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TIME TO TAKE ANOTHER CRACK AT CLOSING THE STATE'S BUDGET GAP?

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Consensus forecasting, according to advocates, could eliminate the 'April surprise' that sends the state scrambling to make up funds when tax collection projections don't match reality

State lawmakers are taking another crack at enacting legislation that would overhaul the way New Jersey forecasts tax collections, after the past two fiscal years ended with Gov. Chris Christie's administration scrambling to close budget shortfalls that totaled a combined $1 billion.

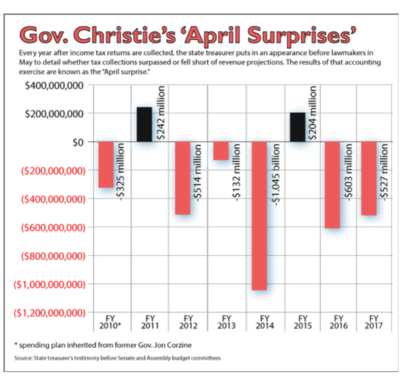
A **bipartisan measure** introduced in the state Senate last month would turn the current revenue-projection process, which is heavily dominated by the executive branch, into a more collaborative effort that would involve seeking a consensus among both lawmakers and the governor's office.

If approved, the consensus-forecasting bill would for the first time bring in an outside, independent voice to the state's revenue-projection process, all in an effort to improve the accuracy of tax-collection estimates that are used each year to determine how much spending should be allowed through the state budget.

No sure thing

Despite the recent forecasting misses, the legislation is by no means a slam dunk since Christie, a second-term Republican, has previously vetoed a **similar measure**, even though that bill was introduced in the wake of a more than $1 billion revenue shortfall that opened up during just one fiscal year in 2014. That gap forced lawmakers to accept a series of painful, last-minute budget adjustments, including a slashing of the state's payment into the already grossly underfunded public-employee pension system.

Since then, the state has been forced to close two more sizable "April-surprise" budget shortfalls; a **$603 million gap** that opened up before the end of the 2016 fiscal year, and a **$527 million gap** in the final weeks of the 2017 fiscal year, which just closed at the end of June. New Jersey was also just ranked **dead last** among all 50 states in two recent state-by-state fiscal-health reports, which suggests there's been a persistent temptation to forecast higher revenues than the current level of taxation is delivering.



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"I think we're way overdue" for reform, said Sen. Robert Gordon (D-Bergen), the sponsor of the consensus-forecasting bill. Sole authority to certify revenues

Right now, the New Jersey Constitution gives the executive branch the sole authority to certify revenues for the state's annual budget, which is typically put forward each year by the governor in February. As part of the annual budget process, the Treasury also compiles a short fiscal outlook and revenue forecast, and then the state treasurer appears before lawmakers twice each spring to review the forecast and make any changes, if necessary, based on tax-collection trends.

In the run-up to the start of the new fiscal year in July, 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 those projections — which have largely proven to be more accurate in recent years — are only advisory.

The Senate bill sponsored by Gordon and Sen. Steve Oroho (R-Sussex) would overhaul the current practice by establishing 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, outside, member recommended by the treasurer and the OLS budget analyst. The three-member New Jersey Revenue Advisory Board would be required to hold at least one public meeting where testimony on the state's economic conditions would be received from experts and members of the public. The panel would also be required to adopt an official advisory forecast by January 15 of each year.

The proposed legislation would still preserve the official certification of revenues as a constitutional duty of the executive branch, but it would also compel the governor each year in the annual budget message to give an explanation for any divergence from the advisory board's forecast.

Twenty-eight and counting

The bill's language notes that 28 other states have also already adopted the consensus approach to revenue forecasting, and an identical version has already been introduced in the Assembly and moved out of committee.

A **report** issued earlier this year by Stockton University's William J. Hughes Center for Public Policy also raised the consensus-forecasting issue, citing Delaware and New York as two neighboring states where the revenue-projection effort involves getting input from outside economic advisors. Those two states also fared better in a recent **Pew analysis** of state revenues and expenses, with Delaware collecting revenues that covered more than 100 percent of its expenses between the 2002 and 2015 fiscal years, and New York collecting revenues covering 99 percent of its expenses during the same years. But New Jersey's performance was far worse in the Pew analysis, with revenue collections meeting just 92.4 percent of expenses.

Fostering cooperation

Gordon said the idea behind the consensus approach to revenue forecasting is to foster more cooperation between the executive and legislative branches that should ultimately generate more realistic and accurate projections.

"Agree on what the revenue side is, and then we can spend the rest of the budget process debating our spending priorities," Gordon said. "But at least we know what we're working with, and we don't find ourselves, with a couple of months to go in a fiscal year, facing an unforeseen deficit."

In Christie's early 2016 veto of a similar consensus-forecasting bill, the governor suggested the collaborative projections wouldn't necessarily produce better results. A statement that was issued by the Treasury in response to the recent Stockton report's findings also said consensus forecasting can produce "delays and confusion."

But with Christie now in his final months in office, he may see merit in restricting some of the power of the governor's office, especially since many expect his successor will be Democratic gubernatorial candidate Phil Murphy. Recent polls show Murphy is way ahead of Republican candidate Kim Guadagno, Christie's longtime lieutenant governor.

Oroho, the bill's Republican sponsor, said in a recent interview that he's expecting New Jersey's revenue conditions to start improving as a series of **bipartisan tax cuts** that were signed into law by Christie last year continue to take hold and influence the state's economy. A member of the Senate Budget and Appropriations Committee, Oroho said the consensus-forecasting model would help support the panel's efforts "irrespective of what administration you have."

"This is another quasi-independent review," Oroho said. "I don't think it would be a bad thing."