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MEMORANDUM

TO: Honorable Thomas H. Kean, Jr.
Minority Leader

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

DATE: May 5, 2009

SUBJECT: **APRIL REVENUE COLLECTIONS**

You recently requested that we provide an update on the State's revenue picture as soon as possible after the important collection month of April. As you recall when we testified before the Senate Budget and Appropriations Committee on April 6, we indicated that OLS projected \$383 million less than the Executive in FY2009 and \$223 million less in FY2010, for a two year shortfall of \$606 million. We also indicated the revenue picture would be clearer after the April final and estimated payments for the Gross Income Tax (GIT) and Corporation Business Tax (CBT) were tallied. Preliminary data for April indicate a significant revenue shortfall exceeding prior expectations. The news media quoted the Governor as anticipating a possible \$2.0 billion revenue shortfall for FY2009 and FY 2010 combined.

The OLS believes the two year revenue shortfall may exceed, perhaps significantly, \$2.0 billion compared to what was estimated in the Governor's Budget Message. Importantly, much of the shortfall is occurring in the current fiscal year, for which the State has only two months time to close a potential deficit before the fiscal year ends. The FY2009 revenue shortfall is likely exceed \$1.2 billion, while the Executive has projected an available surplus of only \$701.6 million.

While some of the underlying component data are not yet available, it is clear the GIT collections were extremely weak. It appears that the State collected about \$800 million less in April than had been anticipated by the OLS -- a decline of more than 40% from the prior year, while we had been anticipating a decline of 17%. Other states like Connecticut, Massachusetts,

APRIL REVENUE COLLECTIONS

Page 2

May 5, 2009

Pennsylvania, New York, and California are reporting similar sharp declines in April income tax revenues.

While the OLS has not completed its analysis, the April collection experience suggests the need to revise downward our estimates for May and June of this fiscal year and for all of FY2010. Also, last month we told the committee that our FY2010 GIT did not include an adjustment for the recently enacted New York State income tax increase. While we are still considering that factor, the Treasurer recently indicated that New York's action could cost New Jersey \$300 million.

Preliminary data suggest that April CBT collections were slightly better than OLS had anticipated, but Sales Tax collections were about \$70 million below expectations. The differences in these two revenues are dwarfed by the significant shortfall in the GIT.

Between now and May 19 we will analyze all of the revenue and economic data to provide a revised estimate in this highly volatile revenue environment.

sb

c Rosemary Pramuk, Senate Republican Office