


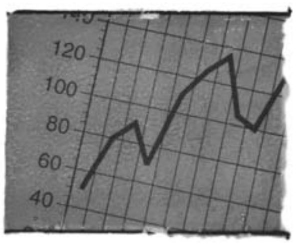



ANALYSIS OF THE NEW JERSEY BUDGET

DEPARTMENT OF THE TREASURY

FISCAL YEAR 2011 - 2012

PREPARED BY OFFICE OF LEGISLATIVE SERVICES
NEW JERSEY LEGISLATURE • MAY 2011

NEW JERSEY STATE LEGISLATURE

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DEPARTMENT OF THE TREASURY

Budget Pages....... C-7 to C-8; C-15 to C-16; C-24; D-353 to D-403; E-8 –E9; G-4 to G-8

Fiscal Summary ($000)

	Expended FY 2010	Adjusted Appropriation FY 2011	Recommended FY 2012	Percent Change 2011-12
State Budgeted	$2,682,968	$1,778,075	$2,003,616	12.7%
Federal Funds	44,070	48,470	9,253	(80.9%)
Other	1,404,477	1,251,892	1,242,164	(0.8%)
Grand Total	$4,131,515	$3,078,437	$3,255,033	5.7%

Personnel Summary - Positions By Funding Source

	Actual FY 2010	Revised FY 2011	Funded FY 2012	Percent Change 2011-12
State	3,966	3,951	3,964	0.3%
Federal	30	37	48	29.7%
Other	2,160	2,038	1,854	(9.0%)
Total Positions	6,156	6,026	5,866	(2.7%)

FY 2010 (as of December) and revised FY 2011 (as of January) personnel data reflect actual payroll counts. FY 2012 data reflect the number of positions funded.

To be consistent with the data display in the Governor's 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 2012 Budget provides $1.83 billion for **property tax relief** in the Department of the Treasury, which exceeds the FY 2011 adjusted appropriation by $170.5 million, or 10.3 percent. Grants-in-Aid, which finance direct property tax relief to residents, account for $598.4 million of the total ($164.6 million, or 37.9 percent more than in FY 2011) and State Aid to local subdivisions of State government accounts for the remaining $1.23 billion ($5.9 million, or 0.5 percent, more than in FY 2011). Table 1 on page 6 lists aggregated components of the recommended State Aid total.

- The Governor's FY 2012 Budget recommends doubling the benefit amounts provided as homestead credits under the New Jersey Homestead Property Tax Credit program, renamed the **Homestead Benefit Program**. In all, the Executive estimates that 938,500 homeowners would collect an average $476 benefit in FY 2012, after collecting an average $238 credit in FY 2011. The OLS notes that while the Governor's Budget Message tied the doubling of homestead benefits to the adoption of the Governor's proposed health benefits reforms for retired public school teachers as well as active and retired employees of the State and its public universities, the Governor's FY 2012 Budget does not include such a linkage. Proposed FY 2012 budget language grants the Division of Taxation extensive discretion in determining a payment schedule.

- For FY 2012, the Administration recommends maintaining the FY 2011 restrictions placed on the **Senior and Disabled Citizens' Property Tax Freeze program**. Specifically, the program would once more be closed to new applicants and payments would remain capped at FY 2010 benefit amounts. Overall, the Executive forecasts a $1,088 average FY 2012 payment to 129,000 participants.

- The Governor's FY 2012 Budget proposes that municipalities receive $1.05 billion from the off-budget **Energy Tax Receipts Property Tax Relief Fund** in FY 2012, a $20.6 million, or 2.0 percent, increase over FY 2011. 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 $261.2 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 $244.2 million in CMPTRA be expended in FY 2012, thereby bringing total distributions from the State's two formula-driven municipal aid programs to $1.29 billion.

- The Governor advocates raising the subsidy to the **South Jersey Port Corporation** from $13.2 million in FY 2011 to $25.1 million in FY 2012. The increase is primarily attributable to debt service payments on bonds issued by the corporation in 2009 to pay for the development of the Paulsboro Marine Terminal.

- The Administration recommends appropriating an unchanged $4.4 million to the **Highlands Protection Fund Aid programs** in FY 2012. The proposed continuation of FY 2011 language suspending a statutory poison pill provision that is intended to protect the annual $12 million appropriation to these programs would authorize the lower $4.4 million appropriation. Absent the language, the poison pill provision would prohibit

Highlights (Cont'd)

the State from collecting the State portion of the basic fee and the additional fee under the realty transfer fee statute if the $12 million is not allocated to the statutory programs.

- The State would not make an employer contribution to the public employee retirement funds under the Governor's FY 2012 Budget. However, the Governor's Budget Message tied a proposed $506 million supplemental FY 2011 appropriation to the retirement funds to the enactment of the Governor's proposed pension reforms and indicated that the $506 million would constitute an "early payment" of the minimum contribution the State was required to make in FY 2012 pursuant to N.J.S.A.43:3C-14. Nevertheless, the Governor's FY 2012 Budget does not include such a linkage between the State's "early payment" and the reform legislation. In Treasury this discussion applies to the $22.5 million appropriation to the **Police and Firemen's Retirement System** and the $174,000 appropriation to the **Consolidated Police and Firemen's Pension Fund** that the Governor recommends be made in FY 2011 on behalf of local governmental entities.

TREASURY OPERATIONS

- **Division of Taxation salaries and wages** are recommended to rise from $82.8 million in FY 2011 to $89.5 million in FY 2012, reflecting the hiring of 104 new full-time employees across the division. On October 3, 2010, the Asbury Park Press published an interview in which State Treasurer Andrew Sidamon-Eristoff stated that the division had been neglected and that it was being "totally rebuilt to be efficient."

- As in past years, the Governor's 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.

- The Governor's FY 2012 Budget reflects Treasury's October 2010 termination of the **Property Assessment Management System (PAMS)** project. Under development since its initial funding in FY 2001, the web-based PAMS was to enhance property assessment and tax collection processes by allowing the Division of Taxation to aggregate and analyze local real property data that the State, county boards of taxation, and municipal assessors could use to generate tax lists, assessments, and various reports.

- The Governor proposes saving $313,000 from reassigning in FY 2012 the functions of the Public Compliance Unit in the **Division of Public Contracts Equal Employment Opportunity Compliance**. In FY 2011, the department also eliminated the Office of Supplier Diversity and the Division of Minority and Women Business Development and reassigned some of their functions to other Treasury divisions.

- Through proposed language, the Governor's FY 2012 Budget grants $3.5 million 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)**. The Attorney General anticipates needing the sum primarily in light of the "2003 NPM Adjustment Dispute," which refers to cigarette manufacturers participating in the MSA seeking to reduce their payment obligations for years 2003 through 2008 to all participating states by $5.3

Highlights (Cont'd)

billion by alleging that states are not diligently enforcing their statutes stopping Non-Participating Manufacturers (NPM) from undercutting participating manufacturers on prices.

- The Governor's FY 2012 Budget recommends reducing **State Central Motor Pool** expenses by $4.0 million on account of an envisioned outsourcing of the ownership and maintenance of all or a portion of the State passenger vehicle fleet. Responding to Question #4 of the "Budget Questions for all Departments and Units" prepared by the OLS in March 2011, Treasury stated that it had initiated the development of a Request for Proposal in this regard.

- The Governor's FY 2012 Budget cuts the funding for the **Casino Control Commission** by $15.3 million primarily because P.L.2011, c.19 substantially pared down the commission's competencies in regulating casino gambling.

- Portending the anticipated divestiture of **New Jersey Network Public Television and Radio (NJN)** as of July 1, 2011, the Governor's FY 2012 Budget does not incorporate a specific appropriation to the New Jersey Public Broadcasting Authority. Nevertheless, the Administration newly recommends FY 2012 language that would authorize an appropriation to the authority of the amounts necessary to maintain television licenses, oversee any agreement with private operators of NJN, and carry out the authority's responsibilities. The contingency language would enable the State to meet any financial obligation to which it may agree as part of any final privatization contract and to continue operating NJN if privatization does not occur by July 1, 2011.

TREASURY DEBT SERVICE

- The Governor's FY 2012 Budget for Treasury includes $270.1 million for **Debt Service** payments on general obligation bonds. This amount represents growth of $108.4 million, or 67.1 percent, from FY 2011. The required payments will soar because a 2010 restructuring of general obligation bond and appropriations-backed debt significantly reduced the State's FY 2011 general obligation bond debt service appropriation.

OFFICE OF INFORMATION TECHNOLOGY

- In FY 2011, the Office of Information Technology (OIT) received a one-time $39.6 million federal matching fund award for **"The State of New Jersey Broadband Network" project**. The OIT is to use the moneys, as well as the State's $11.6 million matching contribution, to deploy 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.

- The Governor requests $5.5 million for three **OIT special purpose projects**: $2.0 million to finance the first phase of a multi-year "IT Modernization" initiative to replace

Highlights (Cont'd)

the State's legacy administrative information technology systems; $2.0 million to pay for the procurement of new equipment and software intended to improve the State's information and data security; and $1.5 million to cover the first semi-annual line of credit debt service payment for a $10.5 million investment in unspecified critical upgrades to the State's information technology infrastructure.

ECONOMIC DEVELOPMENT AUTHORITY

- The Governor proposes a new $10 million appropriation for grants to developers of brownfield sites under the **Brownfields and Contaminated Site Remediation Program**. The request reflects the intent to meet contractual obligations even as they are anticipated to exceed resources available from funding sources that have supported the program in previous fiscal years: 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.

BOARD OF PUBLIC UTILITIES

- The Board of Public Utilities (BPU) **closed its Newark office and consolidated its operations into its Trenton office** in FY 2011. In a written follow-up response to a question raised during the Department of the Treasury's budget hearing before the Assembly Budget Committee on April 21, 2010, the Board asserted that the relocation would lower its space requirements by 59 percent and reduce its annual lease expenses by an estimated $2.0 million. The Board pegged anticipated one-time moving costs at $1.45 million.

- The BPU is reevaluating the 2008 **New Jersey Energy Master Plan's** objectives, the analysis of the plan's economic ramifications, and the goals and the role of the **Clean Energy Program** in achieving the plan's environmental goals of reducing statewide electricity consumption by 20 percent from projected 2020 levels and of meeting 30 percent of the State's electricity needs with renewable energy by 2020.

- The Governor's FY 2012 Budget reflects the abolition of the **Retail Margin Fund** and charge as of June 1, 2011. The off-budget charge is anticipated to yield $13.9 million in FY 2011. Retail Margin Fund balances accrue from the 0.5¢ per kilowatt-hour retail margin that electric distribution companies have been charging certain non-residential customers remaining on Basic Generation Service since August 2003.

Highlights (Cont'd)

Table 1
Department of the Treasury
State Aid to Local Governmental Entities
FY 2010 – FY 2012

STATE AID	Expended FY 2010	Adj. App. FY 2011	Recom. FY 2012
Energy Tax Receipts*	$1,029,064	$1,029,064	$1,049,650
Municipal Reimbursement for Veterans' Property Tax Deductions	67,366	65,480	63,600
Police & Firemen's Retirement System – Post Retirement Medical	28,836	33,652	38,603
South Jersey Port Corporation Support	16,634	13,150	25,050
Municipal Reimbursement for Senior and Disabled Citizens' Property Tax Deductions	18,597	18,011	17,300
Debt Service – Pension Obligation Bonds	11,683	13,031	14,145
Solid Waste Management – Debt Service Aid	22,612	16,200	8,850
Other Distributed Taxes	5,502	6,848	6,848
Highlands Protection Fund Aid	8,844	4,400	4,400
Public Library Project Fund	3,772	3,774	3,759
County Boards of Taxation	1,896	1,903	1,903
Police & Firemen's Retirement System State Contribution	0	22,523	0
Consolidated Police & Firemen's Pension Fund State Contribution	0	174	0
Total State Aid	$1,214,806	$1,228,210	$1,234,108

* 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 56 to 58 of this analysis for an explanation of the transfer).

Fiscal and Personnel Summary

AGENCY FUNDING BY SOURCE OF FUNDS ($000)

	Expended FY 2010	Adj. Approp. FY 2011	Recom. FY 2012	Percent Change 2010-12	Percent Change 2011-12
General Fund					
Direct State Services	$458,408	$434,904	$440,250	(4.0%)	1.2%
Grants-In-Aid	292,096	337,878	318,676	9.1%	(5.7%)
State Aid	223,517	234,023	201,239	(10.0%)	(14.0%)
Capital Construction	4,493	0	0	(100.0%)	0.0%
Debt Service	228,428	161,680	270,115	18.2%	67.1%
Sub-Total	**$1,206,942**	**$1,168,485**	**$1,230,280**	**1.9%**	**5.3%**
Property Tax Relief Fund					
Direct State Services	$0	$0	$0	0.0%	0.0%
Grants-In-Aid	1,300,322	433,800	598,400	(54.0%)	37.9%
State Aid	151,832	151,343	165,828	9.2%	9.6%
Sub-Total	**$1,452,154**	**$585,143**	**$764,228**	**(47.4%)**	**30.6%**
Casino Revenue Fund	$0	$0	$0	0.0%	0.0%
Casino Control Fund	$23,872	$24,447	$9,108	(61.8%)	(62.7%)
State Total	**$2,682,968**	**$1,778,075**	**$2,003,616**	**(25.3%)**	**12.7%**
Federal Funds	$44,070	$48,470	$9,253	(79.0%)	(80.9%)
Other Funds	$1,404,477	$1,251,892	$1,242,164	(11.6%)	(0.8%)
Grand Total	**$4,131,515**	**$3,078,437**	**$3,255,033**	**(21.2%)**	**5.7%**

PERSONNEL SUMMARY - POSITIONS BY FUNDING SOURCE

	Actual FY 2010	Revised FY 2011	Funded FY 2012	Percent Change 2010-12	Percent Change 2011-12
State	3,966	3,951	3,964	(0.1%)	0.3%
Federal	30	37	48	60.0%	29.7%
All Other	2,160	2,038	1,854	(14.2%)	(9.0%)
Total Positions	**6,156**	**6,026**	**5,866**	**(4.7%)**	**(2.7%)**

FY 2010 (as of December) and revised FY 2011 (as of January) personnel data reflect actual payroll counts. FY 2012 data reflect the number of positions funded.

AFFIRMATIVE ACTION DATA

Total Minority Percent	25.8%	26.4%	27.1%	----	----

Significant Changes/New Programs ($000)

Budget Item	Adj. Approp. FY 2011	Recomm. FY 2012	Dollar Change	Percent Change	Budget Page

ECONOMIC PLANNING AND DEVELOPMENT

NEW JERSEY ECONOMIC DEVELOPMENT AUTHORITY

Budget Item	Adj. Approp. FY 2011	Recomm. FY 2012	Dollar Change	Percent Change	Budget Page
General Fund, Grants-in-Aid: Fort Monmouth Economic Revitalization Authority	**$150**	**$263**	**$113**	**75.3%**	**D-361**

The proposed $113,000 increase in the FY 2012 appropriation to the Fort Monmouth Economic Revitalization Authority (FMERA) is to pay for additional staff and higher operating costs at the authority following an expansion of its statutory responsibilities in 2010.

Fort Monmouth is a 1,126 acre federal military installation bordering the Monmouth County municipalities of Eatontown, Oceanport, and Tinton Falls. The fort is scheduled to be closed in September 2011 and its land is to be redeveloped for civilian use. Established by P.L.2010, c.51 and supervised by the New Jersey Economic Development Authority, FMERA implements the "Fort Monmouth Reuse and Redevelopment Plan," crafted by FMERA's predecessor authority, the Fort Monmouth Economic Revitalization Planning Authority. In doing so, 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.

Budget Item	Adj. Approp. FY 2011	Recomm. FY 2012	Dollar Change	Percent Change	Budget Page
General Fund, Grants-in-Aid: Brownfield Site Reimbursement Fund	**$0**	**$10,000**	**$10,000**	**—**	**D-361**

The Governor proposes a direct $10.0 million appropriation in FY 2012 for payments to developers of brownfield sites under the Brownfields and Contaminated Site Remediation Program. The request reflects the intent to meet contractual obligations even as they are anticipated to exceed resources available from funding sources that have supported the program in previous fiscal years: 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. In FY 2011, the State transferred $5.2 million in constitutionally dedicated revenue to the fund while expecting to pay out $7.0 million to developers. In FY 2010, the fund received $1.4 million from the constitutional dedication and expended $4.7 million on 11 projects.

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

Budget Item	Adj. Approp. FY 2011	Recomm. FY 2012	Dollar Change	Percent Change	Budget Page

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. Pursuant to budget language, however, the fund actually receives its resources 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.

ECONOMIC REGULATION

BOARD OF PUBLIC UTILITIES

Budget Item	Adj. Approp. FY 2011	Recomm. FY 2012	Dollar Change	Percent Change	Budget Page
General Fund, Direct State Services: Administration and Support Services	**$7,086**	**$9,935**	**$2,849**	**40.2%**	**D-364**

The recommended $2.8 million increase in the FY 2012 appropriation for the salary account of the Board of Public Utilities' (BPU) Division of Administration does not represent new spending but a $151,000 net spending reduction. Two countervailing components aggregate to this net change. First, as a one-year stop-gap measure, $3.0 million in unspent balances in BPU accounts at the end of FY 2010 were carried forward into FY 2011 and applied against FY 2011 salary expenditures of the Division of Administration, thereby reducing the FY 2011 appropriation by $3.0 million. Since significant carryforward amounts are not projected to be available in FY 2012, the Administration is recommending an additional $3.0 million appropriation in FY 2012 to maintain the current expenditure level, offset by $151,000 in operating efficiencies from positions that would be eliminated or not refilled.

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

Budget Item	Adj. Approp. FY 2011	Recomm. FY 2012	Dollar Change	Percent Change	Budget Page

GOVERNMENTAL REVIEW AND OVERSIGHT

OFFICE OF MANAGEMENT AND BUDGET, EMPLOYEE RELATIONS AND COLLECTIVE NEGOTIATIONS

General Fund, Direct State Services: Salaries and Wages	**$13,295**	**$12,546**	**($749)**	**(5.6%)**	**D-367**

For the Office of Management and Budget (OMB) and the Governor's Office of Employee Relations and Collective Negotiations, the Governor's FY 2012 Budget recommends a shift in resources from salaries and wages to the services other than personal account, which pays for services provided by outside vendors. The proposed reallocation would not alter the offices' overall FY 2012 appropriations.

Specifically, the Administration proposes lowering the salaries and wages appropriation of the Governor's Office of Employee Relations and Collective Negotiations from $706,000 in FY 2011 to $448,000 in FY 2012, which would reflect a $258,000, or 36.5 percent, decrease. The OMB indicated to the OLS, however, that the decrease did not represent a reduction in filled positions. Instead, it would take into account an anticipated transfer of resources from contingency funds (page D-422) to reimburse the office for its salary expenses. Such a transfer would increase the office's FY 2012 appropriation above $841,000. Established by Executive Order No. 33 of 1995, the office administers and interprets State labor agreements, negotiates with unions and other representatives of State employees, and generally assists the Governor in developing and implementing policies and decisions concerning employee relations and related matters involving State employees. Consequently, the office's expected FY 2012 expenditure increase may be related to the renegotiation of expiring labor contracts with State employee unions.

In addition, the Administration intends to reduce OMB's salaries and wages appropriation from $12.6 million in FY 2011 to $12.1 million in FY 2012, which would reflect a $491,000, or 3.9 percent, decrease. The OMB indicated to the OLS that a reduction of 11 funded positions motivated the lower recommended FY 2012 salaries and wages appropriation.

General Fund, Direct State Services: Services Other Than Personal	**$918**	**$1,680**	**$762**	**83.0%**	**D-368**

For the Office of Management and Budget (OMB) and the Governor's Office of Employee Relations and Collective Negotiations, the Governor's FY 2012 Budget recommends a shift in resources from salaries and wages to the services other than personal account, which pays for

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

Budget Item	Adj. Approp. FY 2011	Recomm. FY 2012	Dollar Change	Percent Change	Budget Page

services provided by outside vendors. The proposed reallocation would not alter the offices' overall FY 2012 appropriations.

Specifically, the Administration proposes increasing OMB's services other than personal appropriation by $491,000, or 59.0 percent, from $832,000 in FY 2011 to $1.3 million in FY 2012. The equivalent appropriation for the Governor's Office of Employee Relations and Collective Negotiations is requested to rise by $271,000, or 315.1 percent, from $86,000 in FY 2011 to $357,000 in FY 2012. The rationale for the recommended increases, however, has not been substantiated.

OFFICE OF THE STATE COMPTROLLER

Budget Item	Adj. Approp. FY 2011	Recomm. FY 2012	Dollar Change	Percent Change	Budget Page
Federal Funds: Office of the State Comptroller	**$2,739**	**$3,160**	**$421**	**15.4%**	**D-369**

This budget line represents matching funds the Office of the State Comptroller receives from the federal government for the office's expenditures to combat fraud, waste, and abuse in the State Medicaid program. According to the Office of Management and Budget (OMB), a planned expansion of investigatory activities by the Medicaid Fraud Division accounted for the anticipated increase in the federal match even though the FY 2012 State appropriation to the Office of the State Comptroller is proposed to remain flat at $9.9 million. The OMB informed further that the State Comptroller would fund the expansion of investigatory activities by utilizing unspecified existing resources.

The "Medicaid Program Integrity and Protection Act", P.L.2007, c.58, authorized the creation of the Office of the Medicaid Inspector General (OMIG) in the Office of the Inspector General. The OMIG began its operations in the course of FY 2009 and was consolidated into the Office of the State Comptroller as the Medicaid Fraud Division in accordance with P.L.2010, c.33. 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 federal government matches State expenditures for the division 200 percent through the Medicaid program.

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

Budget Item	Adj. Approp. FY 2011	Recomm. FY 2012	Dollar Change	Percent Change	Budget Page

FINANCIAL ADMINISTRATION

DIVISION OF TAXATION

General Fund, Direct State Services: Taxation Services and Administration	**$111,449**	**$113,338**	**$1,889**	**1.7%**	**D-373**

The recommended $1.9 million growth in the FY 2012 appropriation to the Division of Taxation is the net effect of a proposed $6.7 million, or 8.1 percent, increase in the division's salaries and wages expenditures from $82.8 million to $89.5 million resulting from the hiring of 104 new full-time employees across the division and a cut to two budget lines: a $4.3 million, or 16.7 percent, reduction in anticipated expenses in the Services Other than Personal account, which pays for services provided by outside vendors, from $25.8 million to $21.5 million; and a $541,000, or 22.7 percent, reduction in anticipated expenses for materials and supplies from $2.4 million to $1.8 million.

According to the Office of Management and Budget (OMB), the $4.3 million cut in the division's Services Other than Personal appropriation stems from the discontinuation of funding for the Division of Taxation Data Warehouse contract in FY 2012. The components of the reduction, however, have not been delineated. In addition, the OLS notes that under the terms of that contract, the vendor will be paid $3.8 million in FY 2012 for performing services through February 29, 2012 and that the State may opt to continue the initiative thereafter. Any additional funding would likely be made by invoking a continued language provision that would allow for supplemental appropriations of unspecified amounts for tax and debt collection and processing activities in the course of the fiscal year and without additional legislative approval (page D-374). The division has exercised this language in the past; in FY 2011, for example, $1.9 million in supplemental funding was appropriated for the Taxation Data Warehouse.

The Division of Taxation Data Warehouse contract refers to the development, implementation, and operation of an information technology platform to collect, store, and analyze data on taxpayer compliance with State tax laws. The division has been using the information to generate additional State revenue through compliance initiatives. Teradata, a division of NCR Government Systems LLC, was selected as the contractor for the initiative in September 2005, and has been paid exclusively from the increased revenue the Taxation Data Warehouse generated to the State. The contract was extended for a second single year and with a three percent discount after expiring on February 28, 2011. The extension will cost the division $5.7 million, of which $1.9 million is due in FY 2011 and $3.8 million in FY 2012. The division estimates that the contract will yield $30 million in additional revenues.

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

Budget Item	Adj. Approp. FY 2011	Recomm. FY 2012	Dollar Change	Percent Change	Budget Page
CASINO CONTROL COMMISSION					
Casino Control Fund, Direct State Services: Administration of Casino Gambling	**$24,447**	**$9,108**	**($15,339)**	**(62.7%)**	**D-373**

The recommended $15.3 million cut to the FY 2012 appropriation of the Casino Control Commission has two components. First, $14.6 million of the decline is attributable to the enactment of P.L.2011, c.19, which significantly curtailed the commission's competencies in overseeing the State's casino gambling industry. Second, the commission would realize $700,000 in savings from positions vacated in FY 2011.

P.L.2011, c.19 shifted numerous responsibilities from the commission to the Division of Gaming Enforcement in the Department of Law and Public Safety and the Division of Taxation in the Department of the Treasury. While the Division of Taxation newly acquired jurisdiction over the collection of certain casino-related fees and taxes, the Division of Gaming Enforcement newly enforces casino regulations, conducts investigative hearings on the conduct of gaming and gaming operations, issues operation certificates to casino licensees, imposes sanctions and collects penalties, accepts and maintaining registrations for casino employees and certain vendors, and receives complaints from the public. The commission retained responsibility for casino licensing, the licensing of casino key employees, and the hearing of appeals on actions taken by the division.

Budget Item	Adj. Approp. FY 2011	Recomm. FY 2012	Dollar Change	Percent Change	Budget Page
DIVISION OF REVENUE					
General Fund, Direct State Services: Special Purpose: Wage Reporting/Temporary Disability Insurance	**$1,599**	**$1,200**	**($399)**	**(25.0%)**	**D-374**

This budget line aggregates the Division of Revenue's cost of processing certain mandatory employer filings, payments, and amounts withheld from employee salaries and wages. Specifically, the line captures the cost of processing: a) employer filings of wage reports; b) employer remittances of amounts withheld from employee salaries and wages; c) employer contributions for unemployment insurance, healthcare subsidy, workforce development, disability insurance, and family leave insurance; and d) a report accompanying the payments under b) and c). The recommended $399,000 reduction in the account's FY 2012 appropriation is attributable to more employers submitting payments of required contributions and employee wage withholdings electronically, which lowers the division's payment processing cost.

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

Budget Item	Adj. Approp. FY 2011	Recomm. FY 2012	Dollar Change	Percent Change	Budget Page
DIVISION OF INVESTMENT					
All Other Funds: Management of State Investments	**$11,226**	**$12,926**	**$1,700**	**15.1%**	**D-374**

This off-budget account represents the expenses the Division of Investment incurs in managing the investment portfolios of the various State pension funds. The expenses are charged directly to the State pension funds so that no State appropriation for the cost center is needed. Upon OLS inquiry, the Office of Management and Budget explained that the anticipated $1.7 million FY 2012 spending increase reflected "prior and current year spending" without further substantiation. On February 28, 2011, the division valued the total assets of the various State pension funds at an estimated $72.6 billion.

GENERAL GOVERNMENT SERVICES

Budget Item	Adj. Approp. FY 2011	Recomm. FY 2012	Dollar Change	Percent Change	Budget Page
PUBLIC BROADCASTING SERVICES					
General Fund, Direct State Services: Public Broadcasting Services	**$1,969**	**$0**	**($1,969)**	**(100.0%)**	**D-378**
All Other Funds: Public Broadcasting Services	**$10,715**	**$0**	**($10,715)**	**(100.0%)**	**D-380**
TOTAL	**$12,684**	**$0**	**($12,684)**	**(100.0%)**	

The proposed elimination of State funding for the New Jersey Public Broadcasting Authority portends New Jersey Network Public Television and Radio's (NJN) anticipated divestiture as of July 1, 2011. The $2.0 million FY 2011 appropriation represents direct State support of NJN while the $10.7 million off-budget appropriation reflects revenues NJN is estimated to collect in FY 2011 from such sources as spectrum bandwidth licensing agreements, studio and tower space rentals, video content productions for third parties, underwriting, and memberships.

The OLS notes, however, that the Administration also newly recommends FY 2012 language that would authorize the appropriation to the authority of the amounts necessary to maintain television licenses, oversee any agreement with private operators of NJN, and carry out the

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

Budget Item	Adj. Approp. FY 2011	Recomm. FY 2012	Dollar Change	Percent Change	Budget Page

authority's responsibilities (page F-9). The contingency language would enable the State to meet any financial obligation to which it may agree as part of any final privatization contract and to continue operating NJN if privatization does not occur by the July 1, 2011 target date.

P.L.2010, c.104 authorizes the transfer of authority assets and radio operating licenses, but not television operating licenses, to a non-profit organization or other entity eligible to operate a public broadcasting system. Accordingly, on February 7, 2011, the Department of the Treasury issued Requests for Proposals for the management of NJN's four-station television network, the management of NJN's nine-station radio network, and the sale of the radio network. Final proposals were to be submitted by April 15. The Requests for Proposals stipulate that vendors must take control of the networks on July 1, 2011; run them as non-commercial educational and public media services; and provide New Jersey-centric programming, including New Jersey news and public affairs programming.

Established under P.L.1968, c.405, the New Jersey Public Broadcasting Authority owns and operates NJN, which produces and broadcasts statewide New Jersey public affairs and cultural programming. The authority generated $17.6 million in non-State revenues and incurred $28.8 million in operating expenses for the year ended June 30, 2010. The State provided the $11.2 million necessary to close the gap. Of that amount, $200,000 came in the form of payments for video productions for State agencies. The remaining $11.0 million reflected a State subsidy comprised of a direct $3.8 million appropriation, contributions of facilities valued at $4.3 million, and the payment of $2.7 million in benefits and social security taxes for NJN employees.

DIVISION OF RISK MANAGEMENT

General Fund,					
Direct State Services:					
Risk Management	**$2,598**	**$2,352**	**($246)**	**(9.5%)**	**D-378**

Apart from the State House nurse station, the Division of Risk Management closed all nurse offices in State government buildings in FY 2011, namely at the Gateway Center in Newark and the Taxation Building, Mary Roebling Building, Riverview Office Complex, and Justice Complex, all in Trenton. According to the Office of Management and Budget, the annualization of the cost savings from these closures accounts for the recommended $246,000 reduction in the division's FY 2012 appropriation. All of the savings are included in the division's proposed FY 2012 salaries and wages appropriation. But in response to Question #4 of the "Budget Questions for all Departments and Units" prepared by the OLS in March 2011, the Department of the Treasury indicated that the closure of the nurse stations allowed the division to reassign the nurses to the review and management of workers' compensation claims and the provision of loss control services.

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

Budget Item	Adj. Approp. FY 2011	Recomm. FY 2012	Dollar Change	Percent Change	Budget Page

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 and Sick Leave Injury programs.

CAPITAL CITY REDEVELOPMENT CORPORATION

All Other Funds: Capital City Redevelopment Corporation	**$150**	**$0**	**($150)**	**(100.0%)**	**D-380**

P.L.2009, c.252 reconstituted the Capital City Redevelopment Corporation as an independent, self-supporting authority, thereby obviating the need for State appropriations thereto. Even though the corporation now manages its financial operations without formal Department of the Treasury oversight, the Governor retains veto power over the corporation's actions. Prior to passage of P.L.2009, c.252, Treasury made off-budget appropriations from the Capital City Redevelopment Loan and Grant Fund to this corporation account to cover its administrative expenses. The Administration had initially hoped that the corporation would be self-supporting by July 1, 2010, but because of a lack of a quorum, the corporation's board of directors did not vote to change the corporation's bylaws in line with P.L.2009, c.252 until September 13, 2010. Consequently, in FY 2011, the State provided $150,000 in off-budget funding out of the Capital City Redevelopment Loan and Grant Fund to defray the corporation's administrative expenditures through December 31, 2010.

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 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.

OFFICE OF WORKFORCE INITIATIVES AND DEVELOPMENT

All Other Funds: Workforce Initiatives and Development	**$232**	**$735**	**$503**	**216.8%**	**D-380**

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

Budget Item	Adj. Approp. FY 2011	Recomm. FY 2012	Dollar Change	Percent Change	Budget Page

This budget line represents payments the Office of Workforce Initiatives and Development receives from other State agencies for offering employee training through the online Learning Management System. The anticipated FY 2012 increase reflects the resumption of full-scale agency training following a change in the State's approach to training employees. As of FY 2010, the office's Human Resource Development Institute (HRDI) no longer offers courses to State and local employees in a classroom setting. Instead, State agencies and participating local governments are to contract for the provision of training services themselves. The HRDI, however, still operates the online Learning Management System through which it offers mandatory training to all State government employees on policy issues such as ethics, workplace violence, and diversity. Agencies may also utilize the system platform to host their own agency-specific online training courses. Evaluation Data in the FY 2012 Governor's Budget indicate that Treasury expects the number of online trainees to rise sharply from 13,100 in FY 2011 to 25,000 in FY 2012. Simultaneously, it anticipates that online training contact hours will surge from 33,200 in FY 2011 to 110,000 in FY 2012.

OFFICE OF INFORMATION TECHNOLOGY

Budget Item	Adj. Approp. FY 2011	Recomm. FY 2012	Dollar Change	Percent Change	Budget Page
General Fund, Direct State Services: Special Purpose: Office of Information Technology	**$55,544**	**$59,099**	**$3,555**	**6.4%**	**D-385**

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. The requested $3.6 million increase over the adjusted FY 2011 amount is the aggregate effect of two factors: growing expenses for contractual maintenance and software services and rising payroll expenditures as the January 1, 2011 pay increases for State employees will inflate OIT's budget for the first half of FY 2012 relative to the first half of FY 2011.

The OIT provides information technology services to State agencies and has a recommended FY 2012 budget of $115.9 million for 790 funded positions. Excluding the proposed $13.3 million for the Office of Emergency Telecommunication Services (Statewide 911 System), OIT's recommended FY 2012 appropriation is $102.6 million. Of this amount, transfers of federal and dedicated funds from State agencies for billable OIT services account for $59.1 million, or 57.6 percent, and General Fund appropriations for the remaining $43.5 million, or 42.4 percent.

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

Budget Item	Adj. Approp. FY 2011	Recomm. FY 2012	Dollar Change	Percent Change	Budget Page
General Fund, Direct State Services: Special Purpose: Network Infrastructure	**$0**	**$1,500**	**$1,500**	**—**	**D-385**

This account provides OIT with line of credit financing for network infrastructure upgrades, maintenance, and programming charges. The line of credit program pays for the State's short-term (three years) equipment needs, such as computers, furniture, and vehicles purchases. The Administration's proposed $1.5 million FY 2012 appropriation to the account would cover the first semi-annual line of credit debt service payment for a $10.5 million investment in critical upgrades to the State's information technology infrastructure, according to the Office of Management and Budget. The New Jersey Commission on Capital Budgeting and Planning did not include this initiative among its $5.5 million funding recommendations for the OIT in the Capital Improvement Plan for FY 2012.

Budget Item	Adj. Approp. FY 2011	Recomm. FY 2012	Dollar Change	Percent Change	Budget Page
General Fund, Direct State Services: Special Purpose: IT Modernization	**$0**	**$2,000**	**$2,000**	**—**	**D-385**

The Administration recommends providing a new $2.0 million appropriation in FY 2012 to finance the first phase of a multi-year "IT Modernization" initiative. According to the Office of Management and Budget, the appropriation would support the planning and development of an intended replacement of the State's legacy administrative information technology systems, including those in the areas of pensions, payroll, accounting, purchasing, and personnel. The New Jersey Commission on Capital Budgeting and Planning did not include this initiative among its $5.5 million funding recommendations for the OIT in the Capital Improvement Plan for FY 2012.

Budget Item	Adj. Approp. FY 2011	Recomm. FY 2012	Dollar Change	Percent Change	Budget Page
General Fund, Direct State Services: Special Purpose: Information Security	**$0**	**$2,000**	**$2,000**	**—**	**D-385**

The Administration recommends a new $2.0 million appropriation in FY 2012 to an "Information Security" initiative. According to the Office of Management and Budget, the initiative would finance the procurement of new equipment and software that would help improve the State's information and data security. The New Jersey Commission on Capital Budgeting and Planning did not include this initiative among its $5.5 million funding recommendations for the OIT in the Capital Improvement Plan for FY 2012.

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

Budget Item	Adj. Approp. FY 2011	Recomm. FY 2012	Dollar Change	Percent Change	Budget Page
Federal Funds, Office of Information Technology	**$39,638**	**$0**	**($39,638)**	**(100.0%)**	**D-385**

This budget line represents a one-time $39.6 million matching fund award from the federal State Broadband Data and Development Program for "The State of New Jersey Broadband Network" project that the OIT accepted in September 2010. The OIT is to use the federal moneys, as well as the State's $11.6 million matching contribution, to deploy 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 will enable 167 local, county, and State law enforcement agencies and 224 fire departments to use the network. The network will allow 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 is intended to serve as a demonstration project for the national implementation of 700 MHz interoperable public safety wireless broadband networks.

Funds for the broadband network were provided through the American Recovery and Reinvestment Act of 2009. The act allocated $4.7 billion to the National Telecommunications and Information Administration (NTIA) in the United States Department of Commerce to support the deployment of broadband infrastructure, enhance and expand public computer centers, encourage the sustainable adoption of broadband service, and develop and maintain a nationwide public map of broadband service capability and availability. The funds are awarded to the states through NTIA's State Broadband Data and Development Program.

STATE SUBSIDIES AND FINANCIAL AID

Budget Item	Adj. Approp. FY 2011	Recomm. FY 2012	Dollar Change	Percent Change	Budget Page
Property Tax Relief Fund, Grants-in-Aid: Homestead Benefit Program (PTRF)	**$268,200**	**$458,000**	**$189,800**	**70.8%**	**D-388**

The recommended $189.8 million funding increase is slated to pay for a doubling in FY 2012 of homestead credits beneficiaries received in FY 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. The OLS notes, however, that the Governor's FY 2012 Budget reflects $32.3 million in the program's adjusted FY 2011 appropriation that has been placed in reserve in anticipation of a year-end lapse to the General Fund. Accordingly, the program's recommended expenditure increase would actually be $222.1 million, or 94.2 percent.

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

Budget Item	Adj. Approp. FY 2011	Recomm. FY 2012	Dollar Change	Percent Change	Budget Page

In all, the Executive estimates that 938,500 homeowners would collect an average $476 benefit in FY 2012, after collecting an average $238 credit in FY 2011. Table 2 on page 54 indicates the benefit amounts individuals ought to receive under statutory provisions, the amounts they actually received in FY 2011, and the amounts they would receive in FY 2012 according to proposed language in the Governor's FY 2012 Budget. The OLS notes that while the Governor's Budget Message tied the doubling of homestead benefits to the adoption of the Governor's proposed health benefits reforms for retired public school teachers as well as active and retired employees of the State and its public universities, the Governor's FY 2012 Budget does not include such a linkage. Proposed FY 2012 budget language, however, is ambiguous as to the program's payment schedule, as it grants the Division of Taxation discretion in determining the number of installments in which benefits would be paid as well as their timing. In FY 2011, benefits are being paid in one installment in May of 2011.

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 2012 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 2012 Budget as it Pertains to Senior Homeowners: The proposed FY 2012 language maintains the program changes implemented in FY 2011 for homeowners who are blind, disabled or 65 years of age or older, but doubles the benefit. Specifically, the Governor recommends: a) eliminating homestead benefits for homeowners with incomes above $150,000; b) increasing homestead benefits from 2.5 percent in FY 2011 (but reducing them from a statutory 15.0 percent) to 5.0 percent of property taxes paid up to $10,000 for homeowners with incomes between $100,000 and $150,000; c) increasing homestead benefits from 5.0 percent in FY 2011 (but reducing them from a statutory 20.0 percent) to 10.0 percent of property taxes paid up to $10,000 for homeowners with incomes not exceeding $100,000; 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 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 2010 property taxes, as the basis for calculating homestead benefits.

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

Budget Item	Adj. Approp. FY 2011	Recomm. FY 2012	Dollar Change	Percent Change	Budget Page

Governor's FY 2012 Budget as it Pertains to Non-Senior Homeowners: The proposed FY 2012 language maintains the program changes implemented in FY 2011 for all other homeowners, but doubles the benefit. Specifically, the Governor recommends: a) eliminating homestead benefits for homeowners with incomes above $75,000; b) increasing homestead benefits from 3.335 percent in FY 2011 (but reducing them from a statutory 20.0 percent) to 6.67 percent of property taxes paid up to $10,000 for homeowners with incomes between $50,000 and $75,000; c) increasing homestead benefits from 5.0 percent in FY 2011 (but lowering them from a statutory 20.0 percent) to 10.0 percent of property taxes paid up to $10,000 for homeowners with incomes not exceeding $50,000; and d) maintaining 2006 property taxes, as opposed to tax year 2010 property taxes, as the basis for calculating homestead benefits.

Governor's FY 2012 Budget as it Pertains to Tenants: The Governor proposes continuing the elimination of the homestead property tax rebate program for tenants. Statutory tenant rebates in FY 2012 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)	**$165,600**	**$140,400**	**($25,200)**	**(15.2%)**	**D-388**

For FY 2012, the Governor recommends maintaining the FY 2011 restrictions placed on 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 once more be closed to new applicants and payments would remain capped at FY 2010 benefit amounts. As a result, a $25.2 million reduction in program expenses over the adjusted FY 2011 appropriation would be realized because no new entrants would replace an estimated 22,300 attriting beneficiaries. Overall, the Executive forecasts a $1,088 average FY 2012 payment to 129,000 participants. In FY 2011, some 151,300 participant received an average $1,082 payment. The OLS notes, however, that the Governor's FY 2012 Budget does not reflect $1.8 million in the program's adjusted FY 2011 appropriation that has been placed in reserve in anticipation of a year-end lapse to the General Fund. Consequently, the decline in the recommended FY 2012 appropriation would be $23.4 million, or 14.3 percent.

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 2008 (as opposed to tax year 2010 under statutory provisions) and the amount paid in the base year. Qualified homeowners in FY 2012 would have to be at least 65 years of age or disabled or both. Because qualified homeowners

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

Budget Item	Adj. Approp. FY 2011	Recomm. FY 2012	Dollar Change	Percent Change	Budget Page

must have participated in the program in FY 2011, they would have to have a tax year 2007 income not exceeding $60,000 and a tax year 2008 and 2009 income not exceeding $70,000 (as opposed to a tax year 2009 and 2010 income 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.

General Fund, State Aid: South Jersey Port Corporation Debt Service Reserve Fund	**$8,500**	**$20,400**	**$11,900**	**140.0%**	**D-389**

Organized "in but not of" the Department of the Treasury, the South Jersey Port Corporation (SJPC) manages and operates the ports of Camden and Salem and is currently building a new marine terminal in Paulsboro. The Governor recommends a $25.05 million appropriation to the corporation in FY 2012: an increase of $11.9 million to $20.4 million in this budget line to support a portion of the corporation's debt service obligations and an unchanged $4.65 million for payments in lieu of property taxes (PILOT) to counties and municipalities in which the SJPC operates facilities. Moreover, the Governor also proposes retaining language in the FY 2012 Appropriations Act that would authorize the Office of Management and Budget to allocate additional amounts to the SJPC for PILOT and debt service payments during the course of the fiscal year and without additional legislative approval.

The recommended $11.9 million increase in the FY 2012 appropriation to the South Jersey Port Corporation Debt Service Reserve Fund is primarily the result of the issuance of the South Jersey Port Corporation $157,880,000 Marine Terminal Revenue Bonds, Series 2009 P. Of the required $13.3 million FY 2012 debt service payments on these bonds, the federal government is expected to pick up $3.2 million, as Build America Bonds fund a portion of the capital need, which entitles the SJPC to a federal cash subsidy equal to 35 percent of the interest payable on Build America Bonds. The State would assume the remaining $10.1 million. The additional recommended $1.8 million increase in the FY 2012 appropriation reflects an intended replenishment of the corporation's operating reserve balance. In all, at the end of December 2011, the SJPC will have $574.7 million in outstanding debt service payments on all of its bonds through final maturity in 2040.

The SJPC issued the $157,880,000 Marine Terminal Revenue Bonds, Series 2009 P, to finance the first phase of the development of the Paulsboro Marine Terminal located in Paulsboro, Gloucester County in accordance with a redevelopment agreement between the SJPC and the Borough of Paulsboro. The first phase of the development consists of a replacement for the loss of function of two berths and other related infrastructure and equipment resulting from a pier collapse at the corporation's Beckett Street Terminal. Phase II of the project would add another

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

Budget Item	Adj. Approp. FY 2011	Recomm. FY 2012	Dollar Change	Percent Change	Budget Page

two piers adjacent to the replacement berths. In all, the corporation has authorized $207.6 million in bonds for phase I of the project, of which $176.7 million has been issued and $30.8 million remains unissued.

Budget Item	Adj. Approp. FY 2011	Recomm. FY 2012	Dollar Change	Percent Change	Budget Page
General Fund, State Aid: Highlands Protection Fund — Incentive Planning Aid	**$2,650**	**$432**	**($2,218)**	**(83.7%)**	**D-389**
Highlands Protection Fund — Watershed Moratorium Offset Aid	**$0**	**$2,218**	**$2,218**	**—**	**D-389**
TOTAL	**$2,650**	**$2,650**	**$0**	**—**	

The Administration proposes shifting the funding source for the unchanged $2.2 million appropriation to the Watershed Moratorium Offset Aid program. The Legislature added language to the FY 2011 Appropriations Act that transferred $2.2 million out of the Highlands Protection Fund – Incentive Planning Aid account to the program. In lieu of the shift the Administration recommends a direct $2.2 million appropriation for FY 2012. Consequently, the FY 2012 appropriation to the Highlands Protection Fund – Incentive Planning Aid account is also recommended to decrease by an equivalent amount.

Through FY 2014, the Highlands Water Protection and Planning Act, P.L.2004, c.120, dedicates $12 million in annual State realty transfer fee collections to the Highlands Protection Fund. The dedicated amount is distributed among four aid programs to municipalities in the Highlands planning area: a) the Highlands Municipal Property Tax Stabilization Fund (N.J.S.A.54:1-85 b.); b) the Incentive Planning Aid program (N.J.S.A.13:20-13) that provides grants to municipalities in the Highlands planning area that want to accept growth; c) the Watershed Moratorium Offset Aid program (N.J.S.A.58:29-8) that provides grants to municipalities in the Highlands planning area to help offset the loss of property tax revenues due to the imposition of a moratorium of the sale of certain watershed lands located within those municipalities; and d) the Regional Master Plan Compliance Aid program that provides grants to municipalities in the Highlands preservation area so that they can bring their plans into compliance with the Highlands Regional Master Plan (N.J.S.A.13:20-18). A statutory poison pill provision is intended to protect the annual $12 million appropriation to these programs by prohibiting the State from collecting the State portion of the basic fee and the additional fee under the realty transfer fee statute if the $12 million is not allocated to these programs. Nevertheless, language in the FY 2011 Appropriations Act suspended the statutory

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

Budget Item	Adj. Approp. FY 2011	Recomm. FY 2012	Dollar Change	Percent Change	Budget Page

poison pill provision so that only $4.4 million was appropriated for Highlands Protection Fund programs. The Governor's FY 2012 Budget recommends maintaining the suspending language (sixth language provision on page F-8) and appropriating an unchanged $4.4 million to the programs: $2.2 million to the Watershed Moratorium Offset Aid program, $1.8 million to the Regional Master Plan Compliance Aid program, and $400,000 to the Incentive Planning Aid program.

Budget Item	Adj. Approp. FY 2011	Recomm. FY 2012	Dollar Change	Percent Change	Budget Page
General Fund, State Aid: Solid Waste Management — County Environmental Investment Debt Service Aid	**$16,200**	**$8,850**	**($7,350)**	**(45.4%)**	**D-389**

Several county solid waste authorities that have received disbursements from this budget account have improved their finances by retiring or restructuring their debt (Camden, Mercer, and Hudson solid waste authorities) or imposing limited solid waste flow controls (Atlantic and Essex counties). Accordingly, less State Aid is needed to meet debt service obligations in FY 2012, and only counties with stranded solid waste debt that cannot be paid through any other resources will receive funding under this program.

The Solid Waste Management – County Environmental Investment Debt Service Aid program assists counties and county utility authorities in meeting debt service obligations for solid waste disposal investments effectuated up to 1997 if the debt is at risk of default without State assistance. A recurring language provision in annual appropriations acts provides the program's legal authority. As of March 3, 2011, six counties received $12.7 million in aid from this account in FY 2011: Sussex ($3.0 million), Burlington ($2.5 million), Hudson ($2.3 million), Camden ($2.1 million), Atlantic ($1.7 million), and Mercer ($1.2 million). The OLS notes that the Governor's FY 2012 Budget does not reflect $2.7 million in the program's adjusted FY 2011 appropriation that has been placed in reserve in anticipation of a year-end lapse to the General Fund. Consequently, the decline in the recommended FY 2012 appropriation would be $4.7 million, or 34.6 percent.

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

Budget Item	Adj. Approp. FY 2011	Recomm. FY 2012	Dollar Change	Percent Change	Budget Page
Property Tax Relief Fund, State Aid: State Reimbursement for Veterans' Property Tax Deductions	**$65,480**	**$63,600**	**($1,880)**	**(2.9%)**	**D-389**

The Governor proposes reducing the FY 2012 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 2011, some 257,366 veterans did, and the department expects the number to decrease further to 249,000 in FY 2012.

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 2011	Recomm. FY 2012	Dollar Change	Percent Change	Budget Page
Property Tax Relief Fund, State Aid: Reimbursement to Municipalities – Senior and Disabled Citizens' Tax Deductions	**$18,011**	**$17,300**	**($711)**	**(3.9%)**	**D-389**

The Governor proposes reducing the FY 2012 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 continue. In FY 1999, 121,000 claimants received deductions. In FY 2011, some 69,294 senior and disabled citizens did, and the department expects the number to decrease further to 67,800 in FY 2012.

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.

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

Budget Item	Adj. Approp. FY 2011	Recomm. FY 2012	Dollar Change	Percent Change	Budget Page
General Fund, State Aid: State Contribution to Consolidated Police and Firemen's Pension Fund	**$174**	**$0**	**($174)**	**(100.0%)**	**D-389**

The State would not make an employer contribution to public employee retirement systems under the Governor's FY 2012 Budget. The OLS notes that the Governor's Budget Message tied a proposed $506.0 million supplemental FY 2011 appropriation to the public employee retirement funds to the enactment of the Governor's proposed pension reforms and indicated that the $506.0 million would constitute an "early payment" of the minimum contribution the State was required to make in FY 2012 pursuant to section 38 of P.L.2010, c.1 (N.J.S.A.43:3C-14). The Governor's FY 2012 Budget, however, does not include such a linkage between the State's "early payment" and the enactment of reform legislation. During the Department of the Treasury's revenue and budget hearing before the Senate Budget and Appropriations Committee on April 4, 2011, the State Treasurer clarified that the Administration intended to meet the statutory obligation in FY 2012 even if the Governor's pension reform plan is not enacted. Irrespective of the fiscal year of payment, the State would not contribute the amount actuaries determined to be necessary to fully fund the pension system and would thus defer the ensuing liability into the future.

The Consolidated Police and Firemen's Pension Fund (CPFPF) is a closed system without contributing members that provides pension coverage to municipal police officers and firemen who were appointed prior to July 1, 1944 and their spouses. Participating municipalities pay two-thirds of the fund's liabilities, while the State covers the remaining third. As of July 1, 2010, the fund had 396 beneficiaries who had received $2.7 million in total pension benefits in FY 2010 and its total assets at actuarial value were $10.6 million, according to *The Consolidated Police and Firemen's Pension Fund of New Jersey Annual Report of the Actuary Prepared as of July 1, 2010* for the New Jersey Division of Pensions and Benefits. A year prior, the fund had 446 beneficiaries who received $3.1 million in total pension benefits, and its total assets at actuarial value were $13.9 million. As of June 30, 2010, the assets in the CPFPF covered 89.9 percent of the fund's actuarily determined liabilities. The unfunded accrued liability was valued at $1.2 million, which would be deferred into the future under the Governor's spending plan.

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

Budget Item	Adj. Approp. FY 2011	Recomm. FY 2012	Dollar Change	Percent Change	Budget Page
General Fund, State Aid: Debt Service on Pension Obligation Bonds	**$13,031**	**$0**	**($13,031)**	**(100.0%)**	**D-389**
Property Tax Relief Fund, State Aid: Debt Service on Pension Obligation Bonds (PTRF)	**$0**	**$14,145**	**$14,145**	**—**	**D-389**
TOTAL	**$13,031**	**$14,145**	**$1,114**	**8.5%**	

The recommended increase reflects changing contractual debt service payments for the *State Pension Funding Bonds* in FY 2012. The Governor also recommends shifting the funding source for the appropriation in FY 2012 from the General Fund to the Property Tax Relief Fund (PTRF), as the PTRF is expected to have sufficient resources in FY 2012 to cover required debt service payments on pension obligations bonds. This shift reverses an FY 2010 shift in the opposite direction in FY 2010. The above budget lines capture only that portion of total debt service payments that is allocated to the State as 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.

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 *2010 State of New Jersey Debt Report,* the State had $2.53 billion in outstanding debt service payments at the end of FY 2010 through the bonds' maturity in 2029. In FY 2012, the Governor recommends $270.5 million in total pension bond debt service payments, which represents an increase of $21.3 million, or 8.5 percent, over the $249.2 million FY 2011 appropriation. The outlay is allocated as follows: (1) $143.4 million in the Department of Education (page D-97), (2) $112.8 million in Interdepartmental Accounts (pages D-420 and D-421), and (3) $14.3 million in the Department of the Treasury (pages D-359 and D-389).

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

Budget Item	Adj. Approp. FY 2011	Recomm. FY 2012	Dollar Change	Percent Change	Budget Page
General Fund, State Aid: Police and Firemen's Retirement System	$14,569	$0	($14,569)	(100.0%)	D-389
Police and Firemen's Retirement System (P.L.1979, c.109)	$7,954	$0	($7,954)	(100.0%)	D-389
TOTAL	$22,523	$0	($22,523)	(100.0%)	

The State would not make an employer contribution to public employee retirement systems under the Governor's FY 2012 Budget. This decision would also apply to the above budget lines, which represent the State's share of the employer contributions to the Police and Firemen's Retirement System (PFRS) for full-time county and municipal police officers and firefighters. The OLS notes that the Governor's Budget Message tied a proposed $506.0 million supplemental FY 2011 appropriation to the public employee retirement funds to the enactment of the Governor's proposed pension reforms and indicated that the $506.0 million would constitute an "early payment" of the minimum contribution the State was required to make in FY 2012 pursuant to section 38 of P.L.2010, c.1 (N.J.S.A.43:3C-14). The Governor's FY 2012 Budget, however, does not include such a linkage between the "early payment" and the enactment of reform legislation. During the Department of the Treasury's revenue and budget hearing before the Senate Budget and Appropriations Committee on April 4, 2011, the State Treasurer clarified that the Administration intended to meet the statutory obligation in FY 2012 even if the Governor's reform plan is not enacted.

Irrespective of the fiscal year of payment, the State would not contribute the amount actuaries determined to be necessary to fully fund the pension system and would thus defer the ensuing liability into the future. Specifically, the actuaries certified that $412.9 million was required to fully fund both the normal FY 2012 contribution and the accrued State liability for PFRS, according to page 33 of *The Police and Firemen's Retirement System of New Jersey Annual Report of the Actuary Prepared as of July 1, 2010* for the New Jersey Division of Pensions and Benefits. The anticipated FY 2011 State PFRS contribution, in contrast, is $53.4 million allocated among three budget sections: (1) Direct State Services under Interdepartmental Accounts, $28.7 million (page D-419); (2) Grants-in-Aid for State colleges' and universities' campus police, also under Interdepartmental Accounts, $2.1 million (page D-420); and (3) State Aid on behalf of local governmental entities in the Department of the Treasury, $22.5 million (page D-389).

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

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

Budget Item	Adj. Approp. FY 2011	Recomm. FY 2012	Dollar Change	Percent Change	Budget Page

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 38,673 pensioners in FY 2012, as displayed in the evaluation data in the Governor's FY 2012 Budget (page D-418).

PTRF, State Aid: Police and Firemen's Retirement System – Post Retirement Medical	**$33,652**	**$38,603**	**$4,951**	**14.7%**	**D-389**

The recommended FY 2012 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 2012 appropriation is due to a projected 1.6 percent increase in the number of retirees as well as higher medical and prescription drug premiums for retirees. Both premiums are assumed to increase by 11 percent for early retirees and by 10 percent for Medicare retirees. The previous "significant change" (above) summarizes the PFRS.

MANAGEMENT AND ADMINISTRATION

DIVISION OF PUBLIC CONTRACTS EQUAL EMPLOYMENT OPPORTUNITY COMPLIANCE

General Fund, Direct State Services: Contract Compliance and Equal Employment Opportunity in Public Contracts	**$1,070**	**$757**	**($313)**	**(29.3%)**	**D-393**

An intended reorganization motivates the Administration's recommendation to reduce the Division of Public Contracts Equal Employment Opportunity Compliance's FY 2012 appropriation by $313,000. The Office of Management and Budget states that the Department of Treasury is reassigning the statutorily required functions of the division's Public Contract Compliance Unit to other State government entities. Six of the division's full-time positions would therefore be eliminated for a $293,000 reduction in the division's salary account from $859,000 to $566,000. An additional $20,000 would be saved in the division's Services Other than Personal account, which pays for services provided by outside vendors.

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

Budget Item	Adj. Approp. FY 2011	Recomm. FY 2012	Dollar Change	Percent Change	Budget Page

The Division of Public Contracts Equal Employment Opportunity Compliance engages in activities intended to ensure that firms contracting with a public agency in the State of New Jersey provide equal opportunities in employment in accordance with P.L.1975, c.127 (N.J.S.A.10:5-31 et seq.). To that end, the division monitors the contract awarding procedures of public agencies, establishes minority and women employment goals for procurement and construction contractors, and monitors and enforces contractors' compliance with these goals.

DIVISION OF ADMINISTRATION

Budget Item	Adj. Approp. FY 2011	Recomm. FY 2012	Dollar Change	Percent Change	Budget Page
General Fund, Direct State Services: Special Purpose: Public Finance Activities	**$2,500**	**$0**	**($2,500)**	**(100.0%)**	**D-393**

This account denotes the costs of defending State interests against tobacco manufacturers challenging the amount of payments they have to make to the State under the multi-state Tobacco Master Settlement Agreement (MSA). Even though the budget indicates no anticipated FY 2012 expenses for this purpose, it does not constitute the Administration's expectation as funding tends to be provided through mid-year supplemental appropriations. In fact, for FY 2012, the Administration is actually requesting a $1.0 million increase from $2.5 million to $3.5 million in the supplemental spending authority pursuant to proposed budget language (page F-8). The Attorney General anticipates needing the sum primarily in light of 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 is 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 has 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 2012 Budget thus anticipates an interfund transfer of $54.6 million from the Tobacco Settlement Fund to the General Fund in FY 2012.

The "2003 NPM Adjustment Dispute" refers to cigarette manufacturers participating in the MSA seeking to reduce their payment obligations for years 2003 through 2008 by $5.3 billion 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

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

Budget Item	Adj. Approp. FY 2011	Recomm. FY 2012	Dollar Change	Percent Change	Budget Page

manufacturers from undercutting participating manufacturers on prices. The first two conditions for a downward NPM adjustment have been met. Participating manufacturers allege that the third condition has also been met, as participating states have allegedly failed to diligently enforce relevant statutes. States refute the allegation. The arbitration panel held its first in-person hearing in Chicago, Illinois on April 12, 2011.

All Other Funds: Administration and Support Services	**$38,702**	**$40,953**	**$2,251**	**5.8%**	**D-393**

This budget line aggregates five off-budget funds administered by the Division of Administration: (1) $23.6 million received from the Port Authority of New York and New Jersey pursuant to the regional development agreement dated January 1, 1990 and transferred to the Economic Recovery Fund in the New Jersey Economic Development Authority to make debt service payments on bonds issued to finance economic development projects pursuant to P.L.1992, c.16 (N.J.S.A.34-1B-7.10 et seq.); (2) $15.4 million for the Governor's Council on Alcoholism and Drug Abuse—which coordinates New Jersey's alcoholism, drug, and tobacco treatment, prevention, research, evaluation, education, and public awareness efforts with receipts from fines levied on convicted drug users and sellers and deposited into the off-budget Drug Enforcement and Demand Reduction Fund pursuant to P.L.1989, c.51 (N.J.S.A.26:2BB-1 et seq.); (3) $950,000 in receipts from public finance activities; (4) $700,000 in Drug Abuse Education Fund proceeds from taxpayer donations on gross income tax returns for distribution to non-governmental entities providing Statewide drug abuse education programs pursuant to P.L.1999, c.12 (N.J.S.A.54A:9-25.12 et seq.), and for anti-steroid programs pursuant to Order #72 of 2005 and proposed FY 2012 language (page D-394); and (5) $300,000 in fee collections from businesses registering as small business enterprises so as to be eligible for State small business contracts as well as set-aside programs, and so as to be listed in the New Jersey Selective Assistance Vendor Information (NJSAVI) database that matches buyers and vendors for private contracting opportunities and identifies businesses eligible for State programs targeting small and minority- and women-owned businesses.

The budget line is anticipated to grow primarily as a function of increasing payments by the Port Authority of New York and New Jersey that would be used to make required debt service payments on obligations backed by Economic Recovery Fund balances. Fund proceeds are projected to increase by $2.0 million, or 9.6 percent, from $21.6 million in FY 2011 to $23.6 million in FY 2012. The remaining $250,000 increase in this budget line is estimated to accrue due to higher receipts from public finance activities.

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

Budget Item	Adj. Approp. FY 2011	Recomm. FY 2012	Dollar Change	Percent Change	Budget Page
General Fund, Debt Service	**$161,680**	**$270,115**	**$108,435**	**67.1%**	**D-393, E-8, E-9**

Under the terms of current bond covenants, the State would have to make $276.9 million in general obligation bond debt service payments in FY 2012, of which $270.1 million would be funded in the Department of the Treasury budget and $6.8 million in the Department of Environmental Protection budget. The recommended FY 2012 appropriation reflects a $52.2 million, or 23.2 percent, increase over FY 2011. A 2010 restructuring of general obligation bond and appropriations-backed debt reduced the FY 2011 general obligation bond debt service appropriation by $176.0 million and also lowered FY 2012 payment obligations. As of June 30, 2010, the State had $32.8 billion in outstanding debt obligations, of which $30.2 billion was appropriations-backed debt and $2.6 billion general obligation bond debt. In addition, some $893.0 million of authorized general obligation borrowing authority has not been issued to date.

STATE CENTRAL MOTOR POOL

Budget Item	Adj. Approp. FY 2011	Recomm. FY 2012	Dollar Change	Percent Change	Budget Page
Revolving Fund, State Central Motor Pool: Automotive Services	**$26,247**	**$22,247**	**($4,000)**	**(15.2%)**	**G-5**

The Governor's FY 2012 Budget proposes reducing State Central Motor Pool (CMP) expenses by $4.0 million. According to the FY 2012 Budget Summary, the State would realize the savings by privatizing the ownership and maintenance of all or a portion of the State passenger vehicle fleet. Responding to Question #4 of the "Budget Questions for all Departments and Units" prepared by the OLS in March 2011, the Treasury stated that it had initiated the development of a Request for Proposal to see if the State could realize significant savings from the envisioned outsourcing.

The Bureau of Transportation Services in the Division of Administration runs the 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. The State's estimated FY 2012 vehicle count is 14,881, unchanged from FY 2011. This total includes 7,945 vehicles on agency assignment whose maintenance expenses are accounted for separately in agencies' budgets. The CMP expects to oversee the remaining 6,936 vehicles at an estimated FY 2012 cost of $22.2 million ($4.0 million, or 15.2 percent, less than revised FY 2011 expenditures).

Significant Language Changes

Business Employment Incentive Program (BEIP) Carryforward

Deletion

2011 Handbook: p. B-179
2012 Budget: —

~~The unexpended balance at the end of the preceding fiscal year in the Business Employment Incentive Program, EDA, account is appropriated for the same purpose, subject to the approval of the Director of the Division of Budget and Accounting.~~

Explanation

This language provision granted carryforward authority for the Business Employment Incentive Program (BEIP) account in the New Jersey Economic Development Authority (EDA) 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. The Administration recommends not renewing the language, as it expects to expend in FY 2012 the full $175.0 million it proposes to appropriate to BEIP in FY 2012, thereby obviating the need for carryforward language. At the end of FY 2010, the account also had no unexpended balance.

BEIP was created pursuant to C.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 percent and 80 percent of the total amount of State income taxes withheld by the grantee from wages of new employees. According to the Fiscal Year 2009 Annual Report for BEIP, the EDA signed 410 BEIP grant agreements with a cumulative grant amount of $1.3 billion (of which $789 million was disbursed) from the program's inception in 1996 through September 2009.

New Jersey Small Business Development Centers

Shift

2011 Handbook: p. B-178
2012 Budget: p. D-332

~~Of the amount hereinabove appropriated to the Division of Business Assistance, Marketing, and International Trade, EDA, an amount up to $250,000 shall be used for New Jersey Small Business Development Centers, pursuant to a spending plan approved by the New Jersey Economic Development Authority.~~

EXPLANATION: FY 2011 language not recommended for FY 2012 denoted by strikethrough.
Recommended FY 2012 language that did not appear in FY 2011 denoted by underlining.

Significant Language Changes (Cont'd)

Explanation

The proposed deletion of the language in Treasury does not reflect a policy or appropriation change but merely a reorganization of State government. The language provided $250,000 to the New Jersey Small Business Development Centers (NJSBDC) network in FY 2011 out of the $2.4 million appropriation to the Division of Business Assistance, Marketing, and International Trade in the New Jersey Economic Development Authority. In FY 2011, the division was reallocated to the newly established Business Action Center in the Department of State, and the Governor's FY 2012 Budget includes in that department's budget language that is substantively identical to the above language (page D-332).

A federal-state partnership with institutions of higher education, the nonprofit NJSBDC network provides counseling and training for small business owners to help them finance, market, and manage their companies.

Board of Public Utilities Supplemental Spending Authority

Deletion

2011 Handbook: p. B-181
2012 Budget: —

~~In addition to the sum hereinabove appropriated for the Board of Public Utilities, such other sums as the Director of the Division of Budget and Accounting shall determine are appropriated on behalf of the Board of Public Utilities under P.L.1968, c.173 (C.48:2--59 et seq.) and P.L.1972, c.186 (C.48:5A--32 et seq.), or other applicable statutes with respect to assessment of public utilities or the cable television industry.~~

~~In addition to the amount hereinabove appropriated for administration of the Board of Public Utilities, there are appropriated such sums as may be required for operation of the board and assessed to the public utilities or the cable television industry, subject to the approval of the Director of the Division of Budget and Accounting.~~

Explanation

These two language provisions authorized the Office of Management and Budget (OMB) to appropriate, during the course of the fiscal year and without additional legislative approval, sums to the Board of Public Utilities (BPU) for the regulation and supervision of public utility and cable television companies that were in excess of the amounts appropriated in the annual appropriations act. Consistent with statutory law and established practice, the language required that any supplemental appropriation for the regulation and supervision of public utility and cable television companies be ultimately charged back to industry.

EXPLANATION: FY 2011 language not recommended for FY 2012 denoted by strikethrough.
Recommended FY 2012 language that did not appear in FY 2011 denoted by underlining.

Significant Language Changes (Cont'd)

The language provisions are recommended to be eliminated because the OMB determined that the BPU did not need supplemental spending authority. Two considerations undergird the determination. First, the authority has not been exercised in the recent past, and second, the BPU retains the authority to carry forward into the next fiscal year previously appropriated amounts that are unexpended at the end of a fiscal year (page D-366).

Elimination of Retail Margin Fund

Revision and Deletion

2011 Handbook: p. B-182
2012 Budget: p. D-366

~~Notwithstanding the provisions of P.L.2009, c.34 or any law to the contrary, $13,900,000 from receipts attributable to the Retail Margin Fund in fiscal 2011 shall be deposited in the General Fund as State revenue.~~

~~Notwithstanding the provisions of P.L.2009, c.34 or any other law or regulation to the contrary, there is hereby appropriated from the Retail Margin Fund established pursuant to section 9 of c.23 (c.48:3--57), subject to the approval of the Director of the Division of Budget and Accounting, an amount not to exceed $1,500,000 to the Board of Public Utilities to be used for the following purposes: (i) to fund the administrative costs of the Board of Public Utilities in administering the program established by P.L.2009, c.34 which administrative costs may include the costs of consultants engaged by the Board of Public Utilities to provide technical and other assistance for the program; and (ii) to fund the administrative costs of the New Jersey Economic Development Authority, including the costs of consultants engaged by the authority, to enable the authority to assist the Board of Public Utilities in administering the program pursuant to a memorandum of understanding to be entered into by the Board of Public Utilities and the authority.~~

Notwithstanding the provisions of any law or regulation to the contrary, the investment earnings derived from the funds deposited in the Clean Energy Fund~~,~~ <u>and</u> Universal Services Trust Fund ~~and Retail Margin Fund~~ shall accrue to the funds and are available to pay the costs of the various programs of the New Jersey Board of Public Utilities Clean Energy Program~~,~~ <u>and</u> Universal Services Trust Fund ~~and Retail Margin Fund~~.

<u>Explanation</u>

On October 5, 2010, the BPU issued a press release announcing the abolition of the Retail Margin Fund (RMF) as of June 1, 2011. The first two language provisions and the mention of the RMF in the third language provision therefore no longer serve a functional purpose in FY 2012.

EXPLANATION: FY 2011 language not recommended for FY 2012 denoted by strikethrough.
Recommended FY 2012 language that did not appear in FY 2011 denoted by underlining.

Significant Language Changes (Cont'd)

The first language provision diverted $13.9 million in anticipated FY 2011 RMF collections into the State General Fund. The second language provision authorized the use of $1.5 million in RMF balances to defray the administrative costs of the BPU and the Economic Development Authority in operating a grant program designed to support the development of Combined Heat and Power (CHP) facilities. The third language provision mandated that interest earnings on unspent RMF balances be credited to the RMF.

The RMF is a dedicated, off-budget fund in the State General Fund administered by the BPU. RMF balances accrue from the 0.5¢ per kilowatt-hour retail margin that electric distribution companies have been charging certain non-residential customers remaining on Basic Generation Service since August 2003 under sections 3 and 9 of P.L.1999, c.23 (C.48:3-51 and 48:3-57). For several years RMF balances have 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 CHP 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. In FY 2010 and FY 2011, the entirety of the RMF balances was diverted into the State General Fund as part of the Governor's budget solutions designed to align State spending with anticipated revenue collections. In FY 2011, the BPU then used its statutory authority to end the retail margin charge and fund effective on June 1, 2011. Instead of funding the development of CHP facilities through the RMF, the Economic Development Authority is now awarding $18 million in grants through the Clean Energy Solutions ARRA CHP Program. Federal State Energy Program funds received through the American Recovery and Reinvestment Act (ARRA) of 2009 finance the competitive grant program.

Clean Energy Program Administrative Expenses

Revision

2011 Handbook: p. B-182
2012 Budget: p. D-366

Notwithstanding the provisions of paragraph (3) of subsection a. of section 12 of the "Electric Discount and Energy Competition Act," P.L.1999, c.23 (C.48:3--60) and any other laws to the contrary, receipts from the New Jersey Clean Energy Trust Fund are appropriated for the actual administrative salary and operating costs~~, not to exceed $1,300,000,~~ for the Office of Clean Energy as requested by the President of the Board of Public Utilities and approved by the Director of the Division of Budget and Accounting.

EXPLANATION: FY 2011 language not recommended for FY 2012 denoted by strikethrough.
Recommended FY 2012 language that did not appear in FY 2011 denoted by underlining.

Significant Language Changes (Cont'd)

Explanation

So as to accommodate any changes the BPU may implement in the administration of the Clean Energy Program, the Administration proposes eliminating the $1.3 million cap on annual administrative expenditures of the Office of Clean Energy in the BPU. As of the preparation of the Governor's FY 2012 Budget, however, the Administration expects the program's administrative expenses, which are charged against the off-budget New Jersey Clean Energy Trust Fund, to remain at $1.3 million in FY 2012.

The BPU oversees the Clean Energy Program, created as part of P.L.1999, c.23 (C.48:3-49 et seq.) and operative since April 2001, through which the State seeks to promote increased energy efficiency and the use of renewable sources of energy including solar, wind, geothermal, and sustainable biomass. The program's financial incentives support residents' purchases of high efficiency heating and cooling systems, commercial energy efficiency projects, and installations of solar electric or other renewable energy systems, among other initiatives. New Jersey ratepayers finance the program via the societal benefits charge included in their electric and natural gas bills.

Transfer of Universal Service Fund Balances into General Fund

Revision	2011 Handbook: p. E-5 and p. B-182 2012 Budget: p. F-7 and p. D-366

Notwithstanding the provisions of any law or regulation to the contrary, there is appropriated from the Universal Service Fund ~~$77,552,000~~ <u>$72,652,000</u> for transfer to the General Fund as State revenue.

Of the amounts hereinabove appropriated, an amount not to exceed ~~$65,740,000~~ <u>$63,840,000</u> for Payments for the Lifeline Credits and the Tenants' Assistance Rebate Program are available to the Department of Health and Senior Services to fund the payments associated with the Lifeline Credits and Tenants' Assistance programs and shall be applied in accordance with a Memorandum of Understanding between the President of the Board of Public Utilities and the Commissioner of the Department of Health and Senior Services, subject to the approval of the Director of the Division of Budget and Accounting.

EXPLANATION: FY 2011 language not recommended for FY 2012 denoted by strikethrough.
Recommended FY 2012 language that did not appear in FY 2011 denoted by underlining.

Significant Language Changes (Cont'd)

Explanation

By means of the first recommended language provision, the Administration would transfer $72.7 million from the off-budget Universal Service Fund (USF) to the General Fund. Of the $72.7 million, $63.8 million would be used to pay for benefits under the Lifeline Credit and Tenants' Lifeline Assistance programs pursuant to the second proposed language provision. Of the remaining $8.9 million balance, $5.1 million would be transferred to the Department of Human Services through the continuation of existing language for disbursement of energy assistance benefits under the Temporary Assistance for Needy Family (TANF) and General Assistance programs (page D-366) and $1.9 million would be transferred to the Department of Health and Senior Services through the continuation of existing language to reimburse the department for its cost of administrating the Lifeline programs (page D-366). No specific spending purpose is assigned to the remaining $1.9 million. The recommended $4.9 million reduction over FY 2011 in the amount to be transferred in FY 2012 reflects the non-renewal of a one-time $4.9 million shift from the USF to the General Fund that the Legislature included in the FY 2011 Appropriations Act.

Reflecting lower cost projections, the second recommended language provision reduces the allocation for "Lifeline Credit Program" (N.J.S.A.48:2-29.15 et seq.) and "Tenants' Lifeline Assistance Program" (N.J.S.A.48:2-29.31 et seq.) benefits by $1.9 million over FY 2011 to $63.8 million in FY 2012. Under the programs some 306,075 low-income households would receive up to $225 in gas and electric utility credits in FY 2012.

Established pursuant to subsection b. of N.J.S.A.48:3-61 as part of the "Electric Discount and Energy Competition Act," the USF is an off-budget fund through which the State finances several energy assistance programs: the USF program proper, the "Fresh Start" credit program, the Lifeline credit program, the Tenants' Assistance Rebate Program, as well as energy assistance payments under TANF and General Assistance programs. New Jersey ratepayers replenish the USF via the societal benefits charge included in their electric and natural gas bills. The Governor's FY 2012 Budget anticipates $301.1 million in USF expenditures for FY 2012 (page H-56, available in the online version of the Governor's FY 2012 Budget only). Of this amount, the Governor proposes $221.2 million in direct fund expenditures as well as a transfer of $80.0 million to other funds, of which $72.7 million would go to the General Fund.

Significant Language Changes (Cont'd)

Medicaid and Pharmaceutical Assistance to the Aged and Disabled Recoveries

Deletion

2011 Handbook: p. B-182
2012 Budget: —

~~All funds recovered under P.L.1968, c.413 (C.30:4D–1 et seq.) and P.L.1975, c.194 (C.30:4D–20 et seq.), during the preceding fiscal year, are appropriated for payments to providers in the same program class from which the recovery originated.~~

This language has been included in the BPU budget since FY 2004, when the Lifeline Credit program and the Tenants' Assistance Rebate program were reallocated from the Department of Health and Senior Services to the BPU. The language stipulates that amounts of assistance correctly paid under the Medicaid and Pharmaceutical Assistance to the Aged and Disabled programs that the State recovers from the estate of a deceased recipient must be appropriated to the Medicaid and Pharmaceutical Assistance to the Aged and Disabled programs. The proposed deletion of the language, however, does not represent a policy change, as the language provision is proposed to continue in the FY 2012 appropriation for the Department of Health and Senior Services (page D-157).

Office of the State Comptroller Consolidation

Deletion

2011 Handbook: p. B-183 and B-184
2012 Budget: —

~~In addition to the amounts hereinabove appropriated, such sums as may be necessary are appropriated to fund the operations of the Office of the Inspector General, subject to the approval of the Director of the Division of Budget and Accounting.~~

~~The unexpended balance at the end of the preceding fiscal year in the Office of the Medicaid Inspector General account is appropriated, subject to the approval of the Director of the Division of Budget and Accounting.~~

~~To ensure the proper reallocation of funds, the Office of the Medicaid Inspector General may transfer appropriations to the Department of Human Services, subject to the approval of the Director of the Division of Budget and Accounting.~~

Explanation

The three language provisions became functionally obsolete with enactment of P.L.2010, c.33, which abolished the Office of the Inspector General and the Office of the Medicaid Inspector General and consolidated their functions in the Office of the State Comptroller.

EXPLANATION: FY 2011 language not recommended for FY 2012 denoted by strikethrough.
Recommended FY 2012 language that did not appear in FY 2011 denoted by underlining.

Significant Language Changes (Cont'd)

The first language provision authorized the mid-year appropriation of unspecified amounts to the Office of the Inspector General in addition to amounts appropriated in the annual appropriations act. Established under P.L.2005, c.119, the watchdog office was to identify waste, mismanagement, abuse, and fraud in government spending by means of a full-time program of investigation of recipients of State funds, including, but not limited, to State departments and agencies, independent authorities, county and municipal governments, and boards of education.

The second language provision granted carryforward authority for the Office of the Medicaid Inspector General (OMIG) account 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. The third language provision responded to the circumstances of the OMIG's creation in conferring on the Office of Management and Budget (OMB) authority to shift funds from the office to the Department of Human Services. When the OMIG began its operations in the course of FY 2009, it assumed the personnel and financial resources of the Division of Medical Assistance and Health Services in the Department of Human Services. The language enabled the OMB to return any funds to the Department of Human Services that might have been transferred to the OMIG in excess of actual funding needs. Created pursuant to P.L.2007, c.58, the OMIG was intended to prevent, detect, investigate, and reduce fraud, waste, and abuse in the State's Medicaid program.

Property Assessment Management System (PAMS)

Deletion

2011 Handbook: p. B-186
2012 Budget: —

~~The unexpended balance at the end of the preceding fiscal year in the Property Assessment Management System (PAMS) account is appropriated for the same purpose.~~

~~In addition to the amounts hereinabove appropriated for Taxation Services and Administration, upon the State Treasurer's approval to continue with the development of the Property Assessment Management System (PAMS), such additional sums as may be necessary are appropriated to the Property Assessment Management System (PAMS) account, subject to the approval of the Director of the Division of Budget and Accounting.~~

EXPLANATION: FY 2011 language not recommended for FY 2012 denoted by strikethrough.
Recommended FY 2012 language that did not appear in FY 2011 denoted by underlining.

Significant Language Changes (Cont'd)

Explanation

According to information submitted by the Department of the Treasury to the Office of Legislative Services, the department terminated the Property Assessment Management System (PAMS) project in October 2010. Consistent with that decision, the Governor proposes eliminating the two PAMS-related language provisions. The first language provision granted carryforward authority for the PAMS account 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. The second language provision granted Treasury the authority to expend additional resources on PAMS if the Administration should opt in favor of the system's continued implementation. The latter language was newly inserted in the FY 2011 Appropriations Act as a contingency, given that Treasury was still assessing the desirability of continuing the project at the time of the act's adoption.

Under development since it was initially funded in FY 2001, the web-based PAMS had as an objective to enhance property assessment and tax collection processes by allowing the Division of Taxation to aggregate and analyze local real property data that the State, county boards of taxation, and municipal assessors could use to generate tax lists, assessments, and various reports. The system was intended to be first implemented in three pilot counties (Camden, Hunterdon, and Salem) in the fourth quarter of calendar year 2007, yet it never became operational. In its January 2010 report to the Transition Team of Governor-Elect Christie, the Treasury Subcommittee called the development of PAMS "an example of a flawed outsourced project," and recommended the re-evaluation of the project as well as the cessation of its funding. The Administration heeded the advice. It suspended the PAMS contracts in January 2010, reviewed the project, and terminated it in October 2010. Accordingly, the Administration now intends to wind down the account by lapsing the remaining $958,000 account balance into the General Fund by the end of FY 2011, not providing a FY 2012 appropriation to the project, and eliminating the above language. In all, the State has spent $9.9 million on PAMS.

Significant Language Changes (Cont'd)

Casino Control Commission Supplemental Spending Authority

Deletion

2011 Handbook: p. B-187
2012 Budget: —

~~In addition to the amount hereinabove for Administration of Casino Gambling, there are appropriated from the Casino Control Fund such additional sums as may be required for operation of the Casino Control Commission, subject to the approval of the Director of the Division of Budget and Accounting.~~

Explanation

The language provision authorized the Office of Management and Budget (OMB) to appropriate in the course of the fiscal year, and without additional legislative approval, sums to the Casino Control Commission for the regulation and supervision of casino gambling that were in excess of amounts appropriated in the annual appropriations act. The Administration recommends the discontinuation of the language in FY 2012 because the OMB determined that the commission no longer needed supplemental spending authority following the enactment of P.L.2011, c.19, which substantially curtailed the commission's competencies. In all, the Governor's FY 2012 Budget includes a request for a $9.1 million appropriation from the Casino Control Fund to the commission, a $15.3 million reduction over its $24.4 million adjusted FY 2011 appropriation.

P.L.2011, c.19 shifted numerous responsibilities from the commission to the Division of Gaming Enforcement in the Department of Law and Public Safety and the Division of Taxation in the Department of the Treasury. While the Division of Taxation newly acquired jurisdiction over the collection of certain casino-related fees and taxes, the Division of Gaming Enforcement newly enforces casino regulations, conducts investigative hearings on the conduct of gaming and gaming operations, issues operation certificates to casino licensees, imposes sanctions and collects penalties, accepts and maintaining registrations for casino employees and certain vendors, and receives complaints from the public. The commission retained responsibility for casino licensing, the licensing of casino key employees, and the hearing of appeals on actions taken by the division.

EXPLANATION: FY 2011 language not recommended for FY 2012 denoted by strikethrough.
Recommended FY 2012 language that did not appear in FY 2011 denoted by underlining.

Significant Language Changes (Cont'd)

Cooperative Purchasing Program Service Fees

Deletion

2011 Handbook: p. B-190
2012 Budget: —

~~There are appropriated, out of receipts derived from service fees billed to political subdivisions for the operating costs of the cooperative purchasing program, such sums as may be necessary to administer and operate the Purchase Bureau program.~~

Explanation

This language provision has become functionally obsolete. It appropriated to the Division of Purchase and Property service fee payments participants in the cooperative purchasing program made to defray the division's costs of copying and mailing paper catalogues and price lists. The adoption of the web-based eCatalog ordering system and the concomitant end of the copying and mailing of paper catalogues and price lists obviated the need for the fees. As a result, the division last received service fee payments in FY 2007.

The Division of Purchase and Property runs the cooperative purchasing program under which counties, municipalities, school districts, colleges and universities, independent authorities, quasi-State agencies, and volunteer fire and first aid squads may purchase goods and services acquired through bulk purchasing under State procurement contracts. According to the division's reply to OLS Discussion Point #22 in the FY 2009-2010 Department of the Treasury Budget Analysis, some 89 municipal governments and school districts participated in the cooperative purchasing program in FY 2008, the last year for which the data are available.

Sale of Surplus State Vehicles

Deletion

2011 Handbook: p. B-190
2012 Budget: —

~~Notwithstanding the provisions of section 15 of article 6 of P.L. 1944, c.112 (C.52:27B-67), revenues in excess of those anticipated from the sale of surplus state vehicles are available for the replacement of Central Motor Pool temporary assignment vehicles, subject to the approval of the Director of the Division of Budget and Accounting.~~

Explanation

The Administration recommends discontinuing FY 2011 language that permitted the Central Motor Pool (CMP) to use receipts in excess of those anticipated from the sale of State vehicles to purchase loaner vehicles, with the approval of the

EXPLANATION: FY 2011 language not recommended for FY 2012 denoted by strikethrough.
Recommended FY 2012 language that did not appear in FY 2011 denoted by underlining.

Significant Language Changes (Cont'd)

Office of Management and Budget. Absent this language, any such receipts would have to be deposited into the State General Fund in FY 2012 pursuant to N.J.S.A.52:27B-67. Given that the language has not been used recently to purchase loaner vehicles, the Administration deems it unnecessary.

The Bureau of Transportation Services in the Division of Administration runs the 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 2012 Budget (page G-5), the State's estimated FY 2012 vehicle count is 14,881, unchanged from FY 2011. This total includes 7,945 vehicles on agency assignment whose maintenance expenses are accounted for separately in agencies' budgets. The CMP expects to oversee the remaining 6,936 vehicles at an estimated FY 2012 cost of $22.2 million ($4.0 million, or 15.2 percent, less than revised FY 2011 expenditures).

Consolidation of Language Concerning Transfer of Payments to Certain Revolving Funds	
Consolidation	2011 Handbook: p. E-3 and p. B-190 2012 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, printing, rent, fuel, utilities, telephone, data processing, motor pool, insurance, travel, postage, lease payments on equipment purchases, additions, improvements and equipment, ~~and~~ compensation awards, and construction and construction related costs including but not limited to, architectural costs, superintendence and other expert services in connection with such work, 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 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.

~~The Director of the Division of Budget and Accounting is empowered to transfer or credit to the Capitol Post Office revolving fund any appropriation made to any department for postage costs appropriated or allocated to such departments for their share of costs of the Capitol Post Office.~~

EXPLANATION: FY 2011 language not recommended for FY 2012 denoted by strikethrough.
Recommended FY 2012 language that did not appear in FY 2011 denoted by underlining.

Significant Language Changes (Cont'd)

~~The Director of the Division of Budget and Accounting is empowered to transfer or credit to the Print Shop revolving fund any appropriation made to any department for printing costs appropriated or allocated to such departments for their share of costs of the Print Shop and the Office of Printing Control.~~

~~The Director of the Division of Budget and Accounting is empowered to transfer or credit to the Property Management and Construction program classification, from appropriations for construction and improvements an amount sufficient to pay for the cost of architectural work, superintendence and other expert services in connection with such work.~~

Explanation

These requested language revisions represent a technical, but not a substantive, change. The Administration is proposing to consolidate the substance of the three language provisions recommended to be deleted into a revised general language provision. The language proposed for deletion authorized the Office of Management and Budget to transfer amounts appropriated to the State departments for postage, printing, and construction and construction-related costs to Treasury revolving funds for entities handling such services for all of State government. The amended language provision would continue the authority.

State Cafeterias

Deletion	2011 Handbook: p. B-190 2012 Budget: —

~~The unexpended balances at the end of the preceding fiscal year in the State cafeteria accounts and receipts obtained from cafeteria operations are appropriated for the improvement and extension of cafeteria services and facilities pursuant to section 2 of P.L.1951, c.312 (C.52:18A--19.6).~~

Explanation

N.J.S.A.52:18A-19.5 et seq. authorizes the Division of Purchase and Property to operate cafeterias on State property primarily for the use of State officers and employees. Receipts earned from the operation of any cafeteria are statutorily required to be deposited into the State Cafeterias Revolving Account whose balances have to be used to finance cafeteria operations. The above language appropriated to the account amounts received in the operation of cafeterias, and granted carryforward authority for the account so that unexpended receipts would not lapse into the General Fund at the end of a fiscal year but would instead be carried forward into the subsequent fiscal year.

EXPLANATION: FY 2011 language not recommended for FY 2012 denoted by strikethrough.
Recommended FY 2012 language that did not appear in FY 2011 denoted by underlining.

Significant Language Changes (Cont'd)

The Governor proposes discontinuing the language in FY 2012 because the account is inactive since the Division of Purchase and Property has ceased operating cafeterias. That circumstance, however, does not equate to the end of cafeterias in State buildings, as the New Jersey Commission for the Blind and Visually Impaired runs cafeterias under contract for State officers and employees.

Management of DEP Properties

Revision

2011 Handbook: p. B-190
2012 Budget: p. D-380

Receipts derived from the leasing of Department of Environmental Protection real properties are appropriated for the costs incurred for maintenance, repairs and utilities on the properties~~, and the unexpended balances at the end of the preceding fiscal year in excess of $300,000 in the Management of the Department of Environmental Protection Properties account are appropriated for the same purpose~~.

Explanation

The requested language revision concerning the use of unspent year-end balances in the Department of Environmental Protection (DEP) Properties account represents a technical, but not a substantive, change. The FY 2011 language lapses the first $300,000 in unexpended year-end account balances to the General Fund and makes the remainder available to the account in the next fiscal year. The proposed language would in effect authorize the Office of Management and Budget to lapse the entire unspent year-end balance to the General Fund in FY 2012. Nevertheless, given that the year-end balance is not projected to exceed $300,000 in FY 2012, the full anticipated balance would be lapsed to the General Fund under the FY 2011 and the proposed FY 2012 language. Only if the FY 2012 year-end balance were to exceed $300,000 would the language revision operate a substantive change. The account's year-end balance last exceeded $300,000 in FY 2008.

The DEP Properties account receives its funding from income generated by residential properties owned by the DEP and leased to the general public, such as housing for DEP employees in or near State parks. Balances accruing in the account throughout the fiscal year are appropriated to the payment of maintenance, repair, and utility expenses incurred in managing the income-producing properties. Annual account receipts tend to outstrip annual expenses. From FY 2007 to FY 2010 annual receipts ranged from $513,000 to $521,000 and

EXPLANATION: FY 2011 language not recommended for FY 2012 denoted by strikethrough.
Recommended FY 2012 language that did not appear in FY 2011 denoted by underlining.

Significant Language Changes (Cont'd)

annual expenses from $157,000 to $347,000. For FY 2011 and FY 2012, the Administration anticipates $515,000 in annual receipts.

Administrative Support for Garden State Preservation Trust

Deletion

2011 Handbook: p. B-191
2012 Budget: —

~~Notwithstanding the provisions of any law or regulation to the contrary, the Departments of the Treasury, Community Affairs, Environmental Protection and Agriculture will provide such administrative services as are necessary to operate the Garden State Preservation Trust.~~

Explanation

The recommended language deletion represents merely a technical, but not a substantive, change. The language enables the Garden State Preservation Trust to avail itself of the administrative services of the Departments of Treasury, Community Affairs, Environmental Protection and Agriculture. Since N.J.S.A.13:8C-16 requires all State agencies to render the services the Trust requests if they are within the agencies' purview, the Administration interprets the budget language to be duplicative in meaning of the statutory provision and hence unneeded.

Established "in but not of" the Department of the Treasury, the Garden State Preservation Trust is the financing authority that provides the funds to preserve New Jersey's forests and meadows, watersheds and wildlife habitats, parks and sports fields, working farms, agricultural landscapes and historic structures.

Re--engineering of Pension and Health Benefits Computer Systems

Deletion

2011 Handbook: p. B-191
2012 Budget: —

~~There is appropriated from the pension and health benefits funds established by law an amount, not to exceed $12,000,000, for the re-engineering of the pension and health benefits computer systems as referenced in the Division of Pensions and Benefits organizational study.~~

~~The unexpended balance at the end of the preceding fiscal year in the Re--engineering of the Pension and Health Benefits Computer Systems account is appropriated for the same purpose.~~

EXPLANATION: FY 2011 language not recommended for FY 2012 denoted by strikethrough.
Recommended FY 2012 language that did not appear in FY 2011 denoted by underlining.

Significant Language Changes (Cont'd)

Explanation

The Administration recommends not renewing two language provisions concerning a project to re-engineer the information technology systems in the Division of Pensions and Benefits. The first language provision appropriated $12 million out of the several pension systems and benefit funds to the project in FY 2002 and has been continued in annual appropriations acts since. The second language provision granted carryforward authority for the project account so that unexpended spending authority from the $12 million FY 2002 appropriation would not lapse into the General Fund at the end of a fiscal year but would instead be carried forward into the subsequent fiscal year. Both language provisions are not needed in FY 2012, given that the Administration does not recommend continued funding for the project and that the remaining balances in the project account were expended in FY 2011.

The division used the $12 million FY 2002 appropriation over subsequent fiscal years to develop interactive online systems for members and employers of the division's pension and benefit programs, upgrade the division's telephone and interactive voice response systems, enhance various other parts of the division's systems, and install a "full-service customer relationship management solution." "The Comprehensive Organizational and Operational Study of the State of New Jersey Division of Pensions and Benefits" published in April 1999 by The Segal Company/L.R. Wexlar, Ltd. in response to several critical operational problems the division had encountered provided the impetus for the project. The contractor determined that the division failed to provide an adequate level of service to members and employers of the pension and benefit programs it administered in part because of its "ancient" and unintegrated computer systems. The Segal Company/L.R. Wexlar therefore recommended the investment of $40 million to $60 million over four years in a new information technology system.

Office of Information Technology Non-State General Fund Resources

Revision

2011 Handbook: p. B-188
2012 Budget: p. D-386

In addition to the ~~$56,187,000~~ $59,099,000 attributable to OIT Other Resources, there are appropriated such sums as may be received or receivable from any State agency, instrumentality or public authority for increases or charges in Office of Information Technology services ~~furnished thereto and attributable to a change in or the addition of an OIT service level agreement~~, subject to the approval of the Director of the Division of Budget and Accounting.

EXPLANATION: FY 2011 language not recommended for FY 2012 denoted by strikethrough. Recommended FY 2012 language that did not appear in FY 2011 denoted by underlining.

Significant Language Changes (Cont'd)

Explanation

The recommended language would appropriate to the Office of Information Technology (OIT) federal and dedicated funds transferred to the OIT from State agencies to pay for billable OIT services in excess of the $59.1 million included in the Governor's FY 2012 Budget if OIT's billable services exceeded that sum. The adjusted FY 2011 appropriation is estimated to be $55.5 million, rather than the $56.2 million originally included in the FY 2011 Appropriations Act. Transfers of federal and dedicated funds from State agencies to OIT are therefore projected to increase by $3.6 million in FY 2012 over the adjusted FY 2011 amount. The requested increase is the aggregate effect of two factors: growing expenses for contractual maintenance and software services and rising payroll expenditures as the January 1, 2011 pay increases for State employees inflate the OIT's budget for the first half of FY 2012 relative to the first half of FY 2011 (the pay increases will not inflate OIT's budget for the second half of FY 2012 relative to the second half of FY 2011, given that the raises already applied to the second half of FY 2011).

OIT provides information technology services to State agencies and has a recommended FY 2012 budget of $115.9 million for 790 employees. Excluding the proposed $13.3 million for the Office of Emergency Telecommunication Services, OIT's recommended FY 2012 appropriation is $102.6 million. Of this amount, transfers of federal and dedicated funds from State agencies for billable OIT services account for $59.1 million, or 57.6 percent, and General Fund appropriations for the remaining $43.5 million, or 42.4 percent.

Statewide 911 Emergency Telecommunication System Supplemental Spending Authority

Addition

2011 Handbook: —
2012 Budget: p. D-386

<u>In addition to the amount hereinabove appropriated for the Statewide 911 Emergency Telecommunication System, there are appropriated such additional sums as may be necessary for the same purpose, subject to the approval of the Director of the Division of Budget and Accounting.</u>

Explanation

The Governor recommends newly inserting a language provision in the FY 2012 Appropriations Act that would authorize the Office of Management and Budget (OMB) to appropriate, in the course of the fiscal year and without additional legislative approval, sums for the maintenance and operation of the Statewide 911

Significant Language Changes (Cont'd)

Emergency Telephone System that are in excess of the FY 2012 recommended appropriation of $12.4 million. According to the OMB, the language is necessary as a contingency given that payments to 911 vendors vary from year to year and that their magnitude is typically not known until more than halfway through the fiscal year. The supplemental spending authority would therefore ensure that vendors would be paid for services rendered even if the original appropriation should be insufficient to meet spending obligations.

P.L.1989, c.3 (C.52:17C-1 et seq.) established the Office of Emergency Telecommunications Services (OETS) in the Office of Information Technology to plan, design, implement, and coordinate the Statewide 911 Emergency Telephone System. The system is a network comprised of municipal and county public safety answering points that handle calls for emergency assistance from police, fire, and ambulance services. The Emergency Preparedness and 911 System Assessment, created by P.L.2004, c.48 (C.52:17C-17 et seq.), funds OETS operations, among other initiatives. Customers pay the $0.9 assessment in each billing cycle for their cell or landline phones. In all, OETS' recommended FY 2012 appropriation is $13.3 million, unchanged from FY 2011. Of that sum, the OETS would disburse $12.4 million to maintain and operate the Statewide 911 Emergency Telephone System and $900,000 to defray its administrative expenses.

ECATS Timekeeping System Project Account Carryforward

Deletion

2011 Handbook: p. B-189
2012 Budget: —

~~The unexpended balance at the end of the preceding fiscal year in the ECATS Timekeeping System account is appropriated for the same purpose, subject to the approval of the Director of the Division of Budget and Accounting.~~

Explanation

This language provision granted carryforward authority for the electronic Cost Accounting Timesheet System (eCATS) project account in the Office of Information Technology (OIT) 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. The language is now obsolete, as the last $13,000 remaining in the project account at the beginning of FY 2011 has been expended.

The FY 2008 Appropriations Act included a $5.8 million appropriation for the expanded use of eCATS in the Executive branch. Prior to the migration to the electronic timekeeping system, most Executive branch agencies relied on a manual

EXPLANATION: FY 2011 language not recommended for FY 2012 denoted by strikethrough.
Recommended FY 2012 language that did not appear in FY 2011 denoted by underlining.

Significant Language Changes (Cont'd)

time entry approach. The OIT expected three main benefits from the migration: lower processing and recordkeeping costs as employees and payroll clerks would no longer enter data manually, reduced maintenance costs as the State would only operate one timekeeping system, and cost savings prompted by the ability to monitor the use of overtime more tightly. As of FY 2011, the full $5.8 million project appropriation has been expended on eCATS.

FY 2012 Homeowner Property Tax Credits/ Homestead Benefit Program Outline

Revision

2011 Handbook: p. B-192
2012 Budget: p. D-390

~~Notwithstanding the provisions of any law or regulation to the contrary, the~~ The amount hereinabove appropriated for the Homestead ~~Property Tax Credits is appropriated to municipalities to reimburse them for the quarterly Homestead Property Tax Credits provided~~ Benefit Program shall be available to provide homestead benefits only to eligible homeowners ~~beginning with property tax bills issued in May of 2011, subject to the enactment of legislation and subject to the following conditions: Residents~~ pursuant to the provisions of section 3 of P.L.1990, c.61 (C.54:4--8.59) as amended by P.L.2004, c.40 and by P.L.2007, c.62, as may be amended from time to time except that, notwithstanding the provisions of such laws to the contrary: (i) residents who are 65 years of age or older at the close of the tax year, or residents who are allowed to claim a personal deduction as a blind or disabled taxpayer pursuant to subsection b. of N.J.S.54A:3--1, with (a) gross income in excess of $150,000 for tax year 2010 are excluded from the program; (b) gross income in excess of $100,000 but not in excess of $150,000 for tax year ~~2009~~ 2010 are eligible for ~~quarterly credits~~ a benefit in the amount of ~~one-quarter of 10%~~ 5% of the first $10,000 of property taxes paid, and ~~such residents with~~ (c) gross income not in excess of $100,000 for tax year ~~2009~~ 2010 are eligible for ~~quarterly credits~~ a benefit in the amount of ~~one-quarter of 20%~~ 10% of the first $10,000 of property taxes paid; ~~Residents~~ (ii) residents who are not 65 years of age or older at the close of the tax year, or residents who are not allowed to claim a personal deduction as a blind or disabled taxpayer pursuant to subsection b. of N.J.S.54A:3--1, with (a) gross income in excess of $75,000 for tax year 2010 are excluded from the program; (b) gross income in excess of $50,000 but not in excess of $75,000 for tax year ~~2009~~ 2010 are eligible for ~~quarterly credits~~ a benefit in the amount of ~~one-quarter of 13.34%~~ 6.67% of the first $10,000 of property taxes paid~~,~~; and ~~such residents with~~ (c) gross income not in excess of $50,000 for tax year ~~2009~~ 2010 are eligible for ~~quarterly credits~~ a benefit in the amount of ~~one-quarter of 20%~~ 10% of the first $10,000 of property taxes paid. ~~The credits~~ These benefits listed pursuant to this paragraph will be calculated based on the 2006 property tax amounts assessed or as would have been assessed on the October 1, ~~2009~~ 2010 principal residence of eligible applicants. The ~~annualized sum of the quarterly credits~~ total homestead benefit provided to an eligible applicant in a given State fiscal year shall not exceed the ~~Homestead Rebate~~ homestead rebate amount paid to such eligible applicant for

EXPLANATION: FY 2011 language not recommended for FY 2012 denoted by strikethrough.
Recommended FY 2012 language that did not appear in FY 2011 denoted by underlining.

Significant Language Changes (Cont'd)

tax year 2006, absent a change in an applicant's filing characteristics. The homestead benefit shall be made in one or more installments after the application for the benefit has been approved, at the dates and in the form as the Director of the Division of Taxation shall determine. If the amount hereinabove appropriated for Homestead ~~Property Tax Credits~~ Benefit Program is not sufficient, there is appropriated from the Property Tax Relief Fund such additional sums as may be required ~~for State reimbursement to municipalities for such Homestead Property Tax Credits~~ to provide such homestead benefits, subject to the approval of the Director of the Division of Budget and Accounting.

Explanation

The language describes the Governor's proposed FY 2012 revisions to the New Jersey Homestead Property Tax Credit program (N.J.S.A.54:4-8.57 et seq.), renamed the Homestead Benefit Program. The Governor recommends doubling FY 2011 benefit levels in FY 2012. While the Governor's Budget Message tied the doubling of homestead benefits to the adoption of the Governor's proposed health benefits reforms for retired public school teachers as well as active and retired employees of the State and its public universities, the recommended language does not reflect such a linkage. Rather, the language reduces the benefits from the statutory levels and is ambiguous as to the program's payment schedule, as it grants the Division of Taxation discretion in determining the number of installments in which benefits would be paid as well as their timing. In FY 2011, benefits are being paid in one installment in May of 2011.

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 2012 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.

EXPLANATION: FY 2011 language not recommended for FY 2012 denoted by strikethrough.
Recommended FY 2012 language that did not appear in FY 2011 denoted by underlining.

Significant Language Changes (Cont'd)

Budget Language as it Pertains to Senior Homeowners: *The proposed FY 2012 language maintains the program changes implemented in FY 2011 for homeowners who are blind, disabled or 65 years of age or older, but doubles the benefit. Specifically, the Governor recommends: a) eliminating homestead benefits for homeowners with incomes above $150,000; b) increasing homestead benefits from 2.5 percent in FY 2011 (but reducing them from a statutory 15.0 percent) to 5.0 percent of property taxes paid up to $10,000 for homeowners with incomes between $100,000 and $150,000; c) increasing homestead benefits from 5.0 percent in FY 2011 (but reducing them from a statutory 20.0 percent) to 10.0 percent of property taxes paid up to $10,000 for homeowners with incomes not exceeding $100,000; 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 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 2010 property taxes, as the basis for calculating homestead benefits.*

Budget Language as it Pertains to Non-Senior Homeowners: *The proposed FY 2012 language maintains the program changes implemented in FY 2011 for all other homeowners, but doubles the benefit. Specifically, the Governor recommends: a) eliminating homestead benefits for homeowners with incomes above $75,000; b) increasing homestead benefits from 3.335 percent in FY 2011 (but reducing them from a statutory 20.0 percent) to 6.67 percent of property taxes paid up to $10,000 for homeowners with incomes between $50,000 and $75,000; c) increasing homestead benefits from 5.0 percent in FY 2011 (but lowering them from a statutory 20.0 percent) to 10.0 percent of property taxes paid up to $10,000 for homeowners with incomes not exceeding $50,000; and d) maintaining 2006 property taxes, as opposed to tax year 2010 property taxes, as the basis for calculating homestead benefits.*

Budget Language as it Pertains to Tenants: *The Governor proposes continuing the elimination of the homestead property tax rebate program for tenants. Statutory tenant rebates in FY 2012 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.*

Table 2 on the next page indicates the benefit amounts individuals ought to receive under statutory provisions, the amounts they actually receive in FY 2011, and the amounts they would receive in FY 2012 according to the proposed language. In sum, the Executive estimates that 938,500 homeowners would collect an average $476 benefit in FY 2012, after collecting an average $238 credit in FY 2011. Reflecting the anticipation of a year-end lapse to the General Fund of $32.3 million of the $268.2 million adjusted FY 2011 appropriation, the program

EXPLANATION: FY 2011 language not recommended for FY 2012 denoted by strikethrough.
Recommended FY 2012 language that did not appear in FY 2011 denoted by underlining.

Significant Language Changes (Cont'd)

appropriation would increase by $222.1 million, or 94.2 percent, from $235.9 million in FY 2011 to $458.0 million in FY 2012.

Table 2
Homestead Property Tax Credit/Homestead Benefit Amounts
Statutory, FY 2011 Actual, and FY 2012 Proposed

Homeowner or Tenant	Status	Gross Income	Rebate Amounts Statutory	FY 2011 Actual	FY 2012 Proposed
Homeowner	Senior or Disabled	Not over $70,000	$1,000 - $2,000	$0 - $500	$0 - $1,000
		$70,001 to $100,000	$600 - $2,000	$0 - $500	$0 - $1,000
		$100,001 to $125,000	$600 - $1,500	$0 - $250	$0 - $500
		$125,000 to $150,000	$500 - $1,500	$0 - $250	$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 - $500	$0 - $1,000
		$50,001 to $75,000	$0 - $2,000	$0 - $334	$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

EXPLANATION: FY 2011 language not recommended for FY 2012 denoted by strikethrough. Recommended FY 2012 language that did not appear in FY 2011 denoted by underlining.

Significant Language Changes (Cont'd)

Payment of Homeowner Property Tax Credits from Prior Fiscal Years

Addition

2011 Handbook: —
2012 Budget: p. D-390

From the amount hereinabove appropriated for the Homestead Benefit Program, there are appropriated such sums as may be required for payments of homestead benefits that have been approved but not paid pursuant to the annual appropriations act for the fiscal year the claimant applied for such homestead benefit, subject to the approval of the Director of the Division of Budget and Accounting.

Explanation

The Administration recommends new language in the FY 2012 Appropriations Act that would authorize the payment of homestead rebate and credit amounts approved in prior fiscal years out of the FY 2012 Homestead Benefit Program appropriation. This language is deemed necessary because unspent year-end balances in the Homestead Benefit Program are currently not carried forward into the next fiscal year, but are lapsed into the General Fund. Newly including the language in the FY 2012 Appropriations Act would not mark a policy change, but would explicitly permit a long-standing practice.

Highlands Protection Fund: Watershed Moratorium Offset Aid

Deletion

2011 Handbook: p. B-193
2012 Budget: —

~~Notwithstanding the provisions of any law or regulation to the contrary, of the amounts hereinabove appropriated from the Highlands Protection Fund -- Incentive Planning Aid, an amount not less than $2,200,000 is allocated for Watershed Moratorium Offset Aid.~~

Explanation

The proposed language deletion reflects a shift in the funding source for the unchanged $2.2 million appropriation to the Watershed Moratorium Offset Aid program. The Legislature added the language to the FY 2011 Appropriations Act so as to appropriate $2.2 million out of the Highlands Protection Fund – Incentive Planning Aid account to the program. In lieu of the shift the Administration recommends a direct appropriation for FY 2012, thereby obviating the need for the language. In FY 2011, the allocation enabled $2.2 million in State aid payments to 56 municipalities to help offset the loss of property tax revenues due to the

EXPLANATION: FY 2011 language not recommended for FY 2012 denoted by strikethrough.
Recommended FY 2012 language that did not appear in FY 2011 denoted by underlining.

Significant Language Changes (Cont'd)

imposition of a moratorium of the sale of certain watershed lands located within those municipalities.

Through FY 2014, the Highlands Water Protection and Planning Act, P.L.2004, c.120, dedicates $12 million in annual State realty transfer fee collections to the Highlands Protection Fund. The dedicated amount is distributed among four aid programs for municipalities in the Highlands planning area: a) the Highlands Municipal Property Tax Stabilization Fund (N.J.S.A.54:1-85 b.), b) the Incentive Planning Aid program (N.J.S.A.13:20-13) that provides grants to municipalities in the Highlands planning area that want to accept growth, c) the Watershed Moratorium Offset Aid program (N.J.S.A.58:29-8), and d) the Regional Master Plan Compliance Aid program that provides grants to municipalities in the Highlands preservation area so that they can bring their plans into compliance with the Highlands Regional Master Plan (N.J.S.A.13:20-18). A statutory poison pill provision is intended to protect the annual $12 million appropriation to these programs by prohibiting the State from collecting the State portion of the basic fee and the additional fee under the realty transfer fee statute if the $12 million is not allocated to these programs. Nevertheless, language in the FY 2011 Appropriations Act suspended the statutory poison pill provision so that only $4.4 million was appropriated for Highlands Protection Fund programs. The Governor's FY 2012 Budget recommends maintaining the suspending language (sixth language provision on page F-8) and appropriating an unchanged $4.4 million to the programs: $2.2 million to the Watershed Moratorium Offset Aid program, $1.8 million to the Regional Master Plan Compliance Aid program, and $400,000 to the Incentive Planning Aid program.

Municipal Aid Payment Computation

Revision and Consolidation

2011 Handbook: p. B-193 and p. E-7
2012 Budget: p. D-391

There is appropriated from the Energy Tax Receipts Property Tax Relief Fund the sum of $788,492,000 and an amount not to exceed ~~$240,573,000~~ <u>$261,158,000</u> from Consolidated Municipal Property Tax Relief Aid (PTRF) 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 from the Energy Tax Receipts Property Tax Relief Fund as provided in ~~Fiscal Year 2010 pursuant to P.L.2009, c.68~~ <u>the previous fiscal year</u>. 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

EXPLANATION: FY 2011 language not recommended for FY 2012 denoted by strikethrough.
Recommended FY 2012 language that did not appear in FY 2011 denoted by underlining.

Significant Language Changes (Cont'd)

same amount.

~~Notwithstanding the provisions of any law or regulation to the contrary, the amounts appropriated to municipalities from the Consolidated Municipal Property Tax Relief Aid appropriation in the Department of Community Affairs and from the Energy Tax Receipts Property Tax Relief Fund appropriation in the Department of the Treasury shall be reduced pursuant to a formula based on equalized tax rates and wealth as such formula is further described in Local Finance Notice 2010-8 published on March 18, 2010 by the Department of Community Affairs - Division of Local Government Services and as set forth for each municipality in such notice; provided further, however, that as a result of the above aid reduction calculations for such municipalities, an additional amount shall be provided to any municipality to ensure that the aid reductions themselves do not result in more than a $250 increase over 2009 average residential property taxes as calculated by the Division of Local Government Services.~~

~~Notwithstanding the provision of section 10 of P.L.2007, c.62 (C.40A:4-45.45) or any other law or regulation to the contrary, of the amounts hereinabove appropriated from the Consolidated Municipal Property Tax Relief Aid appropriation in the Department of Community Affairs and from the Energy Tax Receipts Property Tax Relief Fund appropriation in the Department of the Treasury for payments to municipalities, there shall be deducted from such aid an amount equal to the amount of the reduction in State formula aid from the previous local budget year which the municipality took into account in establishing its adjusted tax levy increase for the current local budget year consistent with section 10 of P.L.2007, c.62 (C.40A:4-45.45).~~

Explanation

The Governor recommends distributing $1.29 billion to New Jersey's 566 municipalities from the State's two formula-driven municipal aid programs in FY 2012: $505.4 million from the Consolidated Municipal Property Tax Relief Aid (CMPTRA) program and $788.5 million from the Energy Tax Receipts Property Tax Relief Fund (ETR Fund) program. These amounts are identical to the amounts appropriated in FY 2011, and every municipality would receive an unchanged aid payment in FY 2012.

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 2011 language not recommended for FY 2012 denoted by strikethrough.
Recommended FY 2012 language that did not appear in FY 2011 denoted by underlining.

Significant Language Changes (Cont'd)

In the seven most recent fiscal years, energy tax receipts allocated from the ETR Fund have been inadequate to cover statutorily required ETR Fund aid payments. To fulfill the funding requirement, language provisions have 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 2012, the Administration proposes increasing the transfer from CMPTRA to the ETR Fund by $20.6 million from $240.6 million to $261.2 million, reflecting the required inflation adjustment.

The proposed FY 2012 discontinuation of two FY 2011 language provisions adjusting formulaic State aid payments to individual municipalities represents a technical, but not a substantive change. Since the Administration proposes freezing FY 2012 formulaic State aid payments to municipalities at their FY 2011 levels, the two language provisions are subsumed in proposed payment amounts. It is therefore unnecessary to explicitly maintain the existing language in FY 2012.

The first language provision proposed for deletion reduced a municipality's FY 2011 formulaic State aid payment by 14.45 percent to 26.45 percent relative to the basic computation according to a formula that considered each municipality's wealth and tax burden. These amounts were subject to two adjustments. First, aid cuts were capped so that they would not increase average residential property taxes by more than $250. Second, aid cuts to some municipalities were wholly or partially restored so that the State would disburse amounts out of the ETR Fund in accordance with statutory requirements.

The second language provision proposed for deletion required the State to make additional reductions to formulaic aid payments to municipalities whose growth in FY 2011 property tax levies exceeded four percent in response to cuts in FY 2010 State municipal aid payments. At the time, four percent was the statutory cap, subject to certain exceptions. The additional reduction equaled the amount by which a municipality increased its tax levy beyond the four percent limit in response to the FY 2010 cut in formulaic State aid.

"Best Practices Inventory" for Municipal Governments

Revision and Addition

2011 Handbook: p. B-194
2012 Budget: p. D-391

Notwithstanding the provisions of any law or regulation to the contrary, the release of the final 5% ~~payment~~ or $500, whichever is greater, of the total annual amount due for the current fiscal year from the Energy Tax Receipts Property Tax Relief Fund to municipalities is subject to the following condition: the municipality shall submit to the Director of the

EXPLANATION: FY 2011 language not recommended for FY 2012 denoted by strikethrough.
Recommended FY 2012 language that did not appear in FY 2011 denoted by underlining.

Significant Language Changes (Cont'd)

Division of Local Government Services a report describing the municipality's compliance with the "Best Practices Inventory" established by the Director of the Division of Local Government Services and shall receive at least a minimum score on such inventory as determined by the Director of the Division of Local Government Services; provided, however, that the Director may take into account the particular circumstances of a municipality in computing such score. ~~Provided further, however, that in the event that the "Best Practices Inventory" is not issued by the Division of Local Government Services by September 1, 2010, no amounts shall be withheld from final payments to municipalities pursuant to this paragraph.~~ In preparing the Best Practices Inventory, the Director shall identify best municipal practices in the areas of general administration, fiscal management, and operational activities, as well as the particular circumstances of a municipality, in determining the minimum score acceptable for the release of the final ~~payment~~ 5% or $500, whichever is greater, of the total annual amount due for the current fiscal year, but in no event shall amounts be withheld with respect to municipal practices occurring prior to the issuance of the ~~best practices inventory~~ Best Practices Inventory unless related to a municipal practice identified in the Best Practices Inventory established in 2010.

Notwithstanding the provisions of any law or regulation to the contrary, amounts withheld from the final 5% or $500, whichever is greater, of the total annual amount due for the current fiscal year from the Energy Tax Receipts Property Tax Relief Fund to municipalities as described hereinabove are appropriated to municipalities with exemplary scores on the "Best Practices Inventory" described hereinabove in such amounts as recommended by the Director of the Division of Local Government Services, subject to the approval of the Director of the Division of Budget and Accounting.

Explanation

The two proposed language provisions would continue in FY 2012 a slightly revised "Best Practice Initiative" for municipal governments. Initially established in the FY 2011 Appropriations Act, the initiative charges the Director of the Division of Local Government Services in the Department of Community Affairs with the identification of best municipal practices in the areas of general administration, financial management, and operational activities. To compel compliance, the revised language provision would direct the State to withhold the greater of $500 or the final five percent payment of Energy Tax Receipts Property Tax Relief Aid to municipalities that do not achieve a minimum score indicating compliance with the "Best Practices Inventory," as set by the Director. The revised FY 2012 language newly specifies that the amount to be withheld in FY 2012 would have to be at least $500 even if the final aid payment should be less than $500. The language provision newly proposed for inclusion in the FY 2012 Appropriations Act would reallocate any payments withheld to municipalities with exemplary scores on the "Best Practices Inventory." To allow for flexibility in the computation of a municipality's compliance rating, the revised language provision

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Recommended FY 2012 language that did not appear in FY 2011 denoted by underlining.

Significant Language Changes (Cont'd)

would authorize the Director to take into account a municipality's particular circumstances.

By means of similar language in the Department of Community Affairs section of the Governor's FY 2012 Budget, the Administration also proposes withholding the greater of $500 or the final five percent Consolidated Municipal Property Tax Relief Aid payment from municipalities that would not meet minimum best practices standards and redistributing the amounts withheld to municipalities with exemplary scores (page D-56). The Consolidated Municipal Property Tax Relief Aid and Energy Tax Receipts Property Tax Relief Aid programs are the State's two formula-driven municipal aid programs through which the Administration intends to disburse $1.29 billion to municipalities in FY 2012. Of the 535 municipalities operating on a calendar year basis, 374 experienced no reduction in State aid payments for calendar year 2011 as a result of the "Best Practice Initiative." The other 161 municipalities had to absorb a cumulative $100,000 aid cut.

Divestiture of New Jersey Network Public Television and Radio

Deletion and Addition

2011 Handbook: p. E-3
2012 Budget: p. F-9

~~No funds shall be expended by any State Department in the Executive Branch in connection with a contract for the production of films, videotapes, video conferences, video-assisted training or multi-media projects that include video images unless the New Jersey Public Broadcasting Authority (PBA) has the opportunity to match any successful bid as part of any formal or informal contract award process. This is not a requirement to award a contract to PBA since the decision to award a contract may also be based on non-cost considerations~~.

<u>Notwithstanding the provisions of any other law or regulation to the contrary, and in furtherance of the purposes of P.L. 2010, c.104, the New Jersey Public Broadcasting System Transfer Act ("Act"), there are hereby appropriated, subject to the approval of the Director of the Division of Budget and Accounting, such sums as are necessary for the operation of the New Jersey Public Broadcasting Authority ("NJBPA") as required by the Federal Communications Commission (FCC) to maintain the FCC licenses owned by the NJBPA, to oversee any agreements with private operators, and to carry out any other duties and responsibilities that the NJBPA has under the Act and as the FCC licensee of broadcast stations, including the costs of employees, office space, equipment, consultants, professional advisors including lawyers, and any other costs determined to be necessary to carry out the NJPBA mission under the Act consistent with FCC requirements.</u>

EXPLANATION: FY 2011 language not recommended for FY 2012 denoted by strikethrough.
Recommended FY 2012 language that did not appear in FY 2011 denoted by underlining.

Significant Language Changes (Cont'd)

Explanation

The proposed deletion of the first language provision and the proposed addition of the second ensue from the anticipated divestiture of New Jersey Network Public Television and Radio (NJN) as of July 1, 2011.

The language proposed for deletion requires State departments to afford NJN the opportunity to match the winning bid for a video production contract. Departments, however, are not mandated to award the contract to NJN even if it matches the winning bid. Absent the language, the privatized NJN would no longer have the right to match winning bids in FY 2012. In FY 2010, NJN received $213,000 for production services from State agencies and $96,000 in FY 2011, as of April 13, 2011.

The language newly recommended for inclusion in the FY 2012 Appropriation Act would authorize the appropriation to the New Jersey Public Broadcasting Authority, the State operator of NJN, of the amounts necessary to maintain television licenses, oversee any agreement with private operators of NJN, and carry out the authority's responsibilities. The Administration recommends the contingency language for FY 2012 as contract negotiations for the divestiture are ongoing. Consequently, it is uncertain at this point whether NJN will be privatized as of July 1, 2011 and what the terms of any divestiture might be. Accordingly, the contingency language would enable the State to meet any financial obligation to which it may agree as part of any final contract and continue operating NJN if privatization does not occur by the July 1, 2011 target date.

Established under P.L.1968, c.405, the New Jersey Public Broadcasting Authority owns and operates NJN, which produces and broadcasts statewide New Jersey public affairs and cultural programming. The authority generated $17.6 million in non-State revenues and incurred $28.8 million in operating expenses for the year ended June 30, 2010. The State provided the $11.2 million necessary to close the gap. Of that amount $200,000 came in the form of payments for video productions for State agencies. The remaining $11.0 million reflected a State subsidy comprised of a direct $3.8 million appropriation, contributions of facilities valued at $4.3 million, and the payment of $2.7 million in benefits and social security taxes for NJN employees.

P.L.2010, c.104 provides for the transfer of authority assets and radio operating licenses, but not television operating licenses, to a non-profit organization or other entity eligible to operate a public broadcasting system. On February 7, 2011, the Department of the Treasury issued Requests for Proposals for the management of NJN's four-station television network, the management of NJN's nine-station radio network, and the sale of the radio network. Final proposals had to be submitted by April 15. The Requests for Proposals stipulate that vendors must take control of

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Recommended FY 2012 language that did not appear in FY 2011 denoted by underlining.

Significant Language Changes (Cont'd)

the networks on July 1, 2011; run them as non-commercial educational and public media services; and provide New Jersey-centric programming, including New Jersey news and public affairs programming.

Corporation Business Tax Excess Revenue Fund

Deletion

2011 Handbook: p. E-6
2012 Budget: —

~~Notwithstanding the provisions of section 32 of P.L.2002, c.40 (C.52:9H-38) to the contrary, revenues derived from the Corporation Business Tax during the preceding fiscal year shall not be credited to the "Corporation Business Tax Excess Revenue Fund" but shall be available as undesignated funds in the General Fund except as are dedicated by Article VIII, Section II, paragraph 6 of the State Constitution.~~

Explanation

This language provision has become functionally obsolete and is therefore no longer needed. It superseded the requirement in N.J.S.A.52:9H-38 that any amount by which actual corporation business tax collections exceeded target amounts in FY 2003, 2004, and 2005 be deposited in the Corporation Business Tax Excess Revenue Fund. Any fund balance was to be available for appropriation in FY 2004 and FY 2005 to assist in covering any shortfalls in corporation business tax collections from the applicable target amount. If there was to be a balance in the fund on December 30, 2005, corporation business tax rates for corporate tax years beginning in calendar year 2006 would have had to be adjusted downward by an amount equal to the balance. N.J.S.A.52:9H-38, however, never had any effect, as the language provision superseded it in all relevant fiscal years.

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Litigation and Arbitration Expenses Related to Tobacco Master Settlement Agreement

Revision

2011 Handbook: p. E-6
2012 Budget: p. F-8

There are appropriated such sums as are necessary, not to exceed ~~$2,500,000~~ <u>$3,500,000</u>, to fund costs incurred by the State, including attorneys' costs, in connection with arbitration/litigation relating to claims by participating tobacco manufacturers that they are entitled to reductions in payments they make under the Tobacco Master Settlement Agreement, subject to the approval of the Director of the Division of Budget and Accounting.

EXPLANATION: FY 2011 language not recommended for FY 2012 denoted by strikethrough.
Recommended FY 2012 language that did not appear in FY 2011 denoted by underlining.

Significant Language Changes (Cont'd)

Explanation

For FY 2012, the Administration requests a $1.0 million increase in the supplemental spending authority to pay for the costs of defending State interests against tobacco manufacturers challenging the amount of payments they have to make to the State under the multi-state Tobacco Master Settlement Agreement (MSA). The Office of Management and Budget relied on the language to process a $2.5 million supplemental appropriation for this purpose in FY 2011. The Attorney General anticipates $3.5 million in related expenses in FY 2012 primarily in light of 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 is 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 2012 Budget thus anticipates an interfund transfer of $54.6 million from the Tobacco Settlement Fund to the General Fund in FY 2012.

The "2003 NPM Adjustment Dispute" refers to cigarette manufacturers participating in the MSA seeking to reduce their payment obligations for years 2003 through 2008 by $5.3 billion 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. The first two conditions for a downward NPM adjustment have been met. Participating manufacturers allege that the third condition has also been met, as participating states have allegedly failed to diligently enforce relevant statutes. States refute the allegation. The arbitration panel held its first in-person hearing in Chicago, Illinois on April 12, 2011.

Significant Language Changes (Cont'd)

Global Warming Solutions Fund	
Deletion	2011 Handbook: p. E-7 2012 Budget: —

~~There is appropriated $65,175,000 from the Global Warming Solutions Fund for transfer to the General Fund as State revenue.~~

The Governor's FY 2012 Budget does not include FY 2011 language diverting $65.2 million in accrued and anticipated off-budget Global Warming Solutions Fund balances into the State General Fund. Instead, some $30.7 million in anticipated FY 2012 Global Warming Solutions Fund receipts would remain in that fund (page H-36, available in the online version of the Governor's FY 2012 Budget only). The Governor's FY 2012 Budget explicitly allocates $10.9 million in fund balances to three specific purposes. First, a new language provision would appropriate up to $6.8 million to pay for the costs of replanting trees and impacts of the deforestation caused by the widening of the New Jersey Turnpike from Interchange 6 to Interchange 9 (page D-132). A second language provision would appropriate $2.3 million for forest resource management, a $1.95 million increase over the $325,000 appropriated for that purpose in FY 2011 (page D-110). A third language provision would authorize the payment out of the fund of the $1.8 million in expenses the Department of Environmental Protection is estimated to incur in administering the fund (pages C-11 and D-116).

P.L.2007, c.340 established the Global Warming Solutions Fund as the repository of receipts accruing to the State from auctions of carbon dioxide emission allowances to power plant owners under the Regional Greenhouse Gas Initiative (RGGI). Members of the RGGI consortium of ten Northeastern and Mid-Atlantic states pledged to cap annual regional carbon dioxide emissions from power plants, and devised a mandatory cap-and-trade program under which they auction off carbon dioxide emission allowances to power plant owners who, in turn, may trade them in a secondary market. Eleven auctions took place to date and three more are scheduled. New Jersey earned $102.0 million in the ten RGGI auctions in which it participated.

P.L.2007, c.340 instructs the New Jersey Economic Development Authority (EDA) to use 60 percent of Global Warming Solutions 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. Accordingly, the EDA established the Clean Energy Solutions Capital Investment Loan/Grant program as a vehicle through which it intends to distribute its Global Warming Solutions Fund allocation. Under the law, the Board of Public Utilities and the Department of Environmental Protection shall use the remaining proceeds for the reduction of the electricity demand or costs of low- and moderate-income residential ratepayers primarily in

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Significant Language Changes (Cont'd)

urban areas, the support of local government initiatives designed to lower greenhouse gas emissions, as well as the management of the State's forests and tidal marshes.

Publication of Annual State Lottery Fund and Casino Revenue Fund Reports

Addition

2011 Handbook: —
2012 Budget: p. F-9

<u>Notwithstanding the provisions of C.5:12--145c and C.5:9--22 or any law or regulation to the contrary, such monies as are required are appropriated to the State Treasurer to publish via the internet reports accounting for the total revenues received in the Casino Revenue Fund and the State Lottery Fund and the specific amounts of money appropriated therefrom for specific expenditures during the preceding fiscal year ending June 30.</u>

<u>Explanation</u>

The Administration requests that new language be included in the FY 2012 Appropriation Act that would authorize the publication on the Internet of reports specifying State Lottery Fund and Casino Revenue Fund collections and disbursements for the last concluded fiscal year. The language would supersede the statutory requirement that the figures be published every six months in at least ten newspapers.

The State Lottery Fund was created pursuant to P.L.1971, c.13 (N.J.S.A.5:9-21) as the repository of all revenues received from the sale of lottery tickets. Its balances pay for prizes to the holders of winning lottery tickets, defray the lottery's administrative costs, support State institutions, and provide aid for education. The Administration expects $1.04 billion in lottery revenue to fund State institutions and education in FY 2012. Page H-3 in the online version of the Governor's FY 2012 Budget delineates the specific programs supported by lottery proceeds.

The Casino Revenue Fund was created pursuant to P.L.1977, c.110 (N.J.S.A. 5:12-145) as the repository of all revenues received from casino gambling. Its balances are to be used to provide certain benefits to eligible senior and disabled citizens. The Administration expects $248.2 million in FY 2012 Casino Revenue Fund collections. Page H-4 in the online version of the Governor's FY 2012 Budget delineates the specific programs supported by State casino gambling proceeds.

EXPLANATION: FY 2011 language not recommended for FY 2012 denoted by strikethrough.
Recommended FY 2012 language that did not appear in FY 2011 denoted by underlining.

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DEPARTMENT OF THE TREASURY

1. Established under P.L.1968, c.405, the New Jersey Public Broadcasting Authority owns and operates **New Jersey Network Public Television and Radio (NJN)**, which is to provide New Jersey public affairs and cultural programming. The FY 2011 Appropriations Act included only six months of State funding ($2.0 million) for the State-run NJN based on an assumption that a non-State entity would take control of the network by the end of calendar year 2010. The law authorizing the divestiture, however, was not enacted until December 2010. As a result, the State extended supplemental funding to NJN to keep it operating through the end of FY 2011 at which point another entity would presumably assume responsibility of the network. The authority generated $17.6 million in revenues and incurred $28.8 million in operating expenses for the year ended June 30, 2010. To close the deficit, the State provided an $11.3 subsidy comprised of a direct $3.8 million appropriation and contributions of services and facilities valued at $7.5 million.

P.L.2010, c.104 provides for the transfer of authority assets and radio operating licenses, but not television operating licenses, to a non-profit organization or other entity eligible to operate a public broadcasting system. The law also creates in the Department of the Treasury the nonlapsing "Trust Fund for the Support of Public Broadcasting" as the repository of moneys to be appropriated to the entity selected to operate a public broadcasting system serving New Jersey. On February 7, 2011, the Department of the Treasury issued Requests for Proposals for the management of NJN's four-station television network, the management of NJN's nine-station radio network, and the sale of the radio network. Initial proposals had to be submitted by March 11 and final proposals by April 15. The Requests for Proposals require vendors to take control of the networks on July 1, 2011; run them as non-commercial educational and public media services; and provide New Jersey-centric programming, including New Jersey news and public affairs programming. The department engaged Public Radio Capital to serve as a financial advisor through the bid solicitation, evaluation, and contract negotiation processes.

- ***Questions:*** **Please provide a status update on New Jersey Network Public Television and Radio's transition from State control to management or ownership by non-profit organizations or other eligible entities. How many bids has the Department of the Treasury received under each of the three Requests for Proposals? How many bids is the department seriously evaluating? As far as the department can project, will NJN have fully transitioned to new operators by July 1, 2011? Do any of the bids involve additional State support for NJN after June 30, 2011, whether through direct appropriations or contributions of services and facilities? Why did the department engage Public Radio Capital to act as a financial advisor through the divestiture process? Does the State not have the required in-house expertise to carry out the divestiture? What will be the total payment to Public Radio Capital for its services? Has the "Trust Fund for the Support of Public Broadcasting" been set up?**

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

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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 destined to provide information to legislators and the public on the value and performance of a jurisdiction's arsenal of 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 using the annual New Jersey Tax Expenditure Report as its launching pad. The Division of Taxation published the first such report in March 2010 and a second in February 2011.

- *Questions:* **Please explain why the Department of the Treasury has yet to produce a Unified Economic Development Budget Report, as required by N.J.S.A.52:39-6. Does the department intend to publish a Unified Economic Development Budget Report for fiscal year 2011? If not, please indicate whether the department has started to plan for the production of such a report in the near future and whether the department has begun to compile information specifically for that purpose.**

3. Replying to OLS Discussion Point #4 in the FY 2010-2011 Department of the Treasury Budget Analysis, the department reported that it received 850 **Open Public Records Act (OPRA)** requests in FY 2009. The four-employee Treasury Government Records Access Unit handles Treasury OPRA requests and had $309,849 in annual salary costs as of the writing of the department response. The full cost of OPRA compliance, however, is unknown, as the unit frequently calls upon the assistance of Treasury's 11 divisions and the Office of Information Technology. The department also noted that the Division of Taxation, the Division of Purchase and Property, and the Division of Pension and Benefits combined accounted for 510 of the department's 850 OPRA requests in FY 2009. Moreover, 656 of the 850 requests emanated from requestors identifying themselves as representing commercial interests. Eight complaints were filed in FY 2009 against the department's denial of OPRA requests with the Government Records Council and the New Jersey Superior Court. At the time of the writing of the response one complaint was still pending and the other seven were either dismissed or withdrawn.

Subject to certain exceptions, P.L.2001, c.404 makes government records accessible to the public. A governmental entity must grant or deny access to a record within seven business days unless if 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.

- *Questions:* **Please provide Department of the Treasury Open Public Records Act (OPRA) statistics for FY 2010. How many OPRA requests did the department receive in FY 2010 in general and from commercial interests in particular? How many OPRA requests did the Treasury deny in FY 2010? 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 2010?**

Discussion Points (Cont'd)

- **Please indicate the department's expenditures and employee hours devoted to OPRA requests in FY 2010. How many OPRA requestors were subject to "ordinary copying charges" and "extraordinary request charges?" What were the Treasury's total FY 2010 collections from OPRA requestors differentiated between "ordinary copying charges" and "extraordinary request charges?" Please share the department's view on the adequacy of service charges imposed on OPRA requestors to reimburse the department for the costs it incurs in responding to OPRA requests. Should service charges be increased or "extraordinary request charges" be imposed more frequently?**

OFFICE OF WORKFORCE INITIATIVES AND DEVELOPMENT

4. The Treasury reported in reply to OLS discussion point #5 in the FY 2010-2011 Department of the Treasury Budget Analysis that the newly-formed Office of Workforce Initiatives and Development **changed the State's approach to training employees**, primarily to achieve cost savings. As of FY 2010, the office's Human Resource Development Institute (HRDI) is no longer offering courses to State and local employees in a classroom setting. Instead, State agencies and participating local governments are to contract for the provision of training services themselves. In addition, the HRDI operates the online Learning Management System through which it offers mandatory training to all State government employees on policy issues such as ethics, workplace violence, and diversity. Agencies may also utilize the system platform to host their own agency-specific online training courses. Evaluation Data in the FY 2012 Governor's Budget indicate that Treasury expects the number of online trainees to rise sharply from 13,100 in FY 2011 to 25,000 in FY 2012. Simultaneously, it anticipates that online training contact hours will surge from 33,200 in FY 2011 to 110,000 in FY 2012.

Section 117 of P.L.2008, c.29 (C.11A:6-25.1) made the Department of the Treasury responsible for developing programs to improve the efficiency and effectiveness of the public service, including, but not limited to, employee training, development, assistance and incentives, establish an internship program, and assist the Governor in general work force planning, personnel matters and labor relations. To attain these goals, the Office of Workforce Initiatives and Development compiles information on the human resources and training needs of State government, provides online training courses to employees of State government agencies, offers basic guidance and referrals through the Employee Advisory Services, and investigates and hears appeals related to Equal Employment Opportunity and Affirmative Action requirements for public employers and employees.

- ***Questions:*** **Please provide an assessment of the new approach to State employee training. Has it been effective? What are the advantages and disadvantages of eliminating Human Resource Development Institute (HRDI) classroom courses and instead running all courses online and authorizing State agencies to seek out training courses independent of HRDI? Does the Office of Workforce Initiatives and Development perceive online training to be as effective in developing employee skills as interactive classroom training? Does the HRDI review and approve employee training courses for which agencies would like to contract? How much was expended**

Discussion Points (Cont'd)

across State government in FY 2010 to provide employee training by contracted trainers? What are the projected expenditures for such training in FY 2011 and FY 2012?

- **On which initiatives is the Office of Workforce Initiatives and Development currently working to improve the efficiency and effectiveness of the public service? How are these initiatives coordinated with the Civil Service Reform Task Force established under section 118 of P.L.2008, c.29?**

DIVISION OF TAXATION

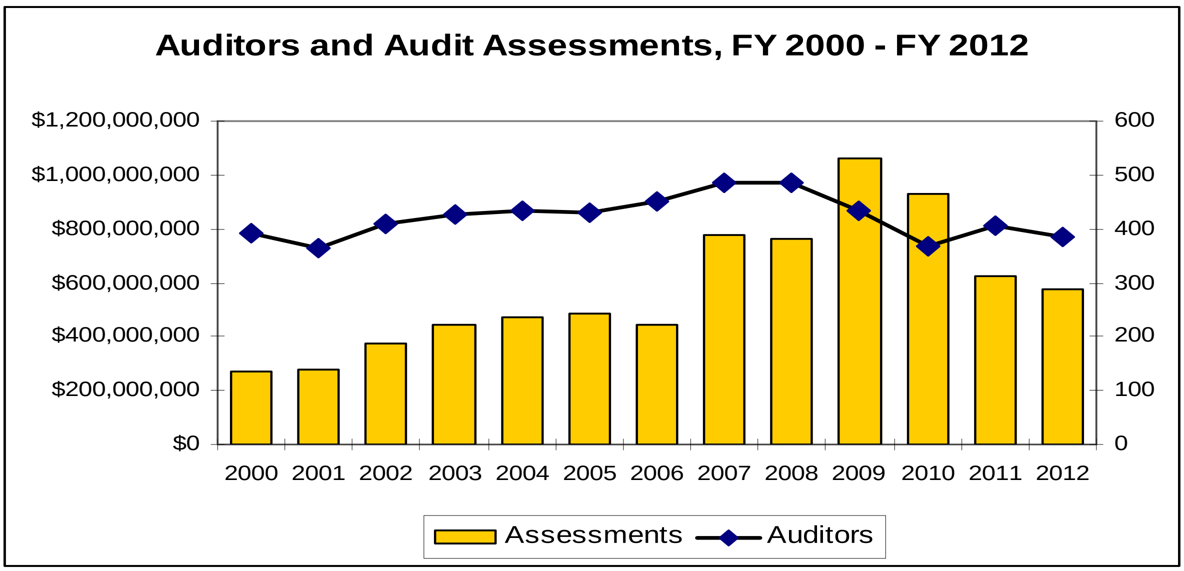
5. In its January 2010 report to the Transition Team of Governor-Elect Christie, the Treasury Subcommittee described the Division of Taxation as an understaffed, demoralized organization. The subcommittee pointed to numerous human resource issues, including acting (as opposed to permanent) managers, understaffing in enforcement, the assignment of only one employee to support technology, and cases in which supervisors are paid less than the employees they supervise. Subsequently, on October 3, 2010, the Asbury Park Press published an interview in which State Treasurer Andrew Sidamon-Eristoff stated that the Division of Taxation had been neglected for a number of years and that the **division was being "totally rebuilt** to be efficient." To that end, it was also hiring new people. Accordingly, the division's payroll count increased from 1,415 in FY 2010 to 1,486 in FY 2011.

- ***Questions:*** **Please describe the shortcomings that required the rebuilding of the Division of Taxation. Please outline the elements of the division's rebuilding and indicate the manner in which it will remedy the shortcomings. Does the rebuilding involve any organizational changes? Which of the division's functional areas are affected? Please indicate the number of additional full-time positions that were filled in FY 2011 and are anticipated to be filled in FY 2012 as part of the rebuilding. What other changes have been made to improve the morale of division employees? Have the division's efforts already produced results?**

6. Replying to Discussion Point #12 in the FY 2010-2011 Department of the Treasury Budget Analysis, the Division of Taxation expressed concern that the continued thinning of its ranks would weaken **tax compliance and enforcement** programs and accelerate a related loss of State revenue. Given a close correlation between compliance collections and staffing levels, the division warned that the revenue loss from the continued decline in filled positions would soon reach hundreds of millions of dollars. In reference to the FY 2009 Tax Amnesty program that brought in $746.3 million, the division asserted that "much of the … collections were a recovery of contested assessments, known deficiencies and an acceleration of revenues that would have been collected in an orderly manner but for Taxation's serious attrition problem." Including the Tax Amnesty program, the division's compliance collections were $2.0 billion in FY 2009.

Discussion Points (Cont'd)

According to Evaluation Data contained in the FY 2012 Governor's Budget (page D-371), the average number of auditors increased from 369 in FY 2010 to 405 in FY 2011 but is projected to fall to 386 in FY 2012. Simultaneously, the number of completed audits is projected to rise from 72,200 in FY 2010 to 85,700 in FY 2011 and 90,800 in FY 2012. The auditors' assessment amounts are projected to decline from $927.9 million in FY 2010 to $621.4 million in FY 2011 and $575.4 million in FY 2012. In response to Discussion Point #8 in the FY 2010-2011 Department of the Treasury Budget Analysis, the Division of Taxation indicated that 0.8 percent of gross income tax returns and 0.7 percent of corporation business tax returns were audited.



- ***Questions:*** **Please explain the reason(s) for which the average number of auditors is projected to decline from 405 in FY 2011 to 386 in FY 2012? Is the division not allowed to replace auditors who leave their position in FY 2012?**

- **Please reconcile the projected decline in the number of auditors in FY 2012 with the projected increase in completed audits from 85,700 in FY 2011 to 90,800 in FY 2012. What factor(s) account for the projected increase in the number of audit completions?**

- **What factor(s) account for the projected plummeting of audit assessments from $927.9 million in FY 2010 to $621.4 million in FY 2011? For what reason(s) are total audit assessments expected to decrease further to $575.3 million in FY 2012?**

- **For each tax type, please list the current level of total outstanding debt, as well as, for FY 2010 and 2011 to date, the amount of tax debt collected, the amount of new balances due, and any amount of tax debt written off.**

- **For tax year 2009, please indicate the number of gross income tax and corporation business tax returns that were audited as well as the percentage that the audited returns represented relative to total returns filed.**

Discussion Points (Cont'd)

7. During the Department of the Treasury's budget hearing before the Assembly Budget Committee on April 21, 2010, the State Treasurer testified that he would be asking the department's senior managers to continue to execute priorities the State Treasurer had previously outlined. The priorities include "**shifting [the] tax administration paradigm to emphasize voluntary compliance**, which accounts for 95% of [the State's] tax revenue." Addressing Discussion Point #8 in the FY 2010-2011 Department of the Treasury Budget Analysis, the Division of Taxation explained that the goal of the voluntary compliance initiative was to boost the State's revenue stream by simplifying compliance with the tax code. To that end the division planned to improve its personal and online responsiveness to inquiries and ascertain that information resources are user-friendly, up-to-date, and informative.

- ***Questions:*** **Please detail the changes the Division of Taxation has implemented under the voluntary compliance initiative to enhance taxpayers' good-faith ability of complying with the tax code. Does the division plan to implement any additional changes as part of the initiative? Please indicate the amount the initiative has cost to date and is expected to cost once it will be fully implemented. What have been the results of the initiative?**

8. The Office of the State Auditor recommended in its October 2010 audit report on the Division of Taxation that the division continue with its initiative to reduce the **backlog in the administrative review of taxpayer protests and appeals of division tax determinations**. The State Auditor stated that the division's Conference and Appeals Branch was not reviewing taxpayer appeals and protests in a timely manner, as the backlog of 1,300 cases 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. The Conference and Appeals Branch noted that the delays reflected, in part, the labor-intensive nature of the reviews. In its audit response, the division noted that it had begun pursuing an initiative designed to reduce the backlog. It would increase the number of specialists who hold conferences with taxpayers, strengthen oversight by having supervisors perform periodic case reviews, and evaluate settlement parameters and authority.

- ***Questions:*** **Please elaborate on the initiative to reduce the backlog in the administrative review of protests and appeals that taxpayers file against Division of Taxation tax determinations. Is the Conference and Appeals Branch being restructured, and, if so, how? How many specialists worked on administrative reviews of taxpayer protests and appeals in FY 2010 and 2011 and are projected to do so in FY 2012? How many new specialists were hired in FY 2011? Has the division reviewed settlement parameters and authority? If so, please outline any changes that have been or are scheduled to be implemented. What has been the outcome of the backlog reduction initiative to date? Have the backlog and wait times been reduced? What are the division's ultimate backlog and wait time targets?**

Discussion Points (Cont'd)

9. The State contracts with Pioneer Credit Recovery, Inc. for the collection of certain past due State tax debt. Under the provisions of two separate contracts, the vendor is responsible for working with the Division of Taxation to provide **deficient and delinquent State tax debt administration and account resolution services**, which include efforts to contact taxpayers and "work vigorously" to recover moneys owed to the State. Deficient debt represents amounts owed to the State as reported by the taxpayer on a previously filed but unpaid return. Delinquent debt represents amounts owed to the State that the taxpayer did not disclose.

The contracts require Pioneer Credit Recovery to provide a monthly narrative and statistical progress report to the State. This report must detail revenue collections by tax type, the number of delinquent tax returns received, account adjustment information, accomplishments, staffing levels, problem areas (with suggested solutions), and certain other information related to the vendor's activities for the prior month.

Additionally, N.J.S.A.54:49-12.3 specifies that, as part of an agreement between the State and a debt collection agency, the State may provide that compensation for collection services may be added to the taxes, interest, additions to tax, and penalties to be collected from the debtor. According to a Division of Taxation publication, ANJ-1, a ten percent referral cost recovery fee is added to a taxpayer's liability if the taxpayer's tax bill is sent to the State's collection agency.

- ***Questions:*** **For each of the last five fiscal years, please indicate, segregated into deficient and delinquent tax debt, a) the amount of tax debt referred to Pioneer Credit Recovery, b) the amount collected by the vendor, c) the vendor's recovery rate, and d) the guaranteed minimum revenue the vendor is required to collect. Has Pioneer Credit Recovery ever fallen short of the guaranteed minimum revenue required to be collected?**

- **For the most recent month for which the data are available, please detail the number of staff, by position, that Pioneer Credit Recovery assigned to the resolution of deficient and delinquent State tax debt accounts. How do those staffing figures compare to the staffing figures maintained by the vendor during the same month in each of the last five fiscal years?**

- **What is the current referral cost recovery fee imposed on a taxpayer, if a taxpayer's deficient or delinquent tax bill is forwarded to the collection agency for recovery? For each of the last five fiscal years, please provide the number of taxpayers on whom the referral cost recovery fee was imposed and the total amount of revenue generated from recovery fees.**

10. In the Fall of 2010, the Division of Taxation **extended** until November 30, 2011 the **contracts with Pioneer Credit Recovery, Inc. for the provision of deficient and delinquent State tax debt administration and account resolution services**. The previous contracts were set to expire on November 30, 2010 and their extension kept the division from having to solicit and evaluate bids on new debt collection contracts.

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Nevertheless, in a Request for Information document dated June 21, 2010, the division announced that it was seeking assistance from relevant contractors in developing requirements to procure a vendor for deficient and delinquent tax debt administration and account resolution services. Responses were required to be submitted no later than July 12, 2010. Presumably, the request was issued in preparation for the expiration of the State's contracts with Pioneer Credit Recovery. Following the request's issuance, however, the division extended the contracts with Pioneer Credit Recovery, issued no additional pronouncement on the Request for Information, and did not spur the Division of Purchase and Property to publish a Request for Proposal for debt collection services.

- ***Questions:*** **Please comment on the decision of the Division of Taxation to extend the deficient and delinquent tax debt collection contracts with Pioneer Credit Recovery for an additional year. Was the decision to extend the contracts made at the expense of opening the contracts up to bid through the issuance of a Request for Proposal? If so, please disclose the reasons for doing so. Does the division anticipate issuing a Request for Proposal for the procurement before the expiration of the current contract extension? Does the division intend to extend the contracts again after the expiration of the current extension?**

- **Please comment on the Request for Information issued by the division on June 21, 2010 for assistance from relevant contractors in developing requirements to procure a vendor to provide deficient and delinquent tax debt administration and account resolution services. How many entities responded? What was the respondents' overall level of experience in performing tax debt administration, resolution, and recovery services on a state or county scale? Did any of the respondents suggest a method other than the method employed by the current vendor for the collection of delinquent or deficient State tax debt? Did any of the respondents suggest an approach other than the approach currently employed to compensate retained collection service providers? If so, please explain.**

11. Under the **State's unclaimed property laws**, the State deems certain properties abandoned by their rightful owners if no activity related thereto has been recorded during statutorily defined periods of time. Once the State deems property abandoned, it takes custodial possession of the property, deposits it in the Unclaimed Personal Property Trust Fund, and transfers a portion thereof to the General Fund for State use. For instance, the enacted FY 2011 annual appropriations act scheduled a transfer of $202.6 million to the General Fund, while the Governor's FY 2012 Budget recommends a $192.0 million transfer. Rightful owners, however, can reclaim their property at any time.

P.L.2010, c.25 made a series of changes to the system for the escheatment of unclaimed property. Some of the more notable changes included making stored value cards, such as gift cards, subject to the State's escheatment processes and shortening the abandonment periods for money orders and travelers checks. Subsequently, a number of litigants challenged the law's validity in court on various grounds and with varying results. To date courts have issued temporary injunctions against certain aspects of the law. The United States District Court for the District of New Jersey issued a preliminary injunction on November 13, 2010 against the

Discussion Points (Cont'd)

State requiring that issuers of stored value cards issued under a contract obligating the issuers to redeem the cards solely for merchandise or services (but not for cash) remit such cards to the State if they were issued before July 1, 2010 (*American Express Travel Related Services Company, Inc.* v. *Sidamon–Eristoff, et al., 2010 U.S. Dist. LEXIS 120153 (D.N.J. Nov. 13, 2010))*. In the same preliminary injunction the court also enjoined the State from presuming that cards were sold to New Jersey residents if the transaction occurred in New Jersey. Such presumption would have enabled the State to claim jurisdiction over the cards. Subsequently, the Department of the Treasury required all issuers of stored value cards to obtain and maintain, at a minimum, the zip code of the purchaser of a stored value card transacted in New Jersey. On January 31, 2011, the United States Court of Appeals for the Third Circuit, however, appears to have granted a temporary injunction barring the State from enforcing that requirement (*American Express Prepaid Card Management Corporation v. Andrew P. Sidamon-Eristoff, et al.,* No. 11-1141, Temporary Stay granted (3rd Cir. Jan 31, 2011)).

- ***Questions:*** **Relative to ongoing litigation, please provide the operational status of the escheatment of money orders, travelers checks, and stored value cards. To what extent have the changes to the abandonment periods provided under P.L.2010, c.25 been implemented? How does the division assess the probability of prevailing in the court cases challenging the implementation of P.L.2010, c.25?**

- **What is the cumulative value of unclaimed personal property that has escheated to the State since the program's inception (and that could therefore be claimed by property owners)? What is the approximate ratio of this value of potential claims on escheated personal property to the current Unclaimed Personal Property Trust Fund balance?**

12. The **federal Patient Protection and Affordable Care Act (PPACA)** extended federal income tax exclusions for employer-provided health care coverage of an employee's child under the age of 27. More specifically, PPACA extended federal income tax exclusions to an employee (i) for the coverage of the employee's child who has not attained age 27 as of the end of the taxable year under an employer-provided accident or health plan and (ii) reimbursements made directly or indirectly to an employee for the medical care of the employee's child who has not attained age 27 as of the end of the taxable year under an employer-provided accident or health plan (see IRS Notice 2010-38). This extension may affect the administration of the New Jersey gross income tax, for, historically, New Jersey has administered the gross income tax to mimic the federal income tax treatment for much of this type of employer-provided coverage.

- ***Questions:*** **Please indicate whether the Division of Taxation intends to adopt for purposes of the New Jersey gross income tax the federal Patient Protection and Affordable Care Act (PPACA) extension of the federal income tax exclusions for employer-provided health care coverage of an employee's child under the age of 27. If so, please provide an estimate of the annual gross income tax revenue loss, if any, associated with the extension. Please identify and comment on other PPACA provisions that may affect the administration of the New Jersey gross income tax or any of the State's business taxes.**

Discussion Points (Cont'd)

13. New Jersey's **Solar Renewable Energy Certificate (SREC)** program provides qualified solar electricity producing projects with an SREC for each 1,000 kilowatt-hours of electricity produced. The SRECs may then be sold by producers to electricity suppliers that are required to meet solar energy generation requirements under New Jersey's Renewable Portfolio Standard authorized pursuant to P.L.1999, c.23 (C.48:3-49 et seq.). P.L.2009, c.289 sets forth the specific number of kilowatt-hours that electricity suppliers must buy from solar electric power generators in each year.

- ***Question:*** **Please explain the Division of Taxation's treatment of the proceeds derived from the sale of solar renewable energy certificates under the sales and use tax, gross income tax, and corporation business tax.**

14. P.L.2011, c.19 revised the "Casino Control Act," N.J.S.A.5:12-1 et seq., to "modernize and streamline" the State's casino regulatory structure for purposes of achieving efficiencies and cost savings while maintaining integrity in the regulation of casino operations. As part of the revisions, the law transferred the duties and responsibilities of **collecting and administering certain casino-related taxes and fees** from the Casino Control Commission to the Division of Taxation. Specifically, the law charges the division with the collection and administration of the $3 per day casino hotel occupancy fee, the eight percent multi-casino progressive slot machine tax, and the eight percent tax on the gross revenues of a casino licensee. This transfer of oversight represents a reversion in policy, as the division had administered the three revenue raisers until P.L.2004, c.128 transferred their administration to the Casino Control Commission. The commission was, at that time, believed to be better situated to understand the nuances of the casino industry and to collect and administer the casino-related taxes and fees with greater efficiency.

- ***Questions:*** **Please indicate whether the Division of Taxation has taken full administrative responsibility for collecting and administering the casino-related taxes and fees transferred from the Casino Control Commission in accordance with P.L.2011, c.19. What actions has the division taken to effectuate a seamless transfer of jurisdiction and what actions will it still take to that end, if any? By which date does the division expect to complete the transfer of oversight, if it has not yet been completed? Does the division expect to hire additional staff or incur any additional costs as a result of the additional duties and responsibilities associated with the collection and administration of these taxes and fees? If so, please explain. Does the division feel that it is at a disadvantage relative to the Casino Control Commission in administering the revenue raisers effectively and efficiently, given that the commission presumably had a better understanding of the casino industry?**

15. 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

Discussion Points (Cont'd)

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 #11 in the FY 2010-2011 Department of the Treasury Budget Analysis, the division did, however, provide some summary information on CBT filings, including an indication that 92.8 percent of CBT filers paid only the statutory minimum tax amounts.

- ***Questions:*** **For the most recent tax year for which the data are available, 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, d) and 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.**

16. Several features of the Governor's proposed FY 2012 **New Jersey Homestead Property Tax Credit program** (N.J.S.A.54:4-8.57 et seq.), renamed the Homestead Benefit Program by the Administration, are unclear in the budget recommendation. One ambiguity revolves around the recommended program appropriation as well as individual benefit amounts. The Governor's FY 2012 Budget recommends doubling benefit amounts over FY 2011 levels. Notwithstanding, in the Governor's Budget Message to the Joint Session of the New Jersey Senate and General Assembly on February 22, 2012, the Governor tied the doubling of homestead benefits to the adoption of the Governor's proposed health benefits reforms for retired public school teachers as well as active and retired employees of the State and its public universities. A second ambiguity regards the payment schedule of any homestead benefit, as proposed budget language grants the Division of Taxation discretion in determining the number of installments in which benefits would be paid as well as their timing.

Overall, the Executive estimates that 938,500 homeowners would collect an average $476 benefit in FY 2012, after collecting an average $238 rebate in FY 2011. Reflecting the anticipation of a year-end lapse to the General Fund of $32.3 million of the $268.2 million adjusted FY 2011 appropriation, the program appropriation would increase by $222.1 million, or 94.2 percent, from $235.9 million in FY 2011 to $458.0 million in FY 2012.

Under the program's statutory structure, 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 2012 are $150 for all tenants with incomes up to

Discussion Points (Cont'd)

$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.

Relative to statutory provisions, the Governor's FY 2012 Budget proposes to a) eliminate rebates for non-senior homeowners with incomes above $75,000 and senior homeowners with incomes above $150,000, b) reduce rebates from 20 percent to 10 percent of property taxes paid up to $10,000 for senior homeowners with incomes not exceeding $100,000 and for non-senior homeowners with incomes not exceeding $50,000; c) reduce rebates from 20 percent to 6.67 percent of property taxes paid up to $10,000 for non-senior homeowners with incomes between $50,000 and $75,000, d) reduce rebates from 15 percent to 5 percent of property taxes paid up to $10,000 for senior homeowners with incomes between $100,000 and $150,000, e) eliminate the alternative benefit computation under which claimants who are disabled, blind or 65 years of age or older 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 five percent of the claimant's gross income subject to the ranges indicated in the above paragraph, and f) maintain 2006 property taxes, as opposed to tax year 2010 property taxes, as the basis for calculating homestead benefits.

The Governor also proposes continuing the elimination of the homestead property tax rebate program for tenants. Statutory tenant rebates in FY 2012 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.

- ***Questions:*** **Please indicate the reason(s) and legal authority for the Administration's decision to substitute Homestead Benefit Program for the statutory name of the New Jersey Homestead Property Tax Credit Program. Does the name change signal a partial or complete reversion in the benefit's delivery method to the mailing of checks to claimants in FY 2012 after FY 2011 program benefits were supposed to be disbursed, for the first time ever, as credits applied directly via electronic funds transfer against the local property tax account for a claimant's homestead? Please provide an assessment of the implementation of delivering the homestead benefit as a direct credit against taxpayers' local property tax accounts. Did the implementation proceed smoothly? If not, what complications have surfaced and how does the Division of Taxation intend to remedy them?**

- **Since publication of the Governor's FY 2012 Budget, has the Division of Taxation decided upon the temporal modalities of disbursing homestead benefits in FY 2012? If so, please set forth any relevant details.**

- **For FY 2011 Homestead Property Tax Credit distributions, please provide the following data for the senior and non-senior homeowner populations: 1) distribution of rebates by income brackets and 2) distribution of rebates by rebate amounts.**

- **Since homestead benefit amounts are a function, in part, of real estate values, please provide a tax year 2010 statewide distribution of the number and the assessed value of residential property by no fewer than eight distinct brackets, broken up in increments of at least $100,000.**

Discussion Points (Cont'd)

17. 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 its audit response, the division indicated that it would perform additional analysis to assess the feasibility of adopting the eligibility verification techniques outlined by the State Auditor. Specifically, the State Auditor recommended that the division:

1. Verify the initial age or disability documentation accompanying a senior and disabled citizens' property tax freeze application and withhold the payment of benefits until proper support is provided.
2. 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.
3. Utilize available tax data to verify that all senior and disabled citizens' property tax freeze applicants meet the program's income eligibility criteria.
4. Match residency claims of senior and disabled citizens' property tax freeze application to New Jersey Property Tax Systems (MODIV) real estate data to verify the meeting of the program's three-year residency requirement.
5. Enhance senior and disabled citizens' property tax deduction application forms to include a statement indicating that applicants' income information will be compared with federal and state tax return information for eligibility verification.
6. Utilize available tax data to verify that senior and disabled citizens' property tax deduction applicants meet the program's income eligibility criteria.

The Governor's FY 2012 Budget proposes a $140.4 million appropriation to the Senior and Disabled Citizens' Property Tax Freeze program, which would reimburse qualified homeowners for the difference between the amount of property taxes they paid on their principal residence in tax year 2008 and the amount they had paid in their base year. Qualified homeowners in FY 2012 would have to be at least 65 years of age or disabled or both. Because qualified homeowners must have participated in the program in FY 2011, they would have to have a tax year 2007 income not exceeding $60,000 and a tax year 2008 and 2009 income not exceeding $70,000, 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.

The Governor's FY 2012 Budget also proposes a $17.3 million appropriation for the State reimbursement to municipalities for the cost of senior and disabled citizens' property tax deductions. Deductions equal $250 for 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.

• ***Questions:*** **Please comment on the outcomes of the Division of Taxation's analysis assessing the feasibility of adopting the additional eligibility verification techniques outlined by the State Auditor for applications submitted for the senior and disabled citizens' property tax freeze and deduction programs. Which techniques will the**

Discussion Points (Cont'd)

division adopt and which will it not adopt? For each technique it does not intend to adopt, please explain the rationale for the non-adoption.

18. 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 #15 in the FY 2010-2011 Department of the Treasury Budget Analysis, the division stated that it had not yet had a chance to work on this initiative but that it planned to approach the Division of Medical Assistance and Health Services in FY 2011 so that a program could be in place before the end of FY 2011.

- ***Questions:*** **Has the Division of Taxation held 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 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, does the division intend to pursue these discussions before the end of FY 2012?**

19. In its January 2010 report to the Transition Team of Governor-Elect Christie, the Treasury Subcommittee called the development of the **Property Assessment Management System (PAMS)** "an example of a flawed outsourced project," and recommended the re-evaluation of the project as well as the cessation of its funding. The Administration heeded the advice. It suspended the PAMS contracts in January 2010, reviewed the project, and terminated it in October 2010. Consistent with the termination, the Administration intends to lapse the remaining anticipated $958,000 balance from the PAMS account into the General Fund by the end of FY 2011, proposes no new appropriation to the project in FY 2012, and

Discussion Points (Cont'd)

proposes to eliminate language that granted Treasury the authority to expend additional resources on PAMS if the Administration should opt in favor of the system's continued implementation.

Under development since it was initially funded in FY 2001, the web-based PAMS had as an objective to enhance property assessment and tax collection processes by allowing the Division of Taxation to aggregate and analyze local real property data that the State, county boards of taxation, and municipal assessors can use to generate tax lists, assessments, and various reports. The system was planned to be first implemented in three pilot counties (Camden, Hunterdon, and Salem) in the fourth quarter of calendar year 2007, yet it never became operational.

- ***Questions:*** **Please set forth the reason(s) for terminating the Property Assessment Management System (PAMS) project in October 2010. What were the complications in developing PAMS that caused the project not to be completed after first funding it in FY 2001? Please indicate the amount the State has spent on PAMS since it was initially funded in FY 2001. How much was the project initially estimated to cost? How much more would have to be expended to finish it? What is the amount, if any, that the State has or had to pay third parties as a result of terminating the contracts?**

DIVISION OF REVENUE

20. In the FY 2010 annual report on New Jersey's centralized non-tax debt collection program the Division of Revenue indicated that **non-tax debt collections** increased by 36.3 percent from $8.0 million in FY 2009 to $10.8 million in FY 2010. Simultaneously, the collection rate edged up from 1.3 percent in FY 2009 to 2.3 percent in FY 2010. Overall, based on non-tax debt inventory reports submitted to the division, the State's cumulative outstanding non-tax debt amount was $502.5 million at the end of FY 2010, of which the division actively managed $469.6 million.

For the first time ever, the division wrote off as uncollectible $306.3 million in its non-tax debt portfolio in FY 2010 so as to paint a more realistic picture of its potentially collectible portion. Doing so would provide better information to third-party collection contractors (the second referral contractor, NCO Financial Systems, Inc., had already stopped working on second referral cases because it was suffering financial losses in attempting to collect the debt) and contribute to a more accurate collection rate. From now on the division intends to perform a write-off operation at least once every year.

- ***Questions:*** **Please explain the factor(s) underpinning the increase in non-tax debt collections from $8.0 million in FY 2009 to $10.8 million in FY 2010. What did the Division of Revenue do differently in FY 2010, if anything? Does the division project FY 2011 and FY 2012 non-tax debt collections to match the FY 2010 level? If the division anticipates an increase or decrease of at least 10 percent, please explain the factor(s) contributing to the noticeable change. Does the division expect the overall collection rate to increase further now that it has instituted a regular process for writing off certain non-tax debt as uncollectable?**

Discussion Points (Cont'd)

21. P.L.2008, c.24 statutorily **centralized the non-tax debt management** functions for State government in the Division of Revenue 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. The law codified preexisting Department of the Treasury policies to which many State agencies did not adhere (see Reorganization Plan No. 004-2005 and Circular Letter 06-03, Statewide Non-Tax Debt Collections and Write-Off). In the FY 2010 annual report on New Jersey's centralized non-tax debt collection program, the division indicated that not all State departments and agencies complied with the requirements of P.L.2008, c.24. In fact, the compliance rate for transferring non-tax debt to the division after a debt is owed for 90 days is 90.3 percent, an improvement over the 66.9 percent FY 2009 compliance rate. The table below delineates the extent to which State departments and agencies adhere to the requirements of P.L.2008, c.24. The division considers a compliance rate of at least 90 percent to equate to "substantial compliance" and noted in the annual report that all agencies that fell short of the 90 percent compliance target in FY 2010 were working with the division to further compliance.

Compliance with Requirement to Transfer Non-Tax Debt to Division of Revenue in FY 2010			
Department/Agency	**Debt Subject to Mandatory Transfer**	**Debt Transferred**	**Compliance Rate**
Office of the Public Defender	$322,326,472	$322,326,472	100.0%
Banking and Insurance	$35,685,341	$35,685,341	100.0%
Treasury	$6,822,146	$6,822,146	100.0%
Lottery	$1,863,869	$1,863,869	100.0%
Children and Families	$1,013,255	$1,013,255	100.0%
Corrections	$285,751	$285,751	100.0%
Casino Control Commission	$142,978	$142,978	100.0%
Health and Senior Services	$23,421	$23,421	100.0%
Agriculture	$16,196	$16,196	100.0%
Public Advocate	$8,500	$8,500	100.0%
Civil Service Commission	$2,338	$2,338	100.0%
Law and Public Safety	$46,756,809	$46,705,967	99.9%
Transportation	$399,882	$396,275	99.1%
Community Affairs	$19,592,920	$14,388,636	73.4%
Military and Veterans Affairs	$1,214,311	$826,746	68.1%
Labor and Workforce Development	$6,289,309	$4,200,473	66.8%
Human Services	$16,875,380	$8,595,977	50.9%
Environmental Protection	$43,172,608	$10,400,868	24.1%
Parole Board	$10,969	$2,310	21.0%
Education	$0	$0	N/A
State	$0	$0	N/A
TOTAL	**$502,502,455**	**$453,707,519**	**90.3%**

Discussion Points (Cont'd)

- *Questions:* **Please relate whether the Division of Revenue has succeeded in having additional non-tax debt accounts transferred to its non-tax debt management program since publication of the FY 2010 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 that keep impeding certain departments from achieving a 90 percent compliance rate with the debt transfer requirement of P.L.2008, c.24.**

22. In the FY 2010 annual report on New Jersey's centralized non-tax debt collection program the Division of Revenue stated that the Department of the Treasury and the Department of Labor and Workforce Development were collaborating to incorporate portions of the Unemployment Insurance (UI) Trust Fund debt portfolio into the division's non-tax debt collection program. The total UI debt portfolio is valued at over $1 billion and encompasses debts that businesses owe from not making required contributions and individuals from having received excess benefits. In a pilot program during FY 2010 and FY 2011, a project team used the division's existing filing and payment processing facilities to try to recoup $15 million in aged, difficult-to-collect UI debt and associated penalties and interest. Following the trial run the project team was to plan a permanent transfer of UI debt collection functions under the division's auspices.

- *Questions:* **Please provide a progress report on the planned incorporation of the Unemployment Insurance (UI) Trust Fund debt portfolio into the Division of Revenue's non-tax debt collection program. By what date is the consolidation scheduled to be effectuated? Please describe the outcomes of the pilot program and indicate whether they are bolstering the premises of the consolidation? Would the entire debt portfolio of over $1 billion be transferred to the division or merely a part thereof? What is the Department of Labor and Workforce Development's UI debt collection rate? What collection rate does the division expect to achieve? Would a part of the debt be written off as uncollectable upon its transfer to the division?**

DIVISION OF INVESTMENT

23. The Division of Investment manages the investment portfolios of the various State pension funds, whose total assets the division valued at an estimated $72.6 billion on February 28, 2011.

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 #19 in the FY 2010-2011 Department of the Treasury Budget Analysis, the division stated that it voted proxies to strengthen shareholder rights and promote good corporate governance practices. The division's shareholder activism, however, did not extend to social issues, as section b. of C.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 support of its answer, the division

Discussion Points (Cont'd)

supplied the "Fiscal Year 2009 Summary Proxy Voting Report" and the "State of New Jersey Division of Investment Proxy Guidelines." According to the "Fiscal Year 2009 Summary Proxy Voting Report," in FY 2009, the division voted 2,817 proxies and went against 8.2 percent of management's recommended proposals. 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 division also commonly supported shareholder proposals seeking an advisory vote on executive compensation, also known as "say on pay" proposals.

- ***Questions:*** **Please comment on the exercise of proxy voting rights by the Division of Investment in FY 2010 and FY 2011. How many proxies did the division vote in FY 2010, 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 2010? Please indicate any changes the division has made since the beginning of calendar year 2010 to the "State of New Jersey Division of Investment Proxy Guidelines." Please submit a copy of the "Fiscal Year 2010 Summary Proxy Voting Report."**

24. According to the minutes from the October 21, 2010 meeting of the New Jersey State Investment Council (SIC), the Division of Investment proposed **increasing the regulatory alternative investment asset allocation ceiling** from 28 percent of the pension funds' total portfolio to 38 percent (N.J.A.C.17:16-69.9). The maximum allocation for hedge funds would be increased from 7 percent to 15 percent of the total portfolio, that for private equity firms from 7 percent to 12 percent, and that for real estate from 7 percent to 9 percent, while the maximum allocation for commodities would remain at 7 percent.

In January 2005, the SIC first adopted policies and procedures concerning the Alternative Investment Program (AIP), which called for the establishment of a new common trust fund to be known as "Common Pension Fund E" whose 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

Asset Allocation and Targets for Pension Funds (February 28, 2011)

Asset Class	Target Allocation	Actual Allocation
Domestic Equity	19.0%	26.72%
International Equity	20.0%	21.07%
Domestic Fixed Income:	38.75%	31.13%
AIP	19.25%	16.94%
Cash	3.0%	2.48%
Police & Fire Mortgages	NA	1.65%

Discussion Points (Cont'd)

the performance of underlying financial markets. As of March 31, 2010, the Division of Investment had committed $17.3 billion to 156 alternative investments, of which it had already contributed $11.3 billion at that time.

- ***Questions:*** **Why did the Division of Investment propose increasing the ceiling for the portion of pension fund resources that may be invested in alternative assets from 28 percent to 38 percent? Given that as of February 28, 2011, about 17.0 percent of pension fund resources were invested in alternative assets, does the proposed increase in the ceiling portend a reallocation of significantly more resources into alternative asset classes? Does the division also plan to adopt different asset allocation targets or ranges alongside the higher ceiling? If so, please set forth the current asset allocation targets or ranges and their updated equivalents.**

- **Please explain the investment class "Police and Fire Mortgages," given that 1.65 percent of pension fund resources were invested in them as of February 28, 2011. Why are pension fund resources invested in "Police and Fire Mortgages?" Why is there no target allocation for these asset types?**

- **Please list the investments approved under the AIP and indicate for each approved investment the approval and inception months and the amounts committed and contributed. Per AIP asset class, what have been the gross returns on these investments since inception and what have been the returns net of management and performance fees paid to alternative investment firms?**

- **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.**

25. During the Department of the Treasury's revenue and budget hearing before the Senate Budget and Appropriations Committee on April 4, 2011, the State Treasurer mentioned that the Division of Investment had been successful since early 2010 in **renegotiating fee arrangements with alternative investment firms**. Addressing OLS Discussion Point #20 in the FY 2010-2011 Department of the Treasury Budget Analysis, the division indicated that it paid $64.4 million in management fees to alternative investment firms in FY 2009, of which $61.2 million represented management fees and $3.2 million performance fees.

- ***Questions:*** **Please describe the success the Division of Investment has had in lowering fee payments to alternative investment firms through renegotiations. Please provide an estimate of the amount the division saves in annual fee payments courtesy of the renegotiated fee arrangements. How many fee arrangements has the division renegotiated since January 2010? Are renegotiations ongoing or planned with additional firms?**

- **What was the total amount of fees and performance premiums paid to investment firms in FY 2010?**

Discussion Points (Cont'd)

26. 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.

- ***Questions:*** **Please provide a status update on the review of the Alternative Investment Program (AIP). Please outline the changes to the AIP monitoring policies and procedures that the Division of Investment proposed to the State Investment Council (SIC) for approval. Has the SIC adopted the suggestions? If the SIC has not yet adopted them, does the division expect the SIC to adopt them? If not, why has the SIC sidelined the policies and procedures?**

27. The Office of the State Auditor recommended in its December 2009 audit report on the Division of Investment that the division be given the resources for the **active in-house management of the emerging markets equity portfolio for the various State pension funds**. The division currently engages outside investment firms to guide investments in this area. In FY 2009, it paid $6.4 million for these services. The State Auditor calculated that the division could have saved an estimated $5.0 million that year had it actively managed the portfolio instead. The annual amount of savings, however, will fluctuate with the scale of resources the division moves into emerging markets equities. Currently, emerging markets equities are to comprise one to four percent of total investments, according to the asset allocation policies for the State pension funds reported in the New Jersey State Investment Council Annual Report for FY 2010. In its audit response, the division supported the notion of "insourcing" all aspects of the management of the emerging markets equity portfolio, even if only a portion thereof in a pilot program at first. The division noted, however, that doing so would require the building of additional capacities that may not be inexpensive. For example, traders would have to work on a 24-hour basis, the division would have to develop an understanding of the legal environment in emerging markets, staff would have to travel extensively to emerging markets in spite of State travel restrictions, and trader compensation would have to be commensurate with industry standards.

- ***Questions:*** **Please indicate whether the Division of Investment has begun to lay the groundwork for the active in-house management of the emerging markets equity portfolio. If so, how far has the initiative progressed? If not, does the division intend to undertake the initiative in the near future? If the division is currently not planning on transitioning the emerging markets equity portfolio to active in-house management, for which reason(s) is the division not doing so, given that the division agreed with the Office of the State Auditor that it would be more cost-effective to manage the portfolio in-house? Does the division expect to increase the allocation of pension funds resources into emerging markets equities?**

Discussion Points (Cont'd)

DIVISION OF PROPERTY MANAGEMENT AND CONSTRUCTION

28. On March 9, 2011, the Office of the State Comptroller released its audit report on the "Disposition of Excess and Surplus Computer Equipment." In the report, the State Comptroller revealed **substantial deviations from policies and procedures on the protection of data on excess computer equipment** that State agencies release for reallocation to other State agencies or sale or donation to third parties. The State Comptroller found data on 46 of 58 hard drives slated for redistribution. Business-related data were on 37 hard drives, of which 13 were 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. In response to the audit, the Division of Purchase and Property and the Division of Property Management and Construction stated that they had suspended the redistribution of excess computer equipment containing data storage devices, issued an interim policy for handling surplus computers requiring agencies to remove all data storing devices and hold them pending further direction on proper data cleansing and destruction, and worked on developing a permanent policy for handling surplus computers.

Division of Purchase and Property Circular Letter 00-17-DPP, Disposition of Excess and Surplus Computer Equipment, directs State agencies to remove all data from a computer's hard drive and data storage media before making them available for redistribution. Agencies are to "degauss" all computer hard drives, a process whereby exposure to a strong magnetic field destroys all electronic data. Following the purge, agencies are to send the excess computer equipment 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 effects the equipment's redistribution.

- ***Questions:*** **Has the Division of Property Management and Construction resumed the redistribution process of excess computer equipment? If not, does it anticipate doing so in the near future? By which date does the division expect the release of a new permanent policy for handling surplus computers? Can or should the division perform inspections to ascertain that sending agencies did indeed destroy all data on excess computer equipment? Duly recognizing that it is the responsibility of sending agencies to purge data from excess computer equipment and that neither the Division of Purchase and Property nor the Division of Property Management and Construction currently possess the equipment and staff to do so, does the Division of Property Management and Construction support the concept of making its warehouse responsible for purging all data, given the performance of sending agencies and the importance of compliance with federal and State data protection and privacy laws?**

29. In its audit report on the "Disposition of Excess and Surplus Computer Equipment," the State Comptroller also exposed **substantial deviations from regulatory policies and procedures on the disposition of excess computer equipment** that reaches the Bureau of Special Services' warehouse within the Division of Property Management and Construction.

Discussion Points (Cont'd)

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. According to N.J.A.C.17:12-9.4, once the warehouse receives the equipment, it ought to notify State agencies of its availability. 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 warehouse is to provide equal access to equipment available to third parties by publishing the information on the internet and announcing it through a dedicated telephone line.

The Office of the State Comptroller found that warehouse staff did not comply with this procedure. For example, they did not 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. Moreover, the State Comptroller noted that in one instance observed during the audit, one individual picked up equipment at the warehouse without signing in or out and without the receiving agency's information technology staff being aware of the acquisition. Moreover, the warehouse also did not grant local governments and non-profit organizations equal access to surplus computer equipment. Some items were reserved for specific recipients without even notifying State agencies of their existence. The State Comptroller also expressed concern that only one individual executed much of the equipment disposition process and related controls.

In their audit response, the Division of Purchase and Property and the Division of Property Management and Construction noted that they would not invest in a comprehensive inventory control system, given the minimal value of the assets involved. But to deter theft, the Division of Property Management and Construction would enforce employee and visitor sign-in procedures, improve the supervision of loading and unloading operations, and require escorts for visitors. In addition, the division compiled a list of agency information technology directors to send out notifications of available computer equipment once it reaches the warehouse and indicated that efforts would be deployed to comply with the regulatory disposition process.

- *Questions:* **Has the Division of Property Management and Construction begun to enforce employee and visitor sign-in procedures at the warehouse, improve the supervision of loading and unloading operations, and require escorts for visitors? If not, please indicate the date by which the changes will be implemented. Please detail the efforts the division has made to ensure that the regulatory process of disposing of excess computer equipment is being followed. Has the division initiated, or will it initiate, disciplinary actions against employees involved in the extra-regulatory disposition of excess computer equipment? If not, for which reason(s) is disciplinary action not warranted?**

Discussion Points (Cont'd)

DIVISION OF PURCHASE AND PROPERTY

30. 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 $1.6 billion the State spent on procurements in FY 2007, 37.8 percent, or $619.8 million, was expended under the DPA and RWA programs ($478.5 million, or 29.2 percent, for RWAs and $141.3 million, or 8.6 percent, for DPAs).

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 #22 in the FY 2010-2011 Department of the Treasury Budget Analysis that the average processing time for a waiver was about two to two and a half months (75.0 calendar days in FY 2009 and 65.9 calendar days in FY 2010 as of the date of its response).

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 have been made by State agency under the Delegated Purchasing Authority (DPA) and the Request for Waiver of Advertising (RWA) programs in FY 2009 and 2010? 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 2010 and 2011, how many RWAs did the Division of Purchase and Property decline? In how many instances have State agencies engaged vendors prior to division approval of the RWA in FY 2009 and FY 2010?**

- **Please comment on the impact the raising of the DPA threshold from $29,000 to $36,000 has had on the workload of the Division of Purchase and Property. To what**

Discussion Points (Cont'd)

extent did the raising of the threshold reduce the number of procurements subject to the formal, competitive bidding process? Given that the threshold is statutorily mandated, does the division favor a revision to N.J.S.A. 52:34-7 to raise the threshold beyond the current level? If so, please explain what the impact of a higher threshold would be on division operations and the efficiency of the State procurement process.

31. 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 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 invoke one of the exceptions and proceed with the purchase. Any such purchase, however, will be subject to an OMB post-audit review.

- ***Questions:*** **Please describe the impact the moratorium on non-information technology equipment purchases of $2,500 or more has had on total State procurements and the workload of the Division of Purchase and Property. Has the annual number of procurements declined since the moratorium's imposition? Please substantiate the division's response by providing the number of procurements by fiscal year from FY 2007. Has the moratorium decreased the ratio of procurements over division staff or is any reduction in the division's workload due to the moratorium merely offsetting the impact of declining staffing levels?**

- **Please explain the reason(s) for which the Office of Management and Budget, and not the Division of Purchase and Property, is reviewing non-information technology procurement requests in excess of $2,500 to verify that they meet one of the moratorium's exceptions. Does the Division of Purchase and Property have a supporting role in administering the moratorium? If so, please explain the division's role in the process. Please describe the ways, if any, in which Office of Management and Budget and Division of Purchase and Property Circular Letter 11-12-OMB/DPP will affect the workload and operations of the Division of Purchase and Property.**

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32. 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 and has provided additional documentation to the federal government. In reply to an OLS discussion point in the FY 2007-2008 Department of the Treasury Budget Analysis, the department noted that it had not released the $440,000 performance bond posted by the vendor, Maximus, Inc., and that it should seek to recover the contingency fees paid to Maximus on the final disallowed claim amounts, and, if possible, an additional amount for damages. The department reported no further development in response to OLS discussion point #24 in the FY 2010-2011 Department of the Treasury Budget Analysis, as the United States Department of Health and Human Services was still reviewing the documentation submitted by the State.

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 services include physical therapy, occupational therapy, speech therapy, psychological counseling, nursing services, and specialized transportation services. 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.

- ***Questions:*** **Please provide an update on the status of the federal claim for reimbursement of $51.3 million in contested SEMI funding. Is the federal government still asking for reimbursement of the full amount or a portion thereof? If so, when will the State have to repay the moneys? What legal recourse is the State considering, or has initiated, against the vendor to recoup the amount of any reimbursement to the federal government?**

33. In its January 2010 report to the Transition Team of Governor-Elect Christie, the Treasury Subcommittee reported that the new Director of the Division of Purchase and Property felt that immediate corrective action was needed to address **cultural workforce problems** and the staff's lack of a proper understanding of the division's mission as well as of the value of the work they perform. Replying to OLS discussion point #24 in the FY 2010-2011 Department of the Treasury Budget Analysis, the division acknowledged the difficulty inherent in striving to enhance "productivity, service orientation and value for high-end quality results" when severe budgetary constraints cause training to be curtailed and positions to remain vacant as staff resign during a hiring freeze. Nevertheless, the division was conducting a comprehensive staff analysis that would lead to recommendations concerning needed hires and staff changes. In addition, division management would be trained and required to perform and document timely

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quality spot-checks, provide and document substantive employee feedback sessions, and improve the content of employee evaluations.

- ***Questions:*** **Please share and comment on the findings of the comprehensive analysis of Division of Purchase and Property staff. Bolstered by that analysis, what recommendations did the division make concerning needed hires and staff changes? Will progress be made in FY 2011 and 2012 towards realizing the recommendations? Has division management been trained and required to perform and document timely quality spot-checks, provide and document substantive employee feedback sessions, and improve the content of employee evaluations? Please provide details on all the changes implemented in those areas.**

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 skirting the competitive bidding process was allegedly to extend contracts beyond the terms authorized by original contract awards. Specifically, each of the four contracts scrutinized 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 allegedly 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 services or that the State or federal governments regulated the vendors. In its audit response, the OIT presented that significant discounts accompanied the extensions and that only one vendor was indeed 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.

- ***Questions:*** **Please indicate the statutory authority the Division of Purchase and Property and the Office of Information Technology (OIT) invoked in extending the telecommunications contracts identified by the Office of the State Comptroller beyond the terms set forth in the original contracts. Is it a common practice for the division to extend contracts beyond the terms stipulated in the original contracts? In which circumstances is the division likely to do so? Do vendor discounts justify the extension of contracts beyond their original terms?**

- **Are the division and the OIT heeding the recommendations of the Office of the State Comptroller? Will they continue the practice of extending telecommunications contracts beyond the terms stipulated in their original contracts? If so, please explain**

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the rationale for maintaining the practice. Will the division and the OIT issue Requests for Proposals for telecommunications contracts whose extensions are set to expire? Do the division and the OIT intend to interpret the exceptions to the competitive bidding process more strictly for telecommunications contracts before authorizing Waivers of Advertisements? Please explain why the sole vendor exception is applicable when the State could change its internal telephone system to open the contract up to competition.

DIVISION OF ADMINISTRATION

35. The Governor's FY 2012 Budget includes a $4.0 million reduction in State **Central Motor Pool** (CMP) expenses from $26.2 million in FY 2011 to $22.2 million in FY 2012 (page G-5). According to the FY 2012 Budget Summary, the State would realize the savings by privatizing the ownership and maintenance of all or a portion of the State passenger vehicle fleet. Responding to question 4 of the "Budget Questions for all Departments and Units" prepared by the Office of Legislative Services in March 2011, the Treasury stated that it had initiated the development of a Request for Proposal to see if the State could realize significant savings from the envisioned outsourcing.

The Bureau of Transportation Services in the Division of Administration runs the 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 2012 Budget (page G-5), the State's estimated FY 2012 vehicle count is 14,881, unchanged from FY 2011. This total includes 7,945 vehicles on agency assignment whose maintenance expenses are accounted for separately in agencies' budgets. The CMP expects to oversee the remaining 6,936 vehicles at an estimated FY 2012 cost of $22.2 million ($4.0 million, or 15.2 percent, less than revised FY 2011 expenditures). Replying to OLS discussion point #27 in the FY 2010-2011 Department of the Treasury Budget Analysis, the Division of Administration indicated that it purchased 154 vehicles in FY 2010 for $6.5 million, which is a marked decline from 1,019 vehicles purchased for $18.4 million in FY 2008. Of the 154 vehicles procured in FY 2010, 141 replaced retired vehicles and 13 were new additions to the State fleet.

- ***Questions:*** **Please provide a status update on the development of a Request for Proposal (RFP) that would outsource the ownership and maintenance of all or a portion of the State passenger vehicle fleet. By which date will the RFP be released? If the procurement process proceeds as planned, by which date could any privatization occur at the earliest? Does the budgeted $4.0 million savings from the initiative in FY 2012 reflect the amount of recurring annual anticipated savings once the initiative is fully implemented or does it reflect a portion thereof?**

- **For FY 2011, 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 Central Motor Pool (CMP) expect to spend on new vehicle purchases in FY 2011 and 2012?**

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- **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.**

ECONOMIC DEVELOPMENT AUTHORITY

1. New Jersey Economic Development Authority (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. According to the Fiscal Year 2009 Annual Report for BEIP, the most current report available as of April 5, 2011, the EDA signed 410 BEIP grant agreements with a cumulative grant amount of $1.3 billion (of which $789 million was disbursed) from the program's inception in 1996 through September 2009. In all, BEIP grants covered 81,993 new jobs and capital investments totaling $12.2 billion. In FY 2009, the EDA signed 34 BEIP agreements representing a State commitment of $84 million over the terms of the grants. The authority expects the projects to create 3,712 new jobs over the next two years and the grantees' total capital investment to reach $227.9 million.

The FY 2012 Governor's Budget includes $175.0 million for BEIP grants, the same amount as is appropriated for the program in FY 2011. The Administration has not announced to date that it would reduce the FY 2011 mid-year appropriation, which is a different experience from FY 2009 and FY 2010, when the original program appropriations were substantially reduced mid-year to align State spending with declining revenue collections. In FY 2009, the BEIP account originally received a $194.0 million appropriation in addition to $28.8 million in carryforward balances, of which $91.8 million was expended on BEIP grants and $125.0 million was lapsed into the State General Fund. In FY 2010, the BEIP account originally received a $194.0 million appropriation in addition to $6.0 million in carryforward balances, of which $109.3 million was expended on BEIP grants and $90.6 million was lapsed into the State General Fund.

- ***Questions:*** **Given that the Economic Development Authority (EDA) spent $167.8 million on BEIP grants in FY 2008 and that $222.8 million was available for that purpose at the beginning of FY 2009, please explain what approach the EDA used to reduce FY 2009 BEIP expenditures to $91.8 million and FY 2010 BEIP expenditures to $108.0 million. Considering that the EDA anticipates disbursing $175.0 million in BEIP payments in FY 2011 and again in FY 2012, did the EDA defer payments scheduled for FY 2009 and FY 2010 into FY 2011 and FY 2012? Is there a backlog of payment obligations? If so, what is the size of the backlog and what strategy is the EDA employing to eliminate that backlog? Does the $350.0 million available for BEIP grants in FY 2011 and FY 2012 suffice to meet the demand for grant payments in**

Discussion Points (Cont'd)

those years? If not, please explain the method the EDA uses to prioritize the disbursement of BEIP grant amounts.

- **Given that EDA approval of a BEIP grant application requires the applicant's certification that receipt of the grant would constitute a "material factor" in the business' decision to invest in New Jersey, please comment on the EDA's interpretation and enforcement of the "material factor" requirement. How does the EDA define "material factor"? How does an applicant demonstrate to the EDA concretely that receipt of a BEIP grant is a "material factor" in its decision to invest in New Jersey? What are the verification procedures the EDA uses in evaluating an applicant's claim that receipt of a BEIP grant would be a "material factor" in its investment decision? How many BEIP applications, if any, has the EDA rejected because its officers determined that an applicant would proceed with an investment even absent the awarding of a BEIP grant?**

2. P.L.2007, c.346 established the **Urban Transit Hub Tax Credit program** (N.J.S.A.34:1B-207 et seq.) for businesses making at least $75 million in qualified capital investments and employing at least 250 persons at a facility in a qualified urban transit hub. Tax credits equaled 100 percent of claimants' qualified capital investments made within eight years from January 13, 2008. Tenants in qualified business facilities could also receive tax credits, if they occupied space in a qualified business facility that proportionally represented at least $25 million of the capital investment in that facility and employed at least 250 persons in that location. The tax credit decreased to 80 percent of qualified capital investments if fewer than 200 jobs at the facility were new to New Jersey. In addition, employers eliminating more than ten percent of their New Jersey jobs forfeited their outstanding tax credit amounts. The law defined an urban transit hub as the area within a one-half mile radius around a rail station (not including rail stations at international airports) in nine cities: Camden, East Orange, Elizabeth, Hoboken, Jersey City, Newark, New Brunswick, Paterson, and Trenton.

Sections 31 through 35 of P.L.2009, c.90 altered the program's design. Among the changes, the law: 1) lowered the requirement that businesses invest at least $75 million in a qualified business facility to at least $50 million (and from at least $25 million to at least $17.5 million for tenants); 2) made a credit of up to 20 percent of their capital investment in certain residential projects available to residential developers; 3) allowed tax credit recipients to transfer the credits by means of a tax credit transfer certificate; 4) softened the punitive provision that credit recipients forfeit outstanding tax credit amounts if they eliminate more than 20, rather than 10, percent of their New Jersey jobs; 5) doubled the size of the Camden urban transit hub; 6) added a second urban transit hub in Newark; and 7) capped at $1.5 billion the total value of urban transit hub tax credits to be granted.

P.L.2009, c.90 also required applicants to demonstrate that the State's financial support of the proposed capital investment would yield a net benefit to the State. In the proposed regulations for the tax credit program, N.J.A.C.19:31-9.7(c), the EDA specified that the net economic benefits test shall include local and State taxes paid directly and generated indirectly by the business, its new and retained employees, and other taxpayers, such as suppliers and surrounding businesses, benefiting from the business's relocation to the urban transit hub.

Discussion Points (Cont'd)

- *Questions:* **Please list all urban transit hub tax credits approved by the Economic Development Authority (EDA) since inception of the program, indicating for each approved credit application: a) the recipient of the tax credit, b) the physical location of the facility for which the applicant plans to make the creditable capital investment, c) the type of business operation(s) expected to be located in the facility, d) the estimated size of the creditable capital investment, e) the estimated number of employees to work in that facility, f) how many of these employees would fill positions that would be new to the State, and g) the project's expected date of completion.**

- **How many applications for urban transit hub tax credits has the EDA received since the program's inception? How many applications has the authority rejected and for what reason(s)? How many applications were submitted before and after enactment of P.L.2009, c.90? How many applications is the EDA currently reviewing? Would any of the applications submitted after passage of P.L.2009, c.90 not have qualified for a tax credit under the original eligibility criteria, and if so which ones? Has the EDA noticed an uptick in the volume of credit applications since enactment of P.L.2009, c.90? If not, does the EDA expect an uptick? Has the relaxed requirement that successful credit applicants forfeit all outstanding credit amounts if their New Jersey positions are reduced by at least 20 percent protected any applicants who would have lost the credit if the original 10 percent threshold had been maintained? If so, please provide specifics of the case(s).**

- **Please explain what model the EDA uses to conduct the net economic benefits test for the urban transit hub tax credit. What time horizon and what discount rate is the EDA using in conducting the cost-benefit analyses? Does the EDA think the net economic benefits test might bar applicants from qualifying for the credit since the direct State cost of granting the tax credit is substantial (up to 100 percent of the qualified capital investment) and the State benefits are potentially slow to accrue? Is it possible for an applicant to pass the net economic benefits test if the applicant is persuaded by the credit to relocate business operations from a location in New Jersey to an urban transit hub? In conducting the net economic benefits test, does the EDA consider the opportunity cost of foregoing other investments, such as, for example, in higher education, in favor of urban transit hub tax credits?**

3. The Governor proposes a direct $10.0 million appropriation in FY 2012 for payments to developers of brownfield sites under the **Brownfields and Contaminated Site Remediation Program**. The request reflects the intent to meet contractual obligations even as they are anticipated to exceed resources available from funding sources that have supported the program in previous fiscal years: 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. In FY 2011, the State transferred $5.2 million in constitutionally dedicated revenue to the fund while expecting to pay out $7.0 million to developers. In FY 2010, the fund received $1.4 million from the constitutional dedication and expended $4.7 million on 11 projects.

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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. Pursuant to budget language, however, the fund actually receives its resources 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 the last five fiscal years, please provide the number of projects that received reimbursements under the Brownfields and Contaminated Site Remediation Program as well as the amount of total disbursements. How many brownfield remediation projects does the New Jersey Economic Development Authority (EDA) anticipate will receive reimbursements in FY 2012 and for what aggregate amount? What amount, if any, does the EDA anticipate will be directed to the Brownfields and Contaminated Site Remediation Program in FY 2012 from the constitutional dedication of four percent of annual corporation business tax collections for environmental purposes? What is the total outstanding Brownfields and Contaminated Site Remediation Program liability, as measured in amounts that would eventually come due under memoranda of agreement that developers have signed with the State? Has there been an increase in program participation in recent years? What is the typical lag time between the signing of a memorandum of agreement and the actual payment of a Brownfields and Contaminated Site Remediation Program reimbursement? Which percentage of reimbursement amounts included in memoranda of agreement typically never falls due, for whatever reason?**

4. In a special meeting on February 1, 2011, the EDA approved a reimbursement of up to $261.4 million in certain taxes to Revel Atlantic City, LLC and Revel Entertainment Group, LLC to support the completion of the construction of the unfinished **Revel Casino in Atlantic City**. The award was made under the **Economic Redevelopment and Growth Grant program**. According to a February 1, 2011 press release from the Governor's Office, the incentive represents tax-increment financing that will support infrastructure improvements in the neighborhood adjacent to the Revel development. Published news reports also related that the EDA became a 20 percent partner in the project until it would have recouped its investment. Although the EDA would share in any profits, it would not absorb any of its losses. In addition, the news reports quoted the Governor as saying that the State aid represented about eight percent of anticipated sales tax revenue from the project.

Authorized under P.L.2009, c.90, the "New Jersey Economic Stimulus Act of 2009," Economic Redevelopment and Growth Grant awards constitute subsidy payments to projects for which the State will be reimbursed out of tax revenues to be generated by the subsidized projects.

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Under this tax-increment financing program, the EDA pledges towards a State incentive grant up to 75 percent of the estimated increase in State revenues that is directly attributable to a development project. A grant agreement can extend for up to 20 years; however, State and local incentives cannot exceed 20 percent of the project's total cost, exclusive of publically-owned infrastructure. In addition, incremental revenues to be realized from a project must be anticipated to exceed the amount of the incentive grant.

- ***Questions:*** **Please outline the financial aspects of the $261.4 million Economic Redevelopment and Growth grant awarded to Revel on February 1, 2011. Did the EDA take a stake in the Revel casino project? Can it earn returns in excess of the $261.4 million? When will the EDA have to make grant payments to Revel? How does the EDA intend to finance the $261.4 million grant? What is the State tax revenue the project is expected to generate and over what time horizon? What is the basis for the Administration's claim that the incentive award would be about eight percent of anticipated sales tax revenue from the project? Please submit a copy of the analysis that was prepared to ascertain that the project would return tax revenues to the State in excess of the $261.4 million investment.**

- **Please list all Economic Redevelopment and Growth grants that the EDA has awarded to date, indicating the location of each project, the name of the award recipient, the date of the award, its amount, and the projected State tax revenue to be generated by the project.**

5. The Governor's FY 2012 Budget includes $30.7 million in anticipated off-budget Global Warming Solutions Fund receipts in FY 2012 (page H-36, online budget only). In contrast to FY 2011, when some $65.2 million in accrued and newly anticipated fund balances was diverted into the State General Fund, the Governor is not proposing to raid the fund for general State purposes in FY 2012. Revenues accrue to the Global Warming Solutions Fund as a consequence of New Jersey's membership in the Regional Greenhouse Gas Initiative (RGGI). Members of this consortium of ten Northeastern and Mid-Atlantic states 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 and power plant owners then trade them in a secondary market so as to match emissions with emission allowances. Eleven auctions took place to date and three more are scheduled. New Jersey earned $102.0 million in the ten RGGI auctions in which it participated. At the end of FY 2011, the Global Warming Solutions Fund is anticipated to have $1.2 million in uncommitted balances.

P.L.2007, c.340 established the Global Warming Solutions Fund as the repository of funds accruing to the State from RGGI auctions. The law instructs the EDA to use 60 percent of the proceeds 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. Accordingly, the EDA established the **Clean Energy Solutions Capital Investment Loan/Grant program** as a vehicle through which it intends to distribute its Global Warming Solutions Fund allocation ($22.0 million out of $36.8 million

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generated from RGGI auctions and deposited in the Global Warming Solutions Fund). According to information provided by the EDA, the authority received over 25 applications requesting more than $155 million in financial assistance under the program. The authority expected to commit and distribute most of the available resources to specific projects beginning in January 2010. Because of the mismatch between available resources and program demand, the EDA stopped accepting applications on October 1, 2009.

Under the law, the Board of Public Utilities and the Department of Environmental Protection shall use the remaining the Global Warming Solutions Fund proceeds for the reduction of the electricity demand or costs of low- and moderate-income residential ratepayers primarily in urban areas, the support of local government initiatives designed to lower greenhouse gas emissions, as well as the management of the State's forests and tidal marshes.

- ***Questions:*** **Please provide a status update on the Clean Energy Solutions Capital Investment Loan/Grant program. How many applications has the EDA received? Has the EDA reviewed all applications? Please list the projects for which the Authority has approved applications for financial assistance. Has the EDA already distributed the financial assistance to applicants? If so, please indicate the amounts the Authority has disbursed. If not, when does the EDA intend to disburse the financial assistance?**

- **Does the EDA expect to receive $18.4 million, or 60 percent, of the $30.7 million in anticipated FY 2012 Global Warming Solutions Fund receipts? If so, how does the EDA plan to use the $18.4 million? Will more payments be made under the Clean Energy Solutions Capital Investment Loan/Grant program? If the EDA does not expect to receive FY 2012 funding out of the Global Warming Solutions Fund, which provision in the Governor's FY 2012 Budget proposal overrides the statutory requirement that the EDA receive 60 percent of the collections?**

6. On December 3, 2010, the EDA announced that it had approved six projects to receive over $15.1 million in funding for the development, design, and construction of Combined Heat and Power (CHP) projects under the **Clean Energy Solutions ARRA Combined Heat and Power Program**. Grants equal $450 per kilowatt of installed electric generation capacity, up to a maximum of $5 million. Construction on the projects must begin by September 30, 2011, project funds must be utilized by April 30, 2012, and projects must create a new generation capacity of at least 1 megawatt. The program is a scaled down variant of the CHP grant program, which was abandoned in FY 2010 as its funding source—the 0.5¢ per kilowatt-hour retail margin that electric distribution companies have been charging certain non-residential customers remaining on Basic Generation Service since August 2003 under N.J.S.A.48:3-51 and 48:3-57—dissipated. Instead of a $60.0 million program financed out of the Retail Margin Fund, the Clean Energy Solutions ARRA CHP Program is an $18.0 million competitive grant program supported out of federal stimulus funding the State received under the American Recovery and Reinvestment Act of 2009.

P.L.2009, c.34 required that $60 million of accrued Retail Margin Fund balances 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

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$60 million was supposed to be awarded to proposed CHP facilities. Grant amounts would have been based on a facility's actual annual electric and thermal energy production. As a result, no grant amount would have been disbursed during the construction of a CHP facility. The EDA informed the OLS in February 2010 that 22 of 28 submitted applications had passed a technical review in the Fall of 2009. Eligible for $48.9 million in incentives and representing a combined capital investment of $369 million, the 22 projects were next supposed to be subjected to a financial review. But no grant award was ever made. In the Spring of FY 2010 the Governor lapsed the entire $128 million Retail Margin Fund balance into the General Fund to help eliminate the FY 2010 mid-year budget deficit. In addition, the FY 2011 appropriations act diverted $10.3 million in FY 2011 Retail Margin Fund collections into the General Fund. On October 5, 2010, the BPU eventually announced the abolition of the retail margin assessment effective June 1, 2011.

- ***Questions:*** **Please indicate by which date the EDA intends to have disbursed the entirety of the grant awards made under the Clean Energy Solutions ARRA Combined Heat and Power (CHP) Program. Given that $2.9 million remains available in the program account, is the EDA still reviewing grant applications? Did all 28 applicants for grants under the defunct CHP grant program have to apply anew under the Clean Energy Solutions ARRA CHP Program? How many grant applications did the EDA receive under the Clean Energy Solutions ARRA Combined Heat and Power Program? Has the EDA rejected any grant applications? Is the EDA looking for additional funding sources to meet the goal of the original grant program to award $60.0 million to CHP projects or will the program be terminated after disbursing grants to the first wave of awardees?**

7. On February 11, 2010, the Governor terminated the **Invest in New Jersey Business Grant Program (InvestNJ)**. Subsequently, the Office of Management and Budget lapsed $33.0 million of the $33.2 million FY 2010 program appropriation to the General Fund as a mid-year adjustment to align State spending with declining revenue collections. The accompanying explanatory material indicated that the program was eliminated because it was deemed ineffective in creating jobs. Accordingly, the program received no new appropriation for FY 2011 and the Administration also proposes none for FY 2012.

P.L.2008, c.113 established the bifurcated InvestNJ program and charged the EDA with its administration. The program had a statutory $120.0 million lifetime funding cap, which the EDA announced on March 5, 2009 was reached two months after making applications available on its website. Under its $70.0 million capital investment component, the EDA awarded businesses grants of up to seven percent of qualifying capital investments made before January 1, 2011. Under the program's $50.0 million job creation component, the authority awarded businesses $3,000 for each additional full-time job created. In FY 2009, the State allocated $25.0 million out of the off-budget Long Term Obligation and Capital Expenditure Fund to the program. In FY 2010, $200,000 of the $32.2 million General Fund appropriation for the program was expended before the lapsing of program balances.

- ***Questions:*** **Please comment on the performance of the InvestNJ grant program. How many applications has the EDA received covering capital investments of what**

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magnitude and how many jobs? How many grant applications has the EDA reviewed, rejected, and approved? Into how many grant agreements has the EDA entered? What magnitude of capital investments and how many jobs were covered by the grant agreements? Did the EDA disburse grant amounts under the agreements on the date of entering into them? Does the termination of the InvestNJ program negate any grant agreement previously entered into by the EDA? What happened to the $25.0 million allocated to the InvestNJ accounts in the off-budget Long Term Obligation and Capital Expenditure Fund? Does the EDA agree with the characterization of InvestNJ as ineffective in creating jobs? Please substantiate the grounds for EDA's assessment.

BOARD OF PUBLIC UTILITIES

1. Organized "in but not of" the Department of the Treasury, the Board of Public Utilities (BPU) is a cabinet level regulatory authority with a statutory mandate (R.S.48:2-1 et seq.) to ensure safe, adequate, and proper public utility services such as natural gas, electricity, water, sewer, and telecommunications including cable television.

The BPU planned to **close its Newark office and consolidate it into its Trenton office** in FY 2011. In a written follow-up response to a question raised during the Department of the Treasury's budget hearing before the Assembly Budget Committee on April 21, 2010, the Board asserted that the relocation would lower its space requirements by 59 percent from 97,334 square feet to roughly 41,000 square feet. It would achieve economies of scale notably by eliminating the 20 percent of the leased Newark space it considered to be "unused or common area" space (approximately 17,000 square feet) costing ratepayers over $500,000 in lease payments per year. In addition, the relocation would allow the Board to use other State properties for some of its activities. In all, the BPU projected that the move would reduce its annual lease expenses from $2.89 million to $847,000 for an estimated annual $2.0 million cost savings. The Board pegged one-time moving costs at an estimated $1.45 million.

- ***Questions:*** **Please indicate whether the BPU has completed the consolidation of its Newark and Trenton operations. If so, please share the amount of one-time moving expenses and FY 2012 BPU lease payments. How many employees worked in the Newark office and how many employees stayed with the BPU as their positions were moved to Trenton? Have any resignations caused disruptions in BPU operations? Is the BPU satisfied with the operations of the consolidated office? Was the BPU budget reduced in FY 2011 to reflect any lease savings? Does the Governor's FY 2012 Budget propose reducing the BPU appropriation to reflect any lease savings? If not, please identify to what purposes the cost savings were redirected in FY 2011 and are proposed to be redirected in FY 2012.**

2. Addressing BPU Discussion Points #1 and #8 in the OLS FY 2010-2011 Department of the Treasury Budget Analysis, the BPU stated that it was **reevaluating the New Jersey Energy Master Plan's objectives** and revisiting the analysis of the plan's economic ramifications. In so

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doing, the Board followed a recommendation to that effect included in the January 2010 report by the Energy and Utilities Subcommittee to the Transition Team of Governor-Elect Christie. Specifically, the subcommittee advised a review and eventual revision of the Energy Master Plan so as to create a "realistic energy policy blueprint for New Jersey" that focused on building the state's economy, estimated the resources required to reach the established goals, and assessed the goals for their potential effect on energy prices.

In October 2008, the Energy Master Plan Committee, statutorily chaired by the President of the BPU, released the New Jersey Energy Master Plan. Serving as a blueprint for managing the State's energy needs through 2020, the plan seeks to ensure that New Jersey has a reliable supply of energy at a reasonable price that is produced and consumed in a manner consistent with the State's environmental needs. The plan includes numerous initiatives geared towards accomplishing the State's environmental twin goals of reducing the State's electricity consumption by 20 percent from projected 2020 consumption levels and of meeting 30 percent of the State's electricity needs with renewable energy by 2020. Under the State's current Renewable Energy Portfolio Standard, the State has to source only 22.5 percent of its electricity in 2020 from renewables. As of April 8, 2011, the regulatory renewables target remains at 22.5 percent.

- ***Questions:*** **Please provide a status update on the BPU's review of the goals of the 2008 New Jersey Energy Master Plan and share any conclusions. If the Board is still studying the goals' feasibility, by what date does the Board expect to complete its review and adopt implementing regulations?**

- **Has the BPU completed the economic impact analysis on the twin targets of reducing the State's electricity consumption by 20 percent from projected 2020 consumption levels and of meeting 30 percent of the State's electricity needs with renewable energy by 2020? If so, please summarize its findings and provide a copy of the analysis. Are the targets achievable without causing economic disruptions? Is the BPU concerned that implementing the targets might erode the competitive position of New Jersey-based energy-intensive businesses?**

3. The BPU was **reviewing the Clean Energy Program's goals and its role** in achieving the 2008 Energy Master Plan's environmental goals of reducing the State's electricity consumption by 20 percent from projected 2020 consumption levels and of meeting 30 percent of the State's electricity needs with renewable energy by 2020, according to the Board's response to several BPU Discussion Points in the OLS FY 2010-2011 Department of the Treasury Budget Analysis. The review was recommended by the Energy and Utilities Subcommittee in its January 2010 report to the Transition Team of Governor-Elect Christie. The subcommittee also recommended that the overall management of the Clean Energy Program be improved and that the responsibility for its administration be transferred to the Economic Development Authority (EDA) so that the BPU could focus on its regulatory functions. In reply to a FY 2010-2011 Discussion Point, the Board stated that it was reviewing the possibility of transferring the financial management of some programs under the Clean Energy Program to the EDA. In addition, a year prior, the BPU had planned shifting the energy efficiency programs under the Clean Energy Program to the electric and natural gas utilities in accordance with a

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recommendation in the 2008 New Jersey Energy Master Plan. Accordingly, utilities had to submit utility-specific energy master plans to the BPU by the end of 2009, but the Board deferred their production pending its review of the New Jersey Energy Master Plan.

The BPU oversees the Clean Energy Program, created as part of P.L.1999, c.23 (C.48:3-49 et seq.) and operative since April 2001, through which the State seeks to promote increased energy efficiency and the use of renewable sources of energy including solar, wind, geothermal, and sustainable biomass. The program's financial incentives support residents' purchases of high efficiency heating and cooling systems, commercial energy efficiency projects, and installations of solar electric or other renewable energy systems, among other initiatives. New Jersey ratepayers finance the program via the societal benefits charge included in their electric and natural gas bills. The Governor's FY 2012 Budget anticipates $351.0 million in new Clean Energy Fund revenues for FY 2012 as well as an opening balance of $126.3 million and $414.9 million in expenditures, leaving a projected fund balance of $62.4 million at the end of FY 2012 (page H-27, available in the online version of the Governor's FY 2012 Budget only).

Performance metrics for the Clean Energy program are set forth in the Comprehensive Energy Efficiency and Renewable Energy Resource Analysis four-year funding level Board Order dated September 30, 2008 Docket number EO07030203. Contractors administer most of the subprograms of the Clean Energy Program and received $53.2 million for their services in the 2010 program year, according to Board's response to BPU Discussion Point #2 in the OLS FY 2010-2011 Department of the Treasury Budget Analysis.

- *Questions:* **Please relate whether the Board has shifted, or intends to shift, the administrative responsibility for some programs under the umbrella of the Clean Energy Program from the BPU to the EDA and individual utility companies. If any program has migrated, or will migrate, from the BPU, please indicate the move's target date as well as the rationale for doing so. If a decision has not yet been made as to the vesting of responsibility for the Clean Energy Program, please indicate a date by which a determination is probable. Have all utilities submitted their utility-specific energy master plans to the BPU? Has the BPU reviewed and approved them? What oversight and control mechanisms would the BPU impose on the utilities' operation of the programs? Would the BPU have to approve a utility's program and funding level annually? Has the BPU made a determination as to the method of financing the prospective utility-run energy efficiency programs? If so, will the program be funded through the societal benefits charge or a new surcharge imposed by the respective utility? If a decision as to the financing mechanism remains outstanding, by which date does the BPU intend making the determination?**

- **Has the review of the 2008 Energy Master Plan catalyzed revisions to the comprehensive strategic plan and performance metrics and targets for the Clean Energy Program? If so, please provide a copy of the revised plan and indicate the revised performance metrics and targets. If not, is the BPU still developing a revised strategic plan and performance metrics and targets for the program? What are, or will be, the top priorities of the strategic plan? What factors account for any deferral of the production of such a plan and the non-revision of the performance metrics and targets, and by which date does the Board intend tackling them?**

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4. P.L.2009, c.289 instructs the BPU to revise the State's Renewable Portfolio Standard so as to require electric utilities to purchase at least a specified number of kilowatt-hours from solar electric power generators each year. The minima rise gradually from 306 gigawatt hours in energy year 2011 to 5,316 gigawatt hours in energy year 2027. They increase by another 20 percent for the remainder of the schedule if the amount of solar energy generated and sold as **Solar Renewable Energy Certificates (SRECs)** meets or exceeds the required level for three consecutive years, starting with energy year 2013, and if the average SREC price falls contemporaneously.

In April 2006, the BPU approved regulations to expand the State's Renewable Portfolio Standard pursuant to P.L.1999, c.23 (C.48:3-49 et seq.), which determines a minimal percentage of total kilowatt hours sold in New Jersey by each electric power supplier and each basic generation service provider that must be from renewable energy sources. Under the rule, the percentage of electricity sold in New Jersey that must come from solar electric generation rises gradually from 0.0817 percent in 2008 to 2.12 percent in 2020.

SRECs are the vehicle through which electric utilities meet the solar requirement of the State's Renewable Portfolio Standard. They reflect a "feed-in tariff" mechanism under which electric utilities are obliged to buy power generated by owners of solar electric generation systems with a capacity of at least 50kW at prices that reflect the higher cost of generating renewable energy. BPU calculations of SREC price ranges assume a twelve percent internal rate of return so that solar power system investors could break even on their investments after six years. Installations may only produce SRECs for fifteen years. To limit the solar incentive's cost to ratepayers, the board capped the cost at two percent of the estimated Statewide retail cost of electricity. In Board Order No. EO07030203, the BPU estimates that SRECs would cost ratepayers $42.2 million in 2009 and $268.5 million in 2012. The average residential ratepayer would pay $4.37 in 2009 and $15.96 in 2012. In response to BPU Discussion Point #4 in the OLS FY 2010-2011 Department of the Treasury Budget Analysis, the Board noted that it expected a shortage of SRECs for the energy year ending May 31, 2010 and that as a result their spot price had reached a cumulative weighted average price of $552 per megawatt hour, after being $462 in energy year 2009, $246 in energy year 2008, and $220 in energy year 2007. The BPU expected that the shortage would dissipate in energy year 2011 as several large-scale solar projects were in development and as it was working with electric utilities to increase the size requirement for solar systems within their financing programs.

- ***Questions:*** **Please indicate whether the BPU has adopted implementing regulations for the Solar Renewable Energy Certificates (SRECs) targets specified in P.L.2009, c.289. If not, please explain the reasons for the delay and set forth a date by which the BPU anticipates adoption of the regulations. How do the law's targets compare to prior targets under the State's Renewable Portfolio Standard? What will be the impact of the new targets on ratepayers and the economy?**

- **What was the number and total value of SRECs exchanged in the market in energy year 2010? What is the current cumulative weighted average price of SRECs? Is there still a shortage of SRECs? If the shortage has not been mitigated, what other modifications, if any, has the BPU undertaken or is planning to undertake to bring down SREC prices? What has been the impact of the shortage on ratepayers? Is the**

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estimate contained in Board Order No. EO07030203 that SRECs would cost ratepayers $268.5 million in 2012 (or $15.96 for the average residential ratepayer) still realistic? In light of the annually growing minimal amount of gigawatt hours that electric utilities must buy from solar power generators under the State's Renewable Portfolio Standard, how significant is the risk that the SREC supply will be insufficient to meet statutory requirements over the next three years, and what would be the consequences?

5. The 2008 New Jersey Energy Master Plan lays out plans for New Jersey to generate at least 1,000 megawatts of offshore wind energy by 2012. By 2020, the EMP calls for the production of 3,000 megawatts of **electricity from offshore wind** and of at least 200 megawatts from onshore wind. In December 2008, the BPU awarded three offshore wind developers each a $4 million rebate towards the construction and operation of meteorological towers to support offshore wind projects, provided a meteorological station was operating at each site by the end of 2009 and supported a wind farm generating at least 200 megawatts of energy.

Two complications have snarled the construction of offshore wind power facilities off New Jersey's shores. First, the three meteorological towers would be constructed in federal waters, which begin three miles off the State's coast. The Minerals Management Service (MMS) in the United States Department of the Interior must hence approve these projects under the Energy Policy Act of 2005. But the MMS did not issue final rules for offshore wind energy activities until April 2009, which became effective in June 2009. Second, in February 2009, the New Jersey Department of Environmental Protection released draft *Ocean/Wind Power Ecological Baseline Studies*, a report concluding that the construction and operation of offshore wind turbines and transmission lines will harm avian species, fish, marine mammals, and turtles. Addressing BPU Discussion Point #6 in the OLS FY 2010-2011 Department of the Treasury Budget Analysis, the Board related that the delay in the adoption of federal rules for offshore wind energy activities prompted the Board to extend the original deadline by which the meteorological stations had to be operational by one year to the end of 2010.

- ***Questions:*** **Please comment on the status of the construction of the meteorological towers for three wind farms for which the Board has awarded wind turbine facility developers a $4 million rebate each. Are the towers built and operational as of the end of 2010, as required by the rebate agreements? If not, what factors have accounted for the delay, and has the Board extended the deadline again? By which date are the meteorological towers now projected to be installed and operational?**

6. 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 Assistance for Needy Family (TANF) and General Assistance programs. The Governor's FY 2012 Budget anticipates $301.1 million in USF expenditures for FY 2012 (page H-56, available in the online version of the Governor's FY 2012 Budget only). Of this amount, the Governor

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proposes $221.2 million in direct fund expenditures as well as a transfer of $79.95 million to other funds, of which $63.8 million would finance the "Lifeline Credit Program" (C.48:2-29.15 et seq.) and the "Tenants' Lifeline Assistance Program" (C.48:2-29.31 et seq.), under which 306,075 low-income households would receive up to $225 in gas and electric utility credits in FY 2012. An additional $5.1 million would finance energy assistance payments under TANF and General Assistance 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 (DCA) administers them, and the electric and natural gas utilities credit the benefits to customer accounts. In program year 2009-2010, the operation of the two programs cost $195.6 million.

Addressing BPU Discussion Point #13 in the OLS FY 2010-2011 Department of the Treasury Budget Analysis, the Board disclosed that, along with DCA, it had just reviewed bids by consulting companies for a contract to provide a performance audit of the USF and the Home Energy Assistance Program (a program unrelated to the USF). The BPU and DCA would implement the measures recommended by the chosen contractor to improve services and maximize existing resources. It is unclear whether the initiative would entail the establishment of performance measures and annual targets to allow for an assessment of the program's effectiveness and efficiency.

- ***Questions:*** **For each of the USF credit and "Fresh Start" programs, please provide actual expenditures for the 2009-2010 program year and estimated expenditures for the 2010-2011 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 2009-2010 and 2010-2011?**

- **Please provide a status update on the performance audit of the USF. Has it been completed? If not, when is it expected to be completed? If the performance audit has been concluded, please provide a copy of any report. If no report has been prepared, please set forth the contractor's findings and recommendations. Please indicate which recommendations have already been implemented, are planned to be implemented, and will not be implemented. Please explain why the BPU is rejecting the implementation of any recommendation.**

- **Has the BPU drafted performance measures and targets for the USF energy assistance programs? Have they been established and are they operational? If so, please disclose the performance measures, targets, and actual program performance.**

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7. 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 H-56 of the Governor's FY 2012 Budget, available in the online version only), and energy demand management programs including BPU's Clean Energy Program (page H-27 of the Governor's FY 2012 Budget, available in the online version only). In calendar year 2009, the charge yielded $783.1 million in revenues, $140.1 million, or 21.8 percent more than the $643.0 million collected 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. Depending on the utility, the societal benefits charge represented between 2.6 percent ($35.10) and 4.72 percent ($57.07) of the annual bill of the average electric ratepayer as of March 2010 and between 2.82 percent ($32.95) and 4.39 percent ($63.65) of the annual bill of the average natural gas ratepayer.

Questions: **Please indicate the amount the societal benefits charge raised in calendar year 2010, 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 2010 and 2011 rates of the charge and present the reasons for any increase. The charge represented which percentage of an average ratepayer's annual energy utility bill in calendar year 2010 and represents which estimated percentage in calendar year 2011?**

OFFICE OF INFORMATION TECHNOLOGY

1. In January 2011, the Office of Information Technology (OIT) had a payroll count of 777 positions. That number marks a **17.5 percent decline in staffing levels since FY 2006**, when OIT had 942 employees on its payroll. Addressing OLS discussion point #40 in the FY 2009-2010 Department of the Treasury Budget Analysis, the OIT highlighted that the drop in staffing levels coincided with a significant increase in workload, which forced the office to reprioritize workload and phase out low-value projects. The office went on to list several projects that had been deferred to a future date because of budgetary constraints.

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 technical 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. The OIT has a recommended FY 2012 budget of $115.9 million for 790 funded positions. In response to Discussion Point #42 in the OLS FY 2009-2010 Department of the Treasury Budget Analysis, the OIT stated that the State had $365 million in

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non-salary **information technology expenditures**, including telecommunications expenditures, in FY 2008 which were partially allocated to client agency accounts.

- ***Questions:*** **In general terms and by means of specific examples, please describe the effects of the continued staffing reduction on OIT operations. What strategies has the office employed to deal with staff reductions? What projects, work products or functions has the office scaled back, discontinued or deferred because of declining staffing levels?**

- **What was the actual total amount of State information technology spending in FY 2009 and FY 2010? What is the projected total amount of State information technology spending in fiscal years 2010 and 2011?**

2. In December 2006, the Corzine Administration placed a **moratorium on the procurement of IT equipment and consultant services** under the Direct State Services budget category (operating expenses). Exempted from the moratorium were initiatives whose disruption would increase future costs or trigger a significant loss of investment, as well as emergency maintenance, repairs and supplies under $2,500, and projects mandated by the federal government. Replying to Discussion Point #47 in the OLS FY 2009-2010 Department of the Treasury Budget Analysis, the OIT affirmed that it was unaware of the moratorium causing specific problems, but that problems were more likely to occur as the State's IT infrastructure ages. In the same response, the OIT indicated that it had authorized $99.1 million in agency IT procurements for 1,585 projects (out of $109.3 million requested for 1,748 projects) in FY 2007, $125.2 million for 1,747 projects (out of $176.8 million requested for 1,933 projects) in FY 2008, and $93.2 million for 1,169 projects (out of $188.2 million requested for 1,528 projects) in FY 2009.

- ***Questions:*** **Please indicate whether the Christie Administration is continuing the referenced moratorium on the procurement of IT equipment and consultant services as well as the exemptions therefrom? If not, please provide a justification for any changes. Is the OIT aware of cases in which the moratorium has adversely affected the quality of services provided by State agencies? Please indicate in which areas OIT expects the continuation of the moratorium in fiscal year 2012 to adversely impact program performances and service delivery.**

- **Please provide, by department, the value of departmental requests for IT equipment and consultant services procurements in fiscal years 2009 and 2010 as well as the value of IT equipment and consultant services procurements approved by the OIT. What is projected value of approved IT equipment and consultant services procurements in fiscal year 2011 and 2012?**

3. In its reply to Discussion Point #47 in the OLS FY 2009-2010 Department of the Treasury Budget Analysis, the OIT commented on the status of several **IT initiatives that were jeopardized because of the moratorium on the procurement of IT equipment and consultant**

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services, according to the OIT's written follow-up response to a question raised during the Department of the Treasury's budget hearing before the Assembly Budget Committee on April 15, 2008: a major upgrade to the Garden State Network (a statewide integrated communications network) to meet the projected growth in network demands; the replacement of enterprise servers and storage; the replacement of agency servers and PCs that are near the end of their useful life; the replacement of business applications that are more than 20 years old (payroll, financials, personnel); and the development of soft- and hardware for the retention and search of electronic records to better respond to requests for discovery from the courts.

First, the OIT acknowledged the slow progress in migrating the Garden State Network from a leased line-based infrastructure to an infrastructure leveraging the fiber optic network of the New Jersey Turnpike Authority. The office estimated that absent the migration, it would cost $2 million to $8 million more per fiscal year to accommodate the increase in network traffic through the leasing of additional lines from telecommunications vendors. *Second,* the OIT reported progress in the replacement of enterprise servers and storage in that an antiquated and labor-intensive backup environment for servers was replaced with a comprehensive virtual tape library infrastructure and in that the OIT received a 50 percent discount from a vendor to upgrade two of its enterprise servers. *Third*, the OIT stated that it managed to provide OIT server capacity for agency applications and to house agency servers instead of having agencies replace their servers. *Fourth*, the OIT noted that due to budgetary constraints there was little progress on the replacement of major centralized administrative systems, and that the office explored incremental upgrades in lieu of replacements. *Fifth*, the OIT reported that an internal committee was finalizing a report containing recommendations as to implementation strategies for an enterprise-wide e-mail archiving solution. In addition, a separate work group met to address urgent, litigation-induced e-mail archiving needs of the Department of Environmental Protection, the Department of Transportation, and the State Police.

- ***Questions:*** **Please report on the status of each of the following projects that the OIT would like to undertake: the migration of the Garden State Network to a fiber-based infrastructure; the replacement of enterprise servers and storage; the replacement of agency servers; the development of business applications to replace applications that are more than 20 years old (payroll, financials, personnel); and the finding of an IT solution to e-mail archiving and electronic records retention needs. Has the internal committee presented implementation strategies for an enterprise-wide e-mail archiving solution? If so, please summarize the strategies and explain which one(s) the OIT is pursuing. Has a solution been found to the urgent e-mail archiving needs of the Department of Environmental Protection, the Department of Transportation, and the State Police? If so, please outline the solution.**

4. On September 15, 2010, the OIT accepted a $39.6 million matching fund award from the federal State Broadband Data and Development Program for the **"The State of New Jersey Broadband Network"** project. The OIT is to use the federal moneys, as well as the State's $11.6 million matching contribution, to deploy 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 will enable 167 local, county, and State law enforcement agencies and

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224 fire departments to use the network. The network will allow 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 is intended to serve as a demonstration project for the national implementation of 700 MHz interoperable public safety wireless broadband networks.

Funds for the broadband network were provided through the American Recovery and Reinvestment Act of 2009. The act allocated $4.7 billion to the National Telecommunications and Information Administration (NTIA) in the United States Department of Commerce to support the deployment of broadband infrastructure, enhance and expand public computer centers, encourage the sustainable adoption of broadband service, and develop and maintain a nationwide public map of broadband service capability and availability. The funds are awarded to the states through NTIA's State Broadband Data and Development Program.

- ***Questions:*** **Please report on the status of "The State of New Jersey Broadband Network" project. What is the timeline towards the project's completion? What project stages have been completed? Is the project on schedule? If not, what factors and challenges account for the delay? Please explain the processes through which local governments were consulted in the project's planning phase, if any.**

- **Please indicate the strategy the OIT intends to deploy to meet the $11.6 million matching fund requirement. Please explain whether any of the federal funds awarded under the State Broadband Data and Development Program are being used to create positions that are new to OIT. If so, please indicate whether the positions will be permanent or temporary. Does the State's matching fund contribution to the project divert resources from projects that would have been pursued absent the State Broadband Data and Development Program grant award? If so, what projects are being deferred, scaled back or discontinued?**

5. In FY 2010 and FY 2011, OIT received another combined $4.9 million in matching funds from the **federal State Broadband Data and Development Program**. The OIT is to use the award, as well as the State's $1.2 million contribution thereto, for: a) the creation of a broadband program office that will 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.

- ***Questions:*** **Please provide an update on OIT's implementation of the award agreement with the federal State Broadband Data and Development 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. What activities does the office currently undertake? Please explain the efforts the OIT is deploying to help**

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small businesses develop e-commerce operations and to assist institutions of higher education in broadband-based curriculum delivery? Please comment on the kind of best practices the OIT is to identify and implement under the grant agreement and provide a status update thereon.

- **Please explain whether any of the federal funds awarded under the State Broadband Data and Development Program are being used to create positions that are new to OIT. If this money is being used for new or expanded activities, will the new or expanded activities be continued in FY 2013 and beyond? If so, how will they be funded? Does the State's matching fund contribution to the project divert resources from projects that would have been pursued absent the State Broadband Data and Development Program grant? If so, what projects are being deferred, scaled back or discontinued?**

6. In its January 2010 report to the Transition Team of Governor-Elect Christie, the Treasury Subcommittee lamented that the current model of splitting the responsibility for the management of information technology in State government between the OIT and the information technology offices in State agencies did not work. To rationalize the State's management of information technology, the Treasury Subcommittee recommended the consolidation of information technology centers and all technology into OIT as the one central agency responsible for all the State's equipment and software. In addition, the Treasury Subcommittee recommended that OIT's Chief Technology Officer report to a single cabinet member as opposed to reporting directly to the Governor as is currently the case.

P.L.2007, c.56 reorganized OIT consistent with the provisions of Executive Order #42 of 2006. The restructuring instituted OIT as **State government's central information technology (IT) management and oversight body**. The law, however, did not consolidate all IT operations in the office, as agencies may continue to run some IT functions if OIT deems such devolution more cost-effective and efficient than rigorous consolidation. According to the IT reform model that is being implemented, OIT should become the central authority for the State's shared information technology infrastructure. Under the office's oversight, individual agencies or affinity groups (organized IT communities of interest spanning several State agencies) would eventually assume the responsibility for the development of their business applications.

- ***Questions:*** **Subsequent to the issuance of the transition report to Governor-Elect Christie by the Treasury Subcommittee, has the OIT renewed its study of the optimal organizational structure to provide information technology services to State government? If so, please share the findings of the examination. Will responsibility for the State's equipment and software be exclusively consolidated in the OIT? Will the OIT abandon its hybrid organizational model that centralized in the OIT the responsibility for the State's shared information technology infrastructure but not the responsibility for developing business applications?**

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7. The OIT has fully implemented the new governance structure established in P.L.2007, c.56. A nine-member New Jersey Information Technology Governing Board heads the **reorganized OIT** and determines strategic direction, standards, and funding priorities. A Chief Technology Officer runs OIT's day-to-day operations and coordinates IT 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 IT 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). State agency IT directors 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 IT projects in the Executive branch.

- ***Questions:*** **Please comment on OIT's experiences with the new governance model. Has it helped to rationalize the management of the State's IT resources as intended? Has OIT become aware of any shortcomings in the governance structure that might justify additional modifications? If so, what changes would OIT support?**

- **Please comment on the interplay between the Deputy Chief Technology Officers and the State agency IT directors. To what extent do State agency IT directors follow the guidance given by Deputy Chief Technology Officers? Given that State agency IT directors are accountable to their department heads, does OIT guidance trump agency instructions in the mind of the typical agency IT director if instructions conflict? What means does the OIT have to ensure that its enterprise-wide views prevail over the narrow department-centric focus of the department heads in case of conflicting directives?**

8. As part of the new OIT governance structure, an interim **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, approves, and monitors IT projects that typically exceed $1 million in costs. Replying to OLS discussion point #44 in the FY 2009-2010 Department of the Treasury Budget Analysis, the OIT stated that it envisioned that entities undertaking a project subject to board review and oversight will have to submit monthly project progress reports to the board. The board has the authority to continue, hold or stop a project but has no additional authority to hold an agency accountable.

- ***Questions:*** **Please indicate whether all projects monitored by the Project Review Board are now subject to a monthly reporting requirement. Please list all projects with a value in excess of $1 million that the Project Review Board has reviewed since inception, indicating for each project whether the board has approved or rejected it, whether or not the project has been completed, as well as its original and most current cost projection. How many projects does the board currently monitor? How many new projects did the board begin monitoring in FY 2011? Please provide three**

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examples of projects that the Project Review Board rejected and briefly explain the rationale for rejecting the projects.

9. The OIT's **Program Management Office (PMO)** supports the Project Review Board in its charge of reviewing, approving, and monitoring IT projects that typically exceed $1 million in value. In addition, the PMO coordinates multi-agency IT 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 participate in the management of IT projects. The office also participates in the review of strategic and tactical plans to ensure that agency projects conform to the State's Enterprise Architecture structure. It also reviews all procurement requests to facilitate compliance with tactical plans and to find opportunities for cost savings. In response to Discussion Point #39 in the FY 2008-2009 Department of the Treasury Budget Analysis, the OIT indicated that the PMO was planning to implement a Quality Assurance function for IT projects and to adopt a framework for facilitating the delivery of high-quality IT services. Due to budgetary constraints, however, the OIT has abandoned the initiative. In response to Discussion Point #45 in the FY 2009-2010 Department of the Treasury Budget Analysis, the OIT indicated that the PMO had 18 staff members.

- ***Questions:*** **How many employees does the Program Management Office (PMO) have in FY 2011 and is budgeted to have in FY 2012? Have the PMO's responsibilities changed in the last two years? If so, what are the office's responsibilities today? What have been the accomplishments of the PMO in FY 2011? Has the OIT made any progress in implementing a Quality Assurance function for IT projects and in adopting a framework for facilitating the delivery of high-quality IT services? If so, please comment on the progress. If not, please indicate whether the OIT has any concrete plans to implement a Quality Assurance function for IT projects and to adopt a framework for facilitating the delivery of high-quality IT services in the near future.**

10. The OIT has been pursuing a three-phased strategy to **consolidate the State's shared information technology (IT) infrastructure**. In the first phase, the office strives to physically collocate mission-critical IT equipment to reduce the number of data centers and energy consumption, and to improve IT disaster recoverability. Phase 2 involves the use of the procurement review process to optimize the IT infrastructure through platform consolidation or virtualization. Phase 3 calls for service integration across affinity groups to improve service delivery and internal processes. To that end, the OIT intended to draft Service Level Agreements (SLAs) 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. At the time of responding, the OIT was in the middle of its first test case, the consolidation and move

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of the Department of Transportation data center into the OIT HUB data center. In addition, the OIT was working with the Division of Property Management and Construction in the Department of the Treasury to: a) relocate the Department of Health and Senior Services data center to an OIT data center and b) relocate printing operations and related equipment from its HUB data center so as to free up additional computer room floor space. In its response, the OIT also listed several successes in Phase 2 of the consolidation strategy, and stated that it had drafted an SLA for the consolidation of the Department of Transportation data center that would serve as the model for all future consolidations in Phase 3 of the consolidation strategy.

- ***Questions:*** **Please provide an update on the implementation of the three-phased consolidation strategy for the State's shared IT infrastructure. Have responsibilities for the State's shared IT infrastructure been shifted to or from OIT following the start of the reorganization? If so, which responsibilities have been transferred and according to which rationale? Does the OIT feel that it is receiving broad overall support from client agencies in its quest to reorganize the delivery of State IT services? Which agencies are stalling? Who settles disputes between the OIT and client agencies about who should be performing certain functions?**

- **Please indicate whether the consolidation of the Department of Transportation data center into the OIT HUB data center and the relocation of the Department of Health and Senior Services data center into an OIT data center have been completed. If so, are the benefits of the consolidations as 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? If not, what are OIT's plans regarding the relocation of 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?**

- **Please provide a few examples of 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 IT infrastructure (the use of the procurement review process to optimize the IT infrastructure through platform consolidation or virtualization), and b) Phase 3 of the consolidation strategy (service integration across affinity groups). Please list the Service Level Agreements (SLA) into which the OIT has entered with client agencies. Please submit a copy of a SLA with the Department of the Treasury, if available.**

11. In cooperation with IT organizations in Executive branch agencies, OIT has developed the **"State of New Jersey Information Technology Strategic Plan for Fiscal Years 2008 through 2010."** The plan expresses goals, objectives, and strategies in six IT areas: governance, statewide efficiencies, enterprise architecture, e-government, security, and IT workforce management.

- ***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 IT strategies and action plans today and when will a**

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new strategic plan take effect? If there is a new State of New Jersey Information Technology Strategic Plan for fiscal year 2011 and thereafter, please provide a copy thereof. What are the most important changes in the new strategic plan relative to the prior strategic plan?

12. 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 IT services through the cost-effective use of all State IT resources.** Among the initiatives was the completion of an inventory of statewide IT assets and services, the completion of an infrastructure consolidation assessment and plan for all agencies, the establishment of statewide IT data sharing policies to increase efficiencies of data collection and use among different layers of government, and the creation of a formal process by which OIT and the Division of Local Government Services in the Department of Community Affairs meet periodically with all 21 of the county IT 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.

As of the OIT response to Discussion Point #46 in the OLS FY 2009-2010 Department of the Treasury Budget Analysis, the OIT has completed the inventory of statewide IT assets and services and established statewide IT data sharing policies. On an ad hoc basis, it has also been working with local governments concerning the modernization of equipment to promote radio interoperability, the use of State assets by local governments as the Garden State Network (a statewide integrated communications network) migrates from a leased line-based infrastructure to a fiber-based infrastructure, and the use and expansion of broadband and related interconnectivity. The OIT also intended to form a statewide broadband committee with local governments, institutions of higher education, other State entities, and the New Jersey Network to make recommendations for the expansion and optimal use of broadband technology. Lastly, the OIT noted that the detailed infrastructure consolidation assessment, though performed for some agencies, had not been completed.

- ***Questions:*** **Please provide an update on the infrastructure consolidation assessment. Has the assessment been completed? If not, by which date does OIT expect its completion? What have been the results of the assessment? Does OIT perceive a potential for significant cost savings? Has an infrastructure consolidation plan been adopted? If not, by which date does OIT expect its completion? If so, please submit a copy of the plan.**

- **Please elaborate on OIT's outreach to county IT offices and its efforts to jointly leverage resources. What progress has been achieved in collaborating with local governments concerning the promotion of radio interoperability, the use of broadband technology, and the use of the Garden State Network and existing State-owned fiber resources by local governments? Has the cooperation expanded beyond these spheres of activity? If so, please describe the new projects.**

- **Please indicate whether a statewide broadband committee has been formed and relate any recommendations the committee may have issued concerning the optimal**

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use of broadband technology by public entities in New Jersey. Has the committee played a part in preparing the application to the National Telecommunications and Information Administration in the United States Department of Commerce that resulted in a $39.6 million federal grant award to the OIT for the New Jersey Broadband Network project (see Discussion Point #4)? If so, please describe the committee's involvement. Will the grant award affect the work of the committee?

13. 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 **enterprise data warehouse environment**. As a result, 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. The 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.

- ***Questions:*** **Please detail any steps the OIT has taken in the last two years to further develop the enterprise data warehouse environment. 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 provide a projection as to the length of time the OIT projects will lapse before 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 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.

- ***Questions:*** **Please relate whether the OIT has promoted improved data governance practices within State government and whether those efforts have borne fruit. Have data stewards been designated in State agencies? Has a governance board**

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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? If no progress has been achieved in implementing improved data governance practices, does the OIT intend to push them in the near future?

15. According to the Office of the State Auditor's December 2008 audit report on **Statewide Data Privacy**, OIT has 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.

Responding to Discussion Point #49 in the OLS FY 2009-2010 Department of the Treasury Budget Analysis, the OIT reported progress on all aspects of data security for which the State Auditor recommended improvements. Regarding the drafting of comprehensive agreements with third parties that require the safeguarding of the confidentiality of personal and classified information, the OIT expected to publish by the end of fiscal year 2009 policies and procedures documents on extranet connections that third parties use to access confidential information on State servers. The office anticipated that these documents would cover a significant aspect of third party connectivity concerns. In addition, the OIT had developed a draft Third Party Access Policy that was supposed to take effect by the end of fiscal year 2009.

Regarding the promulgation of statewide data security policies on portable data storage devices, the OIT noted that its Statewide Office of Information Security had crafted a draft Portable Computing and Storage Device Protection policy, which it intended to finalize before the end of fiscal year 2009. Moreover, the OIT had worked with State agencies to develop security requirements and implementation specifications for device protection; had assessed the functionality of some device protection products, including device encryption technologies; had negotiated pricing for device protection products with some vendors; and had advised State agencies in February 2009 of the products' availability.

Regarding the promulgation of statewide data security policies on data encryption, the OIT explained that the complexity and costliness of data encryption make it impossible to draft a meaningful comprehensive data encryption policy. Instead, the OIT's Statewide Information Security Office was developing security protection policies that are based on employing technology-unspecific controls, reflecting the OIT's adoption of data controls that, according to the OIT, provide protection similar to data encryption in a more cost-effect manner. Specifically, the Statewide Office of Information Security was crafting policies for access control and user management that militate for the ongoing monitoring of information assets based on access controls. In addition, the office pursued file-level encryption, which was already part of its database management service policies. Moreover, the OIT noted that it implemented a Vulnerability Management Program for all State agencies, under which infrastructure devices were scanned for known vulnerabilities to better protect information. All agencies had received training in the use of these services and the OIT had started to work with agency staff to begin a

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baseline scan of each segment of the Garden State Network (a statewide integrated communications network).

- *Questions:* **Please indicate whether the following policies and procedures have taken effect, and, if not, please explain the reason(s) for their non-adoption: 1) policies and procedures on extranet connections that third parties use to access confidential information on State servers, 2) the Third Party Access Policy, 3) the Portable Computing and Storage Device Protection policy, and 4) a foundational policy for access control and user management along with associated policies in support of ensuring information is protected. To the best of OIT's knowledge are the policies and procedures being followed or has the OIT become aware of instances of noncompliance? Please describe any significant developments in the area of statewide data security over the last two years.**

- **Please provide an update on the Vulnerability Management Program. Have all infrastructure devices and the Garden State Network been completely scanned? If not, when does the OIT expect the scan to be finished? What have been the results and outcomes of the scans? Was the data security as high before the scans as the OIT thought? If applicable, please describe instances in which the State tightened data security as a result of the scans.**

16. In its August 2007 audit report on the Board of Public Utilities (BPU), the State Auditor advised improving **computer applications the BPU used in the management of underground utility safety programs**. The 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 (C.48:2-73 et seq.), was impossible because the current 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. Responding to Discussion Point #50 in the OLS FY 2009-2010 Department of the Treasury Budget Analysis, the OIT noted that it approved a request for proposal for the project in April 2009, which was then sent to the Department of the Treasury for approval.

- *Questions:* **Please provide an update on the status of the envisioned improvements of the computer applications the BPU uses in the management of underground utility safety programs. Has the project been completed? If not, at which development stage is the project currently and by which date does the OIT expect its completion?**

17. 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

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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 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.

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. The OIT did not address these recommendations in its audit response.

- ***Questions:*** **Please comment on OIT's efforts since the audit to improve the accountability for inventory assets at its data center. Has the OIT begun to evaluate the application software portion of the data center's asset inventory? By which date does the OIT expect the evaluation's completion? Is the fixed asset inventory up-to-date? What efforts must be deployed to ensure that the entire data center inventory will remain up-to-date? How frequently does the OIT carry out an inventory? Please explain the objectives and the work plan of the Change Management and Compliance initiative.**

- **Please indicate whether the OIT intends to adopt policies and procedures on granting access to the three data center sites. If so, by which date will they be implemented? If not, for which reasons will the OIT not craft them? Please describe any adopted policies and procedures. What steps will the OIT take, if any, to restrict access to the data center sites and to actively monitor their access security system?**

18. The OIT is responsible for administering telecommunications billings of State departments, whereas the departments are actively managing their telecommunications services. On July 7, 2010, the Office of the State Comptroller released its audit report on OIT's Billing and Contracting for Telecommunications Services. In the report, the State Comptroller 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

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would save the State $3.2 million annually and recommended that the OIT identify inactive lines in the future through periodic reviews of telephone usage reports and ask the departments' telephone coordinators to justify the continued need for the zero-usage lines. In its audit response, the OIT stressed that as managers of their own telecommunications services, departments must notify phone service operators of unneeded lines and that beginning in FY 2007 State departments had received several notices asking them to terminate unused lines. The OIT would nonetheless start to periodically review monthly telephone usage reports so as to identify dormant lines. Moreover, the OIT suggested that each department's human resources offices become involved in the issuance of telephone disconnect notifications, as these offices are cognizant of personnel changes.

- **Questions: Please comment on the frequency with which the OIT intends to periodically review monthly telephone usage reports so as to identify dormant telephone lines. If the OIT has already performed a review, have any unused lines been terminated after the OIT contacted departments to alert them to the existence of seemingly unused lines? For how long does a line have to be inactive before the OIT will ask a department about its continued need? Has the OIT managed to enlist the help of departments' human resources offices in identifying unused lines that ought to be terminated? If not, has the OIT reached out to departments to advocate for the involvement of human resource offices?**

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.). Pursuant to Department of the Treasury, Circular Letter No. 04-06-OIT, Assignment and Use of Cellular Wireless, each State agency establishes its own policies and guidelines for employees' use of State-issued cellular wireless devices. The Circular Letter prescribes, however, that each individual wireless device assignment be based upon the need to have constant communication and that the benefits of the assignment justify the costs. Departments are to document an assignment's justification and maintain "appropriate records" of all device issuances. The State Comptroller found that departments' recordkeeping varied vastly and that out of a random sample of 518 devices, 426 devices, or 82 percent, did not have documentation justifying their assignment. To alleviate this shortcoming, the State Comptroller recommended the development of a uniform policy governing the issuance of wireless devices that requires departments to assess and document the costs and the benefits of assigning a device. In its audit response, the OIT stated that it would revise the State's current telephone policies to include some of the State Comptroller's recommendations.

In reply to Discussion Point #50 in the OLS FY 2009-2010 Department of the Treasury Budget Analysis, the OIT reported that 18,069 cellular devices were issued in FY 2009, which marks an annualized increase of 30.8 percent over the 3,613 devices issued in FY 2003. According to the OIT, estimated FY 2009 expenditures for cellular wireless devices totaled $7.7 million.

- **Questions: Please indicate whether the OIT has developed and issued specific uniform standards guiding departments' assignment of wireless devices to employees and the documentation thereof. If so, please summarize the new policies. If not,**

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please indicate whether the OIT is still intending to issue specific uniform standards and by which date the OIT expects them to take effect. Which entity ensures agency compliance with cellular device directives? Does the OIT have access to departments' documentation justifying the issuance of wireless devices? If not, does the OIT favor requiring departments to file with the OIT their justifications for assigning wireless devices to employees?

- **What was the actual number of State-issued cellular wireless devices in FY 2010? What is the projected number of State-issued cellular wireless devices in FY 2011 and FY 2012? Please provide a breakout of the number of cellular wireless devices issued in FY 2011 by State agency. What is the estimated budgetary outlay for supporting State-issued cellular wireless devices in FY 2010, 2011, and FY 2012?**

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