



**ANALYSIS OF THE NEW JERSEY BUDGET**

# **INTERDEPARTMENTAL ACCOUNTS**

**FISCAL YEAR**

**2009 - 2010**

# NEW JERSEY STATE LEGISLATURE

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# INTERDEPARTMENTAL ACCOUNTS

Budget Pages..... C-8, C-17, C-28, C-30,  
D-435 to D-451

## Fiscal Summary (\$000)

	Expended FY 2008	Adjusted Appropriation FY 2009	Recommended FY 2010	Percent Change 2009-10
State Budgeted	\$3,333,292	\$3,288,424	\$2,950,469	( 10.3%)
Federal Funds	0	0	0	—
<u>Other</u>	<u>45</u>	<u>4,060</u>	<u>4,418</u>	<u>8.8%</u>
Grand Total	\$3,333,337	\$3,292,484	\$2,954,887	( 10.3%)

## Personnel Summary - Positions By Funding Source

	Actual FY 2008	Revised FY 2009	Funded FY 2010	Percent Change 2009-10
State	0	0	0	—
Federal	0	0	0	—
<u>Other</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>—</u>
Total Positions	0	0	0	—

FY 2008 (as of December) and revised FY 2009 (as of January) personnel data reflect actual payroll counts. FY 2010 data reflect the number of positions funded.

## Key Points

### Temporary Layoffs

- On March 25, 2009, the Civil Service Commission adopted an emergency rule to allow the State to implement temporary layoffs in the current fiscal year, which requires State employees to take two unpaid days off, one in May and one in June. The FY 2009 temporary layoff is estimated to achieve salary savings of \$25 million. The FY 2010 Governor's Budget proposes to achieve salary savings of \$141.7 million by continuing the temporary layoff into the next fiscal year, but requiring State employees to take 12 unspecified, unpaid days off through June 30, 2010.

## Key Points (Cont'd)

### Management Efficiencies

- A central component of the Governor's policy objectives has been the implementation of management efficiencies and savings measures to achieve permanent reductions to departmental baseline budgets. According to the Administration, in FY 2007 and FY 2008, "departments have been made to absorb cumulative reductions for management efficiencies of \$75 million as permanent reductions to their base while at the same time, deal with inflationary increases in non-salary costs such as fuel and materials and supplies." In FY 2009 through a \$25 million reduction to Property Rentals in the Interdepartmental Accounts budget, departments were directed to find operational savings through procurement efficiencies. In the FY 2010 Governor's Budget, the Governor proposes to continue the procurement efficiencies program initiated in FY 2009 in the property rentals budget and proposes a \$40 million savings target for management efficiencies across all State departments (reflected in the "Statewide Savings Initiative" under Employee Benefits).

### Salary Freeze

- According to the FY 2010 Governor's Budget, the contracts for unions representing the Communications Workers of America (CWA), the American Federation of State, County, and Municipal Employees (AFSCME), and the International Federation of Professional and Technical Engineers (IFPTE) provide a 3.5 percent cost-of-living adjustment effective July 1, 2009. Negotiations continue with unions representing corrections and non-corrections law enforcement officers employed by the State, as well as with unions representing State Police employees. In addition, the contracts for unions that represent Judicial employees – CWA, Judiciary Council of Affiliated Unions (JCAU), and the Probation Association of New Jersey (PANJ) - provide for a 3 percent increase on July 1, 2009 and a progression payment of 4 percent on January 1, 2010. The Administration is negotiating a salary freeze for FY 2009 and FY 2010. The FY 2010 Governor's Budget assumes an agreement will be reached to implement it. In FY 2009, savings from a salary and wage "suspension" (freeze) are estimated to be \$19.8 million. The FY 2010 Governor's Budget anticipates salary savings of \$261.9 million by imposing a "salary deferral" (salary freeze) in FY 2010. Components of the Direct State Services "salary deferral" total \$187.3 million and include a freeze on Executive Branch salaries and no funding for the Judicial and Legislative salary programs. Leaders of each of those branches of government will determine salary policy for FY 2010. Components of the Grants In Aid "salary deferral" total \$53.9 million for the employees of State colleges and universities. In addition, \$20.8 million in savings to employers' Social Security contributions are projected, with these savings shared between Direct State Services and Grants In Aid.

## Key Points (Cont'd)

The FY 2009 Proposed Salary Freeze (000s)	
Executive Branch Wage Freeze	\$ 4,000
Suspension of Managers' Salary Increases	\$ 15,700
Administrative Law Judges Salary Increases	\$ 125
<b>Total Salary Freeze Savings for Public Employees</b>	<b>\$19,825</b>

Source: Budget In Brief.

The FY 2010 Governor's Budget Proposed Salary Freeze (000s)	
Executive COLA (includes Pinelands)	\$ 97,709
Executive Increments	\$ 45,000
Legislature Salary Program	\$ 1,291
Judiciary Salary Program	\$ 28,651
Managers' Salary Program	\$ 14,345
Administrative Law Judges Salary Increases	\$ 282
<b>Total FY 2010 Salary Increases for State Employees</b>	<b>\$187,278</b>
Senior Public Institutions Salary Program	\$ 53,869
Net FICA Savings from Salary Freeze	\$ 20,792
<b>Total Salary Freeze Savings for Public Employees Including Colleges</b>	<b>\$261,939</b>

Source: Office of Management and Budget

## Pensions

- The FY 2010 Governor's Budget again proposes a reduced level of funding for the pension systems by recommending a State pension contribution of \$400 million, representing a contribution of approximately 6.25 percent of the actuarially required contribution to the defined benefit retirement systems. Under the Governor's FY 2009 re-balancing plan, the \$1.283 billion appropriated for the FY 2009 State contribution to the State-administered pension systems will be reduced by \$783.8 million to a total contribution for FY 2009 of \$500 million, reducing the State contribution from 49 percent to approximately 11 percent of the actuarially required contribution.

## Key Points (Cont'd)

Changes in the Estimated Required Contributions to the State-Administered Retirement Systems						
Retirement System	FY 2009 Adjusted Approp <sup>(1)</sup> .	Pensions Funding Level (2)	FY 2009 Revised Contrib. <sup>(1)</sup>	Pensions Funding Level (2)	FY 2010 Proposed Contrib. <sup>(1)</sup>	Pensions Funding Level (2)
PERS	\$233,396	38.7%	\$ 78,750	10.2%	\$ 58,100	5.2%
TPAF	\$696,038	48.1%	\$198,375	12.3%	\$129,102	6.4%
PFRS	\$135,543	45.8%	\$ 39,568	11.8%	\$ 26,142	6.2%
SPRS	\$ 36,419	45.1%	\$ 10,244	11.5%	\$ 6,566	5.9%
JRS	\$ 12,606	44.7%	\$ 3,643	11.5%	\$ 2,824	5.9%
CPFPF	\$ 1,256	100%	\$ 1,256	100.0%	\$ 820	100.0%
ABP	\$166,467	100%	\$166,467	100.0%	\$174,714	100.0%
DCRP	\$ 0	100%	\$ 0	NA	\$ 199	100.0%
Misc.	\$ 1,703	100%	\$ 1,703	100.0%	\$ 1,533	100.0%
<b>Total</b>	<b>\$1,283,428</b>	<b>44.5% (3)</b>	<b>\$500,006</b>	<b>11.5% (3)</b>	<b>\$400,000</b>	<b>5.9%(3)</b>

Source: Office of Management and Budget.

Notes: (1) Includes non-contributory insurance amounts. (2) Represents pensions funding levels only; non-contributory insurance is funded at 100 percent. (3) Average pensions funding level of the 5 State-Administered Defined Benefit Retirement Systems.

## Long Term Obligation and Capital Expenditure Fund

- P.L.2008, c.22 established the Long Term Obligation and Capital Expenditure Fund in the General Fund as a separate, non-lapsing fund. Moneys in the fund were to be used to pay for capital improvements, retiring and defeasing debt, or making supplemental payments to (1) reduce the unfunded post retirement health benefits liability for members of the State's public employees' retirement systems and (2) reduce the unfunded pension liability of those systems. Future appropriations from the fund were to be enumerated in a separate section of the annual appropriations act, apart from all other appropriated funds, and were not to be counted in the total amounts appropriated from any other fund. Aside from an instance of a State emergency, the fund was only to be used to pay-off debt, make capital improvements, or reduce the unfunded health benefit or pension liabilities. P.L.2008, c.22 appropriated \$684 million from the General Fund at the end of June 2008 to the Long Term Obligation and Capital Expenditure Fund of which \$650 million was then to be appropriated for retiring and defeasing debt and \$34 million was appropriated for capital construction projects in FY 2009. Due to the State's fiscal crisis resulting from the economic and financial market downturn that emerged in the Fall of 2008, the State used the Long Term Obligation and Capital Fund to provide economic recovery and budget relief in FY 2009: economic recovery (\$150 million); budget (Property Tax Relief Fund) relief (\$365 million); debt retirement (\$135 million); capital projects (\$22.9 million); and additional budget relief (\$11.1 million). The Governor's Economic Recovery Program provided funding for food assistance; mortgage stabilization; neighborhood stabilization; business assistance; legal services; community health; and mediation support initiatives in support of individuals, businesses, and the economy. P.L. 2009, c.22 transferred up to \$371 million as revenue to support appropriations from the Property Tax Relief Fund and reduced the amount of general obligation debt service payments to \$135 million. Of the remaining \$34 million that was earmarked for capital construction projects, \$22.9 million was encumbered or expended on the projects that were set forth in P.L.2008, c.22 and \$11.1 million is to lapse as part of the FY 2009 Close-out Plan.

## Key Points (Cont'd)

Disposition of Long Term Obligation and Capital Expenditure Fund (P.L.2008 c.22 June 25, 2008)			
This fund established in conjunction with the Fiscal Year 2009 Appropriations Act (P.L.2008, c.35) provided for funds to be disbursed in the following manner:			
Department	Type	Program	Amount
Children and Families	Capital Construction	Classroom Improvements-Ewing Treatment Center	\$175,000
Corrections	Capital Construction	Fire Safety and Code Compliance-Garden State Youth Correctional Facility	3,919,000
Corrections	Capital Construction	Replace Modular Units - Bayside State Prison	1,494,000
Corrections	Capital Construction	Locking System Upgrade - Northern State Prison	1,580,000
Education	Capital Construction	Fire Protection-Marie H. Katzenbach School for the Deaf	560,000
Education	Capital Construction	Fire Suppression Systems - Regional Day Schools	2,000,000
Human Services	Capital Construction	HR-6 Flood Control Projects	6,500,000
Human Services	Capital Construction	Information Technology Infrastructure	561,000
Law & Public Safety	Capital Construction	Electrical Upgrades-Ancora PH, Hunterdon DC, Hagedorn PH	2,400,000
Law & Public Safety	Capital Construction	Elevator Replacement - Vineland DC and Trenton PH	1,700,000
Law & Public Safety	Capital Construction	Building 15 Upgrades - West Trenton	1,320,000
Interdepartmental	Capital Construction	Suicide Prevention-Bordentown Juvenile Med. Security Facility	660,000
Interdepartmental	Capital Construction	Critical Repairs – Various JJC Facilities	1,000,000
Interdepartmental	Capital Construction	Cooling Tower Replacement - DEP Building	1,200,000
Interdepartmental	Capital Construction	Plaza Water Membrane Replacement – NJ State Museum	1,500,000
Interdepartmental	Capital Construction	ADA Compliance - Statewide	1,000,000
Interdepartmental	Capital Construction	Hazardous Materials Removal Projects - Statewide	1,000,000
Interdepartmental	Capital Construction	Renovations – Existing and Anticipated Leases	3,500,000
Interdepartmental	Capital Construction	Security Projects - Statewide	2,000,000
		<b>Subtotal Capital Programs</b>	<b>\$34,069,000</b>
Treasury	Debt Service	<b>Debt Defeasance</b>	<b>\$650,000,000</b>
Source: FY 2010 Governor's Budget		<b>Total Approved Spending as Enacted</b>	<b><u>\$684,069,000</u></b>

The amounts below were transferred from the Long Term Obligation and Capital Expenditure Fund for the Purposes Listed:			
Department	Type	Program	Amount
Agriculture	Economic Recovery	Food Assistance P.L.2008, c.113	\$3,000,000
Community Affairs	Economic Recovery	Mortgage Stabilization P.L.2008, c.127	25,000,000
Community Affairs	Economic Recovery	Neighborhood Stabilization P.L.2008, c.127	15,000,000
Community Affairs	Economic Recovery	Additional HMFA Counselors P.L.2008, c.104	2,500,000
Community Affairs	Economic Recovery	Required Mediation Prior to Foreclosure - HMFA P.L.2008, c.104	9,500,000
Treasury	Economic Recovery	Main Street Business Assistance P.L.2008, c.117	50,000,000
Treasury	Economic Recovery	InvestNJ Business Grant Program – Capital P.L.2008, c.112	25,000,000
Treasury	Economic Recovery	NJ SHARES – BPU P.L.2008, c.113	10,000,000
Treasury	Economic Recovery	State Legal Services P.L.2008, c.113	9,200,000
Treasury	Economic Recovery	Community Health Law Project P.L.2008, c.113	300,000
Judiciary	Economic Recovery	Required Mediation Prior to Foreclosure – Courts P.L.2008, c.104	500,000
Source: FY 2010 Governor's Budget		<b>Total Amount Transferred for Governor's Economic Recovery Programs</b>	<b><u>\$150,000,000</u></b>

## Key Points (Cont'd)

The amounts below are to be transferred from the Long Term Obligation and Capital Expenditure Fund as enacted in P.L.2009, c.22 (S-15) for the purposes of listed:

Department	Program	Amount
Property Tax Relief Fund	Revenue Loss Offset	\$365,000,000
General Fund	General Obligation Debt Service Costs	135,000,000
	<b>Total Amount Transferred for Other Programs</b>	<b>\$500,000,000</b>
Source: FY 2010 Governor's Budget	<b>Total Amounts Transferred</b>	<b>\$650,000,000</b>

Disposition of Long Term Obligation and Capital Expenditure Fund  
(P.L.2008 c.22 June 25, 2008)

The amounts below have been expended/encumbered from the Long Term Obligation and Capital Expenditure Fund for the Purposes Listed:

Department	Type	Program	Amount
Children and Families	Capital Construction	Classroom Improvements-Ewing Treatment Center	\$113,214
Corrections	Capital Construction	Fire Safety and Code Compliance-Garden State Youth Correctional Facility	3,919,000
Education	Capital Construction	Fire Protection-Marie H. Katzenbach School for the Deaf	281,000
Education	Capital Construction	Fire Suppression Systems - Regional Day Schools	1,369,528
Environmental Protection	Capital Construction	Information Technology Infrastructure	245,473
Environmental Protection	Capital Construction	HR-6 Flood Control Projects	5,500,000
Human Services	Capital Construction	Electrical Upgrades-Ancora PH, Hunterdon DC, and Hagedorn PH	1,900,000
Human Services	Capital Construction	Elevator Replacement - Vineland DC and Trenton PH	1,700,000
Law & Public Safety	Capital Construction	Suicide Prevention-Bordentown Juvenile Medium Security Facility	660,000
Law & Public Safety	Capital Construction	Critical Repairs - Various JJC Facilities	449,755
Interdepartmental	Capital Construction	Cooling Tower Replacement - DEP Building	415,713
Interdepartmental	Capital Construction	Plaza Water Membrane Replacement - NJ State Museum	1,500,000
Interdepartmental	Capital Construction	ADA Compliance - State wide	748,974
Interdepartmental	Capital Construction	Hazardous Materials Removal Projects - Statewide	185,446
Interdepartmental	Capital Construction	Renovations - Existing and Anticipated Leases	3,500,000
Interdepartmental	Capital Construction	Security Projects - Statewide	422,382
Source: FY 2010 Governor's Budget		<b>Total Amount Expended/Encumbered</b>	<b>\$22,910,485</b>

The amounts below are expected to lapse to the General Fund as part of the Fiscal Year 2009 Close-Out Plan from the Long Term Obligation and Capital Expenditure Fund:

Department	Type	Program	Amount
Children and Families	Capital Construction	Classroom Improvements-Ewing Treatment Center	\$61,786
Corrections	Capital Construction	Fire Safety /Code Compliance - Garden State Youth Correctional Facility	1,580,000
Corrections	Capital Construction	Replace Modular Units - Bayside State Prison	1,494,000
Education	Capital Construction	Fire Protection - Marie H. Katzenbach School for the Deaf	279,000
Education	Capital Construction	Fire Suppression Systems - Regional Day Schools	630,472
Environmental Protection	Capital Construction	HR-6 Flood Control Projects	1,000,000
Environmental Protection	Capital Construction	Information Technology Infrastructure	315,527
Human Services	Capital Construction	Electrical Upgrades - Ancora PH, Hunterdon DC, and Hagedorn PH	500,000
Law & Public Safety	Capital Construction	Building 15 Upgrades - West Trenton	1,320,000
Law & Public Safety	Capital Construction	Critical Repairs - Various JJC Facilities	550,245
Interdepartmental	Capital Construction	Cooling Tower Replacement - DEP Building	784,287

## Key Points (Cont'd)

Interdepartmental	Capital Construction	ADA Compliance – Statewide	251,025
Interdepartmental	Capital Construction	Hazardous Materials Removal Projects – Statewide	814,554
Interdepartmental	Capital Construction	Security Projects – Statewide	1,577,619
		<b>Total Amount Anticipated to Lapse June 30, 2009</b>	<b>\$11,158,515</b>
Source FY 2010 Governor's Budget		<b>Anticipated Balance in Long Term Obligation and Capital Expenditure Fund June 30, 2009</b>	<b>\$ 0</b>
			<b>=</b>

## Property Rentals

- The FY 2010 Governor's Budget reduces funding for State property rental costs by \$46 million, in part in anticipation of \$20 million in "rent efficiencies" in the Existing and Anticipated Leases appropriation. The remaining reduction in funding for State property rentals costs is proposed to come from additional procurement efficiencies totaling \$25 million that are budgeted centrally in the Property Rentals Account and \$1 million in miscellaneous other savings.

## Insurance and Other Services

- The proposed FY 2010 Governor's Budget recommends an appropriation of \$113.1 million to provide funding for Insurance and Other Services. This represents a \$3.8 million, or 3.3 percent, reduction in funding from the FY 2009 adjusted appropriation of \$116.9 million. This decrease in funding is due to the reduction in the Property and Casualty Insurance premiums and to lower vehicle claims liabilities resulting from the reduction in the State vehicle fleet.

## Utilities and Other Services

- The proposed FY 2010 Governor's Budget recommends an appropriation of approximately \$58.6 million to fund Utilities and Other Services. This represents a reduction \$7.3 million, or 11 percent, below the FY 2009 adjusted appropriation of \$65.8 million. Approximately \$6.1 million of this reduction is due to proposed savings from departmental energy efficiency measures and from utility efficiencies expected to be achieved by the Office of Energy Savings' new Energy Tracking System. The remainder of this decrease consists of \$800,000 in property management services and a shift of \$358,000 in costs to the State Recycling Fund Recycling Administration account.

## Aid to Independent Authorities

- The FY 2010 Governor's Budget recommends an appropriation of \$146.9 million in Grants-In-Aid funding to Independent Authorities, an increase of \$2.9 million, or 2 percent above the FY 2009 adjusted appropriation. This funding represents payments pursuant to State contracts to support debt service on bonds issued by authorities for various projects which are not self sustaining from revenues. This increase in funding is due primarily to an increase of \$11.1 million in higher debt service costs consistent with the maturity schedules on outstanding State contract bonds for the New Jersey Sports and Exposition Authority. However, the increase is offset by \$8.1 million in

## Key Points (Cont'd)

lower debt service costs on bonds for the Business Employment Incentive Program and for related programs to support designated industries, e.g., technology and life science companies.

### Other Interdepartmental Accounts

- For a number of years, the State has used cash flow borrowing, in the form of tax and revenue anticipation notes, to meet its cash flow needs in the early part of the fiscal year, when cash spending outpaces cash collections. This situation largely results from the need to expend significant sums on local aid and direct property tax relief in the first two fiscal quarters, before major tax collections are received in the last two quarters. The FY 2010 Governor's Budget proposes an appropriation of \$24 million for interest on short term notes (page D-449), an increase of \$11 million above the FY 2009 adjusted appropriation of \$13 million for this purpose. Thus far in FY 2009, the State has issued \$1.8 billion in tax and revenue anticipation notes (TRANS) to meet cash flow needs. Interest costs on these notes will total about \$42.6 million, which will be offset by original issue premiums of \$19.7 million. Thus, net interest cost will total approximately \$22.9 million. Investment earnings, or other sources of funding, will supplement FY 2009 appropriations to fully fund these costs.

**Fiscal and Personnel Summary**

**AGENCY FUNDING BY SOURCE OF FUNDS (\$000)**

	Expended FY 2008	Adj. Approp. FY 2009	Recom. FY 2010	Percent Change	
				2008-10	2009-10
<b><u>General Fund</u></b>					
Direct State Services	\$2,201,764	\$2,166,463	\$1,798,341	( 18.3%)	( 17.0%)
Grants-In-Aid	887,930	912,561	939,644	5.8%	3.0%
State Aid	0	0	0	0.0%	0.0%
Capital Construction	243,598	209,400	212,484	( 12.8%)	1.5%
Debt Service	0	0	0	0.0%	0.0%
<b>Sub-Total</b>	<b>\$3,333,292</b>	<b>\$3,288,424</b>	<b>\$2,950,469</b>	<b>( 11.5%)</b>	<b>( 10.3%)</b>
<b><u>Property Tax Relief Fund</u></b>					
Direct State Services	\$0	\$0	\$0	0.0%	0.0%
Grants-In-Aid	0	0	0	0.0%	0.0%
State Aid	0	0	0	0.0%	0.0%
<b>Sub-Total</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>0.0%</b>	<b>0.0%</b>
<b>Casino Revenue Fund</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>0.0%</b>	<b>0.0%</b>
<b>Casino Control Fund</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>0.0%</b>	<b>0.0%</b>
<b>State Total</b>	<b>\$3,333,292</b>	<b>\$3,288,424</b>	<b>\$2,950,469</b>	<b>( 11.5%)</b>	<b>( 10.3%)</b>
<b>Federal Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>0.0%</b>	<b>0.0%</b>
<b>Other Funds</b>	<b>\$45</b>	<b>\$4,060</b>	<b>\$4,418</b>	<b>9717.8%</b>	<b>8.8%</b>
<b>Grand Total</b>	<b>\$3,333,337</b>	<b>\$3,292,484</b>	<b>\$2,954,887</b>	<b>( 11.4%)</b>	<b>( 10.3%)</b>

**PERSONNEL SUMMARY - POSITIONS BY FUNDING SOURCE**

	Actual FY 2008	Revised FY 2009	Funded FY 2010	Percent Change	
				2008-10	2009-10
State	0	0	0	0.0%	0.0%
Federal	0	0	0	0.0%	0.0%
All Other	0	0	0	0.0%	0.0%
<b>Total Positions</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0.0%</b>	<b>0.0%</b>

FY 2008 (as of December) and revised FY 2009 (as of January) personnel data reflect actual payroll counts. FY 2010 data reflect the number of positions funded.

**AFFIRMATIVE ACTION DATA**

Total Minority Percent	0.0%	0.0%	0.0%	----	----
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## Significant Changes/New Programs (\$000)

<u>Budget Item</u>	<u>Adj. Approp.</u> <u>FY 2009</u>	<u>Recomm.</u> <u>FY 2010</u>	<u>Dollar</u> <u>Change</u>	<u>Percent</u> <u>Change</u>	<u>Budget</u> <u>Page</u>
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### GENERAL GOVERNMENT SERVICES

#### Direct State Services

Savings From  
Procurement  
Efficiencies

\$0	(\$25,000)	(\$25,000)	—	D-439
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In FY 2009, through a \$25 million reduction to the property rentals budget in Interdepartmental Accounts, departments were directed to find operational savings through procurement efficiencies. The FY 2010 Budget In Brief shows that these savings were achieved through a combination of energy, general administrative, rent, contract reform, information technology/communications, and equipment/materials/supplies savings. According to the FY 2010 Budget in Brief, the Governor continues the procurement efficiencies program initiated in FY 2009 and directs departments again to “implement smarter procurement” initiatives to reduce operational costs in the budget year. Budget language in the FY 2010 Governor’s Budget continues language introduced in FY 2009 that authorizes the Director of the Division of Budget and Accounting to transfer from departmental accounts and credit to the property rentals account the \$25 million in savings from procurement efficiencies for property rentals.

FY 2009 Procurement Efficiencies (\$ Millions)	
Fuel and Energy	\$ 5.5
General Administration/Program Cuts	\$ 4.4
Other/Operational	\$ 4.2
Office Rent/Facilities	\$ 3.9
Contract Reform	\$ 2.6
Information Technology/ Communications	\$ 2.4
Equipment/Materials/Supplies	\$ 1.9
Total	\$24.9

Source: FY 2010 Budget In Brief

### Property Rentals

The Property Rentals Account funds existing and anticipated leases of offices, warehousing space, and other facilities used by State agencies; payments for debt service leases; and payments in lieu of property taxes on facilities occupied by State agencies, as well as payments for various fire safety systems and office furnishings. The account also functions as a clearing account for the payment of rents for agencies financed from sources other than the General Fund, such as federal reimbursements. The State recovers, from non-State fund sources, the cost of renting office space and the cost of operating and maintaining office space. These recoveries serve to reduce the net cost to the General Fund.

## Significant Changes/New Programs (\$000) (Cont'd)

<u>Budget Item</u>	<u>Adj. Approp. FY 2009</u>	<u>Recomm. FY 2010</u>	<u>Dollar Change</u>	<u>Percent Change</u>	<u>Budget Page</u>
Existing and Anticipated Leases	\$209,070	\$186,514	(\$22,556)	( 10.8%)	D-439
Economic Development Authority	\$17,114	\$17,156	\$ 42	.2%	D-439
Other Debt Service Leases and Tax Payments	\$33,679	\$34,382	\$ 703	2.1%	D-439
Less: Total Deductions	(\$96,032)	(\$119,573)	(\$23,541)	24.5%	D-439
Net Property Rentals	\$163,831	\$118,479	(\$45,352)	( 27.7%)	D-439

The Existing and Anticipated Leases appropriation comprises funding for office space and other property rentals for State agencies from both State and non-State, e.g., federal sources. The FY 2010 Governor's Budget recommends a total appropriation of \$186.5 million, which is \$22.6 million below the FY 2009 adjusted appropriation (\$209.1 million) and \$21.4 million below FY 2008 expenditures (\$207.9 million). According to the Administration, at least \$20 million in savings are to be achieved through a "combination of planned rent consolidations and pending negotiations for rent abatement and lower rent costs." The FY 2010 Governor's Budget In Brief identifies \$4.3 million in total rent consolidation savings: \$3.3 million from the elimination or consolidation of 14 leases (\$950,000 of which were in the Department of Health and Senior Services and \$400,000 in the Department of Law and Public Safety); and \$980,000 from annualized savings from 11 lease eliminations completed in FY 2009. The remaining \$16.7 million in "rent efficiencies" has not been explained. Cost increases for existing and projected new leases are projected at about \$4.8 million. Offsetting these increases are reductions of \$1.7 million in maintenance and security costs at closed State institutions.

The Economic Development Authority and Other Debt Service Leases and Tax Payment appropriations provide funding for debt service leases and payments in lieu of property taxes on facilities financed by independent public entities and occupied by State agencies. The State has lease agreements with the New Jersey Economic Development Authority (EDA) for various facilities around the State. As lessee, the State is required to make rental payments sufficient to cover the debt service and other amounts payable to the EDA. In the past, the EDA has floated bonds for the construction of facilities to house the New Jersey Division of Motor Vehicle Services and the New Jersey Network. Past lease agreements include the leases for the City of Newark for the New Jersey Performing Arts Center, two parking lots, and certain infrastructure improvements in connection with Liberty State Park. The FY 2010 Governor's Budget recommends total appropriations of \$51.5 million for these two accounts, a small increase above FY 2009 of \$745,000 thousand representing \$120,000 in increased debt service costs and \$625,000 for unspecified changes in costs for other debt service leases and tax payments.

**Significant Changes/New Programs (\$000) (Cont'd)**

<u>Budget Item</u>	<u>Adj. Approp.</u> <u>FY 2009</u>	<u>Recomm.</u> <u>FY 2010</u>	<u>Dollar</u> <u>Change</u>	<u>Percent</u> <u>Change</u>	<u>Budget</u> <u>Page</u>
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According to the FY 2008 Budget In Brief, the Department of the Treasury's Division of Property Management and Construction (DPMC) "conducted audits of State-owned and leased buildings and facilities in the Trenton area, as well as all leased facilities, to identify opportunities for reducing lease costs. Due to a reduction in workforce initiated by the Governor, DPMC and State departments collaborated to identify initiatives that would enable the State to either close leases or relinquish existing office space or staff associated with new or enhanced programs."

In FY 2009, initiatives to consolidate office space, reorganize existing and anticipated leases, and streamline the leasing process focused on "restacking" existing buildings which makes it possible to eliminate new leases in areas where surplus is available and consolidating agency staff from leased spaces with expiring rental contracts into vacant space in State-owned buildings. As previously noted, in FY 2010 additional procurement efficiencies totaling \$25 million are deducted from Property Rentals, which, net of reduced recoveries from non-State funds, results in a \$23.5 million increase in the "Total Deductions" line.

**Additions,  
Improvements, and  
Equipment**

	\$5,856	\$5,212	(\$ 644)	( 11.0%)	D-439
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The Additions, Improvements, and Equipment appropriation provides funding for debt service payments for additions and improvements to State-owned buildings and for the purchase of equipment and improvements such as fire sprinklers and office furnishings. The FY 2010 Governor's Budget recommends a reduction of \$644,000 in the line of credit (LOC) used to fund these expenses. Under an LOC, the State is able to borrow money for additions, improvements, and equipment on a short term basis, three years, at competitively low interest rates. The \$644,000 reduction in payments reflects paying off a portion of the LOC. The FY 2008 Governor's Budget recommended an increase of \$3.3 million to pay for increased line of credit financing costs for renovations at the Ancora Psychiatric Hospital. The FY 2009 Governor's Budget recommended an increase of \$1.3 million to pay for higher line of credit financing costs for renovations at the Ancora Psychiatric Hospital.

**Insurance and Other Services**

The Insurance and Other Services appropriations provide funding for insurance premiums for property, casualty, and special insurance policies for coverage against losses to State-owned real property, machinery and fine art objects owned by the State. The State self-administers its insurance programs and is self-insured for Tort Claims, Workers' Compensation, automobile (vehicle claims) liability, risks and claims arising from the Foster Parents Program, and the UMDNJ Self-Insurance Reserve Fund.

**Significant Changes/New Programs (\$000) (Cont'd)**

<u>Budget Item</u>	<u>Adj. Approp. FY 2009</u>	<u>Recomm. FY 2010</u>	<u>Dollar Change</u>	<u>Percent Change</u>	<u>Budget Page</u>
<b>Property Insurance Premium Payments</b>	<b>\$3,796</b>	<b>\$3,195</b>	<b>(\$ 601)</b>	<b>( 15.8%)</b>	<b>D-439</b>

The Property Insurance Premium Payments appropriation is used to purchase insurance coverage for property damage for State-owned real and personal property. Coverage includes standard protection for buildings and contents, marine vessels, catastrophic loss to vehicles parked in State locations, and mainframe EDP coverage. Additional policies include fine arts coverage and high-value vans coverage. The FY 2010 Governor's Budget recommends a reduction of \$601,000 to this appropriation due in part to the reduction in State-issued passenger vehicles. According to the Budget In Brief, the FY 2010 Governor's Budget includes "a reduction of an estimated 400 cars which, together with previous recalls under this Administration, will shrink the total fleet by nearly 1,400 (17 percent) from 8,400 to 7,000. From the start of this Administration through fiscal 2009, a reduction of 980 vehicles (12 percent) was implemented. The 400 vehicles to be eliminated in FY 2010 represent an additional cut of 5 percent, representing vehicles that are aged, underutilized, or recalled from certain administrative assignments. The salvage value of the cars to be withdrawn in fiscal 2009 is estimated at \$600,000. The vehicles include sedans, station wagons, passenger vans, mini-vans, and SUVs."

<b>Casualty Insurance Premium Payments</b>	<b>\$1,010</b>	<b>\$760</b>	<b>(\$ 250)</b>	<b>( 24.8%)</b>	<b>D-439</b>
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The Casualty Insurance Premium Payment appropriation is used to purchase automobile excess liability insurance, aircraft liability and hull physical damage insurance, workers' compensation for special classes of State employees supported by federal or non-State funds, and accidental health insurance to provide medical reimbursement, disability and death benefits to volunteers in State programs who do not qualify as State employees and would not be eligible for workers' compensation benefits. The proposed FY 2010 Governor's Budget recommends a reduction of \$250,000 to this appropriation due in part to savings related to the reduction in the vehicle fleet and other reduced costs and decreased utilization.

<b>Vehicle Claims Liability Fund</b>	<b>\$6,500</b>	<b>\$3,500</b>	<b>(\$3,000)</b>	<b>( 46.2%)</b>	<b>D-439</b>
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The Vehicle Claims Liability Fund is an experience-based program for the State to self-insure the automobile liability risk. Although the State is self-insured, an appropriation is made for the purpose of funding (accrual basis) projected losses. Original appropriations in this fund have increased from \$2 million in FY 2005 and FY 2006 to \$3.5 million in FY 2008 and FY 2009, or 75 percent, while expenditures have increased, over the same time frame, by 85 percent. To address the higher growth in expenditures over appropriations, transfers and supplemental appropriations have been necessary to fund the increasing vehicle claims liability.

The FY 2010 Governor's Budget projects a supplemental appropriation for FY 2009 in the amount of \$3 million. The recommended appropriation for FY 2010 is \$3.5 million, \$3 million less than the adjusted appropriation in FY 2009.

## Significant Changes/New Programs (\$000) (Cont'd)

<u>Budget Item</u>	<u>Adj. Approp. FY 2009</u>	<u>Recomm. FY 2010</u>	<u>Dollar Change</u>	<u>Percent Change</u>	<u>Budget Page</u>
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### Utilities and Other Services

The Utilities and Other Services appropriation provides funding for heating, air conditioning, lighting, and other electrical expenses such as computer lines and telephones, janitorial and waste management expenses including recycling activities for State facilities or other facilities leased by State departments or agencies.

<b>Fuel and Utilities</b>	<b>\$59,387</b>	<b>\$53,287</b>	<b>(\$6,100)</b>	<b>( 10.3%)</b>	<b>D-439</b>
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The Fuel and Utilities item provides funding for heating, electrical, janitorial, and trash removal needs for various State-owned buildings, including the Capital Complex, that houses the State workforce as well as some fuel and utility costs for State departments. Budget language authorizes the Director of the Division of Budget and Accounting to transfer or credit funds to this account from other various spending agencies to reflect savings associated with electrical deregulation, fuel switch, and other energy-conservation initiatives; to transfer to other State departments such additional sums as may be required to pay fuel and utility costs; and to appropriate revenue generated from the sales of Solar Renewable Energy Credits (SRECs) to fund energy-related savings initiatives as determined by the Director of Energy Savings within the Department of the Treasury, subject to the approval of the Director of the Division of Budget and Accounting. The proposed FY 2010 Governor's Budget recommends a reduction of \$6.1 million in the appropriation to fund fuel and utility costs. First, a reduction of \$3.4 million in fuel and utility expenditures is expected to be achieved by departments by continuing to implement energy efficiency measures. Second, according to the FY 2010 Budget In Brief, the Department of the Treasury's Office of Energy Savings (OES) "will use a new system to comprehensively monitor all utility costs, saving an estimated \$2.7 million by targeting conservation measures at high-use State facilities." The Office of Legislative Services (OLS) assumes this new system is the OES's new Energy Tracking System and that the savings reflect a two percent reduction in energy consumption as projected. In a Discussion Point raised in the FY 2008 OLS budget analysis, the Department of the Treasury, was asked to describe its proposed Energy Tracking System (ETS). In its response, the department stated that,

"the ETS would enable the State to continuously monitor and evaluate building energy consumption, costs, and greenhouse emissions for all enrolled facilities. Focus will be on key performance metrics such as \$ per square foot, BTU's per square foot, \$ per kilowatt hour, tons of CO2 equivalent. There are also systems that allow for automated benchmarking using the EPA's Energy Star scoring system, to see how our facilities are performing versus similar buildings around the country. The ETS will allow for regular reporting of department energy performance and will raise department visibility and accountability to ensure continuous improvement. It will also enable the State to focus resources on facilities that present the greatest opportunities for improvement.

## Significant Changes/New Programs (\$000) (Cont'd)

<u>Budget Item</u>	<u>Adj. Approp.</u> <u>FY 2009</u>	<u>Recomm.</u> <u>FY 2010</u>	<u>Dollar</u> <u>Change</u>	<u>Percent</u> <u>Change</u>	<u>Budget</u> <u>Page</u>
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An ETS is typically developed by using a specialized vendor to centralize the utility bill payment process to allow for extraction and auditing of key data, but can also be arranged through other methods. The cost for a full-service approach is usually based on a fixed fee per invoice and is expected to run between \$100,000-\$300,000 annually for the State, based on an estimate of processing 20,000–30,000 bills each year. While the payment processing aspect can be separated out, there are certain efficiencies that can be realized by keeping these services together to streamline payment processing and reduce associated costs. However, both approaches are currently under consideration. Cost reduction and environmental benefits are expected to far exceed the expense, with a 2 percent reduction in energy consumption yielding a \$2.8 million benefit. The Office of Energy Savings is striving to have an ETS in place in calendar year 2007."

Budget language authorizes an appropriation of \$3.5 million from the Petroleum Overcharge Reimbursement Fund to fund energy-related savings initiatives, including an energy tracking system and invoice payment system, as determined by the Director of Energy Savings within the Department of the Treasury subject to the approval of the Director of the Division of Budget and Accounting.

<b>Household and Security</b>	<b>\$6,443</b>	<b>\$5,285</b>	<b>(\$1,158)</b>	<b>( 18.0%)</b>	<b>D-439</b>
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The Household and Security item funds contract costs for household and security programs such as janitorial and trash removal services. The FY 2010 Governor's Budget recommends a reduction in the recommended appropriation of \$1.2 million. The components of these reduced costs include a reduction of \$800,000 in property management services and \$358,000 shift to the State Recycling Fund.

P.L.2007, c.311 levies a recycling tax of \$3 per ton of solid waste on the owners or operators of any in-State solid waste facilities and on solid waste collectors who transport the waste out of the State. The monies in the fund are appropriated for recycling grants to municipalities and counties; aid to counties for preparing, revising, and implementing solid waste management plans and public education programs; and university grants on recycling. The revenues from the recycling tax are deposited in the State Recycling Fund, which is administered by the Department of Environmental Protection. The FY 2010 Governor's Budget proposes language that would authorize the appropriation in an amount not to exceed \$358,000 from the State Recycling Fund Recycling Administration account to the Department of the Treasury for administrative costs attributable to the State's recycling program.

In addition to the recommended appropriation, approximately \$3.0 million in funding for the Household and Security account will come from the New Jersey Broadcasting Authority (NJBA) (\$526,000) and from the Motor Vehicle Commission (\$2.5 million). Budget language

**Significant Changes/New Programs (\$000) (Cont'd)**

<u>Budget Item</u>	<u>Adj. Approp.</u> <u>FY 2009</u>	<u>Recomm.</u> <u>FY 2010</u>	<u>Dollar</u> <u>Change</u>	<u>Percent</u> <u>Change</u>	<u>Budget</u> <u>Page</u>
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introduced in FY 2009, recommended for continuation in the FY 2010 Governor's Budget, redirects \$526,000 from the New Jersey Broadcasting Authority to the Household and Security Account which, according to the Office of Management and Budget is a pro-rated charge for utility, security, and building maintenance costs. Likewise, budget language introduced in FY 2009, recommended for continuation in FY 2010, redirects \$2.5 million from the Motor Vehicle Commission to the Household and Security account also for utility, security, and building maintenance costs.

**Grants In Aid**

<b>Business Employment Incentive Program</b>	<b>\$41,037</b>	<b>\$33,740</b>	<b>(\$7,297)</b>	<b>( 17.8%)</b>	<b>D-440</b>
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The Economic Development Authority (EDA) makes grants through the Business Employment Incentive Program (BEIP) to businesses that are expanding or relocating. The expectation is that these businesses will create jobs in New Jersey. Grants may be awarded for up to ten years and can range between ten and eighty percent of the total amount of State income taxes withheld by the company during the calendar year from the new employees hired. For three fiscal years, the State paid for BEIP grants by issuing debt rather than by General Fund appropriations. The decline in debt service costs is consistent with the maturity schedule on outstanding bonds. Additionally, the decline in debt service correlates to the cessation of financing BEIP grants through borrowing and the return to pay-as-you-go funding.

<b>Designated Industries Economic Growth &amp; Development-EDA</b>	<b>\$7,591</b>	<b>\$6,826</b>	<b>(\$ 765)</b>	<b>( 10.1%)</b>	<b>D-440</b>
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Pursuant to P.L.2003, c.166 and a bond issuance approved by the Joint Budget Oversight Committee, this appropriation funds debt service related to the Economic Development Authority's (EDA) sale of \$50.7 million in bonds maturing in 2014. The proceeds of these bonds funded recoverable grants to technology companies, investments in early stage development life science and medical device companies, and the development or expansion of three commercialization centers for innovative technologies located in Camden, New Brunswick, and Newark. The decline in debt service costs is consistent with the maturity schedule on outstanding bonds.

<b>NJSEA Sports Complex</b>	<b>\$45,040</b>	<b>\$56,102</b>	<b>\$11,062</b>	<b>24.6%</b>	<b>D-440</b>
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P.L.1971, c.137 created the New Jersey Sports and Exposition Authority (NJSEA). NJSEA owns, operates, and manages sports, entertainment, wagering, and conventions facilities throughout the State of New Jersey, including (1) the Meadowlands Sports complex: including the Meadowlands Racetrack, Giants Stadium, the Izod Center Arena for basketball, professional hockey, and other sporting events; (2) Monmouth Park Racetrack; (3) the Atlantic City Convention Center; and (4) the Greater Wildwoods Convention Center.

## Significant Changes/New Programs (\$000) (Cont'd)

<u>Budget Item</u>	<u>Adj. Approp. FY 2009</u>	<u>Recomm. FY 2010</u>	<u>Dollar Change</u>	<u>Percent Change</u>	<u>Budget Page</u>
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P.L.1991, c.375 approved the issuance of State Contract Bonds by the NJSEA. The contract requires the Treasurer to provide funds from the General Fund to pay the debt service on the bonds pursuant to the annual appropriations act. As of December 31, 2007, the total amount issued on all State Contract Bonds was \$1.145 billion and the outstanding balance on bonds payable was \$629 million. The FY 2010 Governor's Budget recommends an increase of \$11.1 million to pay for the actual debt service for the NJSEA, which is consistent with the maturity schedule on contract bonds. However, to the extent that some of these bonds may have been issued with variable interest rates, the debt service costs may change.

State Contract Bonds	Date Issued	Original Amount	Balance December 31,	
			2007	2006
(In thousands)				
State Contract Bonds, 1992 Series A \$46,955,000 Serial Bonds 5.50%-6.50%; \$177,045,000 Term Bonds, 6.00%-6.50% due 2013 to 2021	3/2/1992	\$224,000	\$7,135	\$45,220
State Contract Bonds, 1992 Series C \$209,990,000 Variable rates due 2007 though 2024	11/19/1992	209,990	167,370	172,090
State Contract Bonds, 1998 Series A \$57,810,000, Serial Bonds, 4.00%-5.50% due 2007 through 2019; \$28,855,000 Term Bonds 4.50% due 2024	12/15/1998	86,665	59,485	80,660
State Contract Bonds, 1998 Series B \$13,665,000 Serial Bonds 4.96%-5.77% due through 2008 (Federally Taxable)	12/15/1998	13,665	405	2,210
State Contract Bonds, 1999 Series A \$49,915,000 Serial Bonds 6.00%-7.00% due 2007 through 2014 (Federally Taxable)	6/15/1999	49,915	40,180	40,180
State Contract Bonds, 2000 Series A \$82,520,000 Serial Bonds 4.75%-6.00% due 2007 through 2020	2/1/2000	82,520	47,725	71,525
State Contract Bonds, 2000 Series B \$39,380,000 Serial Bonds 7.00%-7.375% due 2007 through 2014 (Federally Taxable)	2/1/2000	39,380	18,510	22,350
State Contract Bonds, 2000 Series C \$12,325,000 Serial Bonds 4.25%-5.00% due 2007 through 2011	12/1/2000	12,325	4,275	8,095
State Contract Bonds, 2000 Series D \$12,295,000 Serial Bonds 6.5% due 2007 through 2010 (Federally Taxable)	12/1/2000	12,295	3,775	5,195

## Significant Changes/New Programs (\$000) (Cont'd)

<u>Budget Item</u>	<u>Adj. Approp.</u> <u>FY 2009</u>	<u>Recomm.</u> <u>FY 2010</u>	<u>Dollar</u> <u>Change</u>	<u>Percent</u> <u>Change</u>	<u>Budget</u> <u>Page</u>
State Contract Bonds, 2002 Series A \$15,800,000 Serial Bonds 4.00%-4.60% due 2007 through 2012		1/1/2002	15,800	4,115	10,405
State Contract Bonds, 2002 Series B \$120,590,000 Variable Rate Bonds due 2007 through 2021		4/23/2002	120,590	12,435	93,575
State Contract Bonds, 2003 Series A \$26,570,000 Term Bonds 2.0%-5.0% due 2007 through 2024		11/20/2003	26,570	24,115	25,195
State Contract Bonds, 2005 Series A \$40,875,000 Term Bonds 3.60%-5.0% due 2007 through 2026		11/15/2005	40,875	29,621	40,875
State Contract Bonds, 2007 Series A \$20,460,000 Fixed Rate Bonds 4.0%-5.0% due 2007 through 2024		10/23/2007	20,460	20,460	-
State Contract Bonds, 2007 Series B \$189,475,000 Variable Rate Bonds due 2008 through 2024		4/18/2008	\$189,475	\$189,475	-

Source: NJSEA 2007 Annual Report.

## Capital Construction

This category funds various Statewide capital projects administered by the Department of the Treasury on behalf of State agencies. Statewide programs include the removal of underground storage tanks, hazardous materials removal, and Americans with Disabilities Act compliance. In addition, this appropriation provides funding to the New Jersey Building Authority to pay for the debt service for general State construction projects for the improvement of State office buildings such as the State House and the Hughes Justice Complex, and other facilities such as the State Police Operations Center and the State Police Multipurpose Building Troop "C" Headquarters. Other projects include correctional facilities such as Southwoods State Prison and historic public buildings such as the Pinelands Commission Headquarters renovation. Also included in the Capital Construction appropriation is funding for the purchase of open space through the Garden State Preservation Trust Fund.

Statewide Capital Projects

<b>Americans With Disabilities Act Compliance Projects- Statewide</b>	<b>\$0</b>	<b>\$1,000</b>	<b>\$ 1,000</b>	<b>—</b>	<b>D-440</b>
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The FY 2009 Appropriations Act deleted \$1 million in funding for Americans with Disabilities Act (ADA) Compliance Projects-Statewide from this appropriation and instead made a \$1 million appropriation from the Long Term Obligation and Capital Expenditures Fund for ADA compliance projects. The Appendix to the FY 2010 Governor's Budget, (page H-37) indicates

**Significant Changes/New Programs (\$000) (Cont'd)**

<u>Budget Item</u>	<u>Adj. Approp.</u> <u>FY 2009</u>	<u>Recomm.</u> <u>FY 2010</u>	<u>Dollar</u> <u>Change</u>	<u>Percent</u> <u>Change</u>	<u>Budget</u> <u>Page</u>
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that \$748,974 was expended or encumbered in FY 2009 from the Long Term Obligation and Capital Expenditure Fund to pay for ADA projects and that \$251,025 is expected to lapse to the General Fund as part of the FY 2009 close-out plan for the Long Term Obligation and Capital Expenditure Fund. The FY 2010 Governor's Budget recommends the reinstatement of the \$1 million appropriation for ADA Compliance Projects-Statewide in the Interdepartmental Accounts budget.

**Hazardous Materials  
Removal Projects-  
Statewide**

	\$0	\$1,000	\$ 1,000	—	D-440
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The FY 2009 Appropriations Act deleted \$1.975 million in funding for Hazardous Materials Removal Projects-Statewide. However, in accordance with budget language, it was anticipated that the Long Term Obligation and Capital Expenditure Fund would provide \$1 million for these projects. The Appendix to the FY 2010 Governor's Budget, (page H-37) indicates that only \$185,446 was expended or encumbered in FY 2009 from the Long Term Obligation and Capital Expenditure Fund to pay for hazardous waste removal projects and that \$814,554 is expected to lapse to the General Fund as part of the FY 2009 close-out plan from the Long Term Obligation and Capital Expenditure Fund. The FY 2010 Governor's Budget recommends a new \$1 million appropriation for Hazardous Materials Removal Projects-Statewide in the Interdepartmental Accounts budget.

**New Jersey Building Authority Debt Service-General State Projects**

P.L.1981, c.120 created the New Jersey Building Authority (authority) for the purpose of financing, acquiring, constructing, reconstructing, rehabilitating, and improving office buildings and related facilities to meet the needs of State agencies. The authority is authorized to issue bonds and notes to construct facilities for leasing to the State. The outstanding Building Authority bonds are secured by annual rental payments from the State which are subject to annual appropriations by the Legislature.

<b>Building Authority Financing Activities (\$ Millions)</b>		
<b>Year</b>	<b>Amount</b>	<b>Activities</b>
1985	\$129.6	Financing for five office buildings in the Trenton area.
1989	\$ 49.8	Renovation and restoration of portions of State House and State House Annex.
1991	\$ 75.0	Renovation and restoration of portions of State Capital Complex and construct parking garage.
1994	\$314.9	Construction of Southwoods State Prison, renovation of the Education, Labor, and Taxation Buildings, restoration and renovation of the Old Barracks, War Memorial, and Edison townhouses, completion financing for the State House Complex improvements.
1997	\$224.6	Completion financing for 1994 projects, replacement of Labor building exterior panel, repair and restoration of the State House Dome.
1999	\$134.9	Acquisition of the Richard J. Hughes Justice Complex, construction of the Division of Revenue/State Police facility.
2000	\$ 29.0	Renovation of the Richard J. Hughes Justice Complex, construction of the improvements to



## Significant Changes/New Programs (\$000) (Cont'd)

<u>Budget Item</u>	<u>Adj. Approp. FY 2009</u>	<u>Recomm. FY 2010</u>	<u>Dollar Change</u>	<u>Percent Change</u>	<u>Budget Page</u>
Other State Projects	\$22,024	\$21,968	(\$ 56)	( .3%)	D-441
State Police Multipurpose Building/Troop "C" Headquarters	\$8,262	\$8,267	\$ 5	.1%	D-441

The State Police Multipurpose Building/Troop "C" Headquarters facility project includes the construction of offices for the Information Technology Bureau, the Records and Identification Section, various investigative units, forensic laboratory space, and common facilities. The site will also be the new headquarters for Troop "C". The inclusion of a Communications Center will consolidate the communications services of the Division of State Police and the Department of Transportation. The combined total of the buildings and site elements square footage is estimated at approximately 976,000 square feet. This project is substantially complete.

State Police Emergency Operations Center	\$1,553	\$1,554	\$ 1	.1%	D-441
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The State Police Emergency Operations Center project includes the construction of a two-story facility with a 120-car parking area for the State Police Emergency Management Section (EMS) and Emergency Operations Center (EOC). The building will include: an auditorium style support room for activation and training, an executive room for the Governor's Office staff, a medical room, and space for Federal Emergency Management Administration personnel and nuclear power/public utility representatives for use during emergencies. Technology will include an uninterruptible power source, separate electrical service power feeds, special grounding techniques, and state-of-the-art communications and data feeds which will allow media equipment to be plugged-in while remaining outside the building. Access to the facility will be controlled. The 47,500 square foot facility is located in Ewing Township. This project is substantially complete.

Renovation Projects, Existing and Anticipated Leases	\$0	\$705	\$ 705	—	D-441
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The FY 2009 Appropriations Act deleted \$2.5 million in funding for Renovation Projects, Existing and Anticipated Leases. However, in accordance with budget language, it was anticipated that the Long Term Obligation and Capital Expenditure Fund would provide \$3.5 million for these projects. The Appendix to the FY 2010 Governor's Budget, (page H-37) indicates that \$3.5 million in expenditures or encumbrances have been made from the Long Term Obligation and Capital Expenditure Fund for Renovation Projects, Existing and Anticipated Leases. The FY 2010 Governor's Budget recommends the reinstatement of the

**Significant Changes/New Programs (\$000) (Cont'd)**

<u>Budget Item</u>	<u>Adj. Approp.</u> <u>FY 2009</u>	<u>Recomm.</u> <u>FY 2010</u>	<u>Dollar</u> <u>Change</u>	<u>Percent</u> <u>Change</u>	<u>Budget</u> <u>Page</u>
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appropriation for Renovations and Existing and Anticipated Leases in the Interdepartmental Accounts budget and recommends funding of \$705,000 for "tenant fit-up" in leased facilities.

**EMPLOYEE BENEFITS****Direct State Services**

<b>Employee Benefits</b>	<b>\$1,778,031</b>	<b>\$1,657,043</b>	<b>(\$120,988)</b>	<b>( 6.8%)</b>	<b>D-445</b>
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There are three main categories within the Employee Benefits accounts: Pensions and Post Retirement Medical Benefits; Health Benefits; Other Fringe Benefits. All State employees, and most employees of counties, municipalities, and school districts, are members of one of the seven State retirement systems: Public Employees' Retirement System (PERS), Teachers' Pension and Annuity Fund (TPAF), Police and Firemen's Retirement System (PFRS), Consolidated Police and Firemen's Pension Fund (CPFPPF), State Police Retirement System (SPRS), Judicial Retirement System (JRS), and Prison Officer's Pension Fund (POPF). Under current law, all defined pension benefit plans are subject to actuarial valuation every year and actuarial experience studies every three years. The FY 2010 Governor's Budget recommends an appropriation of approximately \$1.657 billion to provide funding for employee benefits in Direct State Services. This is \$121 million, or 6.8 percent lower than the FY 2009 adjusted appropriation of \$1.778 billion. This proposed Direct State Services reduction is due primarily to reduced employer contributions to the pension systems of approximately \$254 million. These reductions are offset by increased costs to the State Employees' Health Benefits Program (SHBP) of \$103 million, the State Employees' Prescription Drug Program (\$21.2 million), post retirement medical benefits, and debt service on pension obligation bonds. Significant components of changes are itemized below.

<b>Less: Statewide Savings Initiatives</b>	<b>\$0</b>	<b>(\$192,200)</b>	<b>(\$192,200)</b>	<b>—</b>	<b>D-446</b>
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The Statewide Savings Initiative includes \$192.2 million in salary savings from the proposed temporary layoffs (\$141.7 million), statewide management efficiencies (\$40 million), attrition savings (\$6.5 million), and wage freeze savings (\$4 million). On March 25, 2009, the Civil Service Commission adopted an emergency rule to allow the State to implement temporary layoffs in the current fiscal year, which requires State employees to take two unpaid days off, one in May and one in June. This FY 2009 temporary layoff is estimated to achieve salary savings of \$25 million, not including FICA. The FY 2010 Governor's Budget proposes to achieve salary savings of \$141.7 million, not including FICA, by continuing the temporary layoff into the next fiscal year, but requiring State employees to take 12 unspecified, unpaid days off through June 30, 2010.

A central component of the Governor's policy objectives has been the implementation of management efficiencies and savings measures to achieve permanent reductions to departmental baseline budgets. According to the Administration, in FY 2007 and FY 2008,

**Significant Changes/New Programs (\$000) (Cont'd)**

<u>Budget Item</u>	<u>Adj. Approp. FY 2009</u>	<u>Recomm. FY 2010</u>	<u>Dollar Change</u>	<u>Percent Change</u>	<u>Budget Page</u>
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"departments have been made to absorb cumulative reductions for management efficiencies of \$75 million as permanent reductions to their base while at the same time, deal with inflationary increases in non-salary costs such as fuel and materials and supplies. In FY 2009 through a \$25 million reduction to Property Rentals in the Interdepartmental Accounts budget, departments were directed to find operational savings through procurement efficiencies. In the FY 2010 Governor's Budget, the Governor proposes to continue the procurement efficiencies program initiated in FY 2009 in the property rentals budget and proposes a \$40 million savings target for management efficiencies across all State departments in the Statewide Savings Initiative appropriation under Employee Benefits.

Under the workforce reduction initiative, salary savings have been achieved through attrition, a hiring freeze, backfill limitations on re-staffing positions vacated under the FY 2009 early retirement incentive program, a salary freeze, and the deferral of promotional opportunities and step increases. The Statewide Savings Initiative proposed in the FY 2010 Governor's Budget also includes proposed savings from attrition (\$6.5 million) and continued savings from a proposed FY 2009 wage freeze for Executive Branch employees (\$4 million).

<b>Public Employees' Retirement System</b>	<b>\$186,510</b>	<b>\$26,813</b>	<b>(\$159,697)</b>	<b>( 85.6%)</b>	<b>D-446</b>
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The Public Employees' Retirement System (PERS) (N.J.S.A. 43:15A-1 et seq.) is open to State, county, municipal, authority, and school board employees who are precluded from any other New Jersey State pension system such as ones for teachers, police and fire, State Police, and Judges. The FY 2010 Governor's Budget recommends an appropriation of \$26.8 million to provide about 5.2 percent of the actuarially required contribution to fund this retirement system based on the estimated required contributions developed by the Division of Pensions and Benefits, using a projection model from the plan actuaries.

<b>Public Employees' Retirement System- Post Retirement Medical</b>	<b>\$216,898</b>	<b>\$230,432</b>	<b>\$13,534</b>	<b>6.2%</b>	<b>D-446</b>
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The Post Retirement Medical Account funds benefits for State employees who retire after 25 years of service as members of PERS. Generally, State employees who accrue 25 years of service receive paid health benefits coverage and reimbursement of the prevailing cost of Medicare Part B according to the terms specified in the union contract applicable to them at the time they attain 25 years of service credit or retire on disability. The FY 2010 Governor's Budget recommends an increase of \$13.5 million to provide adequate funding for post retirement medical benefits in FY 2010. Post retirement medical benefits are paid on a pay-as-you-go basis.

## Significant Changes/New Programs (\$000) (Cont'd)

<u>Budget Item</u>	<u>Adj. Approp.</u> <u>FY 2009</u>	<u>Recomm.</u> <u>FY 2010</u>	<u>Dollar</u> <u>Change</u>	<u>Percent</u> <u>Change</u>	<u>Budget</u> <u>Page</u>
Public Employees' Retirement System- Non-Contributory Insurance	\$24,689	\$25,948	\$ 1,259	5.1%	D-446

The Public Employees' Retirement System-Non-Contributory Insurance funds the group life insurance plan for enrolled members. This line-item comprises part of the State's annual required contributions to PERS. Non-contributory group insurance is a self-insured group insurance plan which provides the members of the retirement system with a lump-sum death benefit if the member dies in active service and a smaller sum when a retiree dies. The insured members pay no portion of the premium for their insurance. The State pays the entire premium. The enrollment of group members is automatic and all eligible group members are covered. The FY 2010 Governor's Budget recommends an appropriation of \$25.9 million to provide full funding of the calculated State contribution for this purpose.

Police and Firemen's Retirement System	\$60,663	\$8,721	(\$51,942)	( 85.6%)	D-446
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The Police and Firemen's Retirement System (PFRS) (N.J.S.A. 43:16A-1 et seq.) provides benefits to all permanent, full-time State, county and municipal police and firemen. For FY 2010, the amount certified to fund both the normal costs and the accrued liability of the Police and Firemen's Retirement System is \$299.1 million. The FY 2010 recommended appropriation represents approximately 6.2 percent of the actuarially calculated State contribution to fund this retirement system, or approximately \$18.4 million. State funding for the PFRS is provided in five separate line items. Two are in Interdepartmental Accounts-DSS totaling \$9.2 million, one in Interdepartmental-GIA (\$611,000), and two in the Department of the Treasury as State Aid totaling \$8.6 million. This DSS recommended appropriation includes \$8.7 million for State employees employed in Law Enforcement Officer positions and certain State employees who were permitted to transfer from the Public Employees' Retirement System to the Police and Firemen's Retirement System under the provisions of P.L.1979, c.156.

Police and Firemen's Retirement System- Non-Contributory Insurance	\$7,253	\$7,471	\$ 218	3.0%	D-446
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Police and Firemen's Retirement System Non-Contributory Insurance funds the group life insurance plan for enrolled members. This line item comprises part of the State's annual required contributions for PFRS. Non-contributory group insurance is a self-insured group insurance plan which provides the members of the retirement system with a lump-sum death benefit if the member dies in active service and a smaller sum when a retiree dies. The State pays the entire premium. The enrollment of group members is automatic and all eligible group members are covered. The FY 2010 Governor's Budget recommends an appropriation of \$7.47 million to provide full funding of the calculated State contribution for this purpose.

**Significant Changes/New Programs (\$000) (Cont'd)**

<u>Budget Item</u>	<u>Adj. Approp. FY 2009</u>	<u>Recomm. FY 2010</u>	<u>Dollar Change</u>	<u>Percent Change</u>	<u>Budget Page</u>
<b>Police and Firemen's Retirement System (P.L. 1979, c.109)</b>	<b>\$3,109</b>	<b>\$447</b>	<b>(\$2,662)</b>	<b>( 85.6%)</b>	<b>D-446</b>
<p>The FY 2010 Governor's Budget recommended funding for the Police and Firemen's Retirement System includes \$447,000, as part of the total \$9.2 million in DSS funding, pursuant to the provisions of P.L.1979, c.156. Under P.L.1979, c.109, members of the PFRS who retire after 25 years of service are eligible to receive a retirement allowance of 65 percent of final compensation. The State is liable for the increase in the normal contribution to local employers to fund this enhanced benefit, requiring extra State contributions of 1.1 percent of covered salary.</p>					
<b>Alternate Benefit Program-Employer Contributions</b>	<b>\$1,159</b>	<b>\$1,306</b>	<b>\$ 147</b>	<b>12.7%</b>	<b>D-446</b>
<p>The Alternate Benefit Program (ABP) (N.J.S.A. 18A:66-167 et seq.) is principally for full-time faculty of public institutions of higher education, but also includes certain State professional administrative staff. Participants have the option to provide for their retirement through the purchase of fixed or variable annuities underwritten by private vendors, the Teachers Insurance and Annuity Association (TIAA, or the College Retirement Equities Fund (CREF). The minimum contribution by employees is five percent of base salary. The employers (State and institutions of higher education) contribute a flat rate of eight percent of base salary. This contribution is included in the Interdepartmental Accounts and the Department of the Treasury's recommended budgets (the latter for county college faculty).</p>					
<b>Alternate Benefit Program-Non- Contributory Insurance</b>	<b>\$183</b>	<b>\$204</b>	<b>\$ 21</b>	<b>11.5%</b>	<b>D-446</b>
<p>Alternate Benefits Program Non-Contributory Insurance funds the group life insurance plan for enrolled members. This line item comprises part of the State's annual required contributions. Non-contributory group insurance is a self-insured group insurance plan which provides the members of the retirement system with a lump-sum death benefits if the member dies in active service and a smaller sum when a retiree dies. The State pays the entire premium. The enrollment of group members is automatic and all eligible group members are covered. The FY 2010 Governor's Budget recommends an appropriation of \$204,000 to provide full funding of the calculated State contribution for this purpose.</p>					
<b>Defined Contribution Retirement Program</b>	<b>\$0</b>	<b>\$120</b>	<b>\$ 120</b>	<b>—</b>	<b>D-446</b>

P.L.2007, c.92 established a Defined Contribution Retirement Program for elected and certain appointed officials and for retired elected officials who choose to participate in the program. State and local government employers contribute three percent of the employee's base salary;

## Significant Changes/New Programs (\$000) (Cont'd)

<u>Budget Item</u>	<u>Adj. Approp.</u> <u>FY 2009</u>	<u>Recomm.</u> <u>FY 2010</u>	<u>Dollar</u> <u>Change</u>	<u>Percent</u> <u>Change</u>	<u>Budget</u> <u>Page</u>
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group life insurance and the option for disability benefits coverage are provided to participants. Participants contribute 5.5 percent of their salary. The FY 2010 Governor's Budget recommends an appropriation of \$120,000 to provide full funding of the calculated State contribution.

**Defined Contribution  
Retirement Program-  
Non-Contributory  
Insurance**

	\$0	\$79	\$ 79	—	D-446
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Defined Contribution Retirement Program Non-Contributory Insurance funds the group life insurance plan for enrolled members. Non-contributory group insurance is a self-insured group insurance plan which provides the members of the retirement system with a lump-sum death benefits if the member dies in active service and a smaller sum when a retiree dies. The State pays the entire premium. The enrollment of group members is automatic and all eligible group members are covered. The FY 2010 Governor's Budget recommends an appropriation of \$79,000 to provide full funding of the calculated State contribution.

**State Police  
Retirement System**

	\$34,918	\$5,020	(\$29,898)	( 85.6%)	D-446
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The State Police Retirement System (SPRS) (N.J.S.A. 53:5A-1 et seq.) provides retirement allowances and benefits to all uniformed State police officers, non-commissioned officers, and State troopers of the Division of State Police in the Department of Law and Public Safety. The FY 2010 Governor's Budget recommends an appropriation of \$5.02 million to provide 5.9 percent of the actuarially required contribution to fund this retirement system based on the estimated required contributions developed by the Division of Pensions and Benefits, using a projection model from the plan actuaries.

**State Police  
Retirement System-  
Non-Contributory  
Insurance**

	\$1,501	\$1,546	\$ 45	3.0%	D-446
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The State Police Retirement System Non-Contributory Insurance account funds the group life insurance plan for enrolled members. This line-item comprises part of the State's annual required contributions for SPRS. Non-contributory group insurance is a self-insured group insurance plan which provides the members of the retirement system with a lump-sum death benefits if the member dies in active service and a smaller sum when a retiree dies. The State pays the entire premium. The enrollment of group members is automatic and all eligible group members are covered. The FY 2010 Governor's Budget recommends an appropriation of approximately \$1.5 million to fully fund the calculated State contribution for this purpose.

**Significant Changes/New Programs (\$000) (Cont'd)**

<u>Budget Item</u>	<u>Adj. Approp.</u> <u>FY 2009</u>	<u>Recomm.</u> <u>FY 2010</u>	<u>Dollar</u> <u>Change</u>	<u>Percent</u> <u>Change</u>	<u>Budget</u> <u>Page</u>
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<b>Judicial Retirement System</b>	<b>\$11,957</b>	<b>\$1,719</b>	<b>(\$10,238)</b>	<b>( 85.6%)</b>	<b>D-446</b>
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The Judicial Retirement System (JRS) (N.J.S.A. 43:6A-1 et seq.) provides pensions and other benefits to the Chief Justice and the associate justices of the Supreme Court, and any judge of the Superior Court. The FY 2010 Governor's Budget recommends an appropriation of approximately \$1.7 million to provide 5.9 percent of the actuarially required contribution to fund this retirement system based on the estimated required contributions developed by the Division of Pensions and Benefits, using a projection model from the plan actuaries.

<b>Judicial Retirement System-Non-Contributory Insurance</b>	<b>\$649</b>	<b>\$1,105</b>	<b>\$ 456</b>	<b>70.3%</b>	<b>D-446</b>
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The Judicial Retirement System Non-Contributory Insurance funds the group life insurance plan for enrolled members. This line-item comprises part of the State's annual contributions for JRS. Non-contributory group insurance is a self-insured group insurance plan which provides the members of the retirement system with a lump-sum death benefits if the member dies in active service and a smaller sum when a retiree dies. The State pays the entire premium. The enrollment of group members is automatic and all eligible group members are covered. The proposed FY 2010 Governor's Budget recommends an appropriation of approximately \$1.1 million to fully fund the calculated State contribution.

<b>Teachers' Pension and Annuity Fund</b>	<b>\$2,020</b>	<b>\$291</b>	<b>(\$1,729)</b>	<b>( 85.6%)</b>	<b>D-446</b>
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The Teachers' Pension and Annuity Fund (TPAF) (N.J.S.A. 18A:66-1 et seq.) provides coverage to all full-time school teachers in the State, including those in county vocational schools, as well as certain employees in the State Department of Education. The State pays the full employer's share of contributions (except for the cost of the early retirement incentive programs which are paid for by the participating districts) both as an employer and on behalf of local school districts. TPAF funding is included in the Interdepartmental Accounts budget in Direct State Services (\$291,000) and Grants- In-Aid (\$93,000), in the State Aid portion of the Department of Education's budget (\$95.1 million) and the Department of Treasury's budget (\$49,000). The FY 2010 Governor's Budget recommends an appropriation of approximately \$291,000, in Direct State Services, which is approximately 6.4 percent of the actuarially required contribution to fund this retirement system based on the estimated required contributions developed by the Division of Pensions and Benefits, using a projection model from the plan actuaries.

## Significant Changes/New Programs (\$000) (Cont'd)

<u>Budget Item</u>	<u>Adj. Approp. FY 2009</u>	<u>Recomm. FY 2010</u>	<u>Dollar Change</u>	<u>Percent Change</u>	<u>Budget Page</u>
Teachers' Pension and Annuity Fund-Post Retirement Medical State	3,771	3,634	(\$ 137)	( 3.6%)	D-446
<p>The Teachers' Pension and Annuity Fund-Post Retirement Medical (State) provides funding for post retirement medical benefits for specified retired teachers who accrue 25 years of service on or before July1, 1997. Theses retirees receive fully paid health benefits coverage and full reimbursement of the prevailing cost of Medicare Part B. The FY 2010 Governor's Budget recommends a decrease of \$137,000 to the Direct State Services portion of retired educational employees' health care benefits.</p>					
Debt Service on Pension Obligation Bonds	\$83,665	\$90,914	\$ 7,249	8.7%	D-446
<p>P.L.1997, c.114 authorized the Economic Development Authority to issue bonds to finance a portion of the unfunded accrued liability of the State pension system. This appropriation represents continued State debt service payments on these bonds. Total pension obligation bond debt service is estimated to be approximately \$225 million in FY 2010. Total funding for debt service on these bonds is budgeted within Interdepartmental Accounts (\$90.4 million), the Department of Education (\$122.3 million), and the Department of the Treasury (\$12.0 million).</p>					
Other Pension Systems Post Retirement Medical	\$70,597	\$73,834	\$ 3,237	4.6%	D-446
<p>The Other Pension Systems Post Retirement Medical account funds post retirement medical benefits for employees who retired from retirement systems other than the PERS and TPAF. Beneficiaries include retirees from the State Police, the Judicial, Alternate Benefits Program and other consolidated retirement systems. The FY 2010 Governor's Budget recommends an increase of approximately \$3.2 million.</p>					
State Employees' Health Benefits	\$476,335	\$579,758	\$103,423	21.7%	D-446
State Employees' Prescription Drug Program	\$174,459	195,652	\$21,193	12.1%	D-447
State Employees' Dental Program-Shared Cost	\$21,100	\$24,080	\$ 2,980	14.1%	D-447

**Significant Changes/New Programs (\$000) (Cont'd)**

<u>Budget Item</u>	<u>Adj. Approp.</u> <u>FY 2009</u>	<u>Recomm.</u> <u>FY 2010</u>	<u>Dollar</u> <u>Change</u>	<u>Percent</u> <u>Change</u>	<u>Budget</u> <u>Page</u>
<b>Total, Health Benefits</b>	<b>\$671,894</b>	<b>\$799,490</b>	<b>\$127,596</b>	<b>19.0%</b>	<b>-----</b>

The appropriations for the State Employees' Health Benefits, prescription drugs, and dental coverage provide funding for active State employees' health care benefits. P.L.2007, c.103 (1) established an employee contribution of 1.5 percent of the employee's base salary toward the costs of health care coverage (premium sharing); (2) authorized the State Health Benefits Commission to contract with preferred provider organizations (PPOs); (3) created a PPO plan to replace the traditional plan; and (4) established a School Employees' Health Benefits Program (SEHBP). It was estimated that these changes would help contain the costs of employee health benefits. However, the FY 2010 Governor's Budget indicates that actual expenditures in FY 2008 were \$546.8 million, \$68 million (14 percent) higher than FY 2007 expenditures. The adjusted FY 2009 appropriation is \$476.3 million and the FY 2010 recommended appropriation is \$579.7 million, \$103 million higher. It is not clear why these costs are anticipated to increase by 21.7 percent. Some identified costs include an increase of \$9 million to conduct a Dependent Eligibility Verification Audit and \$17 to \$20 million to delay the termination of the traditional plan for members of the School Employees Health Benefit Program until December 31, 2009. The Office of Legislative Service has asked the Administration to explain the reasons for the increase in health care benefits in the Discussion Points.

<b>Social Security Tax</b>	<b>\$371,893</b>	<b>\$360,239</b>	<b>(\$11,654)</b>	<b>( 3.1%)</b>	<b>D-447</b>
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The Social Security Tax-State appropriation provides funding for the employer's share of Social Security contributions for State employees, not including employees of higher education institutions. The recommended appropriation is an estimate of the funding required to meet the State's liability as an employer to pay FICA, (Old Age, Survivors, and Disability Insurance) and Medicare taxes for FY 2010. The current rate for Social Security is 6.2 percent and the rate for Medicare is 1.45 percent. There is no Medicare wage base, so Medicare taxes are paid on total compensation. The taxable wage base for Social Security increased from \$102,000 in calendar year 2008 to \$106,800 in calendar year 2009. The FY 2010 Governor's Budget recommends a net decrease in the Social Security Tax-State appropriation of \$11.654 million due in part to the proposed temporary layoff program and the salary freeze imposed on Executive Branch employees that is being negotiated in the recent collective bargaining process, and to reduced employment levels from attrition and the hiring freeze. The Administration estimates that the salary freeze will reduce net FICA costs by \$20.8 million, with these savings shared between Direct State Services and Grants In Aid.

<b>Unemployment Insurance Liability</b>	<b>\$9,715</b>	<b>\$2,558</b>	<b>(\$7,157)</b>	<b>( 73.7%)</b>	<b>D-447</b>
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The Unemployment Insurance Liability recommended appropriation provides an estimate of the amount the State is required to pay in unemployment claims for former State employees if the employee payroll tax proves to be insufficient. Unlike private industry, the State does not contribute a matching percentage of compensation to fund the Unemployment Compensation Trust Fund. The State operates on a pay-as-you-go basis. Employees contribute 0.2 percent of

### Significant Changes/New Programs (\$000) (Cont'd)

<u>Budget Item</u>	<u>Adj. Approp. FY 2009</u>	<u>Recomm. FY 2010</u>	<u>Dollar Change</u>	<u>Percent Change</u>	<u>Budget Page</u>
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salary, up to the unemployment wage base of \$28,900. After the employees' contribution is disbursed, the State, as an employer, contributes sufficient funds to keep the program solvent. The FY 2010 Governor's Budget indicates that actual expenditures for FY 2008 were \$2 million, or \$3.2 million below the FY 2008 adjusted appropriation of \$5.3 million. The FY 2009 appropriation was increased to \$9.7 million in anticipation of higher claims that could result from targeted layoffs of State employees as part of the overall workforce reduction initiative. Estimates for claims in FY 2010 are lower in anticipation of a temporary layoff instead of a targeted layoff program, hence the reduction of \$7.1 million.

#### Grants In Aid

<b>Employee Benefits</b>	<b>\$768,514</b>	<b>\$792,709</b>	<b>\$24,195</b>	<b>3.1%</b>	<b>D-447</b>
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There are three main categories within the Employee Benefits accounts: Pensions and Post Retirement Medical Benefits; Health Benefits; Other Fringe Benefits. The appropriations for employee benefits under Grants-In-Aid primarily fund higher education employees. The FY 2010 Governor's Budget recommends an appropriation of approximately \$793 million to pay for employee benefits in the budget year. This is about three percent, or \$24.2 million, more than the FY 2009 adjusted appropriation of \$768.5 million.

<b>Public Employees' Retirement System</b>	<b>\$19,800</b>	<b>\$2,847</b>	<b>(\$16,953)</b>	<b>( 85.6%)</b>	<b>D-447</b>
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The Grants-In-Aid Public Employees' Retirement System appropriation funds the State retirement contribution for State college and university employees who are members of PERS. The FY 2010 Governor's Budget recommends an appropriation of \$2.8 million to provide about 5.2 percent of the actuarially required contribution to fund this retirement system based on the estimated required contributions developed by the Division of Pensions and Benefits, using a projection model from the plan actuaries.

<b>Public Employees' Retirement System Post-Retirement Medical</b>	<b>\$35,362</b>	<b>\$36,486</b>	<b>\$ 1,124</b>	<b>3.2%</b>	<b>D-447</b>
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The Grants-In-Aid Post Retirement Medical Account funds benefits for employees of public higher education institutions who retire after 25 years of service as members of PERS. Employees who accrue 25 years of service receive paid health benefits coverage and reimbursement of the prevailing cost of Medicare Part B according to the terms specified in the union contract applicable to them at the time they attain 25 years of service credit or retire on disability. The FY 2010 Governor's Budget recommends an increase of approximately \$1.1 million to provide adequate funding for this appropriation in the budget year.

**Significant Changes/New Programs (\$000) (Cont'd)**

<u>Budget Item</u>	<u>Adj. Approp.</u> <u>FY 2009</u>	<u>Recomm.</u> <u>FY 2010</u>	<u>Dollar</u> <u>Change</u>	<u>Percent</u> <u>Change</u>	<u>Budget</u> <u>Page</u>
<b>Public Employees' Retirement System- Non-Contributory Insurance</b>	<b>\$2,397</b>	<b>\$2,492</b>	<b>\$ 95</b>	<b>4.0%</b>	<b>D-447</b>

The Grants-In-Aid Public Employees' Retirement System Non-Contributory Insurance appropriation provides funding for the group life insurance plan for enrolled members from public higher education institutions. Non-contributory group insurance is a self-insured group insurance plan which provides the members of the retirement system with a lump-sum death benefits if the member dies in active service and a smaller sum when a retiree dies. The State pays the entire premium. The enrollment of group members is automatic and all eligible group members are covered. The FY 2010 recommendation fully funds the State's calculated contribution.

<b>Police and Firemen's Retirement System-</b>	<b>\$4,248</b>	<b>\$611</b>	<b>(\$3,637)</b>	<b>( 85.6%)</b>	<b>D-447</b>
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Funds appropriated to this account cover the State educational employees in law enforcement positions portion of the required contribution to the retirement system. For FY 2010, the amount certified to fund both the normal costs and the accrued liability of the Police and Firemen's Retirement System is \$299.1 million. The FY 2010 recommended appropriation would fund approximately 6.2 percent of the actuarially calculated State contribution to fund this retirement system, or approximately \$18.4 million. State funding for the PFRS is provided in five separate line items. Two are in Interdepartmental Accounts-Direct State Services (\$9.2 million), one in Interdepartmental-Grants In Aid (\$611,000), and two in the Department of the Treasury as State Aid (\$8.6 million). The total recommended appropriation includes the above \$611,000 for higher education employees employed in Law Enforcement Officer positions.

<b>Police and Firemen's Retirement System- Non-Contributory Insurance</b>	<b>\$258</b>	<b>\$265</b>	<b>\$ 7</b>	<b>2.7%</b>	<b>D-447</b>
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The Grants-In-Aid Police and Firemen's System Non-Contributory Insurance funds the group life insurance plan for enrolled members who employed by public higher education institutions. Non-contributory group insurance is a self-insured group insurance plan which provides the members of the retirement system with a lump-sum death benefits if the member dies in active service and a smaller sum when a retiree dies. The State pays the entire premium. The enrollment of group members is automatic and all eligible group members are covered. The FY 2010 Governor's Budget fully funds the State's calculated contribution.

**Significant Changes/New Programs (\$000) (Cont'd)**

<u>Budget Item</u>	<u>Adj. Approp. FY 2009</u>	<u>Recomm. FY 2010</u>	<u>Dollar Change</u>	<u>Percent Change</u>	<u>Budget Page</u>
<b>Alternate Benefit Program Employer Contributions</b>	<b>\$127,138</b>	<b>\$133,493</b>	<b>\$ 6,355</b>	<b>5.0%</b>	<b>D-447</b>

This Grants-in-Aid appropriation comprises the employer contribution to the Alternate Benefit Program for State colleges and universities, at a rate of eight percent of the members' base salary. The State also provides life insurance coverage and long-term disability coverage to plan members employed by various State higher education institutions. The FY 2010 Governor's Budget recommends an appropriation of \$133.5 million to fully fund this contribution.

<b>Alternate Benefit Program-Non- Contributory Insurance</b>	<b>\$19,654</b>	<b>\$20,440</b>	<b>\$ 786</b>	<b>4.0%</b>	<b>D-447</b>
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The Grants-In-Aid Alternate Benefit Program-Non-Contributory Insurance appropriation funds the group life insurance plan for enrolled members employed by public higher education institutions. The FY 2010 Governor's Budget recommends an appropriation of \$20.4 million in the budget year, an increase of \$786,000 or 4 percent over the FY 2009 adjusted appropriation, to fully fund the State's calculated contribution.

<b>Teachers' Pension and Annuity Fund</b>	<b>\$650</b>	<b>\$93</b>	<b>(\$ 557)</b>	<b>( 85.7%)</b>	<b>D-447</b>
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The Teachers' Pension and Annuity Fund (TPAF) (N.J.S.A. 18A:66-1 et seq.) provides coverage to all full-time school teachers in the State, including those in county vocational schools, as well as certain employees in the State Department of Education. The State pays the full employers' share of contributions (except for the cost of the early retirement incentive programs which are paid for by the participating districts) both as an employer and on behalf of local school districts. TPAF funding is included in the Interdepartmental Accounts budget in Direct State Services (\$291,000) and Grants-In-Aid (\$93,000), in the State Aid portion of the Department of Education's budget (\$95.1 million) and the Department of Treasury's budget (\$49,000). The FY 2010 Governor's Budget recommends an appropriation of approximately \$93,000 in Grants-In-Aid, which is approximately 6.4 percent of the actuarially required contribution to fund this retirement system based on the estimated required contributions developed by the Division of Pensions and Benefits, using a projection model from the plan actuaries.

<b>Teachers' Pension and Annuity Fund-Post Retirement Medical- State</b>	<b>\$6,437</b>	<b>\$5,823</b>	<b>(\$ 614)</b>	<b>( 9.5%)</b>	<b>D-447</b>
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The Grants-In-Aid Teachers' Pension and Annuity Fund-Post Retirement Medical-State appropriation provides funding for post retirement medical (PRM) benefits for State college or

## Significant Changes/New Programs (\$000) (Cont'd)

<u>Budget Item</u>	<u>Adj. Approp.</u> <u>FY 2009</u>	<u>Recomm.</u> <u>FY 2010</u>	<u>Dollar</u> <u>Change</u>	<u>Percent</u> <u>Change</u>	<u>Budget</u> <u>Page</u>
university employees who retire after 25 years as members of the Teachers' Pension and Annuity Fund (TPAF).					
<b>Debt Service on Pension Obligation Bonds</b>	<b>\$4,827</b>	<b>\$5,245</b>	<b>\$ 418</b>	<b>8.7%</b>	<b>D-447</b>
P.L.1997, c.114 authorized the Economic Development Authority to issue bonds to finance a portion of the unfunded accrued liability of the State pension system. This appropriation represents continued State debt service payments on these bonds. Total pension obligation bond debt service is estimated to be approximately \$225 million in FY 2010. Total funding for debt service on these bonds is budgeted within Interdepartmental Accounts (\$90.4 million), the Department of Education (\$122.3 million), and the Department of the Treasury (\$12.0 million).					
<b>State Employees' Health Benefits</b>	<b>\$246,316</b>	<b>\$272,709</b>	<b>\$26,393</b>	<b>10.7%</b>	<b>D-447</b>
<b>State Employees' Prescription Drug Program</b>	<b>\$80,834</b>	<b>\$86,612</b>	<b>\$ 5,778</b>	<b>7.1%</b>	<b>D-447</b>
<b>State Employees' Dental Program- Shared Cost</b>	<b>\$10,343</b>	<b>\$11,102</b>	<b>\$ 759</b>	<b>7.3%</b>	<b>D-447</b>
<b>Total Health Benefits</b>	<b>\$337,493</b>	<b>\$370,423</b>	<b>\$32,930</b>	<b>9.8%</b>	<b>----</b>

These Grants-In-Aid recommended FY 2010 appropriations provide funding for employees at State colleges and universities. These three FY 2010 proposed benefit appropriations total \$370.4 million, \$32.9 million, or 9.8 percent more than the FY 2009 adjusted appropriation for these same three health benefit appropriations. P.L.2007, c.103 (1) established an employee contribution of 1.5 percent of the employee's base salary toward the costs of their health care coverage (premium sharing); authorized the State Health Benefits Commission to contract with preferred provider organizations (PPO); and (3) created a PPO plan to replace the traditional plan. In FY 2008, it was estimated that these changes would help contain the costs of employee health benefits. However, the FY 2010 Governor's Budget indicates that costs for health care are rising despite the efforts made to contain costs through premium sharing and restructuring the administration of health care benefits through preferred provider organizations. The recommended FY 2010 appropriation for employee health benefits is \$26.4 million higher than the FY 2009 adjusted appropriation. It is not clear why these costs are anticipated to increase by 10.7 percent. The Office of Legislative Service has asked the Administration to explain the reasons for the increase in State Employees' Health Benefits in the Discussion Points.

**Significant Changes/New Programs (\$000) (Cont'd)**

<u>Budget Item</u>	<u>Adj. Approp. FY 2009</u>	<u>Recomm. FY 2010</u>	<u>Dollar Change</u>	<u>Percent Change</u>	<u>Budget Page</u>
Social Security Tax	\$179,353	\$182,427	\$ 3,074	1.7%	D-447

The Social Security Tax-State appropriation provides funding for the employer's share of Social Security contributions for State employees, not including employees of higher education institutions. The recommended appropriation is an estimate of the funding required to meet the State's liability as an employer to pay FICA, (Old Age, Survivors, and Disability Insurance) and Medicare taxes for FY 2010. The current rate for Social Security is 6.2 percent and the rate for Medicare is 1.45 percent. There is no Medicare wage base, so Medicare taxes are paid on total compensation. The taxable wage base for Social Security increased from \$102,000 in calendar year 2008 to \$106,800 in calendar year 2009.

<b>Temporary Insurance Liability</b>	<b>\$5,631</b>	<b>\$5,966</b>	<b>\$ 335</b>	<b>5.9%</b>	<b>D-447</b>
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The FY 2010 recommended appropriation of \$5.9 million is to fund the Temporary Disability Insurance Plan (TDI) contributions for employees at State institutions of higher education. All eligible employees are included in the TDI Plan. The plan is a shared-cost plan which provides payments to employees who are unable to work as the result of a non-work connected illness or injury and who have exhausted their sick leave and are ineligible for any unemployment compensations or workers' compensation.

**OTHER INTERDEPARTMENTAL ACCOUNTS****Direct State Services**

<b>Interest on Short Term Notes</b>	<b>\$13,000</b>	<b>\$24,000</b>	<b>\$11,000</b>	<b>84.6%</b>	<b>D-449</b>
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For a number of years, the State has used cash flow borrowing, in the form of tax and revenue anticipation notes, to meet its cash flow needs in the early part of the fiscal year, when cash spending outpaces cash collections. This situation largely results from the need to expend significant sums on local aid and direct property tax relief in the first two fiscal quarters, before major tax collections are received in the last two quarters. The FY 2010 Governor's Budget proposes an appropriation of \$24 million for interest on short term notes (page D-449), an increase of \$11 million above the FY 2009 adjusted appropriation of \$13 million for this purpose. Thus far in FY 2009, the State has issued \$1.8 billion in tax and revenue anticipation notes (TRANS) to meet cash flow needs. Interest costs on these notes will total about \$42.6 million, which will be offset by original issue premiums of \$19.7 million. Thus, net interest cost will total approximately \$22.9 million. Investment earnings, or other sources of funding, will supplement FY 2009 appropriations to fully fund these costs.

## Significant Changes/New Programs (\$000) (Cont'd)

<u>Budget Item</u>	<u>Adj. Approp. FY 2009</u>	<u>Recomm. FY 2010</u>	<u>Dollar Change</u>	<u>Percent Change</u>	<u>Budget Page</u>
<u>SALARY INCREASES</u>					
Direct State Services					
Salary Increases and Other Benefits	\$19,333	\$10,500	(\$8,833)	( 45.7%)	D-450

Salary increases for existing State positions are budgeted centrally in the Interdepartmental Accounts budget, then allocated to individual departments/agencies during the fiscal year. These increases include employee increments, cost-of-living adjustments (COLAs), and bonuses according to contractual agreements. In expectation of a wage freeze or deferral, no funding is recommended for this purpose in FY 2010. The FY 2010 Governor's Budget recommends an appropriation of \$10.5 million, a reduction of 45 percent, to pay for the estimated cost of unused sick leave payments. The decrease is due to inclusion, in FY 2009, of higher than normal costs attributable to the early retirement incentive program.

## Significant Language Changes

### Fuel and Utility Costs

Revision

2009 Handbook: p. B-211  
2010 Budget: D- 443

Of the amount hereinabove appropriated for fuel and utility costs, ~~amounts \$35,267,000~~ may be transferred to State departments to meet fuel and utility needs, subject to the approval of the Director of the Division of Budget and Accounting; and, in addition to the sums hereinabove appropriated for fuel and utility costs, there are appropriated such additional sums as may be required ~~for transfer to State departments~~ to pay fuel and utility costs, subject to the approval of the Director of the Division of Budget and Accounting.

#### Explanation

*The FY 2010 Governor's Budget recommends revising this language provision to allow for the transfer of unspecified amounts to State departments to pay for fuel and utility needs and supplemental appropriations to meet all State fuel and utility costs. Previously, this language provision authorized the transfer of specified appropriated amounts from the Fuel and Utility account to State departments to pay for fuel and utility costs, since these amounts had been explicitly budgeted in the account. This revision increases the flexibility accorded the Director of the Division of Budget and Accounting to both transfer amounts to departments to pay for fuel and utility costs and to appropriate additional funding, without further legislative involvement, to pay for fuel and utility costs.*

### State Recycling Fund-Recycling Administration Account

Addition

2009 Handbook: ----  
2010 Budget: p. D-443

In accordance with the "Recycling Enhancement Act," (P.L.2007, c.311), an amount not to exceed \$358,000 is appropriated from the State Recycling Fund – Recycling Administration account to the Department of the Treasury for administrative costs attributable to the State recycling program, subject to the approval of the Director of the Division of Budget and Accounting.

#### Explanation

*The FY 2010 Governor's Budget proposes adding this language provision to authorize the appropriation of \$358,000 from the State Recycling Fund - Recycling*

EXPLANATION: FY 2009 language not recommended for FY 2010 denoted by strikethrough.  
Recommended FY 2010 language that did not appear in FY 2009 denoted by underlining.

## Significant Language Changes (Cont'd)

*Administration account to the Department of the Treasury for administrative costs attributable to the State recycling program.*

*The Recycling Enhancement Act, P.L.2007, c.311 levies a recycling tax of \$3 per ton of solid waste on the owners or operators of any in-State solid waste facilities and on solid waste collectors who transport the waste out of the State. The revenues from the recycling tax are deposited in the State Recycling Fund, which is administered by the Department of Environmental Protection. The monies in the fund are appropriated for recycling grants to municipalities and counties; aid to counties for preparing, revising, and implementing solid waste management plans and public education programs; and university grants on recycling. This language provision facilitates a reduction to the Household and Security account by a like amount.*

### State-Owned Real Property Fund

Revision

2009 Handbook: p. B-217  
2010 Budget: p. D-444

Notwithstanding the provisions of any law or regulation to the contrary, any ~~Any~~ monies received from the sale of real property that are deposited in the State-owned Real Property Fund (P.L.2007, c.108) ~~in excess of the amount anticipated in this Act~~ are appropriated for Capital projects that increase energy efficiency, improve work place safety or for Information Technology Systems or other capital investments that will generate an operating budget savings, ~~Construction Energy Efficiency Statewide Projects,~~ subject to the approval of the Director of the Division of Budget and Accounting.

### Explanation

*This language provision would authorize the Director of the Division of Budget and Accounting to appropriate funds from the sale of real property, that are deposited in the State-owned Real Property Fund (P.L.2007, c.108) for projects that increase energy efficiency, improve work place safety or for Information Technology Systems or other capital investments that will generate an operating budget savings.*

*Chapter 108, Laws of 2007 (N.J.S.A.52:31-1.3b) supplemented existing law governing the sale of real property by the State to require that, unless another disposition of such proceeds is specified by statute, proceeds of sale be deposited in a special, non-lapsing fund and used only for the relief of State debt or to assist in funding capital improvement projects undertaken by the State. The allocation of such money from the fund shall be made upon the recommendation of the Governor for the annual appropriations act, together with a detailed description of the purpose for which the monies will be used. The money shall be expended*

EXPLANATION: FY 2009 language not recommended for FY 2010 denoted by strikethrough.  
Recommended FY 2010 language that did not appear in FY 2009 denoted by underlining.

## Significant Language Changes (Cont'd)

*only upon appropriation in the annual appropriations act and only for the specified purposes. The Office of Legislative Services notes that this revised language provision, while generally consistent with current law, may expand uses of the fund's resources beyond the present statutory limits if operating budget savings result from these uses.*

### Allocation of Statewide Savings Initiatives and Management Efficiencies

Addition

 2009 Handbook: ----  
 2010 Budget: p. D-448

Notwithstanding the provisions of any law or regulation to the contrary, the Director of the Division of Budget and Accounting may transfer from departmental accounts and credit to the State Employees' Health Benefits account such sums that reflect savings from Statewide Savings Initiatives or Management Efficiencies. These additional sums are appropriated for State Employees' Health Benefits.

### Explanation

*The FY 2010 Governor's Budget proposes to achieve \$192.2 million in salary savings from four Statewide savings initiatives: (1) temporary layoffs (\$141.7 million); (2) management efficiencies (\$40 million); (3) attrition (6.5 million); and (4) wage freezes (\$4 million). These savings are budgeted under Employee Benefits in the Interdepartmental Accounts budget and reflect, in one appropriation item, the reductions that will be taken from each department to achieve the \$192.2 million savings target. This FY 2010 recommended language authorizes the Director of Budget and Accounting to transfer the savings (departmental reductions) from each department and credit those amounts to the State Employees' Health Benefits account for the payment of State Employees' health care benefit costs.*

### FY 2009 Early Retirement Incentive Program

Deletion

 2009 Handbook: p. B-217  
 2010 Budget: ----

~~Notwithstanding the provisions of any law or regulation to the contrary, the Director of the Division of Budget and Accounting may transfer from Departmental Accounts and credit to the Salary Increases and Other Benefits account such sums that reflect savings from an Early Retirement Incentive program, pursuant to separate legislation, and other employee staffing reductions. This additional sum is hereinabove appropriated for Salary Increases and Other Benefits.~~

EXPLANATION: FY 2009 language not recommended for FY 2010 denoted by strikethrough.  
 Recommended FY 2010 language that did not appear in FY 2009 denoted by underlining.

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**Significant Language Changes (Cont'd)**

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Explanation

*The FY 2010 Governor's Budget recommends eliminating this language provision, as it provided the authority to the Director of the Division of Budget and Accounting to transfer from departmental accounts each department's savings associated with the early retirement incentive (ERI) program under P.L.2008, c.21 and credit those amounts to the Salary Increases and Other Benefits account. The completion of the transfer of the requisite amounts has obviated the need for this language.*

EXPLANATION: FY 2009 language not recommended for FY 2010 denoted by strikethrough.  
Recommended FY 2010 language that did not appear in FY 2009 denoted by underlining.

## Discussion Points

### Layoffs

#### FY 2009 and FY 2010 Temporary Layoff Initiative

1. On March 25, 2009, the Civil Service Commission adopted an emergency rule to allow the State to implement temporary layoffs in the current fiscal year, which requires State employees to take two unpaid days off, one in May and one in June. This FY 2009 temporary layoff is estimated to achieve salary savings of \$35 million. The FY 2010 Governor's Budget proposes to achieve salary savings of \$156.6 million by continuing the temporary layoff into the next fiscal year, but requiring State employees to take 12 unspecified, unpaid days off through June 30, 2010.

- **Questions:** How was the FY 2009 \$35 million estimate of salary savings from a temporary layoff derived? Does this estimate still stand or has it been updated to reflect more recent compensation and employment data or to reflect how the temporary layoffs have been implemented?

Please provide details on the structure of the FY 2010 temporary layoff program and its effect on State operations. How will the temporary layoff days be identified? Which departments will close and which departments will remain open and be responsible for scheduling staggered temporary layoff days to manage workload? What Statewide services and programs will be affected most by departmental closings and reduced staffing levels? Which State employees will participate in the temporary layoff program and which will be exempted from it?

Will the State risk losing federal funding if federal employees also participate in the temporary layoff program? If so, how much federal funding is at risk?

How will the FY 2010 temporary layoff days affect an employee's pension and health benefits? Will employees be able to apply for unemployment compensation?

What are the outstanding contractual or legal issues that may impact the temporary layoffs proposed for FY 2010?

#### Federal Fair Labor Standards Act and State Temporary Layoff Initiative

1a. Under the current federal Fair Labor Standards Act (FLSA) law, non-exempt and exempt employees work under different rules and regulations; specifically, non-exempt employees can be furloughed, but exempt employees cannot, with one exception. The FLSA permits government entities to implement budget-required furlough programs for exempt employees provided that during those weeks in which a furlough occurs, FLSA-exempt employees are converted to non-exempt status. As a result, all hourly rules and regulations apply to FLSA-exempt employees, including the payment of overtime, scheduling of breaks, and accounting for time worked. Accordingly the Civil Service Commission has ruled that for the temporary layoff program, exempt status will be changed to non-exempt, overtime-eligible status during the workweek in which the temporary layoff occurs and pay is reduced. Therefore, FLSA exempt employees will be managed in the same manner as overtime-eligible employees to

## Discussion Points (Cont'd)

avoid overtime liability and will be prohibited from working more than 40 hours during the week.

- **Question:** In what ways will State programs and services be impacted by this ruling?

### Voluntary Furlough Program

1b. The voluntary furlough program established pursuant to P.L.1993, c.297 allows State employees in the career, senior executive, or unclassified services to take up to 30 days off from work without pay in a calendar year under certain conditions. A request to participate in the voluntary furlough program and a request for an extension of a voluntary furlough are subject to the approval of the employer. The Civil Service Commission has issued a "rule relaxation" that allows State employees, and employees of State colleges and State universities, to request an unlimited number of voluntary furlough days through the end of FY 2009 without the loss of benefits, including employer paid health benefits. Under the relaxed rule, unlimited voluntary furlough may be taken as long as there is no increase in overtime costs or the need to backfill a position and as long as there is no loss of anticipated revenue. Voluntary furlough taken during this time period may be used for any purpose except for sick leave, leave without pay due to disability, or to seek or engage in alternative employment.

- **Questions:** What have the savings been in each of the past ten fiscal years as a result of the voluntary furlough program? To what extent have departmental salary accounts been reduced to reflect continued savings from this program?

Should the rule relaxation for the voluntary furlough program be extended in FY 2010? Does the implementation of a temporary layoff conflict with or complement a voluntary furlough program? How will participation in the voluntary furlough program change if both the rule relaxation is extended and the temporary layoff is implemented?

### Permanent Layoff

2. The FY 2010 Governor's Budget proposes a reduction of \$418.5 million in personnel costs through a salary freeze (\$261.9 million) and temporary layoffs (\$156.6 million) for employees. According to a recent newspaper article, the Governor announced that "up to 9,000 State workers could be laid off if courts and public employee unions do not go along with his plans to 'furlough' employees." In accordance with the New Jersey Administrative Code, the Civil Service Commission is required to receive and approve layoff plans for State agencies prior to employees receiving notification of a layoff. The commission determines the seniority and title rights for impacted employees, and ensures that appeal rights are afforded to those employees. It is the Office of Legislative Services understanding that layoff plans are being developed by the departments for submission to the Civil Service Commission.

- **Questions:** Please discuss the status of the plans to implement permanent layoffs as an alternative to a salary freeze, temporary layoff, or both. Based on the status of these plans, what are the estimated FY 2010 savings that would be achieved by these targeted layoff plans? Please provide a chart, if available, showing the number of

## Discussion Points (Cont'd)

employees to be laid off and the associated total savings by department. What are the administrative costs of implementing a layoff?

Please discuss how this will affect the State's unemployment compensation fund.

### The COBRA Subsidy under ARRA and Involuntary Loss of Employment

2a. The American Recovery and Reinvestment Act of 2009 (ARRA) provides for a subsidy of 65 percent of the cost of health care coverage under the Consolidated Omnibus Budget Reconciliation Act (COBRA) for certain qualified beneficiaries who have lost health coverage due to an involuntary loss of employment. The subsidy is to be paid for by the federal government.

In the event that the Governor imposes a permanent layoff of State employees, the COBRA provisions will take affect. If this occurs, the State is required to pre-pay the COBRA premium subsidy and is then eligible to receive a credit for that amount to be applied against federal payroll taxes. If the subsidy amount exceeds the payroll tax liability, the excess will either be paid directly to the State or credited towards the next payroll tax payment. The payroll tax credit may not be claimed until the COBRA participant's payment for COBRA coverage is received by the State.

- **Questions:** Under a permanent layoff plan, how many individuals would qualify for the COBRA subsidy in the SHBP? What would be the total amount of premiums the State would have to pre-pay under the COBRA subsidy? How much will the subsidy cost the State until it is reimbursed by the federal government through a credit to its payroll taxes? How will this affect the State's cash flow? Will the State have to increase its short term borrowing to cover the cost of the COBRA subsidy until the federal government reimburses the State? What are the administrative costs to comply with the COBRA subsidy requirements under ARRA? What additional costs would be incurred with regard to the loss of contributions by employees toward the costs of SHBP?

### Salary Freeze

3. According to the FY 2010 Governor's Budget, the contracts for unions representing the Communications Workers of America (CWA), the American Federation of State, County, and Municipal Employees (AFSCME), and the International Federation of Professional and Technical Engineers (IFPTE) provide a 3.5 percent cost-of-living adjustment effective July 1, 2009. Negotiations continue with unions representing corrections and non-corrections law enforcement officers employed by the State, as well as with unions representing State Police employees. In addition, the contracts for unions that represent Judicial employees – CWA, Judiciary Council of Affiliated Unions (JCAU), and Probation Association of New Jersey (PANJ) - provide for a 3 percent increase on July 1, 2009 and a progression payment of 4 percent on January 1, 2010. The Administration is negotiating a salary freeze and the FY 2010 Governor's Budget assumes an agreement will be reached to implement it. The budget anticipates a salary savings of \$261.9 million from the salary freeze.

## Discussion Points (Cont'd)

- **Questions:** Please discuss the components of the salary freeze and how the salary savings were derived. What is the status of the negotiations with the unions for a salary freeze? What is the status of the negotiations with those unions for whom a contract has not yet been finalized?

### State Health Benefits Program/School Employees' Health Benefits Program.

4a. The FY 2010 Governor's Budget recommends an appropriation of \$579.8 million, representing an increase of \$103.4 million over the FY 2009 adjusted appropriation of \$476.3 million, to the State Employees' Health Benefits appropriation. Expenditures in the State Employees' Health Benefits Account have fluctuated since FY 2005, with a five year average expenditure of \$495,000.

State Employees' Health Benefits Appropriations FY 2005 to FY 2010 (\$000's)						
	FY 2010 (p)	FY 2009 (e)	FY 2008	FY 2007	FY 2006	FY 2005
Original Appropriation	\$579,758	\$436,335	\$463,738	\$465,300	\$492,125	\$504,445
Reappropriation		\$0	\$ 60,000	\$0	\$0	\$ 18,900
Supplemental Appropriation		\$ 40,000	\$ 20,000	\$ 60,000	\$0	\$0
Transfer		\$0	\$ 3,077	\$ 13,404	\$0	\$0
Total Appropriation	\$579,758	\$476,335	\$546,815	\$538,704	\$492,126	\$523,345
Expenditures	unknown	\$434,989*	\$546,815	\$478,704	\$492,126	\$523,345

Notes: Proposed (p); Estimated (e); \* Expenditures to Date.

- **Question:** What are the projected final expenditures for FY 2009 for the State Employees' Health Benefits Account. Please identify the main reasons why the cost of State Employees' Health Benefits are expected to increase by 21.7 percent in FY 2010 over the FY 2009 adjusted appropriation. Please provide the components of change that explain the increase.

4b. The employee benefits evaluation data in the FY 2010 Governor's Budget shows a 1,428 decrease in State covered members in the State Health Benefits Program (SHBP) and an increase of 1,304 local covered members in the SHBP.

- **Question:** Please explain the decrease in State covered members and the increase in local covered members. Please provide the components of change for each member group. Are some of these changes related to the creation of the School Employee's Health Benefits Program as provided for under P.L. 2007, c.103?

4c. P.L.2007, c.103 established a School Employees' Health Benefits Program (SEHBP). The School Employees' Health Benefit Commission, separate and apart from the existing State Health Benefits Commission, oversees the newly created SEHBP. The SEHBP is a multiple option plan offering active and retired education employees the choice to select coverage from

## Discussion Points (Cont'd)

self-insured preferred provider organization (PPO) plans administered by Horizon (NJ DIRECT) or from two self-insured HMOs administered by Aetna and Cigna, as well as a prescription drug plan administered by Horizon (CVS/Caremark). The transition of active and retired educational employees from the State Health Benefits Program (SHBP) to the newly created SEHBP was to occur by July 2008. The FY 2007 Consolidated Annual Financial Report of the Division of Pensions and Benefits in the Department of the Treasury references "discussions with the New Jersey Education Association" that led to the establishment of the SEHBP.

- **Questions:** What were the issues that compelled the creation of the SEHBP? Was it anticipated that the health care plan under the SEHBP would be the same as the plan under the SHBP in structure and coverage? Please identify and explain the reasons for any significant differences in benefits between the two plans, e.g., medical and prescription drug co-pays, deductibles, cost sharing, and coinsurance.

What is the projected total cost of providing health care benefits to active and retired educational employees in FY 2010 and how does that compare to the cost of providing health care benefits to active and retired educational employees in FY 2009 when these employees were covered under the SHBP? Please provide the plan year 2010, or most recent, rate renewal recommendations, if available, by benefit plan for the SHBP and the SEHBP, as displayed for 2009 in the "Plan Year Rate Renewal Recommendation Report", and explain any differences.

4d. P.L.2007, c.103 amended the statutes concerning the State Health Benefits Program (SHBP) to grant authority to the State Health Benefits Commission, among other changes, to contract for the administration of preferred provider organization plans (PPOs) in place of the Traditional Plan. According to the Division of Pensions and Benefits, the PPO network was recently, but temporarily, expanded until December 31, 2009 to include doctors who were formerly providing services under the Traditional Plan. As such, educational employees who were in the Traditional Plan will be able to continue with their Traditional Plan doctors until the end of 2009. It is reported that the agreement will cost the State an additional \$17 million to \$20 million.

- **Questions:** Please explain the reasons for the decision to expand the network until December 31, 2009 and identify the employees and providers affected by this decision. Are there relevant legal issues that have been resolved or are still outstanding with regard to this decision? Please explain the nature of the increased costs, e.g., co-pays, deductibles, and medical billings. Does the estimated cost to the State reflect payments during the extension for 18 months from July 1, 2008 to December 31, 2009, or do these costs reflect payments for the extension for 12 months from January 2009 to December 31, 2009? If the \$17 million to \$20 million cost estimate reflects 12 months of costs, how much did the State pay for the benefit extension from July 2008 to December 31, 2008? How are these additional costs going to be funded?

## Discussion Points (Cont'd)

### Pharmacy Benefits Management

5. The SHBP and SEHBP are multiple option plans offering a prescription drug plan administered by Horizon with CVS/Caremark as Horizon's Pharmacy Benefits Manager (PBM). The current SHBP and SEHBP prescription drug plan contracts expire in 2010. A PBM is a drug middleman that administers the prescription drug benefit portion of healthcare benefit plans for governments, private companies, and unions and processes and pays prescription drug claims. A PBM also negotiates prescription drug prices with drug manufacturers and retail pharmacies with the expectation of reducing costs for employers and insurers. A January 9, 2009 news article reported that CVS purchased Caremark for \$27 billion and became a dominant provider of PBM services. The article indicates that CVS has offered aggressive price cuts to keep existing clients and to gain new ones, with about 70 percent of existing clients given better terms for 2009. A Request For Proposal (RFP) was recently issued to solicit bid proposals for pharmacy benefit management services for active employees and retirees participating in the SHBP and the SEHBP.

- **Questions:** Please discuss the issues relevant to a contract with a PBM and its impact on the SHBP and the SEHBP. How have prescription drug prices changed since the last contract agreement including prices for generic and specialty prescription drugs, and how have those changes affected costs to the SHBP? What will the State's course of action be if the PBM contract is not awarded?

5a. According to a January 2008 study, authored by Kevin C. Green, Ph.D. at LECG, a global expert services and consulting firm, and entitled "Regulation of Pharmacy Benefit Managers: An Economic Analysis of Regulation and Litigation as Agents of Health Care Change":

Pharmacy benefit managers or 'PBMs' have come under intense legal and regulatory scrutiny in recent years. Each of the major PBMs has been targeted by public and private litigation including a major ongoing task force comprised of U.S. Attorneys and Attorneys General from twenty states. Moreover, more than 30 bills to regulate PBMs have been introduced in state legislatures since 2002.

The study concludes that "litigation is acting in the PBM market as a more adaptive and flexible catalyst of change than broad-based regulation."

At the February 9, 2009 meeting of the Senate Labor Committee, testimony with regard to the regulation of PBMs indicated that transparency, audit, and other regulatory requirements will reduce costs to health benefit plans and insurance companies by identifying the amount of savings achieved in cost saving measures, such as mail-order prescription services, generic drug distribution, maximum allowable discounts, and drug substitution practices, and by making sure that those savings are passed on to PBM clients. In addition, it was asserted that oligopolies exist that have exerted upward pressure on the prices of some prescription drugs. For example, it was asserted that the price of Athgar, a drug prescribed for pediatric epilepsy seizures increased from \$1,500 to \$23,000 per prescription in just over ten years. It was concluded that some consent orders and injunctions against PBMs achieved through litigation

## Discussion Points (Cont'd)

efforts expire leaving regulation as the only long term solution. Other testimony indicated that: (1) that negotiations with the pharmaceutical companies on drug prices reduce costs to the consumers below what would have been charged had the PBMs not negotiated prices downward; (2) the competitive request for proposal (RFP) process also ensures that healthcare benefit plans are negotiating for the lowest prices; and (3) that the PBM profit margins are the lowest in the industry.

- **Questions:** Has the State been involved in any litigation against PBMs? If so, what was the nature of each case, what was the outcome, and were there any quantifiable cost impacts to the State associated with each case? Will regulation increase prescription drug costs to the SHBP and SEHBP, or will it provide beneficial information to the State to be used to control costs? What are the advantages and disadvantages to the SHBP and the SEHBP of regulating PBMs? What alternatives are there to contracting for prescription drug benefits with PBMs? Are these alternatives cost effective?

### Office of the State Auditor Reports

#### Coordination of Prescription Drug Benefits

6. A December 2008 report issued by the Office of the State Auditor recommended that prescription drug benefits should be coordinated. The report urged that the coordination of benefits provisions in the New Jersey Administrative Code be updated to include prescription drug plans and the Division of Pensions and Benefits determine the feasibility and cost benefit of coordinating prescription drug benefits in the SHBP. According to the State Auditor, under the provisions for coordination of benefits in the Administrative Code, an insurance carrier is authorized to coordinate what the carrier pays or provides with what another plan pays or provides. Because there is no provision for the coordination of benefits of prescription drug plans, individuals (spouses/partners and dependents) who are covered under two plans may choose to use the plan with lower prescription co-pays which results in higher costs for the plan that provides lower co-pays. According to the audit report, prescription drug claims for the State and participating local government entities were more than \$800 million in FY 2008.

In response to the audit, the Division of Pension and Benefits indicated that the successful coordination of prescription drug benefits is difficult to administer effectively because of the multiple vendors administering parts of the drug program and, consequently, the SHBP and now the SEHBP could realize increased costs. However, the division indicated that at the time that it re-bids the prescription drug benefit through the request for proposal (RFP) process, "it is envisioned that the SHBP/SEHBP will have a single vendor for all its prescription drug delivery to its members. The RFP will elicit cost saving initiatives and recommendations from the vendors bidding on the contract to determine anticipated cost savings to the program."

- **Questions:** What cost saving initiatives and recommendations from vendors will the RFP elicit to determine anticipated cost savings to the programs? Please explain in what ways the move to a single vendor will achieve savings. How many vendors currently provide prescription drug benefits through the SHBP and SEHBP? Please specify the factors that make the coordination of prescription drug benefits difficult. In what ways can coordination be implemented to achieve savings?

## Discussion Points (Cont'd)

### Dependent Eligibility Verification Audit

7. A December 2008 report by the Office of the State Auditor recommended that the Division of Pensions and Benefits "require SHBP subscribers to submit a copy of a birth certificate or marriage license when they add dependents to their coverage and monitor the marital status of children of subscribers by matching dependency files with the Department of Health and Senior Services." In January 2009, Aon Consulting, the SHBP and SEHBP health benefits consultants retained by the Department of Treasury, began a Dependent Eligibility Verification Audit (DEVA). The DEVA is expected to take 15 months to complete and requires every subscriber in the SHBP to provide legal documentation verifying a dependent's relationship to the subscriber and eligibility as a dependent. There were approximately 660,000 enrolled dependents of State and local government employees in the SHBP during the time of the State Auditor's review.

- **Questions:** What is the status of the audit? Please identify preliminary or final results of the audit. What is the current estimate of the number of ineligible dependents who are enrolled in the SHBP? What are the estimated savings to the SHBP as a result of no longer paying benefits for ineligible dependents? Are these savings estimates reflected in recommended FY 2010 SHBP funding?

7a. Horizon Blue Cross Blue Shield of New Jersey (Horizon) administers the State's self-insured preferred provider organization health care plan, NJDIRECT, formerly NJPLUS. As the administrator, Horizon maintains the parent health record database for the self-insured PPO plan. P.L.2001, c.103 granted the authority to the State Health Benefits Commission to contract for the administration of PPOs in place of the Traditional Plan and NJPLUS. As of March 29, 2008, all NJPLUS members were terminated as NJPLUS members and initialized as NJDIRECT members. To accomplish this changeover from NJPLUS to NJDIRECT, the parent and provider databases required updating. According to Horizon, all adult files have been updated, however, only a portion of the dependent files on the provider database have been updated. Because of this, a certain unknown percentage of SHBP covered dependents' files on the provider system show that the dependent's coverage was terminated as of March 29, 2008, even though no such termination occurred, leaving a certain percentage of the covered population unaccounted for or accounted for improperly.

- **Question:** Please discuss how this delay in updating dependents' files in the provider database will impact the DEVA.

### The Pension Systems

8. The FY 2010 Governor's Budget recommends an appropriation of \$400 million to fund the pension systems while the Governor's Spending Reduction Plan reduced the FY 2009 appropriation for the pension systems by \$783 million to \$500 million. In addition, P.L.2009, c.19 was enacted to permit local public employers to reduce by 50 percent their PERS and PFRS contributions for FY 2009. According to the most recent valuation of the Public Employees' Retirement System, the State employer contribution rate as a percentage of total compensation is 12.45 percent, and the local employer contribution rate as a percentage of total compensation is 7.86 percent, for contribution payments due in FY 2010. While the

## Discussion Points (Cont'd)

employee contribution rate as a percentage of total compensation is currently 5.5 percent, and is fixed by law, the employer contribution rate as a percentage of total compensation is calculated annually by the actuary using a formula amortizing liabilities over time.

- **Questions:** Please discuss in detail the long-term consequences of the failure to pay 100 percent of the actuarially required State and local employer contributions as a percentage of total compensation to the five State-administered pension systems. Please provide a chart for each of the five State-administered retirement systems showing for the fiscal years 1990 through 2010: (1) the actual and actuarially required employer contributions as a percentage of total compensation; (2) the employee contributions as set forth in statute; and (3) the funding ratio.

9. According to the Division of Investment in the Department of the Treasury, over the past nine months, the market value of the pension system investments has dropped from \$78.2 billion as of June 30, 2008 to \$57.8 billion as of March 31, 2009, due to the recession and the collapse of the financial markets. As of March 31, 2009 the fiscal year-to-date rate of return for all pension funds was a negative 22.45 percent.

- **Questions:** How has the allocation of assets shifted since June 30, 2008? What is the strategy for the current portfolio mix and how does it differ from the strategy in 2008?

10. According to the New Jersey Division of Pensions and Benefits' 52nd Comprehensive Annual Financial Report for the Year Ended June 30, 2007, statistics for the solvency test indicate that the percentage of accrued liabilities covered by net assets for State PERS, local employer PERS, and the total system, has dropped from 100 percent in 2001 and 2002 to 15.16 percent, 47.34 percent, and 33.80 percent in 2007, respectively.

- **Questions:** Please explain the solvency test and its significance. What does it mean that only 15.16 percent of accrued liabilities in State PERS are covered by net assets? What are the percentages of accrued liabilities covered by net assets for State PERS, local employer PERS, and the total system for 2008? What will be the percentage of accrued liabilities covered by net assets in 10, 20, and 30 years for the State-administered defined benefit retirement system assuming: (1) the State continues to contribute at the projected FY 2010 rate which is approximately 6 percent, at 50 percent, and at 100 percent of the actuarially required contribution; (2) member contribution percentages remain the same; and (3) the rate of return on investments is 12 percent, the long term average rate of return?

11. Under the Governor's FY 2009 re-balancing plan, the \$1.283 billion appropriated for the FY 2009 State contribution to the State-administered pension systems will be reduced by \$783.8 million to a total contribution for FY 2009 of \$500 million, representing a contribution reduced from 49 percent to approximately 11 percent of the actuarially required contribution. The FY 2010 Governor's Budget again proposes a reduced level of funding for the pension systems by recommending a State pension contribution of \$400 million, representing a

## Discussion Points (Cont'd)

contribution of 6.25 percent of the actuarially required contribution to the defined benefit retirement systems.

- **Questions:** Please discuss strategies that will need to be implemented to improve the funded ratios of the State-administered pension systems once the current fiscal constraints have eased, including various measures to reform valuation methods.

12. Under current law, a member of the Public Employees' Retirement System, the Teachers' Pensions and Annuity Fund, the Police and Firemen's Retirements System, the State Police Retirement System, or the Judicial Retirement System may apply for a pension loan provided as an active contributing member of the system. A member may borrow a minimum of \$50 and a maximum of up to one-half of posted pension contributions or \$50,000, whichever is less. Up to two loans per year may be requested and approved. Interest is charged on the declining balance of the loan. P.L.2007, c.92 eliminated the four percent fixed rate of interest charged to members for loans and provided that the new rate of interest is to be set annually by the State Treasurer at a commercially reasonable rate. This rate is determined using the average closing yield of five-year U.S. Treasury Notes on the last business day of the month each September, October, and November. Seventy-five basis points are also added to the rate as a credit risk factor. For loan applications that are received in calendar year 2009, the interest rate is 3.33 percent. Current law permits the State to charge a member an administrative fee for such a loan. The administrative fee is currently \$8.00 per application.

- **Questions:** How has this change in the rate of interest charged to members for pension loans affected interest earnings over the past two years? Please provide a chart of the amount of pensions loans outstanding and the interest paid in the past five fiscal years.

### FY 2009 Early Retirement Program

13. P.L. 2008, c.21 provided for an early retirement incentive (ERI) program in an effort to achieve long-term savings through a reduction in the State's workforce. In order to ensure long-term savings, the ERI allowed for only a ten percent backfill of the vacated positions. According to the September 15, 2008 supplemental report to the Joint Budget Oversight Committee regarding the 2008 ERI program, 1,488 employees retired leaving 149 vacated positions eligible to be backfilled. Of this, 836 were employees in non-State or federally funded positions. Following the ERI, the Governor signed Executive Order No. 121 on September 26, 2008 which provides that the maximum number of employees permitted to be on the State payroll for all departments and separate agencies combined as of the final pay period in FY 2009 must not exceed the number of employees certified by the State Treasurer to be on the payroll as of the final pay period in FY 2008 less 90% of the number of employees who elected to retire under the ERI. Each department and separate agency was to have submitted a plan demonstrating how the department or agency intends to achieve and operate within its maximum employee count.

- **Questions:** Will the mandate of Executive Order No. 121 be achieved? How many positions have been backfilled since July 1, 2008? By how much did backfilling those positions reduce the ERI savings? Please discuss how any federal ARRA-driven

## Discussion Points (Cont'd)

expansion of staffing levels conflicts with the backfill limitation. How will the conflict be resolved?

### Real Property Fund

14. P.L.2007, c.108 established in the Department of Treasury a special, non-lapsing fund into which the proceeds of the sale of any State-owned surplus real property are to be deposited. Money in the fund is dedicated for the relief of State debt or to assist in funding capital improvement projects undertaken by the State. The allocation of the money in the fund is required to be made upon the Governor's recommendation, together with a detailed description of the purpose for which the monies will be used. The FY 2010 Governor's Budget proposes language that would authorize the appropriation of an unspecified amount from the State-owned Real Property Fund for expenditure for capital projects that increase energy efficiency and improve work place safety, or for information technology systems or other capital investments that will generate an operating budget savings.

- **Question:** Please provide an account reconciliation of the revenues received and deposited in the fund from each sale of State-owned surplus real property and the expenditures from the fund to date. Please provide a list of projects, by department, to be funded with the money from the fund, including the estimated cost of each project.

### State Recycling Fund

15. P.L.2007 c.311 levies a recycling tax on of \$3 per ton on owners or operators of solid waste facilities and on solid waste collectors that would provide increased State assistance to municipalities and counties for recycling programs. The revenues from the recycling tax are deposited in the State Recycling Fund, which is administered by the Department of Environmental Protection. The FY 2010 Governor's Budget proposes language that would authorize the appropriation in an amount not to exceed \$358,000 from the State Recycling Fund Recycling Administration account to the Department of Treasury for administrative costs attributable to the State recycling program.

- **Question:** Please discuss the administrative activities the Department of Treasury performs, in addition to the Department of Environmental Protection, relative to the State Recycling program.

### Management Efficiencies

16. A central component of the Governor's policy objectives has been the implementation of management efficiencies and savings measures to achieve permanent reductions to departmental baseline budgets. In response to an Office of Legislative Services Discussion Point in the FY 2009 Interdepartmental Accounts Budget Analysis, when asked how the management efficiencies were achieved, the Administration stated that over the FY 2007 and FY 2008 time period, "departments have been made to absorb cumulative reductions for management efficiencies of \$75 million as permanent reductions to their base while at the same time, deal with inflationary increases in non-salary costs such as fuel and materials and

## Discussion Points (Cont'd)

supplies.” In FY 2009, through a \$25 million reduction to the property rentals budget in Interdepartmental Accounts, departments were directed to find operational savings through procurement efficiencies. The FY 2010 Budget In Brief (page 75, Chapter 6) shows that savings were achieved through a combination of energy, general administrative, rent, contract reform, information technology/communications, and equipment/materials/supplies savings. According to the FY 2010 Budget in Brief, the Governor continues the procurement efficiencies program initiated in FY 2009 but budgets this program centrally and recommends a \$40 million savings target for efficiencies across all State departments.

- Questions:** Please explain how the centrally-budgeted management efficiencies program will operate. Please provide a chart showing the combined management and procurement efficiencies by department achieved through FY 2009. Is there an overall multi-year management efficiency and savings measure plan? If so, please discuss that plan. How much was proposed to be saved in each year beginning in FY 2007 under that plan? How much has actually been achieved thus far? What are the targeted efficiencies over the life of the plan? What identified efficiencies were determined to be achievable immediately through organizational efforts and what efficiencies required investment?

### Workers' Compensation Fund

17. The State is self-insured for workers' compensation payments made to State employees. Claims are funded through the Interdepartmental Accounts budget. State expenditures for workers' compensation claims have grown on a compound annual basis by 8 percent since 2002. During this time, supplemental appropriations have fluctuated with a high of \$23 million in FY 2004 and a low of \$2.5 million in FY 2007. Since FY 2007, supplemental appropriations to the workers' compensation fund have leveled at about \$3 million per year. The FY 2010 Governor's Budget extends this trend and recommends an increase of \$3 million to the workers' compensation fund appropriation, bringing the total recommended amount to \$70.7 million, a 102 percent increase in appropriations since FY 2002.

Workers Compensation Fund FY 2002 through FY 2010 (\$ Millions)									
	2002	2003	2004	2005	2006	2007	2008	2009 <sup>(1)</sup>	2010 <sup>(2)</sup>
Appropriations	\$34.9	\$34.9	\$34.9	\$41.9	\$55.5	\$64.7	\$64.7	\$67.7	\$70.7
Supplemental Appropriations	\$0.0	\$ 5.8	23.0	\$ 8.0	\$ 6.0	\$ 2.5	\$ 3.0	\$ 3.0	unknown
Expenditures	\$41.3	\$40.8	\$52.8	\$56.6	\$63.6	\$69.0	\$71.0	\$65.5 <sup>(3)</sup>	\$70.7 <sup>(4)</sup>
Carryforward	\$0.0	\$0.162	\$ 5.6	\$0.342	\$0.720	\$0.491	\$0.907	unknown	unknown

Notes: (1) Adjusted; (2) Proposed; (3) Expenditures to date; (4) Recommended.

- Questions:** Please identify the main reasons why workers' compensation costs have risen steadily in recent years. What measures can be taken to rein in the continued growth in workers compensation costs? Please provide an overview of the administration of workers' compensation claims, including a list by department or agency, of the number of employees receiving worker's compensation over the past five fiscal years. Please provide statistics for the past five years showing the number of claims filed by State workers, claims disposed, total and average awards, and other

## Discussion Points (Cont'd)

relevant program data. How much has the State recovered in fraudulently obtained workers' compensation claims since FY 2002? Please discuss the efforts that have been made to coordinate the benefits provided by the Workers' Compensation program and the Sick Leave Injury program.

### Interest on Short Term Notes

18. For a number of years, the State has used cash flow borrowing, in the form of tax anticipation notes, to meet its cash flow needs in the early part of the fiscal year, when cash spending outpaces cash collections. This situation largely results from the need to expend significant sums on local aid and direct property tax relief in the first two fiscal quarters, before major tax collections are received in the last two quarters. The FY 2010 Governor's Budget proposes an appropriation of \$24 million for interest on short term notes (page D-449), an increase of \$11 million above the FY 2009 adjusted appropriation of \$13 million for this purpose. Thus far in FY 2009, the State has issued \$1.8 billion in tax and revenue anticipation notes (TRANS) to meet cash flow needs. Interest costs on these notes will total about \$42.6 million, which will be offset by original issue premiums of \$19.7 million. Thus, net interest cost will total approximately \$22.9 million. Investment earnings, or other sources of funding, will supplement FY 2009 appropriations to fully fund these costs.

- *Questions:* Will additional TRANS be issued in FY 2009? If so, in what amount and at what projected cost? What specific source(s) of funds will be used to fund the difference between FY 2009 interest costs and resources from appropriations and original issue premiums? What projections of FY 2010 tax and revenue anticipation note issuance (par amount and date of sale), total and net interest costs, nominal interest rate and effective interest rate, were assumed when determining to recommend an appropriation of \$24 million in FY 2010? Based on these assumptions, what amount of investment earnings will be required to fully fund short-term borrowing interest costs? What percentage of total estimated investment earnings does that amount represent?

### Property Rentals

19. The FY2010 Governor's Budget reduces funding for State property rental costs by \$45.9 million, in part in anticipation of \$20 million in "rent efficiencies" and another \$4.3 million due to opportunities for lease savings. If achieved, these savings would reduce total property rental costs by nearly 12 percent below FY 2009 adjusted appropriations for existing and anticipated leases.

- *Questions:* Please elaborate on the "rent efficiencies" that are expected to generate FY 2010 cost reductions. To what extent will savings result from a reduction in space rented; in price per square foot in existing rentals; and in the cost of utilities and services provided as part of leases? Please list any major consolidations of office space. Are any savings due to anticipated debt refinancings that reduce debt service leases in FY 2010? If so, how much, and with respect to what issuing entity?

## Discussion Points (Cont'd)

### Energy Efficiency Statewide Projects

20. The FY 2010 Governor's Budget recommends \$10 million for "Energy Efficiency-Statewide Projects," with a corresponding \$10 million transfer of revenue from the Clean Energy Fund. If approved, this would be the third consecutive year of redirecting \$10 million in Clean Energy Fund revenues to the General Fund for State energy efficiency projects. Under FY 2008 budget language, the funding was to be for heating, ventilation, and air conditioning systems at Human Services institutions (\$6 million), pneumatic systems at State-owned office buildings in Trenton (\$2.9 million), and other energy efficiency projects. FY 2009 budget language authorized up to \$6 million for heating ventilation, and air conditioning systems at Human Services institutions and allowed the Executive full flexibility to allocate funding among any energy efficiency projects at State facilities. FY 2010 recommended budget language is identical to that of FY 2009.

Of the \$20 million appropriated thus far, only about \$750,000 has been spent or is obligated for specific projects or uses. Another \$8.9 million is "pre-encumbered," and \$10.4 million is uncommitted.

- **Questions:** What specific energy efficiency projects at State facilities are to be funded with Clean Energy Fund resources, and at what cost per project? For each project, what corresponding energy cost savings were achieved in FY 2009, and will result in FY 2010 and FY 2011, respectively? Does the department consider the apparent lag between appropriation and expenditure of these funds to be normal, or are energy efficiency projects in general, or the specific ones selected for funding, more problematic in ways that result in longer completion times? If the latter, please provide specific examples.

## OFFICE OF LEGISLATIVE SERVICES

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Individuals wishing information and committee schedules on the FY 2010 budget are encouraged to contact:

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