

COULD ADVISORY BOARD HELP NJ AVOID LAST-MINUTE BUDGET SHORTFALLS?

JOHN REITMEYER | DECEMBER 13, 2018

Lawmakers are hoping to implement consensus forecasting to keep state on even financial keel, but governor would still be only one who could certify state revenues



Lawmakers are considering a change in how the state forecasts tax collections each year – which is key to determining state spending – in the name of improving fiscal policy. But even if it is adopted, Gov. Phil Murphy would still retain sole authority to sign off on revenues for the state budget.

Earlier this year, Senate President Steve Sweeney floated the idea of creating a special board made up of officials representing both the Legislature and the governor to certify how large the budget should be each year. That idea was never enacted. Now, however, the Assembly Budget committee has given its blessing to a bill that would establish a revenue-advisory board. Its purpose: bring together forecasting experts from the executive and legislative branches, as well as a voice from outside government.

The bill doesn't go as far as Sweeney's proposal, because the revenue board – as its name suggests – would serve an advisory role. Thus, it would not restrict the governor's sole power under the state constitution to certify revenues for the annual budget.

Barely passing grade for budget forecasting

But the legislation would bring the state closer to adopting the consensus-forecasting model preferred by fiscal-policy groups like the Volcker Alliance, a nonpartisan organization founded by former Federal Reserve Bank Chairman Paul Volcker. Just yesterday, the alliance awarded New Jersey a **“D” for budget forecasting** in its latest **report**. New Jersey's current revenue-projection process is dominated by the executive branch, while the consensus-forecasting model compels other voices to be heard in a bid to improve accuracy and keep politics from influencing official projections.

“The use of a consensus method to estimate revenue is one of the best budget forecasting practices identified by the Volcker Alliance,” the report said.

For the past seven decades, New Jersey's annual budget process has operated basically the same way under a system established in the state constitution. It gives lawmakers the power to write the annual appropriations bill, but awards to the governor the sole authority to certify how much tax revenue will be available during the fiscal year to support spending. The constitution also requires a balanced annual budget, meaning projected revenues must match forecasted spending when a new fiscal year begins on July 1.

As part of the budget process, the Department of Treasury compiles a short fiscal outlook and revenue forecast each winter. The state treasurer comes before lawmakers twice each spring to review the forecast and make any changes, if necessary, based on tax-collection trends. A revenue forecast is also prepared each year by the budget analyst for the Office of Legislative Services, the state Legislature's nonpartisan research arm, but it's only advisory in nature.

Narrowly avoiding a shutdown

Earlier this year, the governor's authority to certify revenues emerged as a key fault line in budget disputes involving Murphy, a first-term Democrat, Sweeney (D-Gloucester), and Assembly Speaker Craig Coughlin (D-Middlesex) that nearly shut down state government. At the heart of the disagreement was legislative leaders' reluctance to enact an ambitious tax-hike agenda that Murphy proposed in order to fund a host of spending priorities. In the end, the legislative leaders **forced Murphy** to scale back his proposed tax hikes, but the governor used the revenue certification requirement as leverage to prevent lawmakers from basing the budget on some suspect sources of revenue.

Several weeks after the dust settled, the Senate Budget and Appropriations Committee held a hearing on the proposal **sponsored by Sweeney** to establish a consensus-revenue forecasting process via constitutional amendment. Under that **proposal**, a "revenue certification board" would be assembled to get input from the state treasurer and the OLS budget officer, as well as an outside economic-policy expert. Most importantly, the constitution would be rewritten to give the new board the authority to certify revenues.

Sweeney cited research by the Volcker Alliance that indicated nearly **30 other states** already use a consensus-forecasting model to support his proposal, but State Treasurer Elizabeth Maher Muoio submitted a letter that raised concerns about how the proposed constitutional amendment – which would not need approval from the governor – could upset the overall system of checks and balances established in the state constitution.

Compelling the governor to explain

The issue died down after the proposed amendment passed the full Senate but didn't go anywhere in the Assembly, where Muoio had served until joining the Murphy administration earlier this year. But emerging out of the Assembly Budget Committee last week was the **bill** that would establish the revenue-advisory panel by law and not constitutional amendment, leaving Murphy's constitutional powers untouched. Still, to give the advisory board some teeth, the bill would compel the governor to explain any differences between the consensus forecast and his administration's.

"It is intended to promote agreed-upon revenue estimates as a starting point for the budget-making policy debates involving the executive and legislative branch, and encourage a more thorough and regular public discussion of State revenue estimates in advance of State budget deadlines," OLS analysts wrote in a **bill statement**.

The bill was first introduced in January, and one of its early co-sponsors was Muoio. In a statement issued yesterday, she called reliable revenue estimates "essential to building a fiscally responsible budget."

"Many are not aware that a healthy, collaborative process already exists between the professional staffs of both the executive and legislative branches," she said. "As a former cosponsor of this legislation, I welcome the opportunity to build upon this existing relationship."

The importance of accurate revenue forecasting was also underscored by the Volcker Alliance yesterday in its latest state-by-state analysis of budgeting practices. New Jersey, which also doesn't compile multiyear projections, was among a group of 12 states to receive a "D" or "D-" for budget-forecasting policy, one of five key areas the organization focused on. In all, the states collect a combined \$2.1 trillion in revenue annually, making state-level fiscal policy "of no small concern to the U.S. economy or the federal government," the report said.

The merits of the consensus-forecasting model were also **highlighted** in a study released by Stockton University's William J. Hughes Center for Public Policy in 2017. At that time, the state was regularly missing its **revenue projections** during then-Gov. Chris Christie's tenure.

New Jersey lawmakers have tried before to **establish** a consensus-forecasting board, but although approved by both houses of the Legislature in 2015, it was ultimately vetoed by the Republican Christie.