New Jersey's Fiscal Future

New Jersey's Fiscal Cliff: Current Services Budget Projections, Long-Term Economic Forecast, and the Multi-Year Structural Deficit

By the Multi-Year Budget Workgroup

STEVE SWEENEY CENTER
FOR PUBLIC POLICY

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Preface: The Multi-Year Budget Workgroup

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

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

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

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 Former Senate President Steve Sweeney, who was initially a driving force in this effort, has withdrawn from participation in the MYBW.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

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

The MYBW will continue to provide economic forecasts and five-year revenue and expenditure projections to the Governor and the Legislature in February and June each year, and expenditure updates based on the adopted budget in September.

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

Members of the Multi-Year Budget Workgroup

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

Sweeney Center for Public Policy Graduate Assistants

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

Executive Summary

New Jersey faces a continuing structural deficit over the next three years, but the gaps will not be as large as originally projected because of a planned tax increase and a proposed change in the StayNJ property tax relief program.

In FY25, for the third fiscal year in a row, New Jersey is proposing to spend more money than it expects to collect in revenues. This year's $56.052 billion in projected spending, heading into final budget negotiations between the Governor and the Legislature, is $1.8 billion higher than the $54.249 billion in revenues that Treasury expects to collect.

That's less than the projected $3.2 billion gap between the $52.304 billion Treasury expects to collect for the FY24 budget year ending June 30 and the $55.501 billion it anticipates spending.

Treasury's plan to balance the proposed budget for FY25 requires the state to draw down the surplus by another $1.8 billion, divert $585 million from the Debt Defeasance Fund and increase the Corporation Business Tax by $1.023 billion on companies earning more than $10 million in New Jersey.

That's a $3.4 billion plug just to maintain current programs. Next year, the state will need to come up with $767 million to cover a fiscal cliff in the NJ Transit budget left once the last of the Covid-19 subsidy money has been spent, and the following year, in FY27, an additional $900 million will have to be added to the budget to cover the first full year of the StayNJ program.

Balancing the budget FY23, FY24 and FY25 budgets has required the state to take the following steps:

- The state has pulled $4.4 billion from what was a $10.736 billion surplus to balance its FY23 to FY25 budgets in the face of relatively flat revenue growth. The remaining $6.3 billion surplus is healthy by New Jersey standards, but it amounts to 11.2% of the budget – less than the 12% required in the StayNJ legislation as a condition for implementing the program.

- The $585 million diverted from the Debt Defeasance Fund created after the state borrowed $4.3 billion from the federal government to cover expected deficits during the Covid-19 crisis leaves just $600 million remaining in what was once a "second surplus."

- The Murphy Administration has proposed the retroactive restoration of the CBT surcharge on companies making over $10 million a year in New Jersey profits. The CBT increase was billed as a "Corporate Transit Tax," but the $1.023 billion generated from January 1, 2024, through June 30, 2025, is being used first to balance the FY25 budget. NJ Transit will need $766.8 million of the $800 million generated by the CBT to cover its shortfall in FY26. Substitution of an increase in the state sales tax from 6.625% back to 7% for the proposed CBT tax hike would generate the same $800 million and would not materially change the long-term budget situation.

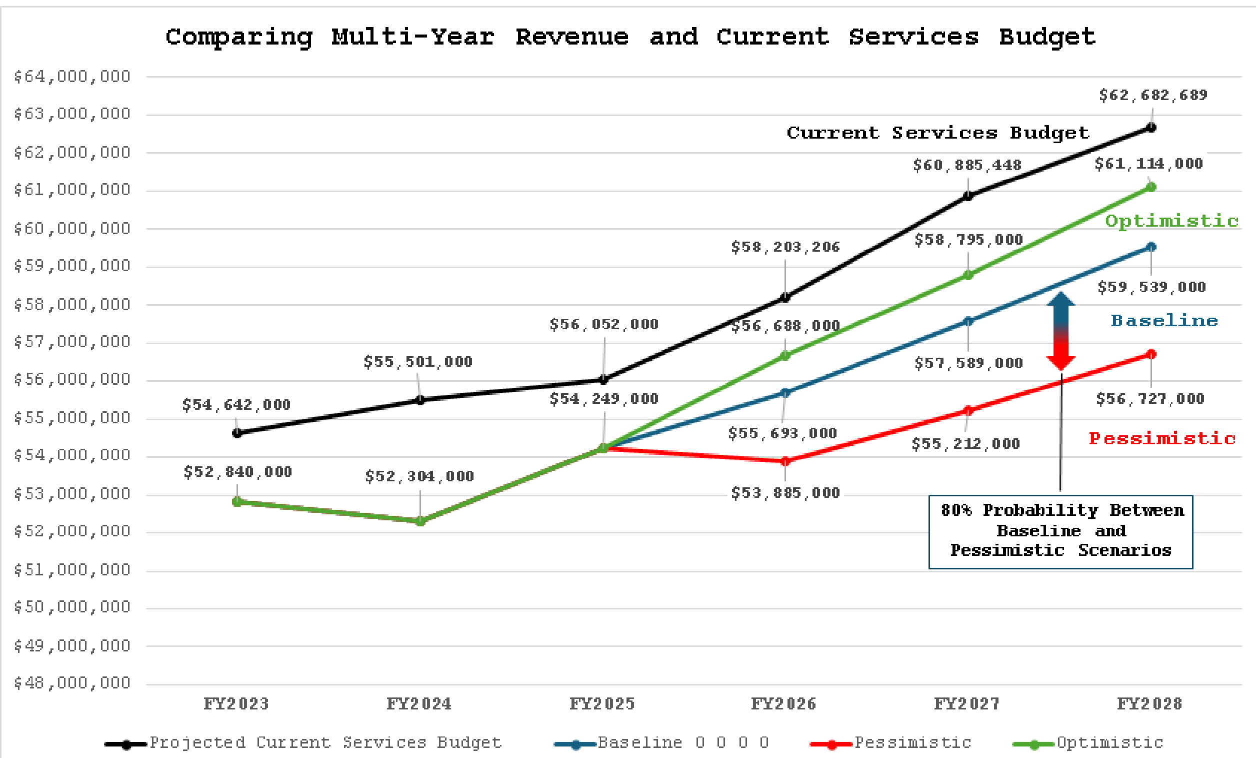
Our four-year Economic Forecast projects that the Federal Reserve "has achieved its desired 'soft landing' and it appears that inflation will continue to move down to a desired rate and the economy will continue to grow without a recession." However, "New Jersey's economic performance has been on the soft side" relative to income, output and job growth in the national economy,

As a result, the state faces a continuing structural deficit over the next four budget years as projected revenues are expected to continue to fall at least $1.5 billion short each year of the amount needed to maintain state programs and state aid at current service levels, fund new programs established by law, and maintain an adequate surplus.

Based on our economic forecast, revenue projections and Current Services Budget analysis, the MYBW projects that there is an 80% likelihood that state revenues will fall $2.5 billion to $5.9 billion short of the amount needed to continue state programs and state aid at current service levels each budget year from FY26 to FY28. Even under the Optimistic scenario, state revenues will fall $1.5 billion to $2.1 billion short annually. Over a three-year period.

However, these structural deficits, while large, are cumulatively billions of dollars less than the gaps we projected in the February 7 Multi-Year Budget report we issued two weeks before the Governor unveiled his proposed FY25 spending plan:

- First, the proposed budget includes a restoration of the Corporation Business Tax on firms earning over $10 million in New Jersey, which the Governor dubbed a "Corporate Transit Fee" because its main purpose is to cover the NJ Transit deficit starting in FY26. Over four budget



Five-Year Gap Between Current Services NJ State Budget and Revenue Projections

For three fiscal years, from FY23 to to the upcoming budget proposed for FY25, New Jersey state government will be running a structural deficit, with state spending exceeding projected revenues by $1.8 billion or more annually. To cover those gaps, the state plans to spend down the record $10.7 billion surplus built with federal aid during the Covid-19 pandemic to $6.3 billion, and is proposing a $1.023 billion Corporation Business Tax hike to reduce this year's deficit and cover NJ Transit's upcoming fiscal cliff. Even with passage of the CBT hike or another revenue-raiser similar in size, the Multi-Year Budget Workgroup projects that the state will face continuing structural deficits between expected revenues and the amount needed to maintain current service and state aid levels, fund newly enacted programs and maintain an acceptable surplus from FY26 to FY28. Under the MYBW's three revenue scenarios, the annual structural gap is projected to range from an average of $1.8 billion per year under the Optimistic scenario to a $5.3 billion average under the Pessimistic scenario. The New Jersey Constitution requires a passage of a balanced budget by June 30 each year.

	FY2022	FY2023	FY2024	FY2025	FY2026	FY2027	FY2028
Projected Current Services Budget	$48,787,000	$54,642,000	$55,501,000	$56,052,000	$58,203,206	$60,885,448	$62,682,689
Treasury Revenue Projections	$53,052,000	$52,840,000	$52,304,000	$54,249,000			
Treasury Projected Closing Surplus	$10,736,000	$9,986,704	$8,180,172	$6,300,000			
Debt Defeasance Fund Diversion				$585,000			
Baseline							
Projected Revenue			$52,304,000	$54,249,000	$55,693,000	$57,589,000	$59,539,000
Structural deficit between projected revenue and projected spending			($3,197,000)	($1,803,000)	($2,510,206)	($3,296,448)	($3,143,689)
Surpluses tapped to cover structural deficit			$1,806,532	$2,480,172			
Surplus balance if surplus is applied to cover gap					$3,789,794	$493,346	($2,650,343)
Pessimistic							
Projected Revenue			$52,304,000	$54,249,000	$53,885,000	$55,212,000	$56,727,000
Structural deficit between projected revenue and projected spending			($3,197,000)	($1,803,000)	($4,318,206)	($5,673,448)	($5,955,689)
Surpluses tapped to cover structural deficit			$1,806,532	$2,480,172			
Surplus balance if surplus is applied to cover gap					$1,981,794	($3,691,654)	($9,647,343)
Optimistic							
Projected Revenue			$52,304,000	$54,249,000	$56,688,000	$58,795,000	$61,114,000
Structural deficit between projected revenue and projected spending			($3,197,000)	($1,803,000)	($1,515,206)	($2,090,448)	($1,568,689)
Surpluses tapped to cover structural deficit			$1,806,532	$2,480,172			
Surplus balance if surplus is applied to cover gap					$4,784,794	$2,694,346	$1,125,657

years from FY25 to FY28, the tax would generate $3.423 billion. Restoring the 7% sales tax, which was cut to 6.625% in 2016, would raise about $3.2 billion over the same four years. Passage of either tax would cut the previously calculated cumulative structural deficit by $3.2 billion or more.

- Second, the StayNJ Task Force established by the Governor and Legislature recommended in its May 30 report that StayNJ be funded as a half-year credit in its first year. This reduced the cost of the program in the FY26 budget to $300 million, using the $100 million and $200 million set aside in advance in the FY24 and FY25 budgets toward the half-year benefit. The non-partisan Office of Legislative Services, in its Fiscal Estimate on the StayNJ law issued last August, projected that $900 million to $1.2 billion would be needed to fund StayNJ in FY26 – a savings for that year of $750 million over OLS' midpoint projection. This pushed the fiscal cliff impact of StayNJ forward from FY26 to FY27. The task force also pegged the cost of the program in FY27 at $1.2 billion, growing at just 2% a year – down from the OLS Fiscal Estimate of $1.2 billion to $1.5 billion, with its $1.35 billion midpoint. This further reduced the cost of StayNJ to the FY27 and FY28 budgets, producing a reduction in the impact of the program on the three-year structural deficit of at least $1.05 billion.

As in previous reports, the MYBW's calculations of the gap between current revenues and future expenditure needs are based on the methodology incorporated by former Senate Minority Leader Steve Oroho (R-Sussex) and Senate Budget Committee Chair Paul Sarlo (D-Bergen) in Senate Bill 654, the bipartisan legislation they proposed in 2021 that would have required the Governor and Legislature to implement consensus revenue forecasting with five-year revenue forecasts and expenditure projections using a Current Services Budget model.

The MYBW's Current Services Budget projects state spending to increase from $55.501 billion in the current FY24 budget to $62.682 billion in FY28, up significantly from the $59.74 billion figure we projected last June prior to adoption of the final budget.

The Current Services Budget includes expenditures included in the Governor's budget as updated by the Treasurer in her May testimony to the legislative budget committees. The full cost of the StayNJ, ANCHOR and Senior Freeze property tax relief programs, as calculated by the StayNJ Task Force, is included, as is funding from the CBT to cover NJ Transit operating deficits for FY26 to FY28 left after federal Covid-19-related funding runs out. Relatively flat or reduced funding for pensions, debt service and municipal aid is largely offset by a projected 5.1% increase in state healthcare costs and in health benefits costs for current state workers and both teacher and state worker retirees based on federal projections. Other spending is calculated to rise 3% annually, following the S654 standard.

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

- Under the Baseline scenario, revenues for FY26 to FY28 would result in a cumulative $8.95 billion shortfall of total collections needed to cover projected Current Services Budget costs.
- Under the Pessimistic scenario, revenues for FY25 to FY28 would be a cumulative $11.36 billion below the revenue needed to continue to fund state services and state aid at Current Services Budget levels.
- Under the Optimistic scenario, revenue collections from FY26 to FY28 would be $5.17 billion short of the revenues needed to cover the full cost of the Current Services Budget.

While the state is projected to finish FY25 with a healthy $6.3 billion surplus, that cushion amounts to 11.3% of the budget, which is below the 12% standard required under the StayNJ law as a condition for implementation of the program. Even without that requirement, much of that surplus would need to be retained from year to year to satisfy Wall Street bond rating agencies, which have upgraded New Jersey's credit rating in recent years due mainly to its sizable surpluses and ramp-up to full actuarially required pension payments. The Governor and Legislature would be expected to begin to cut programs or seek additional revenue for future budgets, rather than letting the surplus plummet to unacceptably low levels.

New Jersey Economic Outlook

New Jersey's economic performance has been on the soft side. The state's job count has shown signs of levelling off, and the unemployment rate has stayed elevated relative to the US average. Income and output have increased, although at a somewhat slower rate than the nation as a whole. Inflation is down sharply, but remains above the levels desired by the Federal Reserve, delaying any moves to reduce interest rates. The stock market is at record highs. Housing markets are stressed; despite high mortgage rates visibly deterring buyers, prices are extraordinarily elevated (high numbers of communities in New Jersey now see home values averaging over $1 million), though multifamily building continues to look strong. Although national output and job growth appear to be slowing, it appears that recession risks have diminished. The continued strength of the stock market creates the potential for high rates of capital gains realizations, suggesting that marked reductions in state revenues don't seem that likely, but sharp increases—except perhaps for a year or so in which capital gains temporarily swell income tax receipts--seem rather unlikely over the next few years.

Early 2024 Shows a Slowing of New Jersey's Labor Market

Preliminary estimates show that the number of jobs in New Jersey in April was only 8,100 higher than in December 2023, though jobs in the state were up 76,000 from April 2023. That increase, though, was somewhat lower than the gains of the last few years. Leisure and hospitality, which had been the last major sector remaining below pre-pandemic highs, did set new records in late 2023, though the first April estimate shows a pullback.

Unemployment remains worrisome. New Jersey's unemployment rate was mired at 4.8% every month from July 2023 through March 2024, before edging down to 4.7% in April. Both New York and Connecticut also have had high unemployment rates, suggesting that there is a problem in the metropolitan area. New Jersey's high unemployment rate has been accompanied by weakness in both the state's labor force and the count of residents at work; the sharp divergence from the job count is puzzling. The job figures are generally seen as a more reliable indicator of underlying conditions.

State GDP and income on the rise

The data on state output and income, at least for 2023, have been better than that on the labor front. The personal income of New Jersey residents rose 4.9% in 2023, slightly lower than the national increase of 5.2%. Probably the key component of personal income is "net earnings," which consists of wages and other forms of employee compensation, plus an estimate of the income of unincorporated businesses. This component (corrected to remove out-of-state earnings) increased 5.1% in New Jersey in 2023—a strong gain in absolute terms, but well short of the national figure of 5.7%.

The current-dollar Gross Domestic Product of New Jersey—a reasonable proxy for the aggregate revenue base of state and local governments—rose 5.9% in 2023, compared to the national increase of 6.3% over the same period. In the second half of 2023, it is estimated that New Jersey's GDP, at an annual rate, surpassed $800 billion—more than 30% higher than five years earlier.

However, as had been expected, in 2023 the State of Washington's GDP edged past that of New Jersey. This is the first time, certainly in decades, that a state with a smaller population than New Jersey is reported to have a larger aggregate economy (the differences, though, are so small that even very minor future revisions could put New Jersey back ahead). Given Washington State's very different and much more high-tech industry base, this milestone may be indicative of the relative slowness of New Jersey's adjustment to the changing structure of the national and world economy.

Housing Sales Down, Construction Up

New Jersey's housing market in early 2024 continued its 2023 patterns. The number of units sold continued to fall, while prices continued to rise. New Jersey Realtors reports that the number of single-family homes sold in in the first four months of 2024 was down 7.3% from the same months of 2023, while the average price was up a remarkable 14.3% from 2023. The average price of homes sold was above $650,000 in early 2024, while the median price was over $600,000; with median prices in the state's northeast nearly 3 times as high as in the southwest. The Mortgage Bankers Association reports that the fraction of New Jersey mortgages in the foreclosure process or otherwise seriously delinquent in early 2024 remained near 45-year lows.

On the construction front, preliminary data from the US Census Bureau show that there were over 12,000 permits for new housing units in the state in the first four months of 2024, with more than half in structures of 5 or more units. This was an increase of close to 15% from the same period of 2023, with the gain concentrated in the multifamily sector.

The Outlook: The Soft Landing Achieved?

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

At this time, it looks like that the Fed has achieved its desired "soft landing" and it appears that inflation will continue to move down to a desired rate and the economy will continue to grow without a recession, even though geopolitical tensions have ratcheted up, and, despite gaping deficits, the end of COVID relief has meant that federal policies are no longer providing additional stimulus. Favorable developments include an ongoing boom in manufacturing investment (in part the consequence of "Build Back Better" incentives) and what appears to be improved consumer attitudes, as indicated by higher readings in attitude surveys, and demonstrated by strong holiday sales.

While the environment suggests that recession risks have dissipated greatly, they are not completely gone. Notably, the Chinese economy is under considerable strain as debt problems threaten the sustainability of its extraordinarily investment-led (and debt-financed) model of growth.
While a softened Chinese economy is likely to bring down prices of many products and so add to disinflationary pressure, such reductions would strain producers elsewhere. The wars in Ukraine and Gaza continue to have the potential to disrupt major markets and supply channels. The tight US labor

market could spill over into renewed upward pressure on prices, ending the decline in inflation and provoking another round of interest rate hikes. And, of course, the outcome of this year's national elections could change US policy in some unanticipated ways.

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

Revenue Scenarios

The Multi-Year Budget Workgroup evaluated the revenue consequences of three scenarios: 1. Baseline, 2. Pessimistic, and 3. Optimistic. In all cases we adopted the Treasury's May 14, 2024, figures for FY24 and FY25 revenues.

The Baseline Scenario

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

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

This revenue outlook is higher than the Baseline envisioned some months ago in our February report, mainly because we are assuming that the proposed Corporate Transit Fee (or some alternate revenue source for NJ Transit raising a comparable amount) will be enacted.

BASELINE SCENARIO	23						
Economic Assumptions and Revenue Projections							
(numbers in 1000s)							
	CY22	CY23	CY24	CY25	CY26	CY27	CY28
National Outlook							
Real Gross Domestic Product Growth (% year over year)	1.9	2.5	2.5	2.2	2.0	2.0	2.0
Nominal Gross Domestic Product Growth	9.1	6.3	5.2	4.5	4.3	4.3	4.3
Current Dollar Consumer Spending Growth	9.2	6.0	5.1	4.4	4.2	4.2	4.0
Personal Income Growth	2.6	5.2	2.5	3.0	4.0	4.0	4.0
Capital Gains Realizations (billions)	$1,200	$1,250	$1,350	$1,400	$1,450	$1,500	$1,550
Personal Income Plus Capital Gains Realizations (growth)	1.1	5.1	2.8	3.0	4.0	4.0	4.0
Consumer Price Index Growth	8.0	4.1	3.3	2.6	2.6	2.5	2.5
Unemployment Rate	3.6	3.8	3.8	3.9	4.0	4.0	4.0
New Jersey							
Taxable Consumer Spending Growth (% year over year)	8.2	5.0	4.1	3.4	3.2	3.2	3.0
Personal Income Plus Capital Realizations Growth	1.6	4.6	2.3	2.5	3.5	3.5	3.5
Unemployment Rate	3.7	4	4.4	4.2	4.0	4.0	4.0
	FY22	FY23	FY24	FY25	FY26	FY27	FY28
New Jersey State Budget Revenue Projections							
Sales Tax	$13,415	$13,981	$14,054	$14,524	$15,018	$15,498	$15,994
Gross Income Tax Plus PT Business Alternative Tax	$24,717	$23,160	$22,823	$23,741	$24,747	$25,608	$26,496
Corporation Income Tax	$5,800	$5,576	$5,299	$5,577	$5,928	$6,183	$6,449
Other Revenues	$9,121	$10,123	$10,128	$10,407	$10,000	$10,300	$10,600
Total Revenue	**$53,053**	**$52,840**	**$52,304**	**$54,249**	**$55,693**	**$57,589**	**$59,539**

METHODOLOGY: FY24 and FY25 use Treasury assumptions for all taxes. Sales tax for FY26-FY28 calculated as increment by growth of taxable consumer spending in previous CY. Gross Income Tax and Pass-Through Business Alternative Tax for FY25-FY28 calculate as increment by growth of personal income plus capital gains realizations. Corporation Income Tax for FY26-FY28 calculated as increment by formula related to national nominal Gross Domestic Product growth.

We anticipate that some revenue sources, most notably real estate taxes, will likely be reduced in the near term, but underlying growth in the state's economy will keep aggregate revenues growing in the neighborhood of 3% a year.

The Pessimistic Scenario

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

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

PESSIMISTIC SCENARIO	23						
Economic Assumptions and Revenue Projections							
(numbers in 1000s)							
	CY22	CY23	CY24	CY25	CY26	CY27	CY28
National Outlook							
Real Gross Domestic Product Growth (% year over year)	1.9	2.5	1.0	1	1.8	1.8	1.8
Nominal Gross Domestic Product Growth	9.1	6.3	3.3	3.3	4.1	4.1	4.1
Current Dollar Consumer Spending Growth	9.2	6.0	2.0	2.3	3.0	3.0	3.0
Personal Income Growth	2.6	5.2	1.3	2.2	4.0	4.0	4.0
Capital Gains Realizations (billions)	$1,200	$1,250	$800	$850	$950	$1,000	$1,050
Personal Income Plus Capital Gains Realizations (growth)	1.1	5.1	0.5	3.1	4.3	4.0	4.0
Consumer Price Index Growth	8.0	4.1	2.0	2.0	2.2	2.5	2.5
Unemployment Rate	3.6	3.8	4.3	5.0	4.7	4.5	4.3
New Jersey							
Taxable Consumer Spending Growth (% year over year)	8.2	5.0	1.0	1.3	2.0	2.0	2.0
Personal Income Plus Capital Realizations Growth	1.6	4.6	0.0	2.6	3.8	3.5	3.5
Unemployment Rate	3.7	4	5	5.0	4.8	4.6	4.4
	FY22	FY23	FY24	FY25	FY26	FY27	FY28
New Jersey State Budget Revenue Projections							
Sales Tax	$13,415	$13,981	$14,054	$14,524	$14,713	$15,007	$15,307
Gross Income Tax Plus PT Business Alternative Tax	$24,717	$23,160	$22,823	$23,741	$24,214	$25,125	$26,016
Corporation Income Tax	$5,800	$5,576	$5,299	$5,577	$5,259	$5,380	$5,503
Other Revenues	$9,121	$10,123	$10,128	$10,407	$9,700	$9,700	$9,900
Total Revenue	**$53,053**	**$52,840**	**$52,304**	**$54,249**	**$53,885**	**$55,212**	**$56,727**

METHODOLOGY: FY24 and FY25 use Treasury assumptions for all taxes. Sales tax for FY26-FY28 calculated as increment by growth of taxable consumer spending in previous CY. Gross Income Tax and Pass-Through Business Alternative Tax for FY25-FY28 calculated as increment by growth of personal income plus capital gains realizations. Corporation Income Tax for FY26-FY28 calculated as increment by formula related to national nominal Gross Domestic Product growth.

The Optimistic Scenario

In the Optimistic scenario, growth is a bit higher than in the Baseline, largely because consumer confidence and spending is stronger in recognition of the reality that inflation has fallen without a recession, and some credence is given to recent indicators suggesting that the pace of productivity growth has improved.

In this scenario, near-term New Jersey revenues are firmer than in the baseline, with the growth trend of revenues rising around 4% after FY25.

OPTIMISTIC SCENARIO							
Economic Assumptions and Revenue Projections							
(numbers in 1000s)							
	CY22	CY23	CY24	CY25	CY26	CY27	CY28
National Outlook							
Real Gross Domestic Product Growth (% year over year)	1.9	2.5	2.7	2.5	2.3	2.2	2.2
Nominal Gross Domestic Product Growth	9.1	6.3	5.4	4.8	4.6	4.5	4.5
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Personal Income Growth	2.6	5.2	2.8	3.0	4.0	4.0	4.0
Capital Gains Realizations (billions)	$1,200	$1,250	$1,400	$1,400	$1,450	$1,500	$1,550
Personal Income Plus Capital Gains Realizations (growth)	1.1	5.1	5.5	2.8	4.0	4.0	4.0
Consumer Price Index Growth	8.0	4.1	2.5	2.5	2.5	2.5	2.5
Unemployment Rate	3.6	3.8	4.0	3.8	4.0	4.0	4.0
New Jersey							
Taxable Consumer Spending Growth (% year over year)	8.2	5.0	3.6	3.3	3.0	3.0	3.0
Personal Income Plus Capital Realizations Growth	1.6	4.6	5.0	2.3	3.5	3.5	3.5
Unemployment Rate	3.7	4	4.4	4.0	4.1	4.0	4.0
	FY22	FY23	FY24	FY25	FY26	FY27	FY28
New Jersey State Budget Revenue Projections							
Sales Tax	$13,415	$13,981	$14,054	$14,524	$15,032	$15,513	$16,010
Gross Income Tax Plus PT Business Alternative Tax	$24,717	$23,160	$22,823	$23,741	$25,360	$26,242	$27,152
Corporation Income Tax	$5,800	$5,576	$5,299	$5,577	$6,095	$6,540	$6,952
Other Revenues	$9,121	$10,123	$10,128	$10,407	$10,200	$10,500	$11,000
Total Revenue	**$53,053**	**$52,840**	**$52,304**	**$54,249**	**$56,688**	**$58,795**	**$61,114**

METHODOLOGY: FY24 and FY25 use Treasury assumptions for all taxes. Sales tax for FY26-FY28 calculated as increment by growtl of taxable consumer spending in previous CY. Gross Income Tax and Pass-Through Business Alternative Tax for FY25-FY28 calculated as increment by growth of personal income plus capital gains realizations. Corporation Income Tax for FY26-FY28 calculated as increment by formula related to national nominal Gross Domestic Product growth

Likelihood of the Scenarios and Their Implications

We see only a 20% probability for the Optimistic scenario. There is as yet no firm evidence that the recent upsurge in productivity growth truly suggests a fundamental improvement. We are reasonably optimistic that the likelihood of a marked retrenchment in the economy is less than a continuation of recent trends, so we assign a lower probability to the Pessimistic (30%) than to the Baseline (50%) scenario.

The Optimistic scenario should not be seen as an upper bound for state revenues. Aside from the possibility that economic growth could be stronger, there is a decided chance that, as a result of the extremely high levels of the stock market, capital gains realizations could be substantially higher. As gains are typically subject to high rates in New Jersey's very progressive tax system, this could lead to a year or two of quite elevated income tax revenues. Still, we think that such an event would not put the long-term revenue path permanently above the Optimistic scenario.

On the other side, a marked recession accompanied by a bear market could put revenues below that shown in the Pessimistic scenario path, which also should not be viewed as a lower bound.

Current Services Budget

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

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

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

Over a six-year period, budget expenditures rose from $35 billion in FY2018 to $55.5 billion in the current FY2024 budget year. In addition to normal inflationary increases, the rise in expenditures was driven by a $5 billion ramp-up to the full Actuarially Required Contribution to the pension system for teachers and state workers that had been underfunded for more than 20 years, a $5 billion increase in state aid to education under the School Funding Fairness Act of 2018, and implementation of the new $2 billion ANCHOR property tax relief program.

Overall state expenditures – including federal aid, the Transportation Trust Fund, and revolving and dedicated funds that provide funding in addition to the $55.5 billion supported by state revenues – grew with equal rapidity. In response to the Covid crisis, federal funding jumped from $13.9 billion in FY19 to $16.3 billion in FY20 and peaked at $23.billion in FY23 before dipping to $21.8 billion for the current fiscal year.

Last June, the Governor and Legislature enacted the A1 StayNJ property tax relief program that is designed to cut property taxes in half for most senior citizens starting in 2026 and to simultaneously expand the ANCHOR property tax relief program enacted the previous year. Coupled with a projected 5.1% medical inflation rate that will continue to drive up Department of Human Services and employee health benefit costs, the expanded property tax relief program costs increased our Current Services Budget projections significantly.

Overall, we now project Current Services Budget expenditures to rise $7 billion over the next four fiscal years from $55.50 billion in FY24 to $62.68 billion in FY28. Even with an improved economic outlook making a recession unlikely, New Jersey is projected to continue to run long-term structural deficits, with revenues projected to fall $1.5 billion to $5.95 billion short of the amount needed to fund projected Current Services Budget costs each year from FY25 to FY28 under all three MYBW revenue scenarios.

It is important to note that this $7 billion increase does not include the $926 million in one-shot targeted budget add-ons for specific towns, districts, colleges, non-profits and programs in the FY24 budget that we took out of the base Current Services Budget for the purpose of calculating future spending; this is an important change in methodology we decided to make because the so-called "Christmas tree list" changes from year to year and has been virtually eliminated in years of fiscal crisis.

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

- State Aid to Education: State aid to education, which is the largest single spending item in the budget, rose from $11.77 billion in FY24 to $12.79 billion in the FY25 budget, as the Governor and Legislature completed the ramp-up to full funding of the S2 school funding formula established under the School Funding Fairness Reform Act of 2018. With the ramp-up complete, state aid to education is projected to rise 3% annually in future years, but the cumulative four-year increase will still total $6.46 billion and be the largest in the budget.

- Healthcare Costs: Based on the federal Centers for Medicare and Medicaid Services (CMMS) healthcare inflation multiplier of 5.1%, we project that increases in Medicaid, public employee health benefits and other healthcare spending will add $5.9 billion to aggregate state spending over the four-year period.

- Property Tax Relief: The StayNJ program and the expansion of the ANCHOR program are projected to add $2.67 billion to Current Services Budget scenario costs over the four fiscal years, with the biggest single-year cost increase of $907 million coming in the FY27 budget that would be the first enacted by the new Governor and Assembly elected in November 2025.

- NJ Transit: We project that the state budget, which already provides a $145 million operating subsidy to NJ Transit out of general funds, will provide an additional $766.8 million in FY26, $810.3 million in FY27 and $853.9 million to cover the fiscal cliff created when the agency's federal Covid-19 operating assistance money fully runs out. This additional funding is projected to come from a dedicated 'Corporate Transit Fee" funded by an increase in the Corporate Business Tax on companies earning over $10 million a year in New Jersey; that money is being used in FY25 as part of the general fund to balance the budget. If a sales tax increase is enacted instead, the increased NJ Transit funding would need to come from the General Fund to maintain current service levels.

These major increases are offset partially by virtually flat funding for the state's pension system now that the full Actuarially Required Contribution is being made; a projected slight reduction in debt service payment despite higher interest rates because of expenditures from the Debt Defeasance Fund; and the expected continuation of flat funding for municipal aid, which has been frozen at less than $1.6 billion for more than two decades. All other spending is projected to grow at a 3% annual rate.

PROJECTED CURRENT SERVICES BUDGET

Completes S2 ramp-up to full funding in FY25. Funding for debt service projected lower. Targeted $926 million in one-shot appropriations not included in Current Service Budget in future years. Human Services, Medicaid, DMAVA veterans homes, and health benefit spending projected at 5.1% growth from FY25 to FY28. Pension costs are actuarial projections from April bond offering. Replacement of Federal Covid-19 subsidies for NJ Transit calculated as FY26-FY28 current services gap. All other spending increased 3% annually for inflation.

	FY22 Actual Expenditure	FY23 Actual Expenditure	*FY24 Projected Appropriation*	*FY25 Projected Appropriation*	*FY26 Projected Appropriation*	*FY27 Projected Appropriation*	*FY28 Projected Appropriation*
TOTAL NJ STATE BUDGET APPROPRIATIONS							
Projected Current Services Budget	**$48,787,000**	**$54,642,000**	***$55,501,000***	***$56,052,000***	***$58,263,206***	***$60,885,447***	***$62,682,689***
Projected Percent Increase				***1.95%***	***5.66%***	***3.49%***	***3.04%***
MAJOR SPENDING INCREASES							
Previously Committed Spending Growth							
1. Pre K-12 State Aid to School Districts	**$10,200,000**	**$10,828,495**	**$11,766,276**	**$12,793,994**	**$13,177,814**	**$13,573,148**	**$13,980,343**
2. Direct Property Tax Relief Programs							
Governor's Budget (ANCHOR, Senior Freeze, etc.)	**$617,900**	**2,248,300**	**$2,479,400**	**$2,506,600**	**$2,513,679**	**$2,520,777**	**$2,527,896**
StayNJ program			$102,000	$200,000	$300,000	1,200,000	$1,224,000
Total Direct Property Tax Relief in Budget		**$2,248,300**	**$2,581,400**	**$2,706,600**	**$2,813,679**	**$3,720,777**	**$3,751,896**
3. Medicaid/Healthcare Cost Increases							
a. Department of Human Services	**$7,040,291**	**$8,307,958**	**$9,212,229**	**$9,710,278**	**$10,205,502**	**$10,725,983**	**$11,273,008**
b. Public Employee Health Benefits							
Health Benefits for Current State Employees	$1,496,364	$1,677,764	$1,788,702	$1,830,247	$1,923,589.60	$2,021,692.67	$2,124,798.99
Medical Benefits for Retired Teachers, State Employees	$1,946,460	$2,113,587	$2,316,734	$2,394,967	$2,517,110.32	$2,645,482.94	$2,780,402.57
Health Benefits Total, Active and Retirees	**$3,396,342**	**$3,791,351**	**$4,105,436**	**$4,225,214**	**$4,440,700**	**$4,667,176**	**$4,905,202**
c. DMAVA Veterans Nursing Homes	**$67,888**	**$70,645**	**$87,985**	**$88,899**	**$93,433**	**$98,198**	**$103,206**
4. NJ Transit Post-Covid Funding Operating Deficit							
NJ Transit Budget	**$2,678,100**	**$2,710,500**	**$2,868,613**	**$3,003,503**	**$3,099,200**	**$3,192,176**	**$3,287,941**
NJ Turnpike Funding	$325,000	$721,000	$440,000	$455,000	$470,000	$484,100	$500,000
NJ Transit State Operating Subsidy	$100,000	$100,000	$142,000	$145,000	$145,000	$145,000	$145,000
Farebox Revenue	$536,700	$696,800	$785,300	$947,000	$1,005,000	$1,035,150	$1,066,205
Capital to Operating Transfers, Clean Energy Fund, Mis	$835,900	$801,400	$730,400	$707,200	$712,400	$717,600	$722,800
Covid-19 Relief (CARES, CRRSAA, ARPA)	$1,030,800	479,300	$808,800	$749,300	$0	$0	$0
NJT Revenue -to-Expenditure Differential	**$150,300**	**($4)**	**$0**	**$0**	**($766,800)**	**($810,326)**	**($853,937)**
Corporate Transit Fee (CBT surcharge) covers gap					**$766,800**	**$810,326**	**$853,937**
MAJOR EXPENDITURES PROJECTED AT NO GROWTH OR BELOW 3%							
1. Pension Contribution from State Budget							
State Pension Contribution	**$5,797,000**	**$5,719,000**	**$5,971,000**	**$6,036,000**	**$5,822,000**	**$5,878,000**	**$5,923,000**
State Lottery Contribution	$1,111,000	$1,170,000	$1,116,000	$1,126,000	*$1,135,000*	*$1,147,000*	$1,157,000
Total State Pension Funding	$6,908,000	$6,889,000	$7,087,000	$7,162,000	$6,957,000	$7,025,000	$7,080,000
2. Debt Service	**$4,352,900**	**$4,459,300**	**$4,155,000**	**$4,444,569**	**$4,444,569**	**$4,444,569**	**$4,444,569**
3. Targeted One-Shot Expenditures (excluded from CSB)			**$926,000**				
4. Health Care Accessibility and Affordability Fund (Horizon Payme		**$600,000**	**$100,000**				
Subtotal for State Expenditures Detailed	$32,065,421	$37,295,049	$39,237,326	$41,276,554	$43,044,496	$45,210,177	$46,537,160
Expenditures not listed (3% growth factored in FY25-FY	$16,721,579	$17,346,951	$16,263,674	$14,775,446	$15,218,709	$15,675,271	$16,145,529
Total Current Services Budget	**$48,787,000**	**$54,642,000**	**$55,501,000**	**$56,052,000**	**$58,263,206**	**$60,885,447**	**$62,682,689**

Property Tax Relief

The report reflects new cost estimates from the StayNJ Task Force created by the Governor and Legislature to make recommendations on the property tax relief initiative designed to provide up to $6,500 in senior citizens and the disabled that is scheduled to go into effect in FY26.

With the StayNJ initiative now providing payment for a maximum $3,250 half-benefit in FY26, the new cost for the StayNJ initiative will rise from $102 million in FY23, $200 million in FY24 and $300 million in FY25 – which together will fund that half-payment – and then increase to $1.2 billion and $1.224 billion to cover full payments in FY27 and FY28.

The $1.2 billion full-year cost, which is at the low end of the non-partisan Office of Legislative Services fiscal estimate from last August, reflects a decision by the StayNJ Task Force to peg annual benefits to property taxes paid the previous year, rather than property taxes billed, effectively deducting the previous year's StayNJ benefit on an ongoing basis in calculations of future payments.

In addition, as part of the June 2023 agreement that created the StayNJ program, the ANCHOR property tax relief program was expanded at a cost of $142 million in FY24 that is projected to rise to $174 billion by FY28.

NJ Transit's Funding Cliff

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

NJ Transit's announcement of a planned 12.5% to 15% rail, bus and light rail fare increase would raise $100 million and resolve the agency's $106.6 million FY25 budget gap, but still left a $767 million shortfall in FY26 that fare hikes clearly could not fill.

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

The Governor addressed the problem by including a restoration of the Corporate Business Tax surcharge on companies making more than $10 million in New Jersey as a dedicated source of funding for NJ Transit. The $1.023 billion the tax would raise for FY25, applied retroactively to January 1, would be applied to the upcoming year's budget, while the $800 million raised in future years would fund the annual shortfall in NJ Transit's budget starting in FY26.
of its total $3 billion budget, and that already includes $470 million in dedicated NJ Turnpike Authority funding.

Medicaid and Healthcare Spending

Overall, healthcare costs are expected to rise faster than other programs. The MYBW's Current Services Budget applies a 5.1% annual Healthcare Costs Multiplier to the $9.2 billion budget for the Department of Human Services, the $4.1 billion budget for healthcare benefits for current state employees and teacher and state worker retirees, and the $88million budget for Department of Military and Veterans Affairs nursing homes.

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

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

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

Education Funding

State aid to education will makes up 22.8% of the total state budget in FY25, as funding is projected to increase from $11.77 billion in the FY24 budget to $12.79 billion in FY25 as the state completes its seven-year ramp-up to full funding under the provisions of S2.

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

Appendix A

Five-Year Revenue Forecast Assumptions and Methodology

Revenue Projections

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

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

Determinants of Revenues

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

Personal Income Taxes

A reasonable proxy for the growth of New Jersey's taxable income base for a fiscal year is the growth of the state's personal income in the previous calendar year, plus capital gains realizations by state residents.[1] Based on an analysis of available data, New Jersey's growth of its personal income base

[1] Timely New Jersey personal income figures are available from the US Bureau of Economic Analysis. Our estimates and projections for capital gains realizations in recent years are based on the latest available IRS data for the

tends to be about a half percent a year less than the nation as a whole. Large movements in the capital gains proportion will have significant implications for New Jersey income tax revenue, given the pronounced progressivity of New Jersey income tax rates, and the disproportionate share of capital gains realizations earned by households in high income brackets.

Corporate Taxes

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

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

Sales Taxes

Although New Jersey collects sales tax on some forms of business-to-business transactions, more than half of the revenue comes from retail purchases. US Bureau of Economic Analysis data suggest that annual growth of spending in New Jersey on taxable items is typically about 1 percentage point less than national aggregate consumer spending, based on annual business expense data. The divergence reflects not only slower population and economic growth in New Jersey but also the

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nation as a whole, as well as the Treasurer's May testimony, in which she reported numbers on New Jersey taxpayer realizations in 2021 and 2022.

[2] Pre-tax operating earnings are profits with inventory valuation and capital consumption adjustments.

[3] We assume 10 percent more for every percent of more rapid GDP growth.

[4] The national tax base is assumed to have grown 5.3 percent at that time.

[5] The 4.3 percent trend reduced by 13 percent, which is the product of the 1.3 percent growth shortfall and 10 percent.

tendency for consumer spending to shift to nontaxable services such as housing, health care, and education. We assume that sales tax growth in a fiscal year will be one percent slower than growth in national (current-dollar) consumer spending in the prior year.

Other Revenues

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

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