State of New Jersey

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April 24, 2018

Mr. Frank Haines
Legislative Budget and Finance Officer
Office of Legislative Services
State House Annex
P.O. Box 068
Trenton, NJ 08625

Dear Mr. Haines:

Pursuant to your letter dated April 16, 2018, it was requested that I provide a written response to the questions posed by Chairman Sarlo, Senator Oroho, and Senator Singleton following the April 10, 2018 hearing of the Senate Budget & Appropriations Committee. The questions and their subsequent answers are as follows:

Chairman Sarlo

Concerning State contracts with the pharmacy benefit managers, you stated that approximately $150 million in savings is anticipated in FY 2018 from the new contract. What is the anticipated amount of savings in FY 2019? Please provide a breakdown between the State impact and the local impact for FY 2019.

FY 2019 State Budget savings are assumed to be consistent with fiscal 2018 assuming claim activity and pricing is stable. Pharmacy benefit manager savings can vary based on multiple factors, such as claim activity and prescription drug volume.

Please provide information on use of third-party administrators by the State Health Benefits and School Employees Health Benefit Plans, including the dates on which existing contracts expire.

Third-party administrators for the State Health Benefits Plan (SHBP) and School Employees' Health Benefit Plan (SEHBP) include Horizon Blue Cross Blue Shield and Aetna, as well as the current Pharmacy Benefit Manager (PBM) OptumRx, effective 1/1/2018.

The Horizon and Aetna contracts expire on 12/31/2018.

The PBM contract with OptumRx has a duration of three years (through 12/31/2020) with the option of two one-year extensions.

Senator Oroho

According to the Governor's FY 2019 Budget-in-Brief and your testimony during the hearing, a 10.75% marginal gross income tax rate on income above $1.0 million is estimated to yield $765 million in additional revenues. This estimate includes the impact of the gross income tax credit for taxes paid to other jurisdictions. Please provide a breakdown of the gross amount of revenue projected from the increased marginal tax rate and the impact this increase has on the gross income tax credit for taxes paid to other jurisdictions.

The estimated GIT revenue gain in FY 2019 is $765 million, which is ***net*** of credits taken for taxes paid to other jurisdictions (COJ). The OREA income tax model estimates that the COJ will increase by about $144 million due to the new 10.75 percent marginal tax rate. Accordingly, the ***gross*** tax liability increase in FY 2019 would equal $909 million ($765 million plus $144 million), but the higher COJ is then taken by taxpayers, reducing the ***net*** revenue gain for FY 2019 to $765 million. As a frame of reference, Tax Year 2015 total credits for other jurisdictions was about $3.3 billion for ***all*** taxpayers and is projected to increase to $3.9 billion in Tax Year 2018 under current tax law.

Please provide an analysis of the actual amount of tax credits awarded to taxpayers for FY 2016, FY 2017, and to-date for FY 2018. Please provide the actual amounts redeemed by taxpayers on their tax returns for those fiscal years.

The Office of Revenue and Economic Analysis (OREA) and the Division of Taxation are currently examining available tax data to determine the actual amounts of tax credits redeemed by corporate taxpayers. However, based on Economic Development Authority (EDA) projections regarding the utilization of authorized tax credits, the amount of tax credits redeemed for FY 2016 – FY 2018 is estimated as follows:

FY 2016: $195 million
FY 2017: $209 million
FY 2018: $449 million

Moreover, EDA projects tax credit utilization could reach $737 million in FY 2019.

Please provide details regarding the debt service savings expected to be realized from the refinancing of the Tobacco Settlement Financing Corporation's tobacco settlement bonds, both in cash and in net present value.

As displayed on p. C-7 of the FY19 GBM, the estimated cash value of this savings is $258 million. Additionally, the net present value is estimated at $162 million.

Senator Singleton

According to the FY 2019 Governor's Budget Recommendation, the State-funded positions for Stockton University are 764 and for Kean University are 1,074. However, the universities' human resources surveys, which provide the number of full-time positions for each university, state that Stockton has 1,115 full-time positions and Kean has 900 full-time positions, based on Fall 2016 data. Please explain the differences in the position counts.

The discrepancy between the universities' human resources survey data submitted to the Federal IPEDS (Integrated Postsecondary Education Data System) and the FY 2019 Governor's Budget Recommendation is due to different reporting definitions. The Federal IPEDS data reflects the number (headcount) of individual employees, both full-time and part-time. Whereas, State-funded positions represent the full-time equivalent of a full-time employee (FTE). In order to maximize the fringe benefit costs covered by the State, institutions may combine their part-time positions into full-time equivalent positions.

What has been the growth rate in total tax collections over the last four years?

The below table provides the growth rate in tax collections for the total major taxes over the last four years in addition to a four-year average. However, the PPGR rate increase that was implemented in FY 2017 distorts the FY 2017 growth rate. As a result, the bottom row, which excludes PPGR revenues, provides a more accurate picture of aggregate major tax revenue growth.

	FY 2014	FY 2015	FY 2016	FY 2017	Average
Total Major Taxes	1.8%	6.8%	0.4%	4.7%	3.4%
Excl. PPGR	1.8%	6.9%	0.4%	2.5%	2.9%

What is the projected growth rate in total tax collections for the upcoming fiscal year?

The baseline projected growth rate for the major tax revenues in FY 2019 is 2.7%. The growth rate for the major tax revenues including the proposed tax changes is 7.0%. The overall growth of all budgeted revenues, both from the major taxes and from other miscellaneous sources, is 5.7%, as shown on page 23 of the Budget-in-Brief.

The State has huge liabilities in its underfunded $76 billion public pension systems, which overall was just 49 percent funded in fiscal 2016, according to the most recent data available. What is the overall current funded ratio for the public pension systems?

Based on actuarial valuations as of July 1, 2016, the overall Statutory funded ratio for the State pension plans was 58.9% when including the estimated present value of the Lottery Enterprise.

The funded ratio as of July 1, 2017 will be available once finalized actuarial valuation reports are approved by the Board of Trustees of each retirement system.

New Jersey, unlike most states, failed to replenish its now-empty rainy day fund after draining it in 2009 during the recession, according to data from The Pew Charitable Trusts. How much money is budgeted to being allocated to the rainy day fund in this budget?

The FY 2019 ending fund balance is $743M. Funding is not allocated to a separate rainy day fund.

The State's credit spread over top-rated muni debt is 78 basis points. That figure, which shows the gap between New Jersey bonds and triple-A rated bonds, widened from 28 basis points in January 2010 when Christie took office to 115 basis points in June 2017, according to Municipal Market Data, a Thomson Reuters unit. What is the administration's specific plan to reduce this number?

The State's credit spread to AAA bonds is governed by two main factors: the State's current credit ratings by the major agencies *and* the perception of the State by investors, many of whom do independent credit work. The only way to reduce the current spread relies on improving the perception of the State by the rating agencies and investors.

New Jersey's credit ratings have been on a downward trajectory since the early 1990s, including 11 credit downgrades in the prior administration alone. The Governor and other administration officials met with each of the major credit rating agencies prior to the Governor's Budget Message, and discussed their concerns about the State's fiscal position. The administration and the rating agencies agree that there is no quick fix to these problems as they have been developing for decades. Nevertheless, Governor Murphy has presented a fiscal plan which should begin improve the State's credit rating and investor perception.

The Governor understands that we cannot improve the State's credit rating without economic growth. The first piece of the Governor's plan is focused on growing the State's economy through targeted investment in the New Jersey's assets and its people. Proposed investments include increased infrastructure funding for New Jersey Transit and increased funding to community colleges and vocational training to increase the pool of appropriately trained workers.

The second piece of the plan addresses the major credit rating agency fiscal concerns and should begin to improve the State's credit ratings. This piece of the plan includes conservative revenue forecasting; the gradual increasing of the State's fiscal reserves; a significant reduction in the use of one-shot, non-recurring revenue sources; the expansion and enhancement of the State's tax base to support long-term spending requirements; mitigation of the current structural rigidities between the General Fund and the Property Tax Relief Fund; and funding the State's required pension payment under the 1/10 plan.

The Governor believes it is important for the administration and the Legislature to agree on these priorities and for the administration to communicate them to the public (i.e. investors) in order to assure current and future bondholders that the entire government is intent on addressing these concerns.

The administration believes that the combination of these efforts will, over time, result in an improvement in the State's credit ratings and a decrease in the State's credit spread over AAA rated debt.

Are there any debt refinancing plans contemplated in this year's budget proposal and if so, what purposes will any savings be going towards?

There are no debt refinancing plans in the FY 2019 proposed budget.

Sincerely,

Elizabeth Maher Muoio
State Treasurer

c: Cathy Brennan, Deputy State Treasurer
David Ridolfino, Acting Director, Office of Management and Budget