NJBIZ - njbiz.com

Editorial: Enough with the ridiculous budget projections

February 12, 2017 at 3:00 AM

Gov. Chris Christie delivered his most recent budget address in 2016. - (OFFICE OF THE GOVERNOR/MYKWAIN GAINEY)

How do governors balance the state budget in New Jersey? Easy. They inflate the revenue projections and cross their fingers. If they're lucky, an expanding economy bails them out. If not, “surprise” budget shortfalls become clear late in the fiscal year. Then a scramble begins to divert funds and trim programs in a process that sidesteps the usual budgeting system.

The issue got some attention last week with the release of a Stockton University study on New Jersey’s budget practices and with the impending introduction of Gov. Chris Christie’s eighth budget later this month. Believe it or not, there’s a better way.

Certainly, as the report by Stockton’s William J. Hughes Center for Public Policy noted, predicting future tax receipts is a difficult task. But, the report said, New Jersey is hamstrung by its system for setting revenue projections and its failure to have a sufficient rainy-day fund to make up for the inevitable shortfalls. These so-called “April surprises,” by the way, have been a key factor in New Jersey’s 10 credit downgrades under Christie.

Under the New Jersey Constitution, the governor has the sole authority to set the budget’s revenue projections. The Legislature’s Office of Legislative Services comes up with its own set of projections, but it’s the governor’s numbers that go into the budget. Thus, a governor — say, one who has his sights set on higher office — can use those projections for his own political purposes.

> A governor can use the state budget’s revenue projections for his own political purposes.

For example, in 2012, Christie declared a “Jersey Comeback” and based a plan for a 10 percent income-tax cut — a proposal he could trumpet as he sought the Republican nomination for president — on wildly optimistic revenue projections. Those revenue projections served their purpose for Christie, until real numbers forced the “Jersey Comeback” banner to quietly disappear from his town hall meetings.

The better way? Consensus revenue forecasting, a key recommendation of the Stockton report. Under this model, revenue projections are set by a three-person panel that consists of a representative of the administration, a representative of the Legislature and an independent expert selected jointly by the other two. The budget process can then begin with what the report called a “shared reality.” Imagine that.

New Jersey lawmakers have made several attempts to institute such a system. Christie vetoed one such attempt last year, noting that consensus forecasts in other states have not proved any more reliable than New Jersey’s method. A new bill has been approved by the Assembly. Christie, of course, ignored the most relevant point: Projections reached by consensus may not necessarily be more accurate, but they do make it harder to use deceptive revenue projections for political purposes.