



N.J. Losing Billions in Epic Tax Revenue Shortfall. These Stunning Examples Show How Bad it is

By: Samantha Marcus, May 2, 2020

By all accounts, state tax collections are in for a beating.

Gov. Phil Murphy has described them as “falling off the cliff.” Budget experts predict revenue lost from widespread businesses closures and massive unemployment will be “unprecedented.” And Wall Street ratings agencies are already sending up flares, warning of wide budget caps that threaten Murphy’s fiscal goals, like fully funding the public pension system.

Murphy’s administration has yet to provide updated, detailed economic forecasts since the start of the public health crisis that tell just how bad the drubbing will be. But state Treasurer Elizabeth Muoio this week said national economic projections suggest New Jersey will lose more than \$3 billion toward its \$38.7 billion budget for the current fiscal year — with deeper losses looming for 2021.

Just how bad will it get?

“The second quarter is going to be terrible. As bad as anything we’ve ever seen,” said Charles Steindel, the Treasury Department’s chief economist from 2010 to 2014. “It’s a question of what happens after. How quickly we recover. And the answer is we don’t know.”

“People are flying blind.”

The Center on Budget and Policy Priorities estimated state revenue shortfalls of about 10 percent this fiscal year and “as much as” 25 percent next year, meaning revenues for 2021 could be “fall as much or more than they did in the worst year of the Great Recession,” the group said.

Steindel also said the financial toll may turn out to be worse than during the last downturn, though perhaps not radically worse. But the problems may look different. While corporate, personal income and realty transfer taxes took big hits in the recession, now the sales tax may be the big loser.

Muoio isn't optimistic the state will find an easy way out of this crisis. The governor has requested federal assistance to help cash flow and may seek to borrow billions from the Federal Reserve.

"We are facing some extremely difficult decisions in the weeks and months ahead," Muoio said. "(That) will necessitate a combination of critically needed borrowing, budget and appropriation adjustments, and more robust federal assistance to address this unprecedented fiscal crisis."

Here are the key revenues that will determine the state's fiscal health and what is known so far:

Sales tax

The state hasn't released updated projections for sales tax collections, which were projected to grow by 4.7 percent this year. But with businesses shut down or severely limited, these collections are without a doubt taking a turn for the worse.

Here's some indication of how bad: Retail sales nationally plunged 8.7 percent in March. That's the biggest decline on record.

Experts expect retail sales in April will look worse, as it will represent a full month of aggressive social distancing.

"March will be terrible and April will be worse. We know that's going to be terrible and it's going to be terrible May. I don't know what's going to happen in June," Steindel said.

Sales tax collections could be down by as much as half right now, he said. For example, not too many people are buying the cars that account for a lot of the state's sales tax revenue. They are spending money on groceries, but those aren't taxed.

New York is forecasting its sales tax revenue will come in a whopping 15.5% lower than last year, according to the budget for the fiscal year that began April 1.

Income tax

The income tax is the Garden State's largest source of revenue. It's reliant on high earners, which state budget experts say make it volatile and tough to predict.

It's made more difficult this year because the state extended 2019 and quarterly tax deadlines, and won't see how those important income tax payments are shaping up until July. Normally the state would learn its fortunes in April.

July is expected to bring good news, as the stock market had a strong year in 2019. And state Senate President Stephen Sweeney, D-Gloucester, said he's hopeful that

market performance lifts gross income tax collections and helps close any budget shortfall this fiscal year.

Withholdings are certainly weakened as workers are receiving reduced pay, Steindel said. But how big of a dent the 930,000 unemployed workers make in income tax collections is hazy because so much income tax revenue is generated from the top earners, while much of the unemployment is among lower-income workers who pay little or no income tax, he added.

In New York — where Wall Street bonuses are way down — the Division of the Budget has lowered projections by 8.6% from its previous fiscal year, which runs from April 1 to March 31.

New Jersey doesn't see the same kind of financial-sector bonuses, Steindel cautioned.

Corporate business tax

Corporate profits are going to be "horrible," Steindel said. "The actual flow of profits is going to be dreadful over the next year. They're taking enormous revenue hits."

But when it comes to projecting tax collections, this one is the hardest of all, he added.

There are other complications — this tax rate is scheduled to be cut in the coming fiscal year — and risks — corporations in need of cash may seek big refunds on tax overpayments they've allowed to accumulate, Steindel said.

Gas tax

Gas sales have plummeted, with station owners reporting their sales are down about 70 percent, said Sal Risalvato, executive director of the New Jersey Gasoline-Convenience-Automotive Association.

That's a direct hit to the Transportation Trust Fund that pays for road and rail improvements across the state and could spell another gas tax hike.

A law passed in 2016 raising the gas tax 23 cents a gallon requires the tax rate be adjusted each October to ensure it generates enough money for the trust fund. If it falls short of the \$2 billion target in one year, the treasurer is supposed to increase it in the next.

Before the pandemic, Risalvato said his group estimated there would be a slight shortfall this year that might necessitate a one or two cent bump in the tax rate.

Now, he said, he can only guess.

"I can tell you right now that the revenues — no ifs, ands or buts — are going to be seriously deficient from the \$2 billion that the 2016 law requires to be taken in the TTF," Risalvato said.

“If volume is down as much as my members are reporting it is down, then I can’t even guess what the shortfall will be, but I have to assume it’s in the area of \$100 million or \$200 million. Or more.”

A \$200 million shortfall translates to a 4-cent gas tax increase, he said, though it’s possible the treasurer may have some discretion to lessen the blow.

Tolls

Toll revenue from the New Jersey Turnpike and the Garden State Parkway was down by \$23 million for the first three months of the year. That’s no surprise as stay-at-home orders have taken commuters and travelers off the roads.

There was a 29% drop in traffic and a 23% drop in toll collections on the Turnpike in March and a 29% reduction in both traffic and tolls on the Parkway.

Commercial traffic on the turnpike fell just 3% and revenue from trucks and other non-passenger vehicles was actually up 2.1%, according to the Turnpike Authority’s chief financial officer.

The Turnpike Authority already has plans to hike tolls by 27% on the Parkway and 36% on the turnpike to fund a \$24 billion capital plan. Transportation and environmental advocates and some lawmakers have called on the Turnpike Authority to halt its planned toll increases.

Fares

NJ Transit has reduced service in response to what it said is a 90% drop in ridership. That falling ridership will cost the system big, as more than 40% of its operating budget comes from fares.

Despite those losses, the transit system isn’t hurting for cash. The federal stimulus pumped more than \$1.6 billion into New Jersey transit agencies, including \$1.5 billion as part of the New York-Newark-New Jersey Connecticut region and another \$125 million through the Philadelphia-New Jersey Pennsylvania region.

NJ Transit has requested a \$1.25 billion bailout to replace lost income projected through the end of next fiscal year.

Lottery

Lottery ticket sales have fallen 20% as people stayed home and foot traffic at retailers slowed, Muoio said.

The lottery brought in \$78.3 million in state revenue March compared with \$107.6 million in March 2019, a 27.2% drop.

So far this fiscal year, lottery revenue is down 12.1 percent compared with last year. What that means is last year between July and March, the lottery generated about \$805 million for the state, and over that same period this year it’s brought in about \$708 million.

That's bad news for the public pension fund, which receives lottery ticket proceeds as part of its state contribution. So unless ticket sales rebound, the state may have to make up for the funding shortfall or simply contribute less to the pension fund, which adds to its already-steep unfunded liabilities.

The treasurer said in a statement to NJ Advance Media that, "given recent fluctuations, we cannot predict how the remainder of the fiscal year will play out right now. The only thing we can say with certainty right now is that New Jersey, like many other states, is desperately in need of an infusion of cash and more robust federal assistance in order to weather this crisis and meet our essential obligations."

Sports-betting

Wagering at New Jersey sportsbooks was way down in March, with a 63% decrease from February and a 51% decrease from March 2019.

Sports-betting brought in just \$13.2 million in gross income for operators and \$1.7 million in tax revenue for the state in March. In the same month last year, sports-betting operators collected \$31.7 million and the state \$3.7 million.

The coronavirus has forced the suspension of the NBA and NHL seasons, a delay in the Major League Baseball season and the NCAA Tournament was canceled altogether.

Sports-betting revenue is a pretty small piece of the state's revenue, bringing in \$36.7 million to the treasury last year.

And casino revenue is likely close to zero right now, as New Jersey's nine casinos have been closed since March 16.