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Christie Says Best Revenue Gain Since 2007 to Finance New Jersey Tax Cuts

By Terrence Dopp and Romy Varghese - Feb 22, 2012

New Jersey (STONJ1) Governor Chris Christie is betting on the sharpest revenue increase since 2007 to help finance his personal and business income-tax cuts and the biggest pension contribution in the state's history.

Christie, a 49-year-old first-term Republican, proposed a $32.1 billion spending plan which counts on tax revenue increasing the most since the longest recession since World War II began in 2007. The budget, which is $2.4 billion more than the plan enacted last year, would cut income and business taxes while more than doubling the pension payment to $1.1 billion.

Nationwide, combined state tax revenue rose 6.1 percent from July to September, the seventh-straight quarter of growth, and the streak may have extended into the three months ended in December, according to a Jan. 26 report from the Albany, New York-based Nelson A. Rockefeller Institute of Government. Yet the gains appear to be weakening, the group said. New Jersey's revenue has missed forecasts in the six months through December.

"Everyone's fanning any numbers that appear positive," said Matt Dalton, who manages about $1 billion in municipal securities as chief executive officer at Belle Haven Investments Inc. in White Plains, New York. "Cheering for a better economy is an easy way to deal with the problem."

Christie is calling for a 10 percent income-tax cut over 36 months. In his plan to spend the largest amount in five years, he predicts revenue will rise 7.3 percent in fiscal 2013, which begins July 1. He has said the levy reductions, which will cost more than $500 million in the first year, will spur the economy.

Growth Era

"Today, we will both maintain our fiscal discipline, and drive New Jersey into a new era of growth," Christie said yesterday in a speech to lawmakers. "It is time to put the New Jersey comeback into high gear."

Governments from New York City to California (STOCA1) have begun crafting budgets based in part on anticipated revenue growth. Two Republican governors, Florida's Rick Scott and Michigan's Rick Snyder, have proposed higher spending. Scott's budget relies on a $1.3 billion, or 5.7 percent, increase in general revenue. Snyder anticipates his state will begin fiscal 2013 Oct. 1 with a $670 million surplus and would raise spending 1.4 percent, including more money for schools and public safety.

In New Jersey, Democrats, who control the Legislature say Christie's income-tax cut would favor the wealthy and that he should focus on easing property levies. Christie has said Democrats have ignored taxes and job creation while spending the past month on a same-sex marriage bill that he vetoed Feb. 18.

Beating Mississippi

New Jersey is ranked 41st among U.S. states and the District of Columbia in the Bloomberg Economic Evaluation of States, just ahead of Mississippi. The index scores economic health and growth across categories such as employment, income, mortgage delinquencies and tax revenue.

Christie's budget calls for the largest jump in revenue since collections increased 8.7 percent in fiscal 2007 from a year earlier. Yet in the first six months of fiscal 2012, revenue trailed forecasts by 3.2 percent, according to figures from Treasurer Andrew Sidamon-Eristoff.

Rising pension costs and a slow recovery prompted Standard & Poor's, Moody's Investors Service and Fitch Ratings to lower New Jersey's credit grade last year. While first-half revenue rose 3.2 percent compared with the same period a year earlier, it was $326 million less than targets.

Revenue Declines

New Jersey's revenue dropped about 11 percent in fiscal 2009 as the economy slumped. It fell 3.5 percent the next year, before rising 2.9 percent in 2011, and is projected to rise 3.5 percent this fiscal year. The governor stressed that spending for 2013 remains below fiscal 2008 levels.

"We also have avoided overly optimistic assumptions about revenue," Christie said. "These will only get us in trouble in the future."

The $29.7 billion budget Christie signed last year has increased to $31 billion as the administration supplemented spending, in part because the Legislature underfunded some areas, Sidamon-Eristoff told reporters. His proposed plan for fiscal 2013 would be 3.7 percent more than the revised figure.

Michael Pietronico, who oversees $670 million in municipal bonds as chief executive officer at Miller Tabak Asset Management in New York, said he would like to see more details of Christie's estimates on key signs such as foreclosures.

Standard & Poor's rewarded California's revenue assumptions by giving its credit rating a positive outlook on Feb. 15, Pietronico said. S&P rates the Golden State as A-, its fourth- lowest investment grade and the lowest of any state. Perhaps Christie hopes to receive the same treatment, he said. The company rates the Garden State three steps higher at AA-.

Variables to Consider

"The assumptions are reasonable, but there are a lot of variables at play," Pietronico said.

The state's estimated pension-funding deficit fell to $36.3 billion after Christie signed bills last year that raised workers' contributions to the plan and health-care expenses, increased the minimum retirement age for new employees to 65 from 62 and froze cost-of-living increases. Yet the governor's budget didn't include the $3 billion recommended pension payment and the unfunded liability swelled to $41.8 billion for the 12 months through June.

A 2010 law required the state to phase in full payments over seven years after a decade of lapsed funding. Christie budgeted $484 million payment for the current fiscal year. Actuaries recommended the state put in $3 billion. His plan calls for more than $1 billion in payments in fiscal 2013.

Growing Deficit

The unfunded liability will continue to grow, however, because of the failure to make full contributions until fiscal 2018, Fitch has said. The company rates New Jersey's general- obligation debt AA-, its fourth-highest grade.

The pension payment represents about 3.4 percent of the total budget this year, Christie said in his speech.

"My proposal of $1.1 billion for pensioners in this state reinforces my commitment to the security and financial future of all public workers," he said. "Stand with me on this commitment. Let us live up to our word."

Christie proposed school aid of $8.87 billion in his budget, an amount of spending on kindergarten to 12th-grade schools that he said is a "record level of investment."

Even with the 10 percent tax cut, rates in many income brackets will be higher than those in New York, Connecticut and Pennsylvania, the governor said.

Reversing Course

"We need to reverse our competitive disadvantage," Christie said. "In the mid-Atlantic region, New Jersey needs to be the best home for growth."

Democrats say a family with a $50,000 annual income would pay $80 less in taxes under Christie's plan, while someone earning $1 million would save $7,200.

Democrats led by Senate President Stephen Sweeney, of West Deptford, and Assembly Speaker Sheila Oliver, of East Orange, said a central tenet of Christie's spending plan may be in doubt as their party formulates a proposal to lower property taxes. Christie has "coddled" about 16,000 millionaires and Democrats won't support any tax cut that favors the wealthy, Sweeney said.

"It's not hard to figure out: He controls the numbers all the way around and he certifies the revenue," Sweeney told reporters. "They play a lot of games with those numbers."

While 52 percent of registered voters support the income- tax cut, 76 percent would prefer reducing property taxes first, according to a Rutgers University Eagleton Institute of Politics poll released yesterday. Property taxes, the highest in the nation, rose 2.4 percent to average $7,759 in 2011, according to state data.

Overestimate Gain

Voters overestimate how much money they would get from Christie's tax cut, the poll showed, with 35 percent of respondents saying it would save them more than $500. A household would have to earn more than $150,000 a year to reach that level, the institute said. Only 14 percent said their household income was more than $150,000 annually.

The telephone survey from Feb. 9-11 compiled responses from 914 registered voters and the results had a margin of error of plus or minus 3.3 percentage points.

Patrick Murray, who teaches politics and directs the Monmouth University polling institute, said since January both Republicans and Democrats have become "overly concerned with Christie's political future." In the process, the government is acting as if economic trouble Christie has warned of since taking office in January 2010 is over, Murray said.

"There's a bit of a rosy picture in this budget," the professor said. "It's hard to see how any economy can rebound that quickly."

Assemblyman Declan O'Scanlon, a Republican from Little Silver who serves as his party's budget officer, said he isn't concerned with Christie's reliance on growth, considering the governor's past record of balancing spending plans.

"It's really the budget we've all been hoping for over the past few years," he said in an interview. "We're not now, once again, facing massive cuts which everyone agrees was a tough thing. Now of course we have to pay attention and be fiscally responsible."

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