ANALYSIS OF THE NEW JERSEY

FISCAL YEAR 1998 - 1999 BUDGET

INTER-DEPARTMENTAL ACCOUNTS

PREPARED BY

OFFICE OF LEGISLATIVE SERVICES

NEW JERSEY LEGISLATURE

MAY 1998

NEW JERSEY STATE LEGISLATURE

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INTER-DEPARTMENTAL ACCOUNTS

Budget Pages....... D-331 to D-340; G-22

Fiscal Summary ($000)

	Expended FY 1997	Adjusted. Appropriation FY 1998	Recommended FY 1999	Percent Change 1998-99
State Budgeted	$1,103,702	$1,171,362	$1,296,796	10.7%
Federal Funds				—
Other				
Grand Total	$1,103,702	$1,171,362	$1,296,796	10.7%

Personnel Summary - Positions By Funding Source

	Actual FY 1997	Revised FY 1998	Funded FY 1999	Percent Change 1998-99
State				—
Federal				—
Other				—
Total Positions	NA	NA	NA	NA

FY 1997 and revised FY 1998 personnel data reflect actual payroll counts. FY 1999 data reflect the number of positions funded.

Introduction

The Inter-Departmental Accounts contain those funds which are not appropriated to any single department, but which are administered centrally on behalf of all agencies of State government. The programs supported by these funds include property rentals, insurance, employee benefits and salary adjustments, and a contingency reserve for emergency needs and unanticipated cost increases. Employee benefits and salary adjustments are the major components of this group.

Key Points

! The Property Rentals recommendation of $245.3 million is an increase of $31.9 million above the FY 1998 adjusted appropriation of $213.4 million. The recommended increase includes $5.4 million for additional space, $2.2 million to upgrade existing leases, an increase of $21.7 million in the debt service on the bonds issued by the New Jersey

Key Points

Building Authority and an increase of $3 million in the debt service on the bonds issued by the Economic Development Authority (EDA).

- The FY 1999 recommended appropriation for the EDA has been adjusted to include the debt service on the outstanding debt of the South Jersey Port Corporation. Prior to FY 1999, the debt service was appropriated as State Aid in the Department of Commerce and Economic Development.

- The Utilities and Other Services recommendation of $39.3 million is an increase of $16.9 million above the FY 1998 adjusted appropriation of $22.4 million. The recommended increase in appropriation is primarily due to the addition of a new grant to the Sports and Exposition Authority ($15.0 million). According to an Authority press release, dated February 27, 1998, these funds will be added to the Authority's Maintenance Reserve Fund and used for capital construction and major maintenance projects.

- Funding of the Employee Benefits accounts (i.e., Social Security, health benefits, etc.) have been adjusted to reflect the transfer of the responsibility to fund employee fringe benefits for State College and University employees from the Inter-Departmental Accounts to the institutional budgets.

- The Direct State Service (DSS) appropriations recommended in the Inter-Departmental Accounts for the State retirement systems and other special retirement acts is $70.5 million, a decrease of $73.8 million from the FY 1998 adjusted appropriation.

  Most of the $73.8 million reduction is attributable to major pension legislation enacted last year. P.L. 1997, c.114 authorized the EDA to issue $2.8 billion in bonds to finance a portion of the unfunded liability of the State pension systems, which together with the use of additional assets recognized by the one-time change to full-market value of assets (P.L.1997, c.115) were sufficient to fully fund the retirement systems (State liability) excluding the post-retirement medical liability. In addition, P.L.1997, c.115 permits the Treasurer to use surplus assets to offset the employer (State and local government) contributions to fund the retirement systems. The use of these surplus assets is responsible for most of the reduction in the DSS appropriations to fund the retirement systems in FY 1999.

- The $317.4 million recommended appropriation for the State Health Benefits Program is an increase of $100 million from the FY 1998 "net" adjusted appropriation of $217.4 million. The recommended increase is primarily because the department used $115.8 million of the "surplus" in the Health Benefits Program Fund to offset the employer cost (State) in FY 1998.

- Excluding the State colleges and Universities and New Jersey Transit, the Governor's recommended budget includes growth of 412 positions and anticipates the elimination of 1,097 positions from the State payroll through attrition, layoffs, and privatization initiatives. An estimated 102 positions will be eliminated through attrition and 995 positions subject to layoffs.

- The Governor's recommended budget of $88.6 million for Salary Increases and Other Benefits (program classification) reflects an offsetting reduction of $12.2 million to be achieved through a variety of Statewide Efficiency Initiatives in the various agency accounts.

Key Points

According to the Budget in Brief, these initiatives will involve changes in overtime policy, smarter procurement and the elimination of Sick Leave Injury benefits.

! Most State employees are covered by four-year contracts expiring June 30, 1999. The agreements called for a two-year wage freeze, followed by a $250 bonus payable April 1997, and cost-of-living adjustments (COLAs) payable in the third and fourth years.

! The Governor's recommended appropriation for the Year 2000 Data Processing Initiative is $33.9 million, an increase of 126 percent above the FY 1998 adjusted appropriation of $15 million. These funds will be used for re-programming and computer system modifications so that the systems will recognize the year 2000 and beyond and continue operating.

! The FY 1999 recommended budget includes $11 million for a new program - Interdepartmental Initiatives. According to the Budget in Brief, $5 million is for "the implementation of a centralized automated revenue interface system", $4 million is to begin to "implement a seamless solution to provide for the statewide efficient and effective management of all human resource information" and $2 million is "to conduct a comprehensive analysis of the current telecommunications environment". This appropriation is in addition to the $33.9 million recommended for the Year 2000 Data Processing Initiative.

! The Governor's recommended budget anticipates a $20 million supplemental appropriation during FY 1998 in the capital projects accounts (Partnership Agreement Program) and includes language on page G-22 to appropriate up to $20 million in FY 1999 to subsidize county and county authority "stranded debt" service payments incurred for solid waste facilities.

Background Papers

Program Description and Overview

The Inter-Departmental Accounts contain those funds which are not appropriated to any single department, but which are administered centrally by the Department of Treasury on behalf of all agencies of State government. The programs supported by these funds include property rentals, insurance, employee benefits and salary adjustments, and a contingency reserve for emergency needs and unanticipated increases. Employee benefits and salary adjustments are the major components of this group.

Beginning in FY 1999, the Governor has proposed shifting the costs of funding the fringe benefits of college and university employees from the Inter-Departmental Accounts, Direct State Services section (budget pages D-337 & 338) to the Department of State, Grants-In-Aid section (budget pages E-33 through E-61) to reflect the Administration's proposal to fund State support for college and university operations as block grants. According to the department, the estimated cost of fringe benefits for which the institutions will be responsible in FY 1999 is $350.7 million. However, that amount will be offset by any sums received by the colleges as reimbursement from federal and other sources. Under the current system, the State retains fringe benefit cost recoveries. In FY 1998, the estimated recovery amount is $39.9 million (budget page C-13). The estimated gross fringe benefits costs for the institutions, therefore was $331.9 million in FY 1998 compared to the estimated $350.7 million gross costs in FY 1999, an increase of $18.7 million.

Fringe Benefit Costs for College and University Employees
source: Office of Management and Budget

Program	FY 1998	FY 1999
Public Employees' Retirement System	$7,209,000	$8,663,000
Police and Firemen's Retirement System	1,756,000	1,557,000
Alternate Benefits Program	62,780,000	75,263,000
Teachers' Pension and Annuity Fund	1,332,000	2,143,000
State Employees' Health Benefits	100,030,000	116,268,000
State Employees' Prescription Drug Program	20,826,000	28,828,000
State Employees' Dental Program	4,863,000	6,365,000
Social Security Tax - State	87,954,000	105,570,000
Temporary Disability Insurance Liability	2,158,000	2,545,000
Unemployment Insurance Liability	3,101,000	3,456,000
Total	$292,009,000	$350,658,000
Fringe Benefits Paid By the State - Offset by Fringe Benefit Recoveries from Colleges and Universities	$39,900,000	$0
Revised Total	$331,909,000	$350,658,000

Program Description and Overview

Administration of the State Retirement Systems

The Division of Pensions and Benefits in the Department of Treasury administers the State retirement systems. State law requires that all pension systems, except the Prison Officers' Pension Fund, which is closed to new members and funded on a pay-as-you-go basis, be subject to actuarial valuation every year and actuarial investigation every three years. (Actuarial investigation requires the actuary to examine the various assumptions used to calculate the assets and liabilities of the system and adopt new assumptions if the actual experience differs significantly.) Such valuations and investigations are designed to insure that these programs adequately recognize the additional costs (or savings) resulting from experience or legislative changes.

The retirement systems are currently funded on a reserve basis, meaning any change increasing the liabilities of the systems is met with an increase in the normal contribution (employer cost) and the establishment of an accrued liability to be financed over a period of years, usually between 30 and 40 years.

The FY 1999 Direct State Services recommended appropriation for the Inter-Departmental Accounts includes $122.8 million to pay for the employer contributions to the various pension systems and to fund the following pension-related programs: the Pension Adjustment Act, the Minimum Pension Benefit Act and the debt service on the pension obligation bonds. This is a decrease of $76 million, or 38.2 percent, below the FY 1998 adjusted appropriation. This reduction is attributable to major pension legislation enacted last year. P.L. 1997, c.114 authorized the Economic Development Authority (EDA) to issue $2.8 billion in bonds to finance a portion of the unfunded liability of the State pension systems, which together with the use of surplus additional assets recognized by the one-time change to full-market value of assets (P.L. 1997, c.115) were sufficient to fully fund the retirement systems (State liability) excluding post-retirement medical liability. According to the most recent actuarial valuations, $208.8 million in surplus pension fund assets have been drawn down to offset State contributions to the various retirement systems.

In addition to the Inter-Departmental appropriations to fund the State retirement systems, the Governor's FY 1999 recommended budget includes $488.6 million as State Aid to fund the Teachers' Pension and Annuity Fund (TPAF) as well as other pension related costs, on behalf of county colleges and certain municipal and school district employers. This is an increase of $325.2 million, or 199 percent, above the FY 1998 adjusted appropriation. The table on the following page displays the various pension related programs funded through State Aid appropriations:

Program Description and Overview

Other State Appropriations to Fund the State Pension Systems
and Other Retirement Benefits

General Fund - State Aid	FY 1998	FY 1999
Department of Education Additional Health Benefits (F-7)	$13,536,000	$17,000,000
Minimum Pension for Pre-1955 Retirees (F-7)	$9,000	$6,000
Department of Treasury Employer Contributions - Alternate Benefit Program (F-17)	$15,016,000	$15,910,000
Employer Contributions - Teachers' Pension and Annuity Fund (F-17)	$143,000	$364,000
Debt Service on Pension Obligation Bonds (F-17)	$40,000	$69,000
Additional Health Benefits (F-17)	$801,000	$1,417,000
State Contribution to Consolidated Police and Firemen's Pension Fund (F-18)	$0	$0
Debt Service on Pension Obligation Bonds (F-18)	$12,085,000	$3,103,000
Police and Firemen's Retirement System, Health Benefits (F-18)	$0	$11,149,000
Property Tax Relief Fund - State Aid		
Department of Education Teachers' Pension and Annuity Fund (I-7)	$97,650,000	$371,316,000
Debt Service on Pension Obligation Bonds (I-7)	$24,095,000	$68,297,000
TOTAL, State Aid	$163,375,000	$488,631,000

Recent Legislation Affecting Pension Funding

P.L. 1992, c.41 revalued the assets and recalculated the unfunded liabilities of the Public Employees' Retirement System (PERS), the Teachers' Pension and Annuity Fund (TPAF), the Police and Firemen's Retirement System (PFRS), the State Police Retirement System (SPRS), the Judicial

Program Description and Overview

Retirement System (JRS) and the Consolidated Police and Firemen's Pension Fund (CP&FPF). As a result of these changes, the pension funds adopted an assumed interest rate of 8.75%, which reduced the employer (State and local) contributions required to annually fund these retirement systems.

P.L. 1994, c.62 made additional changes to the funding methodology of the retirement systems. This act reduced the level of prefunding of the liability for post-retirement medical benefits, changed the funding methodology from entry age normal to the projected unit credit method, changed the employee contribution rates for members of the TPAF and the PERS to a flat 5.0 percent rate, and reduced the recognition and funding of the cost-of-living adjustment (COLA) liabilities. These changes further reduced the current employer (State and local) contributions to fund the retirement systems.

The enactment of major pension legislation in June 1997 permitted the State to refinance its pension obligations. P.L. 1997, c.114 authorized the Economic Development Authority to issue $2.8 billion in bonds to finance a portion of the unfunded liability of the State pension systems, which together with the use of additional assets recognized by the one-time change to full-market value of assets (P.L. 1997, c.115) were sufficient to fully fund the retirement systems (State liability) excluding the post-retirement medical liability. In addition, P.L. 1997, c.115 permits the Treasurer to use surplus pension fund assets to offset the annual employer (State and local) contributions to fund the retirement systems. In FY 1999, approximately $218 million in surplus pension fund assets are used to offset State contributions and approximately $133 million in surplus pension fund assets are used to offset local government contributions to fund the retirement systems.

The FY 1999 pension bond debt service is $123.8 million, an increase of $33.1 million above the FY 1998 adjusted appropriation. The debt service payments are structured to mirror the annual State unfunded accrued liability contributions required under prior law. The payment schedule starts out with low annual payments that initially do not cover the annual interest cost of the bonds and then rise steeply over time.

The FY 1999 recommended budget for the Department of Treasury, State Aid (page F-18), includes a new appropriation of $11.3 million for the Police and Firemen's Retirement System, Health Benefits account. Recent legislation, P.L. 1997, c. 330, provides State-paid post-retirement medical (PRM) benefits to certain PFRS members, employed by local governments, not receiving employer-paid PRM benefits.

<u>Pension Benefits</u>

Almost every public employee of State or local government is a member of a State-administered retirement system. The State administers seven major retirement systems: the Public Employees' Retirement System (PERS), the Teachers' Pension and Annuity Fund (TPAF), the Police and Firemen's Retirement System (PFRS), the State Police Retirement System (SPRS), the Judicial Retirement System (JRS), the Prison Officers' Pension Fund (POPF) and the Consolidated Police and Firemen's Pension Fund (CP&FPF). An eighth retirement program, the Alternate Benefit Program (TIAA/CREF), is available to faculty members of institutions of higher education.

Public Employees' Retirement System (PERS) (N.J.S.A. 43:15A-1 et seq.)

PERS was established in January, 1955, to provide coverage to substantially all full-time employees of the State or local governments or public agencies who are not required by law to

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become members of another contributory retirement system. Membership is mandatory and vesting occurs after 10 years of membership. Members are generally eligible for retirement at age 60 with the retirement benefit calculated by formula (1/60 x average final compensation x number of years of service). Employees enrolled in this retirement system contribute to and are eligible to receive pension benefits and Social Security benefits. Employer obligations are paid by the local employers and the State (as an employer). This system is maintained on an actuarial reserve basis.

Actuarial Reserve Basis (advanced funding) means annual contributions are invested on a current basis that will, with earnings, fund the retirement benefits being earned each year by existing employees.

Teachers' Pension and Annuity Fund (TPAF) (N.J.S.A. 18A:66-1 et seq.)

TPAF was established in January, 1956, to provide coverage to all full-time school teachers in the State, including county vocational schools, as well as certain employees in the State Department of Education. Membership is mandatory for these employees and vesting occurs after 10 years of service. Members are generally eligible for retirement at age 60 with the retirement benefit calculated by formula (1/60 x average final compensation x number of years of service). Employees enrolled in this retirement system contribute to and are eligible to receive pension benefits and Social Security benefits. The system is maintained on an actuarial reserve basis.

The State pays the full employers' share of contributions (except for the cost of the early retirement windows which are paid for by the participating districts) on behalf of local school districts. As a result, the State's payments are budgeted as State Aid to the Department of Education. The recommended budget includes $371.3 million in the Department of Education, Teachers' Pension and Annuity Fund account; $68.3 million for Debt Service on Pension Obligation Bonds; and $460.6 million in the Social Security Tax account as Property Tax Relief Fund - State Aid in FY 1999 (page I-7).

Judicial Retirement System (JRS) (N.J.S.A. 43:6A-1 et seq.)

JRS was established in 1973 to provide pension coverage to members of the State judiciary. Membership is mandatory for these employees with vesting generally occurring after 5 years service as a judge and 10 years of public service. The retirement benefit formula can vary up to 75 percent of final compensation, depending on age and combinations of judicial and public service. Prior to 1982 the members made no contribution to fund the system (non-contributory). Since 1982, members are required to contribute three percent on any salary increase above the salary of that position on January 18, 1982. Employees enrolled in this retirement system contribute to and are eligible to receive pension benefits and Social Security benefits. The system is maintained on an actuarial reserve basis.

Police and Firemen's Retirement System (PFRS) (N.J.S.A. 43:16A-1 et seq.)

PFRS was established in June, 1944, to provide coverage to all full-time county and municipal and State police and firemen appointed after June 1944 in municipalities where local police and firemen pension funds existed or where this system was adopted by referendum or resolution. Membership is mandatory and vesting occurs after 10 years of membership. A member may retire after 25 years of service or at age 55 with 20 years of service. The retirement benefit is calculated by formula (2% x final compensation x number of years of service up to 30, plus 1% of final compensation for each year of service in excess of 30 years). Special retirement is available

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to members with 25 years of service at 65 percent of final compensation plus 1 percent of final compensation for each year of service over 25, to a maximum of 70 percent of final compensation. Employer obligations are paid by the local employers and the State (as an employer). This system is maintained on an actuarial reserve basis.

State Police Retirement System (SPRS) (N.J.S.A. 53:5A-1 et seq.)

The SPRS was created in July, 1965, as the successor to the State Police Retirement and Benevolent Fund. All uniformed officers and troopers of the Division of State Police in the Department of Law and Public Safety are required to enroll. Membership is mandatory and vesting occurs after 10 years of service. Members are eligible for retirement after 20 years of service with no age requirement. Mandatory retirement occurs at age 55. The retirement benefit is calculated by formula (50% of final compensation plus 3% of final compensation for each year in excess of 20 years but not over 25 years). Special retirement is available to members with 25 years of service at 65 percent of final compensation plus 1 percent of final compensation for each year of service over 25, to a maximum of 70 percent of final compensation. This system is maintained on an actuarial reserve basis.

Prison Officers' Pension Fund (POPF) (N.J.S.A. 43:7-7 et seq.)

POPF was established in January, 1941, to provide coverage for certain employees of the Department of Corrections. Effective January 1, 1960, the system was closed to new employees. Although there are no remaining active members, there are 288 retirees and beneficiaries. This system is entirely funded by current trust assets. State contributions may be necessary if the trust assets prove insufficient.

Consolidated Police & Firemen's Pension Fund (CP&FPF) (N.J.S.A. 43:16-1 et seq.)

CP&FPF was established in January, 1952, to place 212 local police and firemen pension funds on an actuarial basis. The membership consists of policemen and firemen appointed prior to July 1, 1944. Although there are no remaining active members, there are 2,051 retirees and beneficiaries. At one time, the liabilities of this local system were shared: two-thirds by the participating local employers and one-third by the State, even though no State employees are members of this system. This system is entirely funded by current trust assets. State contributions may be necessary if the trust assets prove insufficient. (Local employers are billed for the cost of COLA adjustments.)

Alternate Benefit Program (ABP) (N.J.S.A. 18A:66-167 et seq.)

The Alternate Benefit Program was established in 1967 for full-time faculty members of public institutions of higher education. All eligible faculty members were permitted to transfer their membership in State retirement systems to these programs. Participants have the option to provide for their pensions through the purchase of fixed or variable annuities underwritten by private vendors, the Teachers Insurance and Annuity Association (TIAA) or the College Retirement Equities Fund (CREF). The minimum contribution by employees is 5 percent of their base salary. The employer (State and the Institutions of Higher Education), contribute a flat rate of 8 percent of base salary. Almost immediate vesting is available to those participating in this program. Beginning in FY 1999, the Governor has proposed shifting the costs of funding the fringe benefits of college and university employees from the Inter-Departmental Accounts, Direct State Services budget (budget pages D-337 & D-338) to the Department of State, Grants-In-Aid section (budget pages E-33 through

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E-61) to reflect the Administration's proposal to fund State support for college and university operations as block grants.

Health Benefits

The State Health Benefit Program (SHBP) was created in 1961 to provide health insurance coverage for State employees. In 1964, the program was expanded to allow local governments to participate. The SHBP is administered by the Division of Pensions and Benefits in the Department of Treasury. The SHBP is a multiple option program offering: (1) a Traditional fee-for-service plan (Blue Cross/Blue Shield/Major Medical), ten Health Maintenance Organizations (HMO's) and a hybrid of the two, NJ PLUS, also known as a Preferred Provider Organization (PPO) or point-of-service medical plan. Both the Traditional Plan and NJ PLUS (PPO) are self-insured, which means that the money paid out for benefits comes directly from the State, participating local governments and employees. Though the Traditional Plan and NJ PLUS are self-insured, "premium rates" are established annually for the purpose of meeting the program's projected expenditures on an accrual basis (when they actually occur). The program is administered by an insurance carrier (Blue Cross/Blue Shield of New Jersey) with claims paid by the insurance carrier reimbursed by the State plus an administrative charge. The company administering the program does not provide any insurance. The HMO's operate under a different financial arrangement. The State and participating local government employers pay a flat fee per participating employee directly to the HMO.

In the Traditional Plan, employees can use any doctor or hospital of choice, but the program does not pay for preventive treatments such as immunizations, physicals, and general doctor visits. Under current law, the employee is required to satisfy a $100 deductible (and a separate $100 deductible for any one eligible dependent) and 20 percent of the next $2,000 of eligible charges. Once the coinsurance reaches an out-of-pocket maximum amount ($400 coinsurance & $200 deductible per year for family coverage), covered expenses are paid at 100 percent for the rest of the year. Each family member must satisfy the coinsurance requirements before expenses are paid at 100 percent.

Effective January 1, 1996, the SHBP implemented the Provider Allowance Cost Effectiveness (P.A.C.E.) program. P.A.C.E. is a group of doctors who have agreed to provide medical services at reduced rates to SHBP members. The implementation of the P.A.C.E program and a discount prescription drug card for retirees is estimated to reduce plan costs by approximately $5 million in FY 1998. To encourage employees to utilize the P.A.C.E. network, members who use P.A.C.E. doctors will save on out-of-network charges.

In an HMO, employees pay a small co-payment (the amount differs among the various HMO's but is usually $5) but they must use the doctors and hospitals that are part of their particular HMO for all services except emergencies. If an employee uses a doctor or hospital outside the network, and it is not considered an emergency or referral, the HMO does not pay for the services.

N J PLUS (PPO) is a hybrid of the Traditional Plan and an HMO. Like an HMO, a member has the option of using the NJ PLUS network of doctors and hospitals or the member can use physicians and hospitals outside the network. NJ PLUS in-network services are covered in full except for a co-payment of $5. A member can use a physician or hospital outside the NJ PLUS network. However, in general, if the member goes out-of-network for treatment, there is a $100 deductible per individual (up to an aggregate $250 deductible per family) and members pay 30 percent of charges up to $2,000 for single coverage (up to $5,000 for family) before covered expenses are 100 percent reimbursed.

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P.L. 1996, c.8 made the State's obligation to pay the premium or periodic charges for the SHBP coverage with respect to active employees and retirees subject to collective bargaining. With respect to State employees for whom there is no majority representative for collective negotiations purposes, the State Health Benefits Commission may, in its sole discretion, modify the respective statutory payment obligations of the State and such employees in a manner consistent with the terms of any collective negotiations agreement binding on the State. Current law requires local participating public employers to pay the cost of SHBP coverage for an employee and authorizes those employers to require an employee contribution toward some or all of the cost of dependent coverage. Many local employers, however, have assumed the cost of SHBP dependent coverage. Legislation, similar to P.L. 1996, c.8, has been introduced, Assembly Bill No. 1342 of 1998, to make participating local governments' obligations to pay SHBP charges of active members and retirees subject to collective bargaining.

P.L. 1996, c.8 also eliminated dual coverage in HMO organizations if both spouses are active State employees and eligible to participate in the SHBP, eliminated the reimbursement of Medicare Part B for active employees and allows the State to establish a Cafeteria Plan for State employees pursuant to section 125 of the Internal Revenue Code. Generally, under a Cafeteria Plan, employees may choose among two or more benefits consisting of cash (a taxable benefit) and qualified nontaxable benefits. The State's plan provides for payment of any required employee contribution for SHBP coverage, medical or dental expenses not covered by SHBP, or dependent care expenses with pre-tax dollars (deductions from salary).

In FY 1998, the State utilized $115.8 million (Less Health Benefits Surplus account page D-337) of the surplus that had accumulated in the Health Benefits Program Fund (HBPF) to offset the State cost of funding the SHBP. The HBPF has an accumulated surplus from better than anticipated experience (in prior years) under the self-insured Traditional Plan and NJ PLUS programs. According to Buck Consultants, Inc., <u>SHBP Financial Projections and Claims Analysis</u> report, the Traditional Plan and NJ PLUS had a combined surplus of $69.9 million for the period ending June 30, 1996. This surplus increased to $122.5 million for the period ending June 30, 1997 (FY 1997). The FY 1998 drawdown of the accumulated surplus is projected to leave the HBPF with a surplus of $8.8 million for the period ending June 30, 1998. A portion, $7.3 million, of the remaining surplus will be used in FY 1999 to partially offset the Traditional Plan premium rates.

The FY 1999 recommendation of $317.4 million is an estimate of the total cost to provide health insurance to State employees, excluding employees of the State colleges and universities, through the SHBP. The budget displays for both FY 1998 and FY 1999 have been revised to exclude the employer contributions to fund the SHBP on behalf of higher education employees (budget page D-337). Although the Budget display for the SHBP appears to indicate the cost of health insurance is declining $15.9 million, or 4.8 percent, from the FY 1998 adjusted appropriation of $333.3 million, adjusting the display to include the amounts shifted to the higher education institutions shows that the cost of funding health insurance is increasing by $331,000 in FY 1999.

<u>Salary and Other Benefits</u>

The New Jersey Employer-Employee Relations Act, as amended (N.J.S.A. 34:13A-1 et seq.), guarantees public employees the right to collective bargaining. According to the Office of Management and Budget's Payroll Position System, as of January 1998 (pay period 1), there were 69,222 full-time employees paid through the State payroll system. This number includes the Legislature (464), Judiciary (1,698) and County Court (7,009) employees. This figure does not

Program Description and Overview

include employees of Rutgers, the State University; the University of Medicine and Dentistry of New Jersey (UMDNJ); the New Jersey Institute of Technology (NJIT); and the nine State colleges which are not included in the State payroll system. Of the 69,222 State employees on the payroll system, approximately 63,700 are represented by authorized employee organizations.

The State recently negotiated contracts (through arbitration) of two unions representing 6,600 State employees, the State Law Enforcement Conference of the New Jersey State Policemen's Benevolent Association and the New Jersey Law Enforcement Supervisors Association. These contracts, which expire June 30, 1999, require the State to pay the full cost of the SHBP Traditional Plan for the employees and include the following salary adjustment provisions:

1. A $250 bonus payable April 1997. The bonus is a one-time lump sum award that is not added to the employee's base salary and therefore does not compound the cost to the State in future years.

2. Cost-of-living adjustments payable July 1, 1997 (FY 1998) and July 1, 1998 (FY 1999) of 3.5 percent.

The State is in the third year of four-year contracts expiring June 30, 1999, with the three unions representing most State employees, the Communications Workers of America (CWA), the American Federation of State, County, and Municipal Employees (AFSCME), and the International Federation of Professional and Technical Engineers (IFPTE). In addition, the American Federation of Teachers (AFT), which represents approximately 3,200 faculty members, professional staff and library employees at the nine State colleges, has also reached a contract agreement. Contract provisions concerning active and retiree health insurance require that employees who select Traditional Plan health insurance pay part of the annual premium or cost of the coverage. In addition to the provisions regarding health benefits, these (essentially similar) agreements include the following salary adjustment provisions:

1. An initial twenty-four-month wage freeze on cost-of-living adjustments (FY 1996 and FY 1997).

2. A $250 bonus payable in April 1997.

3. Cost-of-living adjustments (COLAs) payable in the third and fourth years of the contracts. In FY 1998, a 2 percent COLA is payable in July 1997 and an additional 1 percent COLA is payable in January 1998. In FY 1999, a 2 percent COLA is payable in July 1998 and an additional 1.25 percent COLA is payable in January 1999.

4. These increases are not compounded and are based upon the average employee's base salary at the end of FY 1997.

The FY 1999 recommended budget includes $96.3 million to pay for salary adjustments, including increments, bonuses and the annualized cost of previously negotiated cost-of-living adjustments. Of this amount, $12.2 million will be transferred into the central salary account from departmental budgets during FY 1999, supposedly reflecting several Statewide Efficiency Initiatives that will produce lower departmental spending needs. Therefore, the net recommendation in the Inter-Departmental Accounts for salary increases is $84.1 million.

Program Description and Overview

The State is still negotiating with several bargaining units representing approximately 2,600 commissioned officers, non-commissioned officers and troopers of the Division of State Police.

Property Rentals and Leases

The $245.3 million recommended for Property Rentals includes $7.3 million for the Mercer County Improvement Authority for the debt service on the Justice Complex and the State Tax Processing Building; $58.1 million for debt service and payments in lieu of taxes for facilities built and under construction by the New Jersey Building Authority; $33.9 million for debt service on behalf of the New Jersey Sports and Exposition Authority; $25.6 million for debt service for the Economic Development Authority (which now includes the debt service for the South Jersey Port Corporation); $13.7 million for Other Debt Service, Leases and Tax Payments; and $147.3 million for all other State leases. The State anticipates receiving $40.6 million from non-State funding sources, resulting in a net cost for all other leases of $106.7 million.

The FY 1999 recommended appropriation for Existing and Anticipated Leases is an increase of $7.9 million from the FY 1998 adjusted appropriation. According to page 33 of the Budget in Brief, "Cost-cutting actions to reduce rents in fiscal 1999 have been offset by improvements in the real estate market, and the associated increases in the cost of leased space, and demands by client agencies for additional space. An additional $5.4 million is recommended to provide essential new program space for the Department of Labor, the Juvenile Justice Commission, the Division of Youth and Family Services, the Judiciary, the Department of Education and the Office of the Public Defender. Another $2.2 million is necessary to support lease consolidation efforts and to eliminate 24 month-to-month leases."

Utilities and Other Services

The $39.7 million recommendation for Utilities and Other Services includes $18 million for Fuel and Utilities; $1.5 million for the Camden Aquarium; and a new appropriation of $15 million to the New Jersey Sports and Exposition Authority as an operating subsidy.

Fiscal and Personnel Summary

AGENCY FUNDING BY SOURCE OF FUNDS ($000)

	Expended FY 1997	Adj. Approp. FY 1998	Recom. FY 1999	Percent Change 1997-99	Percent Change 1998-99
General Fund					
Direct State Services	$1,094,131	$1,118,057	$1,275,881	16.6%	14.1%
Grants - In - Aid	0	0	0	0.0%	0.0%
State Aid	0	0	0	0.0%	0.0%
Capital Construction	9,571	53,305	20,915	118.5%	-60.8%
Debt Service	0	0	0	0.0%	0.0%
Sub-Total	$1,103,702	$1,171,362	$1,296,796	17.5%	10.7%
Property Tax Relief Fund					
Direct State Services	$0	$0	$0	0.0%	0.0%
Grants-In-Aid	0	0	0	0.0%	0.0%
State Aid	0	0	0	0.0%	0.0%
Sub-Total	$0	$0	$0	0.0%	0.0%
Casino Revenue Fund	$0	$0	$0	0.0%	0.0%
Casino Control Fund	$0	$0	$0	0.0%	0.0%
State Total	$1,103,702	$1,171,362	$1,296,796	17.5%	10.7%
Federal Funds	$0	$0	$0	0.0%	0.0%
Other Funds	$0	$0	$0	0.0%	0.0%
Grand Total	$1,103,702	$1,171,362	$1,296,796	17.5%	10.7%

PERSONNEL SUMMARY - POSITIONS BY FUNDING SOURCE

	Actual FY 1997	Revised FY 1998	Funded FY 1999	Percent Change 1997-99	Percent Change 1998-99
State	0	0	0	0.0%	0.0%
Federal	0	0	0	0.0%	0.0%
All Other	0	0	0	0.0%	0.0%
Total Positions	NA	NA	NA	--	--

FY 1997 and revised FY 1998 personnel data reflect actual payroll counts. FY 1999 data reflect the number of positions funded.

AFFIRMATIVE ACTION DATA

Total Minority Percent	NA	NA	NA	----	----

Significant Changes/New Programs ($000)

Budget Item	Adj. Approp. FY 1998	Recomm. FY 1999	Dollar Change	Percent Change	Budget Page
Property Rentals: Existing and Anticipated Leases	$137,422	$147,317			
Supplemental Approp.	$2,000				
Sub-Total Rentals	$139,422	$147,317	$7,895	5.7%	D-334
Less: Direct Charges and Charges to Non-State Fund Sources	($38,543)	($40,586)	($2,043)	5.3%	D-334
NET	$100,879	$106,731	$5,852	5.8%	

The rent account provides funds for the payment of rents for existing leases and anticipated leases for office space and other facilities used by State agencies. The account also functions as a clearing account for the payment of rents for agencies financed from other than General Fund sources, such as federal reimbursements. The State is permitted to recover from non-State fund sources the cost of renting office space and the cost of operating and maintaining office space. These recoveries serve to reduce the "net cost" to the General Fund of the Rent account.

The FY 1999 recommended appropriation for Existing and Anticipated Leases is a net increase of $5.9 million from the FY 1998 adjusted appropriation. According to page 33 of the Budget in Brief, "Cost-cutting actions to reduce rents in fiscal 1999 have been offset by improvements in the real estate market, and the associated increases in the cost of leased space, and demands by client agencies for additional space. An additional $5.4 million is recommended to provide essential new program space for the Department of Labor, the Juvenile Justice Commission, the Division of Youth and Family Services, the Judiciary, the Department of Education and the Office of the Public Defender. Another $2.2 million is necessary to support lease consolidation efforts and to eliminate 24 month-to-month leases."

Budget Item	Adj. Approp. FY 1998	Recomm. FY 1999	Dollar Change	Percent Change	Budget Page
Economic Development Authority	$21,014	$25,568			
Supplemental Approp.	$1,573				
Total	$22,587	$25,568	$2,981	13.2%	D-334

The State has entered into several lease agreements with the New Jersey Economic Development Authority (EDA) for various facilities around the State. As lessee, the State is required to make rental payments sufficient to cover the debt service and other amounts payable to the EDA, including certain administrative expenses of the EDA. The EDA has floated bonds for the construction of facilities to house the New Jersey Division of Motor Vehicle Services and the New Jersey Network

Significant Changes/New Programs ($000)

Budget Item	Adj. Approp. FY 1998	Recomm. FY 1999	Dollar Change	Percent Change	Budget Page

(the State's public television station). The State has also entered into a lease agreement with the EDA to lease approximately 13 acres of property and infrastructure improvements located in the City of Newark for the New Jersey Performing Arts Center and two parking lots and certain infrastructure improvements in connection with Liberty State Park located in Jersey City.

The State appropriation to cover the debt service of the South Jersey Port Corporation was in the Department of Commerce and Economic Development (State Aid). P.L. 1997, c.150 transferred the assets, liabilities and obligations of the South Jersey Port Corporation to the EDA. The legislation authorized the EDA to issue bonds for port development and issue refunding bonds to refinance existing debt. In addition, the EDA is authorized to enter into a management agreement with a subsidiary of the Delaware River Port Authority to lease, manage, operate and maintain the port facilities, subject to the approval of the State Treasurer.

According to the Budget in Brief (p.34) "Included in Economic Development Authority funding is $7.5 million for refunding outstanding bonds of the South Jersey Port Corporation."

Sports and Exposition Authority	$31,678	$33,918	$2,240	7.1%	D-334

P.L. 1991, c. 375 authorized the New Jersey Sports and Exposition Authority (NJSEA) to issue State-guaranteed bonds to refinance the outstanding debt of the NJSEA to take advantage of lower interest rates; finance a feasibility study for the existing convention center in Asbury Park; construct a convention center in Atlantic City; and expand the football stadium at Rutgers, the State University. The State has contracted with the NJSEA to provide annual appropriations sufficient to finance the debt service on State Contract Bonds. As of December 31, 1997 the amount of Contract bonds outstanding was $456.4 million. The recommendation is the debt service cost the State will pay for the Sports Authority for FY 1999.

In addition to appropriating sufficient funds to finance the debt service on the State Contract Bonds, the Governor is recommending a separate appropriation (budget page D-334) of $15.0 million to the Sports Authority as an operating subsidy.

New Jersey Building Authority	$36,370	$58,119	$21,749	59.8%	D-334

P.L. 1981, c.120 created the New Jersey Building Authority. The Authority is authorized to issue bonds and notes to construct facilities for leasing to the State. The Authority bonds are secured by annual rental payments by the State. In 1985, the Building Authority issued bonds to finance five office buildings in the Trenton area. On April 6, 1989, the Building Authority issued bonds to finance the renovation and historical restoration of portions of the State House and the State House Annex building.

Significant Changes/New Programs ($000)

Budget Item	Adj. Approp. FY 1998	Recomm. FY 1999	Dollar Change	Percent Change	Budget Page

On October 9, 1991 the Building Authority issued bonds for the renovation and historical restoration of portions of the State Capitol Complex and for the construction of a parking garage. Additional bonds were issued to finance the construction of a 3,000 bed correctional facility in Bridgeton and renovate various historical buildings in the State Capitol Complex (War Memorial, the Old Barracks and Brownstones adjacent to the State House), and the office buildings housing the Division of Taxation and the Departments of Labor and Education.

The recommended increase in appropriation is to pay the debt service costs of the Garden State Savings Bond program and the debt service of the bonds issued to provide funds for several construction projects throughout the State. On September 1, 1997, the Authority issued $224 million in refunding and new State revenue bonds to provide funds for the restoration of the State House Complex, construction of the South Woods State Prison, Capitol Complex historic projects, as well as renovations to the State Office Building and the Labor Building. The outstanding Building Authority bonds are secured by annual rental payments from the State which are subject to annual appropriations by the Legislature.

According to the Budget in Brief (p.34), "The Garden State Savings Act of 1991 authorized State authorities to issue Garden State Savings Bonds. The purpose of the program is to assist families trying to save for college by offering tax free bonds which also can be used for a reduction in State college tuition costs."

Other Debt Service Leases and Tax Payments	$14,566	$13,668	($898)	(6.2)%	D-334

This account provides funds for the debt service on the Taxation Building, the OTIS-HUB and the Bridgeton Consolidation Site. In addition, this account provides "in lieu of tax" payments for the Trenton Office Complex, the Justice Complex, the Taxation Building and the OTIS-HUB.

This account also provides funds for the Department of Treasury's share of the Master Lease payments. Since 1984, the State has entered into various lease and installment purchase agreements (municipal lease-purchase financing) as a means of acquiring various equipment and furniture. Municipal lease-purchase financing is essentially the purchase of property through the payment of installments, principal plus interest. The State funds its lease-purchase program by issuing debt in the form of Certificates of Participation. The amount of outstanding Certificates of Participation has decreased from $35,260,000 as of July 1, 1996 to $16,275,000 as of June 30, 1997.

Property Insurance	$2,195	$1,565	($630)	(28.7)%	D-334

This account is used to purchase insurance for property damage to State-owned real and personal property. Coverage includes standard protection for buildings and contents, marine vessels,

Significant Changes/New Programs ($000)

Budget Item	Adj. Approp. FY 1998	Recomm. FY 1999	Dollar Change	Percent Change	Budget Page

catastrophic loss to vehicles parked in State locations and mainframe EDP coverage. Additional policies include: fine arts coverage, high-value vans coverage (New Jersey Network television vans and Department of Health mobile dental and medical clinics), and monies and securities coverage to protect client funds. All-Risk insurance coverage usually provides for the replacement or full repair subject to a deductible per occurrence. In prior years, the deductibles ranged from $100,000 for buildings and contents valued under $5 million and $500,000 for buildings and contents valued $10 million and above. According to the Budget (page D-331), property premium costs have decreased $630,000.

Budget Item	Adj. Approp. FY 1998	Recomm. FY 1999	Dollar Change	Percent Change	Budget Page
Tort Claims Liability Fund	$9,000	$9,000	$0	0.0%	D-334

This account is for the expense of tort claims (personal injury and property loss) filed against the State. The Tort Claims Liability Fund was created in 1972 to pay claims against the State under the provisions of the New Jersey Tort Claims Act, N.J.S.A. 59:12-1 et seq. The fund is an experience-based self-insurance program designed to cover the State's liability and to provide a source of recovery for injured parties in adverse judgements against the State in those areas where the State does not have any other insurance. The FY 1999 recommendation is a department estimate based on prior experience. In FY 1997, this account expended $16,438,000 because of final settlement of a single large claim against the State. As of April 4, 1998, the account has expended $6,583,073 and transferred $49,285, or 73.7 percent of its FY 1998 available appropriation of $9,000,000. In addition to the recommended appropriation, language is recommended on page D-335 to permit the Director of the Division of Budget and Accounting to pay additional funds to pay tort claims.

Budget Item	Adj. Approp. FY 1998	Recomm. FY 1999	Dollar Change	Percent Change	Budget Page
Workers' Compensation Fund	$23,100	$29,000			
Supplemental Approp.	$8,000	____	____	____	
Sub-Total	$31,100	$29,000	($2,100)	(6.8)%	D-334

The State, as a self-insured employer, annually appropriates funds in the Workers' Compensation Self-Insurance Fund account to provide partial income maintenance and medical expense reimbursement to State employees for work-related injuries. In FY 1997, the State expended $32.2 million on Workers' Compensation claims. The FY 1998 adjusted appropriation has been augmented by a supplemental appropriation of $8 million for a total available appropriation of $31.1 million. As of April 4, 1998, this account has expended $26,540,478, or 85.3 percent of the $31.1 million available appropriation. In addition to the recommended appropriation, language (page D-335) authorizes the Director of the Division of Budget and Accounting to appropriate such additional sums as may be required to pay Workers' Compensation claims.

Significant Changes/New Programs ($000)

Budget Item	Adj. Approp. FY 1998	Recomm. FY 1999	Dollar Change	Percent Change	Budget Page
Vehicle Claims Liability Fund	$4,200	$4,200			
Supplemental Approp.	$1,500	_____			
Sub-Total	$5,700	$4,200	($1,500)	(26.3)%	D-334

The Vehicle Claims Liability Fund is an experience-based program for the State to self-insure the automobile liability risk. Although the State is self-insured, an appropriation is made for the purpose of funding (accrual basis) projected losses. The FY 1998 adjusted appropriation has been augmented by a supplemental appropriation of $1.5 million for a total available appropriation of $5.7 million. As of April 4, 1998, this account has expended $5,487,307, or 96.3 percent of its FY 1998 available appropriation of $5,700,000. In addition to the recommended appropriation, language (page D-336) authorizes the Director of the Division of Budget and Accounting to appropriate such additional sums as may be required to pay auto insurance claims.

Budget Item	Adj. Approp. FY 1998	Recomm. FY 1999	Dollar Change	Percent Change	Budget Page
Fuel and Utilities	$16,125	$17,975	$1,850	11.5%	D-334

The recommended appropriation includes funds for fuel and utility costs for the Capitol Complex facilities, Camden Aquarium, and the Trenton Office Complex (New Jersey Network and the Division of Motor Vehicle Services). According to the page D-331 of the Budget Message, "An increase of $2.3 million is necessary for management agreements for buildings that will be fully occupied in fiscal 1999. Offsetting this increase, is a decrease of $450,000 to the State in electric costs from the increased competition engendered by the de-regulation of electricity."

Budget Item	Adj. Approp. FY 1998	Recomm. FY 1999	Dollar Change	Percent Change	Budget Page
Sports and Exposition Authority	$0	$15,000	$15,000	—	D-334

In addition to the debt service appropriation, the budget also includes, for the first time, a $15 million appropriation to the Sports and Exposition Authority as an operating subsidy. The Authority has indicated that the State funds will be added to the Authority's Maintenance Reserve Fund to finance a variety of projects at the Meadowlands Racetrack, Giants Stadium and Continental Airlines Arena. However, both the Authority and the State Treasurer have acknowledged that, regardless of the ultimate use, the State appropriation is an "operating contribution" to the Authority. The Authority's 1998 Business Plan shows this $15 million as an item of "Extraordinary Income". In the absence of this State subsidy, the Authority's consolidated financial statement would show a deteriorating operating balance in 1998 as compared to 1997.

Significant Changes/New Programs ($000)

Budget Item	Adj. Approp. FY 1998	Recomm. FY 1999	Dollar Change	Percent Change	Budget Page
Public Employees' Retirement System	$42,818	$42,279	($539)	(1.3)%	D-337
Amount Shifted to Higher Education	$7,209	$8,663	$1,454	20.2%	
Total	$50,027	$50,942	$915	1.8%	

The recommended appropriation of $42.3 million is to fund post-retirement medical (PRM) benefits for State employees, other than higher education employees, who are enrolled in the Public Employees' Retirement System (PERS). The budget displays for both FY 1998 and FY 1999 have been revised to exclude PERS contributions on behalf of higher education employees. According to the Office of Management and Budget, the institutions of higher education will contribute an additional $8.6 million to PERS to fund the PRM benefits of higher education employees enrolled in PERS. The $8.6 million to fund PRM benefits for higher education employees (previously funded in the Inter-Departmental Accounts) will be paid by the institutions as part of the block grant funding proposal.

The total amount required to fund PERS (State liability) in FY 1999, as determined by the annual actuarial valuation of the system, is $136.7 million. Of this amount, $85.8 million is to fund basic pension benefits and $50.9 million ($42.3 million + $8.6 million = $50.9 million) is to fund employer-provided PRM benefits.

Recent legislation, P.L. 1997, c.115, permits the Treasurer to use surplus assets to offset the employer (State and local governments) contributions to fund basic pension benefits, excluding PRM benefits. According to the actuary, surplus assets are sufficient to offset the entire $85.8 million contribution to fund basic pension benefits (State liability). Consequently, the FY 1999 employer (State and higher education institutions) contributions to fund the retirement system are limited to the $50.9 million to fund the (essentially) pay-as-you-go cost of PRM benefits.

Budget Item	Adj. Approp. FY 1998	Recomm. FY 1999	Dollar Change	Percent Change	Budget Page
Police and Firemen's Retirement System (C43:16A-1)	$51,903	$233	($51,670)	(99.6)%	D-337
Amount Shifted to Higher Education	$1,756	$1,557	($199)	(11.3)%	
Total	$53,659	$1,790	($51,869)	(96.7)%	

The recommended appropriation of $233,000 is to fund basic pension benefits of State employees, other than higher education employees, who are enrolled in the Police and Firemen's Retirement System (PFRS). The budget displays for both FY 1998 and FY 1999 have been revised to exclude PFRS contributions on behalf of higher education employees. According to the Office of Management and Budget, the institutions of higher education will contribute an additional

Significant Changes/New Programs ($000)

Budget Item	Adj. Approp. FY 1998	Recomm. FY 1999	Dollar Change	Percent Change	Budget Page

$1,557,000 to PFRS on behalf of higher education employees enrolled in PFRS. The $1,557,000 to fund the cost of PFRS for higher education employees (previously funded in the Inter-Departmental Accounts) will be paid by the institutions as part of the block grant funding proposal.

The total amount required to fund PFRS (State liability) in FY 1999, as determined by the annual actuarial valuation of the system, is $62.6 million. Recent legislation, P.L. 1997, c.115, permits the Office of Management and Budget to use surplus assets to offset the employer (State and local governments) contributions to fund basic pension benefits, excluding PRM benefits. According to the actuary, $62.9 million in surplus assets have been used to offset almost all of the State liability to fund this retirement system for FY 1999. (A portion of the surplus assets have been used to offset the State contribution to fund the additional benefits provided by P.L. 1979, c.109, special retirement benefit of 60% of compensation after 25 years of service.

Budget Item	Adj. Approp. FY 1998	Recomm. FY 1999	Dollar Change	Percent Change	Budget Page
Police and Firemen's Retirement System (P.L. 1979, c.109)	$23,986	$23,555	($431)	(1.8)%	D-337

By law, P.L. 1994, c.62, the State contributes 1.1% of payroll to fund the additional benefits provided by P.L. 1979, c.109 (special retirement benefit of 60% of compensation after 25 years of service). The actual amount, as calculated by the actuary of the retirement system, to fund this account for FY 1999 is $25,600,360. The recommended decrease is attributable to the use of surplus assets to reduce the State contribution to fund the retirement system.

Budget Item	Adj. Approp. FY 1998	Recomm. FY 1999	Dollar Change	Percent Change	Budget Page
Alternate Benefits Program-Employer Contributions	$9,366	$644	($8,722)	(93.1)%	D-337
Amount Shifted to Higher Education	$62,780	$75,263	$12,483	19.9%	
Total	$72,146	$75,907	$3,761	5.2%	

The recommended appropriation of $644,000 is for State employees other than higher education employees who are enrolled in the Alternate Benefit Program (ABP). The budget displays for both FY 1998 and FY 1999 have been revised to exclude ABP contributions on behalf of higher education employees. According to the Office of Management and Budget, the institutions of higher education will contribute an additional $75.3 million to the ABP on behalf of higher education employees. The $75.3 million to fund the cost of the ABP for higher education employees (previously funded in the Inter-Departmental Accounts) will be paid by the institutions as part of the block grant funding proposal.

Significant Changes/New Programs ($000)

Budget Item	Adj. Approp. FY 1998	Recomm. FY 1999	Dollar Change	Percent Change	Budget Page

The ABP is the retirement program for full-time faculty members of public institutions of higher education. By law, the employer contributes 8.0% of salary to fund this retirement program. The program permits faculty members to join in contributing toward individual annuity policies wholly owned by the employees. The Teachers Insurance and Annuity Association of America (TIAA), the College Retirement Equities Fund (CREF) and other vendors pool resources to purchase retirement annuities and group life insurance.

The ABP, unlike the State-administered retirement systems, is a defined contribution plan. In a defined contribution plan, the employee's retirement allowance is based on the actual employer and employee contributions plus investment earnings. The State-administered retirement systems are defined benefit plans, which calculate the retirement allowance on a formula based on salary and years of service.

State Police Retirement System	$0	$0	$0	—	D-337

Recent legislation, P.L. 1997, c.115, permits the Treasurer to use surplus assets to offset the employer (State) contributions to fund basic pension benefits, excluding PRM benefits. According to the actuary, surplus assets are sufficient to offset the entire $30.2 million State contribution to fund basic pension benefits in FY 1999.

Judicial Retirement System	$13,479	$0	($13,479)	(100.0)%	D-337

Recent legislation, P.L. 1997, c.115, permits the Treasurer to use surplus assets to offset the employer (State) contributions to fund basic pension benefits, excluding PRM benefits. According to the actuary, surplus assets are sufficient to offset the entire $12.3 million State contribution to fund basic pension benefits in FY 1999.

Teachers' Pension and Annuity Fund and Non-Contributory Group Life Insurance Benefits-State	$911	$1,931	$1,020	112.0%	D-337
Amount Shifted to Higher Education	$1,332	$2,143	$811	60.9%	
Total	$2,243	$4,074	$1,831	81.6%	

The recommended appropriation of $1,931,000 is for, State employees, other than higher education employees, who are enrolled in Teachers' Pension and Annuity Fund (TPAF). The budget displays

Significant Changes/New Programs ($000)

Budget Item	Adj. Approp. FY 1998	Recomm. FY 1999	Dollar Change	Percent Change	Budget Page

for both FY 1998 and FY 1999 have been revised to exclude TPAF contributions on behalf of higher education employees. According to the Office of Management and Budget, the institutions of higher education will contribute an additional $2,143,000 to the TPAF on behalf of higher education employees enrolled in the retirement system. The $2,143,000 to fund the cost of TPAF 0for higher education employees (previously funded in the Inter-Departmental Accounts) will be paid by the institutions as part of the block grant funding proposal.

The total amount required to fund the TPAF (Direct State Service and State Aid combined) in FY 1999, as determined by the annual actuarial valuation of the system, is $401,407,629. Of this amount, $115,094,203 is to fund the (essentially) pay-as-you-go cost of PRM benefits and $286,313,426 is to fund basic pension benefits. According to the actuary, $27,496,777 in surplus assets have been used to reduce the State contributions to fund TPAF in FY 1999.

Prison Officers' Pension Fund	$0	$0	$0	—	D-337

The POPF was established in January, 1941, to provide pension benefits to certain employees of the Department of Corrections. The system was closed to new members January 1, 1960. Although there are no remaining active members, there are 288 retirees and beneficiaries collecting $2.1 million in annual retirement allowances. The system is entirely funded by current trust assets (actuarial value of assets, as of July 1, 1997, is $20,977,035). State contributions are only necessary if the trust assets prove insufficient.

Debt Service on Pension Obligation Bonds	$54,575	$52,380	($2,195)	(4.0)%	D-337

P.L. 1997, c.114 authorized the Economic Development Authority (EDA) to issue $2.8 billion in bonds to finance a portion of the unfunded accrued liability of the State pension systems, which together with the use of additional assets recognized by the one-time change to full-market value of assets (P.L. 1997, c.115) were sufficient to fully fund the retirement systems (State liability), excluding the post-retirement medical liability. The recommended appropriation of $52.4 million is the portion of the total debt service attributable to the portion of the total unfunded liability attributable to the pension programs for State employees. The total amount (DSS and State Aid combined) required to fund the debt service payments for FY 1999 is $123.8 million.

Significant Changes/New Programs ($000)

Budget Item	Adj. Approp. FY 1998	Recomm. FY 1999	Dollar Change	Percent Change	Budget Page
State Employees' Health Benefits	$333,279	$317,372	($15,907)	(4.8)%	D-337
Amount Shifted to Higher Education	$100,030	$116,268	$16,238	16.2%	
Total	$433,309	$433,640	$331	0.1%	

The budget displays for both FY 1998 and FY 1999 have been revised to exclude the employer (State) contributions to fund the State Health Benefits Program (SHBP) on behalf of higher education employees. Although the Budget display for the SHBP appears to indicate the cost of health insurance is declining $15.9 million, or (4.8) percent, adjusting the display to include the amounts shifted to the higher education institutions shows that the cost of funding the health insurance is essentially the same for FY 1999 as in FY 1998.

The State Health Benefits Program (SHBP) includes State employees as well as public employees of participating local governments and school district employees. The recommended appropriation reflects the "net" cost for State employees, not including college and university employees, and their dependents only. According to the Office of Management and Budget, the institutions of higher education will contribute an additional $116,268,000 to the SHBP on behalf of higher education employees enrolled in the SHBP. The $116,268,000 to fund the cost of providing health benefits to higher education employees (previously funded in the Inter-Departmental Accounts) will be paid by the institutions as part of the block grant funding proposal.

P.L. 1996, c.8, provides that the obligations of the State to pay the premium or periodic charges for SHBP coverage with respect to active employees and retirees is subject to collective negotiations. The current collective bargaining agreements, between the State and unions representing most public employees, require employees who choose Traditional Plan health insurance coverage to contribute a portion of the cost of that coverage. However, the State recently negotiated agreements with unions representing approximately 6,600 uniformed State employees that requires the State to pay the full cost of the SHBP Traditional Plan.

Budget Item	Adj. Approp. FY 1998	Recomm. FY 1999	Dollar Change	Percent Change	Budget Page
Less Health Benefit Surplus	($115,800)	$0	$115,800	(100.0)%	D-337

In FY 1998, the State utilized $115.8 million (Less Health Benefit Surplus) of the surplus that had accumulated in the Health Benefits Program Fund (HBPF) to offset the State (employer) cost of funding the SHBP. The HBPF had an accumulated surplus from better than anticipated experience (in prior years) under the Traditional Plan and NJ PLUS. According to the Buck Consultants, Inc., <u>SHBP Financial Projections and Claims Analysis</u> report, the Traditional Plan and NJ PLUS had a combined surplus of $69.9 million for the period ending June 30, 1996. This surplus increased to $122.5 million for the period ending June 30, 1997 (FY 1997). The FY 1998 drawdown of the accumulated surplus is projected to leave the HBPF with a surplus of $8.8 million for the period ending June 30, 1998. A portion, $7.3 million, of the remaining surplus will be utilized in FY 1999 to partially offset the Traditional Plan premium rates.

Significant Changes/New Programs ($000)

Budget Item	Adj. Approp. FY 1998	Recomm. FY 1999	Dollar Change	Percent Change	Budget Page
State Employee Prescription Drug Program	$65,236	$69,702	$4,466	6.8%	D-338
Prescription Drug, including Higher Ed.	$20,826	$28,828	$8,002	38.4%	
Total	$86,062	$98,530	$12,468	14.5%	

The recommended appropriation of $69.7 million is for, State employees, other than higher education employees. The budget displays for both FY 1998 and FY 1999 have been revised to exclude the State contributions to fund the Prescription Drug Program on behalf of higher education employees. According to the Office of Management and Budget, the institutions of higher education will contribute an additional $28.8 million to the Prescription Drug Program on behalf of higher education employees. The $28.8 million to fund the cost of higher education employees (previously funded in the Inter-Departmental Accounts) will be paid by the institutions as part of the block grant funding proposal.

Although the recommended budget appears to show a small increase of $4.5 million, or 6.8 percent, adjusting the display to include the amounts shifted to the higher education institutions is more indicative of the actual change in prescription drug costs. According to the SHBP Financial Projections and Claims Analysis report, Blue Cross has set an annual increase rate of 15 percent for active employees. Buck Consultants, Inc., anticipates a 13 percent increase in the cost of prescription drugs.

The Prescription Drug Program is part of the collective bargaining agreement between the State and its employees. The program is available to eligible State employees and their dependents who are eligible to participate in the State Health Benefits Program. The program, which helps employees meet the cost of doctor-prescribed drugs, is funded and administered by the State. Under the program, the State pays for each prescription subject to an employee co-payment. The current collective bargaining agreements (covering most State employees), which expire June 30, 1999, sets the maximum co-payment at $5.00 per prescription. To encourage participants to utilize less expensive generic substitutes, the $5.00 co-payment is only applicable to non-generic prescriptions or refills. The co-payment for generic prescriptions is $1.00 and there is no co-payment for mail order prescriptions.

Budget Item	Adj. Approp. FY 1998	Recomm. FY 1999	Dollar Change	Percent Change	Budget Page
Less Prescription Drug Surplus	($7,600)	$0	$7,600	(100.0)%	D-338

The Less Prescription Drug Surplus offset is the result of using part of the surplus that had accumulated in the HBPF. The Prescription Drug Program had an accumulated surplus from better than anticipated experience during FY 1995. According to the Buck Consultants, Inc., SHBP Financial Projections and Claims Analysis report, the Prescription Drug Program had a surplus of $19.9 million for the period ending June 30, 1996. As a result of adverse experience, the surplus

Significant Changes/New Programs ($000)

Budget Item	Adj. Approp. FY 1998	Recomm. FY 1999	Dollar Change	Percent Change	Budget Page

declined to $9.8 million for the period ending June 30, 1997. The FY 1998 drawdown of the accumulated surplus is projected to leave the Prescription Drug fund with a surplus of $.9 million for the period ending June 30, 1998.

State Employees' Dental Program - Shared Cost	$16,160	$17,015	$855	5.3%	D-338
Dental Program, including Higher Ed.	$4,863	$6,365	$1,502	30.9%	
Total	$21,023	$23,380	$2,357	11.2%	

The recommended appropriation of $17 million is for, State employees, other than higher education employees. The budget displays for both FY 1998 and FY 1999 have been revised to exclude the State contributions to fund the Dental Program on behalf of higher education employees. According to the Office of Management and Budget, the institutions of higher education will contribute an additional $6.4 million to the Dental Program on behalf of higher education employees. The $6.4 million to fund the cost of higher education employees (previously funded in the Inter-Departmental Accounts) will be paid by the institutions as part of the block grant funding proposal.

Although the recommended budget appears to show a small increase of $4.5 million, or 6.8 percent, adjusting the display to include the amounts shifted to the higher education institutions is more indicative of the actual change in the cost of the dental program. The recommended increase is primarily the result of a rate increase by Prudential Insurance Co. and the participating Dental Plan Organizations.

The Dental Program is part of the collective bargaining agreement between the State and its employees. The program is voluntary and the cost is shared equally between the employee (50% of the cost of coverage) and the employer (State). The Dental Program offers a traditional indemnity plan (the Dental Expense Plan) administered by Prudential Insurance Co. and a Dental Plan Organization (DPO). Under the Dental Expense Plan, each year the employee and dependents must satisfy the specified deductible (currently $25.00), after which the insurance will pay 80% of the additional eligible charges incurred during that year. When treatment is performed by a DPO dentist, most basic dental care expenses are covered except for a small employee copayment.

Significant Changes/New Programs ($000)

Budget Item	Adj. Approp. FY 1998	Recomm. FY 1999	Dollar Change	Percent Change	Budget Page
Social Security Tax - State	$261,012	$243,750	($17,262)	(6.6)%	D-338
S.S. Tax, including Higher Education	$87,954	$105,570	$17,616	20.0%	
Total	$348,966	$349,320	$354	0.1%	

The budget displays for both FY 1998 and FY 1999 have been revised to exclude Social Security tax contributions on behalf of higher education employees. Although the recommended budget appears to show a decrease of $17.3 million, or 6.6 percent, adjusting the display to include the amounts for higher education employees shows that the cost is essentially the same as in FY 1998. Partially offsetting an increase in the wage base, from $64,500 to $68,400, is a decrease in the number of covered State employees.

The recommended appropriation of $243.8 million is to fund Social Security contributions for State employees, other than higher education employees. According to the Office of Management and Budget, the institutions of higher education will contribute an additional $105.6 million to Social Security on behalf of higher education employees. The $105.6 million to fund Social Security benefits for higher education employees (previously funded in the Inter-Departmental Accounts) will be paid by the institutions as part of the block grant funding proposal.

The recommended appropriation is an estimate of the funding required to meet the State's liability as an employer to pay F.I.C.A. (Old Age, Survivors, and Disability Insurance) and Medicare taxes for FY 1999. The tax rate for Social Security (F.I.C.A.) remains at 6.2% and the tax rate for Medicare remains at 1.45 percent. The amount of salary on which Social Security is based is increasing from $65,400 to $68,400. There is no Medicare wage base, so Medicare taxes are paid on total compensation.

Budget Item	Adj. Approp. FY 1998	Recomm. FY 1999	Dollar Change	Percent Change	Budget Page
Temporary Disability Insurance Liability	$7,926	$5,828	($2,098)	(26.5)%	D-338
TDI, including Higher Education	$2,158	$2,545	$387	17.9%	
Total	$10,084	$8,373	($1,711)	(17.0)%	

The recommended appropriation of $5.8 million is to fund TDI contributions for State employees, other than higher education employees. The budget displays for both FY 1998 and FY 1999 have been revised to exclude Temporary Disability Insurance (TDI) contributions on behalf of higher education employees. According to the Office of Management and Budget, the institutions of higher education will contribute an additional $2.5 million to TDI on behalf of higher education employees. The $2.5 million to fund TDI benefits for higher education employees (previously funded in the Inter-Departmental Accounts) will be paid by the institutions as part of the block grant

Significant Changes/New Programs ($000)

Budget Item	Adj. Approp. FY 1998	Recomm. FY 1999	Dollar Change	Percent Change	Budget Page

funding proposal.

All eligible State employees are included in the State Temporary Disability Insurance Plan. The plan is a shared-cost plan which provides payments to employees who are unable to work as the result of non-work connected illness or injury and who have exhausted their sick leave and are ineligible for any unemployment compensation or workers' compensation. The employee contribution rate is 0.5 percent of compensation up to $19,300, while employers contribute between 0.1 and 0.75 percent up to the wage base of $19,300. The employer and employee contributions are deposited in the State Disability Benefits Fund.

Budget Item	Adj. Approp. FY 1998	Recomm. FY 1999	Dollar Change	Percent Change	Budget Page
Unemployment Insurance Liability	$4,609	$7,413	$2,804	60.8%	D-338
U.I., including Higher Education	$3,101	$3,456	$355	11.4%	
Total	$7,710	$10,869	$3,159	41.0%	

The $7,413,000 recommended appropriation is an estimate of the amount required to pay unemployment claims for former State employees if the employee payroll tax proves to be insufficient. According to the Budget in Brief (p.40), the FY 1999 budget anticipates the elimination of 1,097 positions through attrition, layoffs, and privatization initiatives. Should additional funds be required during the course of FY 1999, recommended budget language, on page D-338, permits the Director of the Division of Budget and Accounting to appropriate additional funds to pay unemployment claims.

The budget displays for both FY 1998 and FY 1999 have been revised to exclude the employer (State) contributions to fund Unemployment Benefits on behalf of higher education employees. According to the Office of Management and Budget, the institutions of higher education will contribute an additional $3.5 million to fund Unemployment Benefits on behalf of higher education employees. The $3.5 million to fund Unemployment Benefits for higher education employees (previously funded in the Inter-Departmental Accounts) will be paid by the institutions as part of the block grant funding proposal.

Unlike private industry, the State does not contribute a matching percentage of compensation to fund the Unemployment Compensation Trust Fund. The State operates on a pay-as-you-go basis as an insurer of last resort. Employees contribute .625 percent of salary, up to the unemployment wage base of $19,300. After the employees' contribution is dispersed, the State, as an employer, contributes sufficient funds to keep the program solvent.

Significant Changes/New Programs ($000)

Budget Item	Adj. Approp. FY 1998	Recomm. FY 1999	Dollar Change	Percent Change	Budget Page
Fringe Benefit Impact From Agency Initiatives	$0	$1,473	$1,473	—	D-338

The recommended appropriation is to provide funding for fringe benefits for agency initiatives resulting in an increase in the number of State employees. According to the department, funding of the fringe benefits for new hires as a result of the agency initiatives is not included in the various fringe benefit accounts. No supporting information has been provided to support this request.

Budget Item	Adj. Approp. FY 1998	Recomm. FY 1999	Dollar Change	Percent Change	Budget Page
Interest on Interfund Borrowing	$25,000	$6,000	($19,000)	(76.0)%	D-339

Under the Interfund Borrowing program, bond funds with excess cash lend money to other bond funds that need cash to pay for projects. The appropriations in this account will ultimately be paid to the bond funds from which the cash was loaned and represents the interest earnings that would have otherwise accrued to the particular fund.

The $25 million FY 1998 supplemental appropriation and the $6 million FY 1999 recommendation is to pay interest, at the average rate of earnings from the State's general investments, to bond funds from which other bond funds have borrowed money.

Budget Item	Adj. Approp. FY 1998	Recomm. FY 1999	Dollar Change	Percent Change	Budget Page
Statewide 911 Emergency Telephone System	$18,760	$15,315	($3,445)	(18.4)%	D-339

The recommended appropriation is to provide funds for the ongoing lease purchase agreement between the State and AT & T for the development and operation of a Statewide universal emergency telephone number (911). According to the Office of Management and Budget, the department requested additional funds in FY 1998 to purchase air space in the State's new area codes.

Budget Item	Adj. Approp. FY 1998	Recomm. FY 1999	Dollar Change	Percent Change	Budget Page
Year 2000 Data Processing Initiative	$15,000	$33,900	$18,900	126.0%	D-339

Although these funds are appropriated to the Inter-Departmental Accounts, the bulk of the money will be administered by the Office of Telecommunications and Information Systems (OTIS). According to the department, the $15 million appropriated in FY 1998 was used to hire experts to identify the size and scope of the State's Year 2000 data processing and information technology problem and begin analyzing lines of computer code so that the various programs can recognize the year 2000 and beyond. The recommended increase is to continue the work started during FY

Significant Changes/New Programs ($000)

Budget Item	Adj. Approp. FY 1998	Recomm. FY 1999	Dollar Change	Percent Change	Budget Page

1998; however, no planning or funding details have been provided.

According to the department, another $70 million in other identified funds are being allocated to the project. These "other identified funds" are expected to include General Fund appropriations, Federal Funds and re-allocated departmental appropriations.

Budget Item	Adj. Approp. FY 1998	Recomm. FY 1999	Dollar Change	Percent Change	Budget Page
Interdepartmental Initiatives	$0	$11,000	$11,000	—	D-339

According to the Budget in Brief (p.45-46), the recommendation includes $5 million "to begin the procurement process for the implementation of a centralized automated revenue interface system. Funding of $4 million will begin the process to implement a seamless solution to provide for the statewide efficient and effective management of all human resource information. Funding of $2 million will allow the State to conduct a comprehensive analysis of the current telecommunications environment which supports statewide government operations and activities."

Budget Item	Adj. Approp. FY 1998	Recomm. FY 1999	Dollar Change	Percent Change	Budget Page
Salary Increases and Other Benefits	$0	$96,294	$96,294	—	D-339
LESS: Statewide Efficiency Initiatives	$0	($12,160)	($12,160)	—	D-340
Sub-Total	$0	$84,134	$84,134		

The recommended appropriation of $96.3 million is to fund salary adjustments, including normal increments, bonuses and the annualized cost of previously negotiated cost-of-living adjustments (COLAs) which are based on collective bargaining agreements. Of this amount, $12.2 million will be transferred into the central salary account from departmental budgets during FY 1999, reflecting several statewide Efficiency Initiatives that will produce lower departmental spending needs. According to the Budget in Brief (p.42), "The fiscal 1999 Budget includes savings initiatives comprising overtime policy changes, smarter procurement through increased use of volume discounting and more effective use of Direct Purchase Authority by the agencies, and elimination of duplicative benefits for sick leave."

Most State employees are covered by four-year contracts expiring June 30, 1999. These agreements provide for a 2 percent COLA payable July 1998, and a 1.25 percent COLA payable January 1999. In addition, these agreements include a provision for "normal increments to be paid to all employees eligible for such increments."

N.J.S.A. 11A:3-7 authorizes the Commissioner of Personnel to establish and administer an equitable State employee compensation plan which shall include pay schedules, standards and procedures

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Budget Item	Adj. Approp. FY 1998	Recomm. FY 1999	Dollar Change	Percent Change	Budget Page

for salary adjustments. The State Compensation Plan establishes salary ranges and steps (also referred to as increments) for every State title or position. An increment is 5.0 percent of the first step of a salary range but averages about 4.1 percent of pay over a full salary range for those employees eligible to receive increments. Approximately one-third of the State workforce have reached the ninth, and final step, of their salary range and are ineligible to receive further increments.

Capital Construction

Budget Item	Adj. Approp. FY 1998	Recomm. FY 1999	Dollar Change	Percent Change	Budget Page
Americans with Disabilities Act Compliance Projects-Statewide	$3,000	$3,500	$500	16.7%	G-22

The recommended appropriation is to provide funds to perform a statewide survey to determine design and construction cost estimates to bring State facilities into compliance with the Americans with Disabilities Act.

Budget Item	Adj. Approp. FY 1998	Recomm. FY 1999	Dollar Change	Percent Change	Budget Page
Capital Improvements, Capitol Complex	$1,005	$1,415	$410	40.8%	G-22

The recommended appropriation is to provide funds for engineering and architectural design for various projects to implement fire and life safety upgrades in State facilities to meet changes in building codes and to implement the suggestions of the State's insurance carrier, Arkwright.

Budget Item	Adj. Approp. FY 1998	Recomm. FY 1999	Dollar Change	Percent Change	Budget Page
Fire Detection/Central Station Upgrade	$0	$3,000	$3,000	—	G-22

The fire detection systems within certain State-owned buildings are minimal and in need of improvement. The recommended funding will allow improved central station monitoring and centralized electronic security in the Capitol Complex facilities.

Budget Item	Adj. Approp. FY 1998	Recomm. FY 1999	Dollar Change	Percent Change	Budget Page
Fuel Distribution Systems/Underground Storage Tank Replacements - Statewide	$9,000	$10,000	$1,000	11.1%	G-22

The department estimates the total cost for these Statewide programs at $153.7 million. After 1998, the State will not be in compliance with Federal regulations on underground fuel/storage tanks and

Significant Changes/New Programs ($000)

Budget Item	Adj. Approp. FY 1998	Recomm. FY 1999	Dollar Change	Percent Change	Budget Page

could be subject to fines of up to $26,000 per day per violation.

Budget Item	Adj. Approp. FY 1998	Recomm. FY 1999	Dollar Change	Percent Change	Budget Page
Hazardous Material Removal Projects - Statewide	$3,000	$3,000	$0	0.0%	G-22

The recommendation will provide funds to continue the removal of hazardous materials from various sites statewide. The total cost of the program is estimated at $28.3 million.

Budget Item	Adj. Approp. FY 1998	Recomm. FY 1999	Dollar Change	Percent Change	Budget Page
Life Safety and Emergency Projects - Statewide	$500	$0	($500)	(100.0)%	

The FY 1998 adjusted appropriation provided funds to install sprinkler systems at various State facilities to bring them up to current fire safety code.

Budget Item	Adj. Approp. FY 1998	Recomm. FY 1999	Dollar Change	Percent Change	Budget Page
Partnership Agreement Program	$20,000	$0	($20,000)	(100.0)%	G-22

The $20 million was included in the FY 1998 budget by the Legislature through appropriation language in the Department of Environmental Protection (page B-89 Approp. Handbook). The appropriation is to provide interim funding assistance to counties who need help in meeting debt service payments due to the recent federal court decisions affecting State control over the flow of solid waste to county incinerators. Although the Budget display appears to indicate a reduction of $20 million, identical assistance is recommended in FY 1999 through appropriation language authority.

Budget Item	Adj. Approp. FY 1998	Recomm. FY 1999	Dollar Change	Percent Change	Budget Page
Statewide Law Enforcement Radio System	$500	$0	($500)	(100.0)%	G-22

The FY 1998 appropriation provided $500,000 to replace the radios currently used by the State Police.

Budget Item	Adj. Approp. FY 1998	Recomm. FY 1999	Dollar Change	Percent Change	Budget Page
University Heights Science Park	$16,300	$0	($16,300)	(100.0)%	G-22

Although displayed in the Budget (page G-22) as a FY 1998 supplemental appropriation, these funds have not yet been appropriated. Legislation has been introduced, Senate Bill No. 449 (SCS) of 1998, bu not enacted, that would appropriate $16.3 million for the State's contribution in the

Significant Changes/New Programs ($000)

Budget Item	Adj. Approp. FY 1998	Recomm. FY 1999	Dollar Change	Percent Change	Budget Page

development of the University Heights Science Park project. This project will provide 161,000 square feet of medical research laboratories. The remaining funding for this project is to be provided by revenue bonds to be issued by the New Jersey Economic Development Authority (EDA). These bonds would be repaid by rental income from the facility and a possible federal grant.

It is anticipated the that Public Health Research Institute, the University of Medicine and Dentistry's National TB Center and the New Jersey Medical School's Department of Microbiology will be the main tenants. The main tenant, the Public Health Research Institute, is an internationally recognized biomedical research institute focusing on the study of antibiotic resistant diseases.

Language Provisions

1998 Appropriations Handbook	1999 Budget Recommendations
p. B-226	
There are appropriated such additional sums as may be required to pay court-imposed or negotiated settlement costs for the housing of State inmates in Hudson County, subject to the approval of the Director of the Division of Budget and Accounting. The Director of the Division of Budget and Accounting shall notify the Joint Budget Oversight Committee prior to the payment of any such amount.	No comparable language.

Explanation

To provide additional housing for State-sentenced inmates, the State is leasing two Hudson County jails, one in Kearny and one in Secaucus. During FY 1997, the housing arrangement was in dispute and Hudson County had given the State 60-day notice to remove the State prisoners from these facilities. This language authorized the Director of the Division of Budget and Accounting to appropriate "such additional sums as may be required to pay court-imposed or negotiated settlement costs for the housing of State inmates in Hudson County." To resolve the dispute, the State agreed to pay Hudson County $6.7 million for the use of these facilities for the period beginning January 1, 1995 and ending December 31, 1996. The language is not continued because the dispute has been settled.

1998 Appropriations Handbook	1999 Budget Recommendations
	p. D-335
No comparable language.	There are appropriated from amounts hereinabove for the Economic Development Authority such sums as may be necessary to meet the requirements of the "South Jersey Port Corporation Reserve Fund" under section 14 of P.L. 1968, c.60 (C12:11A-14), the expenditure of which shall be subject to the approval of the Director of the Division of Budget and Accounting.

Explanation

This language authorizes the Director of the Division of Budget and Accounting to transfer an unspecified portion of the $25.6 million appropriation to the Economic Development Authority account to the South Jersey Port Corporation Reserve Fund. Recent legislation, P.L. 1997, c.150,

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transferred the assets, liabilities and obligations of the South Jersey Port Corporation to the New Jersey Economic Development Authority (EDA). It authorized the EDA to issue bonds for port development, to issue refunding bonds to refinance and defease the existing debt of the corporation, and to enter into a contract with the State Treasurer to pay an amount equal to the debt service on the EDA bonds, subject to future appropriations by the Legislature. According to the Budget in Brief (p.34) "Included in the Economic Development Authority funding is $7.5 million for refunding outstanding bonds of the South Jersey Port Corporation."

1998 Appropriations Handbook	1999 Budget Recommendations
	p. D-335
No comparable language.	An amount not to exceed $3,000,000 shall be appropriated for the costs of security, maintenance, utilities and other operating expenses related to the Marlboro Psychiatric Hospital and North Princeton Developmental Center closure initiatives, subject to the approval of the Director of the Division of Budget and Accounting.

Explanation

The Marlboro Psychiatric Hospital and the North Princeton Developmental Center are scheduled to close by the end of FY 1998. Although the facilities will be closed and the clients transferred to other facilities, the buildings and grounds have to be maintained until such times as the final disposition of these properties is determined.

1998 Appropriations Handbook	1999 Budget Recommendations
p. B-226	p. D-335
An amount not to exceed $3,000,000 shall be appropriated to implement the Facilities Master Plan, subject to the approval of the Director of the Division of Budget and Accounting.	The same language.

Explanation

During FY 1995, the Department of Treasury began a review of the State's leasing operations and office space needs. One outcome of the review was the development of a Facilities Master Plan that

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would guide future State facilities decisions. The Governor recommended and the Legislature approved budget language permitting an appropriation of up to $3 million to implement the recommendations from this review. A directory letter dated March 9, 1998, appropriated $2 million to pay costs associated with the implementation of the Facilities Master Plan. Identical language is recommended again in FY 1999 to appropriate an additional amount up to $3 million for this purpose.

1998 Appropriations Handbook	1999 Budget Recommendations
p. B-227	p. D-336
Notwithstanding any other law to the contrary, benefits provided to community work experience participants shall be borne by the Work First New Jersey program funded through the Department of Human Services and any costs related to administration, mitigation, litigation and investigation of claims will be reimbursed to the Bureau of Risk Management by the Work First New Jersey Program funded through the Department of Human Services, subject to the approval of the Director of the Division of Budget and Accounting.	The same language.

Explanation

This language permits the Director of the Division of Budget and Accounting to use funds appropriated to the Department of Human Services for the Work First New Jersey program to reimburse the Bureau of Risk Management for the administrative costs of processing claims related to benefits provided to community work experience participants.

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1998 Appropriations Handbook	1999 Budget Recommendations
p. B-227	
The sums hereinabove appropriated for Worker's Compensation claims shall be allotted to the departments, as the Director of the Division of Budget and Accounting shall determine.	No comparable language.

Explanation

The Workers' Compensation Fund is an experience-based program which reimburses employees for work-related injuries. The FY 1998 language permitted the Director of the Division of Budget and Accounting to allocate funds appropriated to the Workers' Compensation Fund account to each State department or agency. The funds were never allocated and claims have continued to be paid out of the central Workers' Compensation Fund account in the Inter-Departmental Accounts.

1998 Appropriations Handbook	1999 Budget Recommendations
p. B-227	p. D-336
In addition to the sums hereinabove for Fuel and Utilities, the Director of the Division of Budget and Accounting shall transfer or credit to this account such sums that accrue from appropriations made to various spending agencies for Fuel and Utilities and Salaries and Wages, to reflect savings associated with the fuel switch <u>energy-conservation initiatives at Trenton Psychiatric Hospital, Edward R. Johnstone Training Center, New Jersey Training School for Boys and the State Police Headquarters</u>. (emphasis added)	In addition to the sums hereinabove for Fuel and Utilities, the Director of the Division of Budget and Accounting shall transfer or credit to this account such sums that accrue from appropriations made to various spending agencies for Fuel and Utilities and Salaries and Wages, to reflect savings associated with the fuel switch <u>and other energy-conservation initiatives</u>. (emphasis added)

Explanation

This language permits the Director of the Division of Budget and Accounting to transfer unspecified amounts from appropriations made to any State department or agency, for Fuel and Utilities and Salaries and Wages, to the Inter-Departmental Accounts Fuel and Utilities account. According to page D-357 of the 1998 Budget Message, an amount of $1 million in savings was anticipated from converting centralized oil heating to more efficient gas heat at three State facility locations. Since the utility costs for these buildings are funded in departmental appropriation accounts, these savings would accrue in those accounts. Anticipated savings from specific energy conservation initiatives to be implemented in FY 1999 are not identified.

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1998 Appropriations Handbook	1999 Budget Recommendations
p. B-227	p. D-336
There are appropriated out of revenues received from utility companies such sums as may be required for implementation and administration of the Energy Conservation Initiatives Program, subject to the Director of the Division of Budget and Accounting.	The same language.

Explanation

Utility companies offer customers who reduce peak energy demand reduced rates or rebates called "Standard Offer Payments". These savings are used by the department to implement energy saving initiatives, such as energy efficient lighting and computerized energy management systems. According to page D-331 of the Budget Message, "This Budget also assumes savings from the Green Lights Program which entails the sale of bonds by the Economic Development Authority to provide funding for the installation of energy efficient lighting, fans and motors in State and lease-purchase facilities. Projects eligible for funding under this program must demonstrate pay back of energy savings." Debt service payments related to this bond sale will be made through the Property Rentals Budget. The utility companies will provide the State with incentive payments (standard offer payments) in fiscal 1999.

This language permits the Director of the Division of Budget and Accounting to appropriate any revenues received from utility companies for the energy conservation program without further legislative involvement in the determination of the amount to be appropriated. No estimate of the amount of anticipated revenue has been provided. However, in FY 1997, the State realized $67,000 in revenues pursuant to the same language.

1998 Appropriations Handbook	1999 Budget Recommendations
p. B-227	
There are appropriated such additional sums as may be required to pay all insurance costs incurred by the county courts on or after January 1, 1995, at which time these responsibilities pass to the State pursuant to the "State Judicial Unification Act," P.L. 1993, c.275 (C2B:10-1 et seq.), subject to the approval of the Director of the Division of Budget and Accounting.	No comparable language.

Explanation

This language authorized the Director of the Division of Budget and Accounting to appropriate

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additional funds to pay any unanticipated expenses incurred as part of the State takeover of the County Courts. Budget language was deemed necessary in case the department did not anticipate all of the costs. The language is not recommended in FY 1999 because funds to pay the insurance costs of the former county courts is included in the recommended budget.

1998 Appropriations Handbook	1999 Budget Recommendations
p. B-228	p. D-338
Such additional sums as may be required for Unemployment Insurance liability are appropriated as the Director of Budget and Accounting shall determine.	The same language.

Explanation

This language permits the Director of the Division of Budget and Accounting to appropriate additional funds to meet the State's obligations as an employer to fund the Unemployment Insurance Liability account. Unlike private industry, the State does not contribute a matching percentage of employee compensation to the Unemployment Compensation Fund. Employees contribute .625 percent of salary, up to the unemployment wage base of $19,300. When the employees' contribution is dissipated, the State as an employer contributes sufficient funds to keep the program solvent. The State operates on a pay-as-you-go basis as an insurer of last resort.

The recommended budget includes $7.4 million, an increase of $2.8 million above the FY 1998 adjusted appropriation, to pay unemployment claims in FY 1999 if the employee payroll tax proves to be insufficient. This language permits the appropriation of such additional funds as may be required.

1998 Appropriations Handbook	1999 Budget Recommendations
	p. D-339
No comparable language.	The unexpended balance as of June 30, 1998 in the Year 2000 Data Processing Initiative is appropriated for the same purpose.

Explanation

In the FY 1998 budget, the Governor requested and the Legislature appropriated $15 million for a "Year 2000 Data Processing Initiative." Although the appropriation was made to the Inter-Departmental Accounts (see page D-339 of the FY 1999 Budget Message), the bulk of the money is administered through the Office of Telecommunications and Information Systems (OTIS).

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According to the department, the $15 million appropriated in FY 1998 is being used to hire experts to identify the size and scope of the State's Year 2000 Problem and to begin analyzing lines of computer code so that the various programs can recognize the year 2000 and beyond. As of April 4, 1998, $11,886,230 has been allocated from the Year 2000 Data Processing Initiative account. This language permits the department to carryforward any unspent balances from the FY 1998 appropriation.

The Governor's FY 1999 budget recommends an additional $33.9 million to continue the work started during FY 1998. According to the Budget in-Brief, another $70 million in other funds are being allocated to the project. These other funds are expected to include General Fund appropriations, Federal Funds and re-allocated departmental funding.

1998 Appropriations Handbook	1999 Budget Recommendations
p. B-230	p. D-340
The Director of the Division of Budget and Accounting shall transfer from departmental accounts and credit to the Salary Increases and Other Benefits account a sum of <u>$5,605,000</u> from appropriations made to various spending agencies to reflect savings as a result of statewide efficiency initiatives. This additional sum is appropriated for Salary Increases and Other Benefits. (emphasis added)	The Director of the Division of Budget and Accounting shall transfer from departmental accounts and credit to the Salary and Other Benefits account a sum of <u>$12,160,000</u> from appropriations made to various spending agencies to reflect savings as a result of statewide efficiency initiatives. This additional sum is appropriated for Salary Increases and Other Benefits. (emphasis added)

Explanation

The FY 1999 language directs the Director of the Division of Budget and Accounting to transfer $12.2 million from various departmental accounts to reflect savings from streamlining and other efficiencies. According to the <u>Budget in Brief</u> (p.42), "The FY 1999 Budget includes savings initiatives comprising overtime policy changes, smarter procurement through increased use of volume discounting and more effective use of Direct Purchase Authority by agencies, and the elimination of duplicative benefits for sick leave."

Language Provisions

1998 Appropriations Handbook	1999 Budget Recommendations
p. B-230	p. D-340
The sums hereinabove appropriated to the various State departments, agencies, commissions, <u>or institutions of higher education</u> for the cost of salaries, wages, or other benefits shall be allotted as the Director of the Division of Budget and Accounting shall determine. (emphasis added)	The sums hereinabove appropriated to the various State departments, agencies, commissions for the cost of salaries, wages, or other benefits shall be allotted as the Director of the Division of Budget and Accounting shall determine.

Explanation

No funds are budgeted in the Inter-Departmental central salary accounts to fund salary increases and other salary adjustments in FY 1999 for Rutgers, The State University, the University of Medicine and Dentistry, the State Colleges and the New Jersey Institute of Technology. As such, the proposed language deletes reference to those institutions.

Language Provisions

1998 Appropriations Handbook	1999 Budget Recommendations
p. B-89	p. G-22
Identical language was included in the Department of Environmental Protection, Direct State Services budget on the page cited above.	Notwithstanding the provisions of any other law to the contrary, such sums as are necessary, but not to exceed $20,000,000, are appropriated to subsidize county and county authority debt service payments for environmental investments incurred as of June 30, 1998, pursuant to the "Solid Waste Management Act," P.L. 1979, c.39 (C.13:1E-1 et seq.) and the "Solid Waste Utility Control Act," P.L. 1979, c.40 (C.48:13A-1 et seq.) in accordance with the criteria and program guidelines established by the Commissioner of the Department of Environmental Protection, the Commissioner of the Department of Community Affairs and the State Treasurer, subject to the approval of the Director of the Division of Budget and Accounting. Expenditure of such funds are conditioned upon the State Treasurer having conducted or contracted for an operational audit of such county or county authority, and such county or county authority having implemented the audit recommendations to the satisfaction of the State Treasurer. Prior to the distribution of any amounts to a county or county authority, the State Treasurer shall notify the Joint Budget Oversight Committee of the amount and recipient of each distribution and the progress of each county and county authority in implementing the audit recommendations.

Explanation

The current language, shifted from the Department of Environmental Protection, Direct State Services budget, is continued in FY 1999 in the Inter-Departmental Accounts, Capital Construction budget.

This language was included by the Legislature in FY 1998 to provide interim funding assistance to counties who need help in meeting debt service payments due to the recent federal court decisions affecting State control over the flow of solid waste to county incinerators. Such funding assistance would be provided only after an operational audit was conducted and the recommendations of the audit were implemented to the satisfaction of the State Treasurer.

Discussion Points

1. The State purchases property, casualty and special insurance policies, such as the bonding of employees against fraudulent or dishonest acts. The FY 1999 budget appropriates $630,000 less than the $2,195,000 appropriated in FY 1998 for the Property Insurance account.

! *Question:* Is the State purchasing the same amounts of insurance with the same deductibles as in prior years?

2.a. The State provides loss of income protection and reimbursement of medical expenses to injured State and local government employees through three programs: Sick Leave (N.J.S.A. 11A:6-5); Sick Leave Injury (N.J.S.A. 11A:6-8); and Workers' Compensation (N.J.S.A. 34:15-1 et seq.). Although provided for by law, these programs are also included in the collective bargaining agreements covering most State and local government employees.

The department indicates that the State plans to eliminate the Sick Leave Injury (SLI) program. Since SLI is a statutory benefit, legislation is required to abolish or change the program. To date, no such legislation has been introduced. Moreover, since SLI benefits are included in the State's collective bargaining agreements, any such change would most likely become effective at the expiration of current employee contracts. Current contracts for most State employee groups expire on June 30, 1999.

! *Questions:* Does the administration intend to seek the repeal of the SLI program before the current employee contracts expire (June 30, 1999)? If so, how will this be accomplished?

2.b. The Office of Management and Budget estimates the savings from eliminating the SLI program at $2.0 million. It is not clear if this estimate reflects the net savings after taking into account that eliminating the SLI program would shift injured employees into the Workers' Compensation program thereby increasing the funds required for that program, or partial year savings because the administration does not know when legislation will be enacted to eliminate SLI.

! *Questions:* Please explain how the estimated savings were derived? Will additional funding have to be appropriated for the State's self-insured Workers' Compensation program if SLI is abolished?

3. The State is self-insured for Workers' Compensation payments. In FY 1996, the Workers' Compensation Fund account expended $29,847,000. According to the 1997 Budget Message, a Risk Management Task Force Study identified savings of $10 million attributable to risk management initiatives, including "improved work related injury case management, implementation of a statewide employee safety program, investigation of fraudulent claims and the maximization of subrogation recoveries due the State."

The FY 1997 original appropriation of $20,000,000 was augmented by a supplemental appropriation of $10,000,000 and $2,394,000 in transfers for a total adjusted appropriation of $32,394,000. Of this amount, $32,189,000 was expended in FY 1997. When asked during the FY 1998 appropriation hearings why the department has been unable to meet its insurance savings objectives, the department responded that "Managed care has been successful in reducing medical costs and this trend will eventually reduce the overall cost of adjusted claims and bring down the total cost of Workers' Compensation over the next 12-18 months."

Discussion Points

The FY 1998 adjusted appropriation for this account has been augmented by a supplemental appropriation of $8 million for a total available appropriation of $31.1 million. As of April 4, 1998, this account has expended $26,540,478, or 85.3 percent of the $31.1 million available appropriation. If expenditures continue at the current pace, this account could ultimately expend an estimated $35.4 million in FY 1998.

The FY 1999 budget includes a recommendation of $29.0 million for the Workers' Compensation Fund. According to page D-331 of the 1999 Budget Message, "Savings are anticipated from continued effective medical management of claims and the implementation of a coordinated program for the control of workplace injuries through a statewide safety initiative."

! *Questions:* When will the anticipated savings from "effective medical management of claims and the implementation of a coordinated program for the control of workplace injuries through a statewide safety initiative" begin to pay off? Given the prior history of the Workers' Compensation account, is the FY 1999 recommended appropriation of $29.0 million sufficient to pay the anticipated Workers' Compensation claims or will additional transfers and supplemental appropriations be required?

4. Recent legislation, P.L. 1997, c.150, transferred the assets, liabilities and obligations of the South Jersey Port Corporation to the New Jersey Economic Development Authority (EDA). It authorized the EDA to issue bonds for port development, to issue refunding bonds to refinance and defease the existing debt of the corporation, and to enter into a contract with the State Treasurer to pay an amount equal to the debt service on the EDA bonds, subject to future appropriations by the Legislature. According to the Budget in Brief (p.34) "Included in the Economic Development Authority funding is $7.5 million for refunding outstanding bonds of the South Jersey Port Corporation."

! *Questions:* What is the current status of the transfer of the South Jersey Port Corporation to the New Jersey Economic Development Authority? Why is it taking so long to refinance the outstanding bonds of the South Jersey Port Corporation?

5. By law, the State annually appropriates funds to the New Jersey Sports and Exposition Authority to cover the debt service cost of the approximately $456.4 million of outstanding State Contract bonds issued by the Sports Authority. These bonds were issued to refund prior Sports Authority debt, as well as for various capital purposes, including improvements at the Meadowlands Complex; expansion of the football stadium at Rutgers, the State University; improvements to Monmouth Park Racetrack and the construction of the new convention center in Atlantic City. In FY 1999, $33.9 million is budgeted for this purpose under Property Rentals in the Inter-Departmental Accounts (budget page D-334).

In addition to the debt service appropriation, the budget also includes, for the first time, a $15 million appropriation to the Sports Authority as an operating subsidy. The Sports Authority has indicated that the State funds will be added to the Sport Authority's Maintenance Reserve Fund to be used for a variety of projects at the Meadowlands Racetrack, Giants Stadium and Continental Airlines Arena. However, both the Sports Authority and the State Treasurer have acknowledged that, regardless of ultimate use, the State appropriation is an "operating contribution" to the Sports Authority. The Sports Authority's own 1998 Business Plan shows this $15 million as an item of "Extraordinary Income".

Discussion Points

In absence of this State subsidy, the Sports Authority's consolidated financial statement would show a deteriorating operating balance in 1998 as compared to 1997.

! *Questions:* Please explain in greater detail the rationale for this $15 million recommended appropriation to the Sports and Exposition Authority. Does this subsidy have any relation to the need expressed by the New Jersey Racing Industry Study Commission for an infusion of State funding to support racetrack purses and other racing activities? Given the additional responsibilities assigned to the Sports Authority (particularly the Atlantic City Convention Center), together with the lease pressures placed on the Sports Authority by the tenants in the Meadowlands Complex, is it likely that continued State financial support for the Sports Authority's operations will be necessary?

6. The Thomas H. Kean New Jersey Aquarium at Camden opened on February 29, 1992. The State holds title to the aquarium and leases the facility to the New Jersey Academy of Aquatic Sciences for $1 annually. In addition to funding the initial construction costs, the State pays all the utilities incurred in operating the aquarium, provides insurance, and is responsible for repairs costing more than $50,000. In response to declining attendance, the Academy hired BRC Imagination Arts, a designer of theme parks, to design a new strategy for the Aquarium. A four-part plan was developed to make the aquarium more exciting by adding brightly colored tropical fish, a walk-through underwater shipwreck and various interactive exhibits. According to the department, "the first phase of four improvement phases was completed in July 1995. Known as Ocean Base Atlantic, this program made permanent improvements to interior building exhibits, as well as the outdoor Seal Shores Exhibit. . . The State has reimbursed the Academy for all improvements of phase one which constituted permanent fixtures to the Aquarium facility".

The Academy is supposed to fund the operating expense of the aquarium, not already paid by the State, from ticket revenue. However, in the FY 1998 budget, the Governor requested and the Legislature appropriated $1.5 million for a "Camden Aquarium Management Agreement." This appropriation was included in the Academy's FY 1998 budget as an operating grant (as revenue). When asked during the FY 1998 appropriation hearings if the agreement committed the State to subsidize the aquarium's operating expenses in future years, the department responded that the agreement "will not obligate the State beyond FY 1998." However, the FY 1999 recommendation includes another $1.5 million for the aquarium.

! *Questions:* What is the status of renovations/improvements to the aquarium? Have the changes to the exhibits resulted in an increase in attendance? Why is it necessary for the State to appropriate an additional $1.5 million in FY 1999?

7. The total amount required to fund the basic pension benefits for the Police and Firemen's Retirement System (State liability, including the liability for employees of the higher education institutions) in FY 1999, as determined by the annual actuarial valuation of the retirement system, is $62,616,060. (By law, P.L. 1994, c.62, the State makes a separate contribution of 1.1% of payroll to fund the additional benefits provided by P.L. 1979, c.109.) Recent legislation, P.L. 1997, c.115, permits the Treasurer to use surplus assets to offset the employer (State and local governments) contributions to fund basic pension benefits. According to the actuary, $62,872,311 in surplus assets are being drawn down to offset the State contributions to fund P.L. 1979, c.109 and the State liability to fund PFRS for State employees enrolled in the retirement system.

Discussion Points

According to the Treasurer, in addition to the State contributions to fund the PFRS (State liability), the institutions of higher education will contribute $1,557,000 to PFRS on behalf of higher education employees enrolled in the retirement system.

! *Question:* Why are the institutions of higher education required to contribute $1,557,000 to PFRS in FY 1999 when (according to the actuary) there is $62,872,311 in surplus assets available to offset the $62,616,060 liability (State liability, including the liability for employees of higher education)?

8. In the FY 1998 budget, the Governor requested, and the Legislature appropriated $15 million for a "Year 2000 Data Processing Initiative." Although the appropriation was made to the Inter-Departmental Accounts (see p. D-339 of the FY 1999 Budget Message), the bulk of the money will be administered through the Office of Telecommunications and Information Systems (OTIS). According to the department, the $15 million appropriated in FY 1998 was to hire experts to identify the size and scope of the State's Year 2000 Problem and to begin analyzing lines of computer code so that the various programs can recognize the year 2000 and beyond. During the FY 1998 appropriation hearings, the Office of Legislative Services asked the Department of Treasury "is the $15 million appropriation for the Year 2000 a one-time appropriation?" The department responded that "it is uncertain whether additional funding will be needed to achieve full year 2000 compliance." The Governor's FY 1999 budget recommends an additional $33.9 million to continue the work started during FY 1998. According to the department, another $70 million in other identified funds are being allocated to the project. The other identified funds are expected to include General Fund appropriations, Federal Funds and re-allocated departmental funding.

! *Questions:* How much of the Year 2000 problem is being fixed "in-house" by OTIS/agency employees and how much is being fixed by outside/private contractors? What is the current estimate on the total cost of fixing the Year 2000 problem? What is the status of correcting the Year 2000 Problem?

9. The FY 1999 recommended budget includes $11 million for various computer-based Inter-Departmental Initiatives. According to the Budget in Brief (p.45-46), $5 million is needed to begin the procurement process for the implementation of a centralized automated revenue interface system; $4 million will begin the process to implement a seamless solution to provide for the statewide efficient and effective management of all human resource information; and $2 million will allow the State to conduct a comprehensive analysis of the current telecommunications environment which supports statewide government operations. This recommendation is in addition to the $33.9 million recommendation for the Year 2000 Data Processing Initiative and the $81.8 million to fund OTIS.

! *Question:* Does OTIS have the in-house staff resources to implement several new computer-based initiatives, solve the Year 2000 Problem and maintain existing systems support?

10. For fiscal 1999, the State proposes to make a block grant available to New Jersey public colleges and universities. This grant will provide continued funding for all employee benefits previously paid for by the State, including retirement programs, health insurance and payroll taxes. The fiscal 1999 Budget for Interdepartmental Accounts has been reduced to eliminate the costs related to this block grant. According to the Budget in Brief (p.106), this proposal "will give institutions greater control over spending for personnel costs."

Discussion Points

! *Questions:* Please explain how shifting the cost of funding the fringe benefits, including retirement programs, health insurance and payroll taxes, "will give institutions greater control over spending for personnel costs" when current State law requires the enrollment of these employees in the State pension systems and the State Health Benefits Program? Will the administration seek legislation permitting the institutions to withdraw from the these programs?

11. During FY 1995, the Department of Treasury began a review of the State's leasing operations and office space needs. One outcome of the review was the production of a Facilities Master Plan that would guide future State facilities decisions. The department requested and the Legislature approved budget language permitting the department to appropriate up to $3 million to implement the recommendations from this review. The department utilized this authority to appropriate additional funds on March 9, 1998, when the department appropriated, by directory letter authority, $2 million to pay costs associated with the implementation of the Facilities Master Plan. Identical language is recommended again in FY 1999 to appropriate up to $3 million.

! *Question:* Please provide an updated status report or spending plan for the Facilities Master Plan. What is the $2 million appropriated this year being spent on? Given the use of these funds in FY 1998, is it necessary to include language in the FY 1999 recommended budget to appropriate an additional $3 million?

12. The FY 1999 Budget Message, Inter-Departmental Accounts, Statewide Capital Projects (page G-22), shows a FY 1998 supplemental appropriation of $20 million, called the Partnership Agreement Program. According the department, this account is to provide funds to subsidize county debt service payments for solid waste environmental investments (primarily incinerator construction). The $20 million supplemental appropriation was authorized by budget language included in the Department of Environmental Protection (FY 1998 Appropriation Act page B-89). The language was intended to assist counties, which have been affected by the recent federal court rulings that abrogate the State's authority over county waste stream control, to meet "stranded debt" payments until a more permanent solution is developed. This language is recommended again in FY 1999, but appears in the Inter-Departmental Accounts, Capital Construction budget (page G-22).

Although the account was established, February 25, 1998, by a Treasury Directory Letter, no funds have been transferred or expended from this account.

! *Question:* Please explain why the $20 million supplemental appropriation has been shifted from the Department of Environmental Protection, Direct State Services budget, to the Inter-Departmental Accounts, Capital Construction budget.

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Budget Page.... D-339

Summary

Substantial amounts of State funds are being allocated to the "Year 2000 Data Processing Initiative," including $15 million appropriated in FY 1998 and an additional $33.9 million requested in the FY 1999 budget. Estimates to address all of the State's Year 2000 computer problems range up to $120 million or more. However, very little information or data have been provided by the Executive Branch to document either the activities or costs associated with this effort. In the absence of such information, it is difficult for the Legislature to make informed decisions about funding needs and time frames.

Background

In early computer applications, magnetic storage of information was expensive and storage capacities were limited. As a result, software applications routinely conserved space by using only the final two digits for recording calendar years; i.e., the year 1990 would be stored as 90. When the year 2000 arrives, this two-digit year field will contain "00". Computer generated calculations that automatically take the higher number and subtract it from the lower one will result in incorrect elapsed time calculations. For example, a person born in 1996 may be calculated to be 96 years old, not four years old.

A considerable portion of the State's everyday business is still conducted on large mainframe and mid-size computers using software written with potentially faulty date codes. To correct this problem will require programmers to rewrite millions of lines of code, plus in some cases the purchase of upgraded hardware and software. Given the extensive use of dates in computer programs to make calculations tied to financial investments, payroll support, license renewals, court records and social benefits payments, the scope of this problem becomes apparent. While some of the more dire predictions such as malfunctioning traffic signals and prisoners being set free are more dramatic than accurate, the possible failure of information systems to operate correctly can mean anything from minor inconveniences to major breakdowns.

Some examples of the systems that could be affected by the Year 2000 problem include the following:

- Benefit and payroll checks not cut correctly, if at all
- Personnel, medical and academic records malfunctioning
- Errors in banking and finance computations such as loan terminations
- Criminal histories distorted
- Client services not provided
- Revenue generating permits not issued

Planning and Project Management

When the Year 2000 problem became more evident, the New Jersey Information Resources Management Commission, created by P.L. 1993, c.199 to "initiate and oversee an ongoing Statewide

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information planning process in State government," began promoting and coordinating New Jersey's awareness of the problem. Through the Commission's efforts, the Governor appointed a central coordinator to work with each department in compiling its own departmental needs and to function as the State's coordinator of information to ensure the successful completion of all Year 2000 conversion efforts. However, in February 1998, the commission was essentially deactivated and the responsibility for the Year 2000 project was assumed by a newly-appointed Chief Information Officer located in the Governor's office.

The Department of the Treasury's Office of Telecommunications and Information Systems (OTIS) has operational responsibility for the State's major data centers and for developing the Garden State Network, a statewide integrated communications network capable of carrying data and voice transmissions. The HUB houses this telecommunications network and provides data processing disaster recovery. OTIS recently established a Year 2000 Project Team that has already begun making the necessary software changes to help ensure that computer systems which serve the general public and private industry will be Year 2000 compliant. As changes reach completion, OTIS will conduct comprehensive tests to verify their effectiveness. OTIS will also require all of the State's major software and data services suppliers to be Year 2000 compliant.

Budget Impact

In the FY 1998 budget, the Governor requested, and the Legislature appropriated $15 million for a "Year 2000 Data Processing Initiative." Although the appropriation was made to the Inter-Departmental Accounts (see p. D-339 of the Governor's FY 1999 budget), the bulk of the money will be administered through OTIS. According to the department, the $15 million appropriated in FY 1998 was to "fund Taxation and Revenue System modification ($5 million), purchase tools to address Year 2000 re-programming for OTIS and Agencies ($5 million), and fund OTIS and agency re-programming expenses ($5 million)." During the FY 1998 appropriation hearings, the department indicated that "it is uncertain whether additional funding will be needed to achieve full year 2000 compliance." As of April 29, 1998, $11,886,230 has been allocated from the Year 2000 Data Processing Initiative account.

The Governor's FY 1999 budget recommends an additional $33.9 million in State funding to continue the Year 2000 Initiative. The Budget in Brief (p. 46) mentions another $70 million in "other identified funds." These other funds are expected to include General Fund appropriations, Federal Funds and re-allocated departmental funding. However, no breakout of these other funding sources has been received.

Legislative Considerations

The State's Year 2000 Initiative is significant in its size and complexity as well as its budget implications. While project planning and compliance activities will be evolving over the next few years, it is important that the Legislature be in a position to assess progress and accountability in this effort. Moreover, since the Legislature is being asked to approve the funding for this initiative, cost estimates should be provided to allow resources to be prioritized, budgeted and allocated for Year 2000 activities. The Office of Legislative Services has requested planning and fiscal information on the scope of the Year 2000 project from OMB, OTIS and the Governor's representative for the Year 2000 project. Up to this point, no information has been provided to document the $33.9 million

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budget request, or to place this FY 1999 funding in the context of a multi-year budgetary commitment.

Prior to the budget hearings, each department was asked to respond to several questions, one of which pertained to the Year 2000. Specifically, each department was asked to "Describe the nature of any 'Year 2000' computer system problems your department must address. How are you prioritizing your department's tasks in view of the resources made available to you and the assessment of risk to your department's future operations?" Although the responses to this question gave some insight into what each department is doing to address the Year 2000 problem, most did not provide funding detail and the responses do not take the place of a consolidated funding plan.

Additional Information

The Office of the State Auditor recently completed an audit of OTIS, Year 2000 Compliance Plan, for the period June 16, 1997 to March 26, 1998. The audit objective was to determine the status and appropriateness of OTIS' efforts to identify and correct Year 2000 problems for systems which it maintains. Thus, the Legislative and Judicial branches, which maintain their own information systems, were excluded from the audit. The audit, while noting progress, outlines several deficiencies in planning and oversight and makes recommendations for their improvement. This audit was technical in nature and the scope did not include budgetary information. Four recommendations noted in the audit report include:

Centralized Systems Inventory-	OTIS' centralized inventory is not complete.
Disaster Recovery -	OTIS needs to revise its disaster recovery plan to assure continued processing.
Comprehensive Year 2000 Plan -	OTIS should develop a comprehensive Year 2000 plan that is regularly modified and updated.
Contingency Plans -	Contingency plans should be developed to reduce the risk of computer systems failing to operate properly.

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Individuals wishing information and committee schedules on the FY 1999 budget are encouraged to contact:

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