Truth and Integrity in State Budgeting: The Art of Consensus Revenue Forecasting

William Glasgall
Senior Vice President/Director of State and Local Initiatives
The Volcker Alliance
https://www.volckeralliance.org/
wglasgall@volckeralliance.org | 646-343-0152 | @Wglasgall

Testimony on Senate Concurrent Resolution No. 132
Prepared for the New Jersey Senate Budget and Appropriations Committee
Trenton, New Jersey
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Revenue Forecasting in the Garden State

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"Unlike 28 other states, New Jersey does not use a consensus of forecasts from the governor's office, legislative leaders, and outside experts to build an estimate of revenue to include in the general fund budget. Instead, the governor's proposed budget includes the chief executive's estimate of resources available for the upcoming fiscal year. The Office of Legislative Services provides a separate revenue forecast. While both are reviewed by the legislature—which can adjust the projections—the governor has the final say because his or her certification of state revenue is required as part of the final Appropriations Act." –Truth and Integrity in State Budgeting: Lessons from Three States (2015)

Truth and Integrity in State Budgeting: Objectives

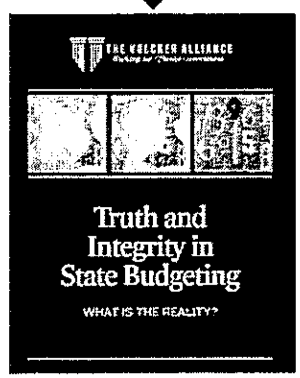
- Identify five key budgeting and financial reporting procedures
- Grade all states' performance in each area
- Propose best practices for states to follow
- Continue evaluations annually in cooperation with university partners
- Help bolster university teaching of public budgeting and finance
- Encourage further university-based research based on Volcker Alliance research and findings

The Volcker Alliance Research Network

Universities
Arizona State
Cornell
CUNY
Fla. International
Georgia State
U of Kentucky
U of Minnesota
U of California, Berkeley
U of Illinois-Chicago
U of Illinois-Springfield
U of Utah

Consultants
MMA
Barrett & Greene

Follow-up Research:
-Debt management
-Tax expenditure transparency
-Infrastructure
-Economic health
-City budgeting



New Publications
State Budget Report Cards
State Budget Data Lab
Forthcoming: Truth and Integrity in State Budgeting: Phase II

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Truth & Integrity Research Questions & Best Practices

❶ Budget Forecasting

Use a consensus approach to establishing single, binding numbers for revenues and expenditures. Provide long-term estimates. (Example: Washington)

❷ Budget Accounting

Pay for expenditures in the same year they are accrued; avoid deferring them. Shift from cash-based accounting to modified accrual accounting techniques used in state/local CAFRs. (Example: NYC)

❸ Legacy Costs (Pensions & OPEB)

Consistently make contributions actuaries determine to be necessary. (Example: Wisconsin). While some states may find it a crippling burden to fully cover costs of future benefits and past underfunding, they should consider committing to move toward full funding in the future. OPEB plans should be adequately funded to ensure benefits can be paid when bills come due (Example: Utah)

❹ Fiscal Reserve Funds

Enact clear policies for withdrawals from rainy day and other fiscal reserves, as well as rules for replenishing spent funds and tying the size of fund balances to revenue volatility. (Example: Indiana)

❺ Transparency

Construct a consolidated budget website (Colorado). Include full disclosure of cost to replace depreciated infrastructure (Examples: Alaska, California).

I. Budget Grades

Best-Graded States

- **Forecasting:** 9 states graded **A**
- **Maneuvers:** 22 states graded **A**
- **Legacy Costs:** 8 states graded **A**
- **Reserve Funds:** 15 states graded **A**
- **Transparency:** 2 states graded **A**

2015-17 Average

BUDGET FORECASTING

STATE	GRADE
Connecticut	A
Florida	A
Hawaii	A
Maryland	A
New York	A
Rhode Island	A
South Carolina	A
Virginia	A
Washington	A

BUDGET MANEUVERS

STATE	GRADE
California	A
Delaware	A
Georgia	A
Hawaii	A
Idaho	A
Indiana	A
Iowa	A
Minnesota	A
Mississippi	A
Missouri	A
Montana	A
Nebraska	A
New Hampshire	A
North Dakota	A
Oregon	A
South Carolina	A
South Dakota	A
Tennessee	A
Texas	A
Utah	A
Vermont	A

LEGACY COSTS

STATE	GRADE
Idaho	A
Iowa	A
Nebraska	A
Oklahoma	A
Oregon	A
South Dakota	A
Utah	A
Wisconsin	A

RESERVE FUNDS

STATE	GRADE
Alaska	A
Arizona	A
California	A
Hawaii	A
Idaho	A
Indiana	A
Massachusetts	A
Michigan	A
Minnesota	A
North Dakota	A
Tennessee	A
Texas	A
Utah	A
Virginia	A
Washington	A

TRANSPARENCY

STATE	GRADE
Alaska	A
California	A

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Worst-Graded States

- **Forecasting:** 4 states graded **D**
- **Maneuvers:** 6 states graded **D**
- **Legacy Costs:** 9 states graded **D-**
- **Reserve Funds:** 3 states graded **D**
- **Transparency:** 3 states graded **D**

2015-17 Average

BUDGET FORECASTING

STATE	GRADE
Alabama	D
Illinois	D
Kansas	D
North Dakota	D

BUDGET MANEUVERS

STATE	GRADE
Illinois	D
Kansas	D
New Jersey	D
New York	D
Pennsylvania	D
Virginia	D

LEGACY COSTS

STATE	GRADE
Hawaii	D-
Illinois	D-
Kansas	D-
Massachusetts	D-
New Jersey	D-
Pennsylvania	D-
Texas	D-
Virginia	D-
Wyoming	D-

RESERVE FUNDS

STATE	GRADE
Kansas	D
Montana	D
New Mexico	D

TRANSPARENCY

STATE	GRADE
Alabama	D
Arkansas	D
New Mexico	D

New Jersey Budget Grades

NEW JERSEY Budget Report Card

NEW JERSEY WAS ONE OF NINE STATES given a D-minus average, the lowest possible grade, by the Volcker Alliance for its handling of pension and other postretirement obligations for fiscal 2015 through 2017. It was also one of nine states with an overall D for budget forecasting and six states with an overall D for using budgetary maneuvers to achieve balance.

The New Jersey grade for legacy costs, which includes public worker pensions and other postemployment benefits, primarily health care, reflects its longtime inability to fund either program in line with actuarial recommendations. The state had only 36 percent of the assets needed to meet obligations—it tied with Kentucky for the lowest funding level—and its $135.7 billion in unfunded pension liabilities was second only to California's $174.1 billion.

Burdened as it is with retirement funding obligations, it is of little surprise that New Jersey also scored poorly in budget maneuvers, the second of five budgetary categories the Alliance evaluated. Such one-time actions included transfers from the New Jersey Turnpike Authority and the Clean Energy Fund to the general fund and the use of expected revenue from pending legal settlements for budget-balancing purposes.

The state's D in budget forecasting reflects a failure to create multiyear expenditure and revenue forecasts to help it prepare for financial challenges. New Jersey fared better in the reserves and transparency categories, winning average B grades for the period. As with forty-seven other states, New Jersey's transparency grade speaks to the absence of disclosure of deferred infrastructure replacement costs. Only Alaska and California publish such estimates.

MID-ATLANTIC STATES SIDE BY SIDE: Three-Year Average Grades, 2015–17

	BUDGET FORECASTING	BUDGET MANEUVERS	LEGACY COSTS	RESERVE FUNDS	TRANSPARENCY
New Jersey	D	D	D	B	B
New York	A	D	[illegible]	[illegible]	B
Pennsylvania	[illegible]	[illegible]	D	[illegible]	B
US AVERAGE	B	B		B	B

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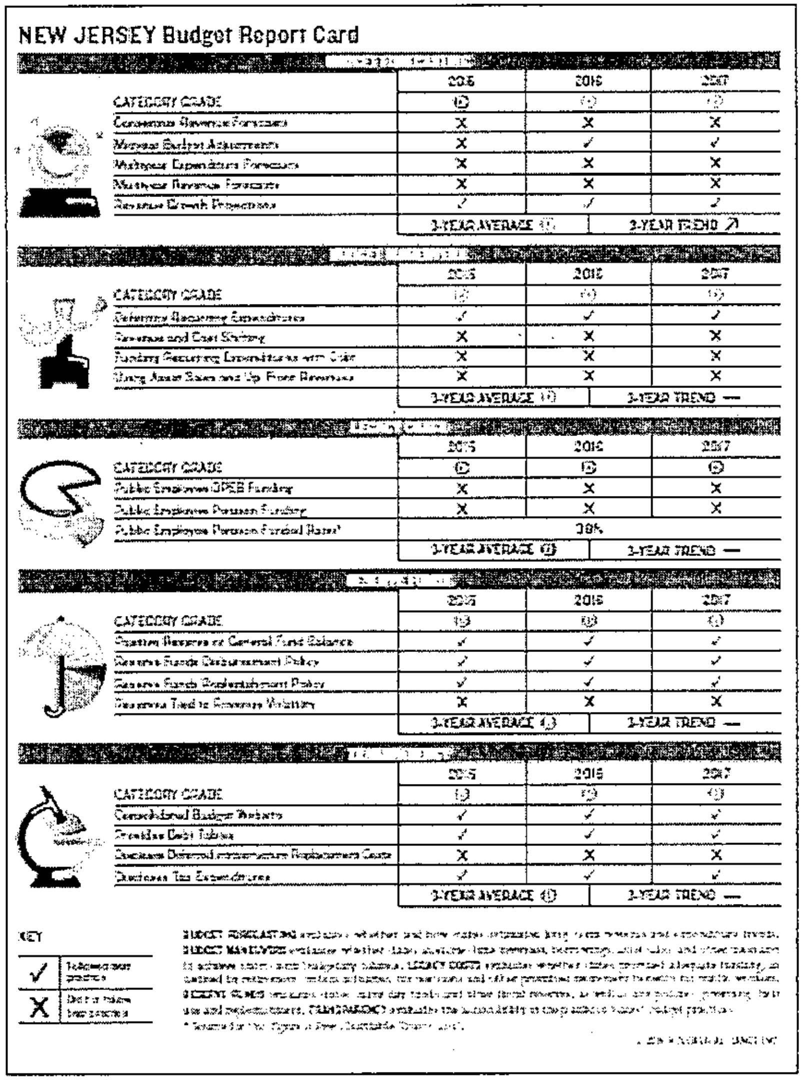
New Jersey Budget Indicators



NEW JERSEY Budget Report Card

	2015	2016	2017
CATEGORY GRADE	[illegible]	[illegible]	[illegible]
Consensus Revenue Forecasts	X	X	X
Midyear Budget Adjustments	X	✓	✓
Multiyear Expenditure Forecasts	X	X	X
Multiyear Revenue Forecasts	X	X	X
Revenue Growth Projections	✓	✓	✓
	3-YEAR AVERAGE [illegible]		3-YEAR TREND ↗

	2015	2016	2017
CATEGORY GRADE	[illegible]	[illegible]	[illegible]
Deferring Recurring Expenditures	✓	✓	✓
Revenue and Cost Shifting	X	X	X
Funding Recurring Expenditures with Debt	X	X	X
Using Asset Sales and Up-Front Revenues	X	X	X
	3-YEAR AVERAGE [illegible]		3-YEAR TREND —

	2015	2016	2017
CATEGORY GRADE	[illegible]	[illegible]	[illegible]
Public Employee OPEB Funding	X	X	X
Public Employee Pension Funding	X	X	X
Public Employee Pension Funded Ratio*		38%	
	3-YEAR AVERAGE [illegible]		3-YEAR TREND —

	2015	2016	2017
CATEGORY GRADE	[illegible]	[illegible]	[illegible]
Positive Reserves or General Fund Balance	✓	✓	✓
Reserve Funds Disbursement Policy	✓	✓	✓
Reserve Funds Replenishment Policy	✓	✓	✓
Reserves Tied to Revenue Volatility	X	X	X
	3-YEAR AVERAGE [illegible]		3-YEAR TREND —

	2015	2016	2017
CATEGORY GRADE	[illegible]	[illegible]	[illegible]
Consolidated Budget Website	✓	✓	✓
Provides Debt Tables	✓	✓	✓
Discloses Deferred Infrastructure Replacement Costs	X	X	X
Discloses Tax Expenditures	✓	✓	✓
	3-YEAR AVERAGE [illegible]		3-YEAR TREND —

KEY

✓	[illegible]
X	[illegible]

BUDGET FORECASTING [illegible] BUDGET MANEUVERS [illegible] LEGACY COSTS [illegible] RESERVE FUNDS [illegible] TRANSPARENCY [illegible]

*[illegible]

[illegible]

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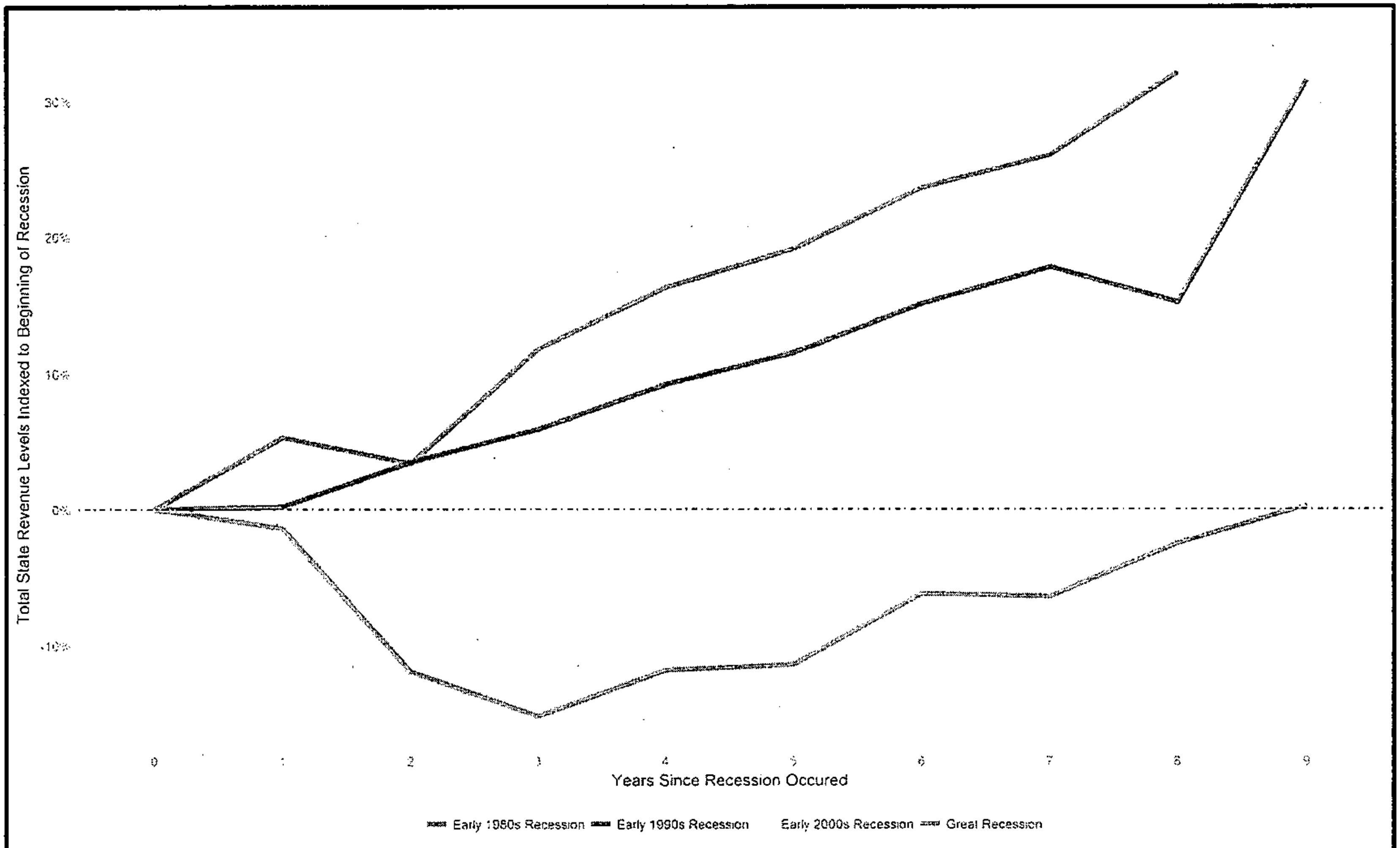
II. Revenue Forecasting Challenges

State Revenue Lagging Past Recoveries



Source: Gabriel Petek, S&P Global; NASBO

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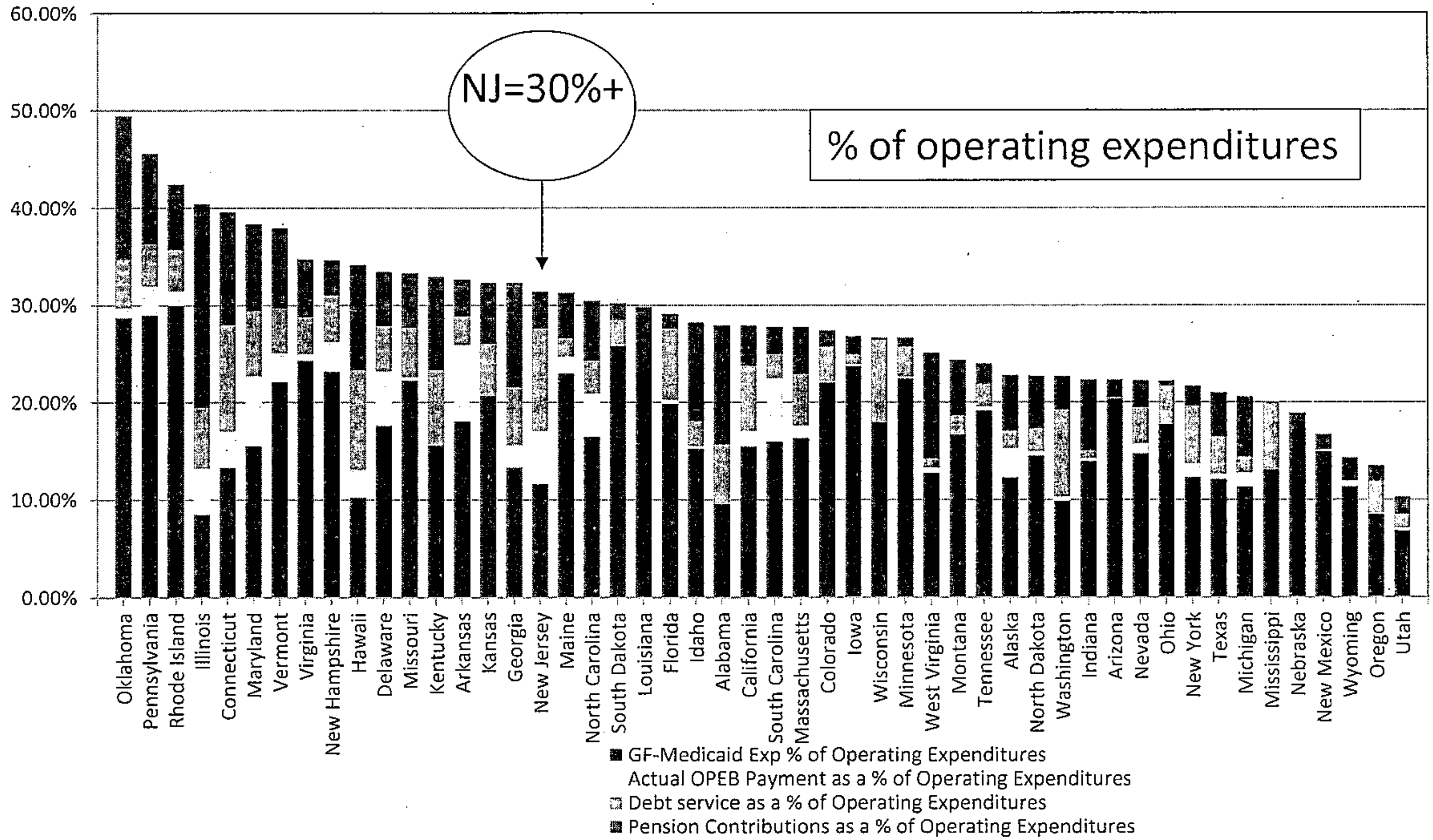
Medicaid, Debt Service, Pensions, OPEB Stressing Budgets



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Source: Gabriel Petek, S&P Global, NASBO

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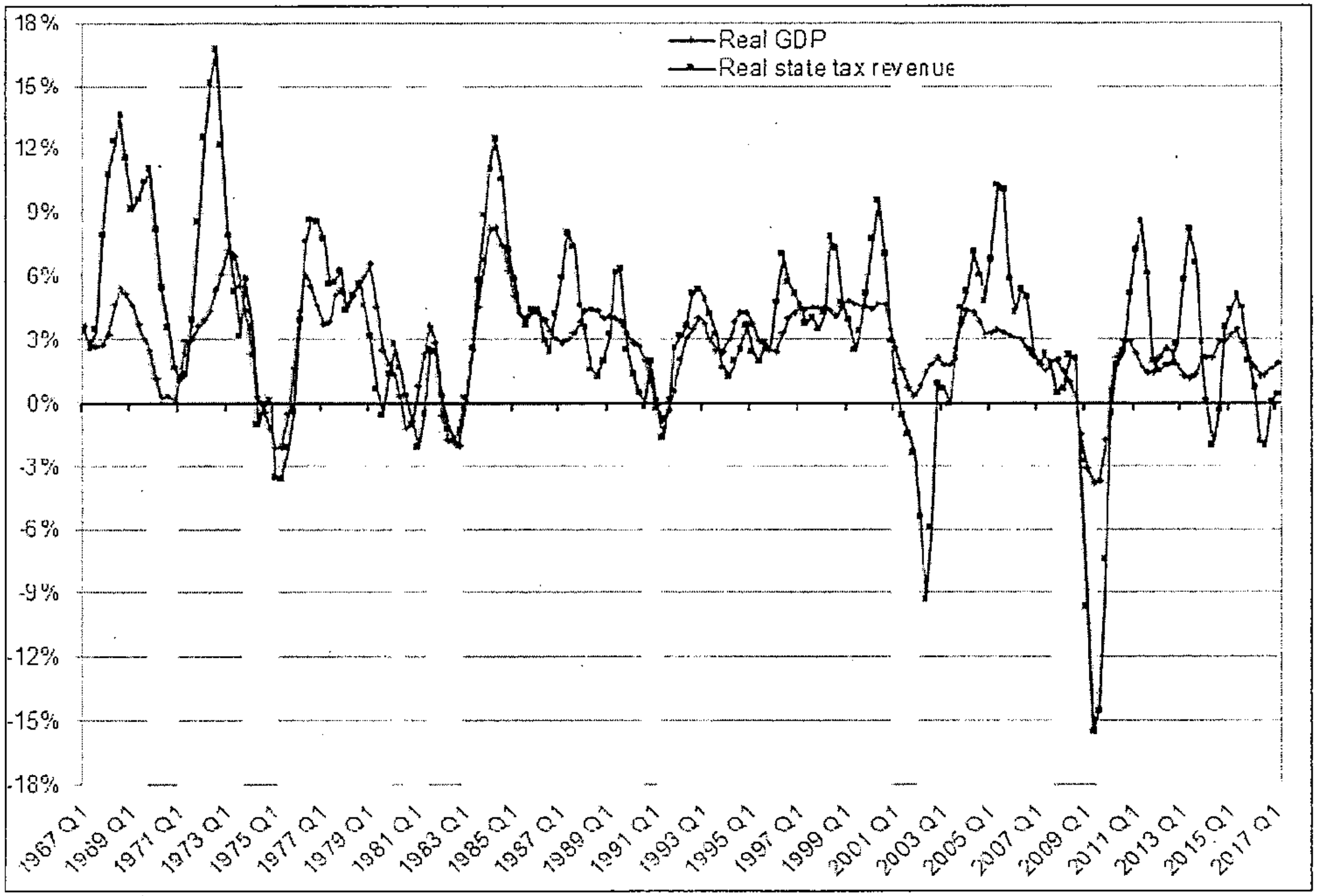
State Revenue Becoming More Volatile than GDP



Source: Boyd & Dadayan, Rockefeller Institute, from US Census and BEA data

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III. Consensus Revenue Forecasting Advantages

Consensus vs. Single-Source Revenue Estimates

States Using Consensus Revenue Forecasting	3-year Average Budget Forecasting Grade	States not using Consensus Revenue Forecasting	3-year Average Budget Forecasting Grade
Connecticut	A	Alabama	D-
Delaware	B	Alaska	B
Florida	A	Arizona	B
Hawaii	A	Arkansas	D
Indiana		California	B
Iowa	C	Colorado	C
Kansas	D-	Georgia	
Kentucky	B	Idaho	D
Louisiana		Illinois	D-
Maine	B	Minnesota	B
Maryland	A	Montana	D
Massachusetts	C	New Hampshire	D
Michigan	B	New Jersey	D
Mississippi	C	North Dakota	D-
Missouri	D	Ohio	D
Nebraska	B	Oregon	C
Nevada		Pennsylvania	B
New Mexico	C	South Dakota	B
New York	A	Texas	D
North Carolina	C	West Virginia	C
Oklahoma	B	Wisconsin	D
Rhode Island	A		
South Carolina	A		
Tennessee	C		
Utah			
Vermont	C		
Virginia	A		
Washington	A		
Wyoming	B		
Total States	29	Total States	21
Total Combined Average Grade	B	Total Combined Average Grade	C
Total Grades of A	9	Total Grades of A	0
Total Grades of B	7	Total Grades of B	6
Total Grades of C	11	Total Grades of C	4
Total Grades of D	1	Total Grades of D	8
Total Grades of D-	1	Total Grades of D-	3
Budget Forecasting 3-Year U.S. Average	B		

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Why Use Consensus Revenue Estimates?

- Consensus revenue forecasts are inclusive by nature, typically created by a group of contributors, often involving both parties of the legislature; the executive branch; and, sometimes, outside economic experts.
- Consensus revenue estimates may allow states to avoid producing budgets with parts predicated on a variety of different estimates—one from the legislature, for example, and another from the governor's office.
- A consensus forecast may make it easier for policymakers to concentrate on expenditures, rather than arguing about whether the forecast was politically driven.
- Consensus estimates give policymakers an opportunity to spot risks and opportunities that a single input may miss.
- While consensus revenue forecasts are not necessarily more accurate than ones produced by the executive budget office, the process is likely to go more smoothly when all the parties involved in forming a budget agree on a single revenue figure.
- Consensus estimates, especially if they are revised periodically during the fiscal year or biennium, may reduce the likelihood of having to convene a special legislative session to address revenue shortfalls.
- Consensus forecasts may reduce the need or temptation to tap one-time revenue sources to fund continuing expenditures.

Three Best Practice States: Florida, Virginia, and Washington

All three states are among only nine winning average A grades for budget forecasting from 2015 through 2017. The other six are Connecticut, Hawaii, Maryland, New York, Rhode Island, and South Carolina. All nine use consensus revenue forecasting, although each state's system is unique.

FLORIDA (annual budget) relies on the work of the Revenue Estimating Conference, which has met twice in 2018. Estimates are based on input from the governor's office, the Senate and House of Representatives, and the Department of Revenue. The principal members, three from the legislature and one from the governor's office, must all concur in order to have to have a state forecast. The process is intended to ensure that multiple contributors determine a single revenue number on which to build a budget, leaving more time to debate spending priorities.

VIRGINIA (biennial budget) revenue assumptions and methodologies are subject to periodic review by a volunteer state board of professional economists. Actual revenue estimates are reviewed by a consensus group of executive and legislative political leadership. Virginia law requires that governors present a forecast of economic activity each fall, with additional reviews of revenue midway through the fiscal biennium. The so-called money committees—House Appropriations and Senate Finance—can adjust appropriations to address any expected revenue shortfalls.

WASHINGTON (biennial budget) relies on the Economic and Revenue Forecast Council, which includes representatives of the legislative and executive branches, as well as the state treasurer. Four times a year, the organization adopts a bipartisan revenue review, which is then used to build the state's operating budget.

Revenue Misses Happen!

NEW JERSEY While revenue for fiscal 2015 was projected to be $200 million over the governor's initial estimate when the budget was enacted, overly optimistic revenue assumptions in New Jersey were the norm in the previous two of the three fiscal years we studied. Growing expenditures and fewer opportunities for maneuvers may have prompted the use of aggressive assumptions. While the legislature can cut the revenue forecast, any reduction must have corresponding program cuts.

VIRGINIA law requires that governors present a forecast of economic activity each fall, with additional reviews of revenue midway through the fiscal biennium. In fiscal 2013 and 2014, revenue setting initially appeared reasonable, despite an unexpected $350 million shortfall in non-withholding income taxes beginning in May 2014. This stemmed from the state's misinterpreting the permanence of increases in capital gains tax revenue realized when President George W. Bush's tax cuts expired in December 2012. The gap was managed within the year by carrying forward a budget cushion of $500 million in unspent revenue. However, either because it was late in the budget process or because the governor was unwilling to reestimate revenue by year-end, the fiscal 2015–16 biennial budget was not adjusted downward for $1.55 billion in diminished revenue expectations ($950 million in 2015 and $600 million in 2016). Still, the House Appropriations and Senate Finance committees subsequently adjusted appropriations to address the expected shortfall. Their actions included zeroing out most discretionary spending increases and preparing to tap the Revenue Stabilization Fund, the state's rainy day fund, if needed.

Pennsylvania Consensus Revenue Forecasting Bill

Memo from Pennsylvania State Representative Seth Grove accompanying House Bill 2013:

To improve the state's economic forecasting, I am introducing legislation establishing a <u>Joint Revenue Forecasting Committee</u>. The Committee shall consist of the following members:

- Secretary of Revenue
- Secretary of the Budget
- The Majority Appropriations Chairs of the Senate and House
- The Minority Appropriations Chairs of the Senate and House
- One Member of the public appointed by the Governor
- One Member of the public appointed by the President Pro-Tempore of the Senate
- One Member of the public appointed by the Speaker of the House
- One Member of the public appointed by the Minority Leader of the Senate
- One member of the public appointed by the Minority Leader of the House
- The Director of the Independent Fiscal Office who will serve as an ex-officio member

The Committee will be staffed by the Department of Revenue and is charged with forming a joint estimate for the Commonwealth's General Fund by December 16th and May 15th of every year. The estimate must be approved by 11 members to ensure a nonpartisan estimate is approved by the Committee. Should the Committee fail to have 11 members approve of the revenue estimate, the Governor and General Assembly shall use a revenue estimate provided by the Independent Fiscal Office. The committee may revise an official estimate under the same process requiring an 11 vote majority.

Should the estimate approved by the committee have an error rate of three percent or more between estimated revenues and collected revenues, the committee shall develop a new model for forecasting revenue collections.

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Notes on Volcker Alliance Research

Robert Chislett, Program Fellow at the Volcker Alliance, contributed to the research for this testimony.

For its national survey of state budgeting practices, the Volcker Alliance joined with professors and students in public finance and budgeting programs at eleven US universities who answered a standardized set of research questions on budget procedures. University research network gathered data from a variety of sources, interviewed current and former state budget and financial officials, and examined budget documents and financial disclosure filings. Responses to questions were reviewed by faculty advisers at the universities and Alliance consultants and revised, if necessary. Responses were then reviewed and normalized to account for any discrepancies among researchers' findings. The focus on states' adherence to best practices, combined with the normalization process, resulted in a relatively high level of comparability among the fifty states' budgetary performance.

States received a grade ranging from A to D-minus for each of the five budget categories for fiscal 2015, 2016, and 2017. Every state's average category score over the period was used to determine a three-year average grade. Sustained improvement or decline in a state's score over the three fiscal years was used to identify trends in budgetary performance in each category:

Budget Forecasting was graded on five indicators, each representing 20% of the category score. We asked if a state used a consensus revenue forecast; employed a reasonable rationale for revenue growth projections (based on historical revenue and economic growth trends); successfully avoided having to make a negative midyear budget adjustment; and produced multiyear revenue and expenditure forecasts.

Budget Maneuvers was graded on a state's use of one-time actions to create short-term budget fixes. States received 25% of the category grade for each type of one-time budget maneuver they successfully avoided. They included funding recurring expenses with debt; funding recurring expenses with the proceeds of asset sales or by tapping future revenues; deferring a current year's recurring expenditures; and covering general fund expenditures with transfers from other funds.

Legacy Costs was graded on a state's willingness to meet public employee pension and OPEB obligations. Thirty percent of a grade was determined by a state's making its OPEB actuarially required or determined contribution. Seventy percent of the category grade was scored on whether the state made its pension ADC or ARC contribution and on its pension funding ratio as of 2015, which represents the amount of assets available to cover promised benefits.

Reserve Funds was graded on a state's performance on four equally weighted budget indicators: If a state had a reserve fund disbursement policy; existence of a reserve fund replenishment policy; if reserves were tied to historic trends in revenue volatility; whether there was a positive reserve or general fund balance at the beginning of each fiscal year.

Transparency was graded on the extensiveness and usefulness of a state's fiscal disclosure practices. States received 25% of their grade for each of four transparency measures: providing the public with a consolidated budget website; disclosing outstanding debt and debt-service cost tables; providing information on deferred infrastructure maintenance costs; and providing cost estimates for tax expenditures.

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NEW JERSEY POLICY PERSPECTIVE

TESTIMONY OF GORDON MacINNES, PRESIDENT, NJ POLICY PERSPECTIVE, ON SCR-132 BEFORE THE SENATE BUDGET COMMITTEE, JULY 23, 2018

Good afternoon. My name is Gordon MacInnes, President of NJ Policy Perspective. I appreciate this opportunity to testify on this very important change to New Jersey's Constitution.

NJPP – along with our national partners at the Center on Budget and Policy Priorities – has long supported the adoption of a consensus process for estimating state revenues. We are heartened to see the Senate President and his colleagues propose this first step toward establishing a joint legislative and executive branch Revenue Certification Board. More than half of the states -- 28 – have adopted this sensible budget forecasting framework, which ensures both greater financial discipline and more robust and relevant debate about a state's true financial condition.

Given the shaky record of New Jersey's budgets, its second-lowest credit rating and the consequences of flawed revenue projections, a change in the revenue forecasting process is long overdue. Consensus forecasting is much more likely to mitigate the negative impact of short-sighted politics on budget-making and it may improve New Jersey's prospects among the major bond rating agencies – an important priority following 11 credit rating downgrades in just eight years.

Take Connecticut as an example, one of the states to most recently adopt consensus forecasting after years of wasted time arguing over the best revenue estimates. Since new rules took effect in 2009, the legislature and governor have come to a consensus before the mandated deadline of November 10 each year and have used updated estimates to make mid-year appropriations adjustments.

Now consider current practices in New Jersey. Here, budget-making is an opaque and unnecessarily dramatic affair. Year after year, the Governor delivers the budget message in the winter. The Legislature holds 30+ hearings in the spring summoning each cabinet officer and inviting interested organizations and citizens to offer their pleas and suggestions of the Governor's proposal. Then, the real budget negotiations take place behind closed doors in small rooms frequently in the very last hours of the fiscal calendar, and deals are struck without sufficient understanding of the agreements and their expected impact. The final budget is not even available for review and inspection by the legislators who must approve it, never mind interested citizens and lobbyists.

Adopting responsible and shared forecasting is a model of good governance and a smart framework for restoring sensible practice to budget-making. It is a key characteristic of states with high bond ratings, and Moody's even includes the measure as one of the five "Financial Best Practices" it uses to rate states.

While we are heartened to see the concept of a revenue forecasting board being proposed, we strongly oppose the notion that such an important change requiring an amendment of the state constitution should be adopted with such scant notice or public review. The proposed change cannot possibly serve its meritorious purpose in New Jersey's down-to-the-wire, secretive budget-making tradition.

Consider for a moment the adoption of this year's budget. After months of public hearings, the 2019 budget's proposed revenue increases were tossed aside in the backroom negotiations. The legislature's alternative budget was introduced on June 18 and passed by both houses on June 21. Following 9 days of negotiations, the governor's line-item vetoes were accepted on July 1.

Now, consider how a three-person revenue board would manage to serve the purposes of SCR-132 if their first glance at substantial changes in proposed revenues was not possible until June 18. Yes, the treasurer's representative and OLS budget and finance director could work full-time around the clock to try to determine the longer-term consequences of a temporary corporate tax increase, but would they and the public member have sufficient time to prepare a helpful analysis that would be given any consideration by the legislative leadership in time for the July 1 deadline to be met? Obviously not.

Legislative leadership should slow this sudden and historic shift in the constitutional budget directives until next year so that the unanswered issues and questions can be addressed with calm deliberation. Otherwise, the same practices that have put New Jersey in such a deep financial hole will undermine and prevent any benefits expected from SCR-132.

In the meantime, we recommend enacting a comprehensive roadmap for sound long-term budget planning including not only a thoughtfully designed revenue certification board, but also **multi-year revenue and spending projections** and greater transparency. In fact, the legislature passed a bill in late 2015 that incorporates these very budget practices: A4326/S2942 made it to Governor Christie's desk where he vetoed it. It is a sound bill that deserves to be sent to the governor's desk once again and we urge the legislature to do so.

We support bringing transparency to the budgeting process because it may raise questions and issues that one-year budgeting intentionally avoids and provides an opportunity to finally break the cycle of accounting games and gimmicks that have contributed greatly to New Jersey's financial crisis. But pushing for a resolution that changes our constitution and demotes the governor's revenue certification authority requires a comprehensive evaluation process that also values the participation and input of the public before moving forward to the ballot.

Thank you for your time.

State of New Jersey
OFFICE OF THE STATE TREASURER
PO Box 002
TRENTON, NJ 08625-0002

PHILIP D. MURPHY
Governor

SHEILA Y. OLIVER
Lt. Governor

ELIZABETH MAHER MUOIO
State Treasurer

July 23, 2018

Dear Members of the Senate Budget and Appropriations Committee:

On behalf of the Department of the Treasury, I would like to submit this statement for consideration by the Senate Budget and Appropriations Committee for deliberations regarding SCR-132.

Treasury has a number of significant concerns about the unprecedented steps proposed in this amendment. We feel it's important, first and foremost, to understand the distinction between consensus forecasting and consensus certification. Numerous media reports and discussions regarding SCR-132 conflate revenue **certification** with revenue **forecasting** and beg for clarification.

This current resolution is not the bill that was previously approved by the Legislature and vetoed by former Gov. Christie. That bill (A-4326), various versions of which have been introduced over several legislative sessions, sought to establish a system for advisory consensus revenue forecasting. The legislation, unlike SCR-132, did not seek to take away the State constitutional responsibility given exclusively to the Governor to certify State revenue.

New Jersey's Constitution currently requires the Governor to certify revenues as part of the budgetary process to ensure that there is necessary revenue to sustain the spending contained within the Legislature's annual appropriations bill. The certification is a fundamental check on the budgetary process, ensuring that the State's books are in balance upon adoption of the budget.

As you know, the budget process is not limited to the approval and certification of an annual appropriations act. The Governor, along with the Treasurer, manages the budget all year long. When revenues fall short of projections, ultimately it is the Governor's responsibility to make the difficult decisions to freeze or impound statutorily authorized spending. This is appropriate as the Governor alone is the only one in this process who is accountable to every voter in the State. Inserting unelected individuals into just one component of the budget process has implications beyond just the certification of revenue.

With that in mind, it's important to understand that the difference between revenue **certification** and revenue **forecasting** is more than just semantics. Revenue forecasting is used to both track revenues in the current year and project revenues in the next fiscal year. Reliable estimates are essential to building a fiscally responsible budget and help us set benchmarks for how much funding the State will be able to provide for public services.

While we support ideas that could improve our ability to effectively forecast revenues and, in turn, improve the State's fiscal condition, the act of certification remains a vital check on the appropriations process.

Our goal, instead, should be focused on minimizing forecasting errors by improving upon, and perhaps formalizing, the collaborative process that currently occurs informally between the professional staffs of both branches, specifically between the Office of Revenue and Economic Analysis (OREA) on behalf of the Executive branch and the non-partisan Office of Legislative Services (OLS) on behalf of the Legislative branch.

Most people are probably not aware of the current detailed level of collaboration that exists between the two branches throughout the budget process.

New Jersey, like a number of other states, utilizes an independent, rather than a consensus, forecasting process, with both the executive branch, via the State Treasurer, and the legislative branch, via OLS, offering their own forecasts. This information is communicated via the revenue updates that occur at the time of budget introduction (February/March) and again at the conclusion of the Legislature's budget hearing process (May).

This formal process of competing revenue presentations is facilitated by informal consultation between OLS and OREA, which meet at the professional staff level to better understand current revenue dynamics, with OREA sharing substantive data to the extent allowable. These meetings are preceded and followed by a more formal process whereby OLS submits written questions to the Executive branch to receive data and information related to the major taxes to help inform the OLS revenue development process. This "Q&A" covers vast territory and, most importantly, requires detailed, written responses from the Executive Branch. In essence, the process helps solidify the necessary dialogue between the branches, ensuring that we improve on our ability to predict and align costs and potential revenues appropriately to achieve the best budgetary outcome possible.

Projections over recent years are proof that a competing revenue process can affirm the work of both branches. The projections this spring, in particular, contrary to the past, were closer than in recent memory, making it all the more surprising that this proposal would be put forth this year. Moreover, as the negotiation process unfolded, the dialogue between Treasury and OLS helped ensure better precision in our forecasts.

After a budget is passed, Treasury and OLS continue to monitor revenue performance, publicly releasing formal monthly revenue updates. On an informal basis, OREA and OLS both utilize the State accounting system to internally track State revenues on a daily basis, consulting as needed to understand revenue patterns. This information is compared against the revenues certified by the Governor when the budget was passed.

These updates compare where we are against where we had hoped to be to allow for self-correction whenever necessary. In light of this information, the Treasurer and the Director of Budget and Accounting then have a legal responsibility to slow or freeze spending depending on revenue performance during a fiscal year. This analysis also allows us to establish baseline numbers going into the next fiscal year.

These monthly revenue updates are a critical component in preparing an accurate annual forecast. Not only do they serve as a barometer to measure the accuracy of the previous year's forecast, but they serve as a blueprint for the next year's forecasting.

SCR-132 would have little to no impact on the end-of-budget revenue discussions. Prior legislation that looked at advisory consensus forecasting recognized the potential benefit that forecasting – not certification – could have in providing additional precision to our revenue estimates as we begin and move through the budgetary process.

SCR-132 also fails to enumerate requirements for the third public person who would serve on the advisory board, presenting numerous concerns in terms of functionality. What qualifications must this person possess? How will the Treasurer and OLS Finance Officer select this person? What role will this person serve? How would differences in math among the three members be resolved? Would we average their projections? And should all three board members fail to reach a consensus how would the process be resolved? These are just some of the many questions that are left unresolved by this proposed amendment.

Finally, we are concerned that SCR-132 jeopardizes the system of checks and balances enshrined within our Constitution. Under our Constitution, the Legislature is granted the sole authority to appropriate funds. At the same time, the Constitution grants the Executive branch the authority to certify revenues. This is an affirmation of our system of checks and balances and verifies that the budget approved by the Legislature does in fact contain sufficient funding to allow the Executive branch to properly administer the goals of the Appropriations Act. SCR-132 would abrogate the Executive's responsibility in direct conflict with the separation of powers laid out in our Constitution.

Amending our state Constitution to strip the Executive branch of the authority to certify state revenue threatens the balance of power spelled out in our Constitution while ignoring the informal consensus process that effectively exists already between OREA and OLS.
While we would welcome a comprehensive conversation regarding best revenue **forecasting** practices, SCR-132 does not provide the framework for that discussion.

Sincerely,

Elizabeth Maher Muoio
State Treasurer