ANALYSIS OF THE NEW JERSEY

FISCAL YEAR 2001 - 2002 BUDGET

INTERDEPARTMENTAL ACCOUNTS

PREPARED BY

OFFICE OF LEGISLATIVE SERVICES

NEW JERSEY LEGISLATURE

MAY 2001

NEW JERSEY STATE LEGISLATURE

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INTERDEPARTMENTAL ACCOUNTS

Budget Pages....... C-13, D-509 to D-524

Fiscal Summary ($000)

	Expended FY 2000	Adjusted. Appropriation FY 2001	Recommended FY 2002	Percent Change 2001-02
State Budgeted	$1,677,498	$1,848,687	$2,077,276	12.4%
Federal Funds	0	0	0	—
Other	0	0	0	—
Grand Total	$1,677,498	$1,848,687	$2,077,276	12.4%

Personnel Summary - Positions By Funding Source

	Actual FY 2000	Revised FY 2001	Funded FY 2002	Percent Change 2001-02
State	0	0	0	—
Federal	0	0	0	—
Other	0	0	0	—
Total Positions	0	0	0	—

FY 2000 (as of December) and revised FY 2001 (as of September) personnel data reflect actual payroll counts. FY 2002 data reflect the number of positions funded.

Introduction

The Interdepartmental Accounts budget consists of those funds not appropriated to any single State department, but which instead are administered centrally (by the Department of the Treasury) on behalf of all State government agencies and some quasi-governmental entities, e.g., independent authorities. The Interdepartmental Accounts are categorized into the following budget areas: (1) Property Rentals; (2) Insurance and Other Services; (3) Employee Benefits (includes funding for employee pensions and health benefits); (4) Other Interdepartmental Accounts; (5) Salary Increases and Other Benefits; (6) Utilities and Other Services; (7) Capital Projects - Statewide; and (8) Aid to Independent Authorities.

Key Points

- The FY 2002 recommended budget totals $2.077 billion, an increase of $229 million (12.4 percent) over the FY 2001 adjusted appropriation of $1.849 billion. The Interdepartmental Accounts are the third largest discrete budget area, behind the Departments of Education and Human Services.

<u>State and College Employee Benefits: Recommended at $1.265 billion, an increase of $49.5 million (4.1 percent)</u>

- In FY 2002, the State's share of employer pension contributions for all of the State-administered retirement systems is again entirely offset by excess valuation assets in those systems. As a result, there are no appropriations required for normal or accrued liability costs.

- Pension costs remaining in the budget include (1) post-retirement medical benefits; (2) the Alternate Benefits program (a privately administered defined contribution plan for higher education employees); (3) specially legislated pension benefits; and (4) debt service on State contract bonds issued pursuant to the Pension Bond Financing Act of 1997.

- The appropriation for debt service on outstanding pension bonds is $30.1 million less than the actual amount of principal and interest due and payable in FY 2002. The difference will be made up by reappropriating unspent balances from FY 2001. The balances are available because the Treasury entered into a "swaption" agreement earlier this year that provided a $30.1 million up-front payment from a third party for the right to exercise a future interest rate swap option under defined terms. That $30.1 million was used to pay a portion of FY 2001's debt service obligations, freeing up an equal amount of State dollars to be reappropriated in FY 2002.

- Overall health benefits for active employees increase by a net $46 million, or 7.2 percent in FY 2002. The prescription drug component increases by $17.9 million (12.4 percent) while premiums and reimbursements for medical and dental benefits increase by $28.1 million (6.0 percent).

- Employer payroll taxes for social security increase by $31.5 million (8.2 percent) as a result of increases in the FICA wage base, employee salary increases and estimated changes in the size of the State workforce.

- The overall employee benefits budget is less than the sum of its parts because of a $52 million offset (deduction), representing a fringe benefit reimbursement to the Interdepartmental Accounts from federal Medicaid funds received by the University of Medicine and Dentistry for eligible employee fringe benefits. This offset was also claimed in FY 2001.

<u>Salary Adjustments: Recommended salary increases total $120.3 million for State employees; $29.5 million for higher education employees</u>

- Employee increments, cost of living adjustments and bonuses for eligible employees total $104.3 million, consistent with negotiated agreements. The recommended salary budget also includes $14.2 million in salary increases for State managers and officers, $8.7 million in deferred salary payments, an attrition offset (deduction) of $13.9 million and $7 million in unused accumulated sick leave payments to eligible employees at retirement.

Key Points (Cont'd)

- The Governor's budget also calls for a $27 million supplemental appropriation in the current budget year (FY 2001) for retroactive payments to unionized public safety and judicial personnel on account of delayed collective bargaining settlements.

Statewide Capital Projects: Recommended at $224.6 million, a decrease of $2.1 million (0.9) percent)

- The two biggest components of capital construction within the Interdepartmental Accounts are the $98 million annual appropriation to the Garden State Preservation Trust Fund Account, which is required by the State Constitution, and $74.1 million for debt service payments on outstanding bonds issued by the New Jersey Building Authority.

- New or additional funding is included for several projects, including Alternate Fuel Stations ($2.5 million); repairs to the State House Annex and other State facilities in Trenton ($9.4 million); and space and feasibility studies ($1 million).

- The recommended appropriations for Fuel Distribution Systems/Underground Storage Tank Replacement and for Hazardous Materials Removal are reduced by a total of $6.7 million in FY 2002; however, both accounts have sizeable carry-forward balances from prior and current year appropriations.

- A net increase of $2.5 million for Information Technology is included in this account. New funding of $6.0 million is provided for network infrastructure and security, while one-time funding of $3.5 million in FY 2001 for an on-line State portal is discontinued.

Aid to Independent Authorities: Recommended at $147.1 million, an increase of $54.4 million (58.6 percent)

- The bulk of the net spending increase in this area is due to a new $54 million line item for *Solid Waste Management - County Environmental Investment Debt Service Aid, EDA*. This represents the Administration's estimate of first year debt service payments on an assumed $750 million State contract bond issue by the New Jersey Economic Development Authority. The purpose of the bond issue would be to refinance the outstanding solid waste "stranded" debt of counties and county authorities. The appropriation is partially offset by an anticipated revenue (budget p. C-13) of $31 million, representing negotiated county contributions toward the refinanced debt structure. The net cost to the State of $23 million replaces and is comparable to the current and former $20 million annual appropriations for county solid waste subsidies, which have been discontinued in the Department of Treasury's FY 2002 budget recommendation. Note that this debt refinancing proposal is contingent on the enactment of enabling legislation.

- A new line item entitled *Liberty Science Center - EDA* is recommended at $7.7 million. This is for debt service on EDA bonds that will be issued for the expansion of the Liberty Science Center in Jersey City. According to State officials, the project will cost $70-$85 million and the cost will be shared with privately raised funds. The budget document includes an anticipated revenue (page C-13) of $3.9 million, which would appear to represent the private sector share of the State's estimated debt service costs on this project.

Key Points (Cont'd)

- $10 million in new funding is provided for an *Urban Area Industrial Reuse Incentive Fund*, to be administered by the EDA. According to the Budget in Brief, this will be "a grant program for urban areas to reuse existing buildings primarily for high tech business."

- Debt service support for the New Jersey Sports and Exposition Authority remains level at $48.1 million; however, the State operating subsidy for the authority would increase from $11 million to $12 million. Budget language allowing additional funds to be appropriated to the Sports Authority for debt service is included again in FY 2002.

- $2.5 million is recommended to support the operation of the Camden Aquarium (*Camden Aquarium Management Agreement*). This appears in the budget document as a $1 million increase over the FY 2001 adjusted appropriation. However, the budget display does not reflect an additional $900,000 that was transferred to the Aquarium earlier this year. With that transfer factored in, the FY 2002 request is only slightly larger than the support level in FY 2001.

- A new $550,000 line item for a *War Memorial Management Agreement* would be paid to the Marriott Corporation "for the operation of the War Memorial" in Trenton, according to budget materials.

- Three one-time appropriations made in FY 2001 are discontinued in the budget recommendation. Totaling $20 million, these include funds for State venture capital participation ($10 million), a new technology center ($6 million) and a commercialization center ($4 million). According to OMB, these funds are in the process of being transferred to the Economic Development Authority. Currently, private matching funds are being raised and sites and contractors for the two facilities are being selected.

Property Rentals: Recommended at $175.6 million, a net increase of $15.7 million (9.8 percent)

- The recommended budget includes an additional $4.5 million for lease acquisition and consolidation costs for State facilities and an increase of $11.2 million for *Other Debt Service Leases and Tax Payments*. Included in the latter increase are approximately $6 million for debt service on bonds to be issued for a new facility to house civilly committed sex offenders, $4 million for debt service on certificates of participation to finance the installation of sprinklers at certain Human Services facilities, and $1 million as the final lease payment on the OTIS HUB facility in West Trenton.

Utilities and Other Services: Recommended at $26.8 million, a net increase of $2.9 million (12.3 percent)

- According to the budget document, the increase in utilities funding is required due to "contractual, inflationary and usage increases for utilities, trash removal and janitorial services." OMB advises that increased fuel prices, as well as an offset for electric utility deregulation, have been factored into the budget recommendation.

Insurance and Other Services: Recommended at $52.9 million, a net decrease of $4.6 million (7.9 percent)

- The FY 2002 decrease is based on not repeating supplemental appropriations expected to be needed this year for the Workers' Compensation Fund and the Tort Claims Liability Fund. However, supplementals have been required for workers' compensation in every recent year.

Key Points (Cont'd)

- The budget display does not accurately reflect the appropriations activity for the Tort Claims Fund in the current year (FY 2001). The original FY 2001 appropriation for tort claims payments was $11 million, and the adjusted display level of $13 million reflects an anticipated $2 million supplemental appropriation. However, in January, a supplemental appropriation of $25 million was enacted by OMB Directory Letter pursuant to budget language authorization. According to information provided by the Treasurer's office, balanced against the $36 million appropriated thus far, there is an estimated potential need for $40.5 million to settle claims against the Division of State Police and other State entities. The adjudication of some of these settlements may extend into FY 2002.

Other Interdepartmental Accounts: Recommended at $34.9 million, a net decrease of $1.4 million (3.9 percent)

- An additional $1.5 million for Geographic Information Systems is recommended in FY 2002 so that the State can share the costs of developing parcel base maps with local governments.

- A $3 million net decrease in information technology (IT) funding is recommended. While one-time funding of $9.5 million in FY 2001 for equipment and on-line State portal costs is discontinued, the budget recommends new funding of $6.5 million for data sharing, training, contingency plans and licensing agreements in FY 2002. The total amount budgeted for IT in the Interdepartmental Accounts, including capital projects, is $31.7 million.

Background Papers

Program Description and Overview

Interdepartmental Accounts consist of those funds not appropriated to any single State department, but which are administered centrally on behalf of State government agencies and some quasi-governmental entities (e.g., authorities). Interdepartmental Accounts are categorized into the following budget areas: (1) Employee Benefits (includes funding for employee pensions and health benefits), (2) Salary Increases and Other Benefits, (3) Property Rentals and Leases, (4) Utilities and Other Services, (5) Insurance and Other Services, (6) Capital Projects - Statewide, (7) Aid to Independent Authorities, and (8) Other Interdepartmental Accounts.

Employee Benefits: *Recommended Appropriation of $1.265 billion*

(1) Pensions

The Division of Pensions and Benefits in the Department of Treasury administers the State's seven major retirement systems, as well as employee health benefits. Most of the State's retirement systems, with the exception of the Alternate Benefit Program described below are defined benefit systems. This means that each member is entitled to certain, specified benefits, upon retirement, regardless of their contributions or the investment performance of system assets.

- The Public Employees' Retirement System (PERS) (N.J.S.A. 43:15A-1 et seq.) provides coverage to substantially all full-time employees of State and local governments who are not members of one of the other systems described below. State and local governments pay the employer contributions for this system for their respective employees. Required State contributions are reflected in the Interdepartmental Accounts Budget.

- The Teachers' Pension and Annuity Fund (TPAF) (N.J.S.A. 18A:66-1 et seq.) provides coverage to all full-time school teachers in the State, including those in county vocational schools, as well as certain employees in the State Department of Education. The State pays the full employers' share of contributions (except for the cost of the early retirement incentive programs which are paid for by the participating districts) on behalf of local school districts. These payments are included in the State Aid portion of the recommended budget for the Department of Education.

- The Judicial Retirement System (JRS) (N.J.S.A. 43:6A-1 et seq.) provides pension coverage to members of the State judiciary. The State pays the employer contributions for this system as a part of the Interdepartmental Accounts budget.

- The Police and Firemen's Retirement System (PFRS) (N.J.S.A. 43:16A-1 et seq.) provides coverage to all full-time county and municipal police and firefighters as well as police, firefighters and other uniformed personnel employed by the State. Employer obligations are paid by the local employers and the State (as an employer). Required State contributions are budgeted in Interdepartmental Accounts.

- The State Police Retirement System (SPRS) (N.J.S.A. 53:5A-1 et seq.) provides benefits to all uniformed officers and troopers of the Division of State Police in the Department of Law and Public Safety. The State pays the employer contributions for this system as a part of the Interdepartmental Accounts budget.

- The Prison Officers' Pension Fund (POPF) (N.J.S.A. 43:7-7 et seq.) provides coverage for certain former 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 approximately 300 retirees and beneficiaries. This system is entirely funded by

Program Description and Overview (Cont'd)

current trust assets. State contributions may be necessary if the trust assets prove insufficient.

- The Consolidated Police & Firemen's Pension Fund (CP&FPF) (N.J.S.A. 43:16-1 et seq.) is a closed system whose membership consists of policemen and firemen appointed prior to July 1, 1944. Although there are no remaining active members, there are approximately 2,000 retirees and beneficiaries. 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.)

- The Alternate Benefit Program (ABP) (N.J.S.A. 18A:66-167 et seq.) is for full-time faculty of public institutions of higher education. Unlike the other State retirement systems, the ABP is a defined contribution, rather than a defined benefit system. Participants have the option of providing 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 base salary. The employer (State and Institutions of Higher Education) contributes a flat rate of 8 percent of base salary; this contribution is included in the Interdepartmental Accounts and the Department of Treasury's recommended budgets.

The defined benefit retirement systems are currently funded on an "actuarial reserve" basis. A future liability for payment of retirement and survivor benefits is determined, and a funding schedule to meet these obligations is established. Any legislative or other changes in retirement benefits add to system liabilities and to annual funding requirements.

State law requires that all current pension systems be subject to actuarial valuation every year to determine the necessary annual contributions required to adequately fund the system. In addition, the systems must have an 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 as necessary to ensure that additional costs (or savings) resulting from experience or legislative changes are recognized.

The enactment of major pension legislation in 1997 (P.L.1997, c.114) permitted the State to refinance its pension liabilities with bonds, which together with the use of additional assets recognized by a one-time change to full-market value of assets (P.L.1997, c.115) was sufficient to fully fund the retirement systems' State liabilities (excluding the liability for employer-paid post-retirement medical benefits.) The debt service payments are structured to mirror the annual State unfunded accrued liability contributions required under prior law. The payment schedule has started out with low annual payments that cover interest on the bonds; however, the scheduled debt service costs rise steeply over time.

In addition, P.L.1997, c.115 permits the Treasurer to use surplus pension fund assets to offset the annual employer (State and local government) contributions to fund the retirement systems, resulting in a significant reduction in appropriations for pension system contributions. In FY 2002, $236.3 million in surplus pension fund assets is used to offset State contributions. Legislation enacted in December 1999 (P.L.1999, c.415) also reduced employee contributions to the PERS system to 3% of annual salary for calendar years 2000 and 2001.

In addition to the recommended appropriation for pensions in Interdepartmental Accounts, pension-related funding is included in other State budgetary accounts as follows:

Program Description and Overview (Cont'd)

Other State Appropriations for Pensions and Related Benefits ($ in thousands)		
General Fund - State Aid	FY 2001	FY 2002
Department of Treasury: page D-463		
Employer Contributions - Alternate Benefit Program	$16,141	$15,796
Employer Contributions - Teachers' Pension and Annuity Fund	$146	$226
Debt Service on Pension Obligation Bonds	$70	$72
Additional Health Benefits	$3,259	$4,285
Property Tax Relief Fund - State Aid		
Department of Treasury: page D-494		
Debt Service on Pension Obligation Bonds	$6,539	$11,382
Police and Firemen's Retirement System, Health Benefits	$5,729	$10,470
Police and Firemen's Retirement System	$626	$0
PFRS - P.L.1979, c.109	$0	$0
Department of Education: page D-155		
Employer Contributions - Teacher's Pension and Annuity Fund	$174,562	$242,760
Debt Service on Pension Obligation Bonds	$69,545	$72,665
Additional Health Benefits	$27,056	$36,027
Minimum Pension for Pre-1955 Retirees	$2	$2
TOTAL, State Aid	$303,675	$393,685

(2) Health Benefits

The State Health Benefits Program (SHBP) provides health insurance for State employees who elect coverage. Local governments may also opt to participate in the program. The SHBP is a multiple option program offering: (1) a Traditional fee-for-service plan (Blue Cross/Blue Shield/Major Medical), (2) seven Health Maintenance Organizations (HMOs) and (3) a hybrid of the two, NJ Plus, also known as a Point-of-Service medical plan. Both the Traditional Plan and NJ Plus

Program Description and Overview (Cont'd)

are self-insured programs, which means that the money paid out for benefits is billed directly to 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 when they actually occur. Three of the HMO plans also have self-insured arrangements with the State.

The State's obligation to pay the premium or periodic charges for the SHBP coverage with respect to active employees and retirees who accrue 25 years of service is subject to collective bargaining. For FY 2002, employee premium sharing will be required for many State employees (those aligned with certain unions and non-aligned employees) in the Traditional and HMO plans; no employee premium sharing will be required for the NJ Plus plan. Current law requires local participating public employers to pay the cost of SHBP coverage for local employees and authorizes those employers to require an employee contribution toward some or all of the cost of dependent coverage. Many participating local employers, however, have assumed the cost of dependent coverage.

Separate prescription, dental and vision programs for State employees are also administered by the SHBP, and are funded in the Employee Benefits account.

(3) Other Fringe Benefits

Employer payroll taxes, such as Social Security, Temporary Disability Insurance, and Unemployment Insurance are funded in the Employee Benefits Program of the Interdepartmental Accounts.

Salary and Other Benefits: *Recommended Appropriation of $149.8 million*

Amounts required to pay salary increases for funded State positions are budgeted centrally in the Interdepartmental Accounts, then allocated to individual departments/agencies during the fiscal year. Increases for the majority of State employees are subject to collective bargaining. Contracts currently in effect provide increases in July 2001 and January 2002 ranging from 1.5% to 2.0%, plus bonuses in some cases. A breakdown of salary increases by bargaining unit is provided on p. 75 of the Executive's Budget In Brief document.

Recommended funding for the payment of unused sick leave ($7 million) is also included in the Salary Account.

Property Rentals and Leases: *Recommended Appropriation of $175.6 million*

Administered by the Department of Treasury, the Property Rentals Account provides funding for rent and leases of office space and other property for State departments and agencies.

Utilities and Other Services: *Recommended Appropriation of $26.8 million*

Utility expenditures for State facilities or other facilities leased by State departments or agencies are budgeted in this account.

Program Description and Overview (Cont'd)

Insurance and Other Services: *Recommended Appropriation of $52.9 million*

The State self-administers and is self -insured for Tort Claims, Workers' Compensation, and automobile (Vehicle Claims) liability risks. Claims are reported as expenditures in the year they are actually paid. The amounts recommended for the Tort Claims Liability Fund, Workers' Compensation Fund, and Vehicle Claims Liability Fund are estimates based on prior experience for the purpose of funding projected losses on an accrual basis. Property exposure is handled through the purchase of commercial insurance. The Department of Treasury administers these insurance accounts.

Capital Projects - Statewide: *Recommended Appropriation of $224.6 million*

This account funds various statewide capital projects administered centrally by the Department of Treasury on behalf of multiple State agencies. Current projects funded in this account include the removal of underground storage tanks and hazardous materials, construction of alternate fuel stations, State building repairs and renovations, other building renovations related to compliance with the federal Americans with Disabilities Act (ADA), purchase of open space through the Garden State Preservation Trust Fund, and capital network infrastructure purchases. Debt service for New Jersey Building Authority projects is also budgeted in this account.

Aid to Independent Authorities: *Recommended Appropriation of $147.1 million*

This account provides funds to Independent Authorities (e.g. Economic Development Authority, Sports and Exposition Authority) for debt service and in certain instances, operating subsidies. Recommended funding for several new initiatives including the Urban Area Industrial Reuse Incentive Fund ($10 million), the Liberty Science Center ($7.7 million) and Solid Waste Management Debt Service Aid ($54 million) is budgeted in this account in FY 2002.

Other Interdepartmental Accounts: *Recommended Appropriation of $34.9 million*

This account includes funding for emergencies and contingencies, as well as other statewide initiatives (e.g., information technology) that do not fall under the categories described above.

Fiscal and Personnel Summary

AGENCY FUNDING BY SOURCE OF FUNDS ($000)

	Expended FY 2000	Adj. Approp. FY 2001	Recom. FY 2002	Percent Change 2000-02	Percent Change 2001-02
General Fund					
Direct State Services	$1,087,629	$1,134,231	$1,256,584	15.5%	10.8%
Grants-In-Aid	461,349	487,745	596,123	29.2%	22.2%
State Aid	0	0	0	0.0%	0.0%
Capital Construction	128,520	226,711	224,569	74.7%	(0.9)%
Debt Service	0	0	0	0.0%	0.0%
Sub-Total	$1,677,498	$1,848,687	$2,077,276	23.8%	12.4%
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	$1,677,498	$1,848,687	$2,077,276	23.8%	12.4%
Federal Funds	$0	$0	$0	0.0%	0.0%
Other Funds	$0	$0	$0	0.0%	0.0%
Grand Total	$1,677,498	$1,848,687	$2,077,276	23.8%	12.4%

PERSONNEL SUMMARY - POSITIONS BY FUNDING SOURCE

	Actual FY 2000	Revised FY 2001	Funded FY 2002	Percent Change 2000-02	Percent Change 2001-02
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	0	0	0	0.0%	0.0%

FY 2000 (as of December) and revised FY 2001 (as of September) personnel data reflect actual payroll counts. FY 2002 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 2001	Recomm. FY 2002	Dollar Change	Percent Change	Budget Page
PROPERTY RENTALS					
Direct State Services:					
Property Rentals	$159,991	$175,641	$15,650	9.8%	D-513

The property rental account includes a number of items which are summarized below:

Item	Net Change
The recommended budget includes an increase of $11.2 million, which includes approximately $6 million for debt service on bonds to be issued for a new facility to house civilly committed sex offenders, $4 million for debt service on certificates of participation to finance the installation of sprinklers at certain Human Services facilities, and $1 million as the final lease payment on the OTIS HUB facility in West Trenton. See *Discussion Point* #1 regarding the sex-offender facility.	$11,153
The increase in property rental costs for leased space is to provide program space for State agencies.	$4,138
This increase will fund the cost of the One Hundred Riverview Lease to include a new parking garage.	$2,500
An increase for the Division of Revenue Lease is for one-half year for a new facility for the division.	$2,000
This item of increase includes leases for additional parking spaces, improvements to facilities, and assumption of costs formerly funded by non-State sources.	$1,244
This decrease represents the elimination of FY 2001 supplemental appropriations that are authorized in budget language in FY 2002.	($5,000)
This item represents a debt service decrease for the Economic Development Authority.	($385)
TOTAL	$15,650

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

Budget Item	Adj. Approp. FY 2001	Recomm. FY 2002	Dollar Change	Percent Change	Budget Page
INSURANCE AND OTHER SERVICES					
Direct State Services: Workers' Compensation Fund	$37,900	$34,900	($3,000)	(7.9)%	D-513

The State is self-insured for worker's compensation payments made to State employees. State expenditures for workers' compensation have been increasing in recent years and the program has required supplemental appropriations since FY 1997. In FY 2000, $39.2 million was expended; in FY 2001, a $3 million supplemental has been enacted, bringing the total appropriations to date in this account to $37.9 million. In FY 2002, only $34.9 million is budgeted. See *Discussion Point* #9.

Budget Item	Adj. Approp. FY 2001	Recomm. FY 2002	Dollar Change	Percent Change	Budget Page
Direct State Services: Tort Claims Liability Fund	$13,000	$11,000	($2,000)	(15.4)%	D-513

The budget display does not accurately reflect the appropriations activity for the Tort Claims Fund in FY 2001. The original FY 2001 appropriation for tort claims payments was $11 million, and the adjusted display level of $13 million reflects an anticipated $2 million supplemental appropriation. However, in January, a supplemental appropriation of $25 million was enacted by OMB Directory Letter pursuant to budget language authorization. According to information provided by the Treasurer's office, balanced against the $36 million appropriated thus far, there is an estimated potential need for a total of $40.5 million to settle claims against the Division of State Police and other State entities. The adjudication of some of these settlements may extend into FY 2002. See *Discussion Point* #8.

Budget Item	Adj. Approp. FY 2001	Recomm. FY 2002	Dollar Change	Percent Change	Budget Page
UTILITIES AND OTHER SERVICES					
Direct State Services: Utilities and Other Services	$23,879	$26,816	$2,937	12.3%	D-513

The projected increase in the requested appropriation for FY 2002 is the result of higher production costs (5%) under the statewide energy contract, an increase in energy usage and pricing, projections for energy costs at new State complexes, and utility usage in areas served by the "Greenpower" contract, which is estimated to cost 17% more than the local utility.

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

Budget Item	Adj. Approp. FY 2001	Recomm. FY 2002	Dollar Change	Percent Change	Budget Page
AID TO INDEPENDENT AUTHORITIES					
Grants-In-Aid: Camden Aquarium Management Agreement	$1,500	$2,500	$1,000	66.7%	D-514

$2.5 million is recommended to support the ongoing operations of the Camden Aquarium. Although this appears in the budget document as a $1 million increase over the FY 2001 adjusted appropriation, the budget display does not reflect an additional $900,000 that was transferred to the Aquarium in FY 2001. With that transfer factored in, the FY 2002 request is only slightly larger than the support level in FY 2001. See *Discussion Point* #10.

Budget Item	Adj. Approp. FY 2001	Recomm. FY 2002	Dollar Change	Percent Change	Budget Page
Grants-In-Aid: Commercialization Center, EDA	$4,000	$0	($4,000)	(100.0)%	D-514
Grants-In-Aid: New Technology Center, EDA	$6,000	$0	($6,000)	(100.0)%	D-514
Grants-In-Aid: Venture Capital for Start-up Firms, EDA	$10,000	$0	($10,000)	(100.0)%	D-514

These three one-time appropriations made in FY 2001 are discontinued in the budget recommendation for FY 2002. According to OMB, these funds are in the process of being transferred to the Economic Development Authority, private matching funds are currently being raised, and sites and contractors for the two facilities are being selected. See *Discussion Point* #4.

Budget Item	Adj. Approp. FY 2001	Recomm. FY 2002	Dollar Change	Percent Change	Budget Page
Grants-In-Aid: Liberty Science Center, EDA	$0	$7,715	$7,715	—	D-514

This new line item is for debt service on EDA bonds that will be issued for the expansion of the Liberty Science Center in Jersey City. According to State officials, the project will cost $70-$85 million and the cost will be shared with privately raised funds. The budget document includes an anticipated revenue (page C-13) of $3.9 million, which would appear to represent the private sector share of the estimated debt service costs on this project. See *Discussion Point* #2.

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

Budget Item	Adj. Approp. FY 2001	Recomm. FY 2002	Dollar Change	Percent Change	Budget Page
Grants-In-Aid: Urban Area Industrial Reuse Incentive Fund, EDA	$0	$10,000	$10,000	—	D-514

$10 million in new funding is provided for an *Urban Area Industrial Reuse Incentive Fund*, to be administered by the EDA. According to the Budget in Brief, this will be "a grant program for urban areas to reuse existing buildings primarily for high tech business."

Budget Item	Adj. Approp. FY 2001	Recomm. FY 2002	Dollar Change	Percent Change	Budget Page
Grants-In-Aid: War Memorial Management Agreement	$0	$550	$550	—	D-514

According to budget materials, this new line item would be paid to the Marriott Corporation "for the operation of the War Memorial" in Trenton. See *Discussion Point* #10.

Budget Item	Adj. Approp. FY 2001	Recomm. FY 2002	Dollar Change	Percent Change	Budget Page
Grants-In-Aid: Solid Waste Management - County Environmental Investment Debt Service Aid, EDA	$0	$54,000	$54,000	—	D-514

This recommended appropriation represents the Administration's estimate of first year debt service payments on an assumed $750 million State contract bond issue by the New Jersey Economic Development Authority. The purpose of the bond issue would be to refinance the outstanding solid waste "stranded" debt of counties and county authorities. The appropriation is partially offset by an anticipated revenue (budget p. C-13) of $31 million, representing negotiated county contributions toward the refinanced debt structure. The net cost to the State of $23 million replaces and is comparable to the current and former $20 million annual appropriations for county solid waste subsidies, which have been discontinued in the Department of Treasury's FY 2002 budget recommendation. This debt refinancing proposal is contingent on the enactment of enabling legislation. See *Discussion Point* #5.

Budget Item	Adj. Approp. FY 2001	Recomm. FY 2002	Dollar Change	Percent Change	Budget Page
Grants-In-Aid: Sports and Exposition Authority Operations	$11,000	$12,000	$1,000	9.1%	D-514

While debt service support for the New Jersey Sports and Exposition Authority remains level at $48.1 million, the State operating subsidy for the authority would increase from $11 million to $12 million. Budget language allowing additional funds to be appropriated to the Sports Authority for debt service is included again for FY 2002. See *Discussion Point* #3.

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

Budget Item	Adj. Approp. FY 2001	Recomm. FY 2002	Dollar Change	Percent Change	Budget Page

CAPITAL PROJECTS

Proposed capital projects are subject to review by the Capital Budgeting and Planning Commission. The Commission prepares a report which recommends funding levels for specific projects in the upcoming budget year. This report is considered by the Department of Treasury in preparing the capital budget.

Capital Construction: Fire Detection/Security-Central Station Upgrade	$2,800	$0	($2,800)	(100.0)%	D-514

Funding for this completed project is discontinued in the FY 2002 budget.

Capital Construction: Energy Efficiency Projects	$1,000	$0	($1,000)	(100.0)%	D-515

Although continuation of this project is recommended in the Commission's report, funding is not included in the FY 2002 recommended budget.

Capital Construction: Health and Agriculture Space Evaluation	$0	$480	$480	—	D-515

This project is recommended by the Commission to provide funding to evaluate the current building systems, infrastructure and space configuration of the Health and Agriculture Building in order to determine "necessary renovations and replacements".

Capital Construction: Agriculture Building Retaining Wall	$0	$2,000	$2,000	—	D-515

This project would repair the Health & Agriculture loading dock concrete wall, which, according to the Commission's report, is failing due to water seepage.

Capital Construction: Van Sciver Renovation	$0	$775	$775	—	D-515

The $775,000 recommended in FY 2002 is for the design phase of the Van Sciver renovation. After renovation, this State-owned facility would be occupied by the Department of Health and Senior Services following the relocation of the Department of Revenue personnel. The total project is estimated to cost $7 million.

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

Budget Item	Adj. Approp. FY 2001	Recomm. FY 2002	Dollar Change	Percent Change	Budget Page
Capital Construction: Repair State House Annex Roof Slab	$0	$5,037	$5,037	—	D-515

This funding is recommended to repair the roof slab of the State House Annex West, Center, and East wings, which has deteriorated. FY 2002 funding includes the design and construction costs, as well as the cost of relocation of staff during the project.

Budget Item	Adj. Approp. FY 2001	Recomm. FY 2002	Dollar Change	Percent Change	Budget Page
Capital Construction: Walson Army Hospital Study	$0	$200	$200	—	D-515

This hospital, which is owned by the federal government, could likely be turned over to the State as a part of the federal base closure and realignment process. According to the Commission's report, at least four State agencies have expressed a serious interest in the facility. These funds would provide for a complete facility and programmatic study to demonstrate to the federal government the potential future uses of the facility by the State.

Budget Item	Adj. Approp. FY 2001	Recomm. FY 2002	Dollar Change	Percent Change	Budget Page
Capital Construction: DEP Infrastructure Wiring	$0	$1,200	$1,200	—	D-515

According to the Commission's report, this project will allow DEP to complete the necessary wiring to allow implementation of its department-wide integrated databases and e-government initiatives. Current infrastructure wiring is "inadequate to handle these integrated applications".

Budget Item	Adj. Approp. FY 2001	Recomm. FY 2002	Dollar Change	Percent Change	Budget Page
Capital Construction: Complex-wide Security System Design	$500	$750	$250	50.0%	D-515

This project is recommended by the Commission in order to design and install new security equipment in the Museum, Planetarium, Auditorium, Health and Agriculture Building, Justice Complex, Department of Labor, Department of Environmental Protection and other State buildings.

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

Budget Item	Adj. Approp. FY 2001	Recomm. FY 2002	Dollar Change	Percent Change	Budget Page
Capital Construction: Fuel Distribution Systems/Underground Storage Tank Replacements	$10,200	$5,000	($5,200)	(51.0)%	D-515
Capital Construction: Hazardous Materials Removal Projects - Statewide	$5,000	$3,500	($1,500)	(30.0)%	D-515

Although the recommended appropriations for Fuel Distribution Systems/Underground Storage Tank Replacement and for Hazardous Materials Removal are reduced by a total of $6.7 million in FY 2002, both accounts have sizeable carry-forward balances from prior and current year appropriations; therefore, adequate funds are available for full program operation in FY 2002. See *Discussion Point* #11.

Budget Item	Adj. Approp. FY 2001	Recomm. FY 2002	Dollar Change	Percent Change	Budget Page
Capital Construction: Alternate Fuel Stations	$0	$2,500	$2,500	—	D-515

The FY 2002 recommended budget includes $2.5 million in new funding for the construction of Alternate Fuel Stations. These stations are necessary to allow the use of compressed natural gas as an alternative fuel source in New Jersey. See *Discussion Point* #12.

INFORMATION TECHNOLOGY: (CAPITAL PROJECTS & OTHER INTERDEPARTMENTAL)

Budget Item	Adj. Approp. FY 2001	Recomm. FY 2002	Dollar Change	Percent Change	Budget Page
Capital Construction: Network Infrastructure	$16,500	$18,850	$2,350	14.2%	D-515
Capital Construction: Information Technology On-Line State Portal	$3,500	$0	($3,500)	(100.0)%	D-515
Capital Construction: Enterprise Network Security	$0	$3,600	$3,600	—	D-515
Direct State Services: Information Technology Equipment Upgrades	$8,000	$0	($8,000)	(100.0)%	D-522
Direct State Services: Training of Information Technology Staff	$0	$1,600	$1,600	—	D-522

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

Budget Item	Adj. Approp. FY 2001	Recomm. FY 2002	Dollar Change	Percent Change	Budget Page
Direct State Services: Enterprise Contingency Planning and Disaster Recovery	$0	$750	$750	—	D-522
Direct State Services: Enterprise License Agreements	$0	$3,000	$3,000	—	D-522
Direct State Services: Information Technology On-Line State Portal	$3,300	$1,850	($1,450)	(43.9)%	D-521
Direct State Services: Information Technology Data Sharing, Integration and Management	$900	$2,000	$1,100	122.2%	D-521

An overall decrease of $550,000 in information technology costs (DSS and Capital) is recommended in the FY 2002 Interdepartmental Accounts budget as follows:

Capital Construction
A net increase of $2.5 million for Information Technology (IT) is recommended. New funding of $6.0 million is provided for network infrastructure and security, while one-time funding of $3.5 million in FY 2001 for an on-line State portal is discontinued.

Direct State Services
A $3 million net decrease in IT funding is recommended. One-time funding of $9.5 million in FY 2001 for equipment and on-line State portal costs is discontinued. The budget recommends new funding of $6.5 million for data sharing, training, contingency plans and licensing agreements in FY 2002.

The total amount budgeted for IT in the Interdepartmental Accounts, including capital projects, is $31.7 million. (Note that additional IT funding is provided in departmental budgets.) In addition, budget language allows supplemental IT appropriations at the discretion of the Director of the Division of Budget and Accounting.

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

Budget Item	Adj. Approp. FY 2001	Recomm. FY 2002	Dollar Change	Percent Change	Budget Page
EMPLOYEE BENEFITS					
Direct State Services: Public Employees' Retirement System	$74,210	$70,559	($3,651)	(4.9)%	D-519
Direct State Services: Police and Firemen's Retirement System	$0	$70	$70	—	D-519
Direct State Services: Teachers' Pension and Annuity Fund and Non-Contributory Group Life Insurance-State	$565	$1,186	$621	109.9%	D-519
Grants-In-Aid: Public Employees' Retirement System	$11,231	$11,422	$191	1.7%	D-519
Grants-In-Aid: Teachers' Pension and Annuity Fund and Non-Contributory Group Life Insurance-State	$285	$574	$289	101.4%	D-520
Grants-In-Aid: Alternate Benefits Program - Employer Contributions	$86,827	$88,782	$1,955	2.3%	D-519

In FY 2002, the State's share of employer pension contributions for all of the State-administered retirement systems is again entirely offset by excess valuation assets in those systems. As a result, there are no appropriations required for normal or accrued liability costs. Pension costs remaining in the budget include (1) post-retirement medical benefits; (2) the Alternate Benefits program (a privately administered defined contribution plan for higher education employees); (3) specially legislated pension benefits; and (4) debt service on State contract bonds issued pursuant to the Pension Bond Financing Act of 1997.

According to the Office of Management and Budget, the post-retirement medical costs for employees enrolled in TPAF and PERS have increased significantly, and budget deficits in these accounts are expected in FY 2001. These deficits will be "funded" through an accounting adjustment which credits additional investment earnings to the post-retirement medical fund for FY 2001. This adjustment also provides funding to partially offset costs anticipated in FY 2002. See *Discussion Point* #7 .

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

Budget Item	Adj. Approp. FY 2001	Recomm. FY 2002	Dollar Change	Percent Change	Budget Page
Direct State Services: Debt Service on Pension Obligation Bonds	$51,683	$24,001	($27,682)	(53.6)%	D-519
Grants-In-Aid: Debt Service on Pension Obligation Bonds	$2,982	$3,116	$134	4.5%	D-520

The appropriation for debt service on outstanding pension bonds is $30.1 million less than the actual amount of principal and interest due and payable in FY 2002. The difference will be made up by reappropriating unspent balances from FY 2001. The balances are available because the Treasury entered into a "swaption" agreement earlier this year that provided a $30.1 million up-front payment from a third party for the right to exercise a future interest rate swap option under defined terms. That $30.1 million was used to pay a portion of FY 2001's debt service obligations, freeing up an equal amount of State dollars to be reappropriated in FY 2002.

Budget Item	Adj. Approp. FY 2001	Recomm. FY 2002	Dollar Change	Percent Change	Budget Page
Direct State Services: State Employees' Health Benefits	$345,757	$361,358	$15,601	4.5%	D-519
Direct State Services: State Employees' Prescription Drug Program	$102,887	$115,939	$13,052	12.7%	D-519
Direct State Services: State Employees' Dental Program-Shared Cost	$18,578	$20,433	$1,855	10.0%	D-519
Grants-In-Aid: State Employees' Health Benefits	$122,647	$131,891	$9,244	7.5%	D-520
Grants-In-Aid: State Employees' Prescription Drug Program	$41,297	$46,157	$4,860	11.8%	D-520
Grants-In-Aid: State Employees' Dental Program-Shared Cost	$6,735	$8,125	$1,390	20.6%	D-520

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

Budget Item	Adj. Approp. FY 2001	Recomm. FY 2002	Dollar Change	Percent Change	Budget Page

Overall health benefits for active employees increase by a net $46 million, or 7.2 percent in FY 2002. The prescription drug component increases by $17.9 million (12.4 percent) while premiums and reimbursements for medical and dental benefits increase by $28.1 million (6.0 percent). According to the Budget in Brief, the budget growth is a result of continued escalation of costs in the health care and pharmaceutical industries, resulting from marketing of brand-name pharmaceuticals, less restrictive managed care, and an aging work force.

Direct State Services:					
Social Security Tax	$265,754	$290,681	$24,927	9.4%	D-519
Grants-In-Aid:					
Social Security Tax	$118,612	$125,191	$6,579	5.5%	D-520

Employer payroll taxes for social security increase by $31.5 million (8.2 percent) as a result of increases in the FICA wage base, employee salary increases and estimated changes in the size of the State and higher education workforce.

OTHER INTERDEPARTMENTAL ACCOUNTS

Direct State Services:					
Geographic Information (GIS) Integration	$500	$2,000	$1,500	300.0%	D-521

An additional $1.5 million to coordinate Geographic Information Systems is recommended in FY 2002. According to the Budget in Brief and other budget materials, the $2 million recommended appropriation will be used to leverage federal funds and to cost-share with local governments in order to develop parcel base maps. In prior years, no appropriation was provided, but language was included in the budget to allow up to $500,000 to be appropriated to leverage federal funding for the enhancement or expansion of geographic information systems. According to the Office of Management and Budget, this initiative is now moving forward, and the budget documents reflect a supplemental appropriation of $500,000 in FY 2001 for this purpose.

Grants-In-Aid:					
Enhanced County 911 Grants	$525	$200	($325)	(61.9)%	D-522

According to budget documents, the need for county 911 grants decreases in FY 2002. The $200,000 budgeted in FY 2002 will continue the training and educational activities begun by the counties in FY 2001, in accordance with P.L. 1999, c. 125.

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

Budget Item	Adj. Approp. FY 2001	Recomm. FY 2002	Dollar Change	Percent Change	Budget Page
SALARY INCREASES AND OTHER BENEFITS					
Direct State Services: Salary Increases and Other Benefits	$26,970	$113,321	$86,351	320.2%	D-523
Direct State Services: Unused Accumulated Sick Leave Payments	$8,300	$7,000	($1,300)	(15.7)%	D-523
Grants-in Aid: Salary Increases and Other Benefits	---	$29,500	$29,500	—	D-523

Employee increments, cost of living adjustments and bonuses for eligible employees total $104.3 million, consistent with negotiated agreements. The recommended salary budget also includes $14.2 million in salary increases for State managers and officers, $8.7 million in deferred salary payments, and an attrition offset (deduction) of $13.9 million. $7 million is recommended in FY 2002 for unused accumulated sick leave payments payable to eligible employees at retirement. In FY 2001, a $1.3 million supplemental appropriation is proposed in addition to the $7 million originally appropriated for sick leave payments, as allowed under the language provisions of the appropriations act. The Governor's budget also calls for a $27 million supplemental appropriation in the current budget year (FY 2001) for retroactive payments to unionized public safety and judicial personnel on account of delayed collective bargaining settlements.

Note that the budget display for FY 2001, Salary Increases and Other Benefits in Direct State Services, is net of funds ($137.5 million) allocated to the various departments. Also, the budget display for FY 2001, Salary Increases and Other Benefits in Grants-In-Aid, is net of funds ($23.4 million) allocated to the several senior public institutions of higher education.

Language Provisions

2001 Appropriations Handbook

p. B-221

There is appropriated from the Petroleum Overcharge Reimbursement Fund such sums as are necessary for the cost of purchasing energy from companies that utilize renewable "Green Power" sources, not to exceed $3,500,000. If there are insufficient balances in the Petroleum Overcharge Reimbursement Fund, such sums as are necessary shall be appropriated from the General Fund for this purpose. Such sums shall be transferred to the various departments and agencies participating in the State electricity contract, as applicable, to reimburse additional costs associated with "Green Power" sources, subject to the approval of the Director of the Division of Budget and Accounting.

2002 Budget Recommendations

p. D-516

Of the unexpended balances in the Petroleum Overcharge Reimbursement Fund available for "Green Power", such sums shall be transferred to the various departments and agencies participating in the State electricity contract, as applicable, to reimburse additional costs associated with "Green Power" sources, subject to the approval of the Director of the Division of Budget and Accounting.

Explanation

The Petroleum Overcharge Reimbursement Fund (PORF) consists of monies reimbursed to the states following oil company price gouging during the 1970's. The funds can be used for a programs which benefit a wide range of energy users, subject to federal approval.

In FY 2001, $3.5 million in PORF funding was identified as available to reimburse New Jersey State agencies for the premium paid for Green Power (clean energy sources) under a contract in effect from October 2000 to January 2002. According to the Office of Budget and Management (OMB), the total contract cost for this 16-month term is $2.1 million. Since the contract expires in the middle of FY 2002, and it is likely that a new contract will be in effect after January 2002, the new language authorizes the use of the remaining $1.4 million in PORF funds ($3.5 million less $2.1 million) for Green Power purposes in FY 2002.

Language Provisions (Cont'd)

2001 Appropriations Handbook	2002 Budget Recommendations
	p. D-516
No comparable language	There are appropriated such additional sums as may be required to pay claims not payable from the Tort Claims Liability Fund or payable under the Contractual Liability Act, as recommended by the Attorney General and as the Director of the Division of Budget and Accounting shall determine. The funds appropriated are available for the payment of direct costs of legal, administrative and medical services related to the investigation, mitigation and litigation of claims not payable from the Tort Claims Liability Fund or payable under the Contractual Liability Act, as recommended by the Attorney General and as the Director of the Division of Budget and Accounting shall determine. Notwithstanding any other law to the contrary, claims or costs paid from the monies appropriated under this paragraph on behalf of entities funded, whole or in part from non-State funds, may be reimbursed from such non-State funds sources as determined by the Director of the Division of Budget and Accounting. Appropriations under this paragraph shall not be available to pay punitive damages and shall not be deemed a waiver of any immunity by the State.

Explanation

According to OMB this language, which was proposed in FY 2001 but rejected by the Legislature as open-ended, was added to the budget at the request of the Attorney General to permit greater flexibility in handling non-tort claims against the State for which funding is not available in agency budgets. Under current practice, for example, if a claim is settled against an individual, the agency for which the individual works is required to pay the claim. This language would authorize the appropriation of funds to pay claims for which other funding sources do not exist. However, reimbursements can be sought if an agency is funded through non-State sources. The department advises that the budget impact of this language cannot be estimated at this time.

Language Provisions (Cont'd)

2001 Appropriations Handbook	2002 Budget Recommendations
	p. D-516
No comparable language	There are appropriated such sums that are necessary to make debt service payments for facilities related to the reconfiguration of Greystone Psychiatric Hospital, not to exceed $2.5 million, subject to the approval of the Director of the Division of Budget and Accounting. Additionally, amounts may be transferred from various Department of Human Services' institutional operating accounts for the same purpose, not to exceed $3 million, subject to the approval of the Director of the Division of Budget and Accounting.

Explanation

This language authorizes up to $2.5 million to make debt service payments for facilities related to the reconfiguration of the Greystone Psychiatric Hospital. Additional amounts, up to $3 million, may be transferred from various Department of Human Services' institutional operating accounts for the same purpose. This project is currently in the planning stages. Presumably, any bonds issued for new or replacement facilities at Greystone would be issued by a State authority on behalf of the State, rather than through general obligation bonds.

2001 Appropriations Handbook	2002 Budget Recommendations
p. B-222	p. D-517
Prior to any funds being expended for the development of the server farm initiative as part of the Network Infrastructure account, a majority of the larger information technology-using departments, as defined by the Director of the Division of Budget and Accounting, must enter into a Memorandum of Understanding with the Chief Information Officer that no enterprise, data warehousing, application or database servers will be purchased by these departments but that they will participate in the implementation of the server farm.	Prior to the unexpended balance as of June 30, 2001 in the Network Infrastructure Account intended for the development of the server farm initiative being expended, any participating department must enter into a Memorandum of Understanding with the Chief Information Officer that no enterprise, data warehousing, application or database servers will be purchased by these departments but that they will participate in the implementation of the server farm.

Language Provisions (Cont'd)

Explanation

In FY 2001, $16.5 million was appropriated for "network infrastructure funding". This capital funding is to be used to improve the Garden State Network, including departmental connections to the network, under the lead of the Office of Information Technology. Currently existing large departmental servers will be consolidated into "farms", in order to allow faster and more efficient processing of transactions and data.

According to OMB, this process has been slower than originally expected, with only one signed departmental Memorandum of Understanding (MOU) currently in place. Most of the FY 2001 appropriation remains unspent and will carry forward into FY 2002. The new language is updated to reflect that the initiative will be funded from these unexpended FY 2001 balances. In addition, while the FY 2001 language requires a "majority of the larger information technology-using departments" to enter into an MOU before any of the network infrastructure funding can be expended, the FY 2002 language only requires "participating departments" to have an MOU in place before funds can be expended.

2001 Appropriations Handbook	2002 Budget Recommendations
	p. D. 517
No comparable language.	Unless otherwise indicated, the above amounts for Enterprise Initiatives may be allotted by the Director of the Division of Budget and Accounting to the various departments and agencies.

Explanation

This language allows the Director of the Division of Budget and Accounting to transfer a portion of the funding for Enterprise Initiatives (i.e., Network Infrastructure, On-Line State Portal, and Network Security accounts) to State agencies and departments to be used for internal infrastructure needs (e.g., wiring, cabling). In FY 2001, approximately $5 million of the available funding in these accounts was transferred to departments, and a similar amount is anticipated in FY 2002. The Office of Information Technology has established a program so that departments may apply for funding from the $5 million allocation to make necessary upgrades.

Language Provisions (Cont'd)

2001 Appropriations Handbook	2002 Budget Recommendations
	p. D-517
No comparable language.	Notwithstanding the provisions of any other law to the contrary, the amount hereinabove for Solid Waste Management-County Environmental Investment Debt Service Aid is appropriated to the Economic Development Authority (EDA) to pay debt service on debt issued by the EDA to refinance county solid waste debt, pursuant to pending legislation.

Explanation

This language refers to a new $54 million appropriation for *Solid Waste Management - County Environmental Investment Debt Service Aid*. Under the Administration proposal, the EDA will be responsible for the issuance of up to $750 million of State contract bonds to refinance county solid waste debt. This language and the related appropriation (budget page D-514) are contingent upon enactment of enabling legislation.

2001 Appropriations Handbook	2002 Budget Recommendations
p. B-224	p. D-522
Unless otherwise indicated, the above amounts may be allocated by the Director of the Division of Budget and Accounting to the various departments and agencies. The unexpended balance as of June 30, 2000 in the year 2000 Data Processing Initiative is appropriated for the same purpose.	Unless otherwise indicated, the above amounts may be allocated by the Director of the Division of Budget and Accounting to the various departments and agencies.

Explanation

The language referring to the Year 2000 Data Processing Initiative is discontinued because it is no longer relevant. The remaining language authorizing the re-allocation of appropriated amounts refers to the various appropriations made under the category *Other Interdepartmental Accounts*. Included are information technology funds and amounts distributed from the Governor's Contingency Fund.

Language Provisions (Cont'd)

2001 Appropriations Handbook	2002 Budget Recommendations
	p. D-522
No comparable language.	The unexpended balance as of June 30, 2001 in the Governor's Contingency Fund is appropriated for the same purpose.

Explanation

This language provides that any remaining balance in the Contingency Fund at the end of FY 2001 will be carried forward to FY 2002 and re-appropriated for the same purpose.

2001 Appropriations Handbook	2002 Budget Recommendations
	p. D-524
No comparable language.	The Director of the Division of Budget and Accounting shall transfer from Departmental Accounts and credit to the Salary Increases and Other Benefits accounts a sum of $13,837,000 to reflect savings from a managed attrition program. This additional sum is appropriated for Salary Increases and Other Benefits.

Explanation

The amount recommended in the Salary Increases and Other Benefits account has been reduced by $13.8 million in FY 2002 in order to reflect an anticipated attrition reduction savings. This language provides that the $13.8 million will be transferred from State departments' salary accounts and credited to the Interdepartmental salary account in order to achieve this savings. In essence, the language requires the various departments and agencies to finance a portion of the COLA and increment salary adjustments for their employees in FY 2002.

Language Provisions (Cont'd)

2001 Appropriations Handbook	2002 Budget Recommendations
p. B-222	
There are appropriated such sums as are necessary to repay the New Jersey Building Authority for costs associated with the Division of Revenue/State Police Troop "C" Headquarters project, subject to the approval of the Director of the Division of Budget and Accounting.	No comparable language.

Explanation

The FY 2001 language was included in order to provide a mechanism to repay the New Jersey Building Authority for any non-recoverable costs associated with discontinuing the Division of Revenue portion of the building project in Hamilton Township. A Directory Letter in the amount of $1,032,000 was issued in February 2001 for repayment of these costs from the State General Fund.

2001 Appropriations Handbook	2002 Budget Recommendations
p. B-222	
There are appropriated such sums as are necessary for renovations to the loading dock at the existing Division of Revenue building in Trenton, subject to the approval of the Director of the Division of Budget and Accounting.	No comparable language.

Explanation

This language is not continued in FY 2002 because the project has been canceled in anticipation of a new Division of Revenue facility.

Language Provisions (Cont'd)

2001 Appropriations Handbook	2002 Budget Recommendations
p. B-225	
An amount not to exceed $500,000 shall be appropriated as state match if required to leverage federal funding that may be obtained for the enhancement or expansion of geographic management systems subject to the approval of the Director of the Division of Budget and Accounting.	No comparable language.

Explanation

In FY 2001, this language was the only appropriation authority for Geographic Information Systems (i.e., there was no line-item appropriation in the budget). According to the OMB, this initiative is now moving forward, and the budget document reflects a FY 2001 supplemental appropriation of $500,000, in accordance with the language provision. In FY 2002, this language is not continued because $2 million is recommended in a line-item appropriation entitled G*eographic Information Systems (GIS) Integration* (budget page D-521). According to the Budget in Brief and other budget materials, the State funds will be used to leverage federal funds and to cost-share with local governments in order to develop parcel base maps.

2001 Appropriations Handbook	2002 Budget Recommendations
	p. D-522
No comparable language.	In addition to the sum hereinabove appropriated for Geographic Information System (GIS) Integration, there are appropriated such other sums as may be received from federal, county, municipal governments or agencies and nonprofit organizations for orthoimagery and parcel data mapping.

Explanation

This language is necessary to allow GIS funds received from other sources to be appropriated.

Discussion Points

1. The recommended budget includes $27.1 million for a line item entitled "Other Debt Service Leases and Tax Payments" (budget page D-513). This amount is almost 70 percent higher than the $16.0 million appropriated in FY 2001. According to the Office of Management and Budget, one of the components of the $11.1 million increase -- although not identified as such -- is a new $6 million debt service obligation for the planned construction of a civilly committed sex offender facility. As described in staff discussions, the cost of this project is now estimated at $66 million.

This project, then called the "Special Treatment Unit for the Department of Corrections," was first approved for financing by the New Jersey Building Authority in September 1998. Construction of such a facility was required under the Sexually Violent Predators Act of 1998. The cost at that time for a 150-bed unit was estimated at $20 million, with the notation that pending final site selection and building design, costs "could be as much as 10% to 15% over the present projected cost." (New Jersey Building Authority, Special Treatment Project Report, September 23, 1998). On August 13, 1999, the Commission on Capital Budgeting and Planning endorsed the project and recommended approval by the Legislature and Governor.

By September 2000, the expansion of the project to 300 beds and the construction delays caused by difficulty in siting the facility had increased the estimated cost of the prison to $45 million, according to news reports at the time. A March 16, 2001 article in the *Star-Ledger* reported that Treasury and Corrections officials were now estimating the cost at $50 million due to the need to mitigate environmentally sensitive wetlands at the Woodbridge Township site eventually selected. However, a Treasury spokesperson was quoted in that article as saying, "We really don't know what the final cost is going to be. This is a starting point, the $50 million."

The placement of this appropriation in the Interdepartmental Accounts (rather than the Department of Corrections) and its designation as a debt service lease indicate that the sex offender facility will be built by an independent authority such as the Building Authority or the Economic Development Authority, with the State paying "rent" equivalent to the authority's annual debt service obligations to bondholders.

- *Question:* Which State authority will be constructing the civilly committed sex offender facility? Will the Legislature be granted an opportunity to evaluate this project in its entirety, including its estimated cost, prior to having an unidentified line-item appropriation in the FY 2002 appropriations act become the vehicle for both proceeding with the project and committing the Legislature to annual debt service payments in an unspecified amount?

2. A new line item entitled Liberty Science Center - EDA is recommended at $7.7 million (budget page D-514). This is for debt service on bonds to be issued by the New Jersey Economic Development Authority for the expansion of Liberty Science Center in Jersey City. According to State officials, the project will cost between $70-$85 million and the cost will be shared with privately raised funds. The budget document includes an anticipated revenue (page C-13) of $3.9 million, presumably representing the private sector share of estimated debt service costs on this project.

- *Question:* Please describe this project in more detail. What commitments have been made by the State Treasurer or the Department of the Treasury for State participation in financing this expansion of Liberty Science Center? What is the status of private fund raising efforts; and to what extent will the State be obligated to offset any shortfall in private support? Does the Economic Development Authority have the power to contract with the Treasurer and with Liberty Science Center to finance this project with no further approval by the Legislature?

Discussion Points (Cont'd)

3. The New Jersey Sports and Exposition Authority recently entered into a structured financing agreement with General Foods Credit Corporation (a subsidiary of Philip Morris) for the sale and leaseback of the new Atlantic City Convention Center. Under the agreement, title to the convention center will pass to General Foods, which will be able to take future tax deductions for depreciation on the facility. General Foods' passive ownership of the convention center will not give rise to any claim on the convention center's or the Authority's revenue stream; nor does this agreement have anything to do with the sale of "naming rights." The Authority will receive $7.2 million as an up-front payment from General Foods for this title transfer, and will continue to operate the convention center under a 99-year lease. According to a Sports Authority spokesperson, the $7.2 million will be deposited in the Authority's maintenance reserve fund.

The Sports Authority is also restoring and renovating the historic East Hall of the old Convention Hall on the Boardwalk. Late last year, the Authority was successful in selling the rights to claim federal historic preservation tax credits on this project to a private entity that would be eligible to use them to offset taxes. The Authority reportedly received about $8 million at the end of calendar year 2000 and is scheduled to receive $6-7 million in 2001 and another $1-2 million in 2002. The Authority will retain these funds as well.

The State of New Jersey has been subsidizing the debt service of the Authority since FY 1993 and the Authority's operations since FY 1999. In the FY 2002 budget proposal, $47.8 million is recommended for debt service assistance, and $12.0 million as an operating subsidy.

- *Question:* Given the level of State support of the Sports and Exposition Authority, and given that the State has yet to close on its own lease-leaseback agreements even though there is an unrealized $20 million revenue anticipation for such deals in the FY 2001 budget, should the State share in the payments made by private entities to the Authority in exchange for tax advantages? Would the receipt of more than $22 million by the Authority from these deals reduce the need for all or some of the $12 million State operating subsidy in FY 2002?

4. In the current (FY 2001) budget, $10 million was appropriated to the Economic Development Authority to participate in a new public-private venture capital fund for small but promising New Jersey technology firms. The State's $10 million was supposed to leverage $30 million in private investment capital. Last year, in response to an OLS discussion point on the FY 2001 budget proposal, the Administration indicated that the EDA would participate in the fund's equity investments as an active limited partner. The EDA response emphasized that the new venture capital effort would target New Jersey companies "that have outgrown the Seed Fund program, need equity funding rather than extensions of credit, and have yet to get the attention of private venture capital."

The EDA's website does not list this venture capital fund among its programs of assistance to technology-based companies. However, the State funds have been invested in the for-profit New Jersey Technology Council (NJTC) Venture Fund, an investment partnership created under the auspices of the New Jersey Technology Council, a not-for-profit trade group headquartered in Mount Laurel. In January, 2001, the NJTC Venture Fund made its first investment, providing $500,000 as part of $6.5 million financing package to Netilla Networks, Inc. of Somerset.

- *Question:* Please provide an update on the NJTC Venture Fund that received a $10 million State investment. If possible, please provide a current financial report on the partnership, outlining its capitalization, investment activity, equity holdings and net worth to date. How will any profits that accrue to the EDA from its participation in the venture fund be distributed? Will the State general fund, as the source of the investment, eventually receive any part of such a distribution?

Discussion Points (Cont'd)

5. The FY 2002 budget recommendation includes a new $54 million line item (page D-514) for *Solid Waste Management - County Environmental Investment Debt Service Aid, EDA*. This represents the Administration's estimate of first year debt service costs on approximately $750 million in bonds to be issued by the New Jersey Economic Development Authority. The purpose of the bond issue would be to refinance the outstanding solid waste "stranded" debt of counties and county authorities. It is estimated that the aggregate principal amount of such debt incurred for county-based solid waste facilities totaled $1.1 billion as of March 2001, mostly in the form of long term revenue bonds.

The $54 million appropriation recommended for this purpose is partially offset by an anticipated State revenue of $31 million (page C-13), representing negotiated county contributions or loan paybacks toward the refinanced debt structure. The assumed net cost to the State of $23 million replaces and is roughly comparable to the annual $20 million appropriations that have been made in each of the past four years for Solid Waste Partnership Agreement grants to assist counties and county authorities in meeting their debt service obligations. This program has been discontinued in the FY 2002 budget, since it would be replaced under the Administration refinancing proposal. Note that this debt restructuring initiative is contingent upon the enactment of enabling legislation.

- *Question:* If legislation is not enacted to implement a solid waste debt restructuring using the EDA or some other authority, how much would need to be budgeted in FY 2002 to continue the Solid Waste Partnership Agreement grant program at a level that would prevent any county defaults?

6. According to the *Budget in Brief,* the availability of "significant asset surpluses" allows the State to offset the entire normal employer contribution of $236.3 million for the defined benefit retirement plans. However, recently enacted and pending legislation, as well as newer proposals for benefit enhancements in TPAF and PERS (e.g., A-3212) would also require the use of excess assets to fund these additional liabilities.

At a meeting of the Senate Budget and Appropriations Committee on April 2, the Director of the Division of Investment estimated that the market values of the combined assets of the pension funds as of February 28, 2001 were $74.4 billion, down $8.1 billion from the $82.5 billion valued at June 30, 2000, and $1.8 billion lower than the $76.2 billion pension fund market value on June 30, 1999. In addition, the Director indicated further losses may have resulted in March, based on continued downward trends on Wall Street.

- *Question:* How is recently enacted (e.g., P.L. 2001, c.4) and pending legislation (e.g., S-1833/A-3162 and A-3212) expected to impact excess valuation assets? If the Department recalculates pension fund valuation assets in order to fund additional pension benefits, what valuation date will be used, and how will the Treasurer ensure that the potentially declining market value of pension assets on hand are sufficient to meet the liabilities of the systems?

7. P.L. 1994, c.62 eliminated the pre-funding of post-retirement medical benefits for eligible State and local employees and established a modified pay-as-you-go system. The Post-Retirement Medical (PRM) Fund, a component of the pension systems, was established to set aside sufficient assets (from employer contributions and investment earnings) to pay the annual costs of providing medical benefits to retirees. The legislation requires the actuary to calculate a contribution to the PRM Fund that will be sufficient to pay the premiums or charges for benefits in the upcoming year, and to provide an increase of 1/2 of 1 percent of the salary of the active members for that year. If the assets in the PRM Fund are insufficient to pay the cost of benefits, the State must pay the difference.

Discussion Points (Cont'd)

In prior years, investment income of 8.75 percent has been credited to the PRM Fund. This is the assumed earnings rate on pension fund investments for actuarial purposes. Any additional income earned above that amount was credited to special reserve accounts in the pension systems. The Office of Management and Budget has advised that in order to fund retirees' medical costs and to provide the statutory increase (1/2 of 1 percent of payroll) in FY 2001 and 2002, prior years' "excess" interest earnings have been transferred from the special reserve accounts of the Public Employees' Retirement System (PERS) and the Teachers' Pension and Annuity Fund (TPAF) and credited to the Post Retirement Medical Fund.

- *Question:* Please provide data for the past six years (FY 1995 to 2000) which indicates State contributions, medical benefit or premium payments, and year-end balances for the Post-Retirement Medical Fund as well as estimated data for FY 2001 and FY 2002. How much was transferred from the pension reserve accounts to offset medical costs for FY 2001 and FY 2002? Considering that the FY 2002 recommended appropriations for PERS and TPAF post-retirement medical benefits are artificially low (due to the transfer of prior years' interest to the PRM Fund), and current year investment earnings are negative to date, how much will PRM costs increase in FY 2003 and future years?

8. The State, as an employer, is self-insured against damages or settlements arising from tort claims alleging liability on behalf of a State agency or its employees. The State makes annual appropriations into a Tort Claims Liability Fund in an amount estimated to be sufficient to cover claims payments that might come due. Although a single large claim can distort the fund balance in any given year, payments from the Tort Claims Liability Fund have generally ranged from $8 million to $16 million over the past five years. If the appropriation made to the fund is insufficient, budget language allows additional amounts to be appropriated by the Director of the Division of Budget and Accounting upon the recommendation of the Attorney General.

In the current fiscal year (FY 2001), $11 million was appropriated to the Tort Claims Liability Fund in the annual act. On January 29, 2001, the State budget director, utilizing the budget language cited above, issued a supplemental appropriation for $25 million to pay additional prospective claims from the fund. This was by far the largest supplemental appropriation made for anticipated tort claims indemnification. In response to an OLS question about this supplemental, the Acting State Treasurer indicated that, against the $36 million appropriated to the Tort Claims Fund thus far, potential FY 2001 settlements total $40.5 million, implying that an additional supplemental appropriation may yet be necessary. The Treasurer also indicated that $18.3 million is due to settlements involving the Division of State Police (e.g., profiling) and $22.2 million is potentially payable on account of cases not related to the State Police.

The FY 2002 Budget, which was completed about the time that the FY 2001 supplemental was issued, recommends $11 million for the Tort Claims Liability Fund, representing a return to a more normal pattern of claims activity.

- *Question:* Please provide the committees with a breakdown of the major non-State Police settlements comprising the $22.2 million of anticipated expenses in FY 2001. Is the FY 2002 budget recommendation of $11 million for tort claims still believed to be sufficient, suggesting that FY 2001 may be an aberrational year?

9. The State is self-insured for worker's compensation payments made to State employees. Claims are funded through the Interdepartmental Accounts budget. State expenditures for workers' compensation have been increasing in recent years and the program has required supplemental appropriations since FY 1997. In FY 2000, $39.2 million was expended; in FY 2001, a $3 million supplemental has been enacted, bringing the total appropriations to date in this account to $37.9 million. In FY 2002, only $34.9 million is budgeted.

Discussion Points (Cont'd)

- *Question:* Is the State expecting a significant decrease in claims in FY 2002? If not, given the rising cost of health care, why does the budget reflect an 8% decrease in workers' compensation costs?

10. The FY 2002 budget recommends $2.5 million for the Camden Aquarium Management Agreement, an increase of $1 million over the original FY 2001 appropriation. Under this agreement, the State subsidizes the operations of the aquarium through its not-for-profit operator, the Academy for Aquatic Sciences. In addition, new funding of $550,000 is budgeted for a War Memorial Management Agreement.

- *Question:* Why is additional funding for the Camden Aquarium necessary? Are current revenues insufficient to sustain operations, or will the additional funds be used for an expansion of programs offered by the Aquarium?

- *Question:* According to OMB, the Marriott Corporation will receive $550,000 to manage the War Memorial under an agreement with the State. Please describe Marriott's responsibilities under this agreement and how they relate to the Department of State's existing responsibilities for operating the War Memorial?

11. In the FY 2002 budget, $5 million is included to finance the replacement of State-owned Fuel Distribution Systems and Underground Storage Tanks. Based on the budget document (page D-515), out of $21.4 million in available funding in FY 2000, only $6.3 million was expended, leaving a balance of $15.1 million that was carried forward into FY 2001. In FY 2001, an additional $10.2 million was appropriated, resulting in a total of $25.3 million in this account for the current year. OMB advises that $5 million from this fund was transferred to DOT in FY 2001 for snow removal, and that $9 million will be expended in FY 2001 for the removal of gas and diesel storage tanks.

- *Question:* Based on the current level of spending for this program, if as much as $11.3 million is available in carry forward funding for FY 2002, why is an additional appropriation of $5 million necessary? In addition, please update the committees on the status of this program, and the results to date.

12. The FY 2002 recommended budget includes $2.5 million in new funding for the construction of Alternate Fuel Stations. These stations are necessary to allow the use of compressed natural gas (CNG) as an alternative fuel source in New Jersey. Although the State has purchased a substantial number of costly vehicles which can utilize CNG, about 73 percent of those vehicles have never run on CNG due to a lack of adequate fueling facilities.

- *Question:* Please provide information on the plans for construction of these fueling stations, including the number of stations that will be constructed in FY 2002, and the location of these stations. Does the Department anticipate a continued expansion of this program?

13. In January 2000, the State Health Benefits Commission implemented a 5-year pilot program establishing a new retiree prescription plan. The new plan is separate from the retiree <u>health</u> plans, with separate co-payments and out-of-pocket maximums. Last year, the Department of Treasury advised that the fiscal impact of the new plan would be available after one year of implementation.

- *Question:* Please provide a summary of the fiscal impact of the new program. Also, please discuss any changes made to the pilot program to date, and general feedback from plan participants.

Background Paper: Health Care Benefits for State Employees

Budget Pages.... D-517 to D-520

State Health Benefits Program

In 1961, the New Jersey Legislature passed the State Employees Health Benefits Act to provide health insurance coverage for full-time State employees and appointed or elective officers. In 1964, the program was expanded to allow other public employers (counties, municipalities, school districts and authorities) to participate. The act was renamed the New Jersey State Health Benefits Program Act in 1972.

Administered by the Division of Pensions and Benefits in the Department of the Treasury, the State Health Benefits Program (SHBP) is a multiple option program offering health benefits coverage through the indemnity Traditional Plan or one of the managed care options, NJ PLUS and several health maintenance organizations (HMOs). SHBP also offers prescription drug benefits. Approximately 255,000 active State employees and their dependents are enrolled in SHBP. Altogether, SHBP covers some 720,000 active public employees, retirees and their dependents.

The Traditional Plan, NJ PLUS and three of the HMOs are self-insured, that is, the State and participating public employers other than the State pay the actual expenses of those plans plus administrative fees, and they assume the ultimate financial risk. "Premium" rates are established annually by the State Health Benefits Commission in order to fund the program's projected expenditures through appropriation for the State's costs as an employer and through assessment of the participating employers other than the State. For an administrative charge, the respective insurance carrier or HMO pays claims against the self-insured plans which are then directly reimbursed from the premiums paid by the State and the other participating employers. SHBP independently purchases the health benefits coverage from the non self-insured HMOs for which the State and the other participating employers pay a set fee per enrolled employee.

SHBP Plan Options

The Traditional Plan, a fee-for-service or indemnity plan, currently administered by Horizon Blue Cross Blue Shield of New Jersey, reimburses an enrollee for the cost of hospitalization, doctor bills, surgery and other medical services and supplies in the amounts of reasonable and customary allowances. It does not cover preventive or well care. An enrollee must satisfy a $100 deductible for the employee plus a $100 deductible for one other family member as well as pay coinsurance of 20 percent of the next $2,000 of eligible charges for each family member. There are no restrictions under the Traditional Plan in choosing a physician.

NJ PLUS, a point-of-service plan (POS) administered by Horizon Blue Cross Blue Shield of New Jersey, provides coverage which includes well care and preventive services and requires that the enrollee choose a Personal Care Physician (PCP) within a network of participating doctors. PCP and in-network specialist services are covered at 100 percent after a $5 copayment. Most in-network hospital admissions are covered at 100 percent. Unauthorized out-of-network services are reimbursed at 70 percent after satisfaction of a $100 deductible.

The SHBP's participating HMOs for 2001 are Aetna US Healthcare, CIGNA Health Care, Horizon HMO, Oxford Health Plan, AmeriHealth HMO Plan, Physicians Health Services, and University Health Plans. The first three are self-insured. An HMO provides complete coverage including well and preventive care for medical services provided by affiliated physicians and hospitals. Employees who enroll in an HMO pay a minimum copayment of $5 for a routine office

Background Paper: Health Care Benefits for State Employees (Cont'd)

visit and must use the doctors and hospitals that are part of the particular HMO for all services except emergencies. If an employee uses a doctor or hospital outside the HMO without a referral or emergency conditions, the HMO does not pay for the services.

State Employee Premium Sharing

Current law provides that State employees and the employees of an independent State authority, board, commission, corporation, agency or organization may be required to contribute toward the cost of SHBP health benefits coverage according to the terms of a binding collective negotiations agreement. The amount of an employee's premium sharing depends upon union affiliation and plan option. In Fiscal Years 2001, 2002 and 2003, State employees affiliated with certain unions are required by contract to contribute toward the cost of their SHBP benefits; they pay 5% of the cost if covered by an HMO and 25% of the cost if in the Traditional Plan. The State pays the entire cost of coverage for the employees electing NJ PLUS. Non-aligned State employees (those whose positions are not eligible for union representation) contribute in the same manner, consistent with the terms of one of the union contracts binding on the State and designated by the State Health Benefits Commission. Under employee premium sharing in 2001, the State's annual expense for a State employee's family coverage, for example, is about $6,590 (75%) in the Traditional Plan, $5,660 (100%) in NJ PLUS and $5,890 (95%) in Aetna US Healthcare.

SHBP Coverage for State Retirees

The State is responsible for payment of the full or partial cost of post-retirement medical benefits under SHBP for certain retirees and their dependents, but not their survivors. State employees who do not choose deferred retirement are eligible for fully or partially paid SHBP coverage if they retire with an allowance based upon 25 or more years of service credited in a single State-administered retirement system or retire on a disability retirement. These retirees and their spouses are required to enroll in Medicare Part A (hospital) and Medicare Part B (medical) when they are eligible therefor. The Traditional Plan, NJ PLUS and the participating HMOs automatically coordinate benefits with Medicare, which becomes the primary insurer for retirees after age 65.

Retired State employees who accrued 25 years of service on or before July 1, 1997, receive fully paid SHBP coverage in the Traditional Plan, as well as all the SHBP managed care plans and full reimbursement of the prevailing cost of Medicare Part B. State employees who attain 25 years of service credit or retire on disability after July 1, 1997, may be required to share in paying the cost of SHBP coverage and Medicare Part B in retirement, according to the terms specified in the union contract applicable to them at the time they attain 25 years of service credit, or retire for disability. State-paid SHBP coverage in retirement ceases upon the death of a retiree. Surviving spouses, however, as well as employees covered by the SHBP at the time of retirement with fewer than 25 years of service, may choose to continue SHBP coverage for themselves and their dependents at their own expense.

Prescription Drug Benefits

The percentage of the personal health care dollar spent on prescription drugs is growing faster than any other part. The estimated expenses of the Employee Prescription Drug Plan for active State employees, for example, are 12.7 percent higher for fiscal year 2002 than for fiscal year 2001. After a copayment of $5 for name brand drugs or $1 for generic drugs, the State Prescription Drug Program for active State employees covers the cost of a 30-day supply at a retail pharmacy and a 90-day supply for any drug obtained through mail order.

Background Paper: Health Care Benefits for State Employees (Cont'd)

In January 2000, the SHBP introduced the Retiree Prescription Drug Program, a five-year pilot prescription drug program for retirees covered under the Traditional Plan and NJ PLUS. Previously, prescription drug benefits were available to retirees under those medical plans. (HMOs continue to provide prescription drug coverage to their State retiree enrollees.) This separate retiree prescription drug card plan requires a certain copayment for up to a 30-day supply at a retail pharmacy or up to a 90-day supply through mail order. The amount of a copayment, initially set for 2000 and 2001, varies depending upon which of three prescription drug categories applies. Generic drugs (FDA approved equivalents to brand name drugs) have a copayment of $5 for either retail pharmacy or mail order. Preferred brand drugs (an independently approved list of brand name drugs, containing over 80 percent of all brand name drugs) require $10 for retail pharmacy and $15 for mail order. All other brand name drugs are in the third category that requires a copayment of $20 at a retail pharmacy and $25 through mail order. Prescription drug copayments per person are capped at a maximum of $300 annually. Both the amount of these copayments and the out-of-pocket maximum will increase as the average wholesale cost of covered prescription drugs increases; the ratio of the costs shared by the members and the program, however, will remain constant over time.

Dental Program

The State Employees Group Dental Program is an optional benefit for State employees and their dependents. An employee may chose the State Dental Expense Plan or a Dental Plan Organization (DPO). The State Dental Expense Plan, currently administered by the Prudential Insurance Company, is a traditional indemnity plan allowing choice of any dentist and reimbursing 80% of the reasonable and customary allowance for covered benefits after satisfaction of an annual deductible ($25 per person, $75 per family). The DPOs each have a network of dental service providers from which the employee must choose. Preventive and diagnostic services are covered in full; other eligible services require a copayment. The State pays one-half of the premium cost of a chosen dental plan and the employee pays a matching one-half of the premium.

Background Paper: Pension Funds Investment Performance

Pension fund assets come from employee and employer contributions into the seven State-administered retirements systems, and from investment earnings on these contributions. The employee contribution is based on percentages of employees' annual compensation. The State and local government employer's contribution is based upon annual actuarial calculations expressed as percentages of total compensation of all active members.

For actuarial purposes, investment earnings are assumed to grow at an annual rate, called the "interest rate assumption." The Pension Funds Revaluation Act of 1992, P.L.1992, c.41, set the interest rate assumption of the pension funds at 8.75 percent. This rate is a long-range assumption as to what funds already invested, or yet to be invested in the future, will earn. The interest rate assumption, therefore, is not intended to represent actual current earnings.

Investment Guidelines

The Division of Investment in the Department of Treasury, under the guidance and policies of the State Investment Council, is responsible for all functions relating to the purchase, sale and exchange of securities for 169 investment funds, including the seven State-administered pension funds. Guidelines for investment are based on State law and the State Investment Council's own regulations, both of which are changed from time to time. For example, prior to 1950, investment was limited by law to United States Government and municipal obligations. P.L.1950, c.270 broadened the authority of the division to permit investment in obligations which are legal investments for savings banks within the State. More recently, the following legislative changes have impacted investment activity.

- P.L.1970, c.270 permitted, for the purpose of investment, the consolidation of the assets of the pension funds into Common Pension Funds A, B and D. Common Pension Fund A invests in domestic stocks, Common Pension Fund B invests primarily in domestic bonds and Common Pension Fund D pools assets to purchase international stocks and bonds.

- P.L.1997 c.26 established a new prudent investor rule, allowing investment activity to be carried out under the "modern portfolio theory." As a result, a fiduciary's investment and management decisions respecting individual assets are not evaluated in isolation, but in the context of the trust portfolio as a whole.

The State Investment Council periodically implements modifications to its investment regulations so that its investment policies keep pace with modern investment strategies. The following are recent changes in its regulations.

- In FY 1996, the council acted to increase the permissible amount of stock holdings in Common Pension Funds A and D from 60 to 70 percent of the fair value of active pension funds. According to the June 30, 2000 annual report of the State Investment Council, the aggregate stock holdings of the pension funds accounted for 66 percent of the fair value of the funds. In recent months, however, amid equity market fluctuation and instability, this figure has declined to nearly 60 percent.

- In FY 2000, the council initiated an investment program for emerging markets equities, permitting up to 5 percent of Common Pension Fund D to be invested in such securities.

Background Paper: Pension Funds Investment Performance (Cont'd)

Performance

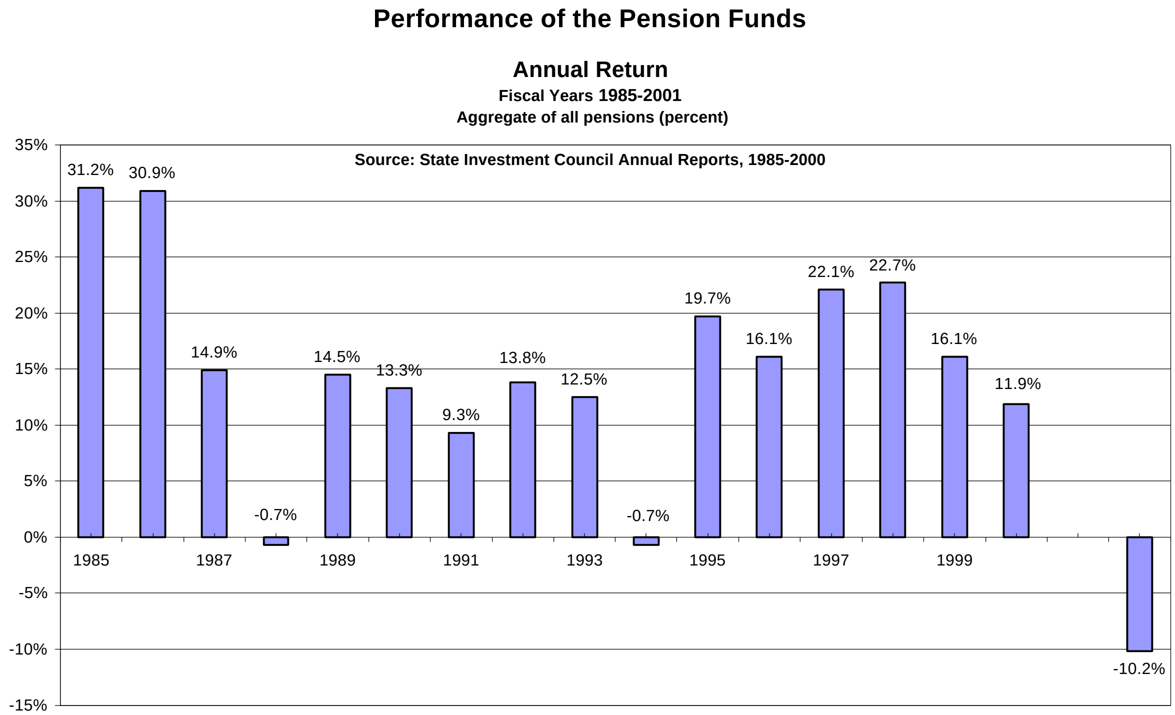
Although the interest rate assumption is set at 8.75 percent, the actual rate of return for the pension funds during the last annual reporting period, July 1, 1999 through June 30, 2000, was 11.9 percent. The reported market value of the pension funds on June 30, 2000 was $82.6 billion. More recently, the market value of the pension funds fell $8 billion in the first 16 weeks of calendar year 2001 due to declining equity values. The market value, as of April 30, 2001, is currently down 10.2 percent since the beginning of the fiscal year on July 1, 2000, at $74.1 billion.

Due to market fluctuations, the five-year average for the rate of return is perhaps more illustrative of long-term rates of return. The average annual rate of return for the five years ending June 30, 2000 for all pension funds was 17.8 percent. If the performance of the pension funds in the current fiscal year remains, for example, at negative 10.2 percent, then the five-year average on June 30, 2001 would decrease to 12.5 percent. Despite recent equity market declines, the five-year average rate of return remains well above the interest rate assumption.

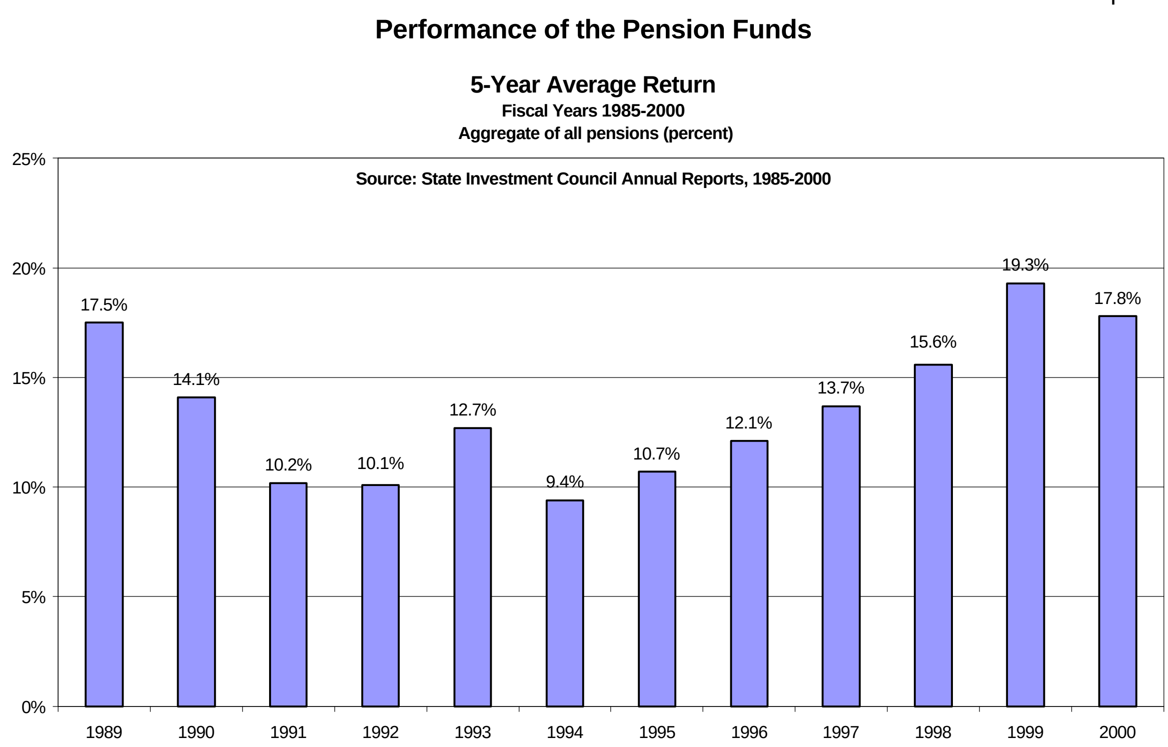
Past performance, however, may not be indicative of future returns. In more than 25 years, annual losses for New Jersey's pension funds, have never been greater than 1 percent, according to the council's annual reports. In the early 1980s when stock values experienced annual declines of more than 12 percent, high interest rates on bond holdings allowed the pension funds to maintain positive earnings greater than 5 percent annually. What is unique to the current market situation is that due to significantly lower interest rates today, no obvious high return alternatives exist for poor performing equity markets.

See charts on following page.

Background Paper: Pension Funds Investment Performance (Cont'd)



Fiscal
Year-to-Date,
April 31, 2001



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Individuals wishing information and committee schedules on the FY 2002 budget are encouraged to contact:

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