

# Who says how much? Debate on tax revenues builds

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Tax payments are up \$4 billion, again raising question if governor alone should set estimates



Credit: (Edwin J. Torres for Governor's Office).

Feb. 25, 2020: Gov. Phil Murphy delivered his fiscal year 2021 budget address at the State House in Trenton.

For the second straight year, New Jersey is seeing a big surge in tax revenue that is fostering political disagreement over how the governor and lawmakers handle the budget and revenue forecasting.

More than halfway through the state's July-to-June fiscal year, tax collections were running more than \$4 billion ahead of last year's pace, according to the latest figures made public by the Department of Treasury.

That strong revenue performance follows a record-setting rise in tax collections that occurred in the last fiscal year, despite the ongoing coronavirus pandemic.

But amid the state's rising revenues — New Jersey has for years struggled with significant fiscal challenges — Republican lawmakers are questioning Democratic Gov. Phil Murphy's broader oversight of the budget. Earlier this month, they sent a letter to the state treasurer that, among other issues, raised concerns about the department's revenue forecasts that set a foundation for the annual budget.

## **How are budget revenues forecast in NJ?**

Unlike many other states, in New Jersey, the governor has final say when it comes to projecting revenues, though lawmakers have the authority to decide exactly how to spend those revenues.

Under a process written into the state Constitution more than seven decades ago, before a new fiscal year can begin on July 1, lawmakers must draft an annual appropriations bill and send it to the governor for final approval.

However, the Constitution grants the governor the sole authority to formally certify exactly how much tax revenue will be available during the fiscal year to support the spending authorized by lawmakers in their appropriations bill.

The Constitution also generally requires a balanced annual budget, meaning projected revenues must match forecast spending when each new fiscal year begins.

## **When are revenue forecasts drafted?**

The budget approval process starts months before the July 1 deadline, with the governor making the first move by presenting to lawmakers a proposed spending plan for the upcoming fiscal year, typically by late February. This year, Murphy asked lawmakers to delay his annual budget message until March 8, citing concerns related to the pandemic.

Embedded in the governor's budget proposal each year is a detailed fiscal outlook and revenue forecast for each of the state's major sources of tax collection.

From there, the state treasurer typically comes before lawmakers twice each spring to review the forecast and detail any changes, if necessary, that occur in response to the latest tax-collection trends.

Meanwhile, revenue forecasts are also prepared each year by fiscal analysts employed by the Office of Legislative Services, or OLS, which serves as the state Legislature's nonpartisan research arm. But because the Constitution gives the governor the final say when it comes to forecasting revenue, the legislative projections are only advisory in nature.

## **What happens when forecasts don't align?**

While differences are to be expected, major discrepancies between an administration's forecasts and those produced by the OLS can often serve as red flags for lawmakers as they compile an annual spending bill.

Such a scenario played out over a decade ago, when then-Gov. Chris Christie was urging lawmakers to approve an across-the-board state income tax cut. At the time, Christie's administration was forecasting significant revenue growth would occur during the state's recovery from the 2007-2009 Great Recession, but the legislative estimates were far less sanguine.

In [2020, during Murphy's tenure](#), the roles were largely reversed.

This time, the OLS produced a revenue forecast that projected tax collections would run well ahead of what the Murphy administration was estimating at the time. That forecasting discrepancy came around the same time Murphy was urging lawmakers to authorize borrowing without voter approval to help

sustain the state budget during the pandemic. With a final signoff from lawmakers, the Murphy administration ultimately borrowed nearly \$4 billion.

But last year, the Murphy administration made a series of forecast revisions in response to tax collections that surged throughout the second half of the fiscal year, helping the state amass a budget surplus of more than \$10 billion.

## **What is consensus forecasting?**

Nearly 30 states use some form of what's known as consensus forecasting rather than leaving those responsibilities solely in the hands of the executive branch, according to New Jersey Policy Perspective, a liberal, Trenton-based think tank that called for adopting such a change in New Jersey in a major report on budget practices published in 2020.

Last year, New Jersey lawmakers introduced [a bipartisan bill that called for overhauling](#) the state's current revenue forecasting process while still preserving the governor's authority to have the final say.

Under the bill, a new revenue advisory board would be established to foster more collaboration between the executive and legislative branches.

The state treasurer and the top budget official from the OLS would serve on the advisory board, but seats would also be reserved for outside experts who would be charged with providing additional perspectives. The panel would also be required to hold a series of public hearings, according to the bill.

A [2017 report on state budgeting practices](#) from Stockton University's William J. Hughes Center for Public Policy determined consensus forecasting in other states did not necessarily generate more accurate revenue forecasts. Still, the report concluded it did offer a "critical advantage" to policymakers, which was "a shared reality and a shared vision of the economic parameters of the State's fiscal future."

The legislation seeking the forecasting overhaul in New Jersey was reintroduced and referred to the respective budget committees in the Assembly and Senate earlier this year after it failed to reach the finish line during the previous legislative session.

## **What happens next?**

Although several months remain in the current fiscal year, Republican lawmakers have been calling on the Murphy administration to immediately return to taxpayers what they've called funds generated through "over-taxation."

But Treasury officials have maintained that a series of tax breaks and other tax credits that are owed to residents and business owners before the end of the fiscal year will eventually eat into what appears, at least on paper, to be a major revenue surplus.

Meanwhile, the Murphy administration is expected to make public a set of updated revenue projections for the current fiscal year on March 8, at the same time the governor puts forward a new spending plan for the fiscal year that will begin on July 1.