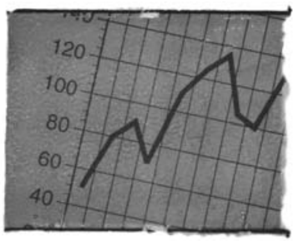

ANALYSIS OF THE NEW JERSEY BUDGET

DEPARTMENT OF THE TREASURY

FISCAL YEAR 2013 - 2014

PREPARED BY OFFICE OF LEGISLATIVE SERVICES
NEW JERSEY LEGISLATURE • APRIL 2013

NEW JERSEY STATE LEGISLATURE

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DEPARTMENT OF THE TREASURY

Budget Pages....... C-7; C-15 to C-16; C-24; C-25; D-367 to D-421; E-7 to E-8; G-4 to G-8

Fiscal Summary ($000)

	Expended FY 2012	Adjusted Appropriation FY 2013	Recommended FY 2014	Percent Change 2013-14
State Budgeted	$2,041,762	$2,208,513	$2,163,417	(2.0%)
Federal Funds	56,491	11,266	11,266	0.0%
Other	1,409,744	1,249,063	1,244,963	(0.3%)
Grand Total	$3,507,997	$3,468,842	$3,419,646	(1.4%)

Personnel Summary - Positions By Funding Source

	Actual FY 2012	Revised FY 2013	Funded FY 2014	Percent Change 2013-14
State	3,797	3,864	3,861	(0.1%)
Federal	29	41	48	17.1%
Other	1,771	1,733	1,760	1.6%
Total Positions	5,597	5,638	5,669	0.5%

FY 2012 (as of December) and revised FY 2013 (as of January) personnel data reflect actual payroll counts. FY 2014 data reflect the number of positions funded.

To be consistent with the data display in the Governor's FY 2014 Budget, the above table includes the funding data in the Department of the Treasury for Higher Educational Services. Other explanatory data for these programs are included in a separate booklet entitled "Higher Educational Services."

Link to Website: http://www.njleg.state.nj.us/legislativepub/finance.asp

Highlights

PROPERTY TAX RELIEF: GRANTS-IN-AID AND STATE AID

- The Governor's FY 2014 Budget provides $1.97 billion for **property tax relief** in the Department of the Treasury, which is $38.8 million, or 2.0 percent, above the FY 2013 adjusted appropriation. Grants-in-Aid, which finance direct property tax relief to residents, account for $614.7 million of the total ($7.5 million, or 1.2 percent, less than in FY 2013) and State Aid to local subdivisions of State government accounts for the remaining $1.35 billion ($46.3 million, or 3.5 percent, more than in FY 2013). Table 1 on page 7 lists aggregated components of the recommended State Aid total.

- The Administration intends to shift to FY 2014 the budgeted FY 2013 disbursements for property taxes paid in calendar year 2011 under the New Jersey Homestead Property Tax Credit program, renamed the **Homestead Benefit Program**. In public statements Administration officials have indicated that they planned to process individual Homestead Benefit payments in August 2013. The Executive requests no additional resources for an FY 2014 program disbursement for property taxes paid in calendar year 2012. In all, the Executive estimates that 837,100 homeowners would collect an average $471 benefit in FY 2014 after collecting no payment in FY 2013.

- For FY 2014, the Administration recommends maintaining the FY 2013 parameters of the **Senior and Disabled Citizens' Property Tax Freeze program**, or Homestead Property Tax Reimbursement program. Specifically, the program would operate under its statutory provisions except that the income eligibility threshold would be $70,000 in lieu of the statutory $80,000. Overall, the Executive forecasts a $1,109 average FY 2014 payment to 193,200 participants. In FY 2013, some 189,900 participant received an average $1,165 payment. The lower average payment is mostly due to more recent cohorts of program participants with lower average benefits replacing long-time participants with larger average benefits.

- The Governor's FY 2014 Budget proposes that municipalities receive $1.11 billion from the off-budget **Energy Tax Receipts Property Tax Relief Fund** in FY 2014, a $21.7 million, or 2.0 percent, increase over FY 2013. Two funding sources comprise this appropriation: $788.5 million from the Energy Tax Receipts Property Tax Relief Fund proper and an amount not to exceed $319.6 million to be transferred to the fund from the Consolidated Municipal Property Tax Relief Aid (CMPTRA) account pursuant to budget language. The Administration also proposes that an additional $256.2 million in CMPTRA be expended in FY 2014, thereby bringing total distributions from the State's two formula-driven municipal aid programs to $1.36 billion.

- The proposed FY 2014 appropriation to the public employee retirement funds equals $1.68 billion, representing 3/7th of the actuarially determined full $3.91 billion State pension contribution. The FY 2013 contribution was $1.03 billion, or 2/7th of the full actuarially determined $3.60 billion payment. The budgeted amount within Treasury reflects the $73.2 million appropriation to the **Police and Firemen's Retirement System** that the Governor requests be made in FY 2014 on behalf of local governmental entities; the proposed $897,000 appropriation to the **Consolidated Police and**

Highlights (Cont'd)

Firemen's Pension Fund for the same purpose, however, is the full actuarially determined contribution.

TREASURY OPERATIONS

- The Administration requests a $1.9 million reduction in the FY 2014 appropriation to the **New Jersey State Lottery** attributable to the anticipated outsourcing of the Lottery's sales and marketing operations in FY 2014. The entire decrease would occur in the Lottery's Salaries and Wages account, which would contract by 19.5 percent from $9.7 million in FY 2013 to $7.8 million in FY 2014. Concomitantly, the Lottery's staffing level would decline by 54 positions from 135 as of January 2013 to 81 in FY 2014. In general, the Administration expects the State Lottery to transfer $1.0 billion to the General Fund in FY 2014 for education and institutions, a decrease of $75 million from the amount anticipated in FY 2013. The decline is ascribable to the nonrecurrence of a one-time $120 million payment the State anticipates receiving in FY 2013 from the winner of the outsourcing contract, offset in part by FY 2014 growth in net revenues from the sale of lottery tickets. Page H-3 of the Governor's FY 2014 Budget lists the programs that Lottery proceeds would partially fund.

- As in past years, the Governor's FY 2014 Budget includes broad language that would permit the appropriation of additional resources for the **Division of Taxation** and the **Division of Revenue** without further legislative action.

- According to the Division of Taxation, beginning in Tax Year 2011, the division implemented an **Earned Income Tax Credit (EITC) fraud screening process**. As a result, although 558,612 tax filers claimed EITC benefits totaling $249.4 million for Tax Year 2011, thus far only 452,562 have received credits (totaling $189.7 million), while 7,238 tax filers (claiming $6.2 million) have been denied an EITC, and another 98,812 tax filers (claiming $53.5 million) still have claims pending for Tax Year 2011 as of February 2013. According to the division, the number pending are those tax filers who were sent a notice requesting additional information but have not yet responded, or have responded and are under review; however, the division anticipates that a "very low" number of claims will convert from "pending" to "paid."

- The Administration recommends not renewing in FY 2014 the $2.0 million appropriation the **New Jersey Public Broadcasting Authority** received in FY 2013. However, the Governor's FY 2014 Budget continues a language provision that would allow for supplemental appropriations of unspecified amounts to the authority without additional legislative approval. The Administration invoked this language provision in the course of FY 2012 and FY 2013 to appropriate $2.0 million annually to the authority.

- Through proposed language, the Governor's FY 2014 Budget grants up to $750,000 in supplemental spending authority to defray any costs of defending State interests against tobacco manufacturers challenging the payments they have to make to the State under the multi-state **Tobacco Master Settlement Agreement (MSA)**. Under the so-called "2003 NPM Adjustment Dispute" cigarette manufacturers participating in the MSA have

Highlights (Cont'd)

sought to reduce their payment obligations for years 2003 through 2012 to all participating states by alleging that states are not diligently enforcing their statutes stopping Non-Participating Manufacturers (NPM) from undercutting participating manufacturers on prices. Although New Jersey is among 17 states that signed the settlement of the long-running dispute that was finalized on March 12, 2013, additional litigation may be possible as some non-signatory MSA states have reportedly stated that they would seek to block the settlement's implementation in court. Under the terms of the settlement, the manufacturers would release to the 17 signatory states the over $4.0 billion in MSA payments that the manufacturers had placed in escrow accounts from 2003 through 2012 pending the resolution of the litigation. In return, the manufacturers would receive credits against their future MSA payment liabilities in an amount equal to the escrow balances to be released to the signatory states and an adjustment to the MSA payment calculation formula for future years. The settlement's financial impact on New Jersey is unclear.

DEBT SERVICE

- The Governor's FY 2014 Budget includes $2.80 billion in on-budget payments to service general obligation and appropriation-backed bonds. Based on the FY 2012 State of New Jersey Debt Report, the OLS estimates that an additional $207.5 million in off-budget debt service payments bring total recommended FY 2014 State **debt service payments on bonded indebtedness** to approximately $3.00 billion. In all, the State had $34.03 billion in outstanding bonded indebtedness at the end of FY 2012 and $9.46 billion in legislatively authorized but unissued bonding authority.

- The Administration recommends a $343.9 million FY 2014 appropriation for the payment of **general obligation bond debt service**, of which $322.4 million would be funded in the Department of the Treasury budget and $21.5 million in the Department of Environmental Protection budget. The recommended FY 2014 appropriation reflects a $68.1 million, or 16.5 percent, decrease over FY 2013. The primary reason for the decline is that the State amortizes general obligation indebtedness at a faster pace than it creates new obligations. But two accounting actions external to the payment of debt service also affect the size of the decrease.

- The Background Paper entitled "Budgetary Impact of the State's Bonded Debt" that commences on page 141 of this booklet provides additional information on the State's bonded indebtedness.

OFFICE OF INFORMATION TECHNOLOGY

- The State Treasurer and the Chief Information Officer of the Office of Information Technology (OIT) previously testified before the Senate Budget and Appropriations Committee that the OIT would embark on a **multiyear initiative to rebuild the State's core information technology infrastructure and begin to build the capability of developing new systems in-house**.

Highlights (Cont'd)

- The Governor's FY 2014 Budget proposes to continue a language provision on page F-5 requiring that the OIT approve all departmental purchase requests for information technology and telecommunications equipment, maintenance, and consultant services. In its review, the OIT is to ascertain that purchase requests comply with statewide policies and standards as well as the department's approved Information Technology Strategic Plan. One of these policies is a **partial moratorium on the procurement of information technology equipment, maintenance, and consultant services** that has been in place since December 2006.

- The Administration recommends increasing the FY 2014 appropriation to the OIT's **Additions, Improvements and Equipment account** by $4.7 million, or 309.9 percent. The increase is to cover contractual line of credit debt service obligations that stem from earlier financed purchases of data storage, network equipment, and emergency power enhancements, such as uninterruptible power supply and switch gear. In addition, the Administration proposes raising the FY 2014 appropriation to the OIT's **Services Other Than Personal account**, which pays for services provided by outside vendors, by $3.4 million, or 21.1 percent. The Office of Management and Budget relates that the increase would be necessary for the contractual maintenance of unspecified new and existing hardware and software assets.

ECONOMIC DEVELOPMENT AUTHORITY

- The Administration recommends $10.1 million as the FY 2014 appropriation for the payment of State **Economic Redevelopment and Growth (ERG) grants**, some $6.5 million, or 179.9 percent, more than the FY 2013 adjusted appropriation. The increased FY 2014 funding request is indicative of the Administration's expectation that additional redevelopment projects subject to State ERG grant agreements will be completed in FY 2014 and thus become eligible to receive their initial grant payments. In addition to the recommended $10.1 million appropriation, and in order to meet contractual payment obligations when they fall due, the Administration also proposes the continuation of contingency language that would allow for supplemental appropriations of unspecified amounts to the program in the course of the fiscal year and without additional legislative approval.

- The Administration proposes an unchanged FY 2014 appropriation of $175.0 million for the payment of grants under the **Business Employment Incentive Program (BEIP)**. During the Economic Development Authority's (EDA) budget hearing before the Senate Budget and Appropriations Committee on April 9, 2013, the EDA's Chief Executive Officer commented that the backlog in outstanding BEIP grant payment obligations approximated $500.0 million.

- According to information provided by the EDA, roughly $196.0 million of cap space remains available under the $1.75 billion **Urban Transit Hub Tax Credit program** as of March 1, 2013, prompting the EDA to turn away applicants under the residential subcomponent of the program. Moreover, the EDA conveyed that the **Grow New Jersey Assistance Program**, whose issuance of financial assistance is also counted

Highlights (Cont'd)

against the $1.75 billion Urban Transit Hub Tax Credit program cap, does not have sufficient resources available to operate through the program's statutory July 1, 2014 application deadline.

BOARD OF PUBLIC UTILITIES

- The Governor's FY 2014 Budget recommends **diverting $196.2 million in Clean Energy Fund balances into the State General Fund** in FY 2014. The total subsumes $44.5 million in Solar Alternative Compliance Payments (SACPs) that electric power suppliers and providers made to the Board of Public Utilities (BPU) from FY 2006 through FY 2010. Some $152.2 million of the total would be redirected without an assigned spending purpose. In addition, $42.5 million would be used to defray the cost of utilities in State facilities and $1.5 million to pay the administrative expenses related to State-funded positions of the BPU's Office of Clean Energy. The $1.5 million, however, does not capture the administrative expenses of the three contractors that operate the program on the BPU's behalf. In all, if the recommended FY 2014 resource diversion was to be executed, some $849.2 million would have been transferred from the Clean Energy Fund into the State General Fund from FY 2008 through FY 2014.

- The BPU is looking to **restructure the Clean Energy Program**, which is the umbrella for the State's various energy efficiency and renewable energy programs. In June 2012, the State issued a Request for Proposal for a single program manager to replace the existing three administrators. According to the BPU, once chosen, the new program manager would submit a plan for the consolidation and elimination of existing programs as well as the development of alternative financing options. The BPU's long-term goal was to reduce the reliance of the Clean Energy Program on the societal benefits charge as the program's funding mechanism and to inaugurate revolving loan funds as alternative funding vehicles. The BPU will have to adopt a new four-year program budget by June 30, 2013.

Background Papers:

Resource Diversions from Energy-Related Dedicated Funds .... p. 136
The Budgetary Impact of the State's Bonded Debt .... p. 141

Highlights (Cont'd)

Table 1
Department of the Treasury
State Aid to Local Governmental Entities
FY 2012 – FY 2014
($000)

STATE AID	Expended FY 2012	Adj. App. FY 2013	Recom. FY 2014
Energy Tax Receipts*	$1,049,649	$1,086,393	$1,108,124
Police & Firemen's Retirement System State Contribution	23,842	48,664	73,181
Veterans' Property Tax Deductions	62,978	61,000	59,200
Police & Firemen's Retirement System – Post Retirement Medical	36,575	38,464	43,992
South Jersey Port Corporation Support	25,397	24,074	20,372
Debt Service – Pension Obligation Bonds	14,118	15,346	16,563
Senior and Disabled Citizens' Property Tax Deductions	16,860	16,000	14,800
Other Distributed Taxes	3,980	5,220	5,220
Highlands Protection Fund Aid	4,770	4,400	4,400
Public Library Project Fund	3,725	3,765	3,764
County Boards of Taxation	1,811	1,903	1,903
Consolidated Police & Firemen's Pension Fund State Contribution	174	897	864
Total State Aid	$1,243,879	$1,306,126	$1,352,383

* Energy Tax Receipts totals include annual transfers of varying amounts to the Energy Tax Receipts Property Tax Relief Fund from the Consolidated Municipal Property Tax Relief Aid account (please see pages 29 and 30 of this analysis for an explanation of the transfer).

Fiscal and Personnel Summary

AGENCY FUNDING BY SOURCE OF FUNDS ($000)

	Expended FY 2012	Adj. Approp. FY 2013	Recom. FY 2014	Percent Change 2012-14	Percent Change 2013-14
General Fund					
Direct State Services	$469,869	$445,338	$448,313	(4.6%)	0.7%
Grants-In-Aid	284,307	330,911	334,873	17.8%	1.2%
State Aid	203,118	240,684	264,413	30.2%	9.9%
Capital Construction	2,089	0	0	(100.0%)	0.0%
Debt Service	271,330	392,621	322,374	18.8%	(17.9%)
Sub-Total	**$1,230,713**	**$1,409,554**	**$1,369,973**	**11.3%**	**(2.8%)**
Property Tax Relief Fund					
Direct State Services	$0	$0	$0	0.0%	0.0%
Grants-In-Aid	620,340	622,200	614,700	(0.9%)	(1.2%)
State Aid	183,114	168,169	170,154	(7.1%)	1.2%
Sub-Total	**$803,454**	**$790,369**	**$784,854**	**(2.3%)**	**(0.7%)**
Casino Revenue Fund	$0	$0	$0	0.0%	0.0%
Casino Control Fund	$7,595	$8,590	$8,590	13.1%	0.0%
State Total	**$2,041,762**	**$2,208,513**	**$2,163,417**	**6.0%**	**(2.0%)**
Federal Funds	$56,491	$11,266	$11,266	(80.1%)	0.0%
Other Funds	$1,409,744	$1,249,063	$1,244,963	(11.7%)	(0.3%)
Grand Total	**$3,507,997**	**$3,468,842**	**$3,419,646**	**(2.5%)**	**(1.4%)**

PERSONNEL SUMMARY - POSITIONS BY FUNDING SOURCE

	Actual FY 2012	Revised FY 2013	Funded FY 2014	Percent Change 2012-14	Percent Change 2013-14
State	3,797	3,864	3,861	1.7%	(0.1%)
Federal	29	41	48	65.5%	17.1%
All Other	1,771	1,733	1,760	(0.6%)	1.6%
Total Positions	**5,597**	**5,638**	**5,669**	**1.3%**	**0.5%**

FY 2012 (as of December) and revised FY 2013 (as of January) personnel data reflect actual payroll counts. FY 2014 data reflect the number of positions funded.

AFFIRMATIVE ACTION DATA

Total Minority Percent	27.8%	28.9%	29.9%

Significant Changes/New Programs ($000)

Budget Item	Adj. Approp. FY 2013	Recomm. FY 2014	Dollar Change	Percent Change	Budget Page

ECONOMIC PLANNING AND DEVELOPMENT

NEW JERSEY ECONOMIC DEVELOPMENT AUTHORITY

General Fund, Grants-in-Aid: Economic Redevelopment and Growth Grants, EDA	**$3,600**	**$10,075**	**$6,475**	**179.9%**	**D-380**

This account provides for the payment of State Economic Redevelopment and Growth (ERG) grants. The Administration's increased FY 2014 funding request is indicative of its expectation that additional redevelopment projects subject to State ERG grant agreements will be completed in FY 2014 and thus become eligible to receive their initial grant payments. In addition to the recommended $10.1 million appropriation, and in order to meet contractual payment obligations when they fall due, the Administration also proposes the continuation of contingency language that would allow for supplemental appropriations of unspecified amounts to the program in the course of the fiscal year and without additional legislative approval (page D-381).

P.L.2009, c.90 created the ERG grant program as a tax-increment financing mechanism composed of a State and a municipal component (N.J.S.A.52:27D-489a et seq.). The law authorizes, but does not require, the awarding of State ERG grants to developers of redevelopment projects that will yield net fiscal benefits to the State and that would not occur absent the financial assistance. State ERG grants are available for eligible redevelopment projects in: a) an area designated for development within the Meadowlands and Pinelands; b) Fort Monmouth; and c) areas designated as Planning Area 1 (Metropolitan), Planning Area 2 (Suburban), or as an urban, regional or town designated center under the State Development and Redevelopment Plan. Grant payments may equal up to 75 percent of the annual incremental State tax revenue attributable to a project and may be authorized for up to 20 years. But the combined amount of State and municipal ERG grant payments may not exceed 20 percent of a project's total cost. Disbursements begin after a project's completion. Since inception in 2009 through February 26, 2013, the New Jersey Economic Development Authority (EDA) approved $454.1 million in State ERG grants to 20 redevelopment projects that are expected to bring $2.4 billion in capital investments and 10,975 new jobs to New Jersey. Of the 20 projects, seven have been completed through February 26, 2013. All approved ERG grants are listed at http://www.njeda.com/web/pdf/ERG_Activity.pdf.

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

Budget Item	Adj. Approp. FY 2013	Recomm. FY 2014	Dollar Change	Percent Change	Budget Page
General Fund, Grants-in-Aid: Brownfield Site Reimbursement Fund	**$21,450**	**$18,200**	**($3,250)**	**(15.2%)**	**D-380**

The Administration requests an $18.2 million appropriation in FY 2014 for payments to developers of brownfield sites under the Brownfields and Contaminated Site Remediation Program. An anticipated decline in the number of redevelopment projects receiving payments accounts for the recommended $3.3 million decrease in the program's funding level in FY 2014. In the current fiscal year, some 39 projects are anticipated to receive payments. In FY 2014, some 28 projects are expected to do so. As a contingency, the Administration also proposes the continuation of budget language in FY 2014 that authorizes the Office of Management and Budget (OMB) to appropriate, in the course of the fiscal year and without additional legislative approval, additional amounts to the program if necessary to meet additional unanticipated contractual payment obligations (page D-380). Supplemental appropriations may be allocated out of the General Fund or from the constitutional dedication of four percent of annual corporation business tax collections for environmental purposes that supports the remediation of the discharges of hazardous substances. The OMB, however, does not expect that any amount of the constitutionally dedicated revenue will support the program in either FY 2013 or FY 2014.

A tax-increment financing instrument, the Brownfields and Contaminated Site Remediation Program was established by P.L.1997, c.278 to reimburse developers for up to 75 percent of the costs they incur in remediating abandoned or underused, contaminated, commercial and industrial properties (N.J.S.A.58:10B-26 et seq.). Payments for a project are capped at the amount of incremental State tax revenues the redeveloped project generates. Although the law created the Brownfield Site Reimbursement Fund as the account in which State tax revenue produced by redeveloped sites is deposited and then disbursed to developers, in actuality, the program account obtains its resources from General Fund appropriations as of FY 2012. Previously, amounts received from the constitutional dedication to environmental programs of four percent of annual corporation business tax collections had sustained the program account. In addressing EDA Discussion Point #7 in the OLS FY 2012-2013 Department of the Treasury Budget Analysis, the EDA noted that the State's aggregated program liability under memoranda of agreement with developers approximated $350 million over a 20-year repayment term, depending on the specific revenues to be generated by each project.

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

Budget Item	Adj. Approp. FY 2013	Recomm. FY 2014	Dollar Change	Percent Change	Budget Page

FINANCIAL ADMINISTRATION

NEW JERSEY STATE LOTTERY

General Fund, Direct State Services: Administration of State Lottery	**$23,072**	**$21,174**	**($1,898)**	**(8.2%)**	**D-392**

The Administration requests a $1.9 million reduction in the FY 2014 appropriation to the New Jersey State Lottery attributable to the anticipated outsourcing of the Lottery's sales and marketing operations in FY 2014. The entire decrease would occur in the Lottery's Salaries and Wages account, which would contract by 19.5 percent from $9.7 million in FY 2013 to $7.8 million in FY 2014. Concomitantly, the Lottery's staffing level would decline by 54 positions from 135 as of January 2013 to 81 in FY 2014.

On August 10, 2012, the Division of Purchase and Property issued Request for Proposal 13-X-22694 for "Lottery Growth Management Services" to solicit bids for the outsourcing of the Lottery's sales and marketing operations. According to the document, the privatization initiative is intended to maximize Lottery proceeds for the support of State institutions and State Aid for education. The Division of Lottery would supervise the vendor who may also establish an Internet sales channel for Lottery products. The vendor would run the Lottery's sales and marketing operations for 15 fiscal years plus a nine-month transition period plus the period subsequent to the end of the transition period through the next following June 30. The envisioned compensation model would reflect the pay-for-performance principle and shift a portion of the Lottery performance risk to the vendor. On April 12, 2013, the Department of Treasury announced that it had awarded the contract to Northstar New Jersey, the single bidder. Northstar is a tripartite consortium consisting of GTECH Corp., Scientific Games International Inc., and a subsidiary of the Ontario Municipal Employees Retirement System.

The Governor's FY 2014 Budget projects net lottery sales of $2.9 billion to be generated by 6,700 agents and 2,139 drawings. In FY 2014, the State Lottery is expected to transfer $1.0 billion to the General Fund for the support of State institutions and State Aid to education, a decrease of $75 million from the amount anticipated in the current fiscal year. The decline is ascribable to the nonrecurrence of a one-time $120 million payment the State anticipates receiving in FY 2013 from the winner of the outsourcing contract, offset in part by FY 2014 growth in net revenues from the sale of lottery tickets.

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

Budget Item	Adj. Approp. FY 2013	Recomm. FY 2014	Dollar Change	Percent Change	Budget Page
DIVISION OF REVENUE AND ENTERPRISE SERVICES					
General Fund, Direct State Services: Salaries and Wages	**$12,482**	**$10,482**	**($2,000)**	**(16.0%)**	
Services Other Than Personal	**$4,046**	**$6,046**	**$2,000**	**49.4%**	
Other Direct State Services Accounts	**$2,049**	**$2,049**	**0**	**—**	
TOTAL: Administration of State Revenues	**$18,577**	**$18,577**	**$0**	**—**	**D-392**

The Administration recommends continuation funding of $18.6 million to the Division of Revenue and Enterprise Services in FY 2014. But the Governor's FY 2014 Budget proposes reallocating $2.0 million from the Salaries and Wages account to the Services Other Than Personal account, which pays for services provided by outside vendors. Upon inquiry, the Office of Management and Budget indicated that increased staffing efficiencies produced excess funding in the salary account and that a similar $2 million transfer had occurred in FY 2012.

For both accounts the table below lists actual expenditures for FY 2010, FY 2011, and FY 2012, the FY 2013 budget authority displayed in the State's accounting system as of March 25, 2013, and the Administration's recommended FY 2014 appropriation. In sum, the recommended FY 2014 appropriation to the two accounts combined is roughly $3.0 million to $4.0 million less than actual expenditures in recent years and FY 2013 budget authority. By way of clarification, the table's FY 2013 budget authority of $20.7 million for the two accounts only exceeds the $18.6 million FY 2013 adjusted appropriation for all division accounts in the Governor's FY 2014 Budget because of a mid-year transfer of funds to the division that the FY 2013 adjusted appropriation does not include.

Expenditures from Salaries and Wages Account and Services Other Than Personal Account of Division of Revenue and Enterprise Services, FY 2010 to FY 2014

Account	FY 2010	FY 2011	FY 2012	FY 2013 Budget Authority	FY 2014 Recommended
Salaries and Wages	$14,580,000	$15,908,000	$13,612,000	$12,371,000	$10,482,000
Services Other Than Personal	$5,910,000	$3,720,000	$6,200,000	$8,371,000	$6,046,000
TOTAL	**$20,490,000**	**$19,628,000**	**$19,812,000**	**$20,742,000**	**$16,528,000**

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

Budget Item	Adj. Approp. FY 2013	Recomm. FY 2014	Dollar Change	Percent Change	Budget Page
DIVISION OF TAXATION					
All Other Funds:					
Taxation Services and Administration	**$176,547**	**$171,124**	**($5,423)**	**(3.1%)**	**D-393**

This budget line aggregates several off-budget funds administered by the Division of Taxation and reflects the funds' administrative expenses and transfers to other State agencies. In FY 2014, four components account for $171.0 million of the appropriation: (1) $137.3 million in anticipated collections from that part of the cigarette tax whose proceeds are deposited in the Dedicated Cigarette Tax Revenue Fund and pledged for the payment of debt service on the Cigarette Tax Revenue Refunding Bonds, Series 2012, as authorized in P.L.2004, c.68; (2) $21.0 million transferred from the New Jersey Domestic Security Account—which contains the proceeds from the first $2 of the $5 per day vehicle rental surcharge pursuant to section 54 of P.L.2002, c.34 (C.App.A:9-78), as amended by P.L.2006, c.42—to the Departments of Agriculture, Health, and Law and Public Safety for the Agro-Terrorism Program, Medical Emergency Disaster Preparedness for Bioterrorism program, State Police salaries related to Statewide security services, and counter-terrorism programs operated by the Office of Homeland Security and Preparedness; (3) $6.9 million for the administration of the Unclaimed Personal Property Trust Fund, which holds all funds from unclaimed property presumed abandoned pursuant to N.J.S.A.46:30B-74; and (4) $5.8 million for the cost of Division of Taxation Compliance and Enforcement Activities.

The FY 2014 decrease in this budget line is attributable to the Administration's anticipated reduction in cigarette tax collections required to be deposited in the Dedicated Cigarette Tax Revenue Fund, as cigarette sales are projected to continue their long-term decline. Specifically, Dedicated Cigarette Tax Revenue Fund deposits are to fall by $5.4 million, or 3.8 percent, from $142.7 million in FY 2013 to $137.3 million in FY 2014. But only $92.0 million of the anticipated revenue will be needed to pay scheduled Cigarette Tax Revenue Refunding Bonds, Series 2012, debt service in FY 2014, or $3.5 million more than the $88.5 million required FY 2013 payment. The difference between the amount deposited in the Dedicated Cigarette Tax Revenue Fund and the required debt service payment, which the Administration pegs at $45.3 million in FY 2014, will be appropriated to the General Fund in accordance with General Provision 67. on page F-8 of the Governor's FY 2014 Budget. The Administration includes the excess $45.3 million in its anticipated FY 2014 on-budget cigarette tax collections of $237.0 million on page C-3 of the Governor's FY 2014 Budget.

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

Budget Item	Adj. Approp. FY 2013	Recomm. FY 2014	Dollar Change	Percent Change	Budget Page

GENERAL GOVERNMENT SERVICES

PUBLIC BROADCASTING SERVICES

Budget Item	Adj. Approp. FY 2013	Recomm. FY 2014	Dollar Change	Percent Change	Budget Page
General Fund, Direct State Services: Public Broadcasting Services	**$1,975**	**$0**	**($1,975)**	**(100.0%)**	**D-397**

The Administration recommends not continuing in FY 2014 the $2.0 million appropriation the New Jersey Public Broadcasting Authority received in FY 2013. However, the Governor's FY 2014 Budget continues a language provision on page F-9 that allows for supplemental midyear appropriations of unspecified amounts to the authority without additional legislative approval. The Administration invoked this language provision in the course of FY 2012 and FY 2013 to appropriate $2.0 million in each fiscal year to the authority.

Established pursuant to P.L.1968, c.405, the New Jersey Public Broadcasting Authority owned and operated New Jersey Network Public Television and Radio (NJN), which broadcast New Jersey public affairs and cultural programming. Effective as of July 1, 2011 and in accordance with P.L.2010, c.104, however, the State ceased to operate NJN. It divested NJN's radio assets and operating licenses for nine radio stations to two non-profit organizations. It also transferred the management of NJN's four-station television network to another non-profit organization, while holding on to its television operating licenses. The divestiture reduced the role of the authority to maintaining, and if necessary operating, the television stations and other broadcast equipment in accordance with Federal Communications Commission licensing standards. To that end, the authority continues to maintain a management and engineering staff.

DIVISION OF PROPERTY MANAGEMENT AND CONSTRUCTION

Budget Item	Adj. Approp. FY 2013	Recomm. FY 2014	Dollar Change	Percent Change	Budget Page
General Fund, Direct State Services: Property Management and Construction – Property Management Services	**$19,489**	**$19,072**	**($417)**	**(2.1%)**	**D-397**

This budget line pays for property management services the Division of Property Management and Construction provides to State government. The recommended $417,000 reduction to this budget line in FY 2014 reflects a reallocation of the expenses the division incurs for the maintenance of the State Police Headquarters complex on the West Trenton campus from the division's Maintenance and Fixed Charges account to the Household and Security account

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

Budget Item	Adj. Approp. FY 2013	Recomm. FY 2014	Dollar Change	Percent Change	Budget Page

under Utilities and Other Services in Interdepartmental Accounts (page D-431 of the Governor's FY 2014 Budget).

The division manages the real estate needs of State government. In so doing, it purchases, sells, and leases office, warehouse, and other space for all State government entities, with certain exceptions. The division also provides full maintenance services for State-owned buildings in the Trenton area and manages building construction and renovation projects. It receives an on-budget appropriation to defray the costs of its building management services. In contrast, client agencies pay for the division's construction management services through reimbursements to an off-budget revolving fund (page G-8 of the Governor's FY 2014 Budget).

Budget Item	Adj. Approp. FY 2013	Recomm. FY 2014	Dollar Change	Percent Change	Budget Page
Revolving Fund, Property Management and Construction – Construction Management Services: Salaries and Wages	**$2,850**	**$3,526**	**$676**	**23.7%**	**G-8**
Services Other Than Personal	**$1,175**	**$497**	**($678)**	**(57.7%)**	**G-8**
Other Direct State Services Accounts	**$140**	**$142**	**$2**	**1.4%**	**G-8**
TOTAL	**$4,165**	**$4,165**	**$0**	**—**	

The Administration recommends maintaining in FY 2014 the total $4.2 million appropriation to the Division of Property Management and Construction's off-budget Construction Management Services revolving fund. But the Governor's FY 2014 Budget proposes increasing by $676,000 the appropriation for the Salaries and Wages account and decreasing by $678,000 the amount appropriated to the Services Other Than Personal account, which pays for services provided by outside vendors. The Office of Management and Budget indicated to the OLS that the reallocation of resources would cover salary reimbursements to the division for unspecified construction management services that were previously budgeted in the Services Other Than Personal account.

The off-budget Construction Management Services revolving fund finances the division's building construction, renovation, and rehabilitation management services. The division bills client agencies for the services it provides to them and the client agencies pay reimbursements that are deposited in the revolving fund. The fund is expected to support 30 employees in FY 2014, one fewer than in FY 2013.

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

Budget Item	Adj. Approp. FY 2013	Recomm. FY 2014	Dollar Change	Percent Change	Budget Page
OFFICE OF INFORMATION TECHNOLOGY					
General Fund, Direct State Services: Special Purpose: Office of Information Technology	$64,078	$64,896	$818	1.3%	D-404

This budget line represents transfers of federal and dedicated funds from State agencies to the Office of Information Technology (OIT) for billable services performed by the OIT. According to the Office of Management and Budget, the requested $818,000 increase over the adjusted FY 2013 amount is mostly attributable to growing expenses for contractual maintenance services for new and existing software and hardware.

The OIT provides information technology services to State agencies and has a recommended FY 2014 budget of $131.4 million for 711 funded positions. Excluding the proposed $13.3 million for the Office of Emergency Telecommunication Services (Statewide 911 System), OIT's recommended FY 2014 appropriation is $118.1 million. Of this amount, General Fund appropriations account for $66.5 million, or 50.6 percent, and transfers of federal and dedicated funds from State agencies for billable OIT services for $64.9 million, or 49.4 percent.

Budget Item	Adj. Approp. FY 2013	Recomm. FY 2014	Dollar Change	Percent Change	Budget Page
General Fund, Direct State Services: Services Other Than Personal	$15,895	$19,255	$3,360	21.1%	D-404

The Administration recommends increasing the FY 2014 appropriation to OIT's Services Other Than Personal account, which pays for services provided by outside vendors, by $3.4 million, or 21.1 percent. The Office of Management and Budget relates that the additional resources would be necessary for the contractual maintenance of unspecified new and existing hardware and software assets.

The OLS notes that in the Governor's FY 2012 Budget the Administration recommended the expenditure of $4.0 million for: a) the procurement of new equipment and software that would help improve the State's information and data security under an "Information Security" initiative; and b) the first phase of a multi-year "IT Modernization" initiative that would replace the State's legacy administrative information technology systems, including those in the areas of pensions, payroll, accounting, purchasing, and personnel. The Legislature did not fund the initiatives in the FY 2012 Appropriations Act. It is unclear if the proposed FY 2014 appropriation relates to the previously planned "Information Security" and "IT Modernization" initiatives.

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

Budget Item	Adj. Approp. FY 2013	Recomm. FY 2014	Dollar Change	Percent Change	Budget Page
General Fund, Direct State Services: Additions, Improvements and Equipment	**$1,500**	**$6,148**	**$4,648**	**309.9%**	**D-404**

The Administration proposes a $6.1 million appropriation to cover contractual line of credit debt service obligations that stem from earlier financed purchases of data storage, network equipment, and emergency power enhancements, such as uninterruptible power supply and switch gear. The recommended increase reflects the annualization of the debt service cost incurred in making the previously approved transactions. In general, line of credit financing is available to State agencies to pay for their short-term (three years) equipment needs, such as computers, furniture, and vehicles purchases.

The OLS notes that in FY 2012 the Administration first recommended an appropriation that was intended to cover the first semi-annual line of credit debt service payment for a $10.5 million investment in upgrades to the State's information technology infrastructure. The Legislature did not fund the initiative in the FY 2012 Appropriations Act. It is not clear if the proposed FY 2014 appropriation relates to the previously planned $10.5 million investment.

STATE SUBSIDIES AND FINANCIAL AID

Budget Item	Adj. Approp. FY 2013	Recomm. FY 2014	Dollar Change	Percent Change	Budget Page
Property Tax Relief Fund, Grants-in-Aid: Homestead Benefit Program (PTRF)	**$398,500**	**$400,500**	**$2,000**	**0.5%**	**D-407**

The Administration intends to shift to FY 2014 the budgeted FY 2013 disbursements for property taxes paid in calendar year 2011 under the New Jersey Homestead Property Tax Credit program (N.J.S.A.54:4-8.57 et seq.), renamed the Homestead Benefit Program. In public statements Administration officials have indicated that Homestead Benefit payments would be processed in August 2013. Budget language proposed to be renewed in FY 2014, however, grants the Administration discretion regarding the selection of a specific payment date. The Executive requests no additional resources for an FY 2014 disbursement of Homestead Benefits for property taxes paid in calendar year 2012, as the program's statutory provisions would otherwise prescribe.

Mechanically, the payment shift does not mean that the program's budgeted unexpended FY 2013 balances would be carried forward into FY 2014. Instead, the Administration has placed $392.1 million of the $398.5 million adjusted FY 2013 program appropriation in reserve in anticipation of a year-end lapse into the General Fund, leaving $6.4 million in FY 2013 budget authority to pay for administrative expenses and the cost of providing refundable property tax

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

Budget Item	Adj. Approp. FY 2013	Recomm. FY 2014	Dollar Change	Percent Change	Budget Page

credits of $50 to senior and disabled tenants who do not file income tax returns. The recommended $400.5 million FY 2014 program allocation thus reflects entirely new spending authority that the Legislature has to appropriate.

Overall, the Executive estimates that 837,100 homeowners would collect an average $471 benefit in FY 2014, after collecting an average $468 benefit in FY 2012 and no payment in FY 2013. Table 2 on page 20 indicates the benefit amounts individuals would receive under statutory provisions, the amounts they actually received in FY 2013, and the amounts they would receive in FY 2014, according to proposed language in the Governor's FY 2014 Budget. The following paragraphs elaborate on the details.

Statutory Program: Under the program's statutory structure, which is superseded by the budget language, a homeowner's credit amount is based on the homeowner's gross income and the homeowner's property taxes paid in the last calendar year up to $10,000. Credits equal 20 percent of allowable property taxes paid up to $10,000 for incomes up to $100,000, 15 percent of allowable property taxes paid up to $10,000 for incomes over $100,000 up to $150,000, and 10 percent of allowable property taxes paid up to $10,000 for incomes over $150,000 up to $250,000. A homeowner who is disabled, blind or 65 years of age or older receives the higher of the payment to which the homeowner is entitled under the above schedule or an amount equal to the amount by which property taxes paid in a tax year exceed five percent of the claimant's gross income subject to the following ranges: if the gross income is not over $70,000 the claimant receives a $1,000 to $1,200 benefit, if the gross income over $70,000 but not over $125,000 the claimant receives a $600 to $800 benefit, and if the gross income is over $125,000 but not over $200,000 the claimant receives a $500 benefit. Statutory tenant rebates in FY 2014 are $150 for all tenants with incomes up to $100,000, with tenants who are blind, disabled or 65 years of age or older with incomes not exceeding $70,000 receiving up to $850.

Governor's FY 2014 Budget as it Pertains to Senior Homeowners: The proposed FY 2014 language maintains the parameters of the budgeted FY 2013 program for homeowners who are blind, disabled or 65 years of age or older. Specifically, the Governor recommends: a) eliminating homestead benefits for homeowners with incomes above $150,000; b) granting homestead benefits of 5.0 percent of property taxes paid up to $10,000 for homeowners with incomes between $100,000 and $150,000 (in lieu of the statutory 15.0 percent); c) allowing homestead benefits of 10.0 percent of property taxes paid up to $10,000 for homeowners with incomes not exceeding $100,000 (instead of the statutory 20.0 percent); d) eliminating the alternative benefit computation under which claimants receive the higher of the payment to which they are entitled under the above schedule or an amount equal to the amount by which property taxes paid in a tax year exceed 5.0 percent of the claimant's gross income subject to the ranges indicated in the above paragraph; and e) maintaining 2006 property taxes, as opposed to tax year 2012 property taxes, as the basis for calculating homestead benefits.

Governor's FY 2014 Budget as it Pertains to Non-Senior Homeowners: The proposed FY 2014 language maintains the parameters of the budgeted FY 2013 program for all other homeowners. Specifically, the Governor recommends: a) eliminating homestead benefits for homeowners with incomes above $75,000; b) granting homestead benefits of 6.67 percent of property taxes

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

Budget Item	Adj. Approp. FY 2013	Recomm. FY 2014	Dollar Change	Percent Change	Budget Page

paid up to $10,000 for homeowners with incomes between $50,000 and $75,000 (in lieu of the statutory 20.0 percent); c) allowing homestead benefits of 10.0 percent of property taxes paid up to $10,000 for homeowners with incomes not exceeding $50,000 (instead of the statutory 20.0 percent); and d) maintaining 2006 property taxes, as opposed to tax year 2012 property taxes, as the basis for calculating homestead benefits.

Governor's FY 2014 Budget as it Pertains to Tenants: As in FY 2013, the Governor proposes eliminating the homestead property tax rebate program for tenants in FY 2014. Statutory FY 2014 tenant rebates would be $150 for all tenants with incomes up to $100,000, with tenants who are blind, disabled or 65 years of age or older with incomes not exceeding $70,000 receiving up to $850.

Property Tax Relief Fund, Grants-in-Aid: Senior and Disabled Citizens' Property Tax Freeze (PTRF)	**$223,700**	**$214,200**	**($9,500)**	**(4.2%)**	**D-407**

For FY 2014, the Governor recommends maintaining the FY 2013 parameters of the Senior and Disabled Citizens' Property Tax Freeze program, or Homestead Property Tax Reimbursement program (N.J.S.A.54:4-8.67 et seq.). Specifically, the program would operate under its statutory provisions except that the income eligibility threshold would be $70,000 in lieu of the statutory $80,000. Overall, the Executive forecasts a $1,109 average FY 2014 payment to 193,200 participants. In FY 2013, some 189,900 participants received an average $1,165 payment. The anticipated lower average amount is mostly due to more recent cohorts of program participants with lower average benefits replacing long-time participants with larger average benefits.

Under the Governor's proposal, the Senior and Disabled Citizens' Property Tax Freeze program would reimburse qualified homeowners for the difference between the amount of property taxes paid on a principal residence in tax year 2012 and the amount paid in the base year. Qualified homeowners in FY 2014 would have to be at least 65 years of age or disabled or both. They would also have to have a tax year 2011 and 2012 income not exceeding $70,000 (as opposed to not exceeding $80,000 under statutory provisions), whether married or single. Moreover, they would have had to pay property taxes directly, or indirectly by means of rental payments, on any homestead or rental unit used as a principal residence in New Jersey for at least ten consecutive years, the last three of which must have been as owners of the homesteads for which they seek the reimbursement.

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

Budget Item	Adj. Approp. FY 2013	Recomm. FY 2014	Dollar Change	Percent Change	Budget Page

Table 2
Homestead Property Tax Credit/Homestead Benefit Amounts
Statutory, FY 2013 Actual, and FY 2014 Proposed

Homeowner or Tenant	Status	Gross Income	Rebate Amounts: Statutory	Rebate Amounts: FY 2013 Actual	Rebate Amounts: FY 2014 Proposed
Homeowner	Senior or Disabled	Not over $70,000	$1,000 - $2,000	$0	$0 - $1,000
		$70,001 to $100,000	$600 - $2,000	$0	$0 - $1,000
		$100,001 to $125,000	$600 - $1,500	$0	$0 - $500
		$125,000 to $150,000	$500 - $1,500	$0	$0 - $500
		$150,001 to $200,000	$500 - $1,000	$0	$0
		$200,001 to $250,000	$0 - $1,000	$0	$0
	Under Age 65 and not Disabled	Not over $50,000	$0 - $2,000	$0	$0 - $1,000
		$50,001 to $75,000	$0 - $2,000	$0	$0 - $667
		$75,001 to $100,000	$0 - $2,000	$0	$0
		$100,001 to $150,000	$0 - $1,500	$0	$0
		$150,001 to $250,000	$0 - $1,000	$0	$0
Tenant	Senior or Disabled, Married	Not over $70,000	$150 - $850	$0	$0
		$70,001 to $100,000	$150	$0	$0
	Senior or Disabled, Single	Not over $35,000	$150 - $850	$0	$0
		$35,001 to $100,000	$150	$0	$0
	Under Age 65 and not Disabled	Not over $50,000	$150	$0	$0
		$50,001 to $75,000	$150	$0	$0
		$75,001 to $100,000	$150	$0	$0

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

Budget Item	Adj. Approp. FY 2013	Recomm. FY 2014	Dollar Change	Percent Change	Budget Page
General Fund, State Aid: South Jersey Port Corporation Debt Service Reserve Fund	**$18,973**	**$15,271**	**($3,702)**	**(19.5%)**	**D-407**

Organized "in but not of" the Department of the Treasury, the South Jersey Port Corporation manages and operates the ports of Camden and Salem and is currently building a new marine terminal in Paulsboro. The Governor recommends a $20.4 million State appropriation to the corporation in FY 2014: a decrease of $3.7 million to $15.3 million to the South Jersey Port Corporation Debt Service Reserve Fund and an unchanged $5.1 million for payments in lieu of property taxes (PILOT) to counties and municipalities in which the corporation operates facilities. Moreover, the Governor also proposes retaining language in the FY 2014 Appropriations Act that would authorize the Office of Management and Budget to allocate additional amounts to the corporation for PILOT and debt service payments during the course of the fiscal year and without additional legislative approval.

The South Jersey Port Corporation pays the debt service it owes on its bond issuances out of its marine terminal revenues. If these revenues are insufficient to meet the annual payment obligations, resources in the South Jersey Port Corporation Debt Service Reserve Fund cover the remaining gap. The State has consistently had to replenish the reserve fund so as to ensure that the corporation can meet its obligations to bondholders.

The recommended $3.7 million decrease in the FY 2014 appropriation to the reserve fund is primarily a function of the corporation's lower debt service requirements following the October 2012 issuance of the Marine Terminal Revenue Refunding Bonds, Series 2012 R (AMT) and Series Q. The bonds refunded the corporation's Marine Terminal Revenue and Revenue Refunding Bonds, Series 2002 L (AMT) and Series 2002 K and in so doing lowered the corporation's required debt service obligation by $14.8 million through January 1, 2040. Of the savings, some $4.7 million will materialize in calendar year 2013 and $488,000 in calendar year 2014. In all, on January 1, 2013, the corporation had $534.0 million in outstanding debt service payments on all of its bonds through final maturity on January 1, 2040.

Budget Item	Adj. Approp. FY 2013	Recomm. FY 2014	Dollar Change	Percent Change	Budget Page
Property Tax Relief Fund, State Aid: Senior and Disabled Citizens' Property Tax Deductions (PTRF)	**$16,000**	**$14,800**	**($1,200)**	**(7.5%)**	**D-408**

The Governor proposes reducing the FY 2014 appropriation for the State reimbursement to municipalities for the cost of senior and disabled citizens' property tax deductions, as the Treasury anticipates the steady, long-term decline in the number of program participants to

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

Budget Item	Adj. Approp. FY 2013	Recomm. FY 2014	Dollar Change	Percent Change	Budget Page

continue. In FY 1999, 121,000 claimants received deductions. In FY 2013, some 59,634 senior and disabled citizens did, and the department expects the number to decrease further to 57,900 in FY 2014.

Article VIII, Section I, Paragraph 4 of the New Jersey Constitution provides a $250 property tax deduction to homeowners who are 65 years of age or older or disabled or both, if their annual income exclusive of Social Security benefits does not exceed $10,000. The State reimburses municipalities for 102 percent of the resultant revenue loss to cover their administrative expenses.

Budget Item	Adj. Approp. FY 2013	Recomm. FY 2014	Dollar Change	Percent Change	Budget Page
Property Tax Relief Fund, State Aid: Veterans' Property Tax Deductions (PTRF)	**$61,000**	**$59,200**	**($1,800)**	**(3.0%)**	**D-408**

The Governor proposes reducing the FY 2014 appropriation for the State reimbursement to municipalities for the cost of veterans' property tax deductions, as the Treasury anticipates the steady, long-term decline in the number of program participants to continue. In FY 1999, 344,000 claimants received deductions. In FY 2013, some 239,541 veterans did, and the department expects the number to decrease further to 232,100 in FY 2014.

Article VIII, Section I, Paragraph 3 of the New Jersey Constitution provides a $250 property tax deduction to veteran homeowners who were honorably discharged or released under honorable circumstances from active service in time of war or other emergency. The State reimburses municipalities for 102 percent of the resultant revenue loss to cover their administrative expenses.

Budget Item	Adj. Approp. FY 2013	Recomm. FY 2014	Dollar Change	Percent Change	Budget Page
Property Tax Relief Fund, State Aid: Debt Service on Pension Obligation Bonds (PTRF)	**$15,346**	**$16,563**	**$1,217**	**7.9%**	**D-408**

The recommended increase reflects changing contractual debt service payments for the *State Pension Funding Bonds* in FY 2014. The above budget line captures only that portion of total debt service payments that is allocated to the State as the employer contribution on behalf of local governmental entities for the Police and Firemen's Retirement System and the Consolidated Police and Firemen's Pension Fund.

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

Budget Item	Adj. Approp. FY 2013	Recomm. FY 2014	Dollar Change	Percent Change	Budget Page

In 1997, the New Jersey Economic Development Authority issued the $2.8 billion appropriations-backed *State Pension Funding Bonds, Series 1997A – 1997C* pursuant to P.L.1997, c.114, the "Pension Bond Financing Act of 1997" ($375 million of which were refinanced in 2003 as *State Pension Funding Variable Rate Refunding Bonds, Series 2003*). Their proceeds were intended to finance $2.8 billion of the State's $3.2 billion unfunded retirement systems liability in 1997. According to the Fiscal Year *2012 State of New Jersey Debt Report,* the State had $2.43 billion in outstanding debt service payments at the end of FY 2012 through the bonds' maturity in 2029. In FY 2014, the Governor recommends $316.7 million in total pension bond debt service payments, which represents an increase of $23.3 million, or 7.9 percent, over the $293.5 million FY 2013 appropriation. The outlay is allocated as follows: (1) $167.9 million in the Department of Education (page D-100), (2) $132.1 million in Interdepartmental Accounts (pages D-438 and D-439), and (3) $16.7 million in the Department of the Treasury (pages D-378 and D-408).

General Fund, State Aid: Police and Firemen's Retirement System	**$29,413**	**$42,594**	**$13,181**	**44.8%**	**D-408**
Police and Firemen's Retirement System (P.L.1979, c.109)	**$19,251**	**$30,587**	**$11,336**	**58.9%**	**D-408**
TOTAL	**$48,664**	**$73,181**	**$24,517**	**50.4%**	

In accordance with P.L.2010, c.1, the recommended FY 2014 appropriation to this account represents 3/7th of the actuarially determined full $170.8 million State pension contribution to the Police and Firemen's Retirement System (PFRS) for full-time county and municipal police officers and firefighters. The equivalent FY 2013 contribution was 2/7th of the full actuarially determined $170.3 million State payment.

The total proposed FY 2014 State PFRS contribution is $170.6 million allocated among three budget sections: (1) Direct State Services under Interdepartmental Accounts, $90.8 million (page D-437); (2) Grants-in-Aid for State colleges' and universities' campus police, also under Interdepartmental Accounts, $6.6 million (page D-438); and (3) State Aid on behalf of local governmental entities in the Department of the Treasury, $73.2 million (pages D-408). The actuarially determined full State pension contribution to the PFRS in FY 2014 equals $398.1 million. It was $393.6 million in FY 2013. The State would therefore defer the payment of the unfunded portion of the FY 2014 accrued liability, or $227.5 million, into the future.

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

Budget Item	Adj. Approp. FY 2013	Recomm. FY 2014	Dollar Change	Percent Change	Budget Page

PFRS provides pension coverage to all full-time county, municipal, and State police officers and firefighters (but not to State Police officers who are covered by the State Police Retirement System). Local employers and the State pay employer contributions. The Police and Firemen's Retirement System account pays for the State's basic pension contribution, whereas the Police and Firemen's Retirement System (P.L.1979, c.109) account covers, at 1.1 percent of covered salary, the State's liability for enhanced pension benefits consisting of a retirement allowance of 65 percent of final compensation for PFRS members who retire after 25 years of service. The system is projected to have 43,354 pensioners in FY 2014, as displayed in the evaluation data in the Governor's FY 2014 Budget (page D-436).

Property Tax Relief Fund, State Aid: Police and Firemen's Retirement System – Post Retirement Medical (PTRF)	**$38,464**	**$43,992**	**$5,528**	**14.4%**	**D-408**

The recommended FY 2014 amount would cover the State's obligation to pay 80 percent of the medical and prescription drug premiums for Police and Firemen's Retirement System (PFRS) members who retired on disability or with at least 25 years of creditable service (N.J.S.A.52:14-17.32i). The growth in the requested FY 2014 appropriation is due to a projected 2.8 percent increase in the number of retirees as well as higher projected medical and prescription drug premiums for retirees. For calendar year 2014 the actuary projected medical premiums to increase by 13.5 percent for early retirees and 7.4 percent for Medicare retirees, and prescription drug premiums to rise by 14.0 percent for early retirees and 7.6 percent for Medicare retirees. The previous "significant change" (above) summarizes the PFRS.

MANAGEMENT AND ADMINISTRATION

DIVISION OF ADMINISTRATION

General Fund, Direct State Services: Special Purpose: Public Finance Activities	**$750**	**$0**	**($750)**	**(100.0%)**	**D-411**

The Administration recommends not renewing in FY 2014 a $750,000 supplemental appropriation to pay for the costs of defending State interests against tobacco manufacturers

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

Budget Item	Adj. Approp. FY 2013	Recomm. FY 2014	Dollar Change	Percent Change	Budget Page

challenging the amount of payments they have to make to the State under the multi-state Tobacco Master Settlement Agreement (MSA). The so-called "2003 NPM Adjustment Dispute" appears to be settled as of March 12, 2013 but additional litigation is possible. Accordingly, as a contingency, the Governor's FY 2014 Budget proposes to continue a language provision on page F-8 that allows for up to $750,000 in mid-year FY 2014 supplemental spending authority to defend State interests in any future litigation related to the"2003 NPM Adjustment Dispute."

The State and leading United States tobacco product manufacturers entered into the multi-state MSA on November 23, 1998. The MSA settled New Jersey's claims for relief with respect to the costs it had incurred from residents' cigarette smoking in the year of payment and earlier years. As announced in the MSA, New Jersey was expected to receive approximately $7.6 billion in payments through 2025 with unquantified payments continuing in perpetuity thereafter. In accordance with P.L.2002, c.32, the State sold 76.26 percent of its future MSA payment stream to bondholders under the terms of the Tobacco Settlement Asset-Backed Bonds (Series 2007-1). The State uses the remaining MSA payments for general State purposes. The Governor's FY 2014 Budget thus anticipates an interfund transfer of $53.3 million from the Tobacco Settlement Fund to the General Fund in FY 2014.

The "2003 NPM Adjustment Dispute" refers to cigarette manufacturers participating in the MSA seeking to reduce their payment obligations for years starting in 2003 by invoking MSA's Non-Participating Manufacturer Adjustment (NPM) clause. The clause lowers required payment amounts if three conditions hold. First, participating manufacturers loose market share to non-participating manufacturers. Second, a nationally recognized economic consulting firm determines that the MSA was a significant contributing factor to the loss of market share. Third, states are not diligently enforcing a statute stopping non-participating manufacturers from undercutting participating manufacturers on prices. In December 2012, the manufacturers reached a settlement with 17 states, including New Jersey, which an MSA Arbitration Panel finalized on March 12, 2013. Under the terms of the settlement, the manufacturers would release to the signatory states the over $4 billion in MSA payments that the manufacturers had placed in escrow accounts from 2003 through 2012 pending the resolution of the "2003 NPM Adjustment Dispute." In return, the manufacturers would receive credits against their future MSA payment liabilities in an amount equal to the escrow balances to be released to the signatory states and an adjustment to the MSA payment calculation formula for future years. Several non-signatory states reportedly stated that they would seek to block the settlement's implementation in state court.

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

Budget Item	Adj. Approp. FY 2013	Recomm. FY 2014	Dollar Change	Percent Change	Budget Page
General Fund, Total Debt Service	**$392,621**	**$322,374**	**($70,247)**	**(17.9%)**	**D-412, E-7, E-8**

The Administration recommends a $343.9 million FY 2014 appropriation for the payment of general obligation bond debt service, of which $322.4 million would be funded in the Department of the Treasury budget and $21.5 million in the Department of Environmental Protection budget. The recommended FY 2014 appropriation reflects a $68.1 million, or 16.5 percent, decrease over FY 2013. The primary reason for the decline is that the State amortizes general obligation indebtedness at a faster pace than it creates new obligations. But two accounting actions external to the payment of debt service also affect the size of the decrease.

The Administration expects required FY 2014 debt service payments under the terms of existing general obligation bond covenants to be $78.7 million lower than in FY 2013. Required debt service payments on previously issued general obligation bonds are scheduled to fall by $102.8 million. That amount would be partially offset by $24.2 million in debt service payments on anticipated new bond sales related to the November 2012 approval by voters of the "Building Our Future Bond Act," which authorized the issuance of $750.0 million in general obligation bonds to finance higher educational capital projects for increasing of academic capacity.

Two accounting actions transform the $78.7 million reduction in anticipated general obligation bond debt service payments into a $68.1 million decrease for budgeting purposes. First, the FY 2013 adjusted appropriation includes $20.0 million in savings the State achieved from refinancing general obligation bond and appropriations-backed debt. The application of the refinancing savings against the FY 2013 appropriation means that the gap for budgeting purposes between the FY 2013 and FY 2014 appropriations is $58.7 million rather than $78.7 million. Furthermore, the Administration intends to apply a $9.4 million general obligation bond cash defeasance against the FY 2014 appropriation. This adjustment brings the total reduction in the recommended FY 2014 appropriation to $68.1 million. Defeasance is a method of liquidating debt whereby the issuer sets aside cash in an escrow account to pay off the bonds. Doing so allows the issuer to remove the bonded indebtedness from the issuer's balance sheet.

As of June 30, 2012, the State had $34.0 billion in outstanding debt obligations, of which $31.6 billion was appropriations-backed debt and $2.4 billion general obligation bond debt. In addition, some $893.2 million of authorized general obligation borrowing authority has not been issued to date.

Significant Language Changes

State Economic Redevelopment and Growth (ERG) Grants Carryforward

Revision

2013 Handbook: p. B-176
2014 Budget: p. D-381

In addition to the amount hereinabove appropriated for the Economic Redevelopment and Growth Grants, EDA, there are appropriated such ~~sums~~ amounts as may be necessary to fund the Economic Redevelopment and Growth Grant program, pursuant to the "New Jersey Economic Stimulus Act of 2009," P.L.2009, c.90 (C.52:27D--489a et seq.), subject to the approval of the Director of the Division of Budget and Accounting. Due to the uncertain timing of grant requests, the unexpended balance at the end of the preceding fiscal year in the Economic Redevelopment and Growth Grants, EDA account is appropriated for the same purpose, subject to the approval of the Director of the Division of Budget and Accounting.

Explanation

The Governor's Budget recommends a $10.1 million line-item appropriation for the payment of State Economic Redevelopment and Growth (ERG) grants in FY 2014. The proposed language provision, in turn, manages the payment obligation uncertainty inherent in the program.

Specifically, the New Jersey Economic Development Authority (EDA) approves grants for eligible redevelopment projects prior to the beginning of a project's execution phase. But actual grant disbursements do not begin until after project completion and depend on actual project parameters. This process complicates the ex ante determination of the State's payment obligations in any given fiscal year. Intended to ensure that the EDA meets contractual payment obligations when they fall due and to manage the resultant appropriation uncertainty, the proposed contingency language therefore authorizes the Office of Management and Budget to appropriate, during the course of the fiscal year and without additional legislative approval, sums for the payment of State ERG grants that exceed the specific amount allocated thereto in the FY 2014 Appropriations Act. In addition, the Administration proposes new language for FY 2014 that grants carryforward authority for the program so that unexpended spending authority would not lapse into the State General Fund at the end of a fiscal year but would instead be carried forward into the subsequent fiscal year.

P.L.2009, c.90 created the ERG grant program as a tax-increment financing mechanism with a State and a municipal component (N.J.S.A.52:27D-489a et seq.). The law authorizes, but does not require, the awarding of State ERG grants for redevelopment projects that will yield net fiscal benefits to the State and that would not occur absent the financial assistance. State ERG grants are available for eligible redevelopment projects in: a) an area designated for development within the Meadowlands and Pinelands; b) Fort Monmouth; and c) areas designated as Planning Area 1 (Metropolitan), Planning Area 2 (Suburban), or as an urban,

EXPLANATION: FY 2013 language not recommended for FY 2014 denoted by strikethrough.
Recommended FY 2014 language that did not appear in FY 2013 denoted by underlining.

Significant Language Changes (Cont'd)

regional or town designated center under the State Development and Redevelopment Plan. Grant payments may equal up to 75 percent of the annual incremental State tax revenue attributable to a project and may be authorized for up to 20 years. But the combined amount of State and municipal ERG grant payments may not exceed 20 percent of a project's total cost. Disbursements commence after a project's completion. Since inception in 2009 through February 26, 2013, the EDA approved $454.1 million in State ERG grants to 20 redevelopment projects that are expected to bring $2.7 billion in capital investments and 9,900 new jobs to New Jersey. Of the 20 projects, seven have been completed through February 26, 2013. The EDA lists all approved Grow New Jersey Assistance Program tax credits at http://www.njeda.com/web/pdf/Approved_Grow.pdf.

Motor Vehicle Commission Reimbursement Payment for Preventative Maintenance Costs

Addition

2013 Handbook: —
2014 Budget: p. D-399

In addition to the amount hereinabove appropriated for Property Management and Construction -- Property Management Services, there is appropriated to the Property Management and Construction -- Property Management Services account, $519,000 from the New Jersey Motor Vehicle Commission for preventative maintenance costs.

Explanation

The Administration recommends new FY 2014 Appropriations Act language transferring $519,000 from the off-budget accounts of the Motor Vehicle Commission to the Division of Property Management and Construction. The amount represents a reimbursement for the costs the division expects to incur on the commission's behalf within the scope of a new systems repairs and preventative maintenance program for State-owned buildings in the Capitol Complex in Trenton.

The division manages the real estate needs of State government, provides full maintenance services for State-owned buildings in the Trenton area, and manages building construction and renovation projects. Whereas it receives an on-budget appropriation to defray the costs of its building management services, its client agencies pay for the division's construction management services through reimbursements to an off-budget revolving fund (page G-8 of the Governor's FY 2014 Budget).

EXPLANATION: FY 2013 language not recommended for FY 2014 denoted by strikethrough.
Recommended FY 2014 language that did not appear in FY 2013 denoted by underlining.

Significant Language Changes (Cont'd)

Municipal Aid Payment out of Energy Tax Receipts Property Tax Relief Fund

Revision

2013 Handbook: p. B-190
2014 Budget: p. D-409

There is appropriated from the Energy Tax Receipts Property Tax Relief Fund the ~~sum~~ amount of $788,492,000 and an amount not to exceed ~~$297,901,000~~ $319,632,000 from Consolidated Municipal Property Tax Relief Aid is appropriated and shall be allocated to municipalities in accordance with the provisions of subsection b. of section 2 of P.L.1997, c.167 (C.52:27D--439), provided further, however, that from the amounts hereinabove appropriated, each municipality shall also receive such additional ~~sums~~ amounts from the Energy Tax Receipts Property Tax Relief Fund as provided in the previous fiscal year. Each municipality that receives an allocation from the amount so transferred from the Consolidated Municipal Property Tax Relief Aid program shall have its allocation from the Consolidated Municipal Property Tax Relief Aid program reduced by the same amount.

Explanation

The Governor recommends distributing $1.36 billion to New Jersey's 565 municipalities from the State's two formula-driven municipal aid programs in FY 2014: an unchanged $788.5 million from the Energy Tax Receipts Property Tax Relief Fund (ETR Fund) program and $575.9 million from the Consolidated Municipal Property Tax Relief Aid (CMPTRA) program, which would exceed the program's FY 2013 adjusted appropriation by $22.3 million, or 4.0 percent (page D-55 of the Governor's FY 2014 Budget). The CMPTRA increase, though, reflects a proposed reallocation—and not a net increase—of aid payments among different municipal aid programs. Specifically, every municipality would receive an unchanged base CMPTRA and ETR Fund aid payment in FY 2014. But three municipalities would be awarded an additional CMPTRA payment that would represent $22.3 million in FY 2014 Transitional Aid to Localities that would be folded into their FY 2014 CMPTRA allocations. The three municipalities would absorb a corresponding $22.3 million reduction in their FY 2014 Transitional Aid to Localities: Camden City ($12.0 million), Newark City ($10.0 million), and Maurice River Township ($265,000).

The revised language concerns aid disbursements from the ETR Fund, which the State established in 1997 as an off-budget account through which it distributes receipts from the taxation of certain regulated utilities and telecommunications companies as aid to municipalities (N.J.S.A.52:27D-439). Amendatory legislation enacted in 1999 instituted a $755 million funding requirement for FY 2002 and mandated that the amount be annually adjusted for inflation thereafter (P.L.1999, c.168). Failure in a given year to appropriate moneys in the prescribed amount would void taxpayers' corporation business tax liabilities for that tax year.

EXPLANATION: FY 2013 language not recommended for FY 2014 denoted by strikethrough.
Recommended FY 2014 language that did not appear in FY 2013 denoted by underlining.

Significant Language Changes (Cont'd)

Since FY 2003, however, energy tax receipts allocated from the ETR Fund have been inadequate to cover statutorily required ETR Fund aid payments, as the annual excess of energy tax receipts above a set level ($788,492,000 since FY 2006) *has been used by the State General Fund. To fulfill the ETR funding requirement and avoid triggering the poison pill provision, language provisions similar to the one above have thus transferred moneys from the CMPTRA account to the ETR Fund. For municipalities, the net effect of these reallocations has been zero, as increased ETR disbursements have fully corresponded to decreases in CMPTRA. For FY 2014, the Administration proposes increasing the transfer from CMPTRA to the ETR Fund by $21.7 million from $297.9 million to $319.6 million, reflecting the required inflation adjustment.*

Authority for Transfers of Funds between Property Tax Deduction Accounts

Revision

2013 Handbook: p. B-190
2014 Budget: p. D-410

In addition to the amount hereinabove appropriated for Senior and Disabled Citizens' Property Tax Deductions and Veterans' Property Tax Deductions, there are appropriated from the Property Tax Relief Fund such additional ~~sums~~ amounts as may be required for State reimbursement to municipalities for senior and disabled citizens' and veterans' property tax deductions, subject to the approval of the Director of the Division of Budget and Accounting. Further, the Department of the Treasury may transfer funds as necessary between the Senior and Disabled Citizens' Property Tax Deductions account and the Veterans' Property Tax Deductions account, subject to the approval of the Director of the Division of Budget and Accounting.

Explanation

The Administration recommends $74.0 million as the combined FY 2014 appropriation for the payment of constitutional property tax deductions to an estimated 232,100 veteran homeowners and 57,900 homeowners who are 65 years of age or older or disabled or both. The proposed contingency language, in turn, authorizes the Office of Management and Budget (OMB) to appropriate, during the course of the fiscal year and without additional legislative approval, sums for the payment of additional property tax deductions if the actual number of claimants exceeds its projected level. As an additional means to manage the appropriation uncertainty, the Administration proposes new language for FY 2014 that confers authority to the OMB to transfer any available surplus balances between the two property tax deduction accounts.

Article VIII, Section I, Paragraph 3 of the New Jersey Constitution provides a $250 property tax deduction to veteran homeowners who were honorably discharged or

EXPLANATION: FY 2013 language not recommended for FY 2014 denoted by strikethrough.
Recommended FY 2014 language that did not appear in FY 2013 denoted by underlining.

Significant Language Changes (Cont'd)

released under honorable circumstances from active service in time of war or other emergency. Article VIII, Section I, Paragraph 4 of the New Jersey Constitution, in turn, provides a $250 property tax deduction to homeowners who are 65 years of age or older or disabled or both, if their annual income exclusive of Social Security benefits does not exceed $10,000. The State reimburses municipalities for 102 percent of the revenue loss resulting from the property tax deductions to cover their administrative expenses.

Use of Previously Appropriated Bond Funds to Pay Debt Service

Revision

2013 Handbook: p. C-2
2014 Budget: p. E-8

Notwithstanding the provisions of any law or regulation to the contrary, such sums as may be needed for the payment of interest and principal due from the issuance of any bonds authorized under the several bond acts of the State, or bonds issued to refund such bonds, are appropriated and shall first be charged to the earnings from the investments of such bond proceeds, or repayments of loans, or any other monies in the applicable bond funds, or all of these, established under such bond acts, and monies are appropriated from such bond funds for the purpose of paying interest and principal on the bonds issued pursuant to such bond acts. Where required by law, such sums shall be used to fund a reserve for the payment of interest and principal on the bonds authorized under the bond act. Furthermore, where required by law, the amounts hereinabove appropriated are allocated to the projects heretofore approved by the Legislature pursuant to those bond acts. The Director of the Division of Budget and Accounting is authorized to reallocate amounts hereinabove appropriated among the various debt service accounts to permit the proper debt service payments. Provided further however, that in the event monies in a bond fund are used to pay debt service pursuant to the proceeding sentences, any prior appropriation of such amounts, are hereby cancelled and the Director of the Division of Budget and Accounting shall provide to the Legislative Budget and Finance Officer a list of the bond funds which were used to pay debt service and the amount in such bond funds which were used to pay debt service.

Explanation

This language concerns the use of balances in funds established in accordance with various general obligation bond acts. The Office of Management and Budget (OMB) first charges required debt service payments against investment income and certain other balances in the bond funds before charging the remainder against amounts appropriated for that purpose in the FY 2014 Appropriations Act. The language also authorizes the OMB to transfer amounts among the various debt service appropriations to ensure that proper debt service payments are made.

EXPLANATION: FY 2013 language not recommended for FY 2014 denoted by strikethrough.
Recommended FY 2014 language that did not appear in FY 2013 denoted by underlining.

Significant Language Changes (Cont'd)

In addition, the Administration recommends new language authorizing the OMB to cancel certain bond fund appropriations when it deems them unneeded for the original purpose and to apply those funds to pay debt service on the bonds. This new language would apply to bond proceeds for which the enabling legislation requires specific appropriations and does not grant discretion to use unexpended sums to pay down debt. In other cases, the OMB already has that authority. The Administration's recommended FY 2014 appropriation for the payment of general obligation bond debt service in the Department of the Treasury budget includes a $9.4 million reduction attributable to a general obligation bond cash defeasance to be performed in application of the new language. The Administration first proposed the new language in the Governor's FY 2013 Budget. The Legislature, however, did not include it in the FY 2013 Appropriations Act.

Allocating to State Agencies their Share of Centralized Utility and Maintenance Expenses

Revision

2013 Handbook: p. E-3
2014 Budget: p. F-5

The Director of the Division of Budget and Accounting is empowered and it shall be the director's duty in the disbursement of funds for payment of expenses classified as salary increases and other benefits, employee benefits, debt service, rent, telephone, <u>utilities,</u> data processing, motor pool, insurance, travel, postage, lease payments on equipment purchases, <u>maintenance contracts,</u> additions, improvements and equipment, and compensation awards, to credit or transfer to the Department of the Treasury, to an Interdepartmental account, or to the General Fund, as applicable, from any other department, branch or non-State fund source out of funds appropriated or credited thereto, such ~~sums~~ <u>amounts</u> as may be required to cover the costs of such payment attributable to such other department, branch or non-State fund source, or to reimburse the Department of the Treasury, an Interdepartmental account, or the General Fund for reductions made representing statewide savings in the above expense classifications, as the director shall determine. Receipts in any non-State funds are appropriated for the purpose of such transfer.

<u>Explanation</u>

This language authorizes the Office of Management and Budget (OMB) to distribute to client State agencies any expenses the Department of the Treasury incurs in certain centralized accounts for all of State government. The Administration proposes newly including among the expense categories in FY 2014 expenditures for maintenance contracts and utility services.

The addition of maintenance contracts to the enumeration is to facilitate the transfer to the centralized Treasury account of agency savings accruing as a result of the consolidation of extended warranties for equipment maintenance under a

EXPLANATION: FY 2013 language not recommended for FY 2014 denoted by strikethrough.
Recommended FY 2014 language that did not appear in FY 2013 denoted by underlining.

Significant Language Changes (Cont'd)

single maintenance contract. The OMB indicated that $3.9 million in such Statewide savings is currently awaiting application against the State's Property Rentals account in Interdepartmental Accounts (pages D-430 and D-431).

Utility services, in turn, would be added to the above list as a part of the implementation strategy for the energy savings improvement program for State-owned and -operated buildings in accordance with P.L.2009, c.4. The program allows the State to contract with energy service companies that would assume the up-front cost of infrastructure improvements that are designed to reduce the energy consumption of State buildings. The State would then repay the companies out of energy cost savings to be generated by the investments over a period not exceeding 15 years (or 20 years in certain cases). The State Energy Office in the Board of Public Utilities' Division of Economic Development and Energy Policy administers the program and the State would make payments to energy service companies out of a centralized Treasury account. The language would allow Treasury to charge State agencies for the share of the contractual payments that the department would make on their behalf.

Casino Simulcasting Fund Revenues

Revision

2013 Handbook: p. E-5
2014 Budget: p. F-7

There is appropriated ~~$400,000~~ <u>$350,000</u> from the Casino Simulcasting Fund for transfer to the Casino Revenue Fund.

<u>Explanation</u>

The recommended language provision would transfer an estimated $350,000 in Casino Simulcasting Fund collections to the Casino Revenue Fund in FY 2014. While this amount is less than the $400,000 appropriated for transfer in FY 2013, it recognizes the decline in annual collections in recent years. Specifically, actual collections were $367,000 in FY 2011, and $338,000 in FY 2012, while the Executive anticipates a revised $350,000 in FY 2013 revenues (page 23 of the "Supplementary Information" section in the Governor's FY 2014 Budget, available in the online version only).

P.L.1992, c.19 (N.J.S.A.5:12-191 et seq.) established the Casino Simulcasting Fund to hold a portion of the State revenue generated from the wagering in Atlantic City casinos on horse races that are broadcast live from race tracks to the casinos. Moneys deposited in the fund shall finance services for senior citizens. By means of a recurring language provision, Casino Simulcasting Fund revenues have been transferred to the Casino Revenue Fund, created pursuant to section 145 of

EXPLANATION: FY 2013 language not recommended for FY 2014 denoted by strikethrough.
Recommended FY 2014 language that did not appear in FY 2013 denoted by underlining.

Significant Language Changes (Cont'd)

P.L.1977, c.110 (N.J.S.A.5:12-145). The Casino Revenue Fund holds State revenues derived from casino gambling, which the New Jersey State Constitution dedicates to services for senior and disabled citizens (page H-5 of the Governor's FY 2014 Budget lists the programs supported through the fund).

Transfer of Clean Energy Fund Balances into the State General Fund	
Revision	2013 Handbook: p. E-8 2014 Budget: p. F-10

Notwithstanding the provisions of any law or regulation to the contrary, there is appropriated an amount not to exceed ~~$89,000,000~~ $152,185,000 from the Clean Energy Fund, including Solar Alternative Compliance Payments attributable to fiscal 2010 and earlier, for transfer to the General Fund as State revenue, subject to the approval of the Director of the Division of Budget and Accounting.

Explanation

The proposed language provision would divert $152.2 million in Clean Energy Fund balances, inclusive of Solar Alternative Compliance Payments (SACPs) the BPU received from FY 2006 through FY 2010, into the State General Fund in FY 2014. The diversion would be in addition to $44.0 million in recurring transfers of Clean Energy Fund balances to the State General Fund that are also authorized in FY 2013: $42.5 million to defray the cost of utilities in State facilities (page D-434) and $1.5 million to pay for the administrative expenses related to State-funded positions of the BPU's Office of Clean Energy (page D-384). The background paper entitled "Resource Diversions from Energy-Related Dedicated Funds" starting on page 136 of this booklet provides more information on the Clean Energy Fund, its finances, and the history of balance transfers to the State General Fund.

The language newly specifies that the proposed transfer from the Clean Energy Fund includes the cumulative amount of SACPs that electric utilities made to the BPU from FY 2006 through FY 2010. Totaling $44.5 million, these payments were routinely deposited in the Clean Energy Fund. The BPU, however, is not to use the SACPs in support of the Clean Energy Program. Instead, the payments are to be used to reduce electric rates. SACPs are an element of the State's price support system that is intended to impel investments in solar power generation capacity. The system has three basic elements: a) annual solar quotas for electric power suppliers and providers that create a demand for solar energy; b) Solar Renewable Energy Certificates (SRECs), which are issued for every megawatt-hour of electricity generated by solar power installations and are sold separately from the generated electricity; and c) a trading platform on which electric power suppliers and

EXPLANATION: FY 2013 language not recommended for FY 2014 denoted by strikethrough.
Recommended FY 2014 language that did not appear in FY 2013 denoted by underlining.

Significant Language Changes (Cont'd)

providers can acquire from solar energy generators the SRECs they need to meet their annual solar quotas. To limit the price support system's cost to ratepayers, a gradually declining price ceiling applies to SRECs in the form of SACPs. Electric power suppliers and providers may opt to make such alternative payments to the BPU in lieu of purchasing SRECs to meet their solar quotas.

Transfer of EDA's Global Warming Solutions Fund Balance into the State General Fund

Deletion

2013 Handbook: p. E-8
2014 Budget: —

~~Notwithstanding the provisions of any law or regulation to the contrary, there is hereby appropriated to the General Fund as State revenue an amount not to exceed $12,500,000 transferred by the New Jersey Economic Development Authority to the State from the proceeds of monies which have not been committed by the Authority pursuant to P.L.2007, c.340.~~

Explanation

This language provision diverted into the State General Fund in FY 2013 some $12.5 million in unexpended Global Warming Solutions Fund receipts that had been deposited with the New Jersey Economic Development Authority in accordance with the fund's statutory distribution schedule. The Administration recommended the balance transfer because the statutory Global Warming Solutions Fund had lost its sole funding source with the State's withdrawal from the multistate Regional Greenhouse Gas Initiative (RGGI) at the end of 2011. Under RGGI, the fund held the State's proceeds from auctioning off carbon dioxide emission allowances to power plant owners.

The Administration proposes not renewing the language in FY 2014 because it effectuated the one-time transfer of funds in FY 2013 and because no uncommitted balances remain in functionally obsolete Global Warming Solutions Fund accounts. The background paper entitled "Resource Diversions from Energy-Related Dedicated Funds" starting on page 136 of this booklet provides more information on the Global Warming Solutions Fund and the history of balance transfers to the State General Fund.

EXPLANATION: FY 2013 language not recommended for FY 2014 denoted by strikethrough.
Recommended FY 2014 language that did not appear in FY 2013 denoted by underlining.

Significant Language Changes (Cont'd)

Use of New Jersey's Share of National Mortgage Servicing Settlement Fund

Deletion

2013 Handbook: p. E-8
2014 Budget: —

~~Notwithstanding the provisions of any law or regulation to the contrary, there is appropriated from the Mortgage Servicing Settlement Fund for transfer to the General Fund as State revenue the proceeds obtained by the State and deposited into such fund from the Consent Judgment entered into in connection with the settlement of litigation involving allegations of foreclosure abuses, fraud and unacceptable business practices by the country's five largest mortgage servicers.~~

~~Notwithstanding the provisions of any law or regulation to the contrary, such sums as were appropriated from the Mortgage Servicing Settlement Fund for transfer to the General Fund as State revenue are hereby appropriated, subject to the approval of the Director of the Division of Budget and Accounting, for the following purposes: attorneys fees, investigation and other expenses related to the investigation and resolution of the mortgage servicing settlement, Affordable Housing, Local Planning Services, Developmental Disabilities Residential Services, State Rental Assistance Program, Homelessness Prevention, Shelter Assistance, Community Based Senior Programs, Mental Health Residential Programs, Social Services for the Homeless, and Temporary Assistance for Needy Families.~~

Explanation

On April 6, 2012, the United States District Court for the District of Columbia approved the $25 billion mortgage servicing settlement agreement reached between the nation's five largest mortgage lenders and the attorneys general of 49 states and the District of Columbia over the lenders' foreclosure processing practices. Under the agreement, homeowners were to receive $20 billion in financial relief and qualifying individuals whose homes were sold or taken in foreclosure between January 1, 2008 and December 31, 2011 were to receive $1.5 billion. The states on their part were to share $2.5 billion in cash payments of which the State of New Jersey collected $72.1 million. The federal government, the National Association of Attorneys General, and the Conference of State Bank Supervisors were to share the remaining $1.0 billion.

The first language provision authorized the State to record as General Fund revenue the $72.1 million it received in accordance with the mortgage servicing settlement agreement. The second language provision appropriated settlement proceeds for specific purposes without identifying specific amounts: attorneys fees, expenses related to the investigation and resolution of the mortgage servicing settlement, affordable housing, local planning services, developmental disabilities residential services, State rental assistance program, homelessness prevention, shelter assistance, community based senior programs, mental health residential programs, social services for the homeless, and the Temporary Assistance for

EXPLANATION: FY 2013 language not recommended for FY 2014 denoted by strikethrough.
Recommended FY 2014 language that did not appear in FY 2013 denoted by underlining.

Significant Language Changes (Cont'd)

Needy Families (TANF) program. The State received the one-time $72.1 million settlement payment in FY 2013 and has assigned the proceeds to various spending purposes. Consequently, the Administration recommends not renewing the language provisions, as they have become functionally obsolete

EXPLANATION: FY 2013 language not recommended for FY 2014 denoted by strikethrough.
Recommended FY 2014 language that did not appear in FY 2013 denoted by underlining.

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ECONOMIC DEVELOPMENT AUTHORITY

1. On October 29, 2012, Hurricane Sandy made landfall in New Jersey. According to the preliminary damage assessment that the New Jersey Governor's Office released on November 28, 2012, the hurricane caused $29.4 billion in repair, response, and restoration expenses plus $7.4 billion in mitigation and prevention costs. The New Jersey Department of Banking and Insurance estimated that in the 113 most impacted municipalities businesses incurred $382 million in commercial property losses and $64 million in business interruption losses, as related in the "Community Development Block Grant Disaster Recovery Action Plan" published by the New Jersey Department of Community Affairs on March 12, 2013.

In the wake of the storm the New Jersey Economic Development Authority (EDA) has developed several **Hurricane Sandy-related relief programs for impacted businesses**. Notably, it created the Main Street Disaster Relief Program within the New Jersey Main Street Business Assistance Program. Through the relief program the authority guarantees up to $500,000 of commercial lines of credit to businesses needing financing to improve their damaged property while awaiting insurance proceeds. The loan guarantee may last for up to a year with a possible one-time extension of up to an additional 12 months. In order to qualify a business must have applied before December 31, 2012, been in operation for at least two years, and presented evidence that an insurance policy to cover damage costs was in place at the time of the storm. The EDA waived all application fees for the temporary program.

In the "Community Development Block Grant Disaster Recovery Action Plan" the Administration laid out its intentions for disbursing $500 million among impacted businesses contingent upon the receipt of $1.8 billion in anticipated federal Community Development Block Grant – Disaster Recovery Funds to be released in accordance with the federal Disaster Relief Appropriations Act of 2013 (Public Law 113-2). The total may still rise pending additional funding rounds. Some $300 million would support EDA grants of up to $50,000 to small businesses and non-profit organizations for storm damage costs they could not recover from other sources. The grants may be used to pay for costs related to rehabilitation, new construction, equipment, inventory, mitigation, refinancing, and working capital, but not to recover financial losses from the storm. The Administration plans to use another $100 million to underwrite an EDA loan program. Creditworthy businesses and non-profit organizations would be able to apply for no-cost loans ranging from $100,000 to up to $5 million to redress the uncompensated costs they incur in improving their storm-damaged properties and to provide financing for the expansion of existing and formation of new businesses in the impacted areas. The EDA would also provide $75 million to neighborhood and community revitalization programs that aim to rebuild commercial areas with public facility improvements and undertake other activities to restore and strengthen local economies. The remaining $25 million would sustain a tourism marketing campaign on behalf of impacted areas.

- **Questions: Please report whether the EDA has extended the original December 31, 2012 filing deadline for assistance under the Main Street Disaster Relief Program. In total, how many businesses applied for assistance under the program and how many applicants did the EDA approve for program participation? Please indicate the total loan amount the EDA has guaranteed under the program and the amount of loan payments the EDA actually has had to make on behalf of program participants defaulting on their loans.**

Discussion Points (Cont'd)

- **Please report on the EDA's progress in establishing Hurricane Sandy-related relief programs for businesses out of expected federal Community Development Block Grant – Disaster Recovery Funds. Has the EDA set up: a) the grant program to compensate small businesses and non-profit organizations for their unrecovered storm-related physical damages, b) the no-cost loan program to businesses and non-profit organizations to allow for the alleviation of property damage and the expansion of existing and formation of new businesses, and c) the support mechanism for community revitalization programs? If not yet, by what date does the EDA expect to have the programs up and running? Does the EDA have a reasonably firm sense of additional future funding rounds that may increase the programs' allocations?**

2. The EDA administers the **Business Employment Incentive Program (BEIP)**, created pursuant to N.J.S.A.34:1B-124 et seq. Under the program, the EDA provides grants to businesses that create jobs in New Jersey. BEIP grants may be awarded for up to ten years and equal between 10% and 80% of the total amount of State income taxes withheld by the grant receiving business from wages of new employees subject to the grant agreement. To qualify for a grant, an applicant must certify that receipt of the grant is a "material factor" in the business' decision to invest in New Jersey.

As of February 6, 2013, the EDA executed 485 BEIP grant agreements with a cumulative grant amount of $1.55 billion (of which $1.34 billion was disbursed) since the program's inception in 1996. In all, executed BEIP grants covered 101,900 new jobs and capital investments totaling $12.8 billion. According to the Fiscal Year 2012 Annual Report for BEIP, in FY 2012, the EDA executed 41 BEIP agreements representing a State commitment of $71.9 million over the terms of the grants. The authority expects the projects to create 3,892 new jobs over the next two years and the grantees' total capital investment to reach $349.0 million. The comprehensive list of executed BEIP agreements can be found at http://www.njeda.com/web/pdf/BEIP_Activity_Alphabetical.pdf.

The FY 2014 Governor's Budget includes $175.0 million for BEIP grants, the same amount as is appropriated for the program in FY 2013. Responding to EDA Discussion Point #5 in the OLS FY 2012-2013 Department of the Treasury Budget Analysis, the EDA related that it had $672.0 million in outstanding BEIP grant payment obligations dating as far back as calendar year 2008. The $350.0 million appropriated to the payment of BEIP grants in FY 2012 and FY 2013 would allow it to pay obligations incurred prior to calendar year 2009.

- ***Questions:*** **What is the current backlog of BEIP grant payment obligations? Have all FY 2008, 2009, 2010, 2011, and 2012 obligations been paid? Given that in FY 2012 the BEIP appropriation was $175.0 million and that the EDA executed grant agreements totaling $71.9 million over the terms of the grants, has the EDA scaled back the awarding of BEIP grants to reduce the backlog of BEIP grant payment obligations? What amount of new BEIP grants does the EDA expect to approve in FY 2013? Does the $350 million available for BEIP grants in FY 2013 and FY 2014 suffice to meet the demand for grant payments in those years? How many months**

Discussion Points (Cont'd)

does a business have to wait for receipt of a BEIP grant payment after the EDA has approved the first grant payment?

3. The take-up rate of the **Business Retention and Relocation Assistance Grant (BRRAG) tax credit** program has gone from minimal to robust with the enactment of P.L.2011, c.123. Hitherto the aggregate amounts of tax credits granted per year fell substantially below the statutory $20 million program cap. Under the revised program configuration, however, the EDA executed 19 BRRAG agreements in FY 2012 representing a State commitment of $72.9 million over the terms of the agreements, as stated in the *FY 2012 Annual Report on the Business Retention and Relocation Assistance Act*. The EDA expects the projects to result in the retention of 8,075 jobs and $388.9 million in grantee capital investments.

In addition to expanding BRRAG's eligibility criteria and augmenting benefit amounts, P.L.2011, c.123 revised the nature of the program's annual $20 million cap. Previously, the $20 million limitation applied to the dollar value of tax credits newly approved each fiscal year. Under the new program design, however, the $20 million cap is placed on the total dollar value of credits that taxpayers may apply against tax liabilities in a given fiscal year with a requirement that tax credits may only be used in the fiscal years for which they are issued. As a result, the EDA may now approve more than $20 million in tax credits in a given fiscal year, as long as they are spread over a multi-year period.

BRRAG tax credits are available under the corporation business and insurance premiums taxes to businesses that relocate operations within New Jersey and retain jobs or that maintain jobs at a current location and make a qualified capital investment (N.J.S.A.34:1B-112 et seq.). The per-employee tax credit ranges from $1,500 to $9,000 depending on the number of full-time positions retained. Businesses earn a tax credit bonus of 50 percent of the base amount if they relocate at least 2,000 jobs from a location in New Jersey into a designated urban area. They can earn another 50 percent bonus if their capital investment is at least twice the amount of tax credits granted prior to the application of a bonus. In addition to the receipt of the tax credit being a material factor in the business' decision to retain full-time positions in New Jersey, an applicant business must demonstrate that the tax credit will yield a net positive benefit to the State. Tax credit awards are only certified for use upon project completion. Since inception in 2005 through January 28, 2013, the EDA signed BRRAG agreements totaling an estimated $116.7 million in tax credits for 74 projects representing an estimated $2.04 billion in capital investments and 29,340 in retained jobs. The EDA lists all BRRAG agreements at http://www.njeda.com/web/pdf/BRRAG_activity.pdf.

- ***Questions:*** **What cumulative Business Retention and Relocation Assistance Grant (BRRAG) tax credit amounts has the EDA awarded to date for FY 2012 and every fiscal year thereafter? What tax credit amount did taxpayers apply against their tax liabilities in FY 2012? Please provide a distribution over future fiscal years of the $72.9 million in BRRAG tax credits the EDA approved in FY 2012. Given that tax credits are awarded for specific fiscal years only and that their finalization is contingent upon project completion, please describe the consequences to approved tax credit amounts if a project runs a year or more behind schedule. Would a tax credit be forfeited? Would the recipient risk not receiving the full initially agreed**

Discussion Points (Cont'd)

upon tax credit amount because the remaining unallocated cap space may be insufficient in later fiscal years to accommodate the delayed tax credit?

- **Is the EDA concerned that the cap on annual tax credit awards might no longer be sufficient? Does the EDA consider the current cap to be a constraint on economic growth, as the material factor requirement and net benefit test ensure that BRRAG tax credits more than pay for themselves from a budgetary perspective?**

4. The EDA co-administers the **New Jersey Technology Business Tax Certificate Transfer Program** (N.J.S.A.34:1B-7.42a et. al.) with the Division of Taxation in the New Jersey Department of the Treasury. The program enables approved high technology and biotechnology businesses that were not profitable in the last two tax years and that have fewer than 225 employees, at least 75 percent of whom must be based in New Jersey, to sell the businesses' unused net operating losses and research and development tax credits for at least 80 percent of their value to unaffiliated corporate taxpayers. Sellers must reinvest the resultant proceeds in their businesses. The program is subject to an annual $60 million cap, of which $10 million is set aside for companies operating within three designated innovation zones (Newark, greater New Brunswick, and Camden).

New Jersey corporation business taxpayers may apply unused research and development tax credits against their tax liabilities for 15 years and unused net operating losses for 20 years. P.L.2008, c.102 extended the net operating loss carryforward period from seven to 20 years for tax years beginning on or after July 1, 2009. This elongation of the carryforward period may affect the operation of the New Jersey Technology Business Tax Certificate Transfer Program. The New Jersey Institute of Technology stated in its November 2010 report entitled "Program Evaluation: New Jersey Technology Business Tax Certificate Transfer Program" that emerging high technology (excluding biotechnology) companies could be expected to be profitable within five years of initiating a project but that it might take biotechnology companies ten and more years before they could bring new drugs and medical devices to market. P.L.2008, c.102, however, diminished the likelihood that ultimately profitable companies will not be able to take advantage of accumulated net operating losses, as they now have 20 years to apply their losses against their tax liabilities. The New Jersey Institute of Technology based its recommendation that high technology (other than biotechnology) companies be eliminated from the transfer certificate program in part on these companies expecting to become profitable within five years which would give them ample time to use up accumulated net operating losses and research and development tax credits.

- ***Questions:*** **Please comment on the impact of extending the net operating loss carryforward period from seven to 20 years, pursuant to P.L.2008, c.102, on the effectiveness of the New Jersey Technology Business Tax Certificate Transfer Program in creating high-quality jobs. Do today's applicants expect not to be profitable for at least 15 years, given that the carryforward period for unused research and development tax credits is 15 years and that of unused net operating losses 20 years? If so, is it prudent for the State to provide tax incentives to such companies? Are there other benefits to program participants today beyond net present value gains and a one-time cash flow acceleration? Please state the EDA's position on the New Jersey**

Discussion Points (Cont'd)

Institute of Technology's recommendation that the program be limited to biotechnology firms.

- **Please indicate the number of companies that have participated in the New Jersey Technology Business Tax Certificate Transfer Program since its inception. For how many years does the average participant receive transfer certificates? What is the survival rate of program participants five and ten years after their initial transfer certificate approval? What is the total dollar value of transfer certificates that have been awarded since program inception and what percentage of that total has actually been transferred? How many full-time positions have transfer certificates directly caused to be retained or created? On what analytical foundation is the EDA basing its assessment of causation between the transfer certificates and positions retained or created? In awarding transfer certificates does the EDA ascertain that a) the receipt of the certificates is a material factor in the recipients retaining or increasing their full-time positions in New Jersey, and that b) the tax incentive yields a net positive benefit to the State? If applicable, for what reason(s) does the EDA not make material factor and net benefit determinations?**

5. Since opening on April 2, 2012, the **Revel Casino in Atlantic City** reportedly has failed to turn a profit and needed several bailouts from investors. On February 19, 2013, the Wall Street Journal reported that the casino owners were preparing for a bankruptcy protection filing as soon as mid-March. To significantly pare the company's debt payments Revel would convert about $1.0 billion of its $1.5 billion in outstanding debt into equity. The casino, however, did not expect that the bankruptcy proceedings would affect its day-to-day operations.

Although news reports stated that no taxpayer funds would be used in the debt restructuring, New Jersey has a vested financial interest in the project. Notably, on February 1, 2011, the EDA approved an Economic Redevelopment and Growth Grant (ERG) of up to $261.4 million to Revel Atlantic City, LLC and Revel Entertainment Group, LLC to support the completion of the construction of the then-unfinished casino. The award is not a one-time upfront payment. Under the tax-increment financing program, the final grant amount equals 75 percent of certain State tax collections the casino actually generates over 20 years. As part of the grant agreement, the EDA also received a cash distribution interest of 20 percent of the management's initial 10 percent ownership. The authority will share in any profits until it recoups its full investment but will not absorb any of the casino's losses.

According to the *Revel Economic Redevelopment and Growth (ERG) Program EDA Board Memo, February 1, 2011,* the EDA anticipated a $1.6 billion capital investment, the creation of 5,500 full-time jobs, and $650 million of incremental direct State and local tax revenues over the grant's 20-year period. But the casino had only 2,415 full-time employees as of March 1, 2013, according to the Casino Control Commission. A spokesperson for the casino was cited in the August 16, 2012 "Down on its luck: Revel jobs, revenue falling below projections" article in The Star-Ledger admitting that the company had incorrectly described the initial job numbers by including anticipated part-time jobs in the full-time job total. As of March 1, 2013, the casino employed 3,345 persons in all.

Discussion Points (Cont'd)

The Revel Casino accounts for 57.6 percent of $454.1 million in approved State ERG grants as of February 26, 2013. P.L.2009, c.90 created the program as a tax-increment financing mechanism with a State and a municipal component (N.J.S.A.52:27D-489a et seq.). The law authorizes, but does not require, the awarding of State ERG grants for redevelopment projects that will yield fiscal net benefits to the State and that would not occur absent the financial assistance. State ERG grants are available for eligible redevelopment projects in: a) an area designated for development within the Meadowlands and Pinelands; b) Fort Monmouth; and c) areas designated as Planning Area 1 (Metropolitan), Planning Area 2 (Suburban), or as an urban, regional or town designated center under the State Development and Redevelopment Plan. Grant payments may equal up to 75 percent of the annual incremental State tax revenue attributable to a project and may be authorized for up to 20 years. But the combined amount of State and municipal ERG grant payments may not exceed 20 percent of a project's total cost. Disbursements commence after a project's completion. Approved ERG grants are listed at http://www.njeda.com/web/pdf/ERG_Activity.pdf.

- **Questions: Please indicate the amount of State tax revenues collected to date from the Revel Casino and the Economic Redevelopment and Growth Grant (ERG) reimbursements actually made to the casino's owners. According to the projections used in the original award calculation, what amount of State tax revenues and ERG payments should the project have generated to date? What will be the financial impact of the casino's planned bankruptcy filing on the State? If the casino's debt will be converted into equity, will the bankruptcy dilute EDA's cash distribution interest of 20 percent of the management's initial 10 percent ownership, as any net income will be distributed among previous and new equity holders according to a differently weighted formula? Please provide an up-to-date assessment of the project's viability, given the casino's actual performance.**

- **EDA financial assistance is often based on actual capital investments, jobs created, and State tax revenue generated. Nevertheless, applicants may still engage in the strategic misrepresentation of project characteristics to secure the initial approval for program participation. Please comment on EDA's experiences with the accuracy of project estimates submitted by applicants for financial assistance in light of Revel Casino only employing 2,415 full-time staff instead of the 5,500 casino owners claimed they would hire in their ERG application. What are the average error rates when applicants' *ex ante* estimates of jobs to be created, capital investments to be made, and tax revenues to be generated are compared to actual *ex post* capital investments, jobs, and tax revenues? Are the errors biased in one direction? Please expound on the techniques the EDA employs to assess the accuracy of applicant project estimates before, for example, entering the data into its net benefit model. Has the EDA ever brought a lawsuit or contemplated bringing one against a recipient of financial assistance it suspected of having provided a negligent or fraudulent estimate? Does the EDA have the legal authority to bring such a lawsuit?**

6. P.L.2012, c.35 raised the total lifetime cap on the **Urban Transit Hub Tax Credit program** from $1.5 billion to $1.75 billion and extended the deadline for initial tax credit application submissions from January 13, 2013 to July 1, 2014. The $1.75 billion cap has four

Discussion Points (Cont'd)

statutory subcomponents, which the BPU may adjust at its discretion: $1.2 billion set aside for commercial construction, $250 million reserved for residential construction, $200 million earmarked for the Grow New Jersey Assistance Program, and $100 million intended for tax credits for the construction of offshore wind energy facilities. The EDA responded to EDA Discussion Point #1 in the OLS FY 2012-2013 Department of the Treasury Budget Analysis that it did not expect to issue any tax credit for the construction of offshore wind energy facilities prior to that credit's January 2013 filing deadline and that it would reallocate the program's $100 million set aside to the other programs subject to the Urban Transit Hub Tax Credit cap. As of March 5, 2013, the EDA has approved 19 projects for $1.03 billion in Urban Transit Hub Tax Credits (and 16 projects for $428 million in Grow New Jersey Assistance tax credits). But taxpayers will receive their finalized tax credit awards only after project completion. In February 2012, Daily News L.P. became the first certified Urban Transit Hub Tax Credit recipient when it received a $41.65 million credit, which will be divided into ten annual installments. The list of all approved Urban Transit Hub Tax Credit agreements can be found at http://www.njeda.com/web/pdf/HUB_Activity.pdf.

P.L.2007, c.346 originally established the Urban Transit Hub Tax Credit program (N.J.S.A.34:1B-207 et seq.), under which the State now awards up to $1.75 billion in tax credits to taxpayers who invest at least $50 million in real property situated in urban transit hubs. Subject to certain qualifying criteria, capital investments in business facilities may earn tax credits of up to 100 percent of the investment, residential investments of up to 35 percent of the investment, and mixed use projects either of up to 35 percent for the entire investment or of up to 35 percent for the project's residential component if it represents at least a $17.5 million capital investment and of up to 100 percent for the project's business facility component if it represents at least a $17.5 million capital investment.

Urban transit hubs are the area within a one-half mile radius around a rail or light rail station in Camden, East Orange, Elizabeth, Hoboken, Jersey City, Newark, New Brunswick, Paterson, and Trenton, with the Camden urban transit hub covering the area within a one-mile radius around a rail or light rail station. In addition, there is an urban transit hub in the area within a one-mile radius of a rail or light rail station that is subject to a Choice Neighborhoods Transformation Plan. (The only New Jersey Choice Neighborhood is currently in Jersey City at the McGinley Square – Montgomery Corridor.) Acute care medical facilities and closed hospitals located within a one-mile radius of a rail or light rail station also qualify for tax credits.

- ***Questions:*** **Please provide the current distribution of the $1.75 billion Urban Transit Hub Tax Credit program cap among its subcomponents: commercial construction, residential construction, Grow New Jersey Assistance Program, and the tax credit program for the construction of offshore wind energy facilities. For the program as a whole and each of its subcomponents, please set forth the total amount of tax credits approved to date and the remaining cap space. How did the EDA reallocate the $100 million set aside for offshore wind energy facility construction tax credits? Has the EDA already turned away credit applicants because of the limited supply of unused tax credits? Has the EDA been in negotiations with any acute care medical facility concerning a tax credit award?**

- **Given that the EDA certified the first Urban Transit Hub Tax Credit award in February 2012, please indicate the number of tax credit awards the EDA expects to have**

Discussion Points (Cont'd)

finalized by the end of FY 2014. What is the total estimated approved credit amount that the recipients may by then begin to claim on their tax returns?

7. On June 1, 2012, the EDA approved a modified $210.8 million **Urban Transit Hub Tax Credit for Prudential Financial Inc**. The firm would be investing $444.0 million in the construction of a new office tower in downtown Newark along with a parking structure for 1,600 vehicles. The company was first approved for a $250.1 million tax credit for its original project. But the credit application needed to be reevaluated once Prudential decided to build its new office tower in a different downtown Newark location. Prudential expected to commence construction in the third quarter of 2012 and to complete it in the fourth quarter of 2014. In furtherance of the original project, the State had enacted section 9 of P.L.2011, c.149 (N.J.S.A.34:1B-250), which authorizes the sale of certain State-owned properties to the New Jersey Performing Arts Center.

- ***Questions:*** **Please indicate whether the State has already exercised the authority granted in section 9 of P.L.2011, c.149 to sell certain Newark properties to the New Jersey Performing Arts Center in support of the original Prudential project. If not, by which date does the EDA expect the property sales to occur? Are the property sales still necessary given that Prudential is building its new office tower in a different downtown Newark location than it initially intended?**

8. P.L.2011, c.149 established the **Grow New Jersey Assistance Program**. Subject to an initial $200 million cap, which the EDA may alter at its discretion, the program provides tax credits to businesses for: a) making a minimum $20 million capital investment in a business facility in a qualified area and b) at that business facility either retaining at least 100 full-time positions with health benefits in New Jersey or creating at least 100 new full-time positions with health benefits in an industry the EDA identifies as desirable to maintain or attract. Tax credits are awarded only if: a) the project yields a positive fiscal net benefit to the State; b) the award of the tax credit is a material factor in the business decision to create or retain eligible full-time positions; c) the project does not involve a point-of-final-purchase retail facility; and d) the business applies for the credit before July 1, 2014. Notwithstanding these general restrictions, the EDA may waive the material factor requirement for businesses that are required to respond to requests for proposal and to fulfill a contract with the federal government and that submit a tax credit application by March 31, 2012.

The credit equals ten annual installments of $5,000 each per full-time position created or retained as long as the number of new full-time jobs for which a business receives a tax credit does not exceed the number of retained full-time jobs for which a business receives a credit, unless the business qualifies by creating at least 100 new full-time positions in an industry identified by the EDA as desirable for the State to attract or maintain. The annual credit amount increases to $8,000 if: a) the business operates in an industry the EDA identifies as desirable to maintain or attract; b) the business is in proximity to a qualified area adjacent to or within walking distance or short-distance-shuttle service of a public transit facility; c) the full-time jobs created carry salaries in excess of New Jersey's average full-time salary <u>or</u> d) the qualified area

Discussion Points (Cont'd)

is negatively affected by the approval of a "qualified business facility" under the Urban Transit Hub Tax Credit Act.

A qualified area is: a) a vacant commercial building having over 400,000 square feet of office, laboratory or industrial space available; b) an area designated for development within the Highlands, Meadowlands, and Pinelands; c) Fort Monmouth; and d) areas designated as Planning Area 1 (Metropolitan), Planning Area 2 (Suburban), or as an urban, regional or town designated center under the State Development and Redevelopment Plan.

As of March 5, 2013, the EDA has approved 16 projects for $428.2 million in Grow New Jersey Assistance Program tax credits. But taxpayers will receive their finalized tax credit awards only pending project completion. In August 2012, Lockheed Martin Corporation became the first certified tax credit recipient when it earned a $40.0 million credit, which will be divided into ten annual installments. Lockheed was also the first and only business qualifying for the tax credit under the aforementioned temporary provision allowing for the waiving of the material factor requirement, according to the EDA's response to EDA Discussion Point #4 in the OLS FY 2012-2013 Department of the Treasury Budget Analysis. The EDA lists all approved Grow New Jersey Assistance Program tax credits at http://www.njeda.com/web/pdf/Approved_Grow.pdf.

- ***Questions:*** **Please indicate the total amount of tax credits approved to date under the Grow New Jersey Assistance Program, the ceiling currently placed on total credit awards, and the remaining cap space. Does the available cap space suffice to operate the program through the statutory July 1, 2014 application deadline? If not, please indicate the strategy the EDA intends to employ to allocate the unencumbered tax credit amount. Has the EDA already turned away, or does it anticipate turning away, credit applicants because of the waning supply of unused tax credits? Has the EDA been compelled to create a wait list?**

- **Given that the EDA certified the first Grow New Jersey Assistance Program tax credit award in August 2012, please indicate the number of certified tax credit awards the EDA expects to have finalized by the end of FY 2014. What is the total estimated approved credit amount that the recipients may by then begin to claim on their tax returns?**

9. On May 30, 2012, the Governor announced that the **State had entered into an agreement with Amazon.com**. The online retailer would begin constructing two warehousing and shipping facilities in New Jersey in 2013. The projects would represent an estimated capital investment of $130 million and would result in the creation of 1,500 permanent full-time jobs and thousands of temporary full-time seasonal and construction jobs. Moreover, since the warehousing and shipping facilities would establish nexus to New Jersey, Amazon reportedly agreed to begin collecting sales and use tax on taxable purchases by New Jersey residents on July 1, 2013. In return, the EDA would at a later date provide unspecified financial incentives to Amazon.com from among its economic development programs. On January 8, 2013, Amazon.com announced that it had selected Robbinsville, Mercer County, as the site of one of its fulfillment centers and that it hoped to take the facility into operation in March 2014.

Discussion Points (Cont'd)

News reports detailed that the company would pay more than $22 million in property taxes and intended to invest more than $200 million in the facility and create 700 full-time jobs.

- ***Questions:*** **Please provide a copy of the May 2012 agreement between Amazon.com and the State of New Jersey concerning the construction and operation by Amazon.com of two warehousing and shipping facilities in New Jersey. If a copy cannot be provided, please state the reason(s) for not providing the document and describe the terms and conditions of the agreement. What role did the EDA play in crafting the agreement? Does the EDA foresee that future economic development agreements may also temporarily sanction, without legislative authorization, retailers not abiding by their obligation under New Jersey law to collect sales tax on taxable purchases by New Jersey residents?**

- **Has the EDA approved Amazon.com for any financial incentives in connection with the May 30, 2012 announcement of an agreement between the online retailer and the State of New Jersey? If so, please outline the financial incentives. Do the incentive agreements specify any recapture provisions that require the company to maintain a certain number of full-time jobs for a certain period of time if it intends to receive and keep its full financial assistance? In evaluating Amazon.com's applications for financial incentives, has the EDA performed a material factor and net benefit test? If so, please share the EDA's findings. If the EDA has not yet approved Amazon.com for any incentives, please indicate whether the company has applied for any incentives and by what date the EDA intends to make a decision on the application. Has the construction of Amazon.com's two New Jersey warehousing and shipping facilities begun?**

10. The FY 2014 **Brownfields and Contaminated Site Remediation Program** budget for payments to developers of brownfield sites is unclear. The Governor proposes a direct $18.2 million General Fund appropriation in FY 2014 for that purpose, or $3.25 million less than the direct $21.45 million FY 2013 appropriation. But this number may only reflect a portion of total expected FY 2014 program disbursements. Additional funding may materialize from unexpended account balances carried forward from prior fiscal years and amounts received from the constitutional dedication to environmental programs of four percent of annual corporation business tax collections. Through FY 2011 these alternative funding sources financed the entire program. In FY 2011, for example, the program received $10.2 million from the constitutional dedication and used $1.1 million in carryforward balances in expending $11.3 million on 15 projects. Owing to rising contractual obligations, however, since FY 2012 the program has needed additional direct General Fund appropriations in every fiscal year.

In addressing EDA Discussion Point #7 in the OLS FY 2012-2013 Department of the Treasury Budget Analysis, the EDA could not estimate required program disbursements in FY 2013, FY 2014, and FY 2015 for two reasons. First, it still had to finalize its envisioned monitoring system composed of site visits to and field reports of approved remediation and redevelopment projects to better gauge current business activities and the program's future budgetary needs. Second, the EDA remained unsure as to the effects of the sundry requirements of P.L.2009, c.60, the "Site Remediation Reform Act," on the finances and timelines of approved

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remediation and redevelopment projects and hence their financial demands on the Brownfields and Contaminated Site Remediation Program in any given fiscal year. In all, the EDA noted that the State's aggregated program liability under memoranda of agreement with developers approximated $350 million over a 20-year repayment term, depending on the specific revenues to be generated by each project.

P.L.1997, c.278 created the Brownfield Site Reimbursement Fund whose balances finance the Brownfields and Contaminated Site Remediation Program (N.J.S.A.58:10B-30). The program reimburses qualified developers for up to 75 percent of the costs they incurred in remediating abandoned or underused, contaminated, commercial and industrial properties. To be eligible, a project must generate incremental State tax revenues in excess of the State reimbursement. Statutes require the deposit into the Brownfield Site Reimbursement Fund of State tax revenue generated by redeveloped sites. In actuality, however, the fund receives its resources from direct General Fund appropriations and, pursuant to budget language, from that portion of the constitutional dedication of four percent of annual corporation business tax collections for environmental purposes that supports the remediation of the discharges of hazardous substances. The budget language also authorizes the Office of Management and Budget to appropriate additional amounts to the fund if necessary to meet payment obligations.

- ***Questions:*** **For each of FY 2012 and FY 2013, please provide the number of projects that received or are anticipated to receive reimbursements under the Brownfields and Contaminated Site Remediation Program as well as the aggregated disbursement amount. What amount of each year's funding originated in direct General Fund appropriations, the constitutional dedication of four percent of annual corporation business tax collections for environmental purposes, and unexpended account balances carried forward from prior fiscal years? What is the total outstanding program liability, as measured in reimbursement amounts that would eventually come due under memoranda of agreement that developers have signed with the State? Has the State concluded any new agreements in FY 2013?**

- **Has the EDA established its planned monitoring system composed of site visits and field reports to better gauge current business activities on approved remediation and redevelopment project sites and the program's future budgetary demands? If not, please comment on the impediments to the monitoring system's full implementation.**

- **How many brownfield remediation and redevelopment projects does the EDA anticipate will receive reimbursements in FY 2014 and what is the total FY 2014 program budget? What amount of the FY 2014 funding is anticipated to originate in direct General Fund appropriations, the constitutional dedication of four percent of annual corporation business tax collections for environmental purposes, and unexpended account balances carried forward from prior fiscal years? Does the State anticipate signing any new reimbursement agreements in FY 2013? What are the program's anticipated funding requirements for FY 2015 and FY 2016?**

11. Some $384.0 million in unexpended FY 2012 and FY 2013 Clean Energy Fund balances lapsed into the State General Fund. This prompted the Board of Public Utilities (BPU) to reduce

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the Clean Energy Program budget for the 18-month period from January 2012 through June 2013 by $188.8 million. The Board distributed $58.6 million of the reduction to the four Clean Energy Fund programs the EDA co-administers with the BPU to develop New Jersey's green economy. In all, their combined funding level shrank from $107.7 million to $49.0 million. The **Edison Innovation Clean Energy Manufacturing Fund (CEMF)** absorbed the largest cut among the four green economy development initiatives, as its allocation plunged by $22.7 million, or 73.1 percent, from $31.1 million to $8.4 million (BPU Board Order dated November 20, 2012 Docket numbers EO07030203 and EO11100631V). The CEMF's FY 2014 allocation is unclear, as the BPU has not yet adopted a Clean Energy Program budget for FY 2014 and beyond, and the Administration recommends diverting another $196.2 million in Clean Energy Fund balances into the State General Fund in FY 2014.

The CEMF provides up to $3.3 million in financial assistance to an eligible company that manufactures renewable energy and energy-efficiency products in New Jersey. Up to $300,000 is available as a grant to assist with site identification and procurement, design, and permits; and up to $3 million as a low-interest loan to support equipment purchases and facility construction and improvements. The CEMF receives its funding from the dedicated, off-budget Clean Energy Program, which New Jersey ratepayers finance via the societal benefits charge included in their electric and natural gas bills. Operative since April 2001, the program was authorized as part of the "Electric Discount and Energy Competition Act," P.L.1999, c.23 (N.J.S.A.48:3-49 et seq.). Through the program the BPU seeks to promote increased energy efficiency and the use of renewable energy sources, including wind, geothermal, and sustainable biomass.

- **Questions: Please comment on the impact of the $22.7 million reduction in Edison Innovation Clean Energy Manufacturing Fund (CEMF) resources from $31.1 million to $8.4 million for the 18-month period from January 2012 through June 2013. Did the EDA intend to spend the full $31.1 million in program year 2012? How many awards does the EDA project a) will it make in the 18-month period and b) would it have made absent the funding cut? Have previously awarded payments been deferred, scaled back or rescinded? Has the EDA ceased accepting new applications or making new awards? How long is any a) wait list for program admittance and b) backlog in disbursing approved assistance? Has the EDA tightened eligibility criteria or lowered assistance payments?**

- **What CEMF funding level does the EDA anticipate for FY 2014? After the repeated diversions of Clean Energy Fund balances into the State General Fund, does the EDA regard amounts originally budgeted for the CEMF as sufficiently certain to plan program operations and specifications upon them?**

12. The authors of the 2011 Energy Master Plan noted that the Administration was committed to developing 1,500 Megawatt of Combined Heat and Power (CHP) generation capacity over the next ten years but that there was a need to find new stable **funding sources for financial assistance programs for CHP projects**.

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At first, P.L.2009, c.34 required that $60 million of accrued Retail Margin Fund balances from the 0.5¢ per kilowatt-hour retail margin that electric distribution companies charged certain non-residential customers remaining on Basic Generation Service from August 2003 though May 2011 under N.J.S.A.48:3-51 and 48:3-57 be applied to grants supporting the development of CHP facilities. Accordingly, the Board of Public Utilities (BPU) and the EDA developed the original **CHP grant program** as the vehicle through which the $60 million was supposed to be disbursed. Although the EDA received and reviewed grant applications, no grant award was ever made, as available Retail Margin Fund balances were lapsed into the State General Fund and the retail margin assessment was abolished effective June 1, 2011.

Subsequently, the EDA announced on December 3, 2010 that it had approved six proposed CHP projects to receive over $14.2 million in funding under the **Clean Energy Solutions ARRA Combined Heat and Power Program**, a scaled down variant of the previous CHP grant program. The allocation, however, reflected a one-time investment out of the federal stimulus funding the State received under the American Recovery and Reinvestment Act of 2009. According to EDA Discussion Point #9 in the OLS FY 2012-2013 Department of the Treasury Budget Analysis, the EDA expected the six projects to be completed by April 30, 2012.

An alternative funding source was EDA's **Clean Energy Solutions Capital Investment Loan/Grant program**. According to EDA Discussion Point #5 in the OLS FY 2011-2012 Department of the Treasury Budget Analysis, the EDA awarded a total of $9.8 million to three proposed CHP projects through that program. A year later, only two of the projects had moved forward with $8.5 million in program subsidies (EDA Discussion Point #9 in the OLS FY 2012-2013 Department of the Treasury Budget Analysis). Nevertheless, the program's seemingly stable funding source dissipated, as it was underwritten by amounts the State collected from auctions of carbon dioxide emission allowances to power plant owners under the Regional Greenhouse Gas Initiative (RGGI) and deposited in the Global Warming Solutions Fund, which was created in accordance with P.L.2007, c.340. However, New Jersey withdrew from RGGI at the end of 2011. Furthermore, in FY 2013, the Administration redirected the remaining $12.5 million in Global Warming Solutions Fund proceeds in EDA accounts into the State General Fund.

Subsequently, the dedicated, off-budget Clean Energy Fund has financed the newly created **Large Scale CHP-Fuel Cells (LSCHP-FC) Program**. According to EDA Discussion Point #9 in the OLS FY 2012-2013 Department of the Treasury Budget Analysis, the EDA and BPU co-administer the program that was originally intended to disburse $55 million to support ten CHP and two fuel cell projects with an electric generating capacity of more than one megawatt each that serve commercial, institutional or industrial electricity customers. The EDA anticipated additional funding rounds in the future. However, the BPU reduced the program budget by $18 million to $37 million in reaction to the lapsing of $384.0 million in FY 2012 and FY 2013 Clean Energy Fund balances into the State General Fund (BPU Board Order dated November 20, 2012 Docket numbers EO07030203 and EO11100631V).

Moreover, in response to EDA Discussion Point #9, the EDA indicated had recently expanded the eligibility criteria for its **Energy Efficiency Revolving Loan Fund (EE RLF) Program** so as to include stand-alone small-scale CHP and fuel cell projects of up to one megawatt of installed generation capacity. The program, which also receives funding from the Clean Energy Fund, provides low-interest loans to eligible projects that can be used to finance up to 80 percent of

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total eligible project cost, not to exceed $2.5 million. But the BPU cut the 2012 program budget from $17.6 million to $240,000 in reaction to the lapsing of $384.0 million in FY 2012 and FY 2013 Clean Energy Fund balances into the State General Fund. (BPU Board Order dated November 20, 2012 Docket numbers EO07030203 and EO11100631V).

Lastly, the EDA replied to EDA Discussion Point #9 that it was exploring the creation of a new $3 million revolving loan program that would be credited with unexpended American Recovery and Reinvestment Act of 2009 balances. The moneys would support future energy efficiency and renewable energy projects at State-owned facilities and buildings, including CHP projects.

- ***Questions:*** **Please provide an update on the strategy the Administration intends to employ to reach its target of developing 1,500 Megawatt of Combined Heat and Power (CHP) generation capacity over the ten years through the end of 2021. Are the lapses of balances in the Large Scale CHP-Fuel Cells (LSCHP-FC) Program and Energy Efficiency Revolving Loan Fund (EE RLF) Program accounts jeopardizing the State's ability to reach the target? Has the EDA come closer to identifying a stable funding source to provide financial assistance to potential CHP facility developers? If not, which funding streams are under consideration? Now that the Clean Energy Solutions ARRA Combined Heat and Power Program and the Clean Energy Solutions Capital Investment Loan/Grant program seem to have expired, which currently active State programs offer financial assistance to developers of CHP facilities? Does the EDA plan any additional programs?**

- **Please comment on the impact of the $35.4 million reduction in LSCHP-FC Program and EE RLF Program resources from $72.6 million to $37.2 million for the 18-month period from January 2012 through June 2013. Did the EDA intend to spend the full $72.6 million in program year 2012? How many awards for what amount of CHP and fuel cell generation capacity does the EDA project a) will it make in the 18-month period and b) would it have made absent the funding cut? Have previously awarded payments been deferred, scaled back or rescinded? Has the EDA ceased accepting new applications or making new awards? How long is any a) wait list for program admittance and b) backlog in disbursing approved assistance? Has the EDA tightened eligibility criteria or lowered assistance payments?**

- **What LSCHP-FC Program and EE RLF Program funding levels does the EDA anticipate for FY 2014? After the repeated diversions of Clean Energy Fund balances into the State General Fund, does the EDA regard amounts originally budgeted for the LSCHP-FC Program and EE RLF Program as sufficiently certain to plan program operations and specifications upon them?**

13. A former 1,126 acre federal military installation bordering the Monmouth County municipalities of Eatontown, Oceanport, and Tinton Falls, Fort Monmouth closed in September 2011. P.L.2010, c.51 established the **Fort Monmouth Economic Revitalization Authority (FMERA)** under EDA's supervision to implement the "Fort Monmouth Reuse and Redevelopment Plan," crafted by FMERA's predecessor authority, the Fort Monmouth Economic

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Revitalization Planning Authority. In redeveloping the fort for civilian use FMERA is to promote economic development, conserve natural resources, provide housing, and advance the overall quality of life in the affected communities and the State.

On May 17, 2012, New Jersey signed an agreement with the United States Army setting the terms for transferring the military premises to FMERA. A first conveyance of just over 600 acres was slated to take place by February 1, 2013. The remaining land would be transferred at a date to be determined. According to FMERA's reply to EDA Discussion Point #8 in the OLS FY 2012-2013 Department of the Treasury Budget Analysis, the United States Army will receive 60 percent and FMERA 40 percent of the proceeds to be realized over 20 years from selling and leasing parcels covered by the first conveyance. Procedures for land sales and leasing spaces are in place and FMERA selected Cushman & Wakefield as the property's primary broker.

FERMA has already signed up the first investors. In September 2012, it approved a $2.7 million purchase agreement with AcuteCare Health Systems, LLC for the fort's former Paterson Army Health Clinic in Oceanport. The company will refurbish the property and use it to provide medical services to the elderly, veterans, and other patients in need. On January 29, 2013, the Administration then announced that CommVault acquired a 55-acre parcel in Tinton Falls. The company anticipates developing a corporate campus on the site that will contain 650,000 square-feet of new office and research space, including its headquarters. In March 2012, the EDA approved a Business Employment Incentive Program (BEIP) grant of up to $7.2 million for creating 250 new jobs and a $1.35 million Business Retention and Relocation Assistance Grant for retaining 300 employees in New Jersey in support of the CommVault project.

Furthermore, in addressing EDA Discussion Point #8, FMERA conveyed that the Suneagles Golf Course reopened at the end of September 2011 and that the EDA made Fort Monmouth capital investments newly eligible for subsidies under the Economic Redevelopment and Growth Program and a 15 percent bonus award in the calculation of any BEIP grant.

Finally, it is unclear to what extent the Federal Emergency Management Agency's (FEMA) decision to house residents displaced by superstorm Sandy on the grounds of the former fort will affect the redevelopment. News publications reported that the Army Corps of Engineers has been renovating existing structures on the former military installation to meet FEMA's anticipated need for 115 housing units.

- ***Questions:*** **Please provide a big-picture outline of the phases of Fort Monmouth's planned revitalization. By which target date is the authority hoping to finish implementing the "Fort Monmouth Reuse and Redevelopment Plan?"**

- **Please report on the progress of Fort Monmouth's repurposing since March 2012, leaving aside the publicized purchase agreements with CommVault and AcuteCare Health Systems. Has the Fort Monmouth Economic Revitalization Authority (FMERA) taken possession of all Phase 1 properties? What amount has FMERA collected to date from the sale or lease of Phase 1 properties? What is the current timetable for taking control of the remaining premises and what will be the distribution formula between the United States Army and FMERA for sales and lease proceeds to be realized from these parcels? What elements of the redevelopment is FMERA currently prioritizing?**

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- **Please comment on the effects of superstorm Sandy on the implementation of the "Fort Monmouth Reuse and Redevelopment Plan." Did the storm damage any structures or land or raised concerns about the suitability of certain sites for their intended reuse? Does the redevelopment plan have to be revised as a result? How does the decision by the FEMA to house New Jersey residents displaced by the storm on the former Fort Monmouth property affect redevelopment plans and timetables?**

14. "Angel investments" are equity placements by high net worth individuals into high-risk start-up ventures. On August 2, 2011, the EDA announced the creation of three new programs that provide financing to emerging technology and life science companies that have attracted angel and venture capital investments. One of the programs is the **Edison Innovation Angel Growth Fund** under which eligible companies can receive up to $250,000 in subordinated convertible loans at a fixed annual interest rate of four to ten percent for a five-year term. Put differently, the EDA's claim to loan repayment will be subordinate to any senior bank debt. In return, the EDA obtains the right to convert the debt into equity in a future financing round and ten-year warrants that allow the EDA to acquire company shares at a determined strike price. To qualify for a loan, a C-corporation must: a) have annual commercial revenues of $500,000; b) employ 75 percent of its employees in New Jersey or commit to growing ten jobs over two years with a minimum salary of $75,000; c) develop or own protected proprietary technology; and d) have attracted twice the loan amount from angel investors within 90 days prior to its loan application.

P.L.2013, c.14, the "New Jersey Angel Investor Tax Credit Act," recently established credits against corporation business and gross income taxes for investing in New Jersey emerging technology businesses. Subject to certain limitations, the tax credits equal ten percent of a taxpayer's qualified investment in an emerging technology company with fewer than 225 employees, of whom at least 75 percent are filling a position in New Jersey. Purchase, production, and research agreements qualify as creditable investments. The permanent program is subject to a $25 million annual cap. In addition, tax credit recipients cannot claim tax credits for that part of an investment in a single company that exceeds $500,000.

- **Questions: Please indicate the total endowment of the Edison Innovation Angel Growth Fund and any annual aggregate cap on loan originations. How many loan applications has the EDA received to date? How many loans have been originated to date and to how many companies? What total amount has been loaned out? What percentage of loan payments is either late by 30 days or more? Is the EDA considering eliminating or revamping the program in light of the enactment of P.L.2013, c.14, the "New Jersey Angel Investor Tax Credit Act?"**

15. In September 2011, the United States Department of the Treasury issued a $33.8 million **State Small Business Credit Initiative** award to the State of New Jersey and released the first $11.1 million installment thereof. The second and third payment tranche will be released once New Jersey will have expended or obligated 80 percent of the previous disbursement.

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Any amount not transferred to the State by the end of the two-year period from the date of the allocation agreement, or September 8, 2013, may be forfeited. The State has until March 31, 2017 to expend the full $33.8 million allocation and must file annual reports on its fund usage with the United States Department of the Treasury. The Governor's FY 2014 Budget indicates that the Administration does not anticipate the receipt of the second funding installment in FY 2013 or FY 2014 (page C-24).

According to the allocation agreement, the EDA will use the moneys in support of four existing programs: a) $13.5 million for EDA's participation in small businesses' bank loans for investments in fixed assets and permanent working capital; b) $9.8 million for EDA's provision of direct loans to small business for investments in fixed assets and permanent working capital; c) $5.5 million for the EDA to guarantee up to 50 percent of bank loans of eligible small businesses for investments in fixed assets and permanent working capital; and d) $5.0 million for the New Jersey Venture Capital Fund Program under which the EDA would invest in early-stage New Jersey technology businesses with less than $3.0 million in annual revenue.

In addressing EDA Discussion Point #10 in the OLS FY 2012-2013 Department of the Treasury Budget Analysis, the EDA indicated that it had approved $9.6 million in project financing utilizing the first $11.1 million tranche received from the federal government. Of that amount, it allocated $5.0 million to the New Jersey Venture Capital Fund Program and selected two venture capital firms to invest that sum in an estimated 15 early-stage technology businesses. The EDA also approved another $4.1 million for loans as well as loan and line of credit guarantees to small businesses under the Main Street Business Assistance Program and the Statewide Loan Pool. The EDA set aside the remaining $500,000 as a long-term, low-interest loan under the Loans to Lenders component of the Fund for Community Economic Development to the Greater Newark Enterprise Corporation, a non-profit organization issuing loans to small businesses in the greater Newark area. In a February 2013 audit report, the Office of Inspector General in the United States Department of the Treasury found that New Jersey complied with all federal program requirements in administering the $2.9 million of State Small Business Credit Initiative funds it had disbursed as of June 30, 2012.

The Small Business Jobs Act of 2010, Public Law 111-240, created the $1.5 billion State Small Business Credit Initiative. Intended to strengthen state programs that support lending to small businesses and manufacturers, the initiative is expected to help spur up to $15 billion in lending to small businesses and manufacturers. Participating states must use the federal funds for programs that leverage private lending to help finance capital investments of creditworthy small businesses and manufacturers that have been denied access to the loans they need to expand and create jobs.

- ***Questions:*** **Please report on EDA's progress in using the $33.8 million the State was awarded under the federal State Small Business Credit Initiative. Please identify the specific EDA programs receiving funding, and for each program delineate the amount allocated, the amount that has already been expended or committed, and any metrics on the expected economic benefits to New Jersey resulting from the investments receiving financial assistance. By what date does the EDA expect to receive the second tranche of its State Small Business Credit Initiative award? Is the EDA concerned that it might forfeit any amounts not received from the federal**

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government by September 8, 2013, or the end of the two-year period from the date of the allocation agreement?

16. Replying to EDA Discussion Point #5 in the OLS FY 2012-2013 Department of the Treasury Budget Analysis, the EDA noted that it launched the first phase of the **Incentives Data Management System portal** in February 2012. After completion of the project's first phase Business Employment Incentive Program (BEIP) grant recipients would be able to securely file and validate required annual compliance documents online. This web-based tool would reduce the need for nearly 400 BEIP recipients to send paper copies to the EDA and increase EDA processing efficiencies by ensuring that all necessary documents have been received and are in order prior to EDA review. Future project phases would expand the portal to all other incentive programs; allow for the automated review of compliance documentation; and facilitate data collection, validation, and reporting.

- ***Questions:*** **Please provide an update on the status of the Incentives Data Management System portal. Has the project been completed? If not, at which development stage is the project currently and by which date does the EDA expect its completion? If the project has been completed, please comment on the EDA's experiences with the new technology. Has staff productivity improved? What problems has the EDA encountered with the new technology, if any, and what amount would have to be expended to correct the problems? What was the original cost estimate for the project? What is the current cost estimate or, if the project is already completed, its actual cost? If applicable, what factors account for any cost overrun?**

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BOARD OF PUBLIC UTILITIES

1. Hurricane Irene made landfall in New Jersey on August 28, 2011 and disrupted service to 1.9 million of the State's 3.9 million electric customers with some not having their electricity restored for eight days. Two months later, an October 29, 2011 snowstorm caused 1.0 million customers to loose power with the most unfortunate being without electric service for seven days. The **power restoration performance of electric distribution companies** in the wake of the two storms attracted the scrutiny of the Board of Public Utilities (BPU). On December 14, 2011, the Board released its "Hurricane Irene Electric Response Report" in which it found that all electric utilities experienced challenges in their storm response and that some practices established in accordance with prior BPU actions were ineffective in the face of large-scale extreme weather situations. Accordingly, the BPU issued several directives so as to avert similar widespread and lengthy power outages in the future. They touched electric utility practices in the areas of communications, estimating outage restoration, supplemental crew mobilization, and mitigation of tree-related damages. The BPU also hired Emergency Preparedness Partnerships to review the electric utilities' performance in-depth. On August 9, 2012, the contractor submitted its final report. Its findings and recommendations led to the issuance of a January 23, 2013 Board Order containing 103 additional BPU directives New Jersey's electric distribution companies must implement, mostly, by September 2013 to improve their preparedness for and restoration efforts following large-scale extreme weather events (Board Order dated January 23, 2013 Docket number EO11090543). The measures fall into five categories: preparedness efforts, communications, restoration and response, post event, and underlying infrastructure issues.

In the Board Order, the BPU also reported that it was still reviewing the electric distribution companies' preparations for and responses to Hurricane Sandy, which made landfall in New Jersey on October 29, 2012. To that end, the BPU engaged Rutgers' Center for Energy, Economic and Environmental Policy to analyze four aspects related to the companies' performance: 1) infrastructure improvements, particularly the protection of substations from inundation and the selective undergrounding of critical infrastructure; 2) the expansion of distributed generation; 3) an evaluation of real capabilities and limitations of smart grid technologies; and 4) the identification of best practices in transmission system vegetation management.

In addressing BPU Discussion Point #12 in the OLS FY 2012-2013 Department of the Treasury Budget Analysis, the Board described the methods it generally employs to assess the preparedness of electric utilities for widespread extreme weather situations. For example, its staff routinely review the utilities' storm plans. Moreover, in advance of significant metrological disturbances, the BPU typically queries electric utilities to gauge their readiness. Lastly, based on other states' experiences, the BPU estimated that it would take between two weeks and a month for the utilities to fully restore electric power were a category 3 or stronger hurricane to hit New Jersey.

- ***Questions:*** **Please share the BPU's preliminary assessment of the preparedness and restoration performance of each of New Jersey's electric distribution companies with regard to Hurricane Sandy. To what extent did the utilities improve their restoration performance following Hurricane Sandy relative to Hurricane Irene and the October 29, 2011 snowstorm? Did the BPU notice that the utilities have successfully**

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implemented lessons learned from the 2011 storms? In the BPU's opinion, was the electric companies' Sandy performance acceptable? Could the BPU have used the regulatory process to prod the electric companies into being better prepared for the hurricane? By what date does the Board anticipate receiving the Center for Energy, Economic and Environmental Policy's review of options to shore up the reliability of the electric distribution system in extensive, violent storms?

- **Please indicate the total costs the electric distribution companies incurred in restoring electricity to all New Jersey ratepayers after Hurricane Sandy. Which percentage of the expenditures will the Federal Emergency Management Agency reimburse? To what extent will electric utilities be authorized to charge ratepayers for the cost of service restoration? Does the BPU anticipate that the utilities will want to invest heavily in their electric transmission infrastructure so as to strengthen its resilience in extreme weather episodes? Could the BPU use the regulatory process to compel the utilities to make specific investments in their electric transmission infrastructure? If so, does the BPU intend to use the regulatory process to improve the resilience of New Jersey's electric transmission infrastructure? Please detail any funding requests through the rate-setting process that the BPU has already received from electric companies for major infrastructure upgrades. Since the related costs would presumably be passed through to consumers, what tests will the BPU use in balancing the costs of improved preparedness with the objective of ensuring competitively priced electric service?**

2. The 2011 Energy Master Plan reaffirmed the State's commitment to sourcing 22.5 percent of the electricity used in New Jersey from renewable energy sources by 2021. That percentage reflects the pre-existing objective under the State's **Renewable Portfolio Standards (RPS)**. P.L.1999, c.23 (N.J.S.A.48:3-49 et seq.) established the RPS, which prescribe a minimum percentage of total kilowatt hours sold in New Jersey by each electric power supplier and basic generation service provider that must be generated from renewable energy sources. While the law prescribes specific minimum RPS targets for some years and forms of alternative energy, it leaves the formulation of the overall RPS schedule to the BPU's discretion (subsection d. of N.J.S.A.48:3-87). Current RPS targets are outlined in N.J.A.C.14:8-2.3. The regulatory RPS schedule excludes solar energy targets, as they are set forth in permanent statutes in accordance with P.L.2012, c.24.

For energy years 2010 through 2021, the table below lists the percentages of energy supplied in New Jersey that must be either from Class I, Class II or solar renewable energy. The Class I and Class II targets reflect the RPS as delineated in N.J.A.C.14:8-2.3. The solar energy figures represent the RPS for energy year 2010; the gigawatthours-based (Gwhrs) targets for energy years 2011, 2012, and 2013 in accordance with P.L.2009, c.289; and starting in energy 2014 the percentage targets set forth in the superseding P.L.2012, c.24.

Class I energy sources are solar technologies, wind energy, photovoltaic technologies, geothermal technologies, fuel cells, wave or tidal action, the combustion of methane gas captured from landfills or biomass facilities, and hydropower facilities with a capacity not exceeding three megawatts. Electricity from hydroelectric facilities with a capacity exceeding

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three megawatts constitutes a Class II energy source. As to the nomenclature for an energy year, energy year 2010, for example, started on June 1, 2009 and ended on May 31, 2010.

Renewable Portfolio Standards:
Percentage of Energy Sold in New Jersey that Must Be from Renewable Energy Sources

Energy Year	Class I Energy	Class II Energy	Solar Energy	Total Renewable Energy
2010	4.685%	2.50%	0.221%	**7.41%**
2011	5.492%	2.50%	306 Gwhrs	**8.30% est.**
2012	6.320%	2.50%	442 Gwhrs	**9.21% est.**
2013	7.143%	2.50%	596 Gwhrs	**10.14% est.**
2014	7.977%	2.50%	2.050%	**12.53%**
2015	8.807%	2.50%	2.450%	**13.76%**
2016	9.649%	2.50%	2.750%	**14.90%**
2017	10.485%	2.50%	3.000%	**15.99%**
2018	12.325%	2.50%	3.200%	**18.03%**
2019	14.175%	2.50%	3.290%	**19.97%**
2020	16.029%	2.50%	3.380%	**21.91%**
2021	17.880%	2.50%	3.470%	**23.85%**

- ***Questions:*** **Please indicate the actual percentage of electricity sold in New Jersey in each of energy years 2010, 2011, and 2012 that was generated from renewable energy sources. Did the electric power suppliers and basic generation service providers comply with the Class I, Class II, and solar energy targets of the Renewable Portfolio Standards (RPS) in each of those years? Please break out the creditable components that electric power suppliers and basic generation service providers used to meet the Class I, Class II, and solar energy RPS requirements in energy years 2010, 2011, and 2012. What was the total cost to ratepayers, and average cost per ratepayer, of the RPS in energy years 2010, 2011, and 2012? What consequences do electric power suppliers and basic generation service providers face upon failing to meet an RPS mandate?**

- **Please comment on the impact of P.L.2012, c.24 on the RPS. Did the law's enactment increase to 23.85 percent the RPS' goal of sourcing 22.5 percent of the electricity used in New Jersey from renewable energy sources by 2021? Does the BPU intend to revise the RPS in reply to the law's enactment? Please set forth the updated RPS targets from energy year 2014 through energy year 2021 by Class I, Class II and solar energy. In the BPU's estimation, what is the likelihood that the energy year 2021 target will be attained? Is the BPU concerned that implementing the energy year 2021 target might erode the competitive position of New Jersey-based energy-intensive businesses? What will be the financial impact on ratepayers of meeting the RPS' energy year 2021 target?**

3. New Jersey must expand its solar energy generation capacity substantially to meet its long-term solar targets under the statutory Renewable Portfolio Standards (subsection d. of

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N.J.S.A.48:3-87). P.L.2012, c.24 revised the solar targets starting in energy year 2014 (June 2013 through May 2014). Solar energy must now comprise 2.05 percent of total electricity sold in New Jersey in energy year 2014 with the percentage gradually rising to 4.1 percent by energy year 2028. The previous solar targets, set by P.L.2009, c.289, required electric utilities to generate or purchase at least 306 gigawatt-hours of solar energy in energy year 2011 and at least 5,316 gigawatt-hours by energy year 2026.

The State has set up a price support system that is intended to impel the solar capacity investments needed to meet RPS solar targets. The system has three basic elements: a) RPS solar targets, which create a demand for solar energy by obligating electric power suppliers and providers to meet specific solar quotas; b) **Solar Renewable Energy Certificates (SRECs)**, which are issued for every megawatt-hour (MWh) of electricity generated by solar power installations and are sold separately from the generated electricity; and c) a trading platform on which electric power suppliers and providers can acquire from solar energy generators the SRECs they need to meet their annual solar targets. To limit the cost to ratepayers of the price support system, a gradually declining price ceiling applies to SRECs in the form of Solar Alternative Compliance Payments (SACP). Electric power suppliers and providers may make such alternative payments to the BPU in lieu of purchasing SRECs to meet their solar quotas. In reply to BPU Discussion Point #10 in the OLS FY 2012-2013 Department of the Treasury Budget Analysis, the Board estimated that the pre-P.L.2012, c.24 solar targets would cost ratepayers $90 million in energy year 2012, $120 million in energy year 2013, $150 million in energy year 2014, and $190 million in energy year 2015. The amount would have steadily increased to $2.0 billion by energy year 2026.

The authors of the 2011 Energy Master Plan expressed concern that tumbling SREC prices might deter the creation of additional solar capacity and thereby jeopardize compliance with the long-run solar targets. Prices were collapsing because New Jersey experienced a surge in solar energy supply during 2010 and the first half of 2011 on the heels of previously high SREC prices, the federal Business Energy Investment Tax Credit of 30 percent of a business' investment in solar facilities, and declining prices for photovoltaic panels. Weighted average monthly prices plummeted from $600 to $617 MWh per month in energy year 2011 to a range of between $215 and $312 per MWh in energy year 2013 through December 2012. The upper price limit was $675 per MWh in energy year 2011 and is $641 per MWh in energy year 2013.

With an eye toward lifting SREC prices, P.L.2012, c.24 then strove to increase the demand for SRECs by establishing more aggressive solar targets. But the law also sought to control the solar targets' cost effect on ratepayers by replacing the previous regulatory ceilings on SREC prices with significantly lower statutory caps. The prior limit per MWh fell gradually from $625 in energy year 2014 to $594 in energy year 2016. Under P.L.2012, c.24, the new ceiling declines from $339 in energy year 2014 to $323 in energy year 2016. Responding to BPU Discussion Point #10 in the OLS FY 2012-2013 Department of the Treasury Budget Analysis, the BPU conveyed that electric power suppliers and providers met 95 percent of the solar target of 306 gigawatt-hours in energy year 2011 through SRECs and five percent through alternative SACP payments to the BPU, which serves as the *de facto* cap on SREC prices.

- **Questions: Please comment on the state of the Solar Renewable Energy Certificates (SRECs) market in energy year 2013 prior to P.L.2012, c.24's higher solar energy generation capacity targets and reduced SREC price ceilings. How many**

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SRECs did and did not sell in energy year 2013? By what month were all the SRECs sold that are required to meet the energy year 2013 solar quota of 596 gigawatt-hours? At current SREC prices, what is the internal rate of return of the typical solar installation and how long must investors wait to break even? If applicable, please share any available metrics demonstrating that plummeting SREC prices in recent years have hampered the creation of new solar capacity. What percentage of the energy year 2012 solar target of 442 gigawatt-hours did electric power suppliers and providers meet through SRECs and through the alternative SACP payments to the BPU?

- **Please report on the projected impacts of P.L.2012, c.24's accelerated solar energy generation capacity targets and reduced SREC price caps. What is the anticipated average SREC price in energy years 2014, 2015, and 2016? At the anticipated SREC prices and SACP rates, what is the estimated internal rate of return of a typical solar installation and how long will investors have to wait to break even? Does the BPU expect that all available SRECs will be sold in those years? Conversely, how significant is the risk that the SREC supply will be insufficient to meet the rising solar targets in energy years 2014, 2015, and 2016 and that electric power suppliers and providers will have to make alternative SACP payments to the BPU? What will be the estimated annual cost to the average residential ratepayer of meeting the new solar quotas in energy years 2014, 2015 and 2016?**

4. The "Offshore Wind Economic Development Act," P.L.2010, c.57, directs the BPU to establish an **Offshore Renewable Energy Certificate (OREC)** program. A price support system modeled after the Solar Renewable Energy Certificate (SREC) program addressed in Discussion Point #3, the OREC program is intended to ensure that New Jersey generates at least 1,100 megawatts of electricity from qualified offshore wind projects by an unspecified date. Under the OREC financing mechanism, the BPU would first determine an annual percentage of New Jersey electricity sales that must be from offshore wind installations. Electric power suppliers and providers would then have to source that percentage of their New Jersey electricity sales from offshore wind farms. They would do so through the purchase of ORECs, which represent power generated by owners of offshore wind electric generation systems at prices that reflect the higher cost of renewable energy. ORECs would be sold separately from the electricity actually generated by the wind farms. To limit the price support system's cost to ratepayers, the BPU would set a *de facto* price ceiling for the certificates in the form of Offshore Wind Alternative Compliance Payments. Electric power suppliers and providers could make such alternative payments to the BPU in lieu of purchasing ORECs to meet their offshore wind requirements.

The creation of the OREC program has stalled as P.L.2010, c.57 makes the establishment of offshore wind generation targets contingent on the prior BPU approval of offshore wind installations for program participation. But the BPU has yet to approve the first program participant. Two impediments commonly stand between prospective applicants and program approval. First, projects to be sited in federal waters, which begin three miles off the State's coast, must receive federal permits. The United States government, however, has been slow to issue rules and permits for offshore wind energy activity. Second, the "Offshore Wind

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Economic Development Act" requires that OREC-eligible projects yield positive economic net benefits to the State. But complying with the net benefit requirement poses a challenge, according to unidentified developers cited in the NJSpotlight January 22, 2013 article "New Funding Mechanism Could Stop State from Raiding Offshore Wind Revenue." In fact, the only developer that has submitted an application to the BPU, Fishermen Energy for its planned Atlantic City Wind Farm, failed the net benefit analysis in December 2012, thereby jeopardizing its ability to participate in the OREC program and delaying the program's establishment further. The BPU will pronounce a final verdict on the project at the end of June 2013. Notwithstanding this setback, the BPU retained Boston Pacific to set up the infrastructure for an OREC market. Moreover, in a public notice dated January 18, 2013, the Board announced a February 2013 stakeholder meeting to discuss the adoption of OREC regulations. But, as the BPU noted in reply to BPU Discussion Point #11 in the OLS FY 2012-2013 Department of the Treasury Budget Analysis, in light of the above complications, achieving 1,100 megawatts of energy generation capacity from qualified offshore wind installations was still an unspecified number of years away.

- ***Questions:*** **Please report on the BPU's progress in establishing an Offshore Renewable Energy Certificate (OREC) program. By which date does the BPU expect to have OREC rules promulgated, the market infrastructure set up, and the first certificates ready to trade? Based on its conversations with offshore wind developers and its evaluation of Fishermen Energy's application for the Atlantic City Wind Farm, does the BPU anticipate that proposed offshore wind energy installations have a reasonable chance of passing the economic net benefit test? What aspects of the current test impede program qualification? If the BPU is considering altering the economic net benefit test, please describe the contemplated changes. If the BPU supports amendments to the "Offshore Wind Economic Development Act" to facilitate entry into the OREC program, please set forth the recommended revisions. Has the BPU received any applications for OREC participation other than the one for Fishermen Energy's Atlantic City Wind Farm?**

5. The Governor's FY 2014 Budget includes a **proposal to lapse $196.2 million from the dedicated, off-budget Clean Energy Fund into the State General Fund in FY 2014**. The diversion has three components. Some $152.2 million would be redirected without an assigned spending purpose. In addition, $42.5 million would be used to defray the cost of utilities in State facilities and $1.5 million to pay the administrative expenses related to State-funded positions of the BPU's Office of Clean Energy. The recommended FY 2014 diversion would come on the heels of similar $133.0 million FY 2013 and $255.1 million FY 2012 redirections. In all, the Governor's FY 2014 Budget anticipates $471.1 million in available Clean Energy Fund resources in FY 2014, which is composed of $333.0 million in new revenues and an opening balance of $138.1 million. On the other side of the ledger, the Governor's FY 2014 Budget anticipates $411.2 million in expenditures, which is comprised of $215.0 million in direct expenditures and $196.2 million in transfers to the State General Fund. A $59.9 million projected fund balance would remain at the end of FY 2014 (page 24 of the "Supplementary Information" section in the Governor's FY 2014 Budget, available in the online version only).

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New Jersey ratepayers finance the Clean Energy Program via the societal benefits charge included in their electric and natural gas bills. Operative since April 2001, the program was authorized as part of the "Electric Discount and Energy Competition Act," P.L.1999, c.23 (N.J.S.A.48:3-49 et seq.). Through the program the BPU seeks to promote increased energy efficiency and the use of renewable energy sources, including wind, geothermal, and sustainable biomass. The program no longer supports the installation of solar energy generation systems, as the State has adopted Solar Renewable Energy Certificates (SRECs) as the subsidy mechanism for solar power (see Discussion Point #3). The nascent Offshore Renewable Energy Certificate (OREC) program attempts to do the same for offshore wind energy installations (see Discussion Point #4). The aforementioned $388.1 million FY 2012 and FY 2013 reallocations of Clean Energy Fund balances into the State General Fund prompted the BPU to reduce the original program budget for the 18-month period from January 2012 through June 2013 by $188.8 million. The revised program has a total 18-month funding level of $511.4 million: a) $387.7 million, or 75.8 percent, to support energy efficiency programs; b) $49.0 million, or 9.6 percent, for clean energy-related economic development programs that the BPU co-administers with the Economic Development Authority; c) $38.6 million, or 7.6 percent, for renewable energy programs; d) $21.8 million, or 4.3 percent, for the Temporary Relief for Utility Expenses (TRUE) program (see Discussion Point #15); and e) $14.2 million, or 2.8 percent, for the administrative expenses of the BPU's Office of Clean Energy. (Board Order dated November 20, 2012 Docket numbers EO07030203 and EO11100631V)

- ***Questions:*** **Please comment on the likely impact on the Clean Energy Program of the Governor's proposed lapse of $196.2 million in fund balances into the State General Fund. Has the BPU raised or will it raise the Clean Energy Fund component of the societal benefits charge for FY 2014 to cover this additional expense? Absent the proposed FY 2014 diversion, how would the BPU expend the $196.2 million? Will alternative resources be allocated for these purposes? To what extent will any shift in moneys among BPU programs, prompted by the proposed lapse, reprioritize energy efficiency and renewable energy programs? If the BPU did not anticipate expending the $196.2 million on specific spending purposes, was it contemplating drawing the sum down to temporarily lower the Clean Energy Fund component of the societal benefits charge?**

6. The authors of the 2011 Energy Master Plan reported that the BPU was looking to **restructure the Clean Energy Program**, which is the umbrella for the State's sundry energy efficiency and renewable energy programs. The authors emphasized two areas for reform. First, they supported funding the program through a revolving loan fund in lieu of the societal benefits charge. Second, they recommended that the State only operate energy efficiency programs that do not just benefit program participants but all ratepayers, for example through a lowering of peak energy demand that would drive down energy rates for everyone.

The BPU has since set the contemplated reforms in motion. It stated in reply to BPU Discussion Point #8 in the OLS FY 2012-2013 Department of the Treasury Budget Analysis that a top priority was to replace the existing three program administrators (Applied Energy Group Inc, Honeywell International Inc, and TRC Environmental Corporation) with a single manager. To effectuate the consolidation, on June 11, 2012, the Division of Purchase and Property in the

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Department of the Treasury issued Request for Proposal (RFP) 13-X-22546 for "Management Consulting – Program Administrator New Jersey Clean Energy Program (NJCEP)." The BPU explained further that once chosen, the new program administrator would submit a plan for the consolidation and elimination of existing programs as well as the development of alternative financing options. The BPU's long-term goal was to reduce the reliance of the Clean Energy Program on the societal benefits charge as the program's funding mechanism and to inaugurate revolving loan funds as alternative funding vehicles. Societal benefits charge collections would initially fund the revolving loan funds, however. Moreover, the BPU envisages operating Clean Energy Fund incentives more on a performance basis so as to reduce costs and improve the delivery of energy efficiency programs.

- ***Questions:*** **Please provide a status report on the Request for Proposal 13-X-22546 for "Management Consulting – Program Administrator New Jersey Clean Energy Program (NJCEP)." Has the State awarded a contract? If so, what business entity is the contractor? If not, by what date does the State expect a contract award? How many bidders answered the Request for Proposal? Given that the BPU must adopt a new Clean Energy Program budget for the four years starting on July 1, 2013, will the new program administrator have a sufficient amount of time to influence the formulation of the new program budget?**

- **If available, please submit the four-year Clean Energy Program budget from July 1, 2013 through June 30, 2017. If unavailable, please indicate the date by which the BPU intends to adopt a new program budget. Is the BPU using the new program budget as the vehicle through which to implement the envisioned restructuring of the Clean Energy Program? Please describe the anticipated timetable for phasing in any new financing mechanism, such as revolving loan funds, and transitioning out of the societal benefits charge as a funding source. Please list all energy efficiency programs the BPU intends to end and provide a brief justification for the cull. Will the BPU retain the administrative responsibility for the Clean Energy Program or will the Board transfer control of any renewable energy or energy efficiency program to another State agency? If so, please detail the programs to be shifted and the State agencies assuming responsibility therefor. Does the BPU plan to revise the comprehensive strategic plan and performance metrics and targets for the Clean Energy Program?**

7. The BPU Board Order dated November 20, 2012 Docket numbers EO07030203 and EO11100631V, shows that the Clean Energy Program's total revised funding level for the 18-month period from January 2012 through June 2013 is $511.4 million. The oversight expenses of the BPU's Office of Clean Energy account for $14.2 million, or 2.8 percent, of the total. But it appears that the amount only includes the administrative costs incurred by the Office of Clean Energy ($12.0 million) and its contracted program coordinator, Applied Energy Group Inc ($2.2 million). **Total management costs of the Clean Energy Program**, however, are substantially higher once the administrative expenses of the two contracted program administrators are included: Honeywell International Inc and TRC Environmental Corporation. The contractors' calendar year 2010 administrative expenses, including those of Applied Energy Group Inc, approached $53.2 million out of a total program budget of $413.5 million, according to a table provided by the BPU in its response to BPU Discussion Point #2 in the OLS FY 2010-2011

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Department of the Treasury Budget Analysis. The administrative costs of the three contractors, exclusive of the oversight expenditures of the Office of Clean Energy, therefore consumed 12.86 percent of the total program budget.

New Jersey Clean Energy Program 2010 Revised Budget				
Program	Contractor	Total Budget	Direct Rebates	Administrative Cost
Residential Energy Efficiency Programs	Honeywell	$129,047,469	$103,672,290	$25,375,179
Commercial and Industrial Energy Efficiency Programs	TRC	$154,730,992	$135,480,046	$19,250,946
Renewable Energy Programs	Honeywell	$127,454,799	$122,781,294	$6,754,607
Program Coordinator	AEG	$2,289,480	$0	$2,289,480
Total		**$413,522,740**	**$361,933,630**	**$53,170,212**

- **Questions: For calendar year 2011, please update the above table showing for each program class under the Clean Energy Program the total budget, the amount of benefits paid out, and the contracted program administrator's administrative cost. For the revised 18-month Clean Energy Program budget running from January 2012 through June 2013, please update the above table showing for each program class the estimated total budget, the estimated amount of benefits paid out, and the contracted program administrator's estimated administrative cost. Please relate to what extent the new contract with a single program administrator as of July 1, 2013 (Discussion Point #6) will reduce the administrative cost of the Clean Energy Program.**

8\. a. The State enacted P.L.2011, c.9 to foster the construction of new electric generation facilities through the inception of the **Long-Term Capacity Agreement Pilot Program**. The BPU later selected three gas-fired combined cycle projects for program participation: NRG Energy Inc.'s Old Bridge Clean Energy Center (proposed to be operational by June 1, 2015), Competitive Power Ventures LLC's Woodbridge Energy Center (proposed to be operational by June 1, 2015), and Hess Corp.'s Newark Energy Center (proposed to be operational by June 1, 2016). In general, combined cycle power facilities produce electric power via the combustion of fuel and use the resulting waste heat by-product to generate additional electric power. The three selected projects are supposed to add 1,950 megawatt to New Jersey's generation capacity and provide an estimated $1.8 billion in net economic benefits on a present value basis over 15 years.

To subsidize the projects, P.L.2011, c.9 provides for "Standard Offer Capacity Agreements" (SOCAs). A SOCA is a contract in which the three selected power generators would receive BPU-approved payments from electric public utilities for a defined amount of electric capacity at a fixed price for a term not to exceed 15 years. But in order to secure SOCA payments, the BPU-selected generation companies must succeed in selling their capacity in interstate

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electricity auctions conducted by PJM Interconnection LLC, the regional transmission organization operating the wholesale competitive electricity market and power grid across thirteen Mid-Atlantic and Midwestern states and the District of Columbia. Once a project clears the auction, it receives SOCA payments and ratepayers in effect subsidize the project in an amount equal to the difference between the SOCA rate and the capacity price set at auction. Conversely, if it fails to clear the auction, the SOCAs will be void and the new generation capacity will not be available. PJM's annual capacity auction takes place in every May and two of the three gas-fired combined cycle projects cleared the May 2012 three-year forward looking auction to receive payments in 2015. In contrast, NRG Energy's Old Bridge Clean Energy Center did not. It is unclear whether the project will participate in and clear the May 2013 auction for entrance in the capacity market in 2016.

- ***Questions:*** **Please provide a status update on the Long-Term Capacity Agreement Pilot Program. Given that the Woodbridge Energy Center and Newark Energy Center cleared the May 2012 PJM capacity auction, has construction on the respective sites commenced and are the projects on schedule to be operational in 2015? Will NRG Energy Inc.'s Old Bridge Clean Energy Center attempt to clear the May 2013 capacity auction or has NRG Energy abandoned the project? If NRG Energy fails to clear the May 2013 auction or has abandoned the project, does the BPU intend to replace it with another project in the pilot program? Is the BPU considering or favoring the expansion of the program to spark the construction of additional electric generation facilities?**

8. b. In addressing BPU Discussion Point #4 in the OLS FY 2012-2013 Department of the Treasury Budget Analysis, the Board reported that **three legal challenges could affect the viability of the Long-Term Capacity Agreement Pilot Program**. First, on November 25, 2011, the BPU and Rate Counsel filed with the United States Court of Appeals for the Third Circuit a lawsuit against the Federal Energy Regulatory Commission (FERC). Specifically, the BPU challenged the legality of new rules FERC promulgated in 2011 that required the three combined cycle projects to offer their capacity at an administratively set minimum offer price at PJM capacity auctions until they clear their first auction. In setting the minimum price, FERC acted as the regulator of PJM Interconnection LLC, which had objected that New Jersey's SOCA price support system could distort the regional wholesale electric market by enabling subsidized generators to submit capacity price bids below actual cost at PJM's capacity auctions.

Second, in two separate cases before the Superior Court of New Jersey – Appellate Division that were initiated on May 13, 2011 and June 24, 2011, two power generation companies that are not participating in the pilot program and New Jersey's incumbent electric distribution companies that have to pay SOCA rates challenged the BPU's implementation of P.L.2011, c.9. The plaintiffs allege that the BPU failed to follow due process in implementing the pilot program, arrived at an arbitrary and capricious decision, adopted SOCAs in violation of the law's requirements, and acted contrary to the public interest.

Third, a myriad of utility and electric generation companies filed a complaint against P.L.2011, c.9 in the United States District Court for the District of New Jersey on February 9, 2011. The

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plaintiffs allege that the law violates the Supremacy Clause of the United States Constitution, as the Federal Power Act vests FERC with the exclusive jurisdiction to regulate wholesale electricity prices. Moreover, the plaintiffs contend that the law breached the Commerce Clause of the United States Constitution, as its subsidies allegedly favor in-state companies over out-of-state competitors. The court denied the plaintiffs' and defendants' motions for summary judgment on September 28, 2012 and scheduled a trial for March 26, 2013.

- *Questions:* **Please comment on the status of the three legal challenges involving the Long-Term Capacity Agreement Pilot Program: a) the two cases brought by two power generation companies and New Jersey's electric distribution companies before the Superior Court of New Jersey – Appellate Division that challenge the implementation of P.L.2011, c.9; b) the lawsuit brought by a myriad of utility and electric generation companies in the United States District Court for the District of New Jersey contending that P.L.2011, c.9 violates the United States Constitution; and c) the lawsuit the BPU filed with the United States Court of Appeals for the Third Circuit challenging the legality of new 2011 rules by the Federal Energy Regulatory Commission (FERC) that require new electric generation facilities benefitting from SOCAs to offer their capacity at an administratively set minimum offer price at the PJM capacity auction until they clear their first auction. Does the uncertainty created by the lawsuits function as a deterrent to the construction of the Woodbridge Energy Center and Newark Energy Center? Who bears the financial risk of the courts invalidating the Long-Term Capacity Agreement Pilot Program? Does the BPU stand ready to provide financial support of a different nature to the projects in case of adverse court rulings? Given that the two projects cleared the May 2012 capacity auction, is the BPU still concerned about FERC requiring that new electric generation projects benefitting from SOCAs offer their capacity at an administratively set minimum offer price at capacity auctions until they clear their first auction? What has been the State's cost to date of engaging in the three court proceedings?**

9. The Oyster Creek nuclear power plant in Lacey Township, Ocean County, is expected to be decommissioned at the end of 2019. Because nuclear power is a carbon-free electricity generation resource the authors of the 2011 Energy Master Plan contend that the closure of Oyster Creek jeopardizes meeting the greenhouse gas reduction targets of the Global Warming Response Act, P.L.2007, c.112: 2020 New Jersey greenhouse gas emissions are not to exceed their 1990 level and 2050 emissions 20 percent of their 2006 level. The plan's authors state that, consequently, "the Christie Administration supports the consideration of new nuclear generation as a potential baseload resource." They relate further that a planning process has begun to explore substitution options for Oyster Creek's generation capacity and that a State agency panel will be established to assess the **role of nuclear power in New Jersey's future in-state electricity generation**. Replying to BPU Discussion Point #13 in the OLS FY 2012-2013 Department of the Treasury Budget Analysis, the Board noted that relevant State and local agencies and officials had already convened to begin discussions regarding the redevelopment of the region around the Oyster Creek nuclear power plant. Following the identification of a lead State agency, the BPU expected that the committee would reconvene to craft a plan, which may involve the establishment of an energy enterprise zone. The redevelopment may also include the construction of a new nuclear power plant on the Lacey Township property,

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according to a footnote on page 84 of the 2011 Energy Master Plan, as the location benefits from the presence of a highly-skilled workforce, community support for such an initiative, and the existing electrical transmission infrastructure.

Oyster Creek is one of four licensed nuclear power plants in New Jersey. Its 615 Megawatt (MW) of capacity represents 15 percent of 4,108 MW in total statewide nuclear power generation capacity. In 2011, nuclear power plants accounted for 51.9 percent, or 39 million Megawatt Hours (MWh) of the 75 million MWh of electricity generated in New Jersey.

- **Questions: Please provide a status update on the work of the committee that is to develop a redevelopment plan for the region around the Oyster Creek nuclear power plant. Which agencies, entities, and stakeholders are represented thereon? What State agency leads the committee? By which date is the planning process supposed to yield a redevelopment strategy? If already available, please explain the strategy that will be used and the reason(s) for selecting that strategy. Is the committee considering erecting a new nuclear power plant on the site of the current power plant?**

- **Has the State agency panel been established that is supposed to assess the role of nuclear power in New Jersey's future electricity generation pursuant to the 2011 Energy Master Plan? If so, please outline the composition of its membership and set forth by which date the panel is supposed to submit a report or make recommendations. Is the panel the same body as the committee charged with the redevelopment of the region around the Oyster Creek nuclear power plant?**

10. In June 2011, the Administration established the **State Energy Office** in the BPU's Division of Economic Development and Energy Policy. The office is to identify opportunities for reducing the energy consumption in State facilities. As part of that mission, the office implements and manages the **energy savings improvement program for State-owned and -operated buildings** in accordance with P.L.2009, c.4. Such programs represent a financing mechanism for projects that are intended to lower buildings' energy needs. Under the initiative, the State contracts with energy service companies that assume the up-front cost of infrastructure improvements that are designed to reduce the energy consumption of State buildings. The State then repays its debt to the companies out of the energy cost savings it realizes from the investments over a period not exceeding 15 years (or 20 years in certain cases). The ability to defray the up-front cost of energy conservation projects over several years ought to enable the State to increase the number of projects it undertakes. No energy savings improvement contracts had been signed yet, although several projects were in the planning stages, as of the BPU's response to BPU Discussion Point #15 in the OLS FY 2012-2013 Department of the Treasury Budget Analysis. The BPU related further that since inception the State Energy Office also implemented energy audits, negotiated lower prices on the State's electrical supply contract that are projected to generate $6.2 million in savings over 36 months, negotiated price reductions on the State's natural gas contract that are projected to yield $3.7 million in savings over 20 months, assisted State agencies with the determination of their FY 2013 energy-related needs and capital budget requests, and reviewed energy funding requests with the Office of Management and Budget in the Department of the Treasury. The office

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performed these tasks with three full-time employees who avail themselves of other Division of Economic Development and Energy Policy staff, as needed.

The State Energy Office is the successor to the Office of Energy Savings. Executive Order #11 of 2006 established the Director of Energy Savings in the Department of the Treasury to study and implement energy efficiency measures for State government. Subsequently, Executive Order #54 of 2007 instructed the director to develop specific targets and implementation strategies for reducing energy usage at State facilities and the State motor vehicle fleet's fuel consumption.

- ***Questions:*** **Please describe the State Energy Office's activities since its response to BPU Discussion Point #15 in the OLS FY 2012-2013 Department of the Treasury Budget Analysis. As the successor to the Office of Energy Savings, has the State Energy Office also assumed responsibility for developing specific targets and implementation strategies for reducing the State motor vehicle fleet's fuel consumption, as the Office of Energy Savings was instructed to do in Executive Order #54 of 2007? If so, please comment on the activities the office has undertaken in this regard. If not, please indicate what State agency has taken control of that function.**

- **Please provide a progress report on the State's energy savings improvement program for State-owned and -operated buildings. How many energy savings improvement contracts have been signed? For each contract please detail the State building benefitting from energy-savings infrastructure improvements, the improvements being undertaken, their capital cost, the amortization period, the projected amount of energy cost savings over the amortization period, and the debt service payments the State is anticipated to make out of the projects' energy savings.**

11. P.L.2009, c.239 created the eleven-member **Solar and Wind Energy Commission** to study the feasibility of solar and wind energy installations on State owned property. The commission's final report is to be published on the websites of the BPU and the Department of Environmental Protection. The BPU President serves as an *ex officio* member of the commission.

- ***Questions:*** **Please provide an update on the Solar and Wind Energy Commission. How many of its eleven members have been appointed? Has the commission held its organizational meeting? If so, when did the organizational meeting take place and how often has it met since? What is the commission's work plan? If there are still vacancies on the commission, by which date does the Administration anticipate the commission to hold its organizational meeting? Please set forth the reasons for any delay in organizing the commission.**

12. According to evaluation data in the Governor's FY 2014 Budget, the number of **registered energy agents** increased from 16 in FY 2012 to 45 in FY 2013 and is projected to soar to 138 in FY 2014. An energy agent is a person who is registered with the BPU pursuant

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to the "Electric Discount and Energy Competition Act," P.L.1999, c.23, and who acts as a broker for the sale of retail electricity or electric related services or retail gas supply or gas related services between electric power or gas suppliers and government or private sector clients.

- *Questions:* **Please explain the dynamics behind the projected spike in the number of registered energy agents from 16 in FY 2012 to 138 in FY 2014. Has the increase occurred across all customer classes or is it ascribable to the residential, commercial or industrial customer class in particular? Have any changes in the energy market provided an impetus for business entities to newly register as energy agents? Please describe the extent to which the BPU regulates energy agents and their marketing and business practices.**

13. Imposed pursuant to N.J.S.A. 48:3-60 as a component of the "Electric Discount and Energy Competition Act" (P.L.1999, c.23), the **societal benefits charge** is embedded in, but separately delineated on, electric and natural gas ratepayers' monthly utility bills. Proceeds finance nuclear plant decommissioning, manufactured gas plant remediation, utilities' uncollectible debts, energy consumer education, energy assistance programs to low-income utility customers via the Universal Services Fund (page 38 of the "Supplementary Information" section in the Governor's FY 2014 Budget, available in the online version only), and energy demand management programs including BPU's Clean Energy Program (page 24 of the "Supplementary Information" section in the Governor's FY 2014 Budget, available in the online version only). In calendar year 2010, the charge yielded $792.3 million in revenues after generating $783.1 million in calendar year 2009, and $643.0 million in calendar year 2008. The Universal Service Fund (a $61.4 million increase from $256.6 million to $318.0 million) and the Clean Energy Program (a $49.6 million increase from $279.8 million to $329.4 million) accounted for most of the growth from calendar year 2008 to calendar year 2009. Depending on the utility, the societal benefits charge represented between 2.71 percent ($35.75) and 4.55 percent ($60.47) of the annual bill of the average electric ratepayer as of March 2011 and between 2.63 percent ($33.27) and 4.94 percent ($72.17) of the annual bill of the average natural gas ratepayer.

- *Questions:* **Please indicate the amount the societal benefits charge raised in calendar years 2011 and 2012, as well as the amount of societal benefits charge collections that financed each program supported by the charge. Please list, by utility and by societal benefits charge component, the 2012 and 2013 rates of the charge and present the reasons for any increase. The charge represented what percentage of an average ratepayer's annual energy utility bill in calendar year 2012 and represents what estimated percentage in calendar year 2013?**

14. New Jersey ratepayers fund the **Universal Service Fund (USF)** via the societal benefits charge included in their electric and natural gas bills. The USF finances several State energy assistance programs: the USF, the "Fresh Start", and Lifeline credit programs, the Tenants' Assistance Rebate Program, as well as energy assistance payments under the Temporary

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Assistance for Needy Family (TANF) program. The Governor's FY 2014 Budget anticipates $325.9 million in USF expenditures for FY 2014 (page 38, available in the online version of the Governor's FY 2014 Budget only). Of this amount, the Governor proposes $244.7 million in direct fund expenditures as well as a transfer of $81.2 million to other funds, of which $63.8 million would finance the "Lifeline Credit Program" (N.J.S.A.48:2-29.15 et seq.) and the "Tenants' Lifeline Assistance Program" (N.J.S.A.48:2-29.31 et seq.), under which 304,576 low-income households would receive up to $225 in electric and gas utility credits in FY 2014. An additional $6.9 million would finance energy assistance payments for Work First New Jersey recipients (Work First New Jersey is the State's TANF program) and the Department of Community Affairs would receive another $8.6 million to administer the USF and "Fresh Start" credit programs.

The USF credit program is an energy assistance program seeking to ensure that eligible utility customers pay no more than six percent of their annual income for their natural gas and electric service. The "Fresh Start" credit program, on the other hand, allows first-time USF credit recipients with at least $60 in arrears on their energy bills to retire their outstanding balances by paying their USF-adjusted affordable energy bill in full for 12 consecutive months following program admittance. The BPU carries the financial responsibility for the programs, the Department of Community Affairs administers them, and the electric and natural gas utilities credit the benefits to customer accounts. In program year 2011, the operation of the two programs cost $216.3 million, as related by the BPU in its response to BPU Discussion Point #17 in the OLS FY 2012-2013 Department of the Treasury Budget Analysis. For program years 2010 and 2011, the tables below display for each of the two credit programs the number of beneficiary households, total credit expenditures, and the average benefit per household. A program year starts on November 1. Program year 2010, for example, began on November 1, 2009 and ended on October 31, 2010.

Universal Service Fund Credit Program Metrics for 2010 and 2011 Program Years

Program Year	Households Enrolled	Total Credit Cost	Average Benefit per Household
2009 - 2010	194,660	$193,477,000	$993.92
2010 - 2011	223,088	$200,956,254	$900.79

"Fresh Start" Credit Program Metrics for 2010 and 2011 Program Years

Program Year	Households Enrolled	Total Credit Cost	Average Benefit per Household
2009 - 2010	23,359	$13,447,945	$575.71
2010 - 2011	26,770	$15,299,127	$571.50

- ***Questions:*** **For each of the USF credit and "Fresh Start" programs, please provide actual expenditures for the 2011-2012 program year and estimated expenditures for the 2012-2013 program year. What are the USF rates built into the societal benefits charge for those years and what does the program cost the average residential and non-residential energy utility customer? What is the number of USF credit and "Fresh Start" beneficiaries in program years 2011-2012 and 2012-2013? For what reason(s)**

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did USF credit program participation increase by 28,400, or 14.6 percent, from program year 2009-2010 to program year 2010-2011? What factor(s) account for the $93, or 9.4 percent, drop in the average USF credit over the same period?

15. P.L.2009, c.207 directs the BPU to make a one-time $25 million allocation out of unexpended and uncommitted societal benefits charge balances to an electric and gas utility assistance grant program for households experiencing a temporary financial crisis. The program has to be operated by a non-profit organization, which must submit a report to the Board detailing program statistics and other administrative information within one year of receiving the final tranche of the $25 million program budget. In application of the law, the BPU established the **Temporary Relief for Utility Expenses (TRUE) program** and, in March 2011, selected the non-profit Affordable Housing Alliance (AHA) as the program administrator. For State budgeting purposes, the TRUE program has been placed under the banner of the Clean Energy Program.

According to the AHA website, the TRUE program is an annual assistance program designed to help low- and moderate-income households who newly face financial hardship. In order to qualify, applicants must meet income guidelines. For example, a three-person household must have an annual income ranging from $38,196 to $85,391. In addition, applicants must not have received energy assistance under the Universal Service Fund credit program and the Low Income Home Energy Assistance Program in the past 12 months. They must also demonstrate that balances in their electric and gas accounts are at least 45 days overdue or that they have received a disconnection notice for their electric or gas service. Lastly, they must demonstrate that they have made four electric or gas bill payments of at least $25 each within the past six months.

- **Questions: For the Temporary Relief for Utility Expenses (TRUE) program, please indicate, by program year, the number of beneficiary households, the average benefit amount, and the total budgetary outlay. Has the BPU transferred the full $25 million to the Affordable Housing Alliance (AHA)? If so, by what date must the alliance submit the program report required by P.L.2009, c.207? If not, what amount has the BPU already transferred to the program administrator and by what date does the BPU expect to transfer the final tranche? In what year does the BPU project the AHA to exhaust the $25 million? Has the program acquired a permanent funding source, given that the AHA states on its TRUE website that the program is annual?**

16. In conjunction with the Office of Information Technology, the BPU has undertaken the **"BPU Database Re-engineering Project"** to develop a new comprehensive database system that would support all of the BPU's existing programs and data. The BPU's previous database hardware did not allow for E-government functionality, such as electronic filing, secure file transfer protocols or remote access to the databases. The database software, in turn, was last upgraded in 1996 and still used technology in a character-based environment. In its August 2007 audit report on the BPU, the State Auditor specifically criticized the state of the computer applications the BPU used in the management of underground utility safety programs. The

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State Auditor deemed inadequate the application tracking data on the location of interstate gas pipelines and their inspection status under the Pipeline Safety Program. The State Auditor also stated that meaningful analysis of incidents with underground facilities under the "Underground Facility Protection Act" pursuant to P.L.1994, c.118 (N.J.S.A.48:2-73 et seq.), was impossible because the computer application could not provide adequate data. The law requires excavators to call a toll-free number three days prior to excavation and companies to mark their underground facilities near the excavation to prevent damage.

Answering BPU Discussion Point #2 in the OLS FY 2012-2013 Department of the Treasury Budget Analysis, the Board conveyed that the State awarded the "BPU Database Re-engineering Project" contract to CSI Technologies in October 2011. At the time of crafting its reply, the BPU was in the first phase of the project, which entailed data gathering, gap analysis, data flow evaluation, and the draft design of screens and reports. Phase II, which was to begin in May 2012, would include the excavation one-call database and the creation of the pipeline safety system. The BPU expected the completion of the entire project by December of 2012. The Board also noted that the project would produce a comprehensive database system that would newly enable electronic filing; ad-hoc reporting; data analysis; and the electronic storage of case files, inspections, site pictures, and notes.

- ***Questions:*** **Please provide an update on the status of the "BPU Database Re-engineering Project." Has the project been completed? If not, at which development stage is the project currently and by which date does the BPU expect its completion? If the project has been completed, please comment on the BPU's experiences with the new technology. Has staff productivity improved? What problems has the BPU encountered with the new technology, if any, and what amount would have to be expended to correct the problems? What was the vendor's cost estimate for the project when it was awarded the contract? What is the vendor's current cost estimate or, if the project is already completed, the project's actual cost? If applicable, what factors account for the cost overrun?**

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OFFICE OF THE STATE COMPTROLLER

1. The Governor's FY 2014 Budget recommends a $9.8 million appropriation for the **Office of the State Comptroller**. P.L.2007, c.52 established the office as an independent State agency placed "in but not of" the Department of the Treasury. The office's budgeted 137 employees conduct audits of government finances; engage in government procurement contract audits and monitoring; review the efficiency and effectiveness of State and local governmental entities; and investigate misconduct, waste, and abuse at all levels of State government and within the State's Medicaid program. Four divisions comprise the office: the Audit Division, the Investigations Division, the Procurement Division, and the Medicaid Fraud Division.

- **Questions: Please list the number of full-time positions allocated to each of the divisions of the Office of the State Comptroller and indicate, per division, the number of employees within each job title category and each job title's pay scale. How many positions are currently vacant and how many of them are vacant because the State Comptroller cannot find people with the appropriate skill sets for the office? Does the State Comptroller feel that its pay scales are adequate to attract the desired talent?**

- **For each fiscal year since inception, please provide performance metrics for the office, including the number of audits, investigations, and procurement reviews conducted as well as the amount of Medicaid payments recovered. Please segregate the number of audits, investigations, and procurement reviews by level of government: local, county, and State.**

2. The Office of the State Comptroller's Procurement Division conducts *ex post* reviews of public agency procurements exceeding $2 million but not exceeding $10 million. For contracts valued at more than $10 million, the division pre-screens the legality of the proposed vendor-selection process and assists government entities in formulating contract specifications. The review includes an inquiry into whether the proposed contract specifications ensure a competitive bidding process, according to the Office of the State Comptroller's FY 2012 Annual Report.

On August 10, 2012, the Division of Purchase and Property in the Department of the Treasury issued Request for Proposal (RFP) 13-X-22694 for "Lottery Growth Management Services" to solicit bids for the **outsourcing of the sales and marketing operations of the New Jersey State Lottery**. News outlets reported in late December 2012 that one vendor, Northstar New Jersey, submitted a proposal. Northstar is a tripartite consortium consisting of GTECH Corp., Scientific Games International Inc., and a subsidiary of the Ontario Municipal Employees Retirement System. The RFP grew out of the seven "substantive" responses the Treasury had received to an earlier Request for Information that was released on December 8, 2011 and sought ideas for increasing Lottery net revenues, including the possible privatization of certain Lottery functions (see OLS Discussion Point #25 in the FY 2012-2013 Department of the Treasury Budget Analysis).

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The RFP's compensation model has three elements. The vendor would make a one-time $120 million payment to the State with the signing of the contract and would also make payments for any contract year in which the vendor fails to meet the Lottery net income target, but not more than 3.8 percent of a contract year's Lottery net income. The vendor is to propose each year's net income target. Capped at 5.0 percent of a contract year's Lottery net income, the vendor would receive compensation payments by the State in any year in which the net income exceeds the contractual base net income level set forth in the RFP. A payment is calculated as a rising percentage of the year's net income in excess of the base amount depending on the size of the excess.

- ***Questions:*** **Please describe the extent to which the Office of the State Comptroller was involved in the formulation of Request for Proposal (RFP) 13-X-22694 for "Lottery Growth Management Services." Did its Procurement Division pre-screen the RFP as the contract likely is worth more than $10 million? If not, why did the division not pre-screen the RFP? In the State Comptroller's estimation, do the contract specifications, and notably its elaborate compensation model, ensure a competitive bidding process? Is the State Comptroller concerned that the State received only one bid? Does the Lottery outsourcing process infringe on the notion of a competitive bidding process by: a) first soliciting input from potential vendors on contract ideas, and then b) potentially granting a vendor an advantage in the bidding process by adopting the vendor's suggestions in the formulation of the RFP?**

3. On February 8, 2013, the Governor issued Executive Order #125 of 2013, which expanded the Office of the State Comptroller's contract review jurisdiction. Specifically, the Executive Order directs the office to conduct an *ex ante* **review of all procurements by State government agencies that involve the expenditure of federal Hurricane Sandy-related reconstruction resources**. The office is to examine whether the proposed procurement process complies with applicable public contracting laws, rules, and regulations. If not, the State Comptroller shall work with the contracting State agency and the Governor's Office of Recovery and Rebuilding to remedy any deficiency. The Executive Order also directs the Office of the State Comptroller to ensure that all awarded contracts involving the expenditure of federal Sandy-related reconstruction resources be posted on a State website. The State Comptroller is familiar with exercising internal control functions with regards to the disbursement of federal resources, as the State Comptroller co-led a group overseeing New Jersey's implementation of the American Recovery and Reinvestment Act of 2009. The monitoring group was to ensure that the State used the federal aid efficiently, effectively, and transparently. In contrast, the mandate under Executive Order #125 restricts the State Comptroller to an *ex ante* examination of the legality of the vendor-selection process. Any real-time monitoring of the actual use of the federal funds, however, falls under the jurisdiction of each contract's manager. Nevertheless, the State Comptroller may later exercise the office's general authority to selectively review and audit actual contractor performance *ex post*.

- ***Questions:*** **Please comment on the Office of the State Comptroller's review of all procurements by State government agencies that involve the expenditure of federal Hurricane Sandy-related reconstruction resources in accordance with Executive Order #125 of 2013. How many contract proposals has the State Comptroller**

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reviewed to date? What percentage of these contracts had errors that would have worked to deny the opportunity for an open competition among suppliers and bidders? What aspects impaired an open competition? Has the State Comptroller retroactively reviewed any procurements by State government agencies that involve the expenditure of federal Sandy-related reconstruction resources that were concluded prior to the issuance of Executive Order #125? If not, does the State Comptroller intend to review Sandy-related pre-Executive Order #125 contracts so as to assure the public of the integrity of the procurement process? Does the State Comptroller intend to perform any *ex post* reviews and audits of Sandy-related contractor performance?

4. On October 27, 2012, the Governor issued Executive Order #104, which declared a state of emergency prior to Hurricane Sandy's landfall on October 29, 2012. In application of the declaration the State entered into a no-bid contract with AshBritt, Inc. two days later for **Federal Emergency Management Agency (FEMA) assistance-eligible debris removal services** from October 30, 2012 through April 30, 2013 (Waivered Contract AG-063). The State did not negotiate its own contract terms but transposed to New Jersey by reference the standards and procedures set forth in State of Connecticut Contract No. 08PSX0027. The contract has also been available to local subdivisions of State government. The State cited subsection (b) of N.J.S.A.52:34-10 as the justification for the no-bid contract. The law allows the Division of Purchase and Property to bypass the time-consuming competitive bid process when a "public exigency requires the immediate delivery of the articles or performance of the service." Subsequently, on November 23, 2012, the State issued a Request for Quotations for future Sandy-related FEMA assistance-eligible disaster debris removal and management services. On January 25, 2013, the State awarded the contract to four companies from January 25, 2013 to January 25, 2014: AshBritt, Inc., Ceres Environmental Services, Crowder Gulf, and T.F.R. Enterprises, Inc. (Waivered Contract AG-082).

As addressed in Discussion Point #2 above, N.J.S.A.52:15C-10 directs the Office of the State Comptroller to conduct an *ex post* review of public agency procurements exceeding $2 million but not exceeding $10 million and to pre-screen the legality of the proposed vendor selection process for contracts valued at more than $10 million. According to the Office of the State Comptroller's FY 2012 Annual Report, for contracts exceeding $10 million, the review includes an inquiry into whether the specifications are designed to ensure a competitive bidding process. Subsection c. of N.J.S.A.52:15C-10, however, waives the review requirement under a public exigency requiring the immediate delivery of articles or performance of service. The Administration invoked that contingency with regards to the no-bid debris removal contract.

Moreover, on February 8, 2013, the Governor issued Executive Order #125 of 2013, which expanded the Office of the State Comptroller's contract review jurisdiction. The Executive Order directs the office to conduct a review of all procurements by State government agencies that involve the expenditure of federal Sandy-related reconstruction resources prior to the conclusion of the procurement process.

- ***Questions:*** **Please indicate whether the Office of the State Comptroller was involved in the formulation of the October 2012 no-bid contract with AshBritt, Inc.**

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for FEMA assistance-eligible debris removal services (Waivered Contract AG-063). Did the office pre-screen the contract as it is likely to be worth more than $10 million, even if such an *ex ante* review was not required as the Administration invoked the public exigency exemption under N.J.S.A.52:34-10? Has the State Comptroller reviewed or does he intend to review the contract *ex post* in the spirit of Executive Order #125 of 2013 so as to assure the public of the integrity of the procurement process? With regards to ensuring a competitive bidding process, what is the State Comptroller's view on the advisability of "piggybacking" on a contract negotiated by another state? To the best of the State Comptroller's knowledge, did the Division of Purchase and Property allow for any element of competition in awarding the contract? Does the State Comptroller intend to conduct an *ex post* audit and evaluation of the contract and contractor performance?

- **Please indicate whether the Office of the State Comptroller was involved in the formulation of the November 23, 2012 Request for Quotations for FEMA assistance-eligible debris removal services (Waivered Contract AG-082). Did the office pre-screen the Request for Quotations as the contract may be worth more than $10 million? If not, why did the division not pre-screen the contract and does it intend to review the contract's legality retroactively in the spirit of Executive Order #125 so as to assure the public of the integrity of the procurement process? Did the contract specifications ensure a competitive bidding process? Does the State Comptroller intend to conduct an *ex post* audit and evaluation of the contract and contractor performance?**

5. In its FY 2012 Annual Report, the Office of the State Comptroller related that its **Medicaid Fraud Division recovered $102.4 million in improperly paid Medicaid funds in FY 2012** for the State and the federal government. Payments from third-party insurers that are responsible for services that were inappropriately paid with Medicaid funds represented a "significant amount" of the recoveries. The investigation of alleged fraud and waste led to the recovery of $8.4 million. Furthermore, the division estimates that its anti-fraud efforts yielded $402 million in avoided expenses in FY 2012.

The "Medicaid Program Integrity and Protection Act", P.L.2007, c.58, established an independent Office of the Medicaid Inspector General in the Office of the Inspector General. P.L.2010, c.33 later abolished both offices and consolidated their functions in the Office of the State Comptroller, where the Office of the Medicaid Inspector General became the Medicaid Fraud Division. The division is intended to prevent, detect, investigate, and reduce fraud, waste, and abuse in the State's Medicaid program. It has the authority to supervise all State government activities relating to Medicaid integrity, fraud, and abuse, except the activities of the Medicaid Fraud Control Unit in the Department of Law and Public Safety. The division's oversight focuses on Medicaid providers, managed care organizations, and Medicaid recipients. The federal government matches State expenditures for the division 200 percent through the Medicaid program.

- ***Questions:*** **For FY 2012 and FY 2013 to date, please indicate the total amount in improperly paid Medicaid funds that the Medicaid Fraud Division recovered and**

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delineate its components. Which portion of the totals can be qualified as "fraud?" Does the Medicaid Fraud Division classify the initial non-payments by third-party insurers as fraud? Where do the recoveries appear in the Governor's FY 2014 Budget? Please delineate the components of the estimated $402 million in expenses that were avoided in FY 2012 because of the division's anti-fraud efforts.

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OFFICE OF INFORMATION TECHNOLOGY

1. In November 2011, a new Chief Technology Officer, who also serves as the State's new Chief Information Officer, was installed at the helm of the Office of Information Technology (OIT). The leadership change coincides with a **recalibration of the OIT's priorities**. On that subject the State Treasurer testified during the Department of the Treasury's budget hearing before the Senate Budget and Appropriations Committee on April 26, 2012 that the OIT would: a) renew its focus on managing the State's core information technology infrastructure on which all State software applications run; b) significantly reengineer "the way the State makes technology choices and develops enterprise innovation strategies ...;" and c) embark on a multiyear initiative to rebuild the State's core information technology infrastructure. The new Chief Information Officer added that the OIT would also begin to build the capability of developing new systems in-house. Hitherto the OIT had concentrated on the day-to-day operations of the State's information technology infrastructure.

Organized "in but not of" the Department of the Treasury, the OIT provides information technology services to State agencies. To that end, it oversees the mainframes, servers, networks, and databases that compose the State's information technology infrastructure; operates the Garden State Network, a statewide integrated communications network; and runs the State's major data centers, including the Office of Information Technology Availability and Recovery Site (OARS). In addition, it manages the State's Internet environment and offers application development and maintenance, geographical information systems, data management services, and telephone services for all State offices. State agencies, in turn, are responsible for the day-to-day management and operation of their agency-specific infrastructure components. The OIT has a recommended FY 2014 budget of $131.4 million for 711 funded positions.

- ***Questions:*** **Please expound on OIT's initiative to renew its focus on managing the State's core information technology infrastructure. Which deficiencies did the OIT identify in this area? Which measures does the new OIT leadership intend to implement, and over what period of time, to remedy the deficiencies? What progress has been attained to date in implementing the envisioned changes? Please specify any metrics the OIT uses to gauge success in executing the initiative.**

- **Please describe the OIT initiative to significantly reengineer "the way the State makes technology choices and develops enterprise innovation strategies." Which measures does the new OIT leadership intend to implement, and over what period of time, to remedy the deficiencies? What progress has been attained to date in implementing the envisioned changes? Please specify any metrics the OIT uses to gauge success in executing the initiative.**

- **Please outline the OIT's plans, including a timeline, for rebuilding the State's core information technology structure and building the OIT's capability to develop new systems in-house. Please project the cost of pursuing the initiatives and detail their financing plan. Will additional positions be required to be filled to fully implement the initiatives? If so, what are the job titles of the additional positions? Is the OIT confident that it will be able to hire the required programming talent in light of the**

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limitations imposed by the State's compensation and civil service rules? Please specify any metrics the OIT uses to gauge success in executing the initiatives.

2. In the May 2012 edition of the "NJOIT Dispatch" newsletter, the OIT announced the **realignment of the OIT's management structure**. Specifically, the office would be restructured into two "service towers": 1) Technology Operations, and 2) Technology Governance and Strategic Planning. The Technology Operations "service tower" would be responsible for the day-to-day operations of the State's information technology systems. The Technology Governance and Strategic Planning "service tower," in turn, would pursue technology outreach; statewide information technology policy, planning, and standards development; the reformation of the project management office; enterprise security; and other innovation and directional responsibilities. The OIT has also newly established a Statewide CIO [Chief Information Officer] Collaborative Council that institutionalizes the flow of information between the OIT and the Executive branch agency information technology directors. The council meets quarterly and is intended to share best practices, determine areas for growth and improvement, and seek ways to leverage core competencies among partner agencies. It is not clear how these structural changes comport with the OIT's preexisting governance structure that was codified by P.L.2007, c.56.

Under the OIT's preexisting governance structure, a nine-member New Jersey Information Technology Governing Board heads the OIT and determines strategic direction, standards, and funding priorities. A Chief Technology Officer runs the office's day-to-day operations and coordinates information technology operations across the Executive branch. To facilitate interoperability and the sharing as well as leveraging of technology, four Deputy Chief Technology Officers have responsibilities for information technology management, planning, and budgeting within four Affinity Groups, or communities of interest that intersect several State agencies (Administrative Services; Health, Education, and Social Services; Public Safety; and Business and Community Services). The Deputy Chief Technology Officers also serve as liaisons and customer service agents between the Executive branch agencies and the OIT. The agency information technology directors, in turn, obtain guidance from their Affinity Group's Deputy Chief Technology Officer, but are accountable to their department heads. A Project Review Board—composed of representatives from OIT, the Office of Management and Budget in the Treasury, and the Purchase Bureau in Treasury's Division of Purchase and Property—reviews and monitors all large scale information technology projects in the Executive branch. In reply to OIT Discussion Point #7 in the OLS FY 2011-2012 Department of the Treasury Budget Analysis, the OIT stated that the preexisting governance model met agency demand.

- ***Questions:*** **Please describe the OIT's realigned management structure and distribution of responsibilities among the office's organizational units. Are the new Statewide CIO Collaborative Council and the OIT's new organization into the Technology Operations "service tower" and the Technology Governance and Strategic Planning "service tower" consistent with and permissible under the OIT's governance structure that P.L.2007, c.56 codified? Please explain any deviation from P.L.2007, c.56. What were the shortcomings of the OIT's old governance model that spurred the reorganization and how is the restructuring intended to alleviate the shortcomings? Has the implementation of the new governance model helped to**

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rationalize and improve the management of the State's information technology resources as envisioned? Has the OIT become aware of any deficiencies in the governance structure that might call for additional modifications?

- **Does the Technology Governance and Strategic Planning "service tower" entail a new organizational unit? Does the "service tower" duplicate, supplant or cannibalize the responsibilities of the New Jersey Information Technology Governing Board, given that both are to set statewide information technology policies, planning, and standards and to provide general direction? Please delineate the two bodies' respective responsibilities and explain their interplay.**

- **Prior to the reorganization, the Deputy Chief Technology Officers served as the OIT's liaisons and customer service agents in interfacing with client agency information technology directors. Please explain the shortcomings of that approach that the creation of the Statewide CIO Collaborative Council is intended to rectify. How does the council's existence alter the flow of communications and the nature of cooperation between the OIT and its client agencies? To what extent has the restructuring changed the role of the Affinity Groups and the Deputy Chief Technology Officers, especially with regards to the cooperation and communication between the OIT and its client agencies? In general, given that State agency information technology directors are accountable to their department heads, does the OIT's guidance trump agency instructions in the mind of the typical agency information technology director if instructions conflict? What means does the OIT have to ensure that its enterprise-wide views prevail over the relatively narrower department-centric perspectives in case of conflicting directives? Please list any accomplishments of the Statewide CIO Collaborative Council.**

3. New Jersey State government incurred $169 million in **information technology equipment, maintenance, and consultant services expenditures** in FY 2011 and was projected to spend $132 million on these purposes in FY 2012 and $138 million in FY 2013, according to the May 22, 2012 Department of the Treasury follow-up response to a question raised during the department's budget hearing before the Senate Budget and Appropriations Committee on April 26, 2012. The Treasury specified that these amounts included non-salary expenditures on hardware, software, maintenance, and consultant services. Addressing OIT Discussion Point #1 in the OLS FY 2011-2012 Department of the Treasury Budget Analysis, the OIT related that the equivalent totals were $251 million in FY 2010 and $292 million in FY 2009.

The Governor's FY 2014 Budget proposes to continue a language provision on page F-5 requiring that the OIT approve all departmental purchase requests for information technology and telecommunications equipment, maintenance, and consultant services. In its review, the OIT is to ascertain that purchase requests comply with statewide policies and standards as well as the department's approved Information Technology Strategic Plan. One of these policies is a **partial moratorium on the procurement of information technology equipment, maintenance, and consultant services** that has been in place since December 2006. Exempt from the moratorium are purchases: a) by the OIT; b) for ongoing projects whose disruption would increase future costs or trigger a significant loss of investment; c) for projects that are primarily

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paid for with federal or dedicated funds; d) for projects mandated by the federal government, State law or a court order; e) that avert that failing equipment or software will deteriorate or halt mission-critical business functions; and f) of emergency maintenance, repairs, and supplies under $2,500. In addition, the Office of Management and Budget may review purchase requests between $36,000 and $99,999 and must approve those of at least $100,000 (see Joint Office of Management and Budget and Office of Information Technology Circular Letter 12-13-OMB/OIT, Moratorium on Procurements of Information Technology (IT) Hardware, Software and Related Services). Replying to OIT Discussion Point #2 in the OLS FY 2011-2012 Department of the Treasury Budget Analysis, the OIT affirmed that it was unaware of the moratorium causing any specific problems.

- ***Questions:*** **In general terms and by means of specific examples, please describe the effects on the performance of the State's information technology systems of the drop in State spending on non-salary information technology cost centers from $292 million in FY 2009 to a projected $138 million in FY 2013. What strategies has the OIT employed to deal with the spending reduction? What projects have been jeopardized, scaled back, discontinued or deferred? Is the OIT aware of cases in which the partial moratorium on the procurement of information technology equipment, maintenance, and consultant services has eroded the quality of services provided by State agencies? Please indicate in which areas OIT expects the continuation of the moratorium in fiscal year 2014 to adversely impact program performances and service delivery. If continued over several years, would the current annual investment level be sufficient to maintain the performance of information technology systems? If not, what average annual investment level does the OIT recommend?**

- **Please specify, by category, the actual amount of State government expenditures on information technology equipment, maintenance, and consultant services in FY 2012 and the projected amounts for FY 2013 and FY 2014. Please provide the value of each Executive department's request for information technology equipment, maintenance, and consultant services procurements in fiscal years 2011, 2012, and 2013 as well as the value of procurements approved by the OIT.**

4. The Governor's FY 2014 Budget proposes to continue a language provision on page F-5 requiring that the OIT approve all departmental purchase requests for information technology and telecommunications equipment, maintenance, and consultant services. In its review, the OIT is to ascertain that purchase requests comply with statewide policies and standards as well as a department's approved Information Technology Strategic Plan.

Supported by the OIT's Project Management Office, the OIT's **Project Review Board** exercises the review and monitoring functions for information technology projects that typically exceed $5 million in costs. The board has delegated that responsibility for projects whose value is less than $5 million to the Project Management Office. Composed of representatives from the OIT, the Office of Management and Budget in the Treasury, and the Purchase Bureau in Treasury's Division of Purchase and Property, the board has the authority to continue, hold or stop a

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project but has no additional authority to hold an agency accountable. Replying to OIT Discussion Point #8 in the OLS FY 2011-2012 Department of the Treasury Budget Analysis, the OIT stated that the Project Review Board met quarterly to review projects that exceeded $5 million in costs, that it did not reject any projects in FY 2011, and that a listing of the projects monitored by the board was "not readily available."

- *Questions:* **Has the role or composition of the Project Review Board changed as part of the OIT's recent reorganization? How many projects does the board currently monitor? How many new projects did the board begin monitoring in FY 2012 and FY 2013? How many projects did it reject in FY 2012 and FY 2013?**

5. In the May 2012 edition of the "NJOIT Dispatch" newsletter, the OIT announced a **reconfiguration of its Program Management Office (PMO)**. The OIT related that the PMO would develop a new methodology to evaluate information technology projects that would center on the potential use of a project across several Executive Branch agencies. The OIT noted further that hitherto the PMO's primary focus was on contract evaluation and the System Architecture Review (SAR) process; which entails an evaluation of proposed information technology solutions for their cost-effectiveness, efficiency, risks, compatibility with, and potential use across the State's existing information technology infrastructure. These functions would now "become components of [a] more … holistic approach to project management."

The PMO supports the Project Review Board in reviewing, approving, and monitoring information technology projects that exceed $5 million in costs and conducts the reviews for projects falling under that threshold. In addition, the PMO coordinates multi-agency information technology initiatives and guides in-house staff on application development and implementation, engagement management, project management and control, risk assessment and mitigation, cost estimation, and integrated planning. The PMO, however, does not actively manage information technology projects. In response to OIT Discussion Point #9 in the OLS FY 2011-2012 Department of the Treasury Budget Analysis, the OIT indicated that in FY 2011 the PMO had 13 staff members, conducted 147 detailed project reviews, and reviewed and processed approximately 1,000 external procurements.

- *Questions:* **Please describe the reconfiguration of the Program Management Office (PMO), set forth the reconfiguration's overarching objective(s), and explain the ways in which the PMO's organization and performance were suboptimal prior to the reconfiguration. How has the reconfiguration altered the PMO's responsibilities and organization? Please outline the new methodology the PMO uses to evaluate information technology projects that is to center on the potential use of a project across several Executive Branch agencies. How is the methodology different from the review approach the PMO followed previously and superior to the System Architecture Review (SAR)? Does the PMO have a sufficient number of full-time equivalent positions to adequately implement the changes dictated by the reconfiguration? How many employees does the PMO have in FY 2013 and is it budgeted to have in FY 2014? What have been the accomplishments of the PMO in FY 2013?**

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6. In December 2010, the OIT contracted with several outside vendors for the provision of **quality assurance and project management services for information technology projects**. The Request For Proposal indicated that contractors would be engaged on an as-needed basis for projects ranging from feasibility studies to post-implementation reviews. Similarly, in addressing OIT Discussion Point #9 in the OLS FY 2011-2012 Department of the Treasury Budget Analysis, the OIT specified that State agencies may voluntarily avail themselves of the contracts but that the OIT would require their use in some cases. Budgetary constraints had delayed for several years the implementation of a quality assurance function and the adoption of a framework for facilitating the delivery of high-quality information technology services.

- ***Questions:*** **Please comment on the use of the quality assurance and project management contracts for information technology projects. How many projects have been referred to the contractors since December 2010 and at what total cost? What types of projects have been referred to the contractors? Does the OIT require the use of the contracts for specific project categories? Please provide an assessment of the quality of the services provided by the contractors as well as their cost-effectiveness. Please describe the cooperation and division of labor between the contractors and the OIT's Program Management Office. Do the contracts represent an outsourcing of work previously performed by the Program Management Office?**

7. In cooperation with Executive branch agency information technology directors, the OIT had developed the "**State of New Jersey Information Technology Strategic Plan for Fiscal Years 2008 through 2010**." The plan articulates goals, objectives, and strategies in six information technology areas: governance, statewide efficiencies, enterprise architecture, e-government, security, and information technology workforce management. Addressing OIT Discussion Point #11 in the OLS FY 2011-2012 Department of the Treasury Budget Analysis, the OIT stated that it planned to release an updated strategic plan in June 2011. It appears that the update was never released, as the previous Chief Technology Officer resigned effective in September 2011 and the new Chief Technology Officer testified during the Department of the Treasury's budget hearing before the Senate Budget and Appropriations Committee on April 26, 2012 that the OIT had taken the first step toward developing a new strategic plan.

- ***Questions:*** **Has the OIT adopted a successor to the "State of New Jersey Information Technology Strategic Plan for Fiscal Years 2008 through 2010?" If not, is that strategic plan still guiding information technology strategies and action plans today and when will a new strategic plan take effect? If there is a new strategic plan, please provide a copy thereof and outline the most important changes relative to the previous plan. Has the OIT ever published and implemented the update to the strategic plan that it had announced would be released in June 2011? If not, please describe the reasons(s) for delaying or abandoning the update. Has the change in OIT leadership contributed to any delay or abandonment of the announced June 2011 update?**

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8. A goal under the "State of New Jersey Information Technology Strategic Plan for fiscal years 2008 through 2010" was to maximize the efficient delivery of agency information technology services through the cost-effective use of all State IT resources. Among the envisioned initiatives was the creation of a formal process by which the OIT and the Division of Local Government Services in the Department of Community Affairs meet periodically with all 21 of the county information technology officers as a group and communicate with them on an ongoing basis so as to identify areas where the State and its counties could join resources to achieve greater statewide efficiencies.

Elaborating on **the OIT's cooperation with county and local governments** in reply to OIT Discussion Point #12 in the OLS FY 2011-2012 Department of the Treasury Budget Analysis, the OIT stated that its Office of Geographic Information Systems worked with county and local governments on an ongoing basis, as the OIT maintained and distributed the base geographic information systems data that counties and municipalities use. In addition, in 2006, 2008, and 2011, the OIT held two-day New Jersey Digital Government Summits that allowed State, municipal, and county employees to liaise and learn about information technology experiences and opportunities. The OIT noted further that it collaborated with county and local governments to: a) lay the foundation for a statewide, interoperable public safety land mobile radio system; b) develop a new interoperable public safety wireless broadband network; and c) increase the use by county and local governments of the Garden State Network (a statewide integrated communications network) and existing State-owned fiber-based infrastructure. The following two discussion points address the related "State of New Jersey Broadband Network" project and the federal State Broadband Data and Development Program (Broadband Mapping Program) in greater detail.

Furthermore, in the May 2012 edition of the "NJOIT Dispatch" newsletter, the OIT added that it had newly started to conduct quarterly "open house" meetings with technology solutions providers to which representatives of county and local governments were invited. The OIT also related that it relied on the New Jersey League of Municipalities to alert local governments of upcoming technology-focused meetings and conferences.

- ***Questions:*** **Has the OIT established a formal process by which the office and the Division of Local Government Services in the Department of Community Affairs meet periodically with the county information technology officers as a group to discuss possibilities for the joint use of resources to achieve greater statewide efficiencies? If so, please describe the arrangement and the frequency of any meetings. If not, please describe any informal processes that may exist to facilitate the communication.**

- **Please elaborate on the progress that has been achieved in the last two years concerning the cooperation and joint leveraging of resources among the State and its county and local governments in: a) laying the foundation for a statewide; interoperable public safety land mobile radio system; and b) expanding the use of the Garden State Network and existing State-owned fiber resources by county and local governments. Has the cooperation expanded beyond these spheres of activity (and beyond the development of a new statewide interoperable public safety wireless broadband network, which is addressed in the following discussion point)? If so, please describe any new initiatives.**

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- **Is the OIT aware of any long-term or permanent damage that Hurricane Sandy inflicted on any county or local government information technology system or its usability? If so, please provide specific examples of any such losses and impairments and set forth the estimated dollar value of the damage. Are any federal funds available to assist in rebuilding any such systems or help county and local government recoup those losses?**

9. On May 11, 2012, the United States Department of Commerce notified the OIT of the partial suspension of the projects the department had funded through the National Telecommunications and Information Administration (NTIA) State Broadband Data and Development Program. This decision affects the **"The State of New Jersey Broadband Network"** project, for which the OIT had accepted a $39.6 million matching fund award in September 2010. The partial suspension flows from the enactment of the Middle Class Tax Relief and Job Creation Act of 2012, which appropriated $7 billion to the NTIA for overseeing the establishment and operation of an interoperable, nationwide public safety broadband network. The nationwide initiative replaces, and to the extent feasible incorporates, the NTIA's previous efforts at creating several regional interoperable public safety networks, of which "The State of New Jersey Broadband Network" is but one example. In support of the nationwide initiative the federal 2012 act also appropriated $135 million for a new State and Local Implementation Grant Program.

The OIT was to use the $39.6 million in federal moneys, as well as the State's $11.6 million matching contribution, to deploy "The State of New Jersey Broadband Network," an interoperable 700 MHz public safety wireless broadband network in the Northern Jersey Urban Area Security Initiative region, which covers the counties of Bergen, Essex, Hudson, Middlesex, Morris, Passaic, and Union. If successful, the project would have enabled 167 local, county, and State law enforcement agencies and 224 fire departments to use the network. The network would have allowed paramedics to stream critical patient data to hospital personnel; give law enforcement officers field access to records management systems for criminal, fingerprint, and mug shot information; provide firefighters with access to building blueprints and infrastructure diagrams; and improve situational awareness at incident command posts through video applications. The initiative was intended to serve as a demonstration project for the national implementation of a similar network. Addressing OIT Discussion Point #4 in the OLS FY 2011-2012 Department of the Treasury Budget Analysis, the OIT stated that the NTIA required "The State of New Jersey Broadband Network" to be substantially complete by August 2012 and fully complete by August 2013. The OIT intended to meet the matching fund requirement through an in-kind match in the form of the value of 77 tower sites that were supposed to house the network's radio access equipment.

- ***Questions:*** **Please report on the status of "The State of New Jersey Broadband Network" project. How has the project been affected by the United States Department of Commerce: a) newly guiding the development of a nationwide interoperable public safety broadband network; and b) partially suspending funding for the projects the department had funded through the National Telecommunications and Information Administration State Broadband Data and Development Program? Has the United States Department of Commerce's development of a nationwide**

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network redefined the geographical scope of the "The State of New Jersey Broadband Network" project? Has any work continued on the project since the partial suspension of federal funding? If so, by what date does the OIT expect the project's completion? If not, will the OIT resume the project, in its previous or modified shape, and, if so, by what date does the OIT expect the project's completion? Has the OIT applied and been approved for participation in the federal State and Local Implementation Grant Program? If so, please provide details on any grant award, including the specific purposes for which grant amounts have been awarded and the expected timeline of milestones toward project completion.

10. In FY 2010 and FY 2011, the OIT received a combined $4.9 million in matching funds from the **federal State Broadband Data and Development Program (Broadband Mapping Program)**. The OIT was to use the award, as well as the State's $1.2 million in-kind contribution thereto, for: a) the creation of a broadband program office that would coordinate statewide broadband activity, identify gaps in broadband usage, and develop recommendations for accelerating broadband adoption; b) the provision of training, consulting, online resources, and technology sustainability planning to small businesses and institutions of higher education so as to support broadband-based curriculum delivery and e-commerce development; and c) the collection, over five years, of broadband-related data and the identification and implementation of best practices. In reply to OIT Discussion Point #5 in the OLS FY 2011-2012 Department of the Treasury Budget Analysis, the OIT related that the broadband program office had not yet been created; that the provision of training, consulting, online resources, and technology sustainability planning to small businesses and institutions of higher education had not yet commenced; and that the initiative would eventually entail the creation of two new temporary positions at the OIT.

- ***Questions:*** **Please provide an update on the OIT's implementation of the award agreement with the federal State Broadband Data and Development Program (Broadband Mapping Program). Has the OIT created a broadband program office? If so, please list, by job title category, the number of full-time positions allocated to the office. Will the OIT shut the office down once federal funding will have been depleted? What activities has the broadband program office undertaken to date and what activities does it intend to still undertake? Please explain the efforts the broadband program office has deployed to date and intends to deploy in the future to help small businesses develop e-commerce operations and to assist institutions of higher education in broadband-based curriculum delivery. Please comment on the best practices the broadband program office has identified and implemented to date.**

11. The OIT has been pursuing a three-phased strategy to **consolidate the State's shared information technology infrastructure**. In the first phase, the office strives to physically collocate mission-critical information technology equipment to reduce the number of data centers and energy consumption, and to improve information technology disaster recoverability. Phase 2 involves the use of the procurement review process to optimize the information technology infrastructure through platform consolidation or virtualization. Phase 3

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calls for service integration across affinity groups to improve service delivery and internal processes. To that end, the OIT intended to draft Service Level Agreement (SLA) templates that would be used within the Executive branch to specify the technical support services OIT would provide to client agencies.

Responding to Discussion Point #42 in the OLS FY 2009-2010 Department of the Treasury Budget Analysis, the OIT noted that Phase 1 progress in migrating equipment to a central location was slow due to a lack of available computer room floor space at OIT facilities. Nevertheless, two years later, in reply to OIT Discussion Point #10 in the OLS FY 2011-2012 Department of the Treasury Budget Analysis, the OIT stated that it had relocated the Department of Health and Senior Services data center to an OIT data center and that it was about to complete the consolidation of the Department of Transportation data center into the OIT HUB data center. In addition, the OIT conveyed that it was in discussions to consolidate call center systems and information technology equipment from three to four smaller agencies. On the previously anticipated relocation of printing operations and related equipment from its HUB data center, however, the OIT could not report any progress and related that it was considering outsourcing its print business instead.

In its response to Discussion Point #42 in the OLS FY 2009-2010 Department of the Treasury Budget Analysis, the OIT also listed several successes in Phase 2 of the consolidation strategy. Two years later, in addressing OIT Discussion Point #10 in the OLS FY 2011-2012 Department of the Treasury Budget Analysis, the OIT conveyed that it continued to use the procurement review process to optimize the information technology infrastructure through platform consolidation and virtualization. As examples of virtualization, the OIT cited the continued expansion of the State government-wide storage area network and the use of the State government-wide hosting platform, which minimizes the proliferation of standalone servers. As an example of platform consolidation, the office cited the ongoing consolidation of e-mail services in the State government-wide e-mail infrastructure.

Concerning Phase 3 of the consolidation strategy, the OIT indicated in answering OIT Discussion Point #10 in the OLS FY 2011-2012 Department of the Treasury Budget Analysis that it had abandoned SLAs in favor of performance indicators and that service integration across affinity groups was advancing with an emphasis on the areas of eligibility determination, fraud detection, and Health Information Technology.

- ***Questions:*** **Please provide an update on the implementation of the three-phased consolidation strategy for the State's shared information technology infrastructure. Have the consolidation of the Department of Transportation data center into the OIT HUB data center and the discussed consolidation of the call center systems and information technology equipment from three to four smaller agencies been completed? If so, are the benefits of the consolidations as the OIT expected or have there been unanticipated complications? If not, by which date will the consolidations and relocations be completed? Have printing operations been relocated from the HUB data center or outsourced? If not, what are the OIT's plans regarding its printing operations? What other equipment does the OIT plan to migrate to central locations in the future as part of Phase 1 of the consolidation strategy? Has the OIT secured sufficient funding for the migration of additional equipment to central locations?**

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- **Please describe the progress the OIT has made in the last two years in implementing: a) Phase 2 of the consolidation strategy for the State's shared information technology infrastructure (the use of the procurement review process to optimize the information technology infrastructure through platform consolidation or virtualization); and b) Phase 3 of the consolidation strategy (service integration across affinity groups). Have performance indicators served as a satisfactory replacement of Service Level Agreements (SLAs)?**

12. The Asbury Park Press reported in its September 6, 2011 article "Christie Pitches Computer Upgrade" that the Administration had developed a **five-year plan to invest $60 million in upgrading the State's aging information technology systems**. The news outlet related further that the State Legislature had jeopardized the plan's implementation by not acting on the Governor's recommendation to include, as a first installment, $5.5 million for this purpose in the FY 2012 Appropriations Act. As indicated in OIT Discussion Point #1, the State Treasurer testified half a year later during the Department of the Treasury's budget hearing before the Senate Budget and Appropriations Committee on April 26, 2012 that the State would embark on a multi-year initiative to rebuild the State's core information technology infrastructure. OIT Discussion Point #1 elicits information on the most recent initiative.

- ***Questions:*** **Please comment on the status of the referenced initiative to expend $60 million on upgrading the State's aging information technology systems. Please provide the project list and indicate whether the initiative's implementation has been started, deferred or abandoned. If still applicable, please set forth the initiative's timeline and financing plan. How does the initiative correlate and intersect with the Administration's multi-year plan to rebuild the State's core information technology infrastructure to which the State Treasurer alluded during the April 26, 2012 Senate Budget and Appropriations Committee budget hearing on the Department of the Treasury?**

13. An enterprise data warehouse is a dynamic database environment dedicated to providing a single, comprehensive view of the enterprise and a reliable source of consistent information for financial and strategic decision-making for the enterprise as a whole. In response to Discussion Point #48 in the OLS FY 2009-2010 Department of the Treasury Budget Analysis, the OIT stated that fiscal constraints had dampened the development of the State's **enterprise data warehouse environment**. As a result, the OIT's focus would shift to maintaining the current production environment, reacting to emergency information requests, developing data warehousing projects, and introducing additional enhancements. The OIT also projected that the hardware platform hosting the data warehouse environment would need to be refreshed within the next two to three years. Two years later the OIT reported, in addressing OIT Discussion Point #13 in the OLS FY 2011-2012 Department of the Treasury Budget Analysis, that it had continued to develop the enterprise data warehousing environment incrementally and that about $2.4 million from eight federal grants financed most of the progress from FY 2008 through FY 2012. The OIT also affirmed that the data warehouse met

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the needs of State government at the time. But the office pointed out that the hardware platform hosting the data warehouse environment would still need to be refreshed within the next two to three years. Once refreshed, substantially less storage would be needed and the data warehouse would allow for data to be stored and accessed ten to fifteen times faster.

- ***Questions:*** **Please detail any steps the OIT has taken in the last two years to further develop the enterprise data warehouse environment. How does the OIT intend to finance any expansion of the data warehouse in FY 2013 and FY 2014? Please explain whether the hardware platform hosting the data warehouse is still in need of being refreshed. If it has already been refreshed, please indicate the timing and cost of that action and project the length of time that will lapse until the next such action will become necessary. If the hardware platform has not been refreshed, please share by which date the OIT expects such an action to be necessary, the initiative's anticipated cost, its expected benefits, and the likely impact of delaying the refreshing of the hardware platform. Does the data warehouse currently meet the needs of State government?**

14. Replying to Discussion Point #48 in the OLS FY 2009-2010 Department of the Treasury Budget Analysis, the OIT stated that the quality of the data in the enterprise data warehouse environment was well within industry and government guidelines due to extensive cross-checking of data in the source systems before entering the data warehouse for public consumption. The office suggested, however, that the State could improve on its **data governance** in general. Specifically, the OIT would like to see the identification of data stewards within agencies who understand the definition of the data in particular areas and who can make decisions on appropriate data definitions, access, and use. The office also recommended the establishment of a data governance board to develop overall policies, resolve definition disputes that cross agency domains, and serve as the data steward for universal data at the enterprise level. In addressing OIT Discussion Point #14 in the OLS FY 2011-2012 Department of the Treasury Budget Analysis, the OIT noted two years later that it intended to release a data governance policy by the end of FY 2011, which would include the establishment of a Data Governance Council. Moreover, the OIT reported that as a part of a data governance pilot project, the Department of Transportation had already identified its data stewards and implemented a data stewardship policy.

- ***Questions:*** **Please relate whether the OIT has developed and released a data governance policy to promote improved data governance practices within State government. If so, please summarize the policy and comment on the extent of State agency compliance with the policy. If the policy has not been released, please describe the reasons for the delayed release and indicate the date by which the OIT anticipates the release. Has the envisioned Data Governance Council been established to develop overall policies, resolve definition disputes that cross agency domains, and serve as the data steward for universal data at the enterprise level? Have data stewards been designated in State agencies? What conclusions has the OIT drawn from the data governance pilot project it conducted with the Department of Transportation, and, if applicable, the implementation and operation of the new data governance policy?**

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15. According to the Office of the State Auditor's December 2008 audit report on **Statewide Data Privacy**, the OIT had significantly enhanced the privacy of confidential data. Nonetheless, the State Auditor concluded that personal data maintained at State agencies might still be at risk of unauthorized disclosure because of a lack of existing security policies and procedures. To remedy that shortcoming, the State Auditor recommended the promulgation of statewide data security policies on portable data storage devices and data encryption. In addition, the State Auditor advised the drafting of consistent and comprehensive agreements with third parties that require the safeguarding of the confidentiality of personal and confidential information. The OIT reported that it had implemented the recommendations (see the OIT responses to Discussion Point #49 in the OLS FY 2009-2010 Department of the Treasury Budget Analysis and OIT Discussion Point #15 in the OLS FY 2011-2012 Department of the Treasury Budget Analysis). But in its FY 2011-2012 answer to OIT Discussion Point #15, the OIT did not reply affirmatively to the OLS' question whether, to the best of the OIT's knowledge, State agencies were following existing data security policies and procedures. The OIT only stated that State agencies were aware of them.

In its FY 2011-2012 response to OIT Discussion Point #15, the OIT also emphasized that threats to data security are constantly evolving, thereby necessitating continuous updates to the State's security standards, policies, procedures, practices, and technology. Providing examples of technological updates, the OIT cited its recent acquisition of database encryption technology for the State's Oracle database and its research of encryption options for the State's Microsoft SQL Server database shared hosting environment. The OIT also noted the implementation of its Vulnerability Management Program, which allows all State agencies to routinely scan their infrastructure devices for known vulnerabilities to better protect information.

- ***Questions:*** **To the best of the OIT's knowledge, are State agencies following established data security policies and procedures? Please list all instances of noncompliance with the data security policies and procedures in the last two years of which the OIT has become cognizant. Please describe any significant developments in the area of statewide data security over the last two years. Has the OIT acquired encryption technology for the State's Microsoft SQL Server database shared hosting environment? Has the OIT been able to acquire the technology it felt is needed to secure data privacy in recent years or have the multiyear budgetary restrictions adversely affected the State's data security? How often is the scanning capability under the Vulnerability Management Program being updated to reflect new threats to data security?**

16. In its September 2010 **audit report on the Office of Information Technology Data Center**, the State Auditor pointed to weaknesses in OIT's asset management system and recommended that the OIT accurately inventory and track the data center's hardware, software, applications, and the applications' platforms. Properly tracking IT assets improves their management and protects them from theft, misuse, and abuse. In response, the OIT conceded that its "outdated" Fixed Asset Inventory Reporting System (FAIRS) complicated asset accounting and management. The office indicated, however, that it was in the process of improving accountability for inventory assets and that it would evaluate the application

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software portion of the asset inventory in calendar year 2011. The OIT also mentioned that, as a part of its Change Management and Compliance initiative, it would work towards creating a cohesive inventory environment that addressed data center asset management, software compliance, change management, and financial management requirements. In reply to OIT Discussion Point #17 in the OLS FY 2011-2012 Department of the Treasury Budget Analysis, the OIT remarked that subsequent to the audit it standardized asset serial number entries to improve the accountability for inventory assets at its data center and that it carried out a fixed asset inventory once a year, as required by Office of Management and Budget Circular Letter 11-19-OMB, Asset Inventory Requirements (Equipment—Tangible and Intangible). Concerning the Change Control Management initiative, the OIT specified that it had used the Information Technology Infrastructure Library since the autumn of 2008 and that all configuration changes were now tracked.

The State Auditor also recommended the strengthening of controls over physical access at the three-component OIT Data Center: the HUB data center, which houses a mainframe computer and client servers, processes mission-critical applications for the State, and provides State printing processes; the River Road data center, which hosts a mainframe computer and a server farm for clients, processes mission-critical applications for the State, and includes control centers that function as the help desk for all State departments; and the OIT Availability and Recovery Site (OARS), which serves as the State's backup and recovery, business continuity, and disaster recovery site. In the report, the State Auditor remarked that 544 badge-holders had access to at least one of the three data centers and questioned whether all of them needed the access. The State Auditor also noted the absence of written policies and procedures on the issuance, removal, and monitoring of access badges; and the fact that access to the data centers was not logged and monitored. Accordingly, the State Auditor recommended that the OIT adopt policies and procedures on granting access to these sites, further revise the access levels so as to restrict access to personnel required to have it, and actively monitor the access security system. Responding to OIT Discussion Point #17 in the OLS FY 2011-2012 Department of the Treasury Budget Analysis, the OIT stated that it was drawing up policies and procedures on data center access that aim for the granting of role-based access only. Individual managers would determine which individuals would get access to the data centers.

- ***Questions:*** **Beyond the standardization of asset serial number entries, please comment on the efforts the OIT has deployed since the audit to improve the accountability for inventory assets at its data center. Has the OIT completed the evaluation of the application software portion of the data center's asset inventory? If so, what were the findings? If not, by which date does the OIT expect the evaluation's completion? Is the fixed asset inventory up-to-date? Has the Change Management and Compliance initiative been fully implemented? If not, please describe the elements of the initiative that must still be completed.**

- **Please indicate whether the OIT has adopted policies and procedures on granting access to the three data center sites. If so, please summarize them and indicate whether the number of badge-holders who have access to the data centers has decreased since the new policies and procedures have taken effect. If the policies and procedures have not been adopted, please describe the reasons for the delay and indicate the date by which the OIT anticipates the implementation. Has the OIT**

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taken any other steps since the audit to restrict access to the data center sites and to actively monitor their access security system?

17. Prompted by OIT Discussion Point #3 in the OLS FY 2011-2012 Department of the Treasury Budget Analysis, the OIT provided a status report on two long-term projects: **the migration of the Garden State Network (a statewide integrated communications network) to a fiber-based infrastructure and the replacement of servers and storage technology**. Specifically, the OIT related that it had finished building a statewide dark fiber network with protected on-ring presence in each of the State's major data centers and core network locations. Next, the office planned to move the State's legacy frame relay and asynchronous transfer mode networks to the new dark fiber network and to eliminate the legacy Garden State Network's asynchronous transfer mode core infrastructure. A frame relay network is a standardized wide area network technology that specifies the physical and logical link layers of digital telecommunications channels, whereas an asynchronous transfer mode network is a telecommunications concept for carriage of a complete range of user traffic that is designed to unify telecommunication and computer networks. Moreover, the OIT stated that it had advanced the replacement of servers and storage technology. The next challenge would be to consolidate over 100 agency servers that support Executive branch agency websites and many agency web-based applications into no more than 20 up-to-date servers. The OIT also reported being in the middle of replacing the network used to connect servers with storage and the system used to back up the servers.

- ***Questions:*** **Please report on the status of the migration of the Garden State Network to a fiber-based infrastructure. Has the migration been completed? If not, please indicate the project's current status and the project milestones that must still be reached, including a timeline. If the migration is incomplete: a) have the legacy frame relay and asynchronous transfer mode networks been migrated to the new dark fiber network; and b) has the legacy Garden State Network asynchronous transfer mode core infrastructure been eliminated? What is or was the project's total cost?**

- **Please comment on the status of the project to replace and consolidate agency servers and storage technology. Has the OIT succeeded in consolidating over 100 agency servers that support Executive branch agency websites and many agency web-based applications into no more than 20 up-to-date servers? If not, please indicate the project's current status and the project milestones that must still be reached, including a timeline. Has the OIT completed the replacement of the network used to connect servers with storage and the system used to back up the servers? If not, please indicate the project's current status and the project milestones that must still be reached, including a timeline.**

18. The OIT used to be responsible for administering telecommunications billings of State agencies only, whereas State agencies were actively managing their telecommunications services themselves. Complying with a recommendation by the Office of the State Comptroller in its July 7, 2010 audit report on OIT's Billing and Contracting for Telecommunications

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Services, however, the OIT has agreed to also start performing a control function. Accordingly, the OIT would newly identify inactive lines through periodic reviews of telephone usage reports and ask the agencies' telephone coordinators to justify the continued need for zero-usage lines. In the report, the State Comptroller had indicated that following a review of the State's monthly telephone usage reports the State Comptroller identified **18,625 unused land-based telephone lines and 1,394 unused wireless telephone lines**. The State Comptroller estimated that the subsequent termination of the lines would save the State $3.2 million annually.

In its audit response, the OIT stressed that as managers of their own telecommunications services, agencies must notify phone service operators of unneeded lines and that beginning in FY 2007 State agencies had received several notices asking them to terminate unused lines. The OIT would nonetheless begin to periodically review monthly telephone usage reports so as to identify dormant lines. Moreover, the OIT suggested that each agency's human resources offices become involved in the issuance of telephone disconnect notifications, as these offices are cognizant of personnel changes. In replying to OIT Discussion Point #18 in the OLS FY 2011-2012 Department of the Treasury Budget Analysis, the OIT then noted that it would commence reviewing telephone usage reports not less than every three months and that it would ask agencies about a phone line's continued use whenever a line would be inactive for three months. Furthermore, the OIT stated that it had sent notices to agency human resources offices requesting that outgoing staff hand in wireless devices and that their landline numbers are reported to the agency's phone coordinator for deactivation. Moreover, the OIT reported that it reminded agency telephone coordinators during quarterly meetings to review their lines and deactivate any unused ones.

- **Questions: Has the OIT formalized its control function of reviewing monthly agency telephone usage reports so as to identify dormant telephone lines? If so, what is the frequency with which the OIT reviews the reports? Have any unused lines been terminated after the OIT alerted agencies to their existence? Does the OIT find that agencies have become more conscientious about deactivating unused lines following the notice the OIT had sent agency human resources offices asking for their assistance and the repeated mentioning of the need to review phone lines and deactivate unused ones to agency telephone coordinators at quarterly meetings? In all, does the OIT perceive a noticeable drop in unused telephone lines?**

19. In its July 2010 audit report on OIT's Billing and Contracting for Telecommunications Services, the Office of the State Comptroller commented on the assignment to employees of **State-issued cellular wireless devices** (cell phones, blackberries, air cards, etc.). At the time of the audit, each State agency established its own internal policies although each individual assignment had to be based upon the need to have constant communication and a determination that the benefits of the assignment justify the costs (Office of Information Technology, Circular Letter No. 04-06-OIT, Assignment and Use of Cellular Wireless). Agencies were to document an assignment's justification and maintain "appropriate records" of all device issuances. The State Comptroller found, however, that agencies' recordkeeping varied vastly and that out of a random sample of 518 devices, 426 devices, or 82 percent, did not have any documentation justifying their assignment. To alleviate this shortcoming, the State

Discussion Points (Cont'd)

Comptroller recommended the development of a uniform policy governing the issuance of wireless devices that requires agencies to assess and document the costs and the benefits of assigning a device.

Subsequently, the OIT issued updated wireless device management policies but it does not appear that the updated policies address the State Comptroller's concerns about a lack of control over the assignment of individual devices. Under the current policy, individual wireless device assignments continue to have to be based upon the need to have constant communication and a determination that the benefits of the assignment justify the costs. Moreover, agencies continue to remain responsible for establishing their own internal policies for the issuance and use of wireless devices, but the policies must now include minimum OIT requirements concerning periodic reviews of usage and termination reports, an annual inventory of wireless devices, the need for appropriate approvals before a device is issued, a mandate that the agency notify the OIT when a wireless device is no longer in use, and rules requiring the reimbursement by employees of costs resulting from a device's improper use. But agencies retain their prior exclusive jurisdiction over the review of individual cellular device assignment requests, while the OIT continues to perform no control function and to have no access to each assignment's supporting documentation (Office of Information Technology, Circular Letter No. 13-05-OIT, Assignment and Use of State Owned Cellular Wireless Devices).

The Office of the State Auditor then reported in its October 2012 audit report on the Division of Administration in the Department of the Treasury that the division had informed the OIT of every employee separation since January 2007. Nonetheless, 66 of the division's 750 active wireless devices were assigned to individuals who separated from the Department of the Treasury between August 2005 and March 2012. Treasury paid, on average, $6,000 per year for these inactive devices over the concerned period. To prevent the recurrence of similar cost inefficiencies, the State Auditor recommended that the division follow up routinely with the OIT to ensure that the OIT actually deactivated all wireless devices on the division's deactivation request lists. The division replied that it would request quarterly deactivation reports from the OIT to compare them to the division's deactivation request lists.

In reply to OIT Discussion Point #19 in the OLS FY 2011-2012 Department of the Treasury Budget Analysis, the OIT reported that 17,390 cellular devices were issued in FY 2011, which marked an annualized increase of 21.7 percent over the 3,613 devices issued in FY 2003. The OIT anticipated the number of devices to continue to grow at an annual rate of five percent. Estimated FY 2011 expenditures for cellular wireless devices totaled $7.4 million, according to the OIT.

- **Questions: Please indicate whether, to the best of the OIT's knowledge, State agencies are complying with the new statewide minimum requirements for the issuance of cellular wireless devices as set forth in Office of Information Technology, Circular Letter No. 13-05-OIT, Assignment and Use of State Owned Cellular Wireless Devices. Does the circular letter incorporate any policies that strive to correct the deficiencies the State Comptroller found in the documentation by agencies of the justifications for the issuance of individual devices? If so, please describe the policies. If not, has the OIT undertaken any steps outside of the circular letter to impel agencies to improve their recordkeeping? Is the OIT aware of agencies having**

Discussion Points (Cont'd)

improved their documentation of justifications for the issuance of individual devices since the release of the 2010 audit by the State Comptroller?

- **Please state the OIT's reaction to the State Auditor's finding that 66 of the 750 wireless devices assigned to the Division of Administration in the Department of the Treasury were still active although the division had informed the OIT of all employee separations since January 2007. Are the deactivation omissions unique to the Division of Administration or does the OIT experience similar difficulties in deactivating wireless devices on other State agencies' deactivation request lists? What weaknesses in the administrative processes might account for the deactivation omissions? How could the deactivation process be improved?**

- **What was the actual number of State-issued cellular wireless devices in FY 2012? What is the projected number of State-issued cellular wireless devices in FY 2013 and FY 2014? Please provide a breakout of the number of cellular wireless devices issued in FY 2013 by State agency. What is the estimated budgetary outlay for supporting State-issued cellular wireless devices in FY 2012, 2013, and FY 2014?**

Discussion Points (Cont'd)

DEPARTMENT OF THE TREASURY

1. Effective as of July 1, 2011 and in accordance with P.L.2010, c.104, the State ceased to operate **New Jersey Network Public Television and Radio (NJN)**. It divested NJN's radio assets and operating licenses for nine radio stations to two non-profit organizations. It also transferred the management of NJN's four-station television network to another non-profit organization, while holding on to its television operating licenses. Established pursuant to P.L.1968, c.405, the New Jersey Public Broadcasting Authority hitherto owned and operated NJN, which broadcast New Jersey public affairs and cultural programming.

NJN's nine-station radio network was sold to WHYY and New York Public Radio for $1.9 million in cash and $2.4 million in non-cash compensation. Addressing OLS Discussion Point #1 in the FY 2012-2013 Department of the Treasury Budget Analysis, the department stated that the $1.9 million had been received and deposited in the nonlapsing "Trust Fund for the Support of Public Broadcasting," as required by P.L.2010, c.104. Moreover, the department related that the New Jersey Public Broadcasting Authority had approved $1.2 million for capital investments that would be charged against the fund ($635,000 to paint and guy-wire coating at four broadcast towers; $200,000 to construct a television studio in the Capitol Visitors Center; $125,000 to replace the tower lighting system at the Montclair site; $108,000 for transmitter signal switching and monitoring improvements; and $132,000 as a contingency reserve for the projects).

Public Media NJ, Inc., a New Jersey not-for-profit corporation affiliated with WNET.org, runs NJN's four-station television network for five years starting on July 1, 2011. Replying to OLS Discussion Point #1 in the FY 2012-2013 Department of the Treasury Budget Analysis, the department estimated that Public Media NJ would receive a $5.4 million State subsidy in FY 2013 ($2.6 million reflecting the annual Corporation for Public Broadcasting Community Service Grant and $2.8 million representing all the revenue generated through the lease of space on the stations' broadcast towers as well as revenue from the lease of excess spectrum of the educational broadband authorizations held by the New Jersey Public Broadcasting Authority and payments from the Food Channel for a cable waiver). In addition, the State continues to fund five management and engineering positions that allow the **New Jersey Public Broadcasting Authority** to maintain, and if necessary operate, the televisions stations and other broadcast equipment in accordance with Federal Communications Commission licensing standards. In FY 2012 and FY 2013, the authority received $2.0 million in supplemental appropriations from the State for that purpose. The Governor's Budget does not include an appropriation to the authority in FY 2014. However, it includes a language provision on page F-9 allowing for supplemental appropriations of unspecified amounts for the operation of the authority without additional legislative approval. The Administration invoked this language provision to authorize such supplemental appropriations in FY 2012 and FY 2013.

In answering OLS Discussion Point #1 in the FY 2012-2013 Department of the Treasury Budget Analysis, the department also noted that the Division of Property Management and Construction planned to renovate and repurpose NJN's former headquarters in the Trenton Office Complex so that State agencies that are currently in leased office space can move into the facility.

Discussion Points (Cont'd)

- ***Questions:*** **Please provide an accounting of the "Trust Fund for the Support of Public Broadcasting." Has the fund received any revenues other than the $1.9 million from WHYY and New York Public Radio? Does the Treasury expect additional amounts to be deposited into the fund in FY 2014? Please delineate the amounts expended from the fund, specifying the purposes for which they were used. Have the $1.2 million in capital projects that were intended to be financed out of the fund's balances been completed? If not, by what date does the department expect their completion? How does the Treasury intend to use any remaining fund balances?**

- **What will be the magnitude of the State subsidy to Public Media NJ in FY 2014 broken out into its segments? What is the projected subsidy in the remaining term of the contract: FY 2015 and 2016? What are the projected expenses of the New Jersey Public Broadcasting Authority in FY 2014?**

- **Please provide an update on the planned renovation and conversion of NJN's former headquarters in the Trenton Office Complex into an office building for other State agencies. Please indicate: the cost of the conversion; the State agencies that have moved into the renovated facility; and the associated reduction in the State's space leasing expenditures. If the repurposing has not yet been completed, please indicate the date by which the department anticipates project completion or set forth any alternative plans for the building.**

2. P.L.2007, c.200 requires the Department of the Treasury to publish an annual **Unified Economic Development Budget Report** (N.J.S.A.52:39-6). Thus far, no such report has been produced, although its first edition would have been due in 2008. According to the law, the report must include comprehensive information regarding the costs and benefits of all State economic development expenses, including the costs of all economic development-related tax expenditures. Tax expenditures are the amount of annual revenue foregone due to tax credits, deductions, and exemptions. In general, a unified economic development budget is intended to provide information to legislators and the public on the value and performance of a jurisdiction's economic development programs. Responding to OLS Discussion Point #3 in the FY 2010-2011 Department of the Treasury Budget Analysis, the department conveyed that it intended to compile a unified economic development budget report using the annual New Jersey Tax Expenditure Report as its launching pad. Last year, the department replied to OLS Discussion Point #2 in the FY 2012-2013 Department of the Treasury Budget Analysis that it aimed at releasing an inaugural report before the end of FY 2012. The department ascribed the delay in the report's production to the difficulty of compiling and merging disparate data from multiple departments and agencies, while minimizing the impact on businesses.

- ***Questions:*** **Please provide a status update on the production of a Unified Economic Development Budget Report, as required by N.J.S.A.52:39-6. If applicable, please specify the reasons for not publishing a report as planned in FY 2012. Does the department anticipate publishing the report in FY 2013 or FY 2014? If not, please set forth the reasons for abandoning the project. Please specify any clarifications and revisions to the enabling law, P.L.2007, c.200, that would facilitate compliance with N.J.S.A.52:39-6.**

Discussion Points (Cont'd)

3. Subject to certain exceptions, P.L.2001, c.404, the **Open Public Records Act (OPRA)**, makes government records accessible to the public. A governmental entity must grant or deny access to a record within seven business days unless a record is in storage or archived. Noncompliance may be penalized. A governmental entity charges for the copying cost and may levy special service charges when accommodating a request involves an extraordinary expenditure of time and effort or if copies cannot be reproduced by ordinary copying equipment in ordinary business size.

Replying to OLS Discussion Point #4 in the FY 2012-2013 Department of the Treasury Budget Analysis, the department reported that it received 910 OPRA requests in FY 2011 and that 675 of them emanated from requestors identifying themselves as representing commercial interests. The Division of Taxation, the Division of Purchase and Property, and the Division of Pension and Benefits combined accounted for 493 of the department's 910 OPRA requests. The department was hopeful, however, that the number of requests would decline somewhat in FY 2012, as FY 2012 marked the first full year in which the Treasury put employee payroll, pension, and property tax records on the **Governor's Transparency Center** website. Overall, the Treasury denied 31 OPRA requests in whole in FY 2011, triggering the filing of 13 complaints with the Government Records Council and the New Jersey Superior Court. As of the time of its response, Treasury has never been penalized for OPRA noncompliance.

The four-member Treasury Government Records Access Unit handles Treasury OPRA requests with 2.5 full-time equivalent positions allocated to the task. The unit had $276,159 in FY 2011 salary expenses but the full cost of OPRA compliance is unknown, as the unit frequently calls upon the assistance of Treasury's divisions, "in but not of" agencies, the Office of Information Technology, and the Division of Law in the Department of Law and Public Safety. On the other side of the ledger, in FY 2011, the department collected $14,459 in per-page copying charges and charges for the programming required for the retrieval of data in various information technology systems and databases. Of the $14,459, some $9,038 was collected on 77 chargeable FY 2011 OPRA requests. (The difference represents charges for OPRA requests from prior years.) The department did not levy permissible charges for requests that require "an extraordinary expenditure of time and effort" because an employee would need several days to calculate them. In response to OLS Discussion Point #3 in the FY 2011-2012 Department of the Treasury Budget Analysis, the department had previously expressed support for increasing OPRA charges so that they may cover the cost of OPRA compliance and deter broad or frivolous requests.

- ***Questions:*** **Please provide Department of the Treasury Open Public Records Act (OPRA) statistics for FY 2012. How many OPRA requests did the department receive in FY 2012 in general and from commercial interests in particular? Has the first ever year-round availability of employee payroll, pension, and property tax records on the Governor's Transparency Center website during FY 2012 resulted in the hoped-for reduction in OPRA requests? How many OPRA requests did the Treasury deny in FY 2012? How many denials, if any, have been appealed to the Government Records Council and how has the council ruled on the appeals? Was the department penalized for noncompliance with OPRA in FY 2012?**

Discussion Points (Cont'd)

- **Please indicate the department's expenditures and employee hours devoted to OPRA requests in FY 2012. How many OPRA requestors were subject to "ordinary copying charges" and "extraordinary request charges?" What were the Treasury's total FY 2012 collections from OPRA requestors?**

4. The Office of the State Auditor reported in its July 2011 audit report on the Office of Management and Budget (OMB) that the Treasury processed about 7.6 million checks and remittance advices for State payroll, pension benefit payments, tax refunds and rebates, and vendor payments every year. In calendar year 2010, the total cost for printing and postage totaled about $3.7 million. Of the 7.6 million checks and remittance advices, the OMB printed 1.8 million regular payroll checks, one-time supplemental checks, and pay stubs at a $474,000 cost. The State Auditor recommended that the Department of the Treasury save $1.1 million annually by **transmitting electronically all State payroll, pension, and vendor payments as well as remittances advices**. The State Auditor also recommended that supplemental one-time payments, such as overtime and retirement payments for unused sick and vacation time, be included with the regular payroll.

The department is implementing the recommendations. Replying to OLS Discussion Point #3 in the FY 2012-2013 Department of the Treasury Budget Analysis, it noted that the Division of Purchase and Property now required vendors to receive payments electronically as part of the terms of contracts awarded in accordance with Requests for Proposal issued as of August 2, 2011. Paper checks are only continued as a payment method under prior contracts. Paper checks are similarly phased out as a payment method for retirement benefits, as all State employees retiring on or after July 1, 2011 must receive their retirement benefits as an electronic direct deposit into their bank accounts. About eight percent of recent retirees, however, are out of compliance and the division is working with a bank to provide a debit card alternative for retirees who do not have a bank account. Moreover, the department stated it needed and supported legislation to require that all current employees receive their compensation via direct deposit. State employees presently elect to receive their regular biweekly pay either as a paper check or as an electronic transfer to their bank accounts. In the meantime, the OMB is gradually implementing a requirement that all employees who have signed up to receive their compensation as a direct deposit be also enrolled in the Employee Self-Service/Pay Stub on the Web program. In accordance with Office of Management and Budget Circular Letter 13-06-OMB, Policy Change Regarding Participation in Direct Deposit for NJ State Employees, some employee cohorts were auto-enrolled in the electronic pay stub program in FY 2013. All other employees with direct deposit are slated to be auto-enrolled at a future time. The requirement does not apply to employees who receive their compensation as paper checks. In its response to OLS Discussion Point #3, the department specified further that in order to completely eliminate the printing of paychecks it would have to offer either debit cards or bank accounts to those employees who lack bank accounts. The OMB was exploring options for doing so with minimal fees. Lastly, the department stated that it will cease to issue separate supplemental checks for overtime as labor contracts requiring that practice will expire.

- ***Questions:*** **Please share the number of checks and remittance advices that Treasury processed in FY 2012 for State payroll, pension benefit payments, tax refunds and rebates, and vendor payments. What was the total FY 2012 cost for**

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printing and postage? How many regular payroll checks, one-time supplemental checks, and pay stubs were printed in FY 2012 and at what cost?

- **What is the Division of Pension and Benefits' experience with requiring that all State employees who retire after July 1, 2011 receive their pension payments through electronic funds transfer? What percentage of State employees who have retired after July 1, 2011 receive their pension payments through electronic funds transfer? How do the State employees who have retired after July 1, 2011 who do not receive their pension payments through electronic funds transfer receive their benefits? Has the division established a debit card alternative for State employees who have retired after July 1, 2011 who cannot receive their pension payments through electronic funds transfer because of a lack of a bank account? If so, what are the fees associated with the debit cards and who is paying them? If the division pays the fees, what is the expected annual fee outlay? Do the fee expenditures exceed the cost savings from not issuing paper checks to all former State employees who have retired since July 2, 2011? What percentage of retirement benefits to all recipients is now paid electronically?**

- **What is the Division of Purchase and Property's experience with requiring that all vendors receive their payments electronically as part of the terms of contracts awarded in accordance with Requests for Proposal issued as of August 2, 2011? Have any vendors not submitted bids or concluded a contract because of the new requirement? What percentage of all contractual payments to vendors is now paid electronically?**

- **Please indicate by what date the Office of Management and Budget (OMB) is intending to have all current State employees who have signed up to receive their compensation as a direct deposit also enrolled in the Employee Self-Service/Pay Stub on the Web program. By what date does the OMB envision eliminating paper checks as a method of payment to current employees? Has the OMB struck an agreement with a bank to offer debit cards or accounts to current State employees who do not have a bank account? If so, what would be the fees associated with the alternative payment options and who would be paying them? If the division were to pay the fees, what would be the expected annual fee outlay? Would the fee expenditures exceed the cost savings from not issuing paper checks to current State employees? Please detail the progress the State has achieved in eliminating supplemental paper pay checks through labor negotiations. How many contracts remain that require supplemental paper pay checks? How many supplemental paper pay checks are still being printed per year and what kind of payments do they represent?**

OFFICE OF MANAGEMENT AND BUDGET

5. Effective February 28, 2011, the Office of Management and Budget (OMB) and the Division of Purchase and Property changed aspects of the administration of the **moratorium on non-IT equipment purchases of $2,500 or more** (see Office of Management and Budget and Division of Purchase and Property Circular Letter 11-12-OMB/DPP, Moratorium on

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Procurement of Non-IT (Information Technology) Equipment). The moratorium was first imposed in 2008 and authorized procurements in excess of $2,500 only with OMB pre-approval (see Office of Management and Budget and Division of Purchase and Property Circular Letter 08-22-OMB/DPP, Moratorium on Procurement of Non-IT (Information Technology) Equipment). Procurements in excess of $2,500 have only been allowed if they meet one of five exceptions: a) the equipment is needed for emergency maintenance or repairs; b) the equipment replaces failing equipment so as to not adversely impact or halt mission critical business functions; c) the procurement is related to a program mandated by the federal government, state law or a court order; d) the denial of the purchase request would significantly increase future costs or e) dedicated or non-state funds provide significant funding for the initiative and there is a compelling reason for the purchase. The 2011 circular letter maintains the $2,500 threshold for the moratorium but requires OMB pre-approval only for procurements of $36,000 or more. If a department seeks to make a procurement valued between $2,500 and $36,000, it can now invoke one of the exceptions and proceed with the purchase. Any such purchase, however, will be subject to an OMB post-audit review and if the OMB determines that a purchase was made in violation of the exemption rules the offending department may once more have to receive OMB pre-approval for all non-information technology procurement requests exceeding $2,500.

Replying to OLS Discussion Point #31 in the FY 2011-2012 Department of the Treasury Budget Analysis, the Division of Purchase and Property reported that the OMB was reviewing non-information technology procurement requests because the OMB understood the operations and financial needs of agencies seeking procurements better than the division. The OMB processed 73 non-information technology procurement requests in FY 2011, approximately 55 percent less than the 162 it processed in FY 2010. The OMB attributed the decline in part to the March 2011 increase in the review threshold for purchase requests from $2,500 to $36,000 (see the OMB's response to OLS Discussion Point #7 in the FY 2012-2013 Department of the Treasury Budget Analysis).

- ***Questions:*** **For FY 2012, please indicate the number of a) non-information technology (IT) procurements, b) non-IT purchase requests the OMB reviewed, c) non-IT purchase requests the OMB rejected, d) post-audit reviews the OMB conducted for non-IT procurements valued between $2,500 and $36,000, and e) non-IT purchases valued between $2,500 and $36,000 that the OMB deemed to be in violation of OMB and Division of Purchase and Property Circular Letter 11-12-OMB/DPP as part of a post-audit review. Please comment on the ways, if any, in which OMB and Division of Purchase and Property Circular Letter 11-12-OMB/DPP has affected OMB's workload and operations now that the increase in the non-IT procurement review threshold from $2,500 to $36,000 and the post-audit review requirement for non-IT procurements valued between $2,500 and $36,000 were in effect for the first full fiscal year.**

Discussion Points (Cont'd)

NEW JERSEY LOTTERY

6. a. On August 10, 2012, the Division of Purchase and Property issued Request for Proposal 13-X-22694 for "Lottery Growth Management Services" to solicit bids for the **outsourcing of the sales and marketing operations of the New Jersey State Lottery**. After several bid submission deadline extensions, news outlets reported in late December 2012 that one vendor, Northstar New Jersey, submitted a proposal. Northstar is a tripartite consortium consisting of GTECH Corp., Scientific Games International Inc., and a subsidiary of the Ontario Municipal Employees Retirement System. The Request for Proposal grew out of the seven "substantive" responses the Treasury had received to an earlier Request for Information that was released on December 8, 2011 and sought ideas for increasing Lottery net revenues, including the possible privatization of certain Lottery functions (see OLS Discussion Point #25 in the FY 2012-2013 Department of the Treasury Budget Analysis).

According to the Request for Proposal, the outsourcing initiative is intended to maximize Lottery proceeds for the support of State institutions and State aid for education. The Division of Lottery would supervise the vendor who may also establish an Internet sales channel for Lottery products. The vendor would run the Lottery's sales and marketing operations for 15 fiscal years plus a nine-month transition period plus the period subsequent to the end of the transition period through the next following June 30. The compensation model reflects the pay-for-performance principle, shifts a portion of the Lottery performance risk to the vendor, and has three elements.
A) Accelerated Guarantee Payment: The vendor would make a one-time $120 million Accelerated Guarantee Payment to the State with the signing of the contract. The sum was already anticipated as General Fund revenue in the FY 2013 Appropriations Act. It does not appear that the payment would serve as a credit for the vendor to draw down over time.
B) Contribution Shortfall Payments: The vendor must make Contribution Shortfall Payments for any contract year in which the vendor fails to meet the Lottery net income target, but not more than 3.8 percent of a contract year's Lottery net income. The payments thus represent a partial shift to the contractor of the risk of Lottery net income shortfalls. The payment equals 50 percent of the difference between the net income target and the contractual base net income level if the actual net income falls between the two amounts. If the actual net income is less than the base amount, the payment would be 50 percent of the difference between the net income target and the base amount plus 100 percent of the amount by which the actual net income fell below the base amount. The Request for Proposal specifies gradually increasing base amounts for each year, whereas the vendor is to propose net income targets.
C) Incentive Compensation: Capped at 5.0 percent of the year's net income, Incentive Compensation payments by the State to the vendor would occur in any year in which the Lottery net income exceeds the contractual base net income level. The Request for Proposal sets a base net income level of $959 million for contract year 1, which rises to $1,096 million in contract year 16, implying a 0.89 percent annualized growth rate. A payment is calculated as a percentage of the year's net income in excess of the base amount with the percentage ranging from 5 percent to 30 percent depending on the size of the excess over the base, middle, and upper net income levels as defined in the Request for Proposal. Net income targets are immaterial to the computation. In general, it is possible for base amounts and net income targets to differ. Therefore, should the actual net income fall between the two markers, Incentive Compensation payments and Contribution Shortfall Payments would both come due and would offset one another to varying degrees.

Discussion Points (Cont'd)

The Governor's FY 2014 Budget projects net lottery sales of $2.9 billion to be generated by 6,700 agents and 2,139 drawings. In FY 2014, the State Lottery is expected to transfer $1.0 billion to the General Fund for the support of State institutions and State aid to education, a decrease of $75 million from the amount anticipated in the current fiscal year. The decline reflects the nonrecurrence of the one-time $120 million Accelerated Guarantee Payment the State anticipates receiving in FY 2013, offset in part by growth in State Lottery net revenues from the sale of lottery tickets. The State Lottery is projected to have 81 employees in FY 2014, some 54 fewer staff than its 135 revised FY 2013 payroll.

- ***Questions:*** **Please provide a status report on the Request for Proposal 13-X-22694 for "Lottery Growth Management Services." Has the State awarded a contract? If not, by what date does the State expect a contract award? If the State abandoned the outsourcing initiative, please detail the reason(s) for doing so. Has the State's bargaining position been impaired by the receipt of only one bid and the inclusion of the $120 million Accelerated Guarantee Payment as an anticipated General Fund revenue in the FY 2013 Appropriations Act? Did Northstar New Jersey, GTECH Corp. or Scientific Games International submit responses to the December 8, 2011 Request for Information that sought options for increasing Lottery net income? If so, to what extent did the responses contribute to the formulation of the Lottery sales and marketing outsourcing initiative?**

- **If an outsourcing contract has been awarded, please outline its financial terms. Please compare the contractual base, middle, and upper income levels for the contract's duration to those specified in the Request for Proposal. Please specify the vendor's net income target for each contract year. Are the Contribution Shortfall Payment and vendor Incentive Compensation modalities the same as in the Request for Proposal? If not, please specify the contractual requirements. Are the caps on Contribution Shortfall Payments and vendor Incentive Compensation the same as in the Request for Proposal? If not, please indicate the contractual caps. Is the contractual Accelerated Guarantee Payment equal to $120 million? If not, please indicate the contractual amount. By what date will the vendor make the Accelerated Guarantee Payment? To what extent will the Lottery's business and financial models be revised in FY 2014? In what fiscal year does the Division of Lottery anticipate the inception of Internet lottery games?**

- **If a contract has not yet been awarded, please detail the parameters of Northstar New Jersey's bid. What are the suggested net income targets; base, middle, and upper income levels; caps on Contribution Shortfall Payments and Incentive Compensation payments; and the Accelerated Guarantee Payment?**

6. b. Subsequent to the receipt of Northstar New Jersey's bid in response to Request for Proposal 13-X-22694 for "Lottery Growth Management Services," the State enacted P.L.2013, c.27. For a ten-year trial period, the law authorizes Atlantic City casinos to offer **internet gambling** to persons physically located in New Jersey. All other individuals may place bets in New Jersey as long as such activity is not prohibited by federal or any other state's law. It is

Discussion Points (Cont'd)

unclear to what extent the law's enactment will affect Northstar's plans for offering online lottery games, and hence, by extension, ongoing contract negotiations.

- *Questions:* **Has the enactment of P.L.2013, c.27, which authorizes internet gambling in New Jersey, affected contract negotiations with Northstar New Jersey, given that online games of chance operated by Atlantic City casinos would compete for players' attention with any online games of chance to be offered by the State Lottery and thereby restrict the pool of additional Lottery net revenues that Northstar New Jersey might have thought achievable at the time of submitting its bid?**

7. As part of a December 8, 2011 Request for Information soliciting options for increasing net revenues at the New Jersey State Lottery, the Division of Purchase and Property attached a document entitled "New Jersey Lottery – Selected Observations" prepared by Macquarie Capital. According to the document, the Lottery's new leadership has "adopted a collaborative approach to rebuild employee morale and engagement." (A new Executive Director was named in June 2010.) Replying to OLS Discussion Point #24 in the FY 2012-2013 Department of the Treasury Budget Analysis, the Division of Lottery elaborated that new management and the approval to fill sales positions had contributed to a better employee environment.

On August 10, 2012, the Division of Purchase and Property then issued Request for Proposal 13-X-22694 for "Lottery Growth Management Services" to solicit bids for the **outsourcing of the Lottery's sales and marketing operations. The outsourcing initiative appears to lead to layoffs of current Division of Lottery employees.** The "Services Agreement," which was appended to the Request for Proposal, stipulates that the contractor shall afford each existing Division of Lottery employee the opportunity to apply for a position with the contractor and interview and consider for employment any such employee who applies for a position for which the employee is qualified. Any employee who will secure a position with the contractor, however, will cease to be a State employee. In all, the Division of Lottery has 135 employees in FY 2013. The position count is to be reduced by 54 to 81 in FY 2014.

- *Questions:* **Please expound on the impact of the marketing and sales outsourcing initiative on New Jersey State Lottery employees. How many employees are currently employed in the Lottery's sales and marketing operations? Did the Lottery proceed to hire the sales positions it was authorized to fill as of its response to OLS Discussion Point #24 in the FY 2012-2013 Department of the Treasury Budget Analysis? How many sales and marketing employees will be laid off as a result of the outsourcing initiative? How many of the concerned employees does the Treasury expect will be reassigned to other positions within the department or State government? How many of the concerned employees have filed for retirement? How many of the concerned employees does the division expect the contractor to hire? How has the outsourcing initiative impacted employee morale and engagement in the division as a whole?**

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DIVISION OF TAXATION

8. The Division of Taxation has previously identified three **personnel management initiatives** designed to ensure that the division will continue to operate effectively and efficiently in the future. First, the division added 166 positions in FY 2011 and planned on conducting another round of hiring in the summer of 2012. The FY 2013 hiring round was primarily to restore vacated positions but also to increase staff at the Conference and Appeals Branch. Second, the division intended to craft a succession plan and prepare future leaders as many senior managers are at or approaching retirement. Third, the division established a multiday *Supervising as a Leader, Tools and* Skills leadership program for new supervisors and managers for which a pilot class was scheduled during April 2012. (Division responses to OLS Discussion Point #5 in the FY 2011-2012 Department of the Treasury Budget Analysis and OLS Discussion Point #8 in the FY 2012-2013 Department of the Treasury Budget Analysis).

- ***Questions:*** **How many positions did the Division of Taxation fill in FY 2012 and FY 2013? How many of the hires filled newly created positions and how many filled vacancies created in the last five years? What division units benefitted from the hiring initiative? Does the division plan another round of hiring in the remainder of FY 2013 and in FY 2014? Has the division finished its succession planning and begun to nurture its future leaders and specialists? What are currently the greatest attrition-related risk points? Has the division rolled out its multiday *Supervising as a Leader, Tools and Skills* leadership program for new supervisors and managers? If so, how many employees have already passed through it?**

9. The Division of Taxation has been undertaking a multiyear **initiative to reduce the backlog in the administrative review of taxpayer protests and appeals of division tax determinations**. In its October 2010 audit report on the division, the Office of the State Auditor had stated that the backlog of 1,300 unassigned cases at the division's Conference and Appeals Branch meant that the average wait time for a case to be assigned to a specialist was one and a half years. This backlog leaves taxpayers frustrated and delays State revenue collections. In response to OLS Discussion Point #8 in the FY 2011-2012 Department of the Treasury Budget Analysis, the division outlined the initiative designed to cut to six months the amount of time for taxpayer appeals and protests to be heard. The strategy entails a reorganization of the manner in which the branch processes taxpayer appeals and protests, an increase in the number of specialists who hold conferences with taxpayers, a strengthening of oversight by having additional supervisors perform periodic case reviews, and the clarification of conferees' authority to settle cases where appropriate. A year later, the division reported in addressing OLS Discussion Points #8 and #10 in the FY 2012-2013 Department of the Treasury Budget Analysis that the Conference and Appeals Branch had a new Chief as of February 2011 and was reorganized into four teams specializing in a particular tax and each headed by a new supervisor. In all, there were 15 specialists who held conferences with taxpayers and the division intended to allocate "significant additional resources" to the Conference and Appeals Branch in FY 2013. According to the division, thus far, the recent changes led to a 42 percent reduction in the number of unassigned taxpayer protests and appeals from 1,381 in March 2011 to 798.

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Last year, the division also reported that since January 2010, the Conference and Appeals Branch upheld division tax determinations in approximately 60 percent of all cases, reduced the determinations in 25 percent of all cases, and vacated them in 15 percent of all cases. In light of the 40 percent of all appeals cases that have been decided in favor of taxpayers, the division stressed that the Conference and Appeals Branch resolved tax controversies "on a basis which is impartial and fair to both the State of New Jersey and the taxpayer."

- ***Questions:*** **Please provide an update on the initiative to reduce the backlog in the administrative review of protests and appeals that taxpayers file against Division of Taxation tax determinations. Please describe any reorganizations and changes the Conference and Appeals Branch has made in the last year in the process of handling taxpayer appeals and protests. What are the current backlog of unassigned cases and related wait times? Please provide summary statistics on the disposition of taxpayer appeals in FY 2012 and FY 2013 to date, including information on the percentage of appeals that is resolved in favor of the taxpayer. What percentage of all tax determinations is appealed?**

- **Please identify any additional resources that have been committed to the Conference and Appeals Branch in FY 2013 and quantify their budgetary cost. Are the additional resources intended to be temporary or recurring? How many specialists work on administrative reviews of taxpayer protests and appeals in FY 2013? Were any new specialists hired in FY 2013 or are anticipated to be hired in the remainder of FY 2013 and in FY 2014?**

10. Addressing OLS Discussion Point #8 in the FY 2012-2013 Department of the Treasury Budget Analysis, the Division of Taxation described the **reorganization of the division's Audit group**. A new Deputy Director was hired to oversee the group and auditing responsibilities were split into business and individual taxes. The Field Audit unit also created two audit groups devoted to high-net worth taxpayers. Furthermore, the Audit group was drafting a comprehensive Manual of Audit Procedures, which would also be published upon completion. Evaluation Data in the FY 2014 Governor's Budget indicate that the Division of Taxation employs 359 auditors in FY 2013 who are projected to complete 120,256 audits this fiscal year and make $625.0 million in tax assessments.

- ***Questions:*** **Please comment on the performance of the reorganized Audit group in the Division of Taxation. What performance and structural deficiencies motivated the reorganization, how was the reorganization intended to address the deficiencies, and has the reorganization remedied the deficiencies? Has the Audit group finished and published the comprehensive Manual of Audit Procedures? If not, by what date does the division expect the completion and publication thereof?**

11. Addressing OLS Discussion Point #8 in the FY 2012-2013 Department of the Treasury Budget Analysis, the Division of Taxation reported that it had reduced the look-back period from six to three years for voluntary disclosure agreements. This change in the permanent

Discussion Points (Cont'd)

amnesty program allowed the division to process an additional 225 cases and record $46.9 million in additional revenue. Furthermore, the division initiated a specialized voluntary disclosure agreement for media companies that produced $8.4 million in additional State revenue for the first eight cases processed.

The division's Audit group administers the **voluntary disclosure program**, which allows taxpayers who failed to file tax returns or collect sales tax to come forward prior to being contacted by the division and file the appropriate tax returns, registration materials, and pay outstanding tax obligations. If approved, a voluntary disclosure agreement requires the payment of taxes owed for a look-back period equal to the current year plus the three prior years. In return, the division waives the late filing and late payment penalties for the tax years covered by the agreement.

- ***Questions:*** **For each of the last three fiscal years, please provide summary statistics for the voluntary disclosure program: the number of taxpayers coming forward, the number of concluded voluntary disclosure agreements, and the amount of revenue collected pursuant to the agreements. What rationale underpinned the reduction in the look-back period from six to three years for voluntary disclosure agreements? Did the six-year look-back period deter a large number of potential taxpayers from atoning for their lax tax morality in the past?**

12. According to evaluation data in the Governor's FY 2014 Budget, the Division of Taxation anticipates forwarding 408 tax-related criminal prosecution recommendations to the Office of the Attorney General in the Department of Law and Public Safety in FY 2014. That number would mark a 128 count, or 45.7 percent, increase over the estimated 280 prosecution recommendations in FY 2013 and 291 actual recommendations in FY 2012. Contemporaneously, the evaluation data show that the division expects that $3.7 million in assessment amounts will be generated by its **tax-related criminal investigations** in FY 2014. This total reflects a $175,000, or 5.0 percent, increase over the $3.5 million estimated to be assessed in FY 2013. Assessment amounts fluctuate from year to year, as $8.8 million was levied in FY 2012 and $1.5 million in FY 2011.

- **Questions: Please substantiate the reason(s) for the anticipated increase in tax-related criminal prosecution recommendations from 280 in FY 2013 to 408 in FY 2014. Is the anticipated increase ascribable to any particular tax compliance and enforcement initiative? What taxes account primarily for the expected rise in prosecution recommendations? In light of the expected 45.7 percent growth in criminal prosecution recommendations, why would the anticipated criminal assessment amount rise by only five percent? What nonrecurring factor(s) accounted for the relatively high $8.8 million in criminal investigation assessments in FY 2012?**

- **What percentage of Division of Taxation criminal prosecution recommendations leads to actual criminal prosecutions by the Office of the Attorney General? For each of the last three completed fiscal years, please provide statistics on: a) the number of tax-related criminal prosecutions initiated; b) the number of criminal cases ending in**

Discussion Points (Cont'd)

settlements and the number of criminal cases New Jersey won and lost in court; and c) the amount of any damages awarded to the State.

13. Created in April 2011, the **Office of the Taxpayer Advocate (OTA)** in the Division of Taxation is to help enhance voluntary compliance with tax laws by simplifying tax regulations and assisting taxpayers. Specifically, it is intended to identify systemic tax administration problems encountered by taxpayers and recommend administrative and legislative solutions. The office is also to assist taxpayers who: a) face a threat of immediate adverse action for a disputed tax liability; b) believe that they did not receive adequate notification of the division's actions or that the division's actions are unwarranted, unfair or illegal; c) suffer or are about to suffer "undue hardship" resulting from the division's administrative actions; or d) have experienced a delay of more than 75 days in their quest to resolve a tax account problem or obtain a response to an inquiry from the division. Within the last year, the OTA lowered the delay threshold from more than 120 days to more than 75 days. The office is funded out of the division's operating budget, including the combined $312,000 in annual salaries for its four employees.

In its reply to last year's discussion point, the OTA noted that it had received requests for assistance from 298 taxpayers, of which 222 requests met its case acceptance guidelines. The office had resolved 192 of the 222 cases. In all, about 52 percent of all cases involved the gross income tax and 13 percent the corporation business tax with all other taxes combining for the remaining 35 percent. As an outgrowth of its interactions with taxpayers, the OTA identified and reviewed several systemic issues and made recommendations regarding, among others, the treatment of innocent spouses under the gross income tax and the issuance of refunds when a taxpayer account shows an overpayment of which taxpayers are unaware. The office's recommendation resulted in the approval of about 8,000 refunds totaling $692,000. In addition, the OTA recommended revisions to various Division of Taxation notices, publications, and tax form instructions. It was also reviewing the newly drafted New Jersey Manual of Audit Procedures.

- **Questions: Please describe the activities of the Office of the Taxpayer Advocate (OTA) in FY 2012 and FY 2013 to date. How many taxpayers have contacted the OTA in FY 2012 and FY 2013 to date? How many cases has the OTA accepted for assistance in FY 2012 and FY 2013 to date and how many cases has the office closed? What taxes have produced the most requests for OTA assistance in FY 2012 and FY 2013 to date? For what reason(s) did the OTA lower from more than 120 days to more than 75 days the time period during which taxpayers must experience a delay in resolving a tax account problem or obtaining a response to an inquiry from the division before the OTA accepts a case? For the last 12 months, please indicate a) the systemic tax administration problems encountered by taxpayers that the OTA has identified; b) the recommendations the OTA has made to rectify them; and c) the changes in tax laws, rules, and regulations that have actually been made subsequent to OTA recommendations.**

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14. The State Earned Income Tax Credit (EITC) program, which piggy-backs on the federal EITC credit program, is intended to offset the burden of Social Security payroll taxes on the working poor and provide an incentive to work. Pursuant to P.L.2000, c.80 (C.54A:4-6 et seq.), the State EITC provides a refundable credit under the State gross income tax, currently equal to 20 percent of the federal EITC benefit amount. To claim a State credit, taxpayers must first file for the federal EITC.

According to the Division of Taxation, beginning in Tax Year 2011, the division implemented an **EITC fraud screening process**. As a result, although 558,612 tax filers claimed EITC benefits totaling $249.4 million for Tax Year 2011, thus far only 452,562 have received credits (totaling $189.7 million), while 7,238 tax filers (claiming $6.2 million) have been denied an EITC, and another 98,812 tax filers (claiming $53.5 million) still have claims pending for Tax Year 2011 as of February 2013. According to the division, the number pending are those tax filers who were sent a notice requesting additional information but have not yet responded, or have responded and are under review; however, the division anticipates that a "very low" number of claims will convert from "pending" to paid.

Based on the data indicated, and assuming the conversion of pending claims to paid claims remains low, the number of New Jersey tax filers receiving a federal EITC who will also receive a State EITC will decrease from 91.1 percent in tax year 2010 to 80.4 percent in Tax Year 2011, a level of program participation experienced during the early years of implementation.

- **Questions: Please provide an overview of the EITC fraud prevention efforts, including a sample of the letter sent to claimants seeking additional documentation. What number and percentage of EITC claimants received letters requesting additional information? What number and percentage of claimants were able to provide the information requested by the division? If the letter was not sent to all claimants, what criteria were used to determine which claimants received letters? What percentage of the pending 98,812 claims does the division believe are fraudulent? Is the department coordinating its EITC fraud screening process with the Internal Revenue Service (IRS)? Does the department intend to convey to the IRS the names of claimants denied under the State program due to the fraud screening process? For all years since program inception in Tax Year 2000, please provide the following data: number of EITC claims filed, number paid, number rejected. Of the 98,812 tax filers (claiming $53.5 million), what amount, if any, was accrued in FY 2012 to account for refund claims according to GAAP principles? When and on what basis will such accruals be reversed during FY 2013 or thereafter?**

15. On May 30, 2012, the Governor announced that the **State had entered into an agreement with Amazon.com**. The New Jersey Economic Development Authority would provide unspecified financial incentives to the online retailer in support of the company's construction in 2013 of two warehousing and shipping facilities in New Jersey. The projects would represent an estimated capital investment of $130 million and would result in the creation of 1,500 permanent full-time jobs and thousands of temporary full-time seasonal and construction jobs. Furthermore, the agreement reportedly sets forth that Amazon.com would begin collecting sales tax on taxable purchases by New Jersey residents on July 1, 2013. Before

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that date, however, the agreement would in effect sanction Amazon.com's current non-compliance with its sales tax collection obligations under New Jersey law. The company has grounded its current non-compliance in jurisprudence by the Supreme Court of the United States that prohibits states from enforcing requirements that out-of-state vendors collect sales tax on their sales to customers in the taxing state if the vendors' only connection with customers in the taxing state is by common carrier or the United States mail (*National Bellas Hess, Inc. v. Department of Revenue of Illinois, 386 U.S. 753 (1967)* and *Quill Corporation v. North Dakota, 504 U.S. 298 (1992))*. With the construction of the two warehousing and shipping facilities, Amazon.com would newly have a physical presence in New Jersey and as an in-state vendor would have to collect sales tax from its New Jersey customers. But the agreement would exempt the company from collecting and remitting sales tax prior to July 1, 2013 even if the construction of the two facilities establishes a physical presence in New Jersey prior to that date.

- ***Questions:*** **Please provide a copy of the May 2012 agreement between Amazon.com and the State of New Jersey concerning the construction and operation by Amazon.com of two warehousing and shipping facilities in New Jersey. If a copy cannot be provided, please state the reason(s) for not providing the document and describe the terms and conditions of the agreement. What department or agency entered into the agreement with Amazon.com on behalf of the State?**

- **Please lay out the legal basis for granting Amazon.com an exemption through June 30, 2013 from the requirement under State law that retailers collect sales tax from New Jersey customers on their taxable purchases. Does the Division of Taxation have the legal authority to selectively apply the State's sales and use tax laws, especially if Amazon.com were to establish a physical presence in New Jersey before July 1, 2013? Does the temporary exemption also apply to Amazon.com's subsidiaries and affiliates that maintain a physical presence in this State and that previously fulfilled their tax collection responsibilities (notably, Quidsi, Inc. and Audible.com)? Please indicate the revenue loss the State will absorb, if any, from granting the exemption between the date Amazon.com establishes a physical presence in New Jersey and July 1, 2013. How much sales and use tax revenue does the State expect to receive annually from Amazon.com after July 1, 2013? Has the State ever provided a similar deferral of sales and use tax collection responsibilities to any other business? Does the Treasury foresee that future economic development agreements may also sanction, without legislative authorization, retailers not abiding by their obligation under New Jersey law to collect sales tax on taxable purchases by New Jersey residents?**

16. In September 2011, the Office of the State Auditor published its audit report on the Division of Taxation, **Generic Tax System (GENTS)**. In the report the State Auditor recommended that the Divisions of Revenue and Taxation strengthen the tax administration system of internal control by routinely reconciling data in GENTS with those in the Cash Receipt Accounting System (CRAS). The Division of Taxation uses GENTS to manage individual taxpayer accounts and the Division of Revenue uses CRAS in processing cash receipts for the Division of Taxation. The data in the two systems are currently not being cross-checked so that no assurance is given that receipts recorded in GENTS have actually been

Discussion Points (Cont'd)

received and deposited. Replying to OLS Discussion Point #11 in the FY 2012-2013 Department of the Treasury Budget Analysis, the Division of Taxation stated that it had initiated preliminary discussions with the Division of Revenue and the Office of Information Technology to explore the feasibility of developing a CRAS/GENTS reconciliation. Moreover, the division pointed out that transactional control reports between CRAS and GENTS were already in place.

- ***Questions:*** **Please provide a status update on the development of a method for the reconciliation of data in the Cash Receipt Accounting System and the Generic Tax System. Have the discussions on the feasibility of devising such a method with the Division of Revenue and the Office of Information Technology been concluded? If so, is a reconciliation method being developed or has it already been developed? If a data reconciliation has already occurred, what were its results? If there are no plans to embark on the project, please explain the reasons for sidelining it.**

17. On November 14, 2007, the United States Government Accountability Office (GAO) released a report on **tax evasion by Medicaid providers** (Medicaid: Thousands of Medicaid Providers Abuse the Federal Tax System, GAO-08-17). The GAO found that over 30,000 Medicaid providers in seven selected states (New Jersey was not included in the sample), or over five percent, had federal tax debts totaling over $1 billion as of September 30, 2006. The unpaid taxes mostly consisted of individual income and payroll taxes. The GAO noted further that the federal government and the seven states surveyed had no process for screening health care providers for unpaid taxes and hence did not bar health care providers with tax debts from enrolling in or receiving payments from Medicaid.

In response to OLS Discussion Point #10 in the FY 2008-2009 Department of the Treasury Budget Analysis, the division related that it did not have a database of Medicaid providers. Consequently, it was unable to screen the providers for unpaid taxes. Even so, the division intended to begin discussions with the Division of Medical Assistance and Health Services in the Department of Human Services to identify and to resolve any legal issues that might impede the exchange of provider information for tax administration purposes. If successful, the Division of Taxation could provide information to the Medicaid program on medical providers who have unpaid State taxes so that the Medicaid program may terminate such providers from the program or withhold Medicaid reimbursements until resolution of the tax matter. Replying to OLS Discussion Point #16 in the FY 2012-2013 Department of the Treasury Budget Analysis, the Division of Taxation stated that it had begun ongoing discussions with the Division of Medical Assistance and Health Services on this initiative and that the discussions led to the identification of undisclosed preliminary solutions.

- ***Questions:*** **Have the Division of Taxation and the Division of Medical Assistance and Health Services in the Department of Human Services concluded their discussions concerning the exchange of information on medical providers so that the Medicaid program may terminate providers with unpaid State tax liabilities from the program or withhold Medicaid reimbursements until resolution of the tax matter? If so, what has been the outcome of the deliberations? If not, what are the stumbling blocks that stand in the way of implementing the information exchange?**

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18. The Division of Taxation publishes an annual *Statistics of Income* report based on gross income tax returns filed with the division. The personal income report includes a wealth of information, such as the number of returns filed, the distribution and source of income, and the total cost to the State of assorted exemptions, tax credits and deductions. In contrast, the division does not disclose similar aggregate **Corporation Business Tax (CBT) data**. In response to OLS Discussion Point #13 in the FY 2012-2013 Department of the Treasury Budget Analysis, the division did, however, provide some summary information on tax year 2010 CBT filings, including an indication that 93.6 percent of CBT filers paid only the statutory minimum tax amounts (106,445 out of 120,690 C corporation filers, or 88.2 percent, and 103,030 out of 103,145 S corporation filers, or 99.9 percent, paid statutory minimum amounts).

- ***Questions:*** **For tax year 2011, please indicate: a) the number of corporation business tax (CBT) return filers, segregated into at least five net income brackets; b) the total net income that taxpayers in each bracket declared; c) the total amount of tax they were charged; and d) the effective tax rate for each bracket. What was the number and percentage of CBT return filers paying the statutory minima? Please break out the number of S corporations paying the statutory minima.**

19. The Office of the State Auditor recommended in its January 2010 audit report on Rebate Eligibility that the Division of Taxation use additional data sources to **verify the accuracy of information on applications submitted for the senior and disabled citizens' property tax freeze and deduction programs**. In response to OLS Discussion Point #17 in the FY 2011-2012 Department of the Treasury Budget Analysis, the division indicated that it had implemented all the recommendations except for the verification of the disabled social security disability status of senior and disabled citizens' property tax freeze applicants on an annual basis by performing a match of Social Security Benefit Statement (SSA 1099) information. Replying to OLS Discussion Point #18 in the FY 2012-2013 Department of the Treasury Budget Analysis, the division noted a year later that it had not yet implemented this initiative. The division's analysis had suggested that the project would represent a relatively inefficient use of limited auditing resources, as only five percent of Senior and Disabled Citizens' Property Tax Freeze program applications were filed by individuals based on receiving social security benefits. That determination was not final, however, as the division would revisit the issue in FY 2013.

The Governor's FY 2014 Budget proposes a $214.2 million appropriation to the Senior and Disabled Citizens' Property Tax Freeze program, which would reimburse an estimated 193,200 qualified homeowners for the difference between the amount of property taxes they paid on their principal residence in tax year 2012 and the amount they had paid in their base year. Qualified homeowners in FY 2014 would have to be at least 65 years of age or disabled or both. In addition, they would have to have an annual income of no greater than $70,000 in both tax year 2011 and 2012. Moreover, they would have had to pay property taxes directly, or indirectly by means of rental payments, on any homestead or rental unit used as a principal residence in New Jersey for at least ten consecutive years, the last three of which must have been as owners of the homesteads for which they seek the reimbursement.

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- *Questions:* **Please disclose the outcome of the additional analysis the Division of Taxation intended to conduct in FY 2013 regarding the eventual implementation of the recommendation by the State Auditor that the division verify the disabled social security disability status of senior and disabled citizens' property tax freeze applicants on an annual basis by performing a match of Social Security Benefit Statement (SSA 1099) information. Has the division implemented the initiative? If not, please explain the reasons for not putting the recommendation into practice and specify the division's intentions as to project implementation.**

DIVISION OF REVENUE AND ENTERPRISE SERVICES

20. On July 1, 2012, the **Division of Revenue and Enterprise Services assumed jurisdictional control of State government's records management and processing services** from the Department of State. The division's Records Management Services program works with State and local government agencies to devise records retention schedules, develop policies on electronic records, aid in the inventory and appraisal of records for reorganization or disposition projects, and approve routine records disposal requests. The division also operates the State Records Storage Center, which currently stores 250,000 cubic feet of the State's paper records that have retention periods of up to ten years. The division's centralized microfilming unit and Specialized Document Imaging Center, in turn, perform source-document microfilm and imaging services for State, county, and local government agencies and charges them for the cost of the service. In FY 2013, the division is expected to produce 14.0 million digital images and 3.5 million micro-images, receive 25,500 cubic storage feet of records, and dispose of 120,000 cubic storage feet of records. The New Jersey State Archives, which house public records deemed to be of "enduring historical value," remain under the control of the Department of State.

According to page 59 of the FY 2013 Budget Summary, the reorganization was to "centralize scanning and indexing operations, eliminate redundancy, minimize the use of archaic and expensive microfilm technologies for storing records, and reduce the State's reliance on paper-based records systems." The Division of Revenue and Enterprise Services specified in its response to OLS Discussion Point #21 in the FY 2012-2013 Department of the Treasury Budget Analysis that it would receive 66 additional positions with the transfer. Although unable to provide a specific estimate, the division anticipated "significant" cost savings from the reorganization. Operational efficiencies would accrue from the expanded use of automated records technologies, the reduced reliance on non-digital records storage technologies, and the streamlining of document retention and disposition procedures. The division expected as other benefits better service delivery to the public and enhanced government transparency through, for example, better responsiveness to Open Public Records Act requests.

- *Questions:* **Please comment on the July 2012 transfer of jurisdictional control over the management and processing of State government records to the Division of Revenue and Enterprise Services. If applicable, please detail any problems the division has encountered in administering the records management and processing services program. If available, please indicate the reorganization's anticipated cost**

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savings to the State. What are the division's plans and timetables for minimizing the use of microfilm technologies and paper-based systems for storing records?

21. The Division of Revenue and Enterprise Services pays for services it receives from contracted vendors out of its **Services Other Than Personal account**. The Administration recommends increasing the account's FY 2014 appropriation by $2.0 million, or 49.4 percent, from the $4.0 million FY 2013 adjusted appropriation to $6.0 million in FY 2014. Following a September 2012 transfer of $4.1 million into the account "to cover outsourcing vendor purchase orders," however, its current budget authority stands at approximately $8.4 million. The following list sets forth actual account expenditures for FY 2010, FY 2011, and FY 2012, the FY 2013 budget authority displayed in the State's accounting system as of March 25, 2013, and the Administration's recommended FY 2014 appropriation.

FY 2010 Actual:	$5,910,000
FY 2011 Actual:	$3,720,000
FY 2012 Actual:	$6,200,000
FY 2013 Budget Authority:	$8,371,000
FY 2014 Budget Recommendation:	$6,046,000

- ***Questions:*** **Please delineate actual and anticipated expenditures from the Services Other Than Personal account of the Division of Revenue and Enterprise Services from FY 2011 through FY 2014, indicating for each year the vendors receiving payments, the dollar amount of each vendor's payment, and the services each vendor rendered in exchange for the payments. Please provide explanatory details on the $4.1 million FY 2013 transfer into the account to pay for "outsourcing vendor purchase orders." What vendor services did the division receive for the $4.1 million? Will the services recur in FY 2014?**

22. P.L.2008, c.24 statutorily centralized the **non-tax debt management** functions for State government in the Division of Revenue and Enterprise Services by requiring every State agency in the Executive branch to transfer to the division every non-tax debt owed to the agency for 90 days. In the FY 2012 annual report on New Jersey's centralized non-tax debt collection program, the division indicated that most State departments and agencies complied with the transfer requirement. In fact, 94.2 percent of non-tax debt subject to the transfer requirement was actually transferred in FY 2012, an improvement over the 82.8 percent FY 2011 and 90.3 percent FY 2010 compliance rates. The table below delineates the extent to which State departments and agencies adhere to the transfer mandate. The division considers a compliance rate of at least 90 percent to equate to "substantial compliance." Office of Management and Budget Circular Letter 13-11-OMB, Statewide Non-Tax Debt Collection and Write-Off, sets forth the general policy regarding the management of non-tax debt.

Non-tax debt collections were $10.0 million in FY 2012, $11.4 million in FY 2011, and $11.0 million in FY 2010. The FY 2012 collection rate was 9.7 percent, an increase over the 9.3 percent rate in FY 2011. Overall, the division actively managed $524.5 million of the State's

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outstanding non-tax debt amount at the end of FY 2012. For the first time, in FY 2010, the division wrote off as uncollectible $306.3 million in its non-tax debt portfolio. In FY 2011, the division wrote off an additional $29.3 million. It performed no write-off in FY 2012. Uncollectible non-tax debt typically is owed by individuals who cannot be located or are unable to pay because they have deceased, are institutionalized, unemployed or bankrupt. Importantly, write-offs do not represent a debt cancellation or forgiveness. Case files are closed but remain available for reactivation should new information surface that allows for additional collection attempts. Write-offs merely represent an accounting technique intended to paint a more realistic picture of the potentially collectible portion of the non-tax debt portfolio.

Compliance with Requirement to Transfer Non-Tax Debt to Division of Revenue in FY 2012			
Department/Agency	**Debt Subject to Mandatory Transfer**	**Debt Transferred**	**Compliance Rate**
Office of the Public Defender	$86,652,610	$86,652,610	100.0%
Banking and Insurance	$41,146,268	$41,146,268	100.0%
Human Services	$39,058,187	$39,058,187	100.0%
Treasury	$9,160,740	$9,160,740	100.0%
Lottery	$1,864,136	$1,864,136	100.0%
Corrections	$503,419	$503,419	100.0%
Children and Families	$352,075	$352,075	100.0%
Agriculture	$27,310	$27,310	100.0%
Health and Senior Services	$13,694	$13,694	100.0%
Parole Board	$17,180	$17,180	100.0%
Civil Service Commission	$5,433	$5,433	100.0%
Law and Public Safety	$53,105,022	$53,098,622	100.0%
Military and Veterans Affairs	$710,509	$677,451	95.3%
Transportation	$328,490	$298,896	91.0%
Community Affairs	$18,727,909	$16,491,962	88.1%
Labor and Workforce Development	$14,448,346	$10,527,020	72.9%
Environmental Protection	$28,996,681	$18,128,488	62.5%
Education	$0	$0	N/A
State	$0	$0	N/A
TOTAL	**$295,118,009**	**$278,023,491**	**94.2%**

- ***Questions:*** **Please relate whether the Division of Revenue and Enterprise Services has succeeded in having additional non-tax debt accounts transferred to its non-tax debt management program since publication of the FY 2012 annual report on the centralized non-tax debt collection program. If so, please list the additional programs for which the division has assumed control of non-tax debt. Please discuss the obstacles impeding the Departments of Community Affairs, Environmental Protection, and Labor and Workforce Development from achieving a 90 percent compliance rate with the debt transfer requirement of P.L.2008, c.24. Please state the amount of any write-off of non-tax debt that the division has already performed or plans to perform in FY 2013.**

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DIVISION OF INVESTMENT

23. The State Investment Council (SIC) adopts investment policies and procedures for the **various State public employee retirement funds** and functions like a board of directors in overseeing the Division of Investment. The division, in turn, implements the council's investment policies and runs the day-to-day operations of the portfolio. For each fiscal year, the SIC adopts within a regulatory framework an **asset allocation plan** that sets targets for the percentage of the portfolio that ought to be invested in specific asset classes, such as fixed income and domestic equities. The table below displays FY 2012 and FY 2013 target allocations, as well as the actual allocation on November 30, 2012, according to the New Jersey Division of Investment, November 2012 "Investment Reporting Package." As of November 30, 2012, the State retirement funds had an aggregate value of $70.9 billion.

Asset Allocation and Targets for Pension Funds (November 30, 2012)

Asset Class	Target Allocation *FY 2012*	Target Allocation *FY 2013*	Actual Allocation *(%)*	Actual Allocation *($ Million)*
Fixed Income	28.5%	24.0%	25.4%	$17,996.2
Alternative Assets:	26.0%	29.7%	24.3%	$17,235.8
Hedge Funds	*10.0%*	*12.5%*	*8.6%*	*$6,126.7*
Private Equity	*7.0%*	*7.7%*	*7.9%*	*$5,618.0*
Real Estate	*5.0%*	*5.5%*	*4.8%*	*$3,434.5*
Commodities	*4.0%*	*4.0%*	*2.9%*	*$2,056.6*
Domestic Equity	23.5%	23.8%	25.1%	$17,771.3
International Equity	20.0%	19.5%	20.0%	$14,198.5
Cash	2.0%	1.5%	3.9%	$2,711.0
Police & Fire Mortgages	0.0%	1.5%	1.3%	$938.0
TOTAL	100.0%	100.0%	100.0%	$70,910.7

The division continues to invest a gradually increasing share of the portfolio in alternative assets (hedge funds, private equity, real estate, and commodities). In FY 2012, some 26.0 percent of the portfolio was to be invested in alternative assets. The FY 2013 target stands at 29.7 percent. In actuality, some 24.3 percent of the portfolio, or $17.2 billion, was invested thusly on November 30, 2012. These figures fall under the 38 percent regulatory allocation ceiling for all alternative assets combined (N.J.A.C.17:16-69.9). The maximum allocation for hedge funds is 15 percent of the portfolio, for private equity firms 12 percent, for real estate nine percent, and for commodities seven percent

In January 2005, the SIC adopted policies and procedures establishing the **Alternative Investment Program (AIP)** under which pension funds assets may be invested in private equity, real estate, commodities, and hedge funds. Private equity groups raise capital from institutional investors and wealthy individuals to either purchase companies or to further invest in companies they already run. Hedge funds, on the other hand, are private pools of capital that are lightly regulated, often borrow to enhance returns, and pursue a myriad of investment strategies across various financial markets in the pursuit of returns that are not directly correlated with the performance of underlying financial markets. As of November 30, 2012,

Discussion Points (Cont'd)

the division had placed $17.2 billion in the AIP. In all, it paid $192 million in fees and expenses for the AIP in FY 2012, $174 million in FY 2011, and $127 million in FY 2010. Replying to OLS Discussion Point #26 in the FY 2012-2013 Department of the Treasury Budget Analysis, the division indicated that since inception through December 2011, the AIP's private equity program returned a positive 5.36 percent net of fees, the hedge fund program a positive 3.64 percent, and the real estate program a negative 3.23 percent. Over the same time span the fixed income portfolio returned a positive 9.33 percent, the domestic equity portfolio a positive 2.99 percent, and the international equity portfolio a negative 1.19 percent.

- ***Questions:*** **Does the Division of Investment intend to revise the asset allocation plan for FY 2014? If so, please highlight any changes from the current plan and explain the rationale for the changes. To what extent does the division rely on the asset allocation plan in making investment decisions? What is the deviation from a specific target that the division usually tolerates? Is the division concerned if, as of November 30, 2012, the actual allocation to the alternative investment program is 24.3 percent, while the FY 2013 asset allocation plan calls for a 29.7 percent allocation? What are the reasons for the discrepancy? Does the division have a long-term allocation target for alternative assets?**

- **Per AIP asset class, what have been the gross returns since the AIP's inception and what have been the returns net of management and performance fees paid to alternative investment firms? How do these rates of return compare with those of the pension funds' equity and fixed income portfolios?**

- **Please identify all current contracts, outside vendors or entities engaged for placing investments under the AIP, including the "General Consultant." Please specify the amount paid or expected to be paid for the services of each and the terms of each contract.**

24. In its January 2010 report to the Transition Team of Governor-Elect Christie, the Treasury Subcommittee recommended a review of the **"Alternative Investment Program" (AIP)** to "ensure that appropriate procedures are utilized relating to the sourcing, due diligence and **monitoring** of all these investments to provide the highest level of transparency, risk aversion and control." Addressing OLS Discussion Point #20 in the FY 2010-2011 Department of the Treasury Budget Analysis, the Division of Investment stated that it completed the review of the AIP program in March 2010 and that it would present proposals for enhanced AIP monitoring policies and procedures to the State Investment Council for approval. A year later, the division noted, in response to OLS Discussion Point #26 in the FY 2011-2012 Department of the Treasury Budget Analysis, that it had not yet finalized AIP monitoring policies and procedures due to the turnover at the director and deputy director level and the pursuit of other initiatives. Then, in reply to OLS Discussion Point #27 in the FY 2012-2013 Department of the Treasury Budget Analysis, the division stated that the finalization of the revised AIP monitoring policies and procedures was delayed pending the selection of outside asset class investment advisors. The division conveyed, however, that absent a written document it had sound monitoring practices and procedures in place.

Discussion Points (Cont'd)

- ***Questions:*** **Please disclose whether the Division of Investment has proposed changes in the monitoring policies and procedures for the Alternative Investment Program (AIP) to the State Investment Council (SIC) and whether the SIC has adopted the suggestions. If so, please outline the revisions and describe the shortcomings they are intended to redress. If the division has not yet recommended any changes and if the SIC has not yet adopted them, does the division still expect new policies and procedures to be adopted? If not, why have the division and the SIC sidelined revising policies and procedures?**

25. In its Annual Meeting presentation on January 17, 2013, the Division of Investment listed as an FY 2012 accomplishment that over 90 percent of the **developed world international equity portfolio for the various State public employee retirement funds was newly passively managed**. Moreover, doing so improved the portfolio's performance "substantially." Passive management means that investors do not make independent investment decisions regarding individual stocks. Instead, they aim at tracking the performance of a stock index or benchmark by either investing in an index mutual or exchange-traded fund or by assembling a portfolio that mimics the composition of an index or benchmark. The advantages of index-tracking are typically returns approximating the performance of the index or benchmark, portfolio diversification, and relatively low administrative costs as relatively few transactions in a year generate transaction costs. As the division cautioned, however, the index-tracking strategy will at best replicate, but not beat, the performance of the underlying index or benchmark.

According to the New Jersey Division of Investment, November 2012 "Investment Reporting Package," as of November 30, 2012, some $9.1 billion, or 12.85 percent, of the pension funds was invested in the developed world international equity portfolio. The portfolio's FY 2013 asset allocation target equals 12.5 percent.

- ***Questions:*** **Please describe the passive management strategy for the developed world international equity portfolio for the State public employee retirement funds. The composition of what index or benchmark does the division intend to replicate? When did the division decide on the passive management approach for the developed world international equity portfolio? What was the rationale for adopting the new approach? Was the portfolio consistently underperforming its benchmark? Does the division also passively manage portions of the domestic equity portfolio? If so, what portion of the portfolio has as its vocation to track an index or benchmark and what index or benchmark is being emulated?**

26. In exercising its fiduciary duties, the division makes use of its investor right to **cast votes by proxy in corporate meetings**. Replying to OLS Discussion Point #29 in the FY 2012-2013 Department of the Treasury Budget Analysis, the division stated that it voted according to its proxy voting guidelines so as to strengthen shareholder rights and promote good corporate governance practices. Every vote, however, is cast based on a case-by-case analysis and not the dogmatic application of the guidelines. In any event, the division's shareholder activism does

Discussion Points (Cont'd)

not encompass social issues, as section b. of N.J.S.A.52:18A-89 requires the division's director "to manage and invest the portfolio [of the pension funds] solely in the interests of the beneficiaries of the portfolio and for the exclusive purpose of providing financial benefits to the beneficiaries of the portfolio."

In addressing OLS Discussion Point #29, the division also furnished the "Fiscal Year 2011 Summary Proxy Voting Report" and the "State of New Jersey Division of Investment Proxy Guidelines." According to the "Fiscal Year 2011 Summary Proxy Voting Report," in FY 2011, the division voted 2,103 proxies and went against 1,989 individual proposals recommended by management that were included in 1,087 of the 2,103 proxies. Most commonly, the division voted against management proposals concerning stock options or incentive or restricted stock plans. Specifically, the division rejected plans diluting outstanding shares by more than 5 percent, offering stock at a discount, extending eligibility beyond employees and non-employee directors, and accelerating vesting provisions. The second most common vote against management proposals targeted suggested frequencies of non-binding shareholder advisory votes on executive compensation of more than one year. These votes have risen to prominence following the Dodd-Frank Wall Street Reform and Consumer Protection Act. Until FY 2010, the second most common position the division adopted against corporate management was the support of shareholder proposals seeking to impose shareholder votes on the compensation of executive officers ("say on pay"). But the Dodd-Frank Act newly required shareholders to cast non-binding advisory votes on the compensation of executive officers and to vote on whether the "say on pay" ballot should be held every one, two or three years. The act also included several other disclosure provisions related to the compensation of executive officers.

- ***Questions:*** **Please share the Division of Investment's observations on the impact the Dodd-Frank Wall Street Reform and Consumer Protection Act has had on shareholder rights and corporate governance practices. Has the act enabled the division to cast proxy votes as a more informed shareholder and does the division feel more empowered vis-à-vis corporate management because of the act? Does the act facilitate the division's objective of reigning in excessive or otherwise suboptimal executive compensation arrangements? Or does the division feel hampered in the pursuit of its objective by the act requiring that "say on pay" votes are only non-binding? Does the division perceive an effect of the act's new disclosure requirements on the compensation levels of executive officers at domestic corporations?**

- **Please comment on the exercise of proxy voting rights by the division in FY 2012. How many proxies did the division vote in FY 2012, how many management proposals did it vote against, and what areas did rejections of management proposals most commonly concern? Has there been a policy change in the division's exercise of proxy voting rights since the beginning of calendar year 2012? Please indicate any changes the division has made since the beginning of calendar year 2012 to the "State of New Jersey Division of Investment Proxy Guidelines." Please submit a copy of the "Fiscal Year 2012 Summary Proxy Voting Report."**

Discussion Points (Cont'd)

DIVISION OF PROPERTY MANAGEMENT AND CONSTRUCTION

27. On October 29, 2012, Hurricane Sandy made landfall in southern New Jersey. According to the preliminary damage assessment that the New Jersey Governor's Office released on November 28, 2012, the hurricane caused $29.4 billion in repair, response, and restoration expenses plus $7.4 billion in mitigation and prevention costs. But the $36.9 billion damage assessment does not specify the extent of the **damage that Hurricane Sandy inflicted on State-owned facilities, properties, and infrastructure**.

- ***Questions:*** **Please quantify the total damage that Hurricane Sandy caused to State-owned facilities, properties, and infrastructure. For each State-owned facility, property, and piece of infrastructure that was affected, please: a) describe the extent of the damage; b) indicate whether the repair, restoration, mitigation, and prevention work has been completed; and c) set forth the funding source(s) for the repair, restoration, mitigation, and prevention work.**

28. The Division of Property Management and Construction manages the real estate needs of State government. Its responsibilities include the **awarding of contracts for architectural, engineering, design, and construction services** for State facilities and the management of the projects. It also provides all State agencies with technical assistance in planning their real estate projects, including cost estimation.

Cost overruns are a common occurrence in construction and infrastructure projects worldwide. Published research suggests that deliberate "strategic misrepresentation" runs rampant in vendor *ex ante* estimates and that the vast majority of large projects finish with cost overruns, suggesting that errors were not random and the estimates biased.

- ***Questions:*** **Please comment on the experiences of the Division of Property Management and Construction with the accuracy of vendor forecasts for construction-related services for State facilities. What are the average error rates and error variances when *ex ante* vendor forecasts are compared to actual *ex post* costs? Are the errors biased in one direction? Do the error rates differ according to project size and type? In the last five years, what project produced the largest vendor forecasting error?**

- **Please expound on the techniques the division employs to determine the accuracy of vendor cost and benefit forecasts for construction-related services for State facilities. Does the division accord preferential treatment to vendors in the contractor selection process whose forecasts have proven reliable over time? Has the division ever brought a lawsuit or contemplated bringing one against a vendor it suspected of having provided a negligent or fraudulent forecast? Does the division have the legal authority to bring such a lawsuit?**

Discussion Points (Cont'd)

29. As the manager of State government's real estate needs, the Division of Property Management and Construction is also responsible for the leasing of office and warehouse space. In carrying out this function, section (c) of N.J.A.C.17:11-2.2 mandates that the division conduct periodic **site visits of leased properties**. In its November 2012 audit report on the division and the building leases program, the Office of the State Auditor reproved the long frequency between site visits. It noted that as of June 14, 2012, some 30 of 248 leased offices had not been inspected in 12 to 23 months. The office expressed concern that if the division did not visit leased properties at least annually, safety and security issues might fester. In its audit response, the division divulged that it would consider hiring new lease compliance staff and reassigning existing personnel to its Lease Compliance Unit.

- ***Questions:*** **Please indicate whether the Division of Property Management and Construction has bolstered, or intends to bolster, the staffing level of its Lease Compliance Unit so as to up the frequency of site visits of leased properties. If so, how many filled positions have been or will be added to the Lease Compliance Unit? How many of these positions have been or will be reassigned from other units within the division and how many have been or will be filled by new hires? How many filled and vacant positions does the Lease Compliance Unit currently have?**

30. On March 9, 2011, the Office of the State Comptroller released its audit report on the "Disposition of Excess and Surplus Computer Equipment." In reaction to the report, the Division of Property Management and Construction and the Office of Information Technology (OIT) **have revised the policies governing the disposition of surplus computer equipment and the protection of data stored thereon**.

<u>Previous Policy:</u> Division of Purchase and Property Circular Letter 00-17-DPP, Disposition of Excess and Surplus Computer Equipment, requires that all excess computers be sent to the Surplus Property Unit within the Division of Purchase and Property for centralized redistribution, donation, sale or disposal. In actuality, the equipment is sent to the Bureau of Special Services warehouse within the Division of Property Management and Construction, which co-administers the redistribution process with the Division of Purchase and Property. Once the warehouse receives the equipment it ought to notify State agencies of its availability, according to N.J.A.C.17:12-9.4. If no State agency claims the equipment within 30 days, it is disposed of through either sale at public auction or donation to local governments and non-profit organizations. The circular letter also directs State agencies to remove all data from a computer's hard drive and data storage media before sending the computer to the warehouse.

<u>Audit Report:</u> In its March 2011 audit report, the Office of the State Comptroller exposed substantial deviations from regulatory policies and procedures. For example, the State Comptroller found data on 46 of 58 hard drives slated for redistribution in the Bureau of Special Services warehouse and business-related data on 37 of those hard drives, of which 13 were already packaged for public auction at the time of review. The State Comptroller pointed out that granting third parties access to confidential and sensitive information presented a security risk and violated several federal and State data protection and privacy laws. The State Comptroller also found irregularities in the central redistribution of excess computer equipment that reaches the Bureau of Special Services warehouse. For example, the bureau did not

Discussion Points (Cont'd)

announce the availability of excess computer equipment to all State agencies, but frequently contacted certain State agency staff directly to grant them first access to the equipment. In addition, the State Comptroller gained the impression that certain State agency staff received preferential treatment in part in return for office supplies and equipment.

Policy Revisions: On April 8, 2011, the OIT then published State of New Jersey IT Circular 152-00-01 — Information Disposal and Media Sanitization Procedure, No. 09-10-P1-NJOIT. The IT Circular discontinued the central redistribution of surplus computers within State government by allowing only for the reallocation of hardware within the sending agency and for its auctioning to third parties. Furthermore, the IT Circular also requires that agencies purge or destroy media capable of storing data (such as hard drives and removable storage devices) before sending them to the Bureau of Special Services warehouse. Previously, the data had to be removed, but data storage devices could be part of the excess computer equipment to be redistributed or auctioned. To ascertain that all data storage ability has been removed, the Division of Property Management and Construction now verifies that the physical equipment count sent to the warehouse by agencies matches the count in the documentation and confirms that agencies properly filled out and signed Form PB180, "Declaration of Removal of all Hard Drives and Other Data Storage Devices on Surplus Computer and other Electronic Devices," according to the division's response to OLS Discussion Point #30 in the FY 2012-2013 Department of the Treasury Budget Analysis. But the division does not inspect the equipment to confirm that hard drives and data storage devices are actually removed. In addition, the division announced that the Division of Purchase and Property expected to publish an update to Division of Purchase and Property Circular Letter 00-17-DPP by June 1, 2012 that would reflect the new policies. Lastly, the Division of Property Management and Construction indicated that the State earned $95,000 from the sale of surplus computers and other equipment in FY 2011 and $323,000 in FY 2012 through March 31, 2012.

- ***Questions:*** **Please provide statistics on the prices and quantities of excess computer equipment sales in FY 2012 and 2013. Is it the view of the Division of Property Management and Construction that agencies are complying with New Jersey IT Circular 152-00-01 in purging or destroying media capable of storing data before sending them to the warehouse? How many shipments of excess computer equipment intended for public auction has the Bureau of Special Services warehouse refused and returned in FY 2012 and FY 2013 because of a lack of proper certification that all hard drives and other data storage devices were removed or because hard drives and other data storage devices were actually found not to have been removed?**

- **Has the Division of Purchase and Property updated Division of Purchase and Property Circular Letter 00-17-DPP to reflect the new policies concerning the disposition of surplus computer equipment and the protection of data stored thereon? If not, please indicate the reason(s) for which a revised Circular Letter has not been published and the date by which the division expects to have the revised Circular Letter published.**

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DIVISION OF PURCHASE AND PROPERTY

31. In recent years the Division of Purchase and Property has taken a multi-pronged approach to improving the quality of contract management in State government. The development of **contract management training** programs has been a hallmark of the initiative. In its November 2007 report on the division, the Office of the State Auditor had stated that none of the contract managers in its sample had received such training. In reply to OLS discussion point #16 in the FY 2008-2009 Department of the Treasury Budget Analysis, the division also acknowledged that not all State Contract Managers at the time were "appropriately trained, skilled, or of a disposition appropriate to being a competent State Contract Manager." Substandard contract management may lead to the overpayment for procurements and the delivery of goods and services that fail to meet contract specifications. But cost overruns may also result when agencies do not clearly define the scope of work to be provided by contractors.

A year later, in addressing OLS Discussion Point #21 in the FY 2009-2010 Department of the Treasury Budget Analysis, the division stated that all assigned State Contract Managers were to take a newly implemented mandatory web-based State Contract Manager course in FY 2009, which covers State procurement law, policies, procedures, and efficient and effective procurement practices. In addition, the division continued to offer instructor-led State Contract Manager courses. In reply to OLS Discussion Point #33 in the FY 2012-2013 Department of the Treasury Budget Analysis, the division noted that it had designated a senior staff member to head the training initiative, which newly incorporated insights from protests handled by the division and final agency decisions that were appealed to the Appellate Division of the New Jersey Superior Court.

- ***Questions:*** **Please comment on the Division of Purchase and Property's provision of contract management training. What training programs does the division currently offer? Does the division plan to revise the curriculum? What training elements are mandatory and what elements are voluntary? How often must State Contract Managers take the mandatory online training course and any other required training, continuing education, and refresher classes? Is the division satisfied with the improvements that the training program has brought about in the quality of contract management in State government?**

32. Standard purchasing procedures hinge on the awarding of contracts based on a formal, advertised, competitive bidding process. The **Delegated Purchasing Authority** (DPA) and **Request for Waiver of Advertising** (RWA) programs, to the contrary, exempt certain State agency purchases from the regular process. Agencies can only employ the two alternatives if they cannot procure a purchase transaction through a State contract, the State Distribution and Support Services Center, the Bureau of State Use Industries or the Central Non-profit Agency (CNA), ACCSES NJ. Of the $1.65 billion the State spent on procurements in FY 2011, 21.0 percent, or $346 million, was expended under the DPA and RWA programs ($239 million, or 14.5 percent, for RWAs and $107 million, or 6.5 percent, for DPAs).

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The DPA program covers State agency purchases valued at no more than $36,000, which threshold the Division of Purchase and Property increased from $29,000 effective July 1, 2010 pursuant to statutory authority (see N.J.S.A. 52:34-7 and N.J.A.C. 17:12-1A.2(b)). The table below summarizes basic DPA price solicitation requirements (see Division of Purchase and Property Circular Letter 11-10-DPP, Delegated Purchasing Authority (DPA)). To bypass the advertised competitive bidding process for a procurement whose price exceeds $36,000 a State agency must obtain the approval for an RWA from the Division of Purchase and Property and the Department of Law and Public Safety. Existing law sanctions RWAs if an agency has contacted at least three viable firms for price quotations and if a procurement is an emergency; the services to be performed are highly complex, technical, unique or specialized; or if only a single source of supply is available. The Department of Law and Public Safety reviews all RWAs so as to ascertain that they meet legal requirements. N.J.S.A. 52:34-8 et seq., N.J.A.C. 17:12-1A.2(f), and Division of Purchase and Property Circular Letter 11-14-DPP, Requests for Waivers of Advertising, set the legal framework for RWAs. The division reported in response to OLS discussion point #31 in the FY 2012-2013 Department of the Treasury Budget Analysis that the average processing time for an RWA was approximately 45 days at the time of writing the response (it was 75 days in FY 2009). It also noted that the July 1, 2010 rise in the DPA program threshold from $29,000 to $36,000 had not had a significant impact on the division's workload and primarily served to enhance agencies' efficiency in making small purchases.

DPA Price Solicitation Requirements

Purchase Value	Solicitation Requirements
Up to $1,000	One Price Quotation
$1,000 to $17,500	Three Price Quotations
$17,500 to $36,000	Three Sealed Written Bids
Emergency	One Price Quotation

- ***Questions:*** **How many purchases for which total amounts were made by State agency under the Delegated Purchasing Authority (DPA) and the Request for Waiver of Advertising (RWA) programs in FY 2012? How do these figures compare to contracts awarded under the formal, advertised, competitive bidding process? What is currently the standard processing time for an RWA? In FY 2012 and 2013, how many RWAs did the Division of Purchase and Property decline? In how many instances did State agencies engaged vendors prior to division approval of the RWA in FY 2012?**

33. Between July 1, 1998 and June 30, 2001, the State received $101.1 million in federal Medicaid funds for school-based health services claimed by school health providers under the **Special Education Medicaid Initiative (SEMI)**. In its May 18, 2006 audit of these claims, the Office of Inspector General in the United States Department of Health and Human Services recommended that New Jersey refund $51.3 million to the federal government after finding that 109 of 150 audited school-based claims had violated federal and State program guidelines. The State contested the findings. In its reply to OLS discussion point #32 in the FY 2012-2013 Department of the Treasury Budget Analysis, the Department of the Treasury conveyed that through the appeal process the United States Department of Human Services reduced its final reimbursement claim to $44.5 million. The State paid the amount in January 2012.

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SEMI is a school-based federal Medicaid Title XIX reimbursement program that allows participating school districts to recover a portion of the costs for certain Medicaid-covered services provided to Medicaid-eligible pupils. The Department of the Treasury shares the administrative responsibility for operating SEMI with the Departments of Children and Families, Education, and Human Services. Specifically, Treasury serves as the contract manager for the billing agent whose responsibilities, in turn, include receiving and processing billing agreements and pupil registration information from school health providers; conducting Medicaid eligibility verification for registered pupils; and monitoring program compliance.

Maximus, Inc., served as the State's billing agent during the period covered by the federal $44.5 million refund claim. In response to the initial notification of disallowance, the Treasury did not release the $440,000 performance bond posted by Maximus and opined that it should seek to recover the contingency fees paid to the vendor on the final disallowed claim amounts, and, if possible, an additional amount for damages (department response to OLS Discussion point 4 e. in the FY 2007-2008 Department of the Treasury Budget Analysis). In addressing OLS Discussion Point #32 in the FY 2012-2013 Department of the Treasury Budget Analysis, the department related that it was now conferring with the Office of The Attorney General about bringing legal action against the vendor. At the time of the response, the State still had three contracts with Maximus for other services, including payment eligibility assessment services, arbitration and mediation services, and quality assurance services. Moreover, the company was not barred from receiving additional State contracts but no longer served as the State's SEMI billing agent.

- **Questions: What legal recourse is the State considering, or has initiated, against the vendor, Maximus, Inc., to recoup the $44.5 million the State had to reimburse the federal government for having filed claims in violation of federal and State Special Education Medicaid Initiative (SEMI) program guidelines? Has the Division of Purchase and Property barred Maximus from receiving new State contracts pending the resolution of any SEMI litigation? Does the division have the legal authority to bar a company from receiving additional State contracts due to performance deficiencies under other contracts? Please detail the contracts under which Maximus is currently performing services for the State. Are there any non-SEMI federal reimbursement claims related to work performed for the State by Maximus?**

34. On July 7, 2010, the Office of the State Comptroller released its audit report on Billing and Contracting for Telecommunications Services. In the report, the State Comptroller alleged that the Division of Purchase and Property and the Office of Information Technology (OIT) had inappropriately turned several **State telecommunications contracts** into no-bid contracts. One way of circumventing the competitive bidding process was to extend contracts beyond the terms authorized by original contract awards. Specifically, each of the four contracts reviewed by the State Comptroller was first competitively awarded to the current vendors 10 to 15 years ago, had an initial term ranging from one to three years, and authorized a single one- or two-year extension. The division and the OIT, however, extended the contracts between seven and 22 times after exercising the contracts' extension options. A second approach the division and the OIT reportedly used to award no-bid telecommunications contracts involved the approval of Waivers of Advertisement on the questionable basis that only one vendor existed for these

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services or that the State or federal governments regulated the vendors. In its audit response, the OIT reported that significant discounts accompanied the extensions and that only one vendor was suitable for some of its telecommunications contracts given that the State's outdated internal telephone system precluded competitors from providing telecommunication services. Nonetheless, the State Comptroller recommended that the division and the OIT no longer extend telecommunications contracts beyond their original terms, issue Requests for Proposals to procure telecommunications services and supplies through competitive processes, and review all Waivers of Advertisement for telecommunications services to ensure the proper use of statutorily permissible exceptions to competitive procurement processes.

Responding to OLS discussion point #34 in the FY 2011-2012 Department of the Treasury Budget Analysis, the division stated that it and the OIT were heeding the recommendations and that contracts would be extended only when necessary to allow time for the completion of the competitive bidding process. Accordingly, the division listed six telecommunications contracts that were in the rebid process. A year later, in its reply to OLS discussion point #34 in the FY 2012-2013 Department of the Treasury Budget Analysis, the division reported that new vendors had been selected for the Video Teleconferencing and Telecommunications Equipment and Services contracts and that their terms and conditions were more favorable to the State than those of the previous contracts with greater discounts and better options and solutions. The procurement process, however, was still ongoing for the remaining four telecommunications contracts: 1) Wireless Devices and Services, 2) Telecommunications and Data Services, 3) Toll and 800 Services, and 4) Radio Communications Equipment and Accessories.

- ***Questions:*** **Please provide an update on the status of the rebidding process for each of the following four telecommunications contracts: 1) Wireless Devices and Services, 2) Telecommunications and Data Services, 3) Toll and 800 Services, and 4) Radio Communications Equipment and Accessories. For each contract, please indicate how many vendors submitted bids; which vendor was selected; the start date of the contract; the term of the contract, including that of any optional extension; and which vendor held the previous contract. Are the terms and conditions of the new contracts more or less favorable to the State than those of the previous contracts?**

DIVISION OF RISK MANAGEMENT

35. The Office of the State Auditor recommended in its June 2012 audit report on the Division of Risk Management that the division compose and compile **formal written procedures for the administration of the Workers' Compensation program**. The office viewed written procedures as an essential element in an effective internal control system, as they establish accountability, responsibility, and consistency throughout an organization. In its audit response, the division reported that written standardizing procedures should be finalized and operational by the beginning of FY 2013.

The Division of Risk Management is responsible for developing and implementing a Statewide risk management strategy to protect physical State assets from accidental loss or damage and to reduce the frequency and severity of on-the-job injuries to State employees. It also administers the State's self-insured Workers' Compensation program; which provides medical treatment,

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wage replacement and permanent disability compensation to employees who suffer job-related injuries or illnesses. The program also pays death benefits to dependents of workers who have died as a result of their employment. According to the Governor's FY 2014 Budget, the Executive anticipates paying $103.0 million to operate the program in FY 2013 and $93.0 million in FY 2014.

- **Questions: Please indicate whether the Division of Risk Management has finalized and issued formal written procedures for the administration of the Workers' Compensation program. If not, please explain the reason(s) for the delay in issuing the written procedures and relate the date of their anticipated issuance. Does the division envision reviewing and updating the written procedures on a regular basis? If so, what is the targeted periodicity of the reviews?**

DIVISION OF ADMINISTRATION

36. The State and leading United States tobacco product manufacturers entered into the multi-state **Tobacco Master Settlement Agreement (MSA)** on November 23, 1998. The MSA settled New Jersey's claims for relief with respect to the costs it had incurred from residents' cigarette smoking in the year of payment and earlier years. As announced in the MSA, New Jersey was expected to receive approximately $7.6 billion in payments through 2025 with unquantified payments continuing in perpetuity thereafter. In accordance with P.L.2002, c.32, the State sold 76.26 percent of its future MSA payment stream to bondholders under the terms of the Tobacco Settlement Asset-Backed Bonds (Series 2007-1). The State uses the remaining MSA payments for general State purposes. The Governor's FY 2014 Budget thus anticipates an interfund transfer of $53.3 million from the Tobacco Settlement Fund to the General Fund in FY 2014.

In the so-called **"2003 NPM Adjustment Dispute"** cigarette manufacturers participating in the MSA seek to reduce their payment obligations for years starting in 2003 by invoking MSA's Non-Participating Manufacturer Adjustment (NPM) clause. The clause lowers required payment amounts if three conditions hold. First, participating manufacturers loose market share to non-participating manufacturers. Second, a nationally recognized economic consulting firm determines that the MSA was a significant contributing factor to the loss of market share. Third, states are not diligently enforcing a statute stopping non-participating manufacturers from undercutting participating manufacturers on prices.

In December 2012, the manufacturers reached a settlement with 17 states, including New Jersey, which an MSA Arbitration Panel finalized on March 12, 2013. Under the terms of the settlement, the manufacturers would release to the signatory states the over $4 billion in MSA payments that the manufacturers had placed in escrow accounts from 2003 through 2012 pending the resolution of the "2003 NPM Adjustment Dispute." In return, the manufacturers would receive credits against their future MSA payment liabilities in an amount equal to the escrow balances to be released to the signatory states and an adjustment to the MSA payment calculation formula for future years. Several non-signatory states reportedly stated that they would seek to block the settlement's implementation in state court.

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- **Questions: Please indicate the amount New Jersey stands to receive, in accordance with the settlement finalized by a Tobacco Master Settlement Agreement (MSA) Arbitration Panel in March 2013, out of the balances cigarette manufacturers participating in the MSA placed in escrow for years 2003 through 2012 pending the resolution of the "2003 NPM Adjustment Dispute." By what date does the State anticipate receipt of the funds? Have any lawsuits been filed by non-signatory states seeking to block the implementation of the settlement? Please describe the Administration's plan for using the settlement proceeds.**

- **For each future fiscal year starting in FY 2014, please provide an estimate of the reduction in MSA payments to the State as a result of the settlement granting credits against tobacco manufacturers' future MSA payment liabilities and adjusting the formula calculating future MSA payment liabilities. To what extent do the credits and the formula adjustment affect required debt service payments under the terms of the Tobacco Settlement Asset-Backed Bonds (Series 2007-1)? Will the State be able to make required debt service payments out of the future MSA payment stream? To what extent do the credits and the formula adjustment affect future State budgets, as a portion of the MSA payment stream is typically used as general State revenue?**

37. According to the FY 2012 Budget Summary, the State was expected to realize $4.0 million in savings in FY 2012 by privatizing the ownership and maintenance of all or a portion of the State passenger vehicle fleet. The initiative was abandoned in November 2011 after all five bid submissions to a May 2011 Request for Proposal failed to fully meet the specifications of the bid solicitation, as the Division of Administration indicated in response to OLS Discussion Point #36 in the FY 2012-2013 Department of the Treasury Budget Analysis. The division noted, however, that it determined through the bidding process that a short-term passenger vehicle rental program could be a cost-effective alternative for employee travel on State business. Previously, such travel could only be effectuated in a State vehicle and in the employee's own personal vehicle with the State reimbursing the employee for mileage driven. The State thus joined a multi-state contract through the Western States Contracting Alliance with Enterprise, Hertz, and National that allows for short-term vehicle rentals at a discounted rate. The contract was to be made available for use in April 2012.

The Bureau of Transportation Services in the Division of Administration runs the State **Central Motor Pool** (CMP). Operating as a revolving fund, the self-supporting CMP bills client agencies for the expenses it incurs in managing the State's motor vehicle fleet. Its responsibilities include vehicle purchasing, assignment, maintenance, repair, and fuelling. According to the Governor's FY 2014 Budget (page G-5), the State's estimated FY 2014 vehicle count is 14,950, some 123 vehicles more than in FY 2013. This total includes 8,100 vehicles on agency assignment whose maintenance expenses are accounted for separately in agencies' budgets. The CMP expects to oversee the remaining 6,850 vehicles at an estimated FY 2014 cost of $29.5 million, the same as the revised FY 2013 expenditures. Replying to OLS Discussion Point #36 in the FY 2012-2013 Department of the Treasury Budget Analysis, the Division of Administration noted that it had retired and sold 962 vehicles from the fleet in FY 2012 and procured 1,008 new vehicles at a cost of $25.0 million. In FY 2011, it had purchased 591 new

Discussion Points (Cont'd)

vehicles for $20.7 million, with the State Police accounting for 311 vehicles and $12.0 million of the total.

- ***Questions:*** **Please comment on the use by State agencies and departments of the multi-state contract through the Western States Contracting Alliance (WSCA) that allows for short-term passenger vehicle rentals. How many vehicle-days have been rented in FY 2013, at what cost, and what are the associated cost savings? Does the Division of Administration expect increased usage of the contract in FY 2014 and beyond? Does the FY 2014 Governor's Budget include any cost savings related to the contract? Does the Central Motor Pool (CMP) anticipate a reduction in its number of vehicles and employees because of short-term passenger vehicle rentals? Please describe any other initiatives the CMP may have undertaken in FY 2013, or may plan to undertake in FY 2014, to further lower the State's cost of employees traveling on State business.**

- **For FY 2013, please provide the number of vehicles retired and purchased, indicating how many of the vehicles purchased directly replaced a retired vehicle. What sum does the CMP expect to spend on new vehicle purchases in FY 2013 and 2014?**

- **For the most recent month for which the data are available, please indicate the total number of State vehicles listed by State department and agency. In the list, please differentiate between passenger vehicles and all other vehicles, and the number of vehicles on individual assignment and pool assignment.**

CAPITAL CITY REDEVELOPMENT CORPORATION

38. Established pursuant to P.L.1987, c.58 (N.J.S.A.52:9Q-9 et seq.) and allocated "in but not of" the Department of the Treasury, the **Capital City Redevelopment Corporation** finances community and economic development projects in Trenton's Capital City District in accordance with the Capital City Renaissance Plan. The Capital City Redevelopment Loan and Grant Fund, a nonlapsing revolving fund, finances corporation activities out of moneys received from prior State appropriations and loan repayments. P.L.2009, c.252 changed the corporation's organizational structure and powers so as to transform it from a financing and regulatory agency to a municipal redevelopment agency. The corporation, now constituted as an independent, self-supporting authority, is newly able to add to its financial wherewithal through the sale of bonds, notes, and other obligations paid for from non-State sources.

Addressing OLS Discussion Point #35 in the FY 2012-2013 Department of the Treasury Budget Analysis, the corporation outlined several priorities and programming recommendations for FY 2013 that it planned to present to the Mayor of the City of Trenton, the Mercer County Executive, and representatives of the Governor's Office. The recommendations included: a) the development of an economic development strategy inclusive of the Downtown Master Plan; b) the development of façade improvement programs for S. Broad Street, N. Broad Street, and State Street; c) the development of a comprehensive redevelopment plan for the former Glen Cairn Arms apartment building on West State Street, which is slated for demolition; d) the first phase of a lighting and streetscape improvement plan for the Capital District; and e) the

Discussion Points (Cont'd)

pursuit of funding alternatives that would provide capital for small and emerging businesses in the Capital District.

- **Questions: Please provide an update on the activities in FY 2013 of the Capital City Redevelopment Corporation and comment on the state of the revitalization of Trenton's Capital City District. Has the corporation co-developed an economic development strategy inclusive of the Downtown Master Plan? Has the corporation co-developed and implemented the envisioned façade improvement programs for S. Broad Street, N. Broad Street, and State Street? Has the corporation co-developed a comprehensive redevelopment plan for the former Glen Cairn Arms apartment building on West State Street? If so, please detail the elements of the redevelopment plan. Has the corporation co-administered and completed the first phase of the lighting and streetscape improvement plan for the Capital District? Has the corporation secured funding alternatives that would provide capital for small and emerging businesses in the Capital District? If so, please describe the funding alternatives. Has the corporation already used its power under P.L.2009, c.252 to issue bonds, notes, and other obligations paid for from non-State sources?**

- **What objectives does the corporation intend to achieve in FY 2014? Does the corporation intend to use in FY 2014 its power under P.L.2009, c.252 to issue bonds, notes, and other obligations paid for from non-State sources? Does the corporation have any involvement in the decision-making process regarding the future of the Trenton Marriott hotel? If so, please indicate the planned use of the hotel building upon the anticipated cessation of Marriott's affiliation with the hotel at the end of June 2013 and the anticipated departure of Waterford Hotel Group as the hotel manager.**

PRINT SHOP

39. In reply to OLS Discussion Point #37 in the FY 2012-2013 Department of the Treasury Budget Analysis, the Department of the Treasury noted that it would conduct a comprehensive review to determine **the most cost-effective method of printing documents for State government**. The review would not just look at the optimal allocation of print assignments between in-house print shops and outside contractors but would also consider the structure of printing contracts, the reduction of in-house printing costs, and the modification of print jobs and specifications. The department also stated that the State paid private vendors about $12 million for printing expenditures (including paper) in FY 2011 and that the following five State agencies ran their own print shops: the State Police and the Departments of Corrections, Health, Labor and Workforce Development, and Treasury.

The Treasury Print Shop handles printing and photocopying services for most State government agencies. Operating as a revolving fund, the self-supporting entity bills client agencies for the expenses it incurs in printing and photocopying documents on their behalf. According to the Governor's FY 2014 Budget (page G-6), the Print Shop is expected to have 24 employees in FY 2014, two fewer than in FY 2013. Overall, the Governor recommends a $2.0 million FY 2014 appropriation to the Treasury Print Shop, $200,000 less than revised FY 2013 expenditures.

Discussion Points (Cont'd)

- **Questions: Please provide a status report on the comprehensive review the Department of the Treasury intended to conduct on the most cost-effective method of printing documents for State government. Has the department concluded the review? If not, please indicate by what date the department expects to complete the review. If the review has already been concluded, what were its findings and what changes does the department anticipate to make in State printing policies? Will a larger share of the State's printing operations be outsourced? What amount did the State spend on private vendors for printing expenditures (including paper) in FY 2012?**

Background Paper: Resource Diversions from Energy-Related Dedicated Funds

Budget Pages.... C-8 ; C-15 ; D-384 ; D-385 ; D-434 ; F-2 ; F-10 ; page 24 of the "Supplementary Information" section of the Governor's FY 2014 Budget (online version only)

The Governor's FY 2014 Budget contains a recommendation to redirect \$194.7 million in Clean Energy Fund balances to the General Fund as State revenue. If enacted, the transfer would represent a continuation of the recent practice of diverting unexpended balances in dedicated energy-related off-budget funds into the State General Fund. In all, including the proposed FY 2014 transfer, a cumulative total of some \$1.07 billion in unspent balances will have been transferred from the Clean Energy Fund, Global Warming Solution Fund, and Retail Margin Fund into the State General Fund from FY 2008 through FY 2014.

As **Table 1** shows, the State began using balances in the dedicated energy-related off-budget funds as general State revenue in FY 2008. The \$10 million displayed in FY 2008 and FY 2009 represents Clean Energy Fund moneys that paid for energy efficiency projects in State buildings. The State then accelerated its redirections of unspent balances in the Clean Energy Fund and the now functionally defunct Retail Margin Fund and Global Warming Solution Fund. Accordingly, more than \$125 million has thus been diverted annually since FY 2010.

Table 1: Diversions into General Fund of Aggregated Clean Energy Fund, Global Warming Solutions Fund, and Retail Margin Fund Balances

FY 2014 Governor's Budget Proposal	\$194,685,000
FY 2013	\$145,430,000
FY 2012	\$252,500,000
FY 2011	\$127,800,000
FY 2010	\$326,000,000
FY 2009	\$10,000,000
FY 2008	\$10,000,000
Prior to FY 2008	\$0
Cumulative Total	**\$1,066,415,000**

Clean Energy Fund

The Clean Energy Fund (CEF) will have contributed the lion's share of the \$1.07 billion that will have been transferred to the State General Fund from dedicated, energy-related off-budget funds from FY 2008 through FY 2014. Specifically, some \$849.2 million, or 79.6 percent of the total transfer amount, will have originated in the CEF. This number does not include the amounts transferred annually to the Board of Public Utilities (BPU) to pay for the administrative expenses related to State-funded positions of the BPU's Office of Clean Energy, as authorized by the CEF enabling statute.

Background Paper: Resource Diversions from Energy-Related Dedicated Funds (Cont'd)

The diversions from the CEF into the State General Fund have been threefold. Of the $849.2 million total, some $599.2 million, or 70.6 percent, will have been transferred absent an assigned spending purpose. Another $200.0 million, or 23.6 percent, will have been redirected to defray the cost of utilities in State facilities and the remaining $50.0 million, or 5.9 percent, to cover the cost of energy efficiency projects in State facilities. Arguably, the latter use of CEF resources is not a diversion because the fund's balances are to be used for energy efficiency and renewable energy programs. But for purposes of this background paper, the OLS counts the use of CEF balances for energy efficiency projects in State facilities as a fund diversion because it supersedes the BPU's adopted Clean Energy Program budgets. **Table 2** breaks down the elements of each fiscal year's balance transfers from FY 2008 through FY 2014.

Table 2: Diversions into General Fund of Clean Energy Fund Balances

FY 2014 Governor's Budget Proposal:	**$194,685,000**
State General Fund (unspecified)	$152,185,000
State Utility Bills	$42,500,000
FY 2013:	**$131,500,000**
State General Fund (unspecified)	$89,000,000
State Utility Bills	$42,500,000
FY 2012:	**$252,500,000**
State General Fund (unspecified)	$200,000,000
State Utility Bills	$42,500,000
Energy Efficiency Projects in State Buildings	$10,000,000
FY 2011:	**$52,500,000**
State Utility Bills	$42,500,000
Energy Efficiency Projects in State Buildings	$10,000,000
FY 2010:	**$198,000,000**
State General Fund (unspecified)	$158,000,000
State Utility Bills	$30,000,000
Energy Efficiency Projects in State Buildings	$10,000,000
FY 2009:	**$10,000,000**
Energy Efficiency Projects in State Buildings	$10,000,000
FY 2008:	**$10,000,000**
Energy Efficiency Projects in State Buildings	$10,000,000
Cumulative Total	**$849,185,000**

Background Paper: Resource Diversions from Energy-Related Dedicated Funds (Cont'd)

As can be seen, the Administration's proposed $194.7 million FY 2014 diversion into the State General Fund has two components: 1) a $152.2 million transfer without a specified spending purpose (page F-10); and 2) the use of $42.5 million to defray the cost of utilities in State facilities (page D-434).

In general, the CEF is a dedicated, off-budget fund that serves as the repository of moneys sustaining the activities of New Jersey's Clean Energy Program. New Jersey ratepayers finance the program via the societal benefits charge included in their electric and natural gas bills. Operative since April 2001, the program was authorized as part of the "Electric Discount and Energy Competition Act," P.L.1999, c.23 (N.J.S.A.48:3-49 et seq.). Through the program the BPU seeks to promote increased energy efficiency and the use of renewable energy sources, such as solar, wind, geothermal, and sustainable biomass.

The BPU has not yet determined the Clean Energy Program budget for the four fiscal years starting in FY 2014. But BPU Board Order dated November 20, 2012 Docket numbers EO07030203 and EO11100631V, shows that the program's total revised funding level for the 18-month period from January 2012 through June 2013 is $511.4 million: a) $387.7 million, or 75.8 percent, support the portfolio of energy efficiency programs; b) $49.0 million, or 9.6 percent, four green energy-related economic development programs that the BPU co-administers with the Economic Development Authority; c) $38.6 million, or 7.6 percent, renewable energy programs; d) $21.8 million, or 4.3 percent, the Temporary Relief for Utility Expenses (TRUE) program; and e) $14.2 million, or 2.8 percent, the administrative expenses of the BPU's Office of Clean Energy.

Notwithstanding the lack of an adopted program budget for FY 2014, the Governor's FY 2014 Budget anticipates $471.1 million in available CEF resources in FY 2014, which is composed of $333.0 million in new revenues and an opening balance of $138.1 million. On the other side of the ledger, the Governor's FY 2014 Budget anticipates $411.2 million in expenditures, which is comprised of $215.0 million in direct expenditures and $196.2 million in transfers to the State General Fund, including $1.5 million to pay for administrative expenses related to State-funded positions of the BPU's Office of Clean Energy. A $59.9 million projected fund balance would remain at the end of FY 2014 (page 24 of the "Supplementary Information" section of the Governor's FY 2014 Budget, available in the online version only).

Global Warming Solutions Fund

The Global Warming Solutions Fund (GWSF) contributed $79.1 million, or 7.4 percent, to the $1.07 billion that will have been transferred to the State General Fund from dedicated, energy-related off-budget funds from FY 2008 through FY 2014. As **Table 3** portrays, the transfer took place in two stages, notably in FY 2011 and FY 2013.

Balances in the GWSF represented the amounts New Jersey collected from auctioning off carbon dioxide emission allowances to power plant owners under the multistate Regional Greenhouse Gas Initiative (RGGI). In all, New Jersey reaped $113.3 million from the auctions.

Background Paper: Resource Diversions from Energy-Related Dedicated Funds (Cont'd)

With New Jersey's exit from RGGI at the end of 2011, though, the GWSF is no longer credited with any new deposits.

Prior to New Jersey's 2011 departure from RGGI, the State had been among ten Northeastern and Mid-Atlantic states comprising the initiative. RGGI members pledge to cap annual regional carbon dioxide emissions from power plants at their projected 2009 level from 2009 through 2014 and to lower emissions by ten percent from 2015 through 2018. RGGI created a mandatory cap-and-trade program effective as of January 1, 2009 under which participating states first auction off carbon dioxide emission allowances to power plant owners who may subsequently trade the allowances in a secondary market so as to match them with their emission levels.

Table 3: Diversions into General Fund of Global Warming Solutions Fund Balances

FY 2013:	**$13,930,000**
State General Fund, returned from EDA (unspecified)	$12,500,000
State General Fund (unspecified)	$1,430,000
FY 2011:	**$65,200,000**
State General Fund (unspecified)	$65,200,000
Cumulative Total	**$79,130,000**

P.L.2007, c.340 authorized New Jersey's participation in RGGI and mandated that all proceeds from the auctioning of emission allowances be deposited in the GWSF and used for environmental purposes (N.J.S.A.26:2C-50 et seq.). The law directed the Economic Development Authority to use 60 percent of fund receipts to provide financial assistance to commercial, institutional, and industrial entities to support energy efficiency projects, combined heat and power production facilities, and new efficient electric generation facilities. The BPU was to use another 20 percent of the proceeds to support programs reducing the electricity demand or costs of low- and moderate-income residential ratepayers primarily in urban areas. The Department of Environmental Protection was to use the remaining 20 percent to manage the State's forests and tidal marshes and to support local government initiatives designed to lower greenhouse gas emissions.

Retail Margin Fund

The Retail Margin Fund (RMF) contributed $138.1 million, or 12.9 percent, to the $1.07 billion that will have been transferred to the State General Fund from dedicated, energy-related off-budget funds from FY 2008 through FY 2014. As **Table 4** depicts, the transfer took place in two stages, namely in FY 2010 and FY 2011. The $138.1 million reflected virtually the entire amount ever deposited in the RMF.

Background Paper: Resource Diversions from Energy-Related Dedicated Funds (Cont'd)

Balances in the RMF accrued from the 0.5¢ per kilowatt-hour retail margin that electric distribution companies charged certain non-residential customers remaining on Basic Generation Service since August 2003 under sections 3 and 9 of P.L.1999, c.23 (N.J.S.A.48:3-51 and 48:3-57). For several years RMF balances accrued in the near-absence of assigned spending purposes. P.L.2009, c.34 then required that $60 million of the accrued RMF balances as of March 31, 2009 fund grants to support the development of Combined Heat and Power facilities. The law also authorized the BPU to use any remaining and future collections to operate programs for Commercial and Industrial Energy Pricing (CIEP) electric customers that maximize energy conservation and efficiency, reduce peak energy demand, and increase renewable energy sources. Balances in the RMF were never spent on the intended statutory purposes, however, and were instead diverted into the General Fund as State revenue. The BPU terminated the retail margin assessment effective June 1, 2011 so that the RMF is no longer credited with any new deposits.

Table 4: Diversions into General Fund of Retail Margin Fund Balances

FY 2011:	**$10,100,000**
State General Fund (unspecified)	$10,100,000
FY 2010:	**$128,000,000**
State General Fund (unspecified)	$128,000,000
Cumulative Total	**$138,100,000**

Background Paper: The Budgetary Impact of the State's Bonded Debt

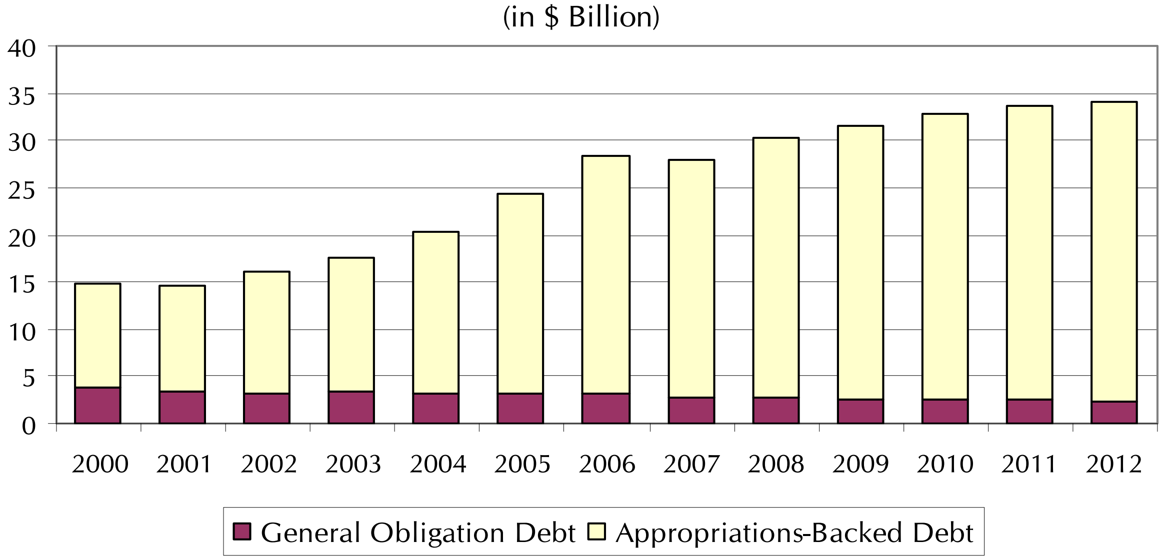
Budget Pages.... E-2 to E-8; H-8; H-15

The State of New Jersey had $34.03 billion in outstanding bonded indebtedness and $9.46 billion in legislatively authorized but unissued bonding authority at the end of FY 2012. The Governor's FY 2014 Budget includes $2.80 billion in on-budget payments to service that bonded debt. The amount represents 9.1 percent of the $32.85 billion in anticipated FY 2014 on-budget revenues. The $2.80 billion, however, does not include debt service payments from off-budget State sources. But the Office of Public Finance in the Department of the Treasury projected in the FY 2012 State of New Jersey Debt Report that the State would have to make $207.5 million in FY 2014 off-budget debt service payments. If that number is still accurate, then total recommended FY 2014 State debt service payments on bonded indebtedness would approximate $3.00 billion. This total equates to 5.8 percent of the $52.03 billion in anticipated FY 2014 on- and off-budget State revenues.

The State's Outstanding Bonded Indebtedness

Outstanding Bonded Indebtedness at the End of FY 2012: The State had $34.03 billion in outstanding bonded indebtedness at the end of FY 2012, according to the FY 2012 State of New Jersey Debt Report. That debt burden was equivalent to 74.7 percent of the $45.58 billion in FY 2012 State revenues and 6.99 percent of New Jersey's calendar year 2011 gross domestic product (the Bureau of Economic Analysis in the United States Department of Commerce indicates that New Jersey's gross domestic product was $487.0 billion in calendar year 2011, the most recent year for which the information is available). Pages 69 and 70 of the FY 2012 State of New Jersey Debt Report set forth several statistics comparing New Jersey's debt burden as measured against population, tax collections, and state gross domestic product to the debt burden of other states. At the end of FY 2012, the State still had $9.46 billion in legislatively authorized but unissued bonding authority.

Chart 1: Outstanding Bonded State Debt at End of Fiscal Year
(in $ Billion)



Background Paper: The Budgetary Impact of the State's Bonded Debt (Cont'd)

Outstanding Bonded Indebtedness since FY 2000: Since FY 2000, the State's outstanding bonded indebtedness has expanded at an annualized rate of 7.8 percent. In FY 2000, the State had $14.75 billion in debt. By FY 2012, the total had grown by 130.7 percent, or $19.28 billion, to $34.03 billion. **Chart 1** on the previous page displays the scale of the State's outstanding bonded debt service obligations at the end of each fiscal year from FY 2000 through FY 2012.

General Obligation and Appropriations-Backed Bonds: The State's bonded indebtedness has two elements: general obligation bonds and appropriations-backed bonds. A key difference between the two types of debt is that the consent of voters has consistently been required for general obligation bonds, but only since a 2008 constitutional amendment for newly enacted appropriations-backed bonds. Moreover, when the State issues general obligation bonds, it pays the required debt service out of the General Fund and pledges its full faith and credit, meaning that the State backs the debt issuance with a direct and irrevocable guarantee of its taxing power as a repayment source. Appropriations-backed bonds, in contrast, do not carry the State's full faith and credit pledge. Instead, when the State issues appropriations-backed bonds, it uses State Authorities as a conduit issuer and promises to provide for required debt service payments in the annual appropriations acts. That promise, however, is not a legally binding, irrevocable guarantee.

Initially, State bonds were issued as general obligation bonds, as the State Constitution requires voter approval before the State can borrow additional money if the total State debt after the bonds' issuance will exceed one percent of the amount appropriated for the fiscal year of the bonds' approval (Article VIII, Section II, paragraph 3). Over time, however, State courts have gradually loosened the voter-approval strictures. The New Jersey Supreme Court first held in *Clayton v. Kervick*, 52 N.J. 138 (1968), that debt obligations issued by State Authorities are not subject to voter approval if they are not backed by the State's full faith and credit. Since then, State statutes have repeatedly bypassed voters by opting to raise capital through appropriations-backed bonds with independent State Authorities serving as a conduit issuer of bonds. In November 2008, voters limited that practice by adopting a constitutional amendment that requires voter approval for new laws authorizing appropriations-backed bonds issued by independent State Authorities. The sole exceptions from the new limitation are bonds that are to be paid off from a constitutional dedication of State revenue or from an independent non-State source of revenue paid by third persons for the use of the financed project.

Over time, the State chose to raise funds predominantly without voter approval by using bonds issued by independent State Authorities. The vast majority of its indebtedness today is therefore in appropriations-backed bonds, with the relative share of general obligation debt steadily declining. In FY 2012, appropriations-backed bonds made up 93.0 percent, or $31.64 billion, of the $34.03 billion in outstanding bonded indebtedness. General obligation bonds accounted for the remaining 7.0 percent, or $2.38 billion. In FY 2000, appropriations-backed bonds comprised 74.3 percent ($10.96 billion) of the $14.75 billion in outstanding debt service obligations and general obligation bonds 25.7 percent ($3.79 billion). It remains unclear whether the enactment of the 2008 constitutional amendment will change that trend. **Chart 1** on the previous page shows the relative weight of general obligation and appropriations-backed bonds from FY 2000 through FY 2012.

Background Paper: The Budgetary Impact of the State's Bonded Debt (Cont'd)

The State's Annual Bonded Debt Service Payments

The Governor's FY 2014 Budget includes $2.80 billion in on-budget payments the State would make in FY 2014 to service its bonded indebtedness. To put that number into perspective, it represents 9.1 percent of the $32.85 billion in anticipated FY 2014 on-budget revenues. The $2.80 billion, however, does not include debt service payments from off-budget revenue sources. The Governor's Budget does not quantify those payments. But the FY 2012 State of New Jersey Debt Report projected $207.5 million in FY 2014 off-budget debt service payments. If that number is still accurate, total recommended FY 2014 State debt service payments on bonded indebtedness would be $3.00 billion. This total equates to 5.8 percent of the $52.03 billion in anticipated FY 2014 on- and off-budget State revenues.

Debt Service Payments on General Obligation Bonds: The Governor's Budgets over the years have detailed the required debt service payments on general obligation bonds in the "Capital Construction and Debt Service" section (see pages E-2 to E-8 in the Governor's FY 2014 Budget). In FY 2014, the State would thus pay $343.9 million to service its general obligation bond debt, some $68.1 million, or 16.5 percent, less than in FY 2013. The primary reason for the decline is that the State amortizes general obligation indebtedness at a faster pace than it creates new obligations. Specifically, required debt service payments on previously issued general obligation bonds are scheduled to fall by $102.8 million. That amount would be partially offset by $24.2 million in debt service payments on anticipated new bond sales related to the November 2012 approval by voters of the "Building Our Future Bond Act," which authorized the issuance of $750.0 million in general obligation bonds to finance higher educational capital projects. The net of the two numbers is a $78.7 million reduction in anticipated general obligation bond debt service payments in FY 2014. For budgeting purposes, however, the net decrease is $68.1 million after factoring in a) the application towards required FY 2013 general obligation bond debt service payments of $20.0 million in savings the State achieved in FY 2013 from refinancing previously issued general obligation and appropriations-backed debt, and b) the application towards required FY 2014 general obligation bond debt service payments of $9.4 million to be realized from a proposed general obligation bond cash defeasance.

Debt Service Payments on General Obligation and Appropriations-Backed Bonds from On-Budget Sources: General obligation bonds represent only a fraction of the State's total annual debt service obligations, whereas appropriations-backed bonds comprise an overwhelming majority thereof. Proposed FY 2014 debt service payments on appropriations-backed bonds, however, are scattered among numerous accounts in several departments. On page H-15 of the Governor's FY 2014 Budget, the Administration collates its $2.99 billion in recommended FY 2014 on-budget debt service appropriations for general obligation and appropriations-backed bonds from on-budget sources. For purposes of this background paper, however, the OLS disregards some entries on that listing and arrives at $2.80 billion in recommended State appropriations for the payment of bonded debt service from on-budget sources. Specifically, the OLS excludes $193.0 million in obligations because they do not reflect bonded liabilities: a) non-bonded Capital Leases, $83.8 million; b) New Jersey Transit Certificates of Participation, $64.2 million; c) Line of Credit Borrowing, $38.8 million; d) Interest on Short-Term Notes, $6.0 million; and e) Interest on Interfund Borrowing, $100,000.

Background Paper: The Budgetary Impact of the State's Bonded Debt (Cont'd)

Total Debt Service Payments: The $2.80 billion in recommended FY 2014 State appropriations for the payment of bonded debt service from on-budget sources provides an incomplete picture of the State's total required FY 2014 debt service payments, as the number fails to include debt service payments that would be made from off-budget sources. The Governor's FY 2014 Budget does not aggregate these expenditures. The FY 2012 State of New Jersey Debt Report, however, indicates the Administration's previous projection that off-budget debt service payments would be $207.5 million in FY 2014 (from certain off-budget cigarette tax and motor vehicle fee revenues). If that number is still accurate today, total recommended FY 2014 State debt service payments on bonded indebtedness would approximate $3.00 billion.

Annual Total Debt Service Payments since FY 2000: Historical debt service payments broadly mirror the trend in outstanding debt service obligations with the exception of the impact of several refunding initiatives. Specifically, State bonded debt service payments have increased $1.62 billion, or 116.3 percent, from $1.39 billion in FY 2000 to an estimated $3.00 billion in FY 2014, representing an annualized growth rate of 5.7 percent. **Chart 2** below displays the amount of total annual debt service payments the State made from FY 2000 through FY 2012 and is forecast to make in FY 2013 and FY 2014. Bond refundings explain the dip relative to the FY 2009 level in FY 2010, 2011, and 2012. The expiration of front-loaded debt service reductions attributable to the refundings also explains a significant portion of the year-over-year increases in bonded debt service payments since FY 2012.

Chart 2: State Bonded Debt Service Payments per Fiscal Year
(in $ Million)

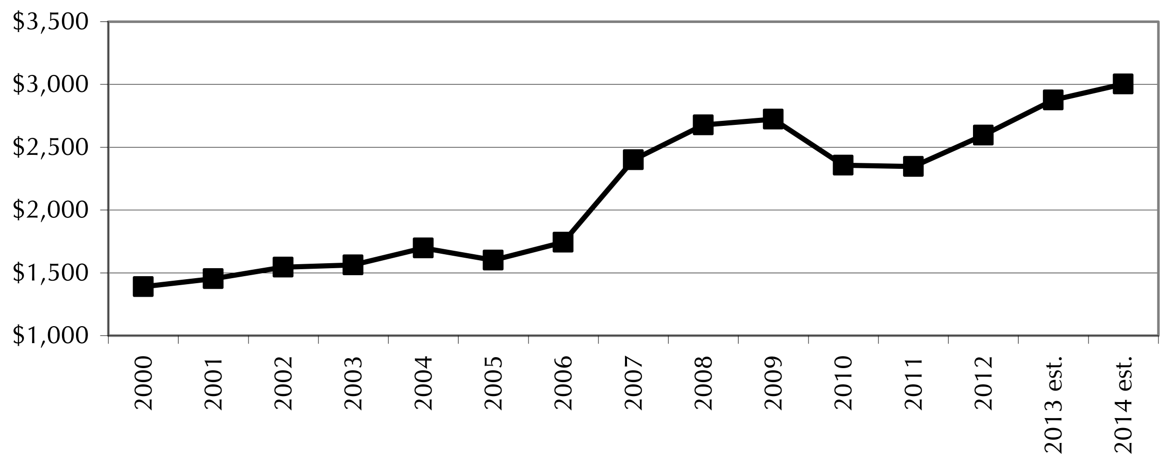


Chart 2 relies on data in the annual State of New Jersey Debt Reports, except for the FY 2014 figure, which reflects the $3.00 billion calculated pursuant to the above method. The chart does not display the FY 2012 Debt Report's projections for FY 2014 through FY 2018 because the projections do not encompass the issuance of any new or refunding bonds subsequent to the report's date of publication. For example, the Governor's FY 2014 Budget indicates that the

Background Paper: The Budgetary Impact of the State's Bonded Debt (Cont'd)

State is contractually obligated to spend $1.16 billion to service Transportation Trust Fund bonds in FY 2014. The FY 2012 Debt Report pegs the number at $951.4 million. Furthermore, taking into account anticipated sales of several new and refunding bond issuances in FY 2013, the Administration shows in the Governor's Budget that the State is contractually obligated to spend $580.0 million to service school construction bonds in FY 2014. The FY 2012 Debt Report has set that number at $671.0 million. The Governor's Budget also anticipates $24.2 million in debt service payments on new "Building Our Future" general obligation bond sales in FY 2014 to finance higher educational capital projects.

OFFICE OF LEGISLATIVE SERVICES

The Office of Legislative Services provides nonpartisan assistance to the State Legislature in the areas of legal, fiscal, research, bill drafting, committee staffing and administrative services. It operates under the jurisdiction of the Legislative Services Commission, a bipartisan body consisting of eight members of each House. The Executive Director supervises and directs the Office of Legislative Services.

The Legislative Budget and Finance Officer is the chief fiscal officer for the Legislature. The Legislative Budget and Finance Officer collects and presents fiscal information for the Legislature; serves as Secretary to the Joint Budget Oversight Committee; attends upon the Appropriations Committees during review of the Governor's Budget recommendations; reports on such matters as the committees or Legislature may direct; administers the fiscal note process and has statutory responsibilities for the review of appropriations transfers and other State fiscal transactions.

The Office of Legislative Services Central Staff provides a variety of legal, fiscal, research and administrative services to individual legislators, legislative officers, legislative committees and commissions, and partisan staff. The central staff is organized under the Central Staff Management Unit into ten subject area sections. Each section, under a section chief, includes legal, fiscal, and research staff for the standing reference committees of the Legislature and, upon request, to special commissions created by the Legislature. The central staff assists the Legislative Budget and Finance Officer in providing services to the Appropriations Committees during the budget review process.

Individuals wishing information and committee schedules on the FY 2014 budget are encouraged to contact:

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