Safety positions: safety training, COVID-19 response, community outreach, accident/incident investigations (8 FTE, $1.2m)

Deliver a high-quality experience for all our customers

- Fully fund 129 Bus positions for service enhancements ($7.9m)
- Newark Bus System redesign, Newark Micro-Transit initiative and assumption of contracted bus routes ($1.3m)
- Additional funding for Planning projects ($2m)
- Communications & Customer Experience multi-media marketing campaigns ($283k)

Build an accountable, innovative and inclusive organization

- Salary adjustment for non-agreement employees – 3.0% FY22, 3.0% FY23 ($10m)
- HR Department enhanced recruitment, employee engagement, candidate experience, HRIS & training (11 FTE, $3.1m)
- Additional Procurement positions (3 FTE, $388k)

FY23 Gov.'s Proposed Budget – Summary by Department

Exhibit A

FY23				
$ in millions	**Budget**	**Budget %**	**FTE**	**FTE %**
Bus	890.3	32.3%	5,757	46.1%
Rail	1,057.6	38.4%	4,638	37.1%
Light Rail and Contracted Service	278.3	10.1%	232	1.9%
Police	79.7	2.9%	410	3.3%
System Safety	9.2	0.3%	69	0.6%
Info and Digital Technology	119.9	4.4%	183	1.5%
Admin	320.5	11.6%	1,205	9.6%
NJT Total	**$ 2,755.5**	**100%**	**12,493**	**100%**

Positions				
	FY22	**FY23**	**Growth (#)**	**Growth (%)**
Bus	5,757	5,757	-	0.0%
Rail	4,608	4,638	30	0.7%
Light Rail and Contracted Service	232	232	-	0.0%
Police	400	410	10	2.5%
System Safety	61	69	8	13.1%
Info and Digital Technology	183	183	-	0.0%
Admin	1,165	1,199	34	2.9%
NJT Total	**12,405**	**12,487**	**82**	**1%**

**note: values and figures above include mandatory items, discretionary investments, and efficiency/savings offsets.*

BUDGET

Operations – 88.4% of Budget

- Bus – 32.3%
- Rail – 38.4%
- Light Rail – 10.1%
- Police – 2.9%
- System Safety – 0.3%
- Info and Digital Technology – 4.4%

HEADCOUNT

Operations – 90.5% of FTE

- Bus – 46.1%
- Rail – 37.1%
- Light Rail – 1.9%
- Police – 3.3%
- System Safety – 0.6%
- Info and Digital Technology – 1.5%

State of New Jersey
DEPARTMENT OF THE TREASURY
PO BOX 002
TRENTON, NEW JERSEY 08625

PHILIP D. MURPHY
Governor

SHEILA Y. OLIVER
Lt. Governor

ELIZABETH MAHER MUOIO
State Treasurer

May 17, 2022

Thomas Koenig
Legislative Budget and Finance Officer
Office of Legislative Services
State House Annex
P.O. Box 068
Trenton, New Jersey 08625-0068

Dear Mr. Koenig:

In your letter dated April 5, 2022, it was requested that I provide a written response to certain questions posed by members during the April 4, 2022 hearing of the Assembly Budget and Appropriations Committee. The questions and their subsequent answers are as follows:

Assemblywoman Munoz

- Please provide the revenue, spending and economic growth expectations for each of the next five years, including, but not limited to, employment growth, personal income and gross domestic product.

  Response:
  Consensus from major economic forecasting firms, the Federal Reserve, as well as the Wall Street Journal's monthly survey of economists, all expect economic growth to continue in the coming years, but at much slower rates than the US and NJ have experienced during the robust pandemic recovery. For example, Moody's expects: a) nominal State GDP growth to moderate from highs of 8.7% and 8.5% last year and this year to a more moderate 5.7% rate in 2023; b) nominal State personal income growth to decline from 6.2% last year to 1.9% this year before stabilizing at 5.7% in 2023; c) employment growth to slow from 4.3% and 4.0% last year and this year to 1.3% in 2023; and d) retail sales growth is expected to drop sharply from 20.9% last year and 10.3% this year, to only 2.0% in 2023. Likewise, Moody's expects regional CPI inflation to fall back from currently elevated levels to 2.6% in 2023. Consensus forecasts expect stability in subsequent years and do not anticipate a recession in the near future. Treasury currently accepts this economic consensus.

  State revenues have surged upward the last two fiscal years, far surpassing expectations. States across the country are reporting significant tax revenue growth above targets. New Jersey revenues have soared billions of dollars above the pre-pandemic trend. But the Urban-Brookings Tax Policy Center's Lucy Dadayan, a long-time expert on state revenues, says states are in a "fiscal bubble" and that current collection patterns are not sustainable. Treasury agrees with this assessment and is forecasting flat revenues between FY22 and FY23, as overall levels right-size after the recent fiscal bubble. After FY23, State revenues should return to annual average growth between 3%-4%. However, Treasury notes that the temporary 2.5% CBT surtax rate is set to expire at the end of Tax Year 2023, which will reduce CBT revenues by about $1.0 billion over the course of FY24 and FY25, dampening annual revenue growth in those two fiscal years.

  Generally, we expect modest growth in base appropriations into the out-years. Separately, there are a few notable areas of planned growth that are reflective of the Governor's commitments to a stronger, fairer, and more affordable New Jersey. This includes, but is not limited to, increases related to the full phase-in of the school funding formula and the two-year phase-up of the ANCHOR Property Tax Relief Program to the full statutory funding level in FY25. Other priorities that will require additional investments in future budgets include, but are not limited to, the goal of universal pre-K and implementation of the universal newborn home visitation program.

The State's debt service costs are expected to remain stable. This is largely a direct result of pay-as-you-go appropriations in recent years (e.g., SDA and Wind Port) and the monies being utilized from the Debt Defeasance and Prevention Fund to both defease existing and avoid new debt. It's also important to note that because of the Governor's commitment to meet 100% of the Actuarially Determined Contribution in the current year, out-year pension contributions are expected to remain relatively flat for the foreseeable future.

Assemblyman Scharfenberger

- Please provide the revenue derived from the below tax, fee and policy changes which did not have fiscal estimates at the time of the Governor's approval.

Response:
Please see the chart titled "Assemblyman Scharfenberger Follow-up – Revenue Estimates on Bills" and two supporting documents titled "Impacts on CBT Revenues" and "Impacts on Sports Betting Taxes".

Sincerely,

Elizabeth Maher Muoio
State Treasurer

Attachments
c: Eliana Pintor Marin, Chair, Assembly Budget Committee
Lynn Azarchi, Office of Management and Budget
Patrick Brennan, Assembly Democratic Office
Ross Dammer, Assembly Republican Office
Deborah DePiano, Assembly Republican Office

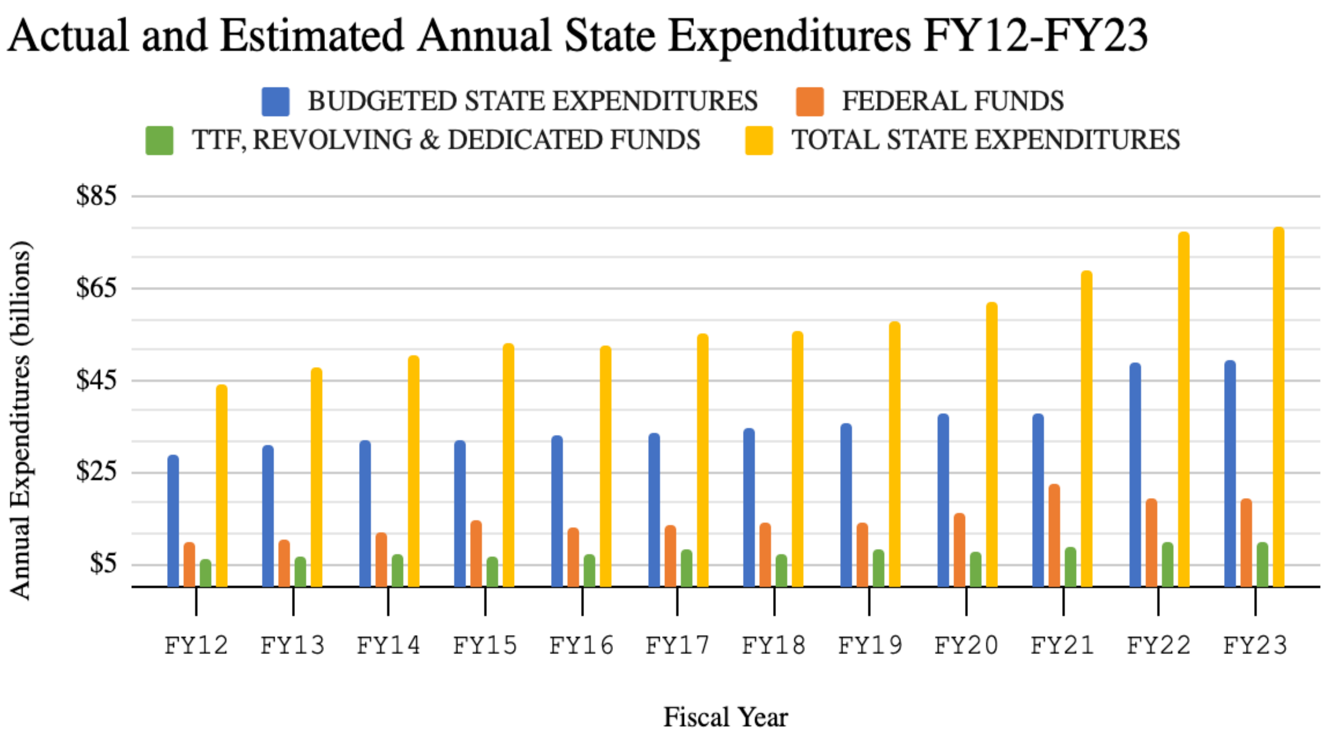
Total State Spending

FY12-FY22

(including State, Federal, Revolving and Dedicated Funds and Transportation Trust Fund)

FY12-FY21 Actual,

FY22-FY23 Projected



GROWTH IN TOTAL STATE EXPENDITURES

Budgeted State Expenditures, plus TTF, Revolving and Dedicated Funds

FY12 to FY21 actual, plus FY22 and FY23 projected

	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23
	Expended	*Expended*	*Expended*	*Expended*	*Expended*	*Expended*	*Expended*	*Expended*	*Expended*	*Expended*	*Projected*	*Projected*
BUDGETED STATE EXPENDITURES	28,541,040	30,953,342	31,830,307	31,854,516	32,893,417	33,666,793	34,329,798	35,702,968	37,825,694	37,768,341	48,661,896	49,139,417
FEDERAL FUNDS	9,553,651	10,205,149	11,778,819	14,448,525	12,805,345	13,509,435	13,898,727	13,909,948	16,325,513	22,461,315	19,028,890	19,321,686
TTF, REVOLVING & DEDICATED FUNDS	6,047,518	6,503,757	6,909,755	6,702,291	7,028,584	7,957,946	7,357,569	8,288,582	7,883,382	8,776,265	9,561,860	9,997,073
TOTAL STATE EXPENDITURES	**$44,142,209**	**$47,662,248**	**$50,518,881**	**$53,005,332**	**$52,727,346**	**$55,134,174**	**$55,586,094**	**$57,901,498**	**$62,034,589**	**$69,005,921**	**$77,252,646**	**$78,458,176**

Source: FY2014 to FY2023 State Budget Books, NJ Department of Treasury

ANNUAL STATE BUDGET EXPENDITURES FY12-FY21
(plus FY22 and FY23 projections)

Expended Appropriations	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY21 Adjusted Appropriation	FY22 Projected Appropriation	FY23 Projected Appropriation
GENERAL FUNDS													
Direct State Services	6,531,514	6,817,880	7,000,637	7,101,192	7,242,676	7,320,267	7,383,152	7,641,148	8,119,120	7,941,661	8,571,185	9,968,241	10,235,952
Grants-in-Aid	8,455,035	9,219,821	9,232,248	8,840,795	9,200,922	9,204,044	9,412,512	9,832,504	10,253,301	10,077,425	10,428,689	12,997,338	13,499,038
State Aid	1,072,935	836,657	761,813	852,664	512,879	834,991	644,645	452,034	668,377	693,949	2,912,030	1,195,026	3,425,000
Capital Construction	1,174,157	1,241,482	1,272,593	1,299,501	1,304,280	1,540,328	1,587,053	1,348,376	1,418,774	1,395,707	5,185,446	3,320,225	1,709,826
Debt Services	120,392	277,363	430,611	320,803	379,966	437,834	332,068	326,364	301,169	315,509	362,080	395,207	620,745
Total General Fund	17,354,033	18,393,203	18,697,902	18,414,955	18,640,723	19,337,464	19,359,430	19,600,426	20,760,741	20,424,251	27,459,430	27,876,037	29,490,561
Property Tax Relief Fund	10,813,938	12,179,448	12,757,133	12,991,497	13,933,361	14,079,350	14,691,544	15,822,757	16,748,709	17,031,103	15,893,168	20,363,509	19,155,630
Casino Control Fund	60,709	52,406	54,180	53,982	49,482	45,989	47,091	47,805	49,269	50,458	54,360	62,391	68,089
Casino Revenue Fund	312,359	328,285	319,271	383,534	269,851	203,990	225,071	218,935	266,975	262,529	365,344	338,479	425,137
Gubernatiorial Elections Fund	1	----	1,821	10,548	----	----	6,662	13,045	----	----	10,563	21,480	----
GRAND TOTAL STATE APPROPRIATIO	**28,541,040**	**30,953,342**	**31,830,307**	**31,854,516**	**32,893,417**	**33,666,793**	**34,329,798**	**35,702,968**	**37,825,694**	***37,768,341***	**43,782,865**	**48,661,896**	**49,139,417**
Annual % Change		***8.5%***	***2.8%***	***0.1%***	***3.3%***	***2.4%***	***2.0%***	***4.0%***	***5.9%***	***-0.2%***		***19.6%***	***-5.9%***
DIRECT STATE SERVICES													
Legislative Branch													
Senate	11,530	11,712	12,485	12,258	12,732	12,431	12,294	12,554	14,470	14,538	14,069	16,690	16,690
General Assembly	17,146	17,888	17,512	18,110	17,804	18,254	18,675	18,854	20,733	22,177	20,468	23,208	23,208
Legislative Support Services	32,145	32,169	32,013	32,072	32,207	33,273	32,943	33,911	34,725	40,514	39,421	43,514	35,558
Legislative Commissions	17,076	16,583	14,736	14,713	15,380	15,299	14,679	16,458	15,830	17,158	15,148	23,691	17,191
Total Leglislative Branch	**77,897**	**78,352**	**76,746**	**77,153**	**78,123**	**79,257**	**78,591**	**81,777**	**85,758**	***86,861***	89,106	107,103	92,647
Executive Branch													
Chief Executive	6,132	6,441	6,651	6,375	6,474	5,988	5,621	6,534	7,115	7,253	7,079	9,245	9,245
Department of Agriculture	9,714	10,074	10,154	10,369	10,243	10,079	10,125	10,525	11,135	10,932	12,635	9,334	10,245
Department of Banking and Insurance	56,834	57,973	56,944	56,757	57,156	51,051	56,090	56,938	55,437	89,630	53,515	89,513	90,263
Department of Children and Families	303,515	313,749	279,007	277,976	291,779	263,239	267,846	294,467	276,981	311,742	298,238	341,386	357,929
Department of Community Affairs	48,258	46,463	49,328	49,531	52,104	56,115	57,826	59,726	60,448	62,102	58,657	100,539	60,768
Department of Corrections	986,908	944,639	957,049	958,246	943,694	937,254	913,577	918,599	1,002,664	880,272	847,366	982,542	1,012,642
Department of Education	73,148	77,382	76,157	80,048	85,133	85,564	85,649	93,278	93,085	89,408	94,740	94,022	101,772
Department of Environmental Protection	251,314	249,468	263,483	264,206	259,764	264,669	248,818	250,936	246,466	271,918	277,750	272,386	274,310
Department of Health		57,029	58,224	58,766	58,699	56,902	434,793	398,436	408,048	331,683	396,970	438,093	435,465
Department of Human Services		706,743	690,154	669,959	649,849	630,693	263,499	317,952	317,896	324,719	300,609	297,928	304,467
(From General Fund)	574,980	706,019	689,330	669,057	648,999	629,844	262,644	317,109	317,034	*323,917*	299,856	297,057	303,596
(From Casino Revenue Fund)		724	824	902	850	849	855	843	862	*802*	753	871	871
Department of Labor and Workforce Develc	132,052	135,880	134,087	140,660	134,156	114,509	114,588	115,190	124,966	120,761	119,143	124,464	114,472
Department of Law and Public Safety	620,497	641,199	619,244	623,199	646,226	627,541	645,608	643,425	749,042	702,036	821,947	723,952	709,303
(From General Fund)	580,941	596,296	572,888	576,150	602,660	587,527	604,611	601,258	705,047	656,785	*772,785*	668,879	649,079
(From Casino Control Fund)	39,464	44,811	46,264	46,957	43,474	39,922	40,905	42,075	43,903	*45,159*	49,070	54,981	60,132
Department of Military and Veterans' Affai	92,426	92,058	96,547	97,246	97,566	98,928	98,444	99,769	110,322	84,596	98,051	99,476	101,024
Department of State	29,168	27,932	28,253	24,292	29,669	31,216	31,109	33,104	36,671	44,699	42,407	55,996	78,363
Department of Transportation	92,748	50,726	30,431	165,700	164,462	93,256	89,819	133,651	134,889	72,387	167,871	130,893	102,162
Department of the Treasury	479,487	477,464	474,453	489,092	469,417	480,057	464,848	509,083	496,587	476,818	467,869	546,706	578,365
(From General Fund)	458,242	469,869	466,537	482,067	463,409	473,990	458,662	503,353	491,221	471,519	462,579	539,296	570,408
(From Casino Control Fund)	21,245	7,595	7,916	7,025	6,008	6,067	6,186	5,730	5,366	5,299	5,290	7,410	7,957
Miscellaneous Commissions	1,346	1,003	973	775	770	785	804	786	783	673	785	989	989
Total Executive Branch													
(From General Fund)	3,771,494	3,843,001	3,776,043	3,918,221	3,906,737	3,760,916	3,741,026	3,893,659	4,082,312	*3,830,277*	4,010,427	4,254,110	4,272,732
(From Casino Control Fund)	60,709	52,406	54,180	54,884	49,482	45,989	47,091	47,805	49,269	50,458	54,360	62,391	68,089

DIRECT STATE SERVICES (Continued)													
Expended Appropriations	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY21 Adjusted Appropriation	FY22 Projected Appropriation	FY23 Projected Appropriation
Interdepartmental Accounts													
Property Rentals	163,695	159,738	150,404	143,279	160,781	155,037	158,885	153,419	178,616	198,275	201,828	187,532	198,903
Insurance and Other Services	139,807	131,313	150,745	142,622	166,137	159,341	122,600	128,857	129,951	113,826	113,493	210,228	141,228
Employee Benefits	1,706,604	1,919,806	2,145,600	2,126,616	2,224,511	2,419,458	2,568,093	2,648,414	2,859,215	2,914,003	3,366,127	4,262,053	4,439,701
Other Interdepartmental Accounts	10,185	10,211	27,950	16,478	20,166	32,466	18,292	19,160	25,219	25,902	6,036	22,525	22,525
Salary Increases and Other Benefits	15,115	16,893	10,411	10,570	14,634	13,106	11,460	11,554	11,201	9,810	10,625	11,000	154,526
Utilities and Other Services	9,221	8,107	10,834	12,018	13,059	12,814	16,249	16,560	16,413	41,087	44,542	61,593	61,593
Total Interdepartmental Accounts	**2,044,627**	**2,246,068**	**2,495,944**	**2,451,583**	**2,599,288**	**2,792,222**	**2,895,579**	**2,977,964**	**3,220,615**	**3,302,903**	3,742,651	4,754,931	5,018,476
Judiciary Branch													
The Judiciary	637,496	650,459	651,904	654,235	658,528	687,872	667,956	687,748	730,435	721,620	729,001	852,097	852,097
Total Judiciary	637,496	650,459	651,904	654,235	658,528	687,872	667,956	687,748	730,435	**721,620**	729,001	852,097	852,097
Total Direct State Services	**6,593,195**	**6,871,102**	**7,055,733**	**7,156,168**	**7,293,100**	**7,367,197**	**7,431,190**	**7,689,888**	**8,169,343**	**7,993,013**	8,626,390	10,031,595	10,305,004
(From General Fund)	6,531,514	6,817,880	7,000,637	7,101,192	7,242,676	7,320,267	7,383,152	7,641,148	8,119,120	7,941,661	8,571,185	9,968,241	10,235,952
(From Casino Control Fund)	60,709	52,406	54,180	53,982	49,482	45,989	47,091	47,805	49,269	50,458	54,360	62,391	68,089
(From Casino Revenue Fund)	972	816	916	994	942	941	947	935	954	894	845	963	963
GRANTS-IN-AID													
Executive Branch													
Department of Agriculture	7,025	6,895	7,384	6,982	6,911	7,184	6,880	6,826	11,944	14,958	25,214	27,518	28,418
Department of Children and Families	711,996	732,221	777,094	800,475	821,723	861,839	861,521	881,536	889,515	844,486	782,862	957,363	947,990
Department of Community Affairs	28,370	22,271	41,417	49,990	51,535	48,045	33,942	56,270	76,913	72,579	107,549	249,459	168,758
Department of Corrections	111,923	106,137	101,386	100,230	98,627	103,590	104,069	102,840	101,015	98,959	98,732	116,016	105,200
Department of Education	4,621	1,620	2,400	2,650	5,095	4,935	3,084	3,185	6,060	2,225	5,267	287,800	433,610
(From General Fund)	----	----		----	----	----	----	----	6,060	2,225	4,845	287,300	433,110
(From Property Tax Relief Fund)	----	----		----	----	----	----	----	----	----	422	500	500
Department of Environmental Protection	13,232	14,729	10,203	10,233	56,743	1,968	1,973	970	4,953	3,441	1,073	15,614	2,214
Department of Health	1,196,926	329,588	296,157	320,302	296,753	353,530	876,078	568,236	597,888	630,004	630,042	748,814	664,831
(From General Fund)	1,047,291	329,060	295,629	319,774	296,237	353,063	875,550	567,749	597,359	629,475	629,526	748,298	664,315
(From Casino Revenue Fund)	149,635	528	528	528	516	467	528	487	529	529	516	516	516
Department of Human Services	3,894,381	5,668,204	5,697,288	5,276,373	5,489,711	5,395,128	5,114,381	5,720,696	5,864,915	5,707,162	5,855,933	6,668,180	7,524,526
(From General Fund)	3,763,924	5,368,580	5,406,289	4,916,900	5,241,778	5,213,566	4,910,504	5,505,379	5,598,053	5,444,388	5,489,226	6,329,376	7,099,064
(From Property Tax Relief Fund)	----	----	----	----	247,933		----	----	3,566	3,864	3,546	4,000	4,000
(From Casino Revenue Fund)	130,457	299,624	290,999	359,473	----	181,562	203,877	215,317	263,296	258,910	363,161	334,804	421,462
Department of Labor and Workforce Develc	60,952	67,389	67,975	68,202	75,081	75,191	73,735	72,820	75,440	75,122	63,582	86,642	88,442
(From General Fund)	58,756	65,193	65,779	66,006	72,885	72,995	71,539	70,624	73,244	72,926	62,760	84,446	86,246
(From Casino Revenue Fund)	2,196	2,196	2,196	2,196	2,196	2,196	2,196	2,196	2,196	2,196	822	2,196	2,196
Department of Law and Public Safety	17,241	17,080	16,117	26,645	15,988	16,239	22,882	29,642	16,524	17,302	25,613	59,615	38,135
(From General Fund)	17,240	17,080	14,296	16,097	15,988	16,239	16,220	16,597	16,524	17,302	15,050	38,135	38,135
(From Gubernatorial Elections Fund)	1	----	1,821	10,548	----	0	6,662	13,045	----	----	10,563	21,480	----
Department of Military and Veterans' Affai	2,895	2,115	2,382	2,346	2,402	2,340	2,558	2,352	2,663	2,637	2,411	3,095	2,693
Department of State	1,087,847	1,104,429	1,131,120	1,184,034	1,225,994	1,195,901	1,183,318	1,244,408	1,271,757	1,205,118	1,347,526	1,641,821	1,818,424
Department of Transportation	276,715	285,027	34,000	35,115	40,284	33,428	90,960	141,130	307,878	458,423	215,670	113,590	115,000
Department of the Treasury	752,553	904,647	512,634	858,923	723,514	702,389	664,204	557,373	672,807	531,407	936,641	1,365,091	1,620,933
(From General Fund)	323,216	284,307	287,997	248,940	151,577	160,556	148,904	194,233	183,059	180,249	479,222	805,891	527,361
(From Property Tax Relief Fund)	429,337	620,340	224,637	609,983	571,937	541,833	515,300	363,140	489,748	351,158	457,419	559,200	1,093,572
Total Executive Branch	8,166,677	9,262,352	8,697,557	8,742,500	8,910,361	8,801,707	9,039,585	9,388,284	9,900,272	9,663,823	10,098,115	12,340,618	13,559,174
(From General Fund)	7,455,051	8,339,664	8,177,376	NA	8,087,779	8,075,649	NA	NA	9,140,937	9,047,166	9,261,666	11,417,922	12,036,928
(From Property Tax Relief Fund)	429,337	620,340	224,637	NA	571,937	541,833	NA	NA	493,314	355,022	461,387	563,700	1,098,072
(From Casino Revenue Fund)	282,288	302,348	293,723	NA	250,645	184,225	NA	NA	266,021	261,635	364,499	337,516	424,174
(From Gubernatorial Elections Fund)	1	----	1,821	NA	----	----	NA	NA	----	----	10,563	21,480	----

GRANTS-IN-AID (Continued)

Expended Appropriations	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY21 Adjusted Appropriation	FY22 Projected Appropriation	FY23 Projected Appropriation
Interdepartmental Accounts													
Employee Benefits	857,730	773,265	874,009	913,821	940,548	998,107	994,114	940,840	1,017,249	946,184	1,067,376	1,219,039	1,305,011
Other Interdepartmental Accounts	8	2	1	1	12,906	0	----	----	----	----	----	43,992	43,992
Aid to Independent Authorities	142,239	106,890	180,862	167,201	159,689	130,288	107,376	111,684	109,249	92,714	113,802	330,540	127,384
(From General Fund)	----	----		----	----		107,376	97,565	95,115	84,075	99,647	316,385	113,107
(From Property Tax Relief Fund)	----	----		----	----		----	14,119	14,134	8,639	14,155	14,155	14,277
Total Interdepartmental Accounts	999,977	880,157	1,054,872	1,081,023	1,113,143	1,128,395	1,101,490	1,052,524	1,126,498	1,038,898	1,181,178	1,593,571	1,476,387
(From General Fund)	7	----			----	998,107	107,376		1,112,364	1,030,259	1,167,023	1,579,416	1,462,110
(From Property Tax Relief Fund)	7	----			----	130,288	----		14,134	8,639	14,155	14,155	14,277
Total Grants-in-Aid	**9,166,661**	**10,142,509**	**9,752,429**	**9,823,523**	**10,023,504**	**9,930,102**	**10,141,075**	**10,440,808**	**11,026,770**	10,702,721	11,279,293	13,934,189	15,035,561
(From General Fund)	8,455,035	9,219,821	9,232,248	8,840,795	9,200,922	9,204,044	9,412,512	9,832,504	10,253,301	10,077,425	10,428,689	12,997,338	13,499,038
(From Property Tax Relief Fund)	429,337	620,340	224,637	609,983	571,937	541,833	515,300	377,259	507,448	363,661	475,542	577,855	1,112,349
(From Casino Revenue Fund)	282,288	302,348	293,723	362,197	250,645	184,225	206,601	218,000	266,021	261,635	364,499	337,516	424,174
(From Gubernatorial Elections Fund)	1	----	1,821	10,548	----	----	6,662	13,045	----	----	10,563	21,480	----
STATE AID													
Executive Branch													
Department of Agriculture	5,615	5,615	5,615	5,615	5,615	5,615	5,616	18,836	10,852	21,489	26,924	18,216	18,566
(From General Fund)	----	----	----	----			5,616	13,221	5,239	15,875	18,308	----	----
(From Property Tax Relief Fund)	----	----	----	----			----	5,615	5,613	5,614	8,616	18,216	18,566
Department of Community Affairs	434,859	426,258	370,469	350,674	383,229	396,338	410,711	394,142	384,172	321,860	365,544	864,193	855,575
(From General Fund)	6,044	1,580	11,694	38,966	1,462	1,503	1,423	1,513	4,258	2,016	2,086	7,719	9,809
(From Property Tax Relief Fund)	428,815	424,678	358,775	311,708	381,767	394,835	409,288	392,629	379,914	319,844	363,458	856,474	845,766
Department of Corrections	15,000	20,500	19,614	19,183	21,354	21,259	22,420	22,109	22,496	21,610	21,871	25,600	33,400
(From Property Tax Relief Fund)	----	----	19,614	19,183	21,354	21,259	22,420	22,109	22,496	21,610	21,871	25,600	33,400
Department of Education	10,036,895	11,017,740	11,659,576	11,611,370	12,034,719	12,752,404	13,203,115	13,209,505	14,160,928	14,603,096	15,472,792	17,756,529	18,302,144
(From General Fund)	398,418	226,686	148,493	148,055	152,663	530,980	369,018	223,863	128,753	385,956	2,640,649	866,878	3,133,486
(From Property Tax Relief Fund)	9,638,477	10,791,054	11,511,083	11,463,315	11,882,056	12,221,424	12,834,097	12,985,642	14,032,175	14,217,140	12,832,143	16,889,651	15,168,658
Department of Environmental Protection	9,019	9,589	7,658	9,175	9,924	9,677	9,535	10,030	10,183	9,831	10,021	13,624	18,624
(From General Fund)	7,152	----	7,658	9,175	6,483	6,225	6,081	5,230	5,383	5,031	5,221	5,828	5,828
(From Property Tax Relief Fund)	----	----	----	----	3,441	3,452	3,454	4,800	4,800	4,800	4,800	7,796	12,796
Department of Health							84,950				399,818	438,853	454,217
(From Property Tax Relief Fund)							84,950				183,114	202,646	213,017
Department of Human Services	579,149	511,873	513,872	480,144	448,034	401,485	269,150	362,693	369,021	381,951	216,704	236,207	241,200
(From General Fund)	413,643	351,611	361,062	357,595	287,666	241,699	214,784	173,797	178,293	185,832	4,496	5,000	5,000
(From Property Tax Relief Fund)	165,506	160,262	152,810	122,549	160,368	159,786	54,366	188,896	190,728	196,119	0	0	0
Department of Law and Public Safety	1,902	3,025	2,739	1,766	3,120	3,711	2,078	3,000	3,000	5,064	4,496	5,000	5,000
(From General Fund)	----	----	2,739	1,766	1,120	1,711	78	1,000	----	2,064	31,344	73,305	35,835
(From Property Tax Relief Fund)	----	----	----	----	2,000	2,000	2,000	2,000	3,000	3,000	27,668	68,329	24,329
Department of State	14,537	14,933	15,005	27,432	25,174	15,005	15,005	15,005	15,005	11,347	3,676	4,976	11,506
(From General Fund)							15,005	11,329	11,329	7,683	23,430	101,860	82,802
(From Property Tax Relief Fund)							----	3,676	3,676	3,664	23,430	101,860	82,802
Department of Transportation	29,099	25,121	24,632	20,343	18,264	18,824	17,523	17,801	18,586	18,774			
(From Property Tax Relief Fund)	29,099	25,121	24,632	20,343	18,264	18,824	17,523	17,801	18,586	18,774			
Department of the Treasury	353,408	386,232	699,761	728,819	761,134	767,014	798,309	1,613,505	1,660,827	1,706,291	1,742,351	1,452,236	1,430,854
(From General Fund)	201,605	203,118	189,933	244,877	32,696	32,253	32,640	22,081	335,122	89,492	34,984	43,626	38,531
(From Property Tax Relief Fund)	151,803	183,114	509,828	483,942	728,438	734,761	765,669	1,591,424	1,325,705	1,616,799	1,707,367	1,408,610	1,392,323
Total Executive Branch	11,486,635	12,420,886	13,318,941	13,254,521	13,710,567	14,391,332			16,655,070	17,101,313	18,098,591	20,749,416	21,237,017
(From General Fund)	1,072,935	836,657	761,813	852,664	512,879	834,991			668,377	693,949	2,912,030	1,195,026	3,425,000
(From Property Tax Relief Fund)	10,384,601	11,559,108	12,532,496	12,381,514	13,179,424	13,537,517			15,986,693	16,407,364	15,186,561	19,554,390	17,812,017
(From Casino Revenue Fund)	29,099	25,121	24,632		18,264	18,824							

STATE AID (Continued)

Expended Appropriations	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY21 Adjusted Appropriation	FY22 Projected Appropriation	FY23 Projected Appropriation
Total State Aid	11,486,635	12,420,886	13,318,941	13,254,521	13,710,567	14,391,332	14,838,412	15,666,626	16,655,070	17,101,313	18,098,591	20,749,416	21,237,017
(From General Fund)	1,072,935	836,657	761,813	852,664	512,879	834,991	644,645	452,034	668,377	693,949	2,912,030	1,195,026	3,425,000
(From Property Tax Relief Fund)	10,384,601	11,559,108	12,532,496	12,381,514	13,179,424	13,537,517	14,176,244	15,214,592	15,986,693	16,407,364	15,186,561	19,554,390	17,812,017
(From Casino Revenue Fund)	29,099	25,121	24,632		18,264	18,824	17,523						
CAPITAL CONSTRUCTION													
Executive Branch								----	----	----	----	79,989	----
Department of Agriculture	708	----	----	----	----	----							
Department of Community Affairs	----	----	----	----	----		0	411	2,870	344	----	----	----
Department of Corrections	----	4,360	4,343	729	7,194	2,182	120	899	1,888	1,533	247	----	----
Department of Education	148	90	609	1,461	138	----	300	----	68	23	----	----	----
Department of Environmental Protection	77,722	106,777	80,449	61,030	77,976	96,250	117,035	109,952	150,391	68,099	159,214	418,952	173,622
Department of Health	----	----	6,834	----				642	461	402	442	----	----
Department of Human Services	14	665	1,461	345	2,397	33	93	107	160	----	1,178	----	----
Department of Law and Public Safety	2,988	4,450	----	1,017	736	402	653	1,242	428	1,737	1,682	----	----
Department of Military and Veterans' Affairs	4	14	----	----		3,996	4,239	964	936	1,253	1,402	----	----
Department of Transportation	895,000	956,667	970,857	1,124,618	1,179,894	1,220,133	1,276,396	1,274,741	1,306,582	1,412,198	1,426,257	1,540,799	1,552,936
(From General Fund)	----	----	----	----	997,894		1,276,396	1,074,741	1,106,582	1,212,198	1,226,257	1,340,799	1,352,936
(From Property Tax Relief Fund)	----	----	----	----	182,000			200,000	200,000	200,000	200,000	200,000	200,000
Department of the Treasury	513	2,089	2,998	7	150	2,101	471	5	----	----	1,590,580	2,039,740	1,726,558
Total Executive Branch	978,833	1,075,112	1,067,551	1,189,207	1,268,485	1,325,097		1,388,963	1,463,784	1,485,814	1,390,580	1,839,740	1,526,558
(From General Fund)	----	----	----	----	1,086,485		1,399,307	1,188,963	1,263,784	1,285,814	200,000	200,000	200,000
(From Property Tax Relief Fund)	----	----	----	----	182,000		1,276,396	200,000	200,000	200,000			
Interdepartmental Accounts							----				125,931	211,749	214,532
Capital Projects -- Statewide	195,324	166,370	205,042	110,259	217,795	215,231	187,746	190,319	186,173	141,100	94,866	180,485	183,268
(From General Fund)	----	----	----	----	----		187,746	159,413	154,990	109,893	31,065	31,264	31,264
(From Property Tax Relief Fund)	----	----	----	----	----			30,906	31,183	31,207	3,700,000	1,300,000	----
Total Interdepartmental Accounts	195,324	166,370	205,042	110,259	217,795	215,231	187746	190,319	186,173	141,100	3,825,931	1,511,749	214,532
(From General Fund)	----	----	----	----	----		187,746	159,413	154,990	109,893	3,794,866	1,480,485	183,268
(From Property Tax Relief Fund)	----	----	----	----	----			30,906	31,183	31,207	31,065	31,264	31,264
Total Capital Construction	1,174,157	1,241,482	1,272,593	1,299,501	1,486,280	1,540,328	1,587,053	1,579,282	1,649,957	1,626,914	5,416,511	3,551,489	1,941,090
(From General Fund)	----	----	----	----	1,304,280		1,587,053	1,348,376	1,418,774	1,395,707	5,185,446	3,320,225	1,709,826
(From Property Tax Relief Fund)	----	----	----	----	182,000			230,906	231,183	231,207	231,065	231,264	231,264
DEBT SERVICE							----						
Executive Branch													
Department of Environmental Protection	9,184	6,033	18,850	40,015	50,912	37,725	38,952	39,041	42,607	42,623	32,065	32,069	30,980
Department of the Treasury	111,208	271,330	411,761	280,788	329,054	400,109	293,116	287,323	281,947	301,757	330,015	363,138	589,765
(From General Fund)	----	----	----	----	----		293,116	287,323	258,562	272,886	----	----	----
(From Property Tax Relief Fund)	----	----	----	----	----			----	23,385	28,871	----	----	----
Total Executive Branch	120,392	277,363	430,611	320,803	379,966	437,834	332068	326,364	324,554	344,380	362,080	395,207	620,745
(From General Fund)	----	----	----	----	----		332,068	326,364	301,169	315,509	----	----	----
(From Property Tax Relief Fund)	----	----	----	----	----			----	23,385	28,871	----	----	----
Total Debt Service	120,392	277,363	430,611	320,803	379,966	437,834	332068	326,364	324,554	344,380	362,080	395,207	620,745
(From General Fund)	----	----	----	----	----		332,068	326,364	301,169	315,509	----	----	----
(From Property Tax Relief Fund)	----	----	----	----	----			----	23,385	28,871	----	----	----
TOTAL BUDGETED STATE EXPENDITURES	28,541,040	30,953,342	31,830,307	31,854,516	32,893,417	33,666,793	34,329,798	35,702,968	37,825,694	37,768,341	43,782,865	48,661,896	49,139,417
(From General Fund)	17,354,033	18,393,203	18,697,902	18,414,955	18,640,723	19,337,464	19,359,430	19,600,426	20,760,741	20,424,251	27,459,430	27,876,037	29,490,561
(From Casino Control Fund)	60,709	52,406	54,180	53,982	49,482	45,989	47,091	47,805	49,269	50,458	54,360	62,391	68,089
(From Property Tax Relief Fund)	10,813,938	12,179,448	12,757,133	12,991,497	13,933,361	14,079,350	14,691,544	15,822,757	16,748,709	17,031,103	15,893,168	20,363,509	19,155,630
(From Casino Revenue Fund)	312,359	328,285	319,271	383,534	269,851	203,990	225,071	218,935	266,975	262,529	365,344	338,479	425,137
(From Gubernatorial Elections Fund)	1	----	1,821	10,548	0	0	6,662	13,045	----	----	10,563	21,480	----
% Change in Budgeted State Expenditures		8.5%	2.8%	0.1%	3.3%	2.4%	2.0%	4.0%	5.9%	-0.2%		28.8%	1.0%

ADDITIONAL EXPENDITURES NOT BUDGETED
(Dedicated, Federal and Revolving Funds, plus Transportation Trust Fund)

	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22 ESTIMATED	FY23 ESTIMATED
DEDICATED FUNDS												
Legislature	17	---	---	---	---	---	---	1,020	48	428	---	---
Chief Executive	831	809	730	740	739	388	24	668	911	904	775	775
Department of Agriculture	6,914	7,107	7,172	6,267	6,128	5,155	5,100	6,067	6,368	7,260	9,166	9,488
Department of Banking and Insurance	1,160	422	1,412	450	1,266	423	1,447	724	860	751	726	726
Department of Children and Families	60,866	52,174	52,533	53,234	53,908	55,196	54,884	55,968	58,726	45,149	55,989	55,889
Department of Community Affairs	58,850	60,029	49,630	45,033	54,765	78,982	79,565	59,977	65,962	143,739	159,343	160,055
Department of Corrections	27,475	26,103	25,165	24,442	24,479	24,758	25,755	25,987	25,420	23,374	23,584	24,271
Department of Education	15,443	16,660	16,552	19,435	18,693	13,509	17,561	42,372	50,025	52,769	27,072	31,823
Department of Environmental Protection	65,935	44,256	87,679	82,116	87,903	91,127	103,193	110,621	74,637	77,192	121,119	129,970
Department of Health and Senior Services	725,013	761,362	765,567	728,098	698,158	500,096	469,044	494,508	448,354	474,578	581,237	571,658
Department of Human Services	372,449	393,555	960,835	949,437	1,467,915	1,603,274	1,728,843	1,725,001	1,920,809	1,885,469	2,230,793	2,259,658
Department of Labor and Workforce Developmer	186,313	186,333	194,834	213,894	218,668	235,155	234,148	250,178	245,917	246,975	320,058	326,685
Department of Law and Public Safety	217,315	211,730	215,836	226,127	211,574	222,661	221,230	216,210	207,550	216,768	231,173	243,792
Department of Military and Veterans' Affairs	713	490	2,767	1,609	1,012	543	472	764	1,197	999	5,728	7,071
Department of Personnel	---	---	---	---	---	---	---	---	---	---	---	---
epartment of the Public Advocate	---	---	---	---	---	---	---	---	---	---	---	---
Department of State	13,726	17,255	15,622	15,031	15,007	16,331	18,733	20,262	25,120	32,793	34,258	36,495
Department of Transportation	511,779	931,458	1,219,626	898,734	820,055	1,046,256	1,048,464	1,587,718	1,432,513	1,166,138	1,620,707	1,955,273
Department of the Treasury	1,320,523	1,099,442	1,136,799	1,102,940	1,172,309	1,164,913	384,035	293,099	288,069	375,139	395,361	340,785
Interdepartmental Accounts	31,535	31,570	49,217	31,588	35,805	28,994	26,617	20,240	685	17,967	383	383
The Judiciary	60,658	74,642	74,277	65,440	69,939	82,300	92,183	106,148	73,919	66,914	82,916	73,525
TOTAL DEDICATED FUNDS	**3,677,515**	**3,915,397**	**4,876,253**	4,464,615	4,958,323	5,170,061	4,511,298	5,017,532	4,927,090	4,835,306	**5,900,388**	**6,228,322**
Annual % Change		**6.5%**	**24.5%**	-8.4%	11.1%	4.3%	-12.7%	11.2%	-1.8%	-1.9%	**22.0%**	**5.6%**
FEDERAL FUNDS												
Legislature	2	---	1	1	---	---	---	---	---	169	---	---
Chief Executive	---	---	---	---	---	---	---	---	---	---	---	---
Department of Agriculture	372,455	384,710	398,117	418,781	478,674	491,196	497,217	530,804	627,509	683,309	1,242,877	1,283,527
Department of Banking and Insurance	1,586	789	499	430	36	292	230	303	---	262	---	---
Department of Children and Families	452,029	482,370	538,913	536,372	574,927	579,408	612,545	652,837	695,753	673,070	770,831	766,780
Department of Community Affairs	408,623	787,154	987,543	1,950,309	470,506	597,586	852,004	406,310	602,287	1,133,466	501,317	501,317
Department of Corrections	10,873	9,634	5,159	3,763	4,456	9,142	8,499	6,627	139,833	161,434	20,748	19,190
Department of Education	867,481	853,519	779,737	902,577	835,319	918,469	907,300	915,967	1,239,298	4,166,295	957,190	1,010,522
Department of Environmental Protection	60,570	57,165	195,868	130,166	139,912	120,206	131,931	112,208	119,026	95,300	249,781	431,759
Department of Health and Senior Services	655,499	605,364	626,073	623,028	474,215	566,419	474,097	542,148	633,318	930,723	726,166	726,979
Department of Human Services	5,824,414	5,965,412	7,108,060	8,963,407	8,950,455	9,397,484	9,574,447	9,917,162	10,854,230	12,510,226	13,468,777	13,493,730
Department of Labor and Workforce Developmer	413,704	449,149	425,149	384,017	371,868	378,390	362,914	346,271	347,676	454,292	553,203	553,164
Department of Law and Public Safety	235,600	391,099	457,616	349,873	255,915	248,350	299,072	294,133	528,577	759,418	244,213	250,216
Department of Military and Veterans' Affairs	40,616	48,539	82,289	39,996	42,170	33,780	41,682	41,157	71,400	54,318	134,081	127,641
Department of Personnel	---	---	-1	---	---	---	---	---	---	---	---	---
epartment of the Public Advocate	---	---	---	---	---	---	---	---	---	---	---	---
Department of State	29,879	26,575	30,982	25,436	24,011	22,409	16,376	15,166	84,157	282,439	16,764	16,766
Department of Transportation	17,778	16,804	16,784	3,646	60,451	27,962	6,052	9,607	13,713	35,995	9,233	10,377
Department of the Treasury	56,491	14,004	14,776	12,468	10,155	8,966	11,208	8,944	62,520	305,068	10,374	9,974
Interdepartmental Accounts	---	---	---	---	111,943	---	---	---	200,396	107,359	---	---
The Judiciary	106,051	112,862	111,254	104,255	---	109,376	103,153	110,304	105,820	108,172	123,335	119,744
TOTAL FEDERAL FUNDS	**9,553,651**	**10,205,149**	**11,778,819**	**14,448,525**	**12,805,345**	**13,509,435**	**13,898,727**	**13,909,948**	**16,325,513**	**22,461,315**	**19,028,890**	**19,321,686**
Annual % Change		***6.8%***	***15.4%***	***22.7%***		***5.5%***	***2.9%***	***0.1%***	***17.4%***	***37.6%***	***-15.3%***	***1.5%***

ADDITIONAL EXPENDITURES NOT BUDGETED (Continued)												---
	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22 ESTIMATED	FY23 ESTIMATED
REVOLVING FUNDS												
Legislature												
Chief Executive	---	---	---	---	---	---	---	---	---	---	---	---
Department of Agriculture	---	---	---	---	---	---	---	---	---	---	---	
Department of Banking and Insurance	---	---	---	---	---	---	---	---	---	---	---	
Department of Children and Families	---	---	---	---	---	---	---	---	---	---	---	
Department of Community Affairs	12,316	13,423	20,493	18,744	19,284	30,772	20,653	24,495	16,061	21,191	20,850	20,850
Department of Corrections	29,338	27,682	24,785	23,578	24,476	22,932	23,419	25,321	23,868	18,047	24,057	25,057
Department of Education	2,532	2,353	2,256	2,295	2,577	2,425	2,432	2,182	2,426	2,448	2,080	2,080
Department of Environmental Protection	610	700	211	183	3,386	3,609	3,691	3,973	4,243	3,769	4,100	4,200
Department of Health and Senior Services	16,565	21,577	20,448	20,414	21,903	18,203	24,754	24,771	29,038	20,964	26,787	26,787
Department of Human Services	9,799	5,636	7,426	6,755	11,409	5,666	8,916	9,889	6,566	7,325	8,600	8,600
Department of Labor and Workforce Developmen	773	2,228	1,508	1,028	967	956	2,115	1,030	750	1,824	2,500	2,500
Department of Law and Public Safety	250	37	205	---	32	---	---	---	---	---	---	---
Department of Military and Veterans' Affairs	---	---	---	---	---	---	---	---	---	---	---	---
Department of State	740	149	118	147	129	140	127	171	166	119	171	187
Department of Transportation	18,968	19,082	17,729	13,545	9,522	9,946	125	12,846	8,819	7,261	14,140	14,140
Department of the Treasury	89,221	93,494	101,753	105,654	80,247	79,800	82,202	79,649	81,294	73,044	83,830	83,930
Interdepartmental Accounts	---	---	---	---	---	---	---	---	---	---	---	---
The Judiciary	---	---	---	---	---	---	---	---	---	---	---	---
TOTAL REVOLVING FUNDS	**181,115**	**186,361**	**196,937**	**192,345**	**173,932**	**174,451**	**180,027**	**184,327**	**173,231**	**155,992**	**187,115**	**188,331**
Annual % Change		***2.9%***	***5.7%***	***-2.3%***	***-9.6%***	***0.3%***	***3.2%***	***2.4%***	***-6.0%***	***-10.0%***	***20.0%***	***0.6%***
Total Expenditures General Fund	**13,412,281**	**14,306,907**	**16,852,009**	**19,105,485**	**17,937,600**	**18,853,947**	**18,590,052**	**19,111,807**	**21,425,834**	**27,452,613**	**25,116,393**	**25,738,339**
SPECIAL TRANSPORTATION TRUST FUND												
Department of Transportation	**2,188,888**	**2,401,999**	**1,836,565**	**2,045,331**	**1,896,329**	**2,613,434**	**2,666,244**	**3,086,723**	**2,783,061**	**3,784,967**	**3,474,357**	**3,580,420**
Annual % Change		***9.7%***	***-23.5%***	***11.4%***	***-7.3%***	***37.8%***	***2.0%***	***15.8%***	***-9.8%***	***36.0%***	***-8.2%***	***3.1%***
TOTAL EXPENDITURES NOT BUDGETED	**15,601,169**	**16,708,906**	**18,688,574**	**21,150,816**	**19,833,929**	**21,467,381**	**21,256,296**	**22,198,530**	**24,208,895**	**31,237,580**	**28,590,750**	**29,318,759**
Annual % Change		***7.1%***	***11.8%***	***13.2%***	***-6.2%***	***8.2%***	***-1.0%***	***4.4%***	***9.1%***	***29.0%***	***-8.5%***	***2.5%***

TOTAL STATE GOVERNMENT EXPENDITURES FY12-FY21 (plus FY22 and FY23 projections)

	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22 Projected	FY23 Projected
TOTAL BUDGETED STATE EXPENDITURES	28,541,040	30,953,342	31,830,307	31,854,516	32,893,417	33,666,793	34,329,798	35,702,968	37,825,694	*37,768,341*	48,661,896	49,139,417
TOTAL EXPENDITURES NOT BUDGETED	15,601,169	16,708,906	18,688,574	21,150,816	19,833,929	21,467,381	21,256,296	22,198,530	24,208,895	31,237,580	28,590,750	29,318,759
TOTAL STATE EXPENDITURES	$44,142,209	$47,662,248	$50,518,881	$53,005,332	$52,727,346	$55,134,174	$55,586,094	$57,901,498	$62,034,589	$69,005,921	$77,252,646	$78,458,176
Annual % Change		*8.0%*	*6.0%*	*4.9%*	*-0.5%*	*4.6%*	*0.8%*	*4.2%*	*7.1%*	*11.2%*	*12.0%*	*1.6%*

Impact of Recession on New Jersey's Safety Net Programs

During a recession, the number of people qualifying for safety net programs increases as people lose their jobs, income, and health coverage. Simultaneously, state revenues necessary to meet the growing demand for these support services decreases as economic activity across the state slows down. Being better prepared for enrollment increases during economic downturns is crucial in keeping families and children out of deeper levels of poverty and could make the difference between a sluggish recovery and a strong, more equitable one. To ensure that the social safety net can respond adequately to the next economic downturn, policymakers can commit to countercyclical public spending, rather than reducing funding for social programs just as demand for them increases. Policymakers must also consider that poverty rates can remain elevated for several years after state revenue begins to recover, underscoring the necessity of planning for the entire economic cycle, not just the period when the economy is contracting.

State support services that typically undergo significant expansion during an unexpected economic slowdown include the following:

Unemployment Insurance

Research shows that unemployment insurance (UI) is the most responsive program to economic downturns in keeping residents out of poverty: a one percentage point increase in the unemployment rate during the Great Recession led to a 16.6 percent increase in UI benefits per capita.[1] While the trust fund that supports UI benefits is self-funded by employees and employers through payroll taxes, a boost to state funding to the Department of Labor and Workforce Development would ensure better processing of those benefits when claims increase significantly.

Medicaid

In the event of a recession, Medicaid fulfills an important countercyclical role by extending coverage to individuals and families when they lose their jobs and health coverage. Typically, the onset of a significant Medicaid enrollment surge takes place at least six months after the onset of a recession as individuals move off other coverage or resume accessing health care. But what does that surge look like? For every percentage point increase in the national unemployment rate, total Medicaid and SCHIP spending increases by one percent, while state revenue falls by 3 to 4 percent.[2] In the event of a typical recession, determining New Jersey's

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[1] Journal of Labor Economics, *The more things change, the more they stay the same? The safety net and poverty in the Great Recession*, January 2016. https://doi.org/10.1371/journal.pone.0267244

[2] Kaiser Commission on Medicaid and the Uninsured, *Medicaid, SCHIP and Economic Downturn: Policy Challenges and Policy Responses*, April 2008. https://kff.org/wp-content/uploads/2013/01/7770es.pdf

rate of enrollment beyond baseline costs related to medical inflation and demographic changes is more challenging given policy changes that have expanded eligibility in recent years. Since expanding NJ FamilyCare in 2014, an additional 796,000 uninsured New Jersey residents now have coverage in the Medicaid program. Labor indicators, like wage increases, may also affect eligibility rates during a downturn. Another forecasting consideration of additional costs of elevated Medicaid enrollment is that the federal government may also boost spending, eliminating the need for additional state resources or cuts to provider rates or health care services.

SNAP

While the Supplemental Nutrition Assistance Program (SNAP) is a federally funded program, New Jersey's Department of Human Services (DHS) relies on state dollars to get the support and resources into the hands of families needing food. SNAP provides food security long after the job market begins to recover. When the Great Recession officially ended in 2009 and unemployment rates began to decline, SNAP participation continued to rise in the Greater New York area through 2015.[3] It took another four years for the rate to return to pre-recession levels.[4] Taking a long-term view of spending needs will be necessary to ensure DHS can efficiently process applications and reach families.

TANF

Similarly, the federal government provides a block grant to fund Temporary Assistance for Needy Families (TANF) for safety net programs like direct cash assistance, subsidies for child care, housing assistance, and subsidized employment. New Jersey is required to fund a percentage of its spending on families with children, but the state generally surpasses its obligation, specifically to cover Head Start and pre-K programs. During a downturn, temporary changes to the parameters of TANF may increase state spending at DHS until economic indicators show that a full recovery has taken place.

Economic Stress Response

State support services that interact with families and children know well the heightened risks of family stress during tough times that can lead to an increase in rates of child maltreatment and

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[3] Bureau of Labor Statistics Monthly Labor Review, *SNAP participation and food-at-home expenditures through the Great Recession: United States and the New York Area*, January 2022. https://www.bls.gov/opub/mlr/2022/article/snap-participation-and-food-at-home-expenditures-through-the-great-recession-united-states-and-the-new-york-area.htm

[4] USDA Economic Research Service, *Taking a Closer Look at Supplemental Nutrition Assistance Program (SNAP) Participation and Expenditures*, August 2020. https://www.ers.usda.gov/amber-waves/2020/august/taking-a-closer-look-at-supplemental-nutrition-assistance-program-snap-participation-and-expenditures/

domestic violence.[5] Similarly, losing a job or facing unmanageable debts are associated with poor mental health, increased rates of common mental disorders, substance-related disorders, and suicidal behaviors.[6] Meeting the needs of types of cases during times of economic uncertainty will require additional resources for Children and Families, Health, and Human Services departments.

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[5] Children and Youth Services Review, *The Great Recession and risk for child abuse and neglect,* January 2017. https://doi.org/10.1016/j.childyouth.2016.10.016; Institute for Research on Labor and Employment, *The Great Recession, Families, and the Safety Net*, December 2018. https://irle.berkeley.edu/the-great-recession-families-and-the-safety-net/#note2

[6] Neuropsychiatric Disease and Treatment, *The correlation between stress and economic crisis: a systematic review*, April 2016. https://www.ncbi.nlm.nih.gov/pmc/articles/PMC4844458/#__ffn_sectitle

Federal Tax Law Changes| Impacting NJ

Scheduled and Potential Changes Impacting CBT

Tax Cut and Jobs Act – Current Law

- Global Intangible Low Tax Income (GILTI) – The federal IRC §250 GILTI deduction will decrease for tax years beginning in 2026 from 50% to 37.5% of GILTI income included on the Federal return. Under current law NJ conforms to the IRC §250 deduction. A reduction in the federal deduction will result in a greater inclusion of foreign sourced income in the NJ return. In addition, NJ does not allow full apportionment factor representation in allocating GILTI by limiting the denominator to only GILTI net income before the §250 deduction as opposed to gross receipts that generated the income which is the rule for other income. See attached Example.
    - Using federal estimates with normal factors to determine the NJ share will dramatically understate the impact on NJ revenues for two main reasons. First the federal GILTI computation takes into account Foreign Tax Credits (FTC) that New Jersey does not allow. So many taxpayers can have a GILTI tax in NJ when they do not have the tax or a minimal tax at the federal level. In addition, the NJ apportionment formula does not use the normal apportionment rules of NJ gross receipts over total gross receipts. Instead for GILTI it determines the NJ receipts factor with a denominator that only includes GILTI net income before the §250 deduction.
    - Litigation risk – It is potential for the state to face litigation over the constitutionality of taxing foreign source income with or without factor representation. It is also unclear what position taxpayers took when filing their returns. For example, they could have: excluded the foreign source income and disclosed the filing position on their return; included the income but adjusted the apportionment formula, included the income and apportioned it pursuant to current law and filed for refund claims; elected to file worldwide combination with full factor representation; or worked out an agreement with the Division of Taxation because the provision creates distortion of income.
    - Giliti can potentially impact the pass through entity tax and the gross income for individual taxpayers .
- Foreign Derived Intangible Income (FDII) – The federal IRC §250 deduction will decrease for tax years beginning in 2026 from 37.5% to 21.875%.
    - For taxable years beginning after December 31, 2017, but before January 1, 2026, the deduction generally reduces a taxpayer's federal effective tax rate on FDII to 13.125%. For taxable years beginning after December 31, 2025, the federal effective tax rate on FDII increases to 16.406 %.
- Research and Experimentation Deduction (R&E) – Businesses can currently elect to deduct 100% of their R&E expenses in the year incurred. For taxable years beginning after 2021 R&E expenses must be amortized over 5 years (15 years for foreign research).
    - This will automatically increase the NJ tax base in FYE 2022 for two quarterly estimated payments. The increase will continue for the next five years for domestic research and 15 years for foreign research. At the end of the periods the timing differences would become neutral.

- Interest Limitation (IRC §163(j)) – Under current federal law the interest limitation is primarily equal to 30% of earnings before interest, taxes, depreciation, and amortization (EBITDA). For tax years 2019 and 2020 the limitation was 50% of EBITDA. For tax years beginning on or after January 1, 2022 the interest limitation is primarily equal to 30% of earnings before interest, and taxes (EBIT). This base change will result in the disallowance of more interest. The disallowed interest can be carried forward indefinitely to future years.
    - New Jersey conformed to the interest limitation in IRC §163(j) and also has its own related party interest addback. The Division guidance indicates that the federal limitation is applied first and then the state addback. The federal change will increase NJ income beginning with estimated tax payments in the first half of 2022. FY ending in 2023 would have a full year impact.
- Executive Compensation Limitation (IRC §162(m)) – The current limitation applies to the principal executive officer and financial officer at any time during the year plus the 3 highest compensated officers. The American Rescue Plan Act (ARPA) expanded the types of corporations covered, eliminated the exception for performance based compensation and expanded the definition of covered employee to include the five highest employees in addition to the currently covered employees. The changes apply for tax years beginning after Dec. 31, 2026.
    - New Jersey conforms to the federal executive compensation limitation.
- Bonus Depreciation (IRC §168(k)) – Under current law the deduction for 100% bonus depreciation begins to phase out. For property placed in service: in 2023 the percentage is 80%; in 2024 the percentage is 60%; in 2025 the percentage is 40%; and for 2026 the percentage is 20%.
    - New Jersey does not conform to bonus depreciation, therefore there is no direct impact. To the extent that businesses change their investment level there could be indirect impacts.

Potential Federal Changes

The now defunct House passed Build Back Better Act contained a number of changes that would impact provisions in the TCJA and increase the tax base for New Jersey. Those changes included the following items:

- GILTI and FDII – Accelerated the reduction in the IRC §250 deduction to tax years beginning in 2023 and would lower the deduction to 28.5% for GILTI. In addition, it would require the use of a county by country basis for calculating the deduction. For FDII it would have reduced the rate to 24.8% resulting in an effective rate of 15.8%.
- R&E – Delayed the requirement to amortize expenses until 2026.
- Interest limitation – add an additional limitation for domestic corporations that are members of an international financial reporting group.

It is possible for some of these tax provisions to be included in a new proposal. In addition, President Biden's budget includes proposals that would impact the CBT base going forward. More specifically:

- President Biden's budget proposals assume a baseline that incorporates all revenue provisions of the House passed Build Back Better Act (except proposed changes to the limitation on the federal deduction for state and local taxes. Additional proposals in the President's budget that could impact NJ CBT include:

  - Disallowing deductions for expenses incurred when moving a US trade or business offshore.
  - Disallowing stepped-up basis of a partnership's non-distributed property to a related partner until the property is disposed of.

- Expiring Tax Expenditures Extension – there are a number of provisions in the IRC that were enacted temporarily. Historically Congress has done an extender package to retain the provisions in law. The expiring tax provisions can be found at this link: JCX-1-22 | Joint Committee on Taxation. The report outlines changes impacting individuals and businesses.

Pending New Jersey Changes

ASC 740 Adjustment

P.L. 2018, c. 48 and P.L. 2018, c. 131 collectively mandate combined reporting for privilege periods ending on and after July 31, 2019. Recognizing that certain companies could be adversely affected on their financial statements by the shift to combined reporting, a special ASC-740 relief deduction was provided to publicly-traded companies. To claim the deduction taxpayers were required to file Form DT-1 on or before July 1, 2020

- Taxpayers will take the deduction pro ratably over 10 years starting with tax years beginning on or after January 1 , 2023. This will begin impacting estimated tax payments in the spring of 2023.
- The Division of Taxation should have the aggregate data for all companies that filed Form DT-1.
- Massachusetts enacted a similar deduction when they moved to combined filing. The Department of Revenue reported that 128 public companies reported in the aggregate $178.1B in deductions that the Department estimated would result in $535 M in corporate tax savings. The deduction was supposed to start in 2012 and was delayed a couple of times. Taxpayers were able to start claiming the deduction in 2021.

CBT Surcharge

P.L. 2018, c.48 as amended by P.L. 2018, c. 131 and P.L. 2020, c. 95, imposes a 2.5% temporary surtax on taxpayers with a New Jersey allocated taxable net income over $1 million dollars for tax periods beginning on or after January 1, 2018 through December 31, 2023. The surtax applies to all taxpayers with a corporation business tax liability, except public utilities or New Jersey S Corporations. The surtax is imposed on allocated taxable net income and is in addition to the annual corporation franchise tax.

ANALYSIS OF IMPACT OF NEW JERSEY PASS-THROUGH BUSINESS ALTERNATIVE INCOME TAX ACT (PTBAIT)

The federal Tax Cuts and Jobs Act of 2017 (TCJA) enacted a state and local tax (SALT) deduction limitation under IRC Section 164 for tax years beginning after 2017 and before 2026. An individual's federal SALT deduction is limited to $10,000 ($5,000 in the case of a married individual filing a separate return) of income taxes (or general sales taxes if elected instead of income taxes), real property taxes and personal property taxes.

P.L.2019, c.320 (S3246) enacted the New Jersey Pass-Through Business Alternative Income Tax Act ("PTBAIT"), effective for tax years beginning on or after January 1, 2020. The PTBAIT was a response to the federal SALT deduction cap placed on individual taxpayers.

The PTBAIT establishes a new state tax and individual tax credit designed to preserve, at the business level, an uncapped offset against federal taxable income. That business income offset will credit the individual taxpayer for their individual Gross Income Tax liability attributable to that income derived from the pass-through business.[1] The PTBAIT is designed to be revenue-neutral to the State over time (except for tax administration related expenditures). To the extent pass-through entities elect to pay the PTBAIT, the State tax revenues shift largely from the Gross Income Tax, dedicated to the Property Tax Relief Fund, to the General Fund.

There was considerable uncertainty over whether pass-through entity tax regimes provided an acceptable legal framework for tax partnerships and S corporations to deduct SALT when arriving at federal taxable income. On November 9, 2020, the Internal Revenue Service issued Notice 2020-75. The Notice clarifies that partnerships and S corporations may deduct state income tax payments, like New Jersey 's PTBAIT, at the entity level, avoiding the SALT limitation on pass-through income.[2]

On January 18, 2022, P.L.2021, c.419 (S4068) was enacted amending the PTBAIT. The changes include modifying how the optional tax is calculated so that more income is subject to the tax; allowing the PTBAIT credit to offset additional entity-level taxes; better aligning the tax brackets

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[1] The PTBAIT allows pass-through entities to elect to pay tax due on each owner's share of New Jersey sourced pass-through income – the owner's "distributive proceeds." The owner includes the pass-through income in the owner's New Jersey gross income and claims a refundable tax credit for the tax paid by the pass-through entity on their share of distributive proceeds. Pass-through entities eligible to make a "PTBAIT" election are entities classified as tax partnerships and New Jersy S corporations.

Generally, PTBAIT taxes are due March 15 for calendar year taxpayers, with quarterly estimated taxpayment required of most taxpayers. Since 2020 was the first year for the PTBAIT, the Division of Taxation announced taxpayers would not be penalized for the failure to file or make 2020 estimated tax payments. For 2021, PTBAIT returns due between March 15, 2022 and June 15, 2022 are now due by June 15, 2022. This includes 2022 estimated tax payments.

[2] The IRS and Treasury Department intend to issue regulations on the treatment of state and local income taxes imposed on and paid by partnerships or S corporations. No proposed regulations have yet been published. Prior to the issuance of the proposed regulations, taxpayers can rely on the Notice provisions.

for the optional tax with the State’s gross income tax brackets; allowing PTBAIT overpayments to be applied to a taxpayer’s PTBAIT liability in the successive year or refunded in the case of corporation business taxpayers; and tax partnerships electing to pay the PTBAIT will no longer have to withhold tax for owners not resident in New Jersey. The amendments are effective beginning January 1, 2022. The PTBAIT retains its revenue-neutral design after these changes.

The PTBAIT is relatively new. Taxpayers largely deferred decisions to elect to pay the PTBAIT until the release of IRS Notice 2020-75 and many taxpayers did not take advantage of the PTBAIT until tax year 2021. As reported by the State’s Treasury on April 14, 2022, fiscal year-to-date PTBAIT collections totaled $2.836 billion, double the prior year's collection of $1.426 billion for the same nine-month period. Over 3,800 new taxpayers elected to pay the PTBAIT for tax year 2021. New PTBAIT taxpayers contributed about $700 million, while returning taxpayers also increased their payments substantially. As a result, the Fiscal Year 2022 PTBAIT revised forecast of $3.1 billion is $1.7 billion higher than certified in June 2021.

The marked increases in PTBAIT collections are due to the growing adoption by New Jersey taxpayers of the use of PTBAIT regime. A further increase in collections in tax year 2022, relative to prior tax years, can be anticipated due to the broadening of the PTBAIT tax base attributable to New Jersey resident partners under P.L.2021, c.419. Additionally, the 2022 PTBAIT amendment which effectively exempts electing tax partnerships from their existing nonresident tax withholding obligation can be expected to encourage wider adoption of the PTBAIT.

Not all pass-through entities will elect to pay the PTBAIT. There are a variety of business, legal, and tax reasons why an entity and its owners may not make a PTBAIT election, forgoing a larger federal tax deduction for SALT. One significant consideration relates to pass-through entities conducting a multistate business. As of April 18, 2022, the twenty-seven states have enacted a patchwork of pass-through tax workarounds raising the question whether owners can claim credit against their home state tax liability for pass-through entity taxes paid to other states.

While year-end elections, waivers of estimated PTBAIT payment obligations and extended filing deadlines may have contributed to a bunching of PTBAIT payments for 2021, as taxpayer adoption nears saturation, the growth of PTBAIT collections and the correlative offset of Gross Income Tax revenues should level and year-over-year fluctuations should track more closely the fluctuations of state tax revenues caused by traditional economic factors driving state tax collections.

However, federal tax law changes may affect number of taxpayers electing to pay the PTBAIT in future tax years. Federal business income tax base changes, to the extent they are incorporated into the State’s Corporation Business Tax or Gross Income Tax base, will affect the amount of pass-through entity income subject to the PTBAIT.

The federal SALT deduction limitation is scheduled to sunset after 2025.[3] If the unlimited SALT deduction returns, the federal regular income tax advantage of electing to pay the PTBAIT largely will disappear from most taxpayers. Further, the IRS and Treasury may promulgate post-IRS Notice 2020-75 regulations restricting the deduction of entity level SALT payments or otherwise limiting the utility of a PTBAIT election.

Still, certain federal tax advantages of a PTBAIT election could remain. First, federal taxpayers subject to the alternative minimum tax (AMT), a different but parallel method to calculate a taxpayer's federal income tax liability, should benefit from a PTBAIT election if SALT deductions remain deductible by the entity. When computing alternative minimum taxable income, itemized SALT deductions are not allowed.

The federal self-employment tax is a tax consisting of Social Security and Medicare taxes primarily for individuals who work for themselves or as partners in a tax partnership. If an entity level SALT deduction is allowed when computing taxable self-employment income, partners should incur a lower self-employment tax when making a PTBAIT election.

Similarly, taxpayers holding interests in certain financial businesses or passive activities and who are liable for the 3.8% Net Investment Income Tax imposed by IRC Section 1411 (NIIT), should continue to benefit if an entity level SALT deduction remains and a PTBAIT election is made.

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[3] Last month, the Biden Administration released its Fiscal Year 2023 budget proposal. The proposal was mostly silent on extending the individual tax provisions in the TCJA set to expire at the end of calendar year 2025, including the $10,000 SALT deduction limitation.