

Mid-Year State Budget Update

Assembly Budget Committee

January 25, 2010

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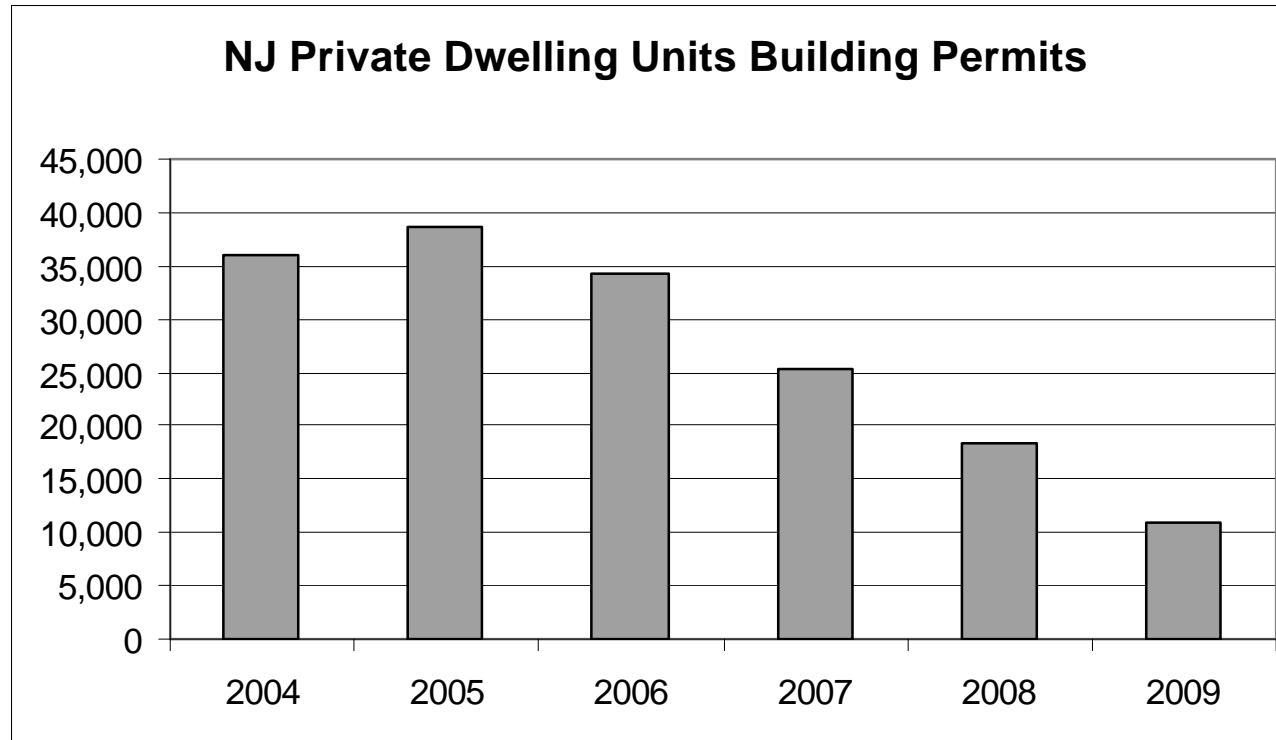
Legislative Budget and Finance Officer

National Economic Collapse Frames the Budget Problem for FY 2010 and Beyond

- National Bureau of Economic Research determined that US economic growth ended in December of 2007

Housing Market Collapse

- NJ Building permits have fallen more than 70% since the peak in 2005

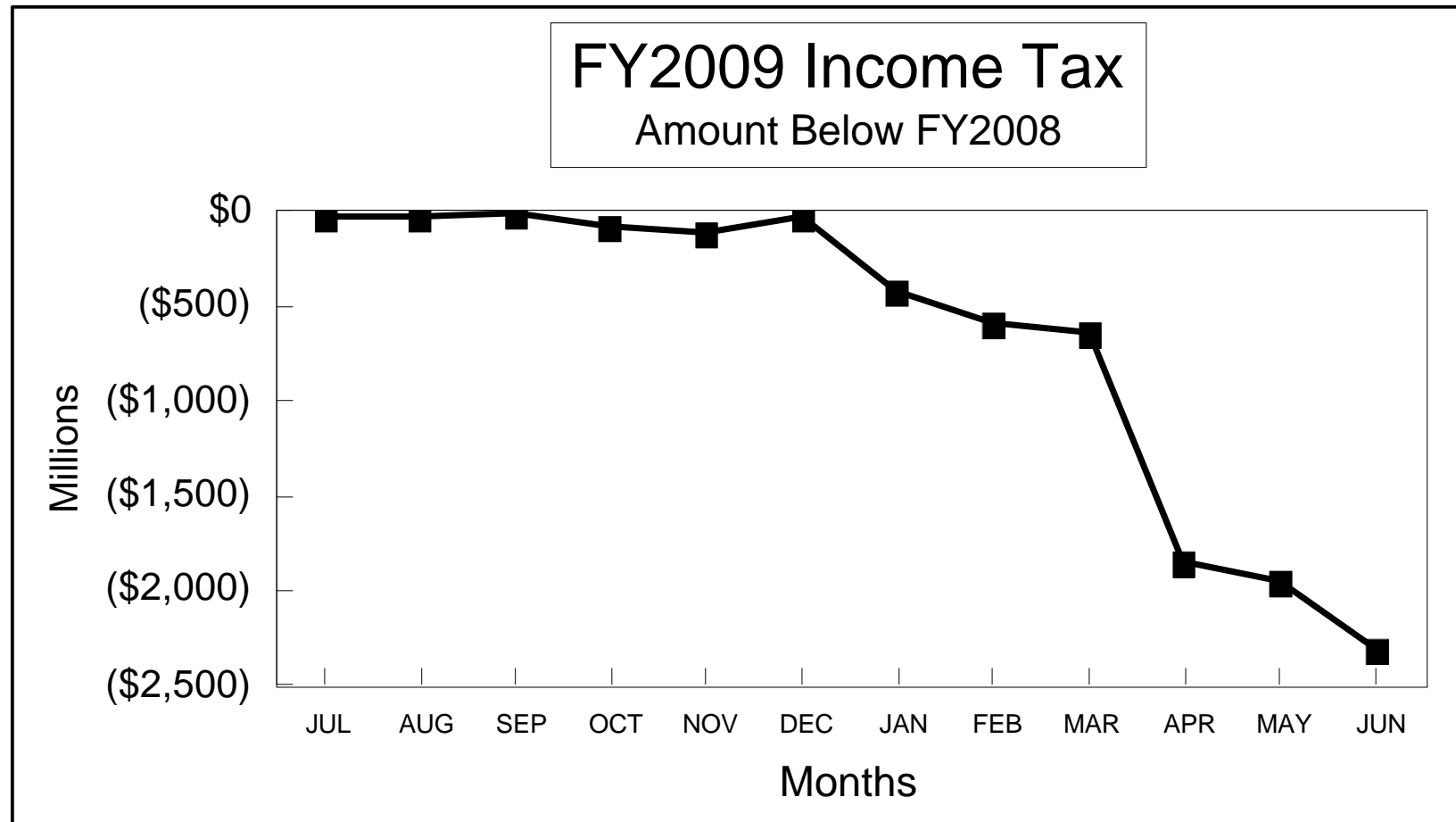


- Housing values in NJ fell 18% from 2006 to the low point in early 2009

- NJ Employment is down 4.4% from the December 2007 peak, a loss of 180,000 jobs
- Unemployment rate is up to 10.1%
- New Vehicle Registrations are down 32% from 2007
- S&P 500 index peaked in October of 2007, fell 42% in 11 months, and is still about 30% below 2 years ago

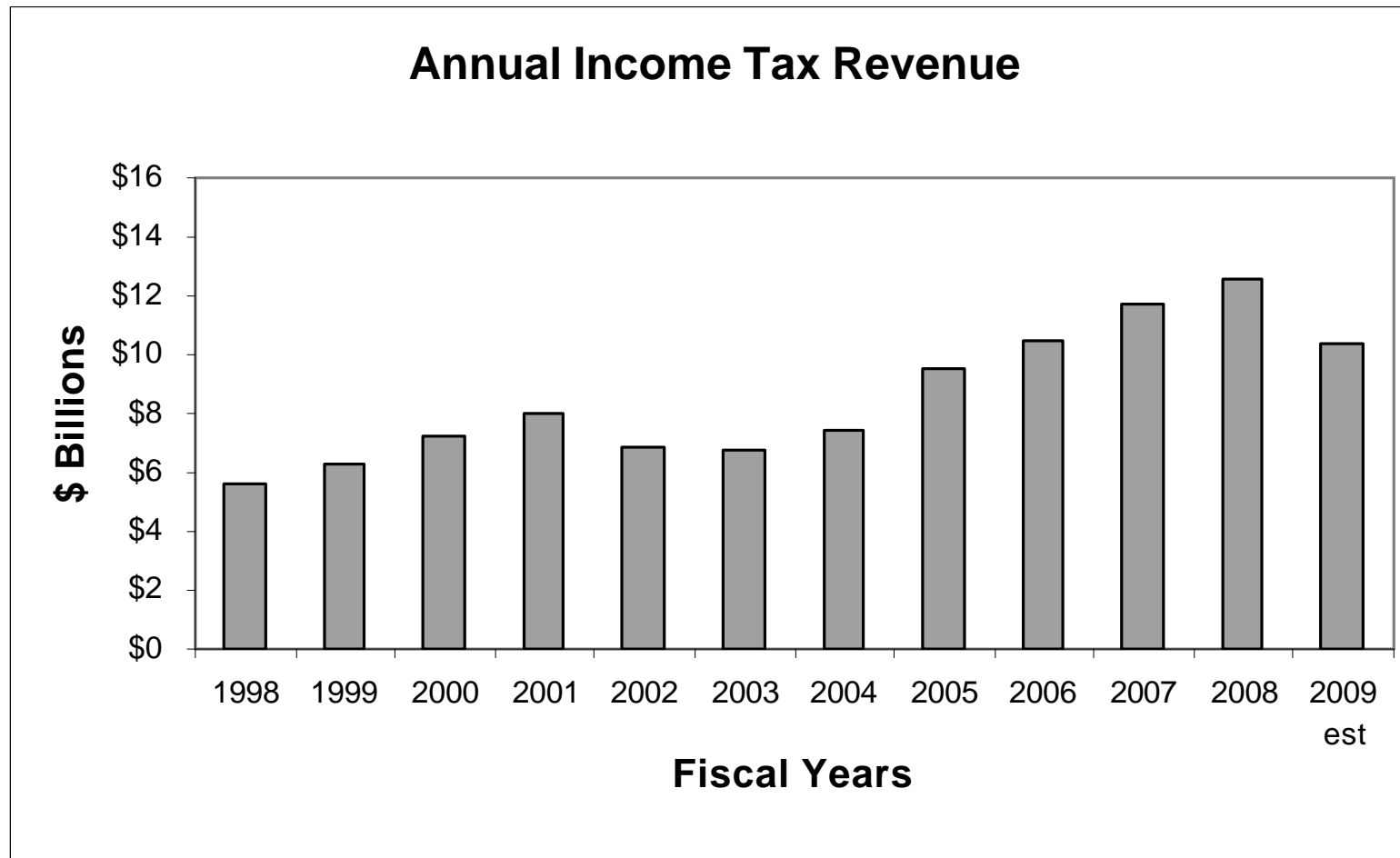
Revenue Decline Began in FY 2009

The GIT Month-by-Month in FY 2009

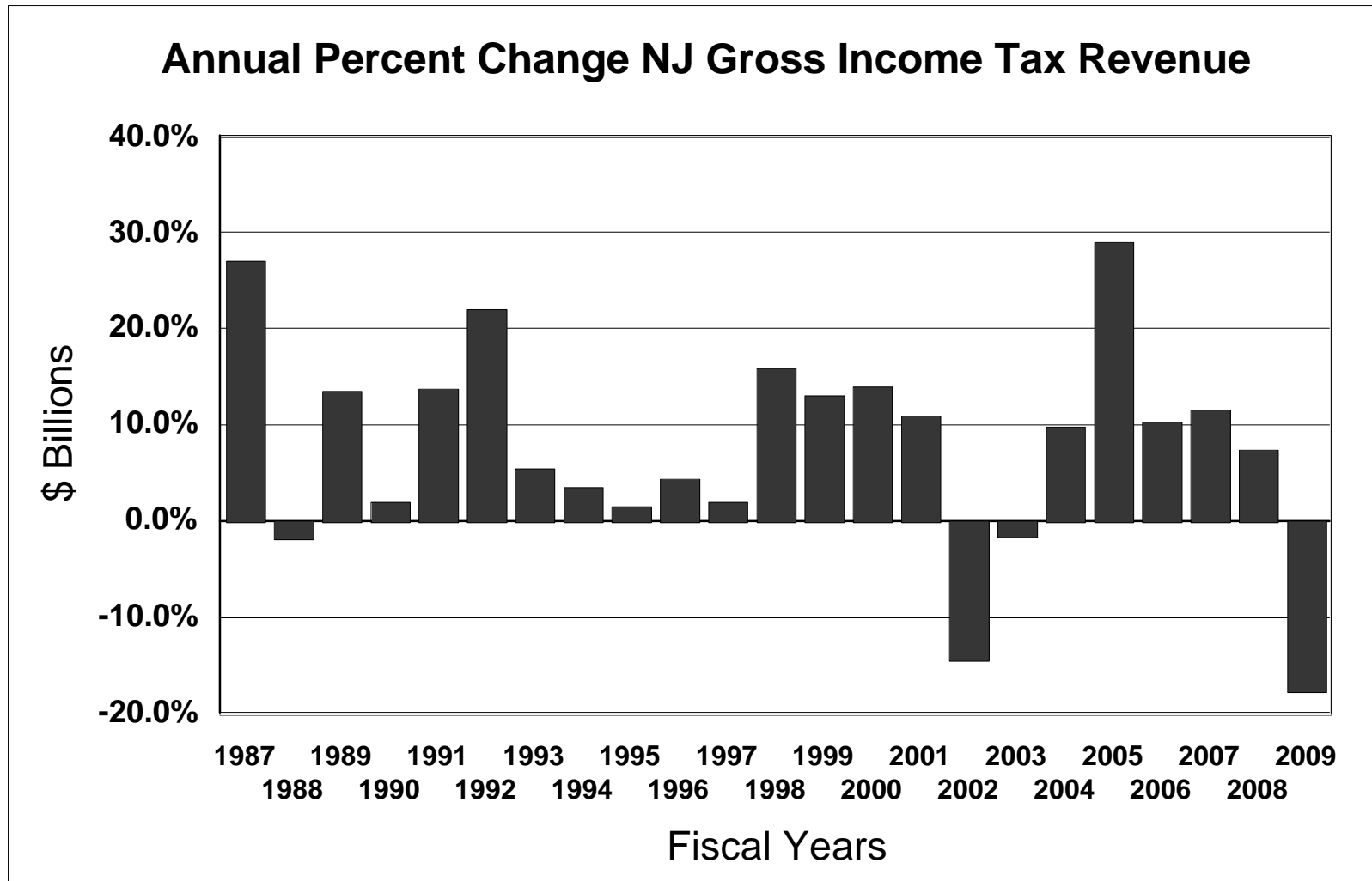


Income Tax

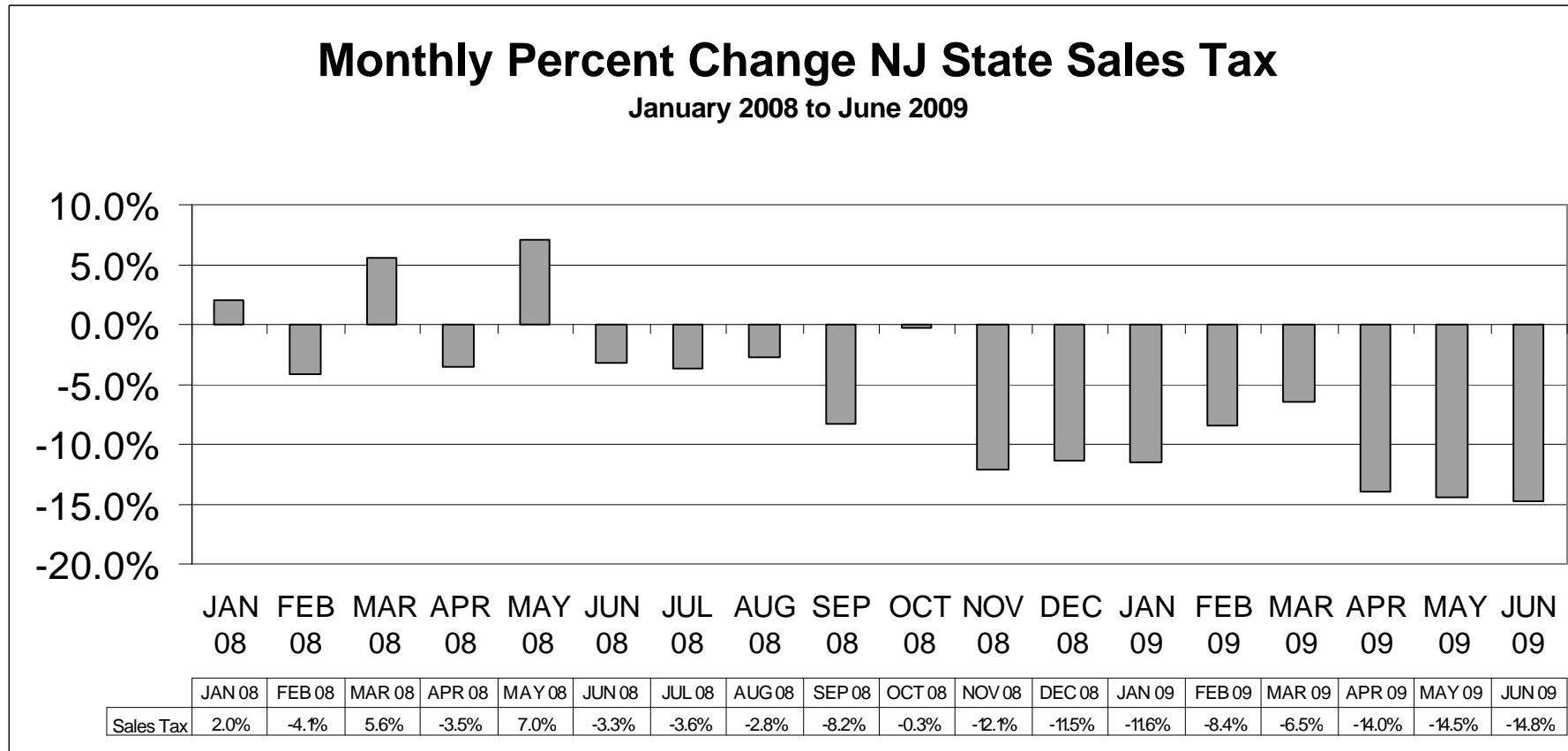
Down \$2.4 Billion in FY 2009



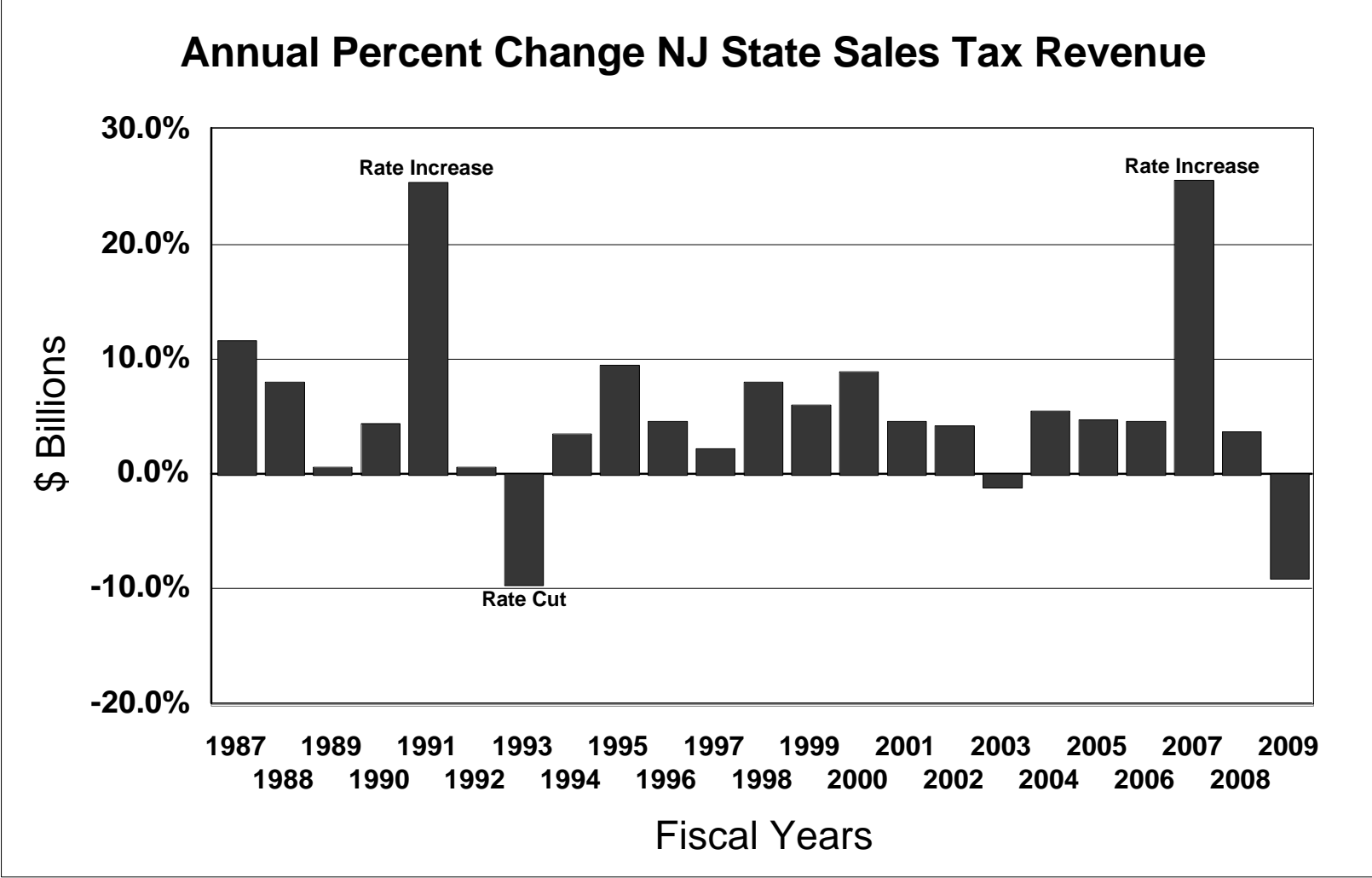
FY 2009 Worst Year in Income Tax's History (-18%)



Sales Tax Tumbled in FY 2009



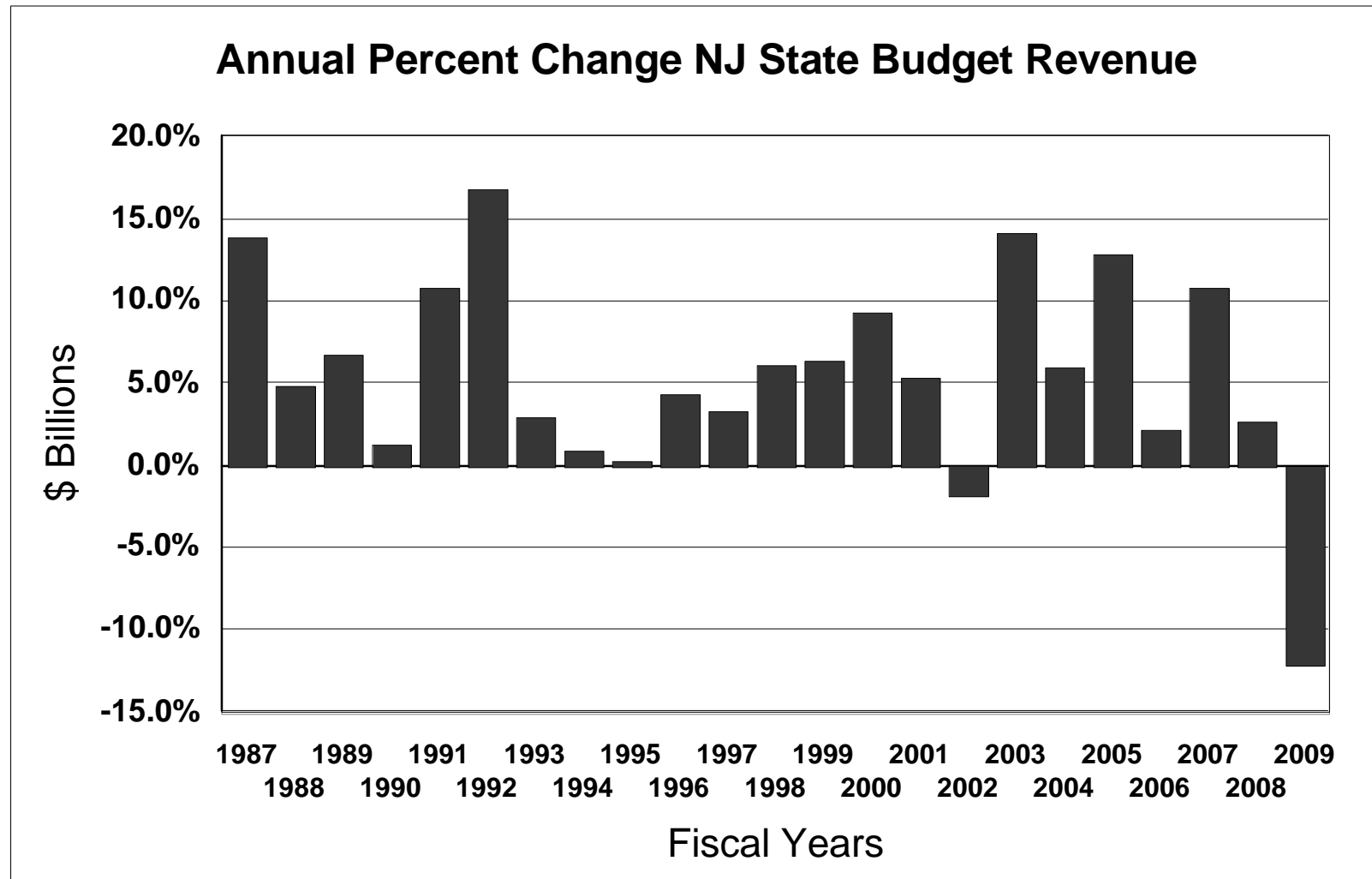
Worst Year in Sales Tax History (-9%)



Most Other FY 2009 Major Revenues were also down

- Corporation Tax down 25%
- Casino revenues down 14%
- Realty revenues down 40%
- Insurance taxes down 16%
- Motor fuels taxes down 5%
- Inheritance revenues down 9%

Worst Year in Modern Budget Revenue History (-12%)



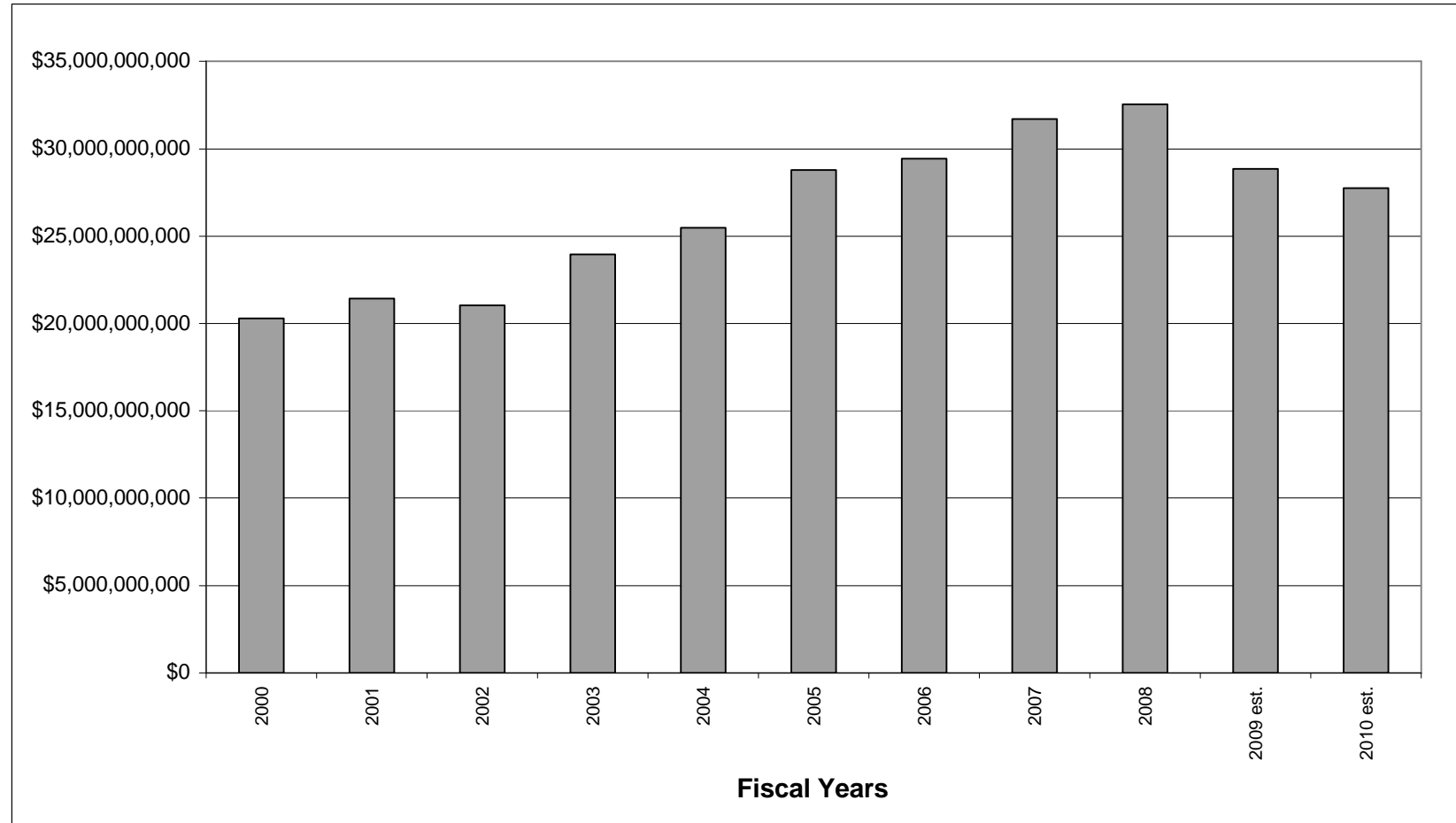
The FY 2009 Mid-Year Problem

- Grew from \$2 billion in January 2009 to \$4.3 billion by June 2009
- Resource solutions (\$1.8 billion):
 - Spend down surplus/ reserves
 - Federal Stimulus funds
 - Tax Amnesty
- Spending solutions (\$2.5 billion):
 - Budget cuts: pensions, etc.
 - School Aid payment deferral

The FY 2010 Budget Problem (June 2009)

- Structural Budget Deficit: \$8.2 billion
 - Baseline resources: \$27.5 billion
 - Projected spending: \$35.7 billion

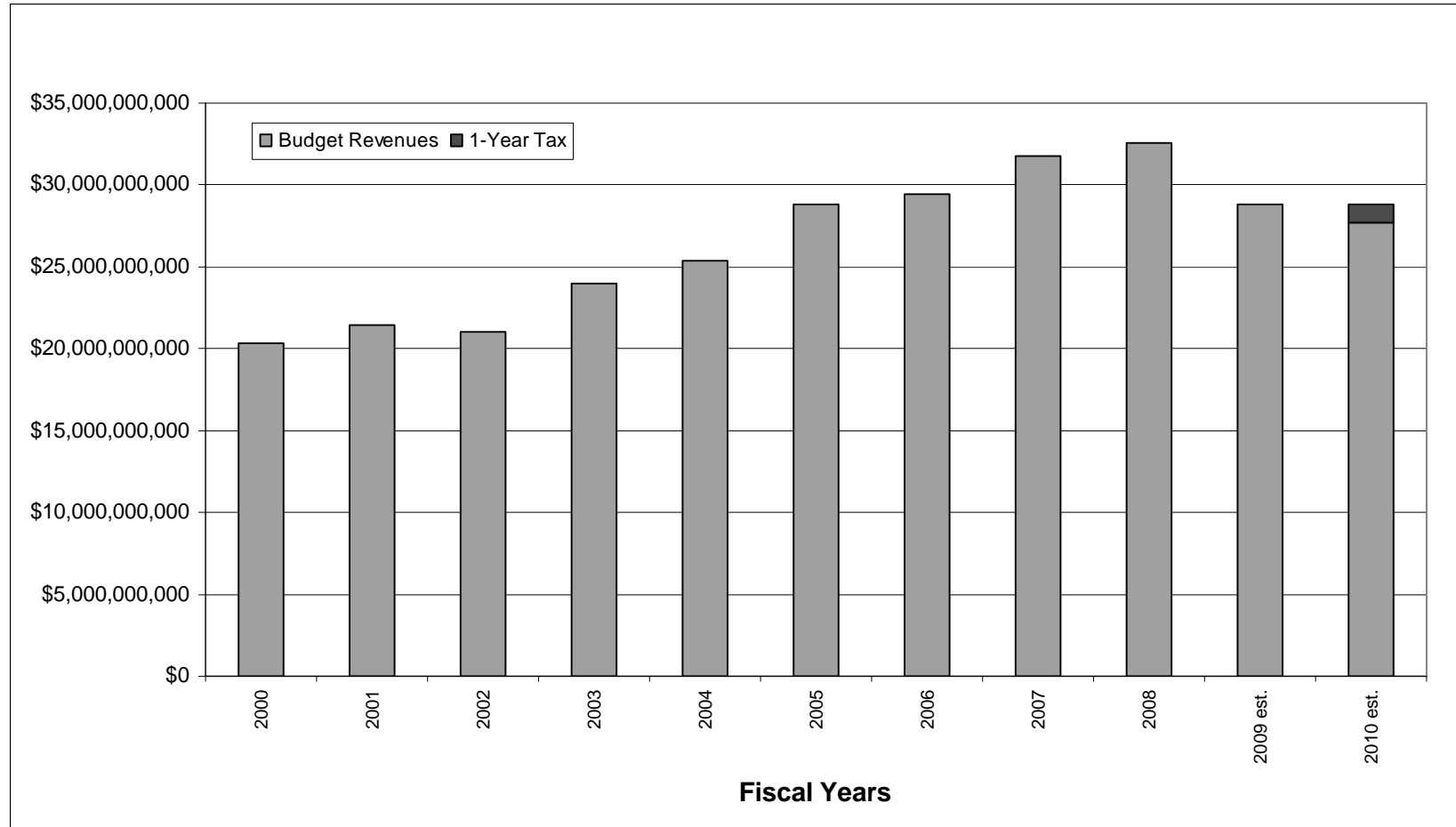
Baseline Revenues Were Still Falling



The FY 2010 Budget Solutions (June 2009)

- Resource Solutions: \$3.5 Billion
 - Gross Income Tax, one-year rate increases: \$1 billion

1-Year GIT Increase Keeps Total Revenues Flat

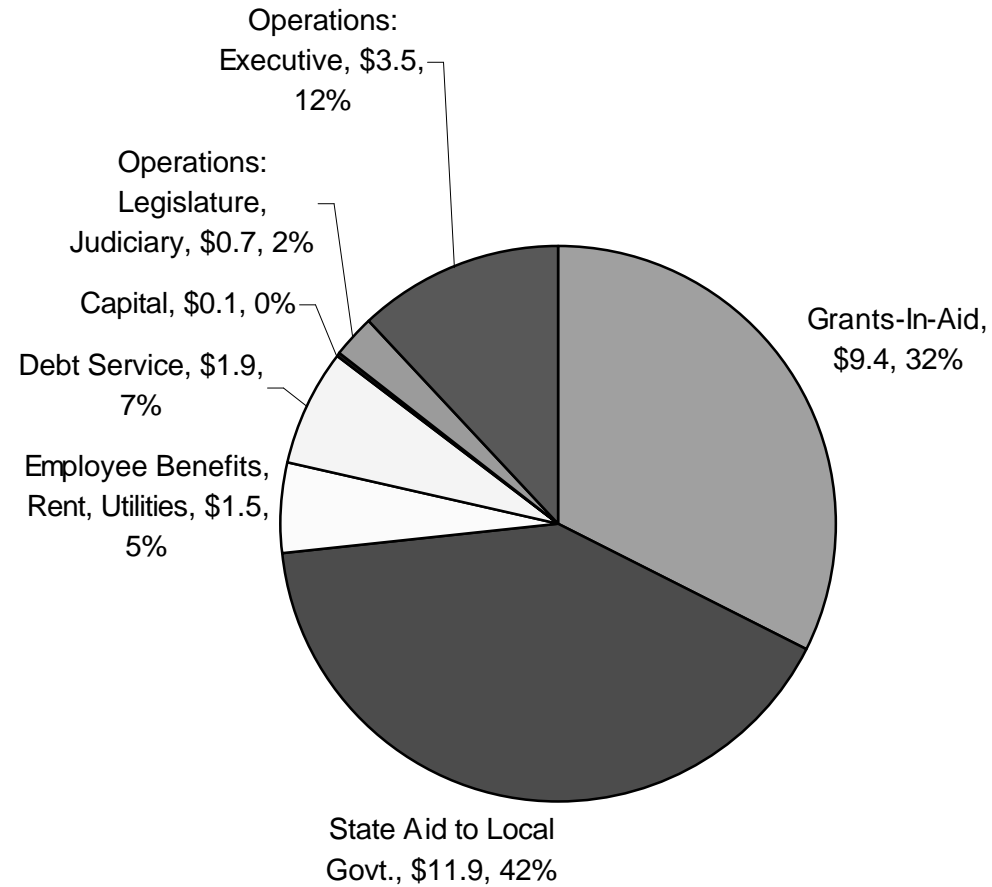


The FY 2010 Budget Solutions (June 2009)

- Resource Solutions: \$3.5 Billion
 - Gross Income Tax, one-year rate increases: \$1 billion
 - Federal Stimulus Funding: \$2.3 billion

- Spending Solutions: \$4.5 Billion
 - Pension funding, Homestead Rebates, debt restructuring, Medicaid/PAAD, furlough savings, operating costs, local aid, restrain school aid hikes, employee salary freeze, no inflation adjustments

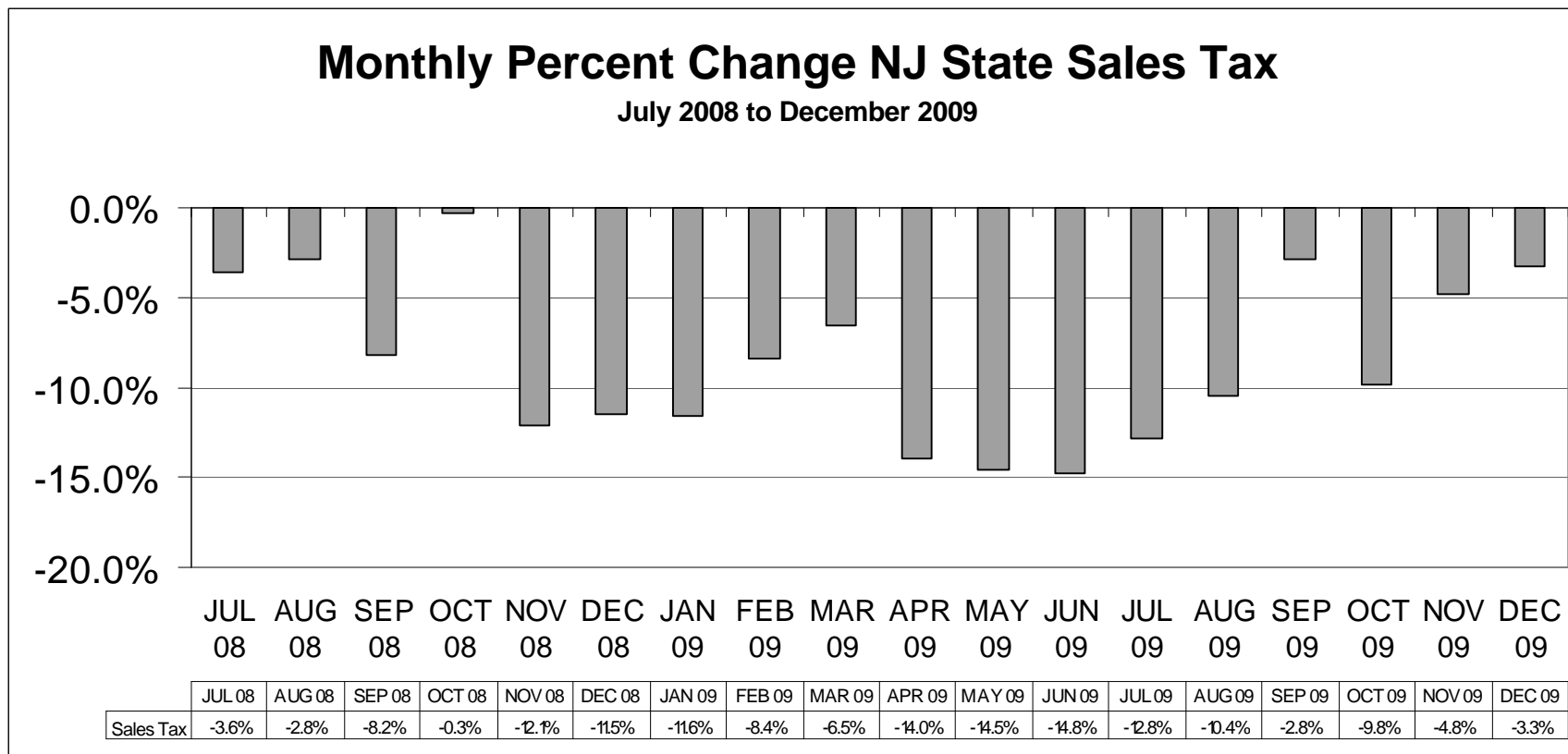
The FY 2010 Budget as Adopted



FY 2010 Appropriations Act is \$29.0 Billion

FY 2010 Mid-Year Revenue Trends Remain Poor

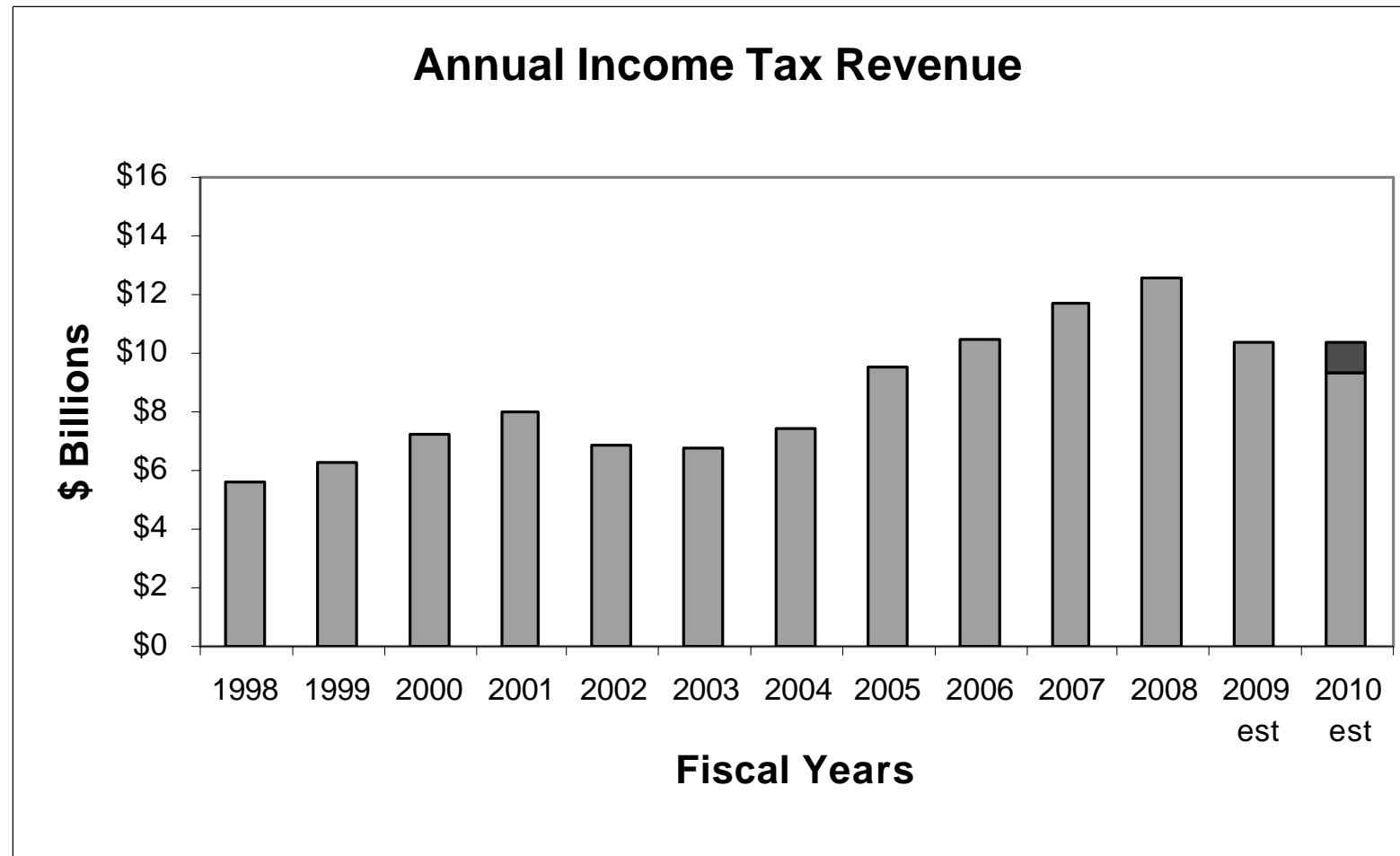
FY 2009 (-9%) Sales Tax Decline Continues into FY 2010 (-6%)



Other Major Revenues Also Down

- Corporation Business Tax Down 22.4%
- Transfer Inheritance Tax Down 25.1%
- Casino Revenues Down 17.8%
- Realty Transfer Tax Down 24.6%

Income Tax Would Decline in FY 2010 Without the 1-Year Tax Increase



New Administration's First Take on the FY 2010 Budget

- Opening surplus shortfall \$121 million.
- Revenue shortfall of \$1.2 billion.
- Supplemental spending of \$669 million.

FY 2011 and Beyond Face Significant Budget Issues

- Expiration of \$1.1 billion of temporary tax increases
- FY 2010 base revenues are down nearly \$1 billion
- \$1.6 billion federal stimulus for base spending will not recur in FY 2011
- Remaining \$600 million in federal stimulus will not recur in FY 2012
- State pension obligations may reach annual payments of \$3 billion
- School aid formula projects annual growth in excess of \$600 million
- Fully fund statutory rebate programs for > \$1.0 billion

It Could Take Many Years for Revenues to Return to FY2008 Peak

