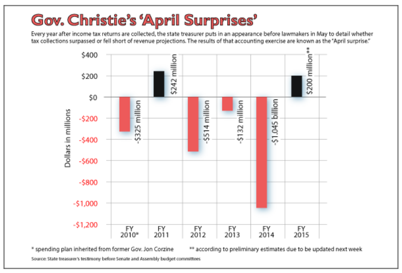
COULD COMMONSENSE RULES FIX SOME OF NEW JERSEY'S BUDGET PROBLEMS?

JOHN REITMEYER | FEBRUARY 7, 2017

Inability to replenish 'rainy day' savings account is significant problem for Garden State



Click to expand/close

Missed revenue projections have sent Gov. Chris Christie scrambling to close sizable budget shortfalls in recent years, and a new report recommends several key policy changes that New Jersey could enact to help insulate itself against forecasting problems in the future.

Some of the suggestions follow basic rules of commonsense, like being more transparent and putting aside more money each year so that unexpected budget problems don't have a major impact on important programs and services.

But other recommendations take on the budget-forecasting process itself, including suggesting the Christie administration should consider consensus forecasting, where input is taken from legislative staff and outside economic advisors, and also updating annual projections more regularly to keep tabs on any problems as they develop during the fiscal year.

Tax collections once again running behind projections

The report released yesterday by Stockton University's William J. Hughes Center for Public Policy comes out just as Christie, a second-term Republican, is preparing to present his next official state budget proposal to lawmakers during a joint address in the State House later this month. The report also raises the issue of revenue forecasting just as the latest official notice from the state Department of Treasury suggests tax collections for the current fiscal year are once again running behind projections, meaning a new round of midyear budget adjustments could be looming.

A spokesman for Treasury, the department that primarily handles official revenue-forecasting duties in New Jersey, said in a statement yesterday that the full report and its recommendations were still under review, but he also questioned the value of consensus forecasting.

On several occasions since the end of the Great Recession, the Christie administration has been forced to make major budget changes during the final weeks of the fiscal year, including last May, when tax collections came in roughly $600 million short of projections. The gap was even wider in 2014, totaling $1 billion.

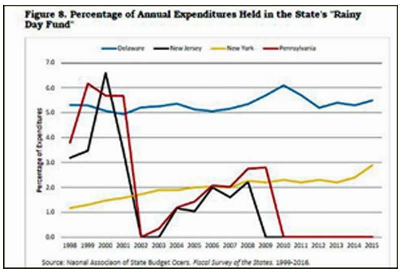
Commonly referred to as an "April Surprise" since they're revealed only after income-tax returns are processed each spring, forecasting misses often represent just a small percentage of total spending. But in absolute dollars the misses "can have significant programmatic and political consequences," said the report's authors, Stockton political science professors Daniel Mallinson and David Carr.

Recent budget shortfalls have impacted key state programs

For example, in recent years, state budget shortfalls have impacted key property tax relief programs, charity-care aid for hospitals, and state funding of the public-employee pension system. The shortfalls have also been raised as an issue by Wall Street credit-rating agencies as New Jersey has suffered through a record number of downgrades during Christie's tenure.

But the Stockton report also raised another reason for lawmakers to be concerned about the shortfalls. Midyear budget adjustments come primarily from the executive branch, meaning lawmakers could be conceding "substantial spending authority to the Governor when there is an emergency revenue shortfall towards the end of the fiscal year," the report said.

At the halfway mark of the current fiscal year, tax collections were just 1.7 percent higher than the prior year, or about $200 million, according to Treasury's latest official revenue notice. The fiscal 2017 revenue forecast calls for 3.6 percent growth through the end of June, suggesting collections were off about $225 million at the end of December.



Click to expand/close

A big part of New Jersey's budget problems also stems from an inability to replenish its "rainy day" savings account in the wake of the Great Recession, the report found. The state has still not seen its tax collections rebound to pre-recession, inflation-adjusted levels, according to data tracked by the Pew Charitable Trusts.

The Stockton University report found New Jersey's official Surplus Revenue Fund has been kept virtually empty since 2009, and it listed boosting the account as the top way the state could help address the recurring revenue-forecasting problems in the future.

State has failed to keep adequate Surplus Revenue Fund

"We find the biggest shortcoming to be in the state's failure to establish and maintain a Surplus Revenue Fund sufficient to manage forecasting errors," Mallinson and Carr said. They also recommended that more analysis be done to find trends that could be better anticipated during the annual budget process.

The authors compared New Jersey's revenue-forecasting policies to those in the neighboring states of Delaware, New York and Pennsylvania to see if those states have had more success by doing things differently. For example, the authors found that in Delaware and New York there are six official revenue updates during the fiscal year, and in New York, a 239-page forecasting manual is released to fully explain each year's revenue forecasting.

In New Jersey, the state constitution gives the executive branch the sole authority to certify revenues for the annual budget. As part of the budget process each year, Treasury compiles a short fiscal outlook and revenue forecast, and the state treasurer appears before lawmakers twice each spring to review the forecast and make any changes, if necessary, based on tax-collection trends. A forecast is also prepared by the budget analyst for the Office of Legislative Services, the state Legislature's nonpartisan research arm, but those projections are only advisory.

In Delaware and New York, the budget projections come together through a consensus-forecasting process that involves getting input from economic advisors, the report found. While those states' forecasts don't necessarily prove more accurate, they do provide more transparency, the report found.

"Consensus forecasting brings a critical advantage to the table: a shared reality and a shared vision of the economic parameters of the State's fiscal future," the authors said.

Christie vetoed revenue-forecasting advisory panel

Last year, Christie vetoed a bill that would have established a three-person revenue-forecasting advisory panel consisting of the state treasurer, the budget analyst for the nonpartisan state Office of Legislative Services and a third member recommended by the treasurer and the OLS budget analyst. A new version of the **consensus-forecasting legislation** was introduced in the wake of Christie's veto and has already been passed by the full state Assembly.

Christie, when issuing the veto last year, said that consensus forecasting doesn't necessarily yield better results. In response to the Stockton report yesterday, Treasury spokesman Willem Rijksen said consensus forecasting "can produce delays and confusion with no substantive impact on improving forecasting accuracy."

Rijksen also pointed to vetoes of spending bills issued by Christie and other examples of budget discipline, and he said the state treasurer will be providing an update of the fiscal 2017 revenue forecast later this month when the new budget comes out.