

Office of Legislative Services
Memorandum



Legislative Budget and Finance Office
(609) 292-8030

TO: Honorable Thomas H. Kean, Jr.
Minority Leader, New Jersey Senate

FROM: David J. Rosen *DJR*
Legislative Budget and Finance Officer

DATE: July 20, 2009

SUBJECT: Estimate of Fiscal Year 2011 Structural Deficit

You requested that we provide an estimate of the structural deficit for the State Budget for Fiscal Year 2011. As we have noted in other years the estimation of the State's structural deficit is essentially an academic undertaking, dependent upon definitional assumptions and open to a range of defensible alternative conclusions. We have taken the question to mean:

If the State were to fund all of its statutory obligations and continue all other state programs at the current service level, while relying on revenues solely from existing sources, what is the sum of budget actions (revenue enhancements and/or foregone expenditures) that would be required to produce a balanced budget?

For fiscal year 2011, we estimate a structural deficit of about \$8 billion. Given the nature of this speculative inquiry, our conclusion is one with which reasonable people can disagree. Working from the FY2010 appropriations act, we have identified the following additional major spending items and revenue losses that would impact FY2011:

Fully Fund Employer Pension Contributions	\$2,500
Replace Non-recurring ARRA funds	\$1,600
Fully Fund Statutory Homestead Rebate Provisions	\$1,600
Replace Revenue from Expiring Tax Provisions	\$1,100
Normal Growth in Various Programs	\$700
Growth in School Funding Formula	\$500
Non-recurrence of Personnel Savings	\$379
Non-recurrence of certain Debt Service Savings	\$200
Non-recurrence of Fund Balance Transfers	\$200
TOTAL SPENDING INCREASE/REVENUE LOSS	\$8,779
Less: Base Revenue Growth	\$800
STRUCTURAL DEFICIT	\$7,979

(amounts in millions)

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Partially offsetting this additional cost/revenue loss of \$8.8 billion, we anticipate a growth in base revenues in FY2011 of approximately \$800 million. This figure represents growth below normal growth rates, but would be the first year of growth following two years of decline in base revenues.

You requested that we also consider structural deficits in the Unemployment Compensation Trust Fund and the Transportation Trust Fund. By our definition the condition of neither of these funds is material to the structural deficit calculation presented above. Nevertheless we can provide some information on the possible status of these funds during fiscal year 2011.

According to estimates provided by the Department of Labor and Workforce Development in April of this year it is projected that the Unemployment Compensation Trust Fund Account will begin the fiscal year with a deficit of \$2.226 billion and end the fiscal year with a deficit of \$3.675 billion. (see attachment).

We do not have sufficient data at this time to respond to the status of the Transportation Trust Fund Authority for Fiscal Year 2011. While the current statute envisioned funding for projects through FY 2011, market conditions may not leave the authority with sufficient bonding capacity for a full capital program in FY 2011. When we receive a clarification on the status of the TTF, we will forward it to you.

Attachment

Discussion Points (Cont'd)

Schedule I Pg. 4

UNEMPLOYMENT COMPENSATION TRUST FUND ACCOUNT
CASH FLOW ANALYSIS

FY 2011
(in millions)

04/21/09	MONTH	BEG BLNCE	EMPLOYER CONT	WORKER CONT	TOTAL CONT	INT EXP	DISB	EB	REIM	END BLNCE	IUR	TUR
	JULY 2010	(\$2,225.7)	\$ 43.1	10.2	\$ 53.3		\$ 315.8	\$ 146.3		(\$2,534.6)	5.1	8.7
	AUGUST	(2,634.6)	361.2	70.6	431.8		312.6	142.4	0.1	(2,857.9)	5.1	8.7
	SEPTEMBER	(2,957.9)	16.0	0.6	16.6		288.0	122.7	0.1	(3,032.1)	5.1	8.7
	OCTOBER	(3,032.1)	92.2	10.2	102.4		246.4	85.8	0.1	(3,282.0)	5.0	8.5
	NOVEMBER	(3,282.0)	502.2	41.0	543.2		282.2	77.1	0.1	(3,078.2)	5.0	8.5
	DECEMBER	(3,078.2)	13.6	2.4	16.0		335.4	69.5	0.1	(3,467.2)	5.0	8.5
	JANUARY 2011	(3,467.2)	88.8	7.4	96.2		338.4	74.8	0.1	(3,784.3)	4.9	8.4
	FEBRUARY	(3,784.3)	341.6	28.8	370.4		324.0	77.7	0.1	(3,815.7)	4.9	8.4
	MARCH	(3,815.7)	17.0	0.4	17.4	\$ 23.9	349.8	76.1	0.1	(4,248.2)	4.9	8.4
	APRIL	(4,248.2)	102.0	9.0	111.0		289.6	75.3	0.1	(4,502.2)	4.9	8.3
	MAY	(4,502.2)	1,376.0	131.2	1,507.2		270.2	70.3	0.1	(3,335.6)	4.9	8.3
	JUNE	(3,335.6)	28.2	2.2	30.4	24.6	272.2	69.9	3.0	(3,574.9)	4.9	8.3
	TOTAL	(\$2,225.7)	\$ 2,981.9	\$ 314.0	\$ 3,295.9	\$ 46.5	\$3,604.6	\$1,087.9	\$ 4.1	(\$3,874.9)		

ASSUMPTIONS:

1. Table E&I0% will be used.
2. Does not include FUTA credits.
3. The UI taxable wages will increase by 1.7% in CY 2011 and will increase by 3% in CY 2011.
4. The disbursements are net of RBC and CWC benefits.
5. The Read Act & Stimulus Admin. disbursements will be \$20 million.

UNEMPLOYMENT COMPENSATION TRUST FUND ACCOUNT
CASH FLOW ANALYSIS
FY 2011