Forecasting New Jersey’s revenues

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It’s a simple equation: Good forecasting of revenues equals fewer budget surprises.

As we enter the season when the governor proposes his budget – his budget address to the Legislature is scheduled for next Tuesday – the opportunity exists to better our forecasting methods and avoid shortfalls, midyear corrections and other budgetary dilemmas.

Stockton University political science professors Daniel L. Mallinson and David Carr recently released a study that offers ways for New Jersey to improve its revenue forecasts and avoid the springtime crises that can lead to severe measures in the current year and mountains to climb in planning for the next fiscal year – which is just a few months away.

Unquestionably, revenue forecasting is difficult. In many ways, it is an art and not a science. Some errors are inevitable. However, more frequent monitoring and keeping a solidly funded Surplus Revenue Fund – better known as a Rainy Day Fund – can mitigate one-time budget gimmicks and shifting of funds intended for a specific use to the general fund. It can also keep down borrowing for the future.

As with most states, New Jersey is required to have a balanced budget. We rely on an excess of revenues over expenses to maintain our Rainy Day Fund. If those revenues, which are heavily linked to sales tax revenues, do not live up to expectations, the Rainy Day Fund is underfunded, and we struggle to fill revenue gaps that may be beyond our control. Federal government actions, capital gains, unemployment, loss of a major industry and more create volatility in our tax revenue.

Too often, state government does not read these trends as often or as thoroughly as it should. Tax revenues are overstated, and we are unprepared for the consequences.

Professors Mallinson and Carr’s report points out that while consensus budgeting is not necessarily significantly more accurate than competing forecasts, the importance is that it can bring “… a critical advantage to the table: a shared reality and a shared vision of the economic parameters of the state’s fiscal future.”

Our revenues since the recession have not recovered, and we have resorted to short-term fixes that then affect our declining bond ratings. More equations: The lower the bond rating, the higher the interest to pay back our debt, and that equals a deeper hole.

For political reasons, the revenue numbers we hear are usually in percentages, and they sound quite small. Yet when they are translated into real dollars, we’re talking about multimillions, with significant effects on the programs we need to fund. In one example pointed out in the report, the difference between the forecasts of the governor and the Office of Legislative Services in 2015 was less than 1 percent. But that difference amounted to $335 million.

We need to begin more long-term forecasting (beyond just a year) and to revise the forecast throughout the year. While various state offices look at the month-to-month compared to expectations, that’s not an analysis of how this will affect long-term forecasts and changes in the economy. With that type of information, adjustments could be made earlier in the year, avoiding draconian impacts later.

We can be more proactive. Based on the last half-dozen years, it will be many years before we will have a Rainy Day Fund of any consequence. Since 2009, the fund has been virtually empty, the study shows, and in 2015, New Jersey only had enough reserve funds (Surplus Revenue Fund plus end-of-year balances) to operate government for 9.2 days.

So the case for taking action is clear. We could legislate that a specific percentage of tax revenues would go into the fund or, alternatively, allow only a set percentage of forecasted revenues to be spent. We also need to create rules on how much can be withdrawn from this fund and under what circumstances.

These steps alone will help eliminate partisan politics from our forecasting and prepare us for a more stable future and fewer tax surprises. Programs relating to education, senior citizens, health issues, infrastructure, economic development and more will be less vulnerable to swings in our revenues.

The opportunity is now for New Jersey to improve its budget forecast, adopting a consensus method between the executive and legislative branches of government instead of a competitive method. We avoid political competition and instead have a shared understanding of the strengths and weaknesses in the budget over a longer period of time. The time is now to hedge against future surprises and begin replenishing the Rainy Day Fund in a disciplined manner.

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