
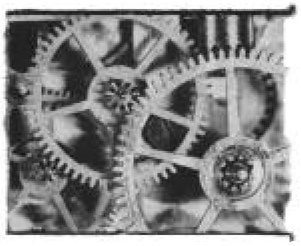

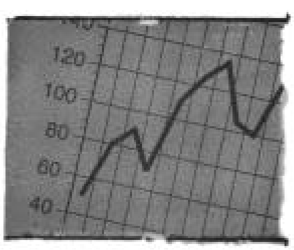



ANALYSIS OF THE NEW JERSEY BUDGET

INTERDEPARTMENTAL ACCOUNTS

FISCAL YEAR 2004 - 2005

PREPARED BY OFFICE OF LEGISLATIVE SERVICES
NEW JERSEY LEGISLATURE • MAY 2004

NEW JERSEY STATE LEGISLATURE

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INTERDEPARTMENTAL ACCOUNTS

Budget Pages....... C-18, C-26; D-443 to D-458

Fiscal Summary ($000)

	Expended FY 2003	Adjusted Appropriation FY 2004	Recommended FY 2005	Percent Change 2004-05
State Budgeted	$2,055,640	$2,371,197	$2,689,993	13.4%
Federal Funds	461	0	0	—
Other	0	0	3,000	—
Grand Total	$2,056,101	$2,371,197	$2,692,993	13.6%

Personnel Summary - Positions By Funding Source

	Actual FY 2003	Revised FY 2004	Funded FY 2005	Percent Change 2004-05
State	0	0	0	—
Federal	0	0	0	—
Other	0	0	0	—
Total Positions	0	0	0	—

FY 2003 (as of December) and revised FY 2004 (as of September) personnel data reflect actual payroll counts. FY 2005 data reflect the number of positions funded.

Introduction

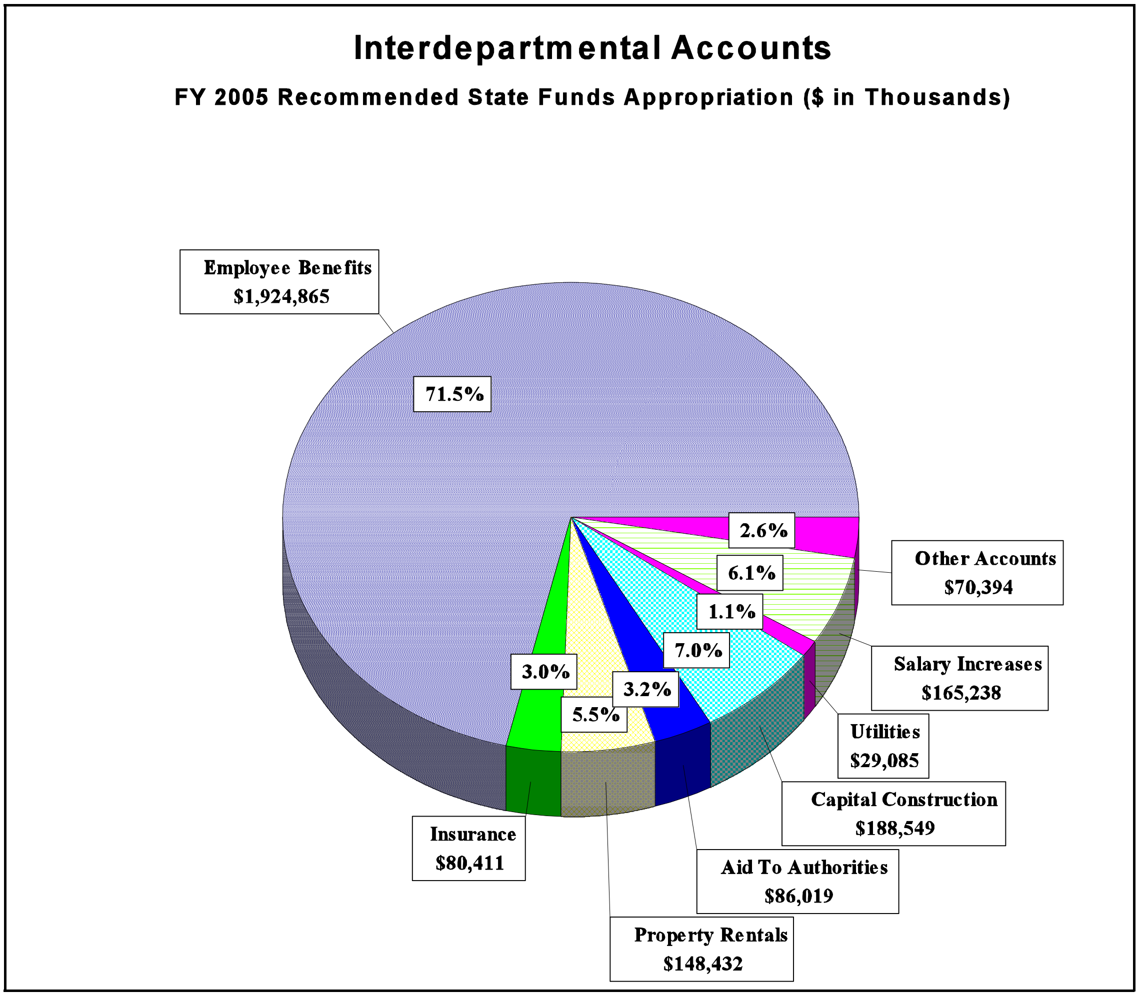
The Interdepartmental Accounts provide funds for the cost of certain services that are administered centrally — by the Department of the Treasury — on behalf of all agencies of State government and some independent authorities. Interdepartmental Accounts are divided into eight budget categories: (1) Property Rentals; (2) Insurance and Other Services; (3) Employee Benefits, including funding for employee pensions and health care; (4) Other Interdepartmental Accounts; (5) Salary Increases and Other Benefits; (6) Utilities and Other Services; (7) Capital Construction Projects; and (8) Aid to Independent Authorities.

In addition, pension-related funding is included in the Department of the Treasury and the Department of Education.

Key Points

The Governor recommends a FY 2005 State appropriation totaling $2.693 billion for Interdepartmental Accounts, up $321.8 million or 13.6 percent over the FY 2004 adjusted appropriation of $2.371 billion.

The following chart summarizes the FY 2005 recommended appropriation by major purpose. The summary detail of changes is included in the Fiscal and Personnel section of this analysis.



Key Points (Cont'd)

EMPLOYEE BENEFITS

- ! The recommended FY 2005 State appropriation for Employee Benefits is $1.925 billion, a $139 million or 7.8 percent increase over the FY 2004 adjusted appropriation of $1.786 billion. The recommended $1.326 billion Direct State Services (DSS) appropriation is an increase of $94.4 million or 7.7 percent, over the FY 2004 adjusted appropriation of $1.231 billion. Grants-In-Aid (GIA) for higher education employee benefits are recommended at $599.1 million, up 8 percent over the FY 2004 adjusted appropriation of $554.5 million. Funding of the subcategories that make-up the Employee Benefits category are described below.

<u>Retirement Plans</u>

- ! A $1.212 billion State pension contribution was certified by the actuaries to fund both the normal cost and accrued liability to the pension plans in FY 2005, up $455.7 million over the $756.2 million certified to fund the pension plans in FY 2004.

- ! A General Fund pension contribution of $198 million is recommended in FY 2005. Some unspecified portion of certified contributions will be funded from reserves in the Benefit Enhancement Funds within the Public Employees Retirement System (PERS) and the Teachers' Pension and Annuity Fund (TPAF), while the remainder of the employer contributions are deferred to future fiscal years. The exact portion of certified contributions that would be funded in FY 2005 is unclear. According to the Administration, between 20 percent and 40 percent of certified contributions will be funded.

- ! Included in the $198 million recommended contribution is $147.9 million budgeted within Interdepartmental Accounts and $50.1 million budgeted within the Department of the Treasury.

- ! The Interdepartmental Accounts recommended contribution includes $114.9 million budgeted as GIA to State colleges and universities to fund the employer contribution to the Alternate Benefit Program (ABP) and $1.7 million to fund the Police and Firemen's Retirement System (PFRS) for higher education employees. Another $31.3 million is budgeted as DSS funding for various pension plans, primarily for the PFRS.

- ! Budgeted within the Department of the Treasury is a total of $50.1 million. This amount includes $17.2 million in State Aid to the county colleges to pay the employer contribution for the ABP and $32.8 million in State Aid to the Consolidated Police and Firemen's Pension Fund (CPFPF) and the PFRS.

<u>Post Retirement Medical Benefits</u>

- ! A total FY 2005 appropriation of $911.2 million is recommended to fund post retirement medical (PRM) benefits for State employees retired from the Public Employees' Retirement System (PERS), retired teachers from the Teachers' Pension and Annuity Fund (TPAF), and other retirees eligible for PRM benefits. This is an increase of $153.3 million, or 20.2 percent, from the FY 2004 adjusted appropriation of $757.9 million. The FY 2005 recommended appropriation does not include funding the State's obligation to increase the contribution to the PRM fund by 3/5 of 1 percent of active members' salary, or approximately $69.6 million, to begin to replenish the depleted reserve balances of the PRM funds. Growth in employee retirement costs in FY 2005 is due to depletion of the

Key Points (Cont'd)

PERS and TPAF post retirement medical reserves. Additionally, there are substantial increases in health care costs for retired employees.

Health Benefits

! An appropriation of $964.9 million, up $64.4 million or 7.2 percent, over the FY 2004 adjusted appropriation, is recommended to fund health benefits for active employees. Funding for the cost of providing health benefits for State employees increases by $40.1 million, to $684.4 million; for higher education employees costs rise by $24.3 million, to $280.5 million.

Payroll Taxes

! The FY 2005 Interdepartmental Accounts budget recommendation for employer payroll taxes totals $476.2 million, up $25.5 million over the FY 2004 adjusted appropriation. The State's share of the Social Security tax will rise 5.3 percent, to $459.2 million and includes $314.7 million for State employees and $144.5 million in Grants-In-Aid funding to institutions of higher education.

! In addition, a State Aid payment of $632.1 million is budgeted in the Department of Education for the employer (school district) share of Social Security taxes.

AID TO INDEPENDENT AUTHORITIES

! The FY 2005 recommended appropriation of aid to independent authorities is $86 million, an increase of $20.9 million or 32.2 percent, over the FY 2004 adjusted appropriation.

! Pursuant to P.L.2003, c.166, new funding of $22.1 million is recommended for debt service on bonds issued by the Economic Development Authority (EDA) to fund Business Employment Incentive Program grants and to fund Designated Industries Economic Growth and Development projects.

! New funding of $718,000 is recommended to fund debt service incurred by the EDA related to the Liberty Science Center project and $390,000 is recommended to fund Battleship New Jersey utility costs.

STATEWIDE CAPITAL CONSTRUCTION

! The Governor's budget recommends $185.5 million in general State sources for capital construction projects. New funding of $2.7 million and $3 million is recommended to fund renovation projects and computer network upgrades, respectively. According to a footnote (page D-450), the budget indicates that the capital construction appropriation will be supplemented with $16.9 million from "non-State" sources.

! The State's share of debt service payments on outstanding bonds issued by the New Jersey Building Authority is recommended at $78.8 million.

Key Points (Cont'd)

SALARY ADJUSTMENTS

! The Governor's FY 2005 budget provides $165.2 million for employee salary increases and other benefits. This amount includes $126.6 million in increments, bonuses, progressions for certain county court employees, and across-the-board raises per contracts for eligible employees. Unions representing 64 percent of State employees negotiated a cost-of-living increase of 2.9 percent for FY 2005. Funding for unused accumulated sick leave payments to eligible employees at retirement is recommended at $7.5 million.

! Funding for higher education employee cost-of-living adjustment (COLA) increases is recommended at $31.2 million.

OTHER INTER-DEPARTMENTAL ACCOUNTS

! Increases of $5.5 million and $14.7 million are recommended for Statewide 911 Emergency Telephone System and Enhanced 911 County Grants, respectively. These increases are to be funded from new revenues from a proposed Wireless Communications Assessment and are intended to make major upgrades in the 911 system.

Background Paper

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-government entities, such as independent authorities. Interdepartmental Accounts are categorized into the following budget areas: (1) Employee Benefits — funding for employee pensions and health benefits; (2) Salary Increases and Other Benefits — funds allotted to various departments for the cost of general and special salary increases; (3) Property Rentals and Leases — rents for office space and other premises for State agencies; (4) Utilities and Other Services — funds for various services such as fuel purchases and trash removal; (5) Insurance and Other Services — the State's tort liability and certain insurance claims; (6) Capital Projects — Statewide; (7) Aid to Independent Authorities; and (8) Other Interdepartmental Accounts — expenses related to certain up-front and fixed borrowing costs and high technology upgrades, as well as the Governor's contingency fund.

(1) Employee Benefits

There are three main categories within the Employee Benefits accounts: (a) Pensions and Post Retirement Medical Benefits, (b) Health Benefits, and (c) Other Fringe Benefits.

(a) Pensions and Post-Retirement Medical Benefits

The Division of Pensions and Benefits in the Department of the Treasury administers the State's seven major retirement systems, as well as employee health benefits. The State's retirement systems are defined benefit plans, with the exception of the Alternate Benefit Program. 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.

! 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, municipal and State police and firefighters. Employer contributions are paid by the local employers and the State (as an employer).

Program Description and Overview (Cont'd)

- 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 employees of the Department of Corrections. Effective January 1, 1960, the system was closed to new employees. Although there are no remaining active members, approximately 186 retirees and beneficiaries receive annual pensions. This system is entirely funded by current trust assets.

- The Consolidated Police & Firemen's Pension Fund (CP&FPF) (N.J.S.A. 43:16-1 et seq.) membership consists of policemen and firemen appointed prior to July 1, 1944. Although there are no remaining active members, local employers are billed for the cost-of-living adjustments (COLA).

- 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. Participants have the option to provide for their pensions through the purchase of fixed or variable annuities underwritten by private vendors, the Teachers Insurance and Annuity Association (TIAA) or the College Retirement Equities Fund (CREF). The minimum contribution by employees is 5 percent of base salary. The employer (State and Institutions of Higher Education) contribute a flat rate of 8 percent of base salary. This contribution is included in the Interdepartmental Accounts and the Department of the Treasury's recommended budgets (the latter for county college faculty).

The defined benefit retirement systems are currently funded on an "actuarial reserve" basis. A future liability for payment of retirement system obligations 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 2001 (P.L.2001, c.133 and P.L.2001, c.353) increased the retirement benefits under the Teachers' Pension and Annuity Fund (TPAF) and the Public Employees' Retirement System (PERS) for service, deferred and early retirement by changing the formula from 1/60 to 1/55 of final compensation for each year of service. These laws also provided a 9.09 percent increase in the retirement allowances for existing retirees and beneficiaries.

To fund the additional accrued liability for these benefit enhancements, the law provided that the actuarial value of assets for both TPAF and PERS, for the valuation period ending June 30, 1999, be marked up to full market value of the assets as of that date. To fund the annual employer normal (current) contribution for the increased benefits, the law established a benefit enhancement fund (BEF), funded by excess valuation assets, if available.

Program Description and Overview (Cont'd)

In addition to pension and post retirement medical funding budgeted in the Interdepartmental Accounts, State Aid payments for pension-related and other fringe benefit funding are included in other areas of the budget as follows:

Other State Appropriations for Pensions and Related Benefits (in thousands)		
	FY 2004	FY 2005
Department of the Treasury: pages D-398 to D-399 (Aid to County Colleges)		
Employer Contributions — Alternate Benefit Program	$17,514	$17,230
Teacher's Pension & Annuity Fund — Post Retirement Medical	965	1,195
Other than TPAF — Post Retirement Medical	9,538	10,560
TPAF — FICA Contributions	450	450
Debt Service on Pension Obligation Bonds	82	78
Department of the Treasury: page D-429 (Consolidated Police & Firemen's Pension Fund)		
Consolidated Police and Firemen's Pension Fund (PFRS)	1,951	7,046
Debt Service on Pension Obligation Bonds	8,237	7,869
PFRS — Post Retirement Medical	17,709	19,420
Police and Firemen's Retirement System	4,792	16,904
Police and Firemen's Retirement System (P.L.1979, c.109)	5,629	8,879
Department of Education: page D-99		
Teacher's Pension & Annuity Fund — Post Retirement Medical	424,035	524,979
Social Security Tax	611,143	632,100
Minimum Pension for Pre-1955 Retirees	1	1
Other than TPAF — Post Retirement Medical	65,384	82,012
Debt Service on Pension Obligation Bonds	83,512	79,779
TOTAL, State Aid	1,250,942	1,408,502

Program Description and Overview (Cont'd)

(b) Health Benefits

The State Health Benefits Program (SHBP) was established in 1961 under N.J.S.A. 52:14-17.25 et. seq. to provide health benefits to State employees and their dependents. The SHBP was extended to employees and their dependents of participating local public employers in 1964. The State has a multiple option program offering: (1) the Traditional Plan, a fee-for-service plan (Blue Cross/Blue Shield/Major Medical), (2) five Health Maintenance Organizations (HMOs) and (3) a hybrid of the two, NJ Plus, also known as a Point-of-Service plan. Both the Traditional Plan and NJ Plus are self-insured, which means that the money paid out for benefits is billed directly to the State, participating local governments and employees. Although 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. Two 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 accrued 25 years of service is subject to collective bargaining. Current law requires <u>local</u> participating public employers to pay the cost of SHBP coverage for <u>local</u> 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 category.

(c) Other Fringe Benefits

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

<u>(2) Salary Increases and Other Benefits</u>

Salary increases for existing State positions are budgeted centrally in the Interdepartmental Accounts budget, then allocated to individual departments/agencies during the fiscal year. These increases include employee increments, cost-of-living adjustments (COLAs), and bonuses according to contractual agreements. Increases for the majority of State employees are subject to collective bargaining.

Unions representing 64 percent of the State employees, including the American Federation of State, County, and Municipal Employees (AFSCME); International Federation of Professional and Technical Engineers (IFPTE); and the Communications Workers of America (CWA), have negotiated a cost-of-living increase of 2.9 percent for FY 2005.

The two unions that represent Judicial employees — CWA professional and the Judiciary Council of Affiliated Unions (JCAU) — will receive 6.65 percent in January 2005, including a 2.5 percent across the board increase and a 4.15 percent salary progression.

Program Description and Overview (Cont'd)

(3) Property Rentals

Administered by the Department of the Treasury, appropriations to the Property Rentals account funds existing and anticipated leases of offices and other facilities used by State agencies, payments for debt service leases and payments in lieu of property taxes on facilities occupied by State agencies, and debt service payments for various fire sprinkler systems and office furnishings. This account also includes funding for payments associated with the State's lease-purchase of facilities acquired or built by the Economic Development Authority.

(4) Insurance and Other Services

These accounts include funding for insurance premiums for property, casualty and special insurance policies for coverage against loss to State-owned real property, machinery and fine art objects owned by the State. The State self-administers and is self-funded for Tort Claims, Workers' Compensation, and automobile (Vehicle Claims) liability risks and claims arising from the Foster Parents Program and the UMDNJ Self-Insurance Reserve Fund. The Department of the Treasury administers these insurance accounts.

(5) Utilities and Other Services

The Utilities and Other Services account provides funding for the heating, electrical, janitorial and trash removal needs for various State-owned buildings, primarily in the Capital Complex, that house the State workforce. The State has received federal government approval to reimburse the cost premium for the approximately 12 percent of the total electrical load that will be procured from renewable, or "green power" sources from the Petroleum Overcharge Reimbursement Fund.

(6) Capital Construction Projects

This category funds various Statewide capital projects administered by the Department of the Treasury on behalf of State agencies.

(7) Aid To Independent Authorities

This Grant-In-Aid (GIA) budget supports the New Jersey Sports and Exposition Authority, the New Jersey Performing Arts Center in Newark, debt service for Municipal Rehabilitation and Economic Recovery bonds, bonds for the Business Employment Incentive Program and related economic development programs, and other entities.

(8) Other Interdepartmental Accounts

This category includes funding for interest on short-term notes and funding for the Statewide Emergency 911 telephone system and grants to counties to enhance Emergency 911 systems administered at the county level.

Fiscal and Personnel Summary

AGENCY FUNDING BY SOURCE OF FUNDS ($000)

	Expended FY 2003	Adj. Approp. FY 2004	Recom. FY 2005	Percent Change 2003-05	Percent Change 2004-05
General Fund					
Direct State Services	$1,340,768	$1,557,152	$1,773,213	32.3%	13.9%
Grants-In-Aid	542,600	619,812	731,231	34.8%	18.0%
State Aid	0	0	0	0.0%	0.0%
Capital Construction	172,272	194,233	185,549	7.7%	(4.5)%
Debt Service	0	0	0	0.0%	0.0%
Sub-Total	$2,055,640	$2,371,197	$2,689,993	30.9%	13.4%
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	$2,055,640	$2,371,197	$2,689,993	30.9%	13.4%
Federal Funds	$461	$0	$0	(100.0)%	0.0%
Other Funds	$0	$0	$3,000	----	----
Grand Total	$2,056,101	$2,371,197	$2,692,993	31.0%	13.6%

PERSONNEL SUMMARY - POSITIONS BY FUNDING SOURCE

	Actual FY 2003	Revised FY 2004	Funded FY 2005	Percent Change 2003-05	Percent Change 2004-05
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 2003 (as of December) and revised FY 2004 (as of September) personnel data reflect actual payroll counts. FY 2005 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 2004	Recomm. FY 2005	Dollar Change	Percent Change	Budget Page

PROPERTY RENTALS, INSURANCE AND OTHER SERVICES

Direct State Services

Budget Item	Adj. Approp. FY 2004	Recomm. FY 2005	Dollar Change	Percent Change	Budget Page
Property Rentals (Net)	$150,226	$148,432	($1,794)	(1.2)%	D-447

For FY 2005, a net decrease of $1.8 million is recommended for the Property Rentals accounts. A reduction of $1.4 million for rents plus an increase of $1.1 million in receipts from charges to non-State fund sources would be offset somewhat by a $664,000 increase for additions, improvement and equipment.

Budget Item	Adj. Approp. FY 2004	Recomm. FY 2005	Dollar Change	Percent Change	Budget Page
Property Insurance	$3,000	$3,636	$636	21.2%	D-447

The Governor's FY 2005 budget recommends a $636,000 increase in funding for premium costs associated with property insurance.

Budget Item	Adj. Approp. FY 2004	Recomm. FY 2005	Dollar Change	Percent Change	Budget Page
Tort Claims Liability Fund	$17,000	$11,000	($6,000)	(35.3)%	D-447

The funds appropriated to this account are available for the payment of direct costs of legal, administrative and medical services related to the investigation, mitigation and litigation of tort claims under N.J.S.A. 59:12-1, "The New Jersey Tort Claims Act," concerning claims against public entities. Historically, supplemental funding is required to support the expenses incurred in this account during the fiscal year, so the apparent decrease in FY 2005 may not materialize.

Budget Item	Adj. Approp. FY 2004	Recomm. FY 2005	Dollar Change	Percent Change	Budget Page
UMDNJ Self-Insurance Reserve Fund	$12,000	$18,000	$6,000	50.0%	D-447

As authorized by FY 2004 Appropriation Act budget language, $12 million in supplemental funding is projected to be appropriated from the General Fund to this account to pay remaining claim expenditures of the University of Medicine and Dentistry's self-insurance fund. The fund has been depleted by $85 million in transfers to the General Fund in the past two years, and with $22 million to $25 million in claims expenditures expected in FY 2004 and FY 2005, respectively, State funding is needed to keep the fund solvent.

Budget Item	Adj. Approp. FY 2004	Recomm. FY 2005	Dollar Change	Percent Change	Budget Page
Vehicle Claims Liability Fund	$5,215	$2,000	($3,215)	(61.6)%	D-447

A FY 2004 supplemental appropriation of $3.2 million funded one-time costs associated with the settlement of backlogged vehicle claim cases.

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

Budget Item	Adj. Approp. FY 2004	Recomm. FY 2005	Dollar Change	Percent Change	Budget Page
Self-Insurance Deductible Fund	$500	$1,500	$1,000	200.0%	D-447

This account funds losses that fall within the deductible area of property insurance coverage. The negotiated deductible was increased in an attempt to keep the rate of increase for the insurance premium stable.

AID TO INDEPENDENT AUTHORITIES

Grants-In-Aid

Budget Item	Adj. Approp. FY 2004	Recomm. FY 2005	Dollar Change	Percent Change	Budget Page
Business Employment Incentive Program, EDA Debt Service	$0	$12,230	$12,230	—	D-448

Pursuant to P.L.2003, c.166 and a $301 million bond issuance approved by the Joint Budget Oversight Committee, this recommended appropriation would fund the first year of debt service related to the Economic Development Authority's (EDA) sale of $59 million in Business Employment Incentive Program (BEIP) bonds, maturing on March 1, 2009. This bond sale would finance grant amounts accrued in fiscal years 2003 and 2004 on existing BEIP grants. Approximately $231 million in bonds would finance grant amounts anticipated to accrue on BEIP grants in fiscal years 2005-2007.

Budget Item	Adj. Approp. FY 2004	Recomm. FY 2005	Dollar Change	Percent Change	Budget Page
Liberty Science Center - EDA	$0	$718	$718	—	D-448

This recommended appropriation would fund Economic Development Authority (EDA) costs related to the Liberty State Park and Liberty Science Center (LSC) project. The EDA sold $14 million in bonds to fund a portion of the design and construction of this project. Overall, the project is estimated to cost $104 million, including $71 million for building, architecture and engineering. The scope of the project to renovate and improve this facility includes (i) the design, construction, renovation, expansion of and acquisition of exhibits for the LSC, which includes the renovation of the existing 194,383 gross square foot building and the construction of a new approximately 100,000 square foot addition, (ii) the renovation and improvement of the approximately 1,000 space surface parking lot adjacent to the LSC and (iii) the improvement of the Central Railroad of New Jersey Terminal at the Park. This $14 million bond sale would finance the following portion of the total project: the improvement of the Terminal (a portion of which would be used by the LSC for 24 months during construction); planning and design costs for the LSC and parking lot projects; initial implementation of the LSC and parking lot projects; and costs associated with the issuance of this bond sale.

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

Budget Item	Adj. Approp. FY 2004	Recomm. FY 2005	Dollar Change	Percent Change	Budget Page
Horse Racing Litigation Settlement	$2,500	$0	($2,500)	(100.0)%	D-448

This one-time appropriation assisted the New Jersey Sports and Exposition Authority (NJSEA) in the settlement of a lawsuit brought by the New Jersey Thoroughbred Horsemen's Association. This lawsuit accused the NJSEA of breach of contract with respect to payment of thoroughbred purse monies at both Monmouth Park and the Meadowlands and failure to safely maintain the race course at the Meadowlands.

Budget Item	Adj. Approp. FY 2004	Recomm. FY 2005	Dollar Change	Percent Change	Budget Page
Designated Industries Economic Growth & Development - EDA	$0	$9,883	$9,883	—	D-448

Pursuant to P.L.2003, c.166 and a bond issuance approved by the Joint Budget Oversight Committee, this recommended appropriation would fund the first year of debt service related to the Economic Development Authority's (EDA) sale of $50.7 million in bonds, maturing in 2014, to make recoverable grants to technology companies, invest in early stage development life science and medical device companies, and to develop or expand three commercialization centers for innovative technologies located in Camden, New Brunswick and Newark.

Budget Item	Adj. Approp. FY 2004	Recomm. FY 2005	Dollar Change	Percent Change	Budget Page
Battleship New Jersey Utilities	$0	$390	$390	—	D-448

This recommended appropriation would pay for the utility expenses of the Battleship New Jersey as substantiated and submitted by the Home Port Alliance. Budget language (page D-452) sets forth the conditions and process for dispersement of this recommendation.

Capital Construction

Budget Item	Adj. Approp. FY 2004	Recomm. FY 2005	Dollar Change	Percent Change	Budget Page
Statewide Fire, Life Safety and Renovation Projects	$9,695	$0	($9,695)	(100.0)%	D-448

The Governor's FY 2005 budget indicates (by footnote, page D-450) that $16.947 million in non-State funding will be available for unidentified "high priority" fire, life safety and renovation projects that emerge during the course of the fiscal year in various departments. According to the Office of Management and Budget, the indirect cost recovery account (page D-412) would be the source of this funding.

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

Budget Item	Adj. Approp. FY 2004	Recomm. FY 2005	Dollar Change	Percent Change	Budget Page
DEP Building Fire Alarm Upgrade	$922	$0	($922)	(100.0)%	D-448

This appropriation funded the engineering study and construction costs for a new fire alarm system at the Department of Environmental Protection (DEP) building.

Budget Item	Adj. Approp. FY 2004	Recomm. FY 2005	Dollar Change	Percent Change	Budget Page
Hazardous Materials Removal Projects - Statewide	$2,000	$1,000	($1,000)	(50.0)%	D-449

This account provides funds to continue the removal of hazardous materials from various sites statewide. From its inception in FY 1997, approximately $21.5 million has been appropriated for this program.

Budget Item	Adj. Approp. FY 2004	Recomm. FY 2005	Dollar Change	Percent Change	Budget Page
Statewide Security Projects	$3,000	$0	($3,000)	(100.0)%	D-449

Budget language (page D-452) would appropriate up to $3 million in receipts derived from the surcharge on vehicle rentals to fund security projects around the State House Complex.

Budget Item	Adj. Approp. FY 2004	Recomm. FY 2005	Dollar Change	Percent Change	Budget Page
Renovation Projects, Existing and Anticipated Leases	$0	$2,700	$2,700	—	D-449

This recommended appropriation would restore funding to this account, which is used to finance a variety of renovation projects. In FY 2003, approximately $1.4 million was expended for these purposes.

Budget Item	Adj. Approp. FY 2004	Recomm. FY 2005	Dollar Change	Percent Change	Budget Page
Enterprise Upgrades — Garden State Network	$0	$3,000	$3,000	—	D-449

This recommended appropriation would fund services provided by the Office of Information Technology to maintain and upgrade the State's computer network.

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

Budget Item	Adj. Approp. FY 2004	Recomm. FY 2005	Dollar Change	Percent Change	Budget Page
All Other Funds					
Capital Projects — Statewide	$0	$3,000	$3,000	—	D-449

The Governor's FY 2005 budget recommends language (page D-452) to fund a $3 million appropriation for security projects from receipts derived from the surcharge on vehicle rentals (referenced above).

EMPLOYEE BENEFITS

Budget Item	Adj. Approp. FY 2004	Recomm. FY 2005	Dollar Change	Percent Change	Budget Page
Direct State Services					
Public Employees' Retirement System — Post Retirement Medical	$152,908	$167,602	$14,694	9.6%	D-453

This account funds post retirement medical (PRM) benefits for State employees who retire after 25 years as members of the Public Employees' Retirement System (PERS). The increase in the FY 2005 requested appropriation is largely due to (1) the depletion of PRM reserves; (2) significant premium rate increases for retirees; and (3) an increase in the number of retirees. As in FY 2004, the FY 2005 recommended appropriation does not include funding to begin to replenish the depleted PRM reserve balance, as required pursuant to the provisions of P.L.2001, c.11. This law increased the employer payroll contribution to the PRM reserve fund from .5 percent to .6 percent of payroll beginning in FY 2004.

Budget Item	Adj. Approp. FY 2004	Recomm. FY 2005	Dollar Change	Percent Change	Budget Page
Police and Firemen's Retirement System	$9,987	$20,251	$10,264	102.8%	D-453

The FY 2005 recommended appropriation would fund between 20 to 40 percent of the actuarially calculated State contribution to fund this retirement system. P.L.1973, c.156 permitted certain State employees to transfer from the Public Employees' Retirement System to the Police and Firemen's Retirement System and provided that all new employees appointed to certain Law Enforcement Officer positions be required to enroll in the PFRS.

Budget Item	Adj. Approp. FY 2004	Recomm. FY 2005	Dollar Change	Percent Change	Budget Page
Police and Firemen's Retirement System (P.L.1979, c.109)	$1,036	$1,635	$599	57.8%	D-453

The FY 2005 recommended appropriation would fund between 20 to 40 percent of the actuarially calculated State contribution to fund costs associated with the Police and Firemen's Retirement System (PFRS) pursuant to the provisions of P.L.1979, c.109. This law provides enhanced benefits

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

Budget Item	Adj. Approp. FY 2004	Recomm. FY 2005	Dollar Change	Percent Change	Budget Page

to members of the PFRS who retire after 25 years of service, granting a retirement allowance of 65 percent of final compensation. The State is liable for the increase in the normal contribution to fund this enhanced benefit, requiring extra State contributions of 1.1 percent of covered salary.

Budget Item	Adj. Approp. FY 2004	Recomm. FY 2005	Dollar Change	Percent Change	Budget Page
Alternate Benefits Program - Employer Contributions	$1,211	$1,241	$30	2.5%	D-453

The Alternate Benefits Program is a defined contribution retirement program for higher education faculty and administrators and certain State employees. This account funds the required employer contribution at the rate of 8 percent of the members' base pay for State employees.

Budget Item	Adj. Approp. FY 2004	Recomm. FY 2005	Dollar Change	Percent Change	Budget Page
State Police Retirement System	$0	$188	$188	—	D-454

The FY 2005 recommended appropriation would fund between 20 to 40 percent of the actuarially calculated State contribution to fund this retirement system.

Budget Item	Adj. Approp. FY 2004	Recomm. FY 2005	Dollar Change	Percent Change	Budget Page
Judicial Retirement System	$3,481	$6,120	$2,639	75.8%	D-454

The FY 2005 recommended appropriation would fund between 20 to 40 percent of the actuarially calculated State contribution to fund this retirement system.

Budget Item	Adj. Approp. FY 2004	Recomm. FY 2005	Dollar Change	Percent Change	Budget Page
Teachers' Pension and Annuity Fund — Post Retirement Medical — State	$2,659	$3,292	$633	23.8%	D-454

This recommended appropriation would fund post retirement medical (PRM) benefits made by the State on behalf of those members of the Teachers' Pension and Annuity Fund (TPAF) who retired from State service. The increase in FY 2005 funding is largely due to (1) the depletion of PRM reserves; (2) significant increases in the premium rates for retirees of approximately 9 percent for retirees less than 65 and 16 percent for retirees greater than 65; and (3) an increase in the number of retirees. As in FY 2004, the FY 2005 recommended appropriation does not include funding to begin to replenish the depleted PRM reserve balance, as required pursuant to the provisions of P.L.2001, c.11. This law increased the employer payroll contribution to the PRM reserve fund from .5 percent to .6 percent of payroll beginning in FY 2004.

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

Budget Item	Adj. Approp. FY 2004	Recomm. FY 2005	Dollar Change	Percent Change	Budget Page
Pension Adjustment Program	$1,813	$1,708	($105)	(5.8)%	D-454

This account funds cost-of-living adjustments for those who retired prior to January 1, 1955 from the Consolidated Police & Firemen's Pension Fund, Prison Officers' Pension Fund and the Central Pension Fund.

Budget Item	Adj. Approp. FY 2004	Recomm. FY 2005	Dollar Change	Percent Change	Budget Page
Debt Service on Pension Obligation Bonds	$62,099	$59,324	($2,775)	(4.5)%	D-454

P.L.1997, c.114 authorized the Economic Development Authority (EDA) to issue $2.8 billion in bonds to finance a portion of the unfunded accrued liability of the State pension system. This line-item represents continued State debt service payments on these bonds.

Budget Item	Adj. Approp. FY 2004	Recomm. FY 2005	Dollar Change	Percent Change	Budget Page
Volunteer Emergency Survivor Benefit	$0	$105	$105	—	D-454

This newly recommended appropriation would fund costs incurred pursuant to the provisions of P.L.2002, c.134. This statute provides a State-paid $15,000 per year benefit to eligible survivors of volunteer firefighters, first aid workers, rescue squad workers and emergency medical technicians who die in the course of volunteer service.

Budget Item	Adj. Approp. FY 2004	Recomm. FY 2005	Dollar Change	Percent Change	Budget Page
Other Pension Systems — Post Retirement Medical	$44,376	$55,524	$11,148	25.1%	D-454

This account funds PRM benefits for employees who retired from retirement systems other than the PERS or TPAF. Beneficiaries include retirees from the State Police, Judicial, Prison Officers, Alternate Benefits Program and other consolidated retirement systems. In previous years, these PRM benefits were funded from the State Employees' Health Benefits account (see below) for active employees. The FY 2004 adjusted appropriation has been modified to reflect the movement of these appropriations to a unique line item in FY 2005. The increase in the FY 2005 requested appropriation is largely due to (1) the depletion of PRM reserves; (2) significant premium rate increases for retirees; and (3) an increase in the number of retirees. As in FY 2004, the FY 2005 recommended appropriation does not include funding to begin to replenish the depleted PRM reserve balance, as required pursuant to the provisions of P.L.2001, c.11. This law increased the employer payroll contribution to the PRM reserve fund from .5 percent to .6 percent of payroll beginning in FY 2004.

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

Budget Item	Adj. Approp. FY 2004	Recomm. FY 2005	Dollar Change	Percent Change	Budget Page
State Employees' Health Benefits	$477,508	$504,445	$26,937	5.6%	D-454
State Employees' Prescription Drug Program	$144,628	$162,810	$18,182	12.6%	D-454
State Employees' Dental Program — Shared Cost	$21,129	$16,111	($5,018)	(23.7)%	D-454

These three health care benefit recommendations are the estimated cost to provide health care coverage, prescription drug benefits and the dental program for active State employees. The FY 2005 recommended appropriation for the combined total of these three line-items is up $40.1 million, or 6.2 percent, over the FY 2004 adjusted appropriation.

Budget Item	Adj. Approp. FY 2004	Recomm. FY 2005	Dollar Change	Percent Change	Budget Page
Social Security Tax — State	$299,254	$314,719	$15,465	5.2%	D-454

The FY 2005 recommended appropriation is to fund the employer's share of Social Security contributions for State employees, other than higher education employees. The taxable wage base for Social Security is increased from $87,000 to $87,900 in calendar year 2004 and will increase again on January 1, 2005. The recommended appropriation is an estimate of the funding required to meet the State's liability as an employer to pay FICA (Old Age, Survivors, and Disability Insurance) and Medicare taxes for FY 2005. The rate for Social Security (FICA) remains at 6.2 percent and the tax rate for Medicare remains at 1.45 percent. There is no Medicare wage base, so Medicare taxes are paid on total compensation.

Budget Item	Adj. Approp. FY 2004	Recomm. FY 2005	Dollar Change	Percent Change	Budget Page
Temporary Disability Insurance Liability	$6,327	$8,367	$2,040	32.2%	D-454

The recommended appropriation of $8.4 million is to fund Temporary Disability Insurance Plan (TDI) contributions for State employees. All eligible State employees are included in the TDI Plan. The plan is a shared-cost plan which provides payments to employees who are unable to work as the result of a non-work connected illness or injury and who have exhausted their sick leave and are ineligible for any unemployment compensation or workers' compensation. The employee contribution rate is 0.5 percent on the first $24,300 in covered wages earned during calendar year 2004 and the employer rate is 0.3 percent of taxable wages up to the wage base of $24,300.

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

Budget Item	Adj. Approp. FY 2004	Recomm. FY 2005	Dollar Change	Percent Change	Budget Page
Unemployment Insurance Liability	$7,028	$6,440	($588)	(8.4)%	D-454

The FY 2005 recommended appropriation is an estimate of the amount required to pay unemployment claims for former State employees if the employee payroll tax proves to be insufficient. Unlike private industry, the State does not contribute a matching percentage of compensation to fund the Unemployment Compensation Trust Fund. The State operates on a pay-as-you-go basis as an insurer of last resort. Employees contribute 0.2 percent of salary, up to the unemployment wage base of $24,300. After the employees' contribution is disbursed, the State, as an employer, contributes sufficient funds to keep the program solvent.

Grants-In-Aid

Budget Item	Adj. Approp. FY 2004	Recomm. FY 2005	Dollar Change	Percent Change	Budget Page
Public Employees' Retirement System Post Retirement Medical	$22,546	$24,393	$1,847	8.2%	D-454

This account funds post retirement medical (PRM) benefits for State college or university employees who retire after 25 years as members of the Public Employees' Retirement System (PERS). The increase in the FY 2005 requested appropriation is largely due to (1) the depletion of PRM reserves; (2) significant premium rate increases for retirees; and (3) an increase in the number of retirees. As in FY 2004, the FY 2005 recommended appropriation does not include funding to begin to replenish the depleted PRM reserve balance, as required pursuant to the provisions of P.L.2001, c.11. This law increased the employer payroll contribution to the PRM reserve fund from .5 percent to .6 percent of payroll beginning in FY 2004.

Budget Item	Adj. Approp. FY 2004	Recomm. FY 2005	Dollar Change	Percent Change	Budget Page
Police and Firemen's Retirement System	$771	$1,688	$917	118.9%	D-454

Funds appropriated in this account cover the State higher education portion of the required contribution to the retirement system. The FY 2005 recommended appropriation would fund between 20 to 40 percent of the actuarially calculated State contribution to fund this retirement system.

Budget Item	Adj. Approp. FY 2004	Recomm. FY 2005	Dollar Change	Percent Change	Budget Page
Alternate Benefits Program — Employer Contributions	$110,182	$114,890	$4,708	4.3%	D-454

The State pays the employer contribution to the Alternate Benefit Program for State colleges and universities at a rate of 8 percent of the members' base salary. The State also provides life insurance coverage and long-term disability coverage to plan members employed by various State higher education institutions.

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

Budget Item	Adj. Approp. FY 2004	Recomm. FY 2005	Dollar Change	Percent Change	Budget Page
Teachers' Pension and Annuity Fund — Post Retirement Medical — State	$5,293	$6,553	$1,260	23.8%	D-454

This account funds post retirement medical (PRM) benefits for State college or university employees who retire after 25 years as members of the Teachers' Pension and Annuity Fund (TPAF). The increase in the FY 2005 requested appropriation is largely due to (1) the depletion of PRM reserves; (2) significant increases in the premium rates for retirees of approximately 9 percent for retirees less than 65 and 16 percent for retirees greater than 65; and (3) an increase in the number of retirees. As in FY 2004, the FY 2005 recommended appropriation does not include funding to begin to replenish the depleted PRM reserve balance, as required pursuant to the provisions of P.L.2001, c.11. This law increased the employer payroll contribution to the PRM reserve fund from .5 percent to .6 percent of payroll beginning in FY 2004.

Budget Item	Adj. Approp. FY 2004	Recomm. FY 2005	Dollar Change	Percent Change	Budget Page
Debt Service on Pension Obligation Bonds	$3,583	$3,423	($160)	(4.5)%	D-454

P.L.1997, c.114 authorized the Economic Development Authority (EDA) to issue $2.8 billion in bonds to finance a portion of the unfunded accrued liability of the State pension system. This line-item represents continued State debt service payments on these bonds.

Budget Item	Adj. Approp. FY 2004	Recomm. FY 2005	Dollar Change	Percent Change	Budget Page
Other Pension Systems — Post Retirement Medical	$12,516	$15,661	$3,145	25.1%	D-454

This account funds PRM benefits for employees who retired from retirement systems other than the PERS or TPAF. Beneficiaries include retirees from the Alternate Benefits Program and other retirement systems. In previous years, these PRM benefits were funded from the State Employees' Health Benefits account (see below) for active employees. The FY 2004 adjusted appropriation has been modified to reflect the movement of these appropriations to a unique line item in FY 2005. The increase in FY 2005 funding is largely due to (1) the depletion of PRM reserves; (2) significant premium rate increases for retirees; and (3) an increase in the number of retirees. As in FY 2004, the FY 2005 recommended appropriation does not include funding to begin to replenish the depleted PRM reserve balance, as required pursuant to the provisions of P.L.2001, c.11. This law increased the employer payroll contribution to the PRM reserve fund from .5 percent to .6 percent of payroll beginning in FY 2004.

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

Budget Item	Adj. Approp. FY 2004	Recomm. FY 2005	Dollar Change	Percent Change	Budget Page
State Employees' Health Benefits	$182,902	$207,892	$24,990	13.7%	D-454
State Employees' Prescription Drug Program	$64,848	$66,460	$1,612	2.5%	D-454
State Employees' Dental Program — Shared Cost	$8,483	$6,229	($2,254)	(26.6)%	D-455

These three health care benefit recommendations are the estimated cost to provide health care coverage, prescription drug benefits and the dental program for employees at State colleges and universities. The FY 2005 recommended appropriation for the combined total of these three line-items is up $24.3 million, or 9.5 percent, over the FY 2004 adjusted appropriation.

Budget Item	Adj. Approp. FY 2004	Recomm. FY 2005	Dollar Change	Percent Change	Budget Page
Social Security Tax - State	$136,799	$144,529	$7,730	5.7%	D-455

The FY 2005 recommended appropriation is to fund the employer's share of Social Security contributions for employees of State institutions of higher education. The taxable wage base for Social Security is increased from $87,000 to $87,900 in calendar year 2004 and will increase again on January 1, 2005. The recommended appropriation is an estimate of the funding required to meet the State's liability as an employer to pay FICA (Old Age, Survivors, and Disability Insurance) and Medicare taxes for FY 2005. The rate for Social Security (FICA) remains at 6.2 percent and the tax rate for Medicare remains at 1.45 percent. There is no Medicare wage base, so Medicare taxes are paid on total compensation.

Budget Item	Adj. Approp. FY 2004	Recomm. FY 2005	Dollar Change	Percent Change	Budget Page
Temporary Disability Insurance Liability	$2,836	$3,796	$960	33.9%	D-455

The recommended appropriation of $3.8 million is to fund Temporary Disability Insurance Plan (TDI) contributions for employees at State institutions of higher education. All eligible employees are included in the TDI Plan. The plan is a shared-cost plan which provides payments to employees who are unable to work as the result of a non-work connected illness or injury and who have exhausted their sick leave and are ineligible for any unemployment compensation or workers' compensation. The employee contribution rate is 0.5 percent on the first $24,300 in covered wages earned during calendar year 2004 and the employer rate is 0.3 percent of taxable wages up to the wage base of $24,300. New Jersey is one of only five States which provides compulsory temporary disability insurance for workers.

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

Budget Item	Adj. Approp. FY 2004	Recomm. FY 2005	Dollar Change	Percent Change	Budget Page
Unemployment Insurance Liability	$3,758	$3,615	($143)	(3.8)%	D-455

The FY 2005 recommended appropriation is an estimate of the amount required to pay unemployment claims for former employees of State institutions of higher education if the employee payroll tax proves to be insufficient. Unlike private industry, the State does not contribute a matching percentage of compensation to fund the Unemployment Compensation Trust Fund. The State operates on a pay-as-you-go basis as an insurer of last resort. Employees contribute 0.2 percent of salary, up to the unemployment wage base of $24,300. After the employees' contribution is dispersed, the State, as an employer, contributes sufficient funds to keep the program solvent.

OTHER INTERDEPARTMENTAL ACCOUNTS

Direct State Services

Budget Item	Adj. Approp. FY 2004	Recomm. FY 2005	Dollar Change	Percent Change	Budget Page
Interest On Short Term Notes	$23,000	$22,300	($700)	(3.0)%	D-456

In FY 2004, $12 million was transferred out of the Short Term Notes account and used for other purposes.

Budget Item	Adj. Approp. FY 2004	Recomm. FY 2005	Dollar Change	Percent Change	Budget Page
Interest on Interfund Borrowing	$3,200	$1,000	($2,200)	(68.8)%	D-456

In FY 2004, $2.5 million was transferred from this account and used for other purposes and no funds have been expended from this account.

Budget Item	Adj. Approp. FY 2004	Recomm. FY 2005	Dollar Change	Percent Change	Budget Page
Statewide 911 Emergency Telephone System	$12,813	$18,362	$5,549	43.3%	D-456

The Governor's FY 2005 budget recommendation includes $9.4 million that would be chargeable to receipts derived from a proposed wireless communications / cell tower assessment, subject to enabling legislation. The additional revenue would fund unspecified enhancement to the 911 Emergency Telephone System.

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

Budget Item	Adj. Approp. FY 2004	Recomm. FY 2005	Dollar Change	Percent Change	Budget Page
Grants-In-Aid					
Enhanced 911 County Grants	$200	$14,925	$14,725	7362.5%	D-457

This FY 2005 recommended appropriation would fund grants to counties to fund enhancements for their 911 Emergency Telephone Systems. Funding for this program would be chargeable to the assessment described above. Budget language stipulates that grants would be determined using criteria to be developed by the 911 Commission and the Departments of Treasury, Community Affairs and the Attorney's General Office. Incentives for the regional consolidation of 911 emergency call services and public safety answering points are to be established.

SALARY INCREASES AND OTHER BENEFITS

Budget Item	Adj. Approp. FY 2004	Recomm. FY 2005	Dollar Change	Percent Change	Budget Page
Direct State Services					
Salary Increases and Other Benefits	$53,404	$126,580	$73,176	137.0%	D-458

The FY 2005 recommended appropriation for salary increases includes $10.4 million for Executive Branch managers, $58 million in cost-of-living adjustment (COLA) increases, $42 million for incremental increases and $15 million for judicial branch employees.

Budget Item	Adj. Approp. FY 2004	Recomm. FY 2005	Dollar Change	Percent Change	Budget Page
Unused Accumulated Sick Leave Payments	$11,000	$7,500	($3,500)	(31.8)%	D-458

The FY 2004 adjusted appropriation reflects an increase in sick leave payments due to an increase in the number of retirements that took place in 2003 following approval of an Early Retirement Incentive (ERI). Approximately 900 of the more than 4,760 State employees who took advantage of the ERI extended past the July 1, 2002 deadline and may have retired as late as June 30, 2003. Thus, payments to these retirees for their unused accumulated sick leave were made in FY 2004. This account funds 1/2 of accumulated sick days, up to a maximum $15,000, per retiree.

Budget Item	Adj. Approp. FY 2004	Recomm. FY 2005	Dollar Change	Percent Change	Budget Page
Grants-In-Aid					
Salary Increases and Other Benefits	$0	$31,158	$31,158	—	D-458

This FY 2005 recommended appropriation would restore grants-in-aid funding for a portion of the cost-of-living adjustment (COLA) for higher education employees. No funds were appropriated for this purpose in FY 2003 and FY 2004.

Language Provisions

PROPERTY RENTALS, INSURANCE AND OTHER SERVICES

Direct State Services

2004 Appropriations Handbook	2005 Budget Recommendations
	p. D-450
No comparable language.	There are appropriated such additional sums as may be required to pay debt service costs for the Greystone Park Psychiatric Hospital Project, subject to the approval of the Director of the Division of Budget and Accounting.

Explanation

This FY 2005 recommended budget language appropriates additional funds as required to the New Jersey Health Care Facilities Financing Authority to pay debt service costs associated with the Greystone Psychiatric Hospital project. The NJHCFFA has provided $19.1 million in initial financing to complete design work on a new Greystone facility and for various infrastructure projects. Total costs are estimated at between $155 million and $170 million.

2004 Appropriations Handbook	2005 Budget Recommendations
p. B-189	
To the extent that sums appropriated for property rental payments are insufficient, and notwithstanding any law to the contrary, the Division of Property Management and Construction is empowered to renegotiate lease terms, provided that such renegotiations result in cost savings to the State for State fiscal year 2004 and for the term of the lease. Any lease amendments made as a result of those renegotiations are subject to the review and approval of the State Leasing and Space Utilization Committee.	No comparable language.

Explanation

In FY 2004, the Division of Property Management and Construction reviewed the entire portfolio of lease terms and was successful in renegotiating terms of some of the leases in the portfolio. This language is no longer necessary in FY 2005.

Language Provisions (Cont'd)

2004 Appropriations Handbook	2005 Budget Recommendations
	p. D-450
No comparable language.	In order to permit flexibility, amounts may be transferred between various items of appropriation within the Insurance and Other Services program classification, subject to the approval of the Director of the Division of Budget and Accounting. Notice thereof shall be provided to the Legislative Budget and Finance Officer on the effective date of the approved transfer.

Explanation

This recommended language permits the transfer of State funds within the Insurance and Other Services program classification without Legislative approval.

2004 Appropriations Handbook	2005 Budget Recommendations
	p. D-451
No comparable language	Providing that expenditures during fiscal year 2005 on workers compensation claims attributable to the Department of Human Services, Transportation, Corrections, and Law and Public Safety are less than the respective amounts expended by those departments for claims attributable for fiscal year 2004, the Director of the Division of Budget and Accounting is authorized to transfer all or a portion of that savings to those departments or the Bureau of Risk Management within the Department of the Treasury for the purpose of improving worker safety and reducing workers compensation claims.

Explanation

This FY 2005 recommended language provides an incentive for the four departments referenced to institute policies that will reduce the number of workers compensation claims by allowing the transfer of funds from the Workers' Compensation Fund to such departments, provided that workers compensation expenditures are less than the respective amounts expended by these four departments for such claims in the previous fiscal year. At present, costs associated with workers' compensation claims are funded from a central, Interdepartmental Account; thus, holding down such costs has not been a priority of the departments.

Language Provisions (Cont'd)

2004 Appropriations Handbook	2005 Budget Recommendations
p. B-191	
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 $1,200,000.	No comparable language.

Explanation

This FY 2004 language allowed funds in the federally-funded Petroleum Overcharge Reimbursement Fund to be used to reimburse various State agencies for the additional cost associated with the purchase of "Green Power" (clean energy sources), which costs approximately 15 percent more than conventional energy sources. Because an agreement has not been reached with the federal government to use these resources for this purpose in FY 2005, this language is not necessary.

AID TO INDEPENDENT AUTHORITIES

Grants-In-Aid

2004 Appropriations Handbook	2005 Budget Recommendations
	p. D-452
No comparable language	From the amounts hereinabove, there is available such sums as may be required to pay for the utility expenses of the Battleship New Jersey as substantiated and submitted by the Home Port Alliance and subject to the approval of the State Treasurer and the Director of the Division of Budget and Accounting.

Explanation

This language sets forth the conditions and process for disbursement of $390,000 recommended to support the utility costs of the Battleship New Jersey.

Language Provisions (Cont'd)

CAPITAL CONSTRUCTION

Capital Construction

2004 Appropriations Handbook	2005 Budget Recommendations
	p. D-452
No comparable language.	Notwithstanding the provisions of any other law to the contrary, in order to provide flexibility in administering the amounts provided for Statewide Fire, Life Safety and Renovations Projects, such sums as may be necessary may be transferred to individual project line items within various departments, subject to the approval of the Director of the Division of Budget and Accounting.

Explanation

This language permits the transfer of sums from the Statewide Fire, Life Safety and Renovations Projects to various departments as may be necessary to fund individual project line items without further legislative approval.

2004 Appropriations Handbook	2005 Budget Recommendations
	p. D-452
No comparable language.	Receipts derived from the agency surcharge on vehicle rental pursuant to 54 of P.L.2002, c.34 (C.App.A:9-78), not to exceed $3,000,000 for Statewide Security Projects related to Statewide security services, are appropriated for those purposes and shall be deposited into a dedicated account, the expenditure of which shall be subject to the approval of the Director of the Division of Budget and Accounting.

Explanation

The recommended FY 2005 budget language funds State House security projects from receipts derived from the surcharge on vehicle rentals. In FY 2004, a $3 million Capital Construction appropriation funded such security costs. However, this appropriation is not recommended in FY 2005 (page D-449).

Language Provisions (Cont'd)

2004 Appropriations Handbook

No comparable language.

2005 Budget Recommendations

p. D-452

In addition to the amount appropriated hereinabove for Enterprise Upgrades - Garden State Network, $175,000 from administrative savings from the Office of Information Technology (OIT) will be allocated for this purpose. Spending of all funds will be subject to the approval of the OIT oversight board and subject to the approval of the Director of Budget and Accounting.

Explanation

This recommended language allows up to $175,000 from resources allocated to the Office of Information Technology to be redirected to fund upgrades to the State's computer network.

EMPLOYEE BENEFITS

Direct State Services

2004 Appropriations Handbook

p. B-192

Such additional sums as may be required for Public Employees' Retirement System - Post Retirement Medical, Alternate Benefits Program - Employer Contributions, Teachers' Pension and Annuity Fund - Post Retirement Medical State, State Employees' Health Benefits, State Employees' Prescription Drug Program, State Employees' Dental Program - Shared Cost, State Employees' Vision Care Program, Social Security Tax - State, Temporary Disability Insurance Liability, and Unemployment Insurance Liability are appropriated, as the Director of Budget and Accounting shall determine.

2005 Budget Recommendations

p. D-455

Same language as last year, except for the addition of: Other Pension System — Post Retirement Medical.

Explanation

This language allows the appropriation of additional funding, without further legislative involvement, for active employee health care and post retirement medical benefits. The addition of Other Pension System — Post Retirement Medical does not represent a new beneficiary group. This designation identifies a class of State retirees who did not retire from PERS or TPAF, but who are eligible for PRM benefits. In previous years, PRM benefits for these State Police, Judiciary,

Language Provisions (Cont'd)

Prison Office and other retirees were funded from the direct state services State Employees' Health Benefits account for active employees.

2004 Appropriations Handbook

p. B-192

Notwithstanding any provision of law to the contrary, in addition to the amount appropriated hereinabove for the Public Employees' Retirement System - Post Retirement Medical, $26,035,000 from amounts in the Benefit Enhancement Fund established in section 22 of P.L.1954, c.84 (C.43:15A-22), shall be applied to pay the normal cost contribution by the State for the Public Employees' Retirement System.

2005 Budget Recommendations

p. D-455

Notwithstanding any provision of law to the contrary, in addition to the amount appropriated hereinabove for the Public Employees' Retirement System - Post Retirement Medical, there is hereby appropriated an amount as determined by the State Treasurer to fund the pension cost contribution by the State to the Public Employees' Retirement System, payment for which shall be credited against amounts on deposit in the Benefit Enhancement Fund created pursuant to P.L.2001, c.133, section 1.

Explanation

The FY 2005 budget does not include a line item appropriation to fund the pension cost contribution by the State to the Public Employees' Retirement System. Instead, this budget language appropriates an amount as determined by the State Treasurer for that purpose and provides that this amount will be credited against amounts on deposit in the Benefit Enhancement Fund. Despite requests to the State Treasurer, no information has been provided on the amount on deposit in the Benefit Enhancement Fund. This is in contrast to the FY 2004 budget which noted that of the $129.9 million due to be paid by the State to the PERS for normal and accrued liability costs, approximately 20 percent or $26 million was to be paid directly from excess actuarial assets in the Benefit Enhancement Fund created by P.L.2001, c.133, while the rest of the payment was postponed.

Language Provisions (Cont'd)

2004 Appropriations Handbook

p. B-192

Notwithstanding any provision of law to the contrary, in addition to the amount appropriated hereinabove for the Teachers' Pension and Annuity Fund - Post Retirement Medical, $320,000 from amounts in the Benefit Enhancement Fund established in N.J.S.18A:66-16, shall be applied to pay the normal cost contribution by the State for the Teachers' Pension and Annuity Fund.

2005 Budget Recommendations

p. D-455

Notwithstanding any provision of law to the contrary, in addition to the amount appropriated hereinabove for the Teachers' Pension and Annuity Fund - Post Retirement Medical, there is hereby appropriated an amount as determined by the State Treasurer to fund the pension cost contribution by the State to the Teachers' Pension and Annuity Fund, payment of which shall be credited against amounts on deposit in the Benefit Enhancement Fund created pursuant to P.L.2001, c.133, section 1.

Explanation

The FY 2005 budget does not include a line item appropriation to fund the pension cost contribution by the State to the Teachers' Pension and Annuity Fund. Instead, this budget language appropriates an amount as determined by the State Treasurer for that purpose and provides that this amount will be credited against amounts on deposit in the Benefit Enhancement Fund. Despite requests to the State Treasurer, no information has been provided on the amount on deposit in the Benefit Enhancement Fund. This is in contrast to the FY 2004 budget which noted that of the $1.5 million due to be paid by the State to the TPAF for normal and accrued liability costs, approximately 20 percent or $320,000 was to be paid directly from excess actuarial assets in the Benefit Enhancement Fund created by P.L.2001, c.133, while the rest of the payment was postponed.

Language Provisions (Cont'd)

Grants-In-Aid

2004 Appropriations Handbook	2005 Budget Recommendations
p. B-193	p. D-455
Such additional sums as may be required for Public Employees' Retirement System - Post Retirement Medical, Alternate Benefits Program - Employer Contributions, Teachers' Pension and Annuity Fund - Post Retirement Medical State, State Employees' Health Benefits, State Employees' Prescription Drug Program, State Employees' Dental Program - Shared Cost, State Employees' Vision Care Program, Social Security Tax - State, Temporary Disability Insurance Liability, and Unemployment Insurance Liability are appropriated, as the Director of Budget and Accounting shall determine.	Same language as last year, except for the addition of: Other Pension System — Post Retirement Medical.

Explanation

This language allows the appropriation of additional funding, without further legislative involvement, for active employee health care and post retirement medical benefits. The addition of Other Pension System — Post Retirement Medical does not represent a new beneficiary group. This designation identifies a class of State college or university retirees who did not retire from PERS or TPAF, but who are currently eligible for PRM benefits. In previous years, PRM benefits for these Alternate Benefit Program and other retirees were funded from the grants-in-aid State Employees' Health Benefits account for active employees.

2004 Appropriations Handbook	2005 Budget Recommendations
p. B-193	p. D-456
Notwithstanding any provision of law to the contrary, in addition to the amount appropriated hereinabove for the Public Employees' Retirement System - Post Retirement Medical, $2,631,000 from amounts in the Benefit Enhancement Fund established in section 22 of P.L.1954, c.84 (C.43:15A-22), shall be applied to pay the normal cost contribution by the State for the Public Employees' Retirement System.	Notwithstanding any provision of law to the contrary, in addition to the amount appropriated hereinabove for the Public Employees' Retirement System - Post Retirement Medical, there is hereby appropriated an amount as determined by the State Treasurer, from amounts in the Benefit Enhancement Fund established in section 22 of P.L.1954, c.84 (C.43:15A-22), shall be applied to pay the pension contribution by the State for the Public Employees' Retirement System.

Language Provisions (Cont'd)

Explanation

The FY 2005 budget does not include a line item appropriation to fund the pension cost contribution by the State to the Public Employees' Retirement System. Instead, this budget language appropriates an amount as determined by the State Treasurer for that purpose and provides that this amount will be credited against amounts on deposit in the Benefit Enhancement Fund. Despite requests to the State Treasurer, no information has been provided on the amount on deposit in the Benefit Enhancement Fund. This is in contrast to the FY 2004 budget which noted that of the $13.4 million due to be paid by the State to the PERS for normal and accrued liability costs, approximately 20 percent or $2.6 million was to be paid directly from excess actuarial assets in the Benefit Enhancement Fund created by P.L.2001, c.133, while the rest of the payment was postponed.

2004 Appropriations Handbook	2005 Budget Recommendations
p. B-193	p. D-456
Notwithstanding any provision of law to the contrary, in addition to the amount appropriated hereinabove for the Teachers' Pension and Annuity Fund - Post Retirement Medical, $120,000 from amounts in the Benefit Enhancement Fund established in N.J.S.18A:66-16, shall be applied to pay the normal cost contribution by the State for the Teachers' Pension and Annuity Fund.	Notwithstanding any provision of law to the contrary, in addition to the amount appropriated hereinabove for the Teachers' Pension and Annuity Fund - Post Retirement Medical, there is hereby appropriated an amount as determined by the State Treasurer to fund the pension cost contribution by the State to the Teachers' Pension and Annuity Fund, payment of which shall be credited against amounts on deposit in the Benefit Enhancement Fund created pursuant to P.L.2001, c.133, section 1.

Explanation

The FY 2005 budget does include a line item appropriation to fund the pension cost contribution by the State to the Teachers' Pension and Annuity Fund. Instead, this budget language appropriates an amount as determined by the State Treasurer for that purpose and provides that this amount will be credited against amounts on deposit in the Benefit Enhancement Fund. Despite requests to the State Treasurer, no information has been provided on the amount on deposit in the Benefit Enhancement Fund. This is in contrast to the FY 2004 budget which noted that of the $599,000 due to be paid by the State to the TPAF for normal and accrued liability costs, approximately 20 percent or $120,000 was to be paid directly from excess actuarial assets in the Benefit Enhancement Fund created by P.L.2001, c.133, while the rest of the payment was postponed.

Language Provisions (Cont'd)

OTHER INTERDEPARTMENTAL ACCOUNTS

Direct State Services

2004 Appropriations Handbook	2005 Budget Recommendations
	p. D-457
No comparable language.	Of the amount appropriated hereinabove for the Statewide Emergency Telephone System, $9,428,000 is chargeable to receipts derived from the Wireless Communications and Cell Tower Assessment, pursuant to the passage of enabling legislation.

Explanation

This recommended language charges $9.4 million in receipts derived from a proposed wireless communications and cell tower assessment against the recommended $18.4 million appropriation for the Statewide Emergency Telephone System. The assessment is subject to enabling legislation. The FY 2004 adjusted appropriation was $12.8 million.

Grants-In-Aid

2004 Appropriations Handbook	2005 Budget Recommendations
	p. D-457
No comparable language.	The amount appropriated hereinabove for the Enhanced E-911 County Grants is chargeable to receipts derived from the Wireless Communication and Cell Tower Assessment, pursuant to the passage of enabling legislation. Grant awards and expenditures supported by the appropriation for Enhanced E-911 County Grants shall be determined in accordance with grant criteria to be jointly developed by the 911 Commission and the Departments of Treasury, Community Affairs, and the Attorney General's Office, the purpose of which will be to create incentives for the regional consolidation of 911 call services and public safety answering points.

Language Provisions (Cont'd)

Explanation

This recommended language charges $14.9 million in receipts derived from a proposed wireless communications and cell tower assessment against the recommended appropriation for the Enhanced 911 County Grants. The assessment is subject to enabling legislation. The FY 2004 adjusted appropriation for county grants was only $200,000.

SALARY INCREASES AND OTHER BENEFITS

Direct State Services

2004 Appropriations Handbook	2005 Budget Recommendations
p. B-194	p. D-458
Notwithstanding the provisions of any other law, including R.S.34:15-49 and section 1 of P.L.1981, c.353 (C.34:15-49.1), the State Treasurer, the Commissioner of Personnel, and the Director of the Division of Budget and Accounting shall establish directives governing salary ranges and rates of pay, including salary increases, provided, however, that across-the-board cost of living increases shall be provided to the public sector managers consistent with the executed contract between the State of New Jersey and the Communications Workers of America. By December 1, 2003 a report shall be issued addressing salary compression for public managers. The implementation of such directives shall be made effective at the first full pay period of Fiscal Year 2004 as determined by such directives, with timely notification of such directives to the Joint Budget Oversight Committee or its successor. Such directives shall not be considered an "administrative rule" or "rule" within the meaning of subsection (e) of section 2 of P.L.1968, c.140 (C.52:14B-2), but shall be considered exempt under paragraphs (1) and (2) of subsection (e) of section 2 of P.L.1968, c.410 (C.52:14B-1 et seq.). Nothing herein shall be construed as applicable to the Presidents of the State Colleges, Rutgers, The State University, the University of Medicine and Dentistry of New Jersey and the New Jersey Institute of Technology.	Notwithstanding the provisions of any other law, including R.S.34:15-49 and section 1 of P.L.1981, c.353 (C.34:15-49.1), the State Treasurer, the Commissioner of Personnel, and the Director of the Division of Budget and Accounting shall establish directives governing salary ranges and rates of pay, and salary increases including a 2.9% cost of living adjustment for public sector managers. The implementation of such directives shall be made effective at the first full pay period of Fiscal Year 2005 as determined by such directives, with timely notification of such directives to the Joint Budget Oversight Committee or its successor. Such directives shall not be considered an "administrative rule" or "rule" within the meaning of subsection (e) of section 2 of P.L.1968, c.140 (C.52:14B-2), but shall be considered exempt under paragraphs (1) and (2) of subsection (e) of section 2 of P.L.1968, c.410 (C.52:14B-1 et seq.). Nothing herein shall be construed as applicable to the Presidents of the State Colleges, Rutgers, The State University, the University of Medicine and Dentistry of New Jersey and the New Jersey Institute of Technology.

Language Provisions (Cont'd)

Explanation

The FY 2004 Appropriations Act (P.L.2003, c.122) contained the provision cited above addressing salary compression for public managers. Included in the Governor's proposed FY 2005 budget is $10.4 million for a 2.9% COLA for managers. This amount includes both compressed and non-compressed Executive Branch managers. The COLA is an across-the-board increase and, as such, applies equally to all managers in the Executive Branch.

2004 Appropriations Handbook	2005 Budget Recommendations
p. B-195	
Notwithstanding the provisions of subsection b. of section 24 of P.L.1954, c.84 (C.43:15A-24), amounts hereinabove appropriated for Salary Increases and Other Benefits are subject to the condition that the rate of State member contributions for Public Employees Retirement System retirement plan shall not increase in this fiscal year.	No comparable language.

Explanation

This FY 2004 language overrode the statute cited above that would have required members of PERS to increase their rate of contribution to the retirement system from 3 to 5 percent of compensation beginning on January 1, 2004. The absence of similar language in the FY 2005 budget means that the employee contribution will increase on July 1, 2004.

2004 Appropriations Handbook	2005 Budget Recommendations
p. B-195	
An amount not to exceed $3,900,000 shall be transferred to the Salary Increases and Other Benefits account from accounts in the Judiciary subject to the approval of the Division of Budget and Accounting.	No comparable language.

Explanation

This language was inserted during the FY 2004 appropriations process and is not recommended for FY 2005.

Language Provisions (Cont'd)

2004 Appropriations Handbook	2005 Budget Recommendations
p. B-195	
The amount hereinabove for Salary Increases and Other Benefits reflects a $15,000,000 reduction compared to the actual projected salary program needs. The Director of the Division of Budget and Accounting is directed to allocate up to $15,000,000 of this reduction on the basis of each department's prorated share of non-direct care, non-fee supported salary program needs.	No comparable language.

Explanation

The FY 2004 Appropriations Act language permitted the reduction in the appropriation for Salary Increases and Other Benefits by $15 million from actual projected salary program needs, by requiring each department to fund any shortfall from existing department resources.

Discussion Points

Medicare Prescription Drug Benefit

1. On December 8, 2003, President Bush signed H.R. 1, the *Medicare Prescription Drug, Improvement and Modernization Act of 2003*, which establishes a voluntary prescription drug benefit under Medicare Part D. Comprehensive drug coverage will begin in January 2006. Until then, Medicare-approved prescription drug discount cards are available to Medicare enrollees. The comprehensive drug coverage that begins in 2006 includes a $35 monthly premium, a $250 annual deductible, and 25 percent cost sharing up to the initial $2,250 coverage limit. If an enrollee purchases additional prescription drugs beyond the $2,250 limit, the enrollee must pay all costs of drugs between $2,250 and $3,600 the first year. If an enrollee spends more than $3,600, the enrollee is subject to a 5 percent cost sharing or certain low co-payments.

Group health plans, such as the State plan, that provide employment-based retiree health care coverage with a drug benefit comparable to the Medicare Part D plan will receive federal subsidies of 28 percent of costs between $250 and $5,000 in drug expenses per qualified retiree in 2006. A qualified retiree is an individual who participates in the employer's retiree prescription drug benefits program, and who is eligible but not enrolled in a Medicare prescription drug plan or Medicare Advantage (formerly Medicare+Choice) drug plan. This subsidy will cover some of the State's prescription drug costs as long as retirees do not enroll in the Medicare drug benefit.

The State may also choose to pay Medicare Part D premiums for eligible retirees or decide to "wrap" its benefit around the Medicare program to fill in gaps in coverage. However, in both cases, it would not be eligible for the federal subsidy.

! *Question:* Please detail how retiree prescription drug benefits will be integrated with the new federal prescription drug coverage under Medicare Part D. How much money will the State's retiree prescription drug program save annually with the federal subsidy of 28 percent? What advice, if any, is the Division of Pensions and Benefits offering to retirees on whether these retirees should apply for a Medicare-approved drug discount card?

Multiple Employer Pension Calculation

2. The State Auditor found that by making an adjustment to the calculation of certain retirees' pensions, significant savings could be achieved for the Public Employees' Retirement System (PERS). For most members the formula to calculate the maximum annual pension is years of service divided by 55 multiplied by the average salary for the three highest years. For multiple members — employees who are enrolled in one pension system but are employed in more than one job — all base salaries earned in a given year are combined and total years of service is used in calculating the pension. The use of combined salary amounts in the calculation is reasonable; however, applying total years of service to each salary component leads to disproportionate pension benefits. For calendar year 2002, the State Auditor determined that the PERS would have saved more than $6.4 million if an alternate calculation, one that combined each salary component but calculated the years of service from only one of the positions held, was used. Any provision to modify current practice would require legislative change.

! *Question:* Does the Administration plan to request a legislative change affecting the multiple employer pension calculation, one which would be based on years of service for each salary component?

Discussion Points (Cont'd)

Post Retirement Employment

3. The State Auditor found that the Division of Pensions and Benefits is not monitoring re-employment of PERS and TPAF retirees and relies on the retired member and public employer to report employment after retirement. In accordance with N.J.S.A. 43:15A-57.2 and N.J.S.A. 18A:66-53.2, retirees from PERS and TPAF are permitted to work for private industry, the federal government, a government agency in another state, or a position covered by a different retirement system administered by the State of New Jersey without affecting their retirement benefits. However, a PERS retiree must re-enroll in PERS if the retiree's aggregate salary compensation in one or more PERS-related position exceeds $15,000. TPAF retirees generally have to re-enroll if their position is covered by TPAF with no income limitation. The State Auditor reported that during calendar year 2002, 92 PERS retirees from local governments violated the law and earned $420,000 in wages while receiving $470,000 in pension income. Among TPAF retirees, 131 were found to be in violation of State statute and collected $6.2 million in wages while also receiving $6.0 million in pension allowance. The auditor noted that these results were conservative in that it only included wage earnings of $30,000 or more in the comparison.

! *Question:* Please describe what procedures the Division of Pensions and Benefits has implemented for the detection of retirees who violate State statutes concerning re-employment. What legal action, if any, will be taken against PERS and TPAF retirees who "double dipped" by violating these State laws? What action does the division plan to take to recover the fraudulently obtained pension allowances received by these retirees? Will public employers be fined for not reporting employment after retirement to the division?

UMDNJ Self-Insurance Reserve Fund

4. The FY 2005 recommended budget includes $18 million, an increase of $6 million over the FY 2004 adjusted appropriation, to pay for remaining claim expenditures incurred by the UMDNJ self-insurance fund (page D-447).

! *Question:* Please explain the necessity for this 50 percent increase in funding. What amount will the UMDNJ and its affiliates contribute to the fund in FY 2005 and how does this compare to FY 2004? Please describe what other actions the UMDNJ should take to increase the amount of contributions it makes to the self-insurance fund. How have budget actions in prior years affected the need for this appropriation?

Liberty Science Center

5. The Governor's FY 2005 budget recommends a $718,000 appropriation (page D-448) to the New Jersey Economic Development Authority (EDA) for costs associated with the Liberty Science Center expansion project. Partial financing for this estimated $104 million expansion would come through State contract bonds issued by the EDA. The debt service on those bonds would become a State obligation, in conjunction with private fund raising efforts. In December 2003, the EDA released a preliminary official statement on a proposed $14 million bond sale to finance a portion of the total Liberty Science Center project. An appropriation of $700,000 was provided in FY 2002 for preliminary study and design. However, due to the budgetary crisis, the appropriation was placed in reserve and lapsed at the end of the fiscal year.

Discussion Points (Cont'd)

! *Question:* Please describe the scope of this project in more detail. For what purpose will the FY 2005 recommended appropriation be used? 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? When is the $14 million bond sale scheduled? What is the estimated annual debt service payment schedule on this bond sale and any other bond sales anticipated for this project? When are debt service payments scheduled to commence?

Statewide Fire, Life Safety and Renovation Projects

6. More than $16.9 million from non-State funding sources is recommended in FY 2005 to finance fire and life safety projects throughout the State in various departments (pages D-448 and D-450), an increase of $7.3 million over the FY 2004 adjusted appropriation. This approach to financing fire, life safety and renovation projects is unconventional, in that under previous budgets each project was described in some detail prior to the approval of an appropriation by the Legislature. In FY 2004, $500,000 from this account was transferred out and used for other purposes and $2.8 million was placed in budget reserve.

! *Question:* Please document the fire, life safety and renovation projects that would be funded in FY 2005 from this appropriation and describe the criteria that will be used to prioritize these projects. Since the FY 2004 appropriation appears sufficient to meet expenses, on what basis is a $7.3 million increase in funding recommended for FY 2005? According to OMB, the indirect cost recovery account (page D-412) would fund this line-item. However, the recommended appropriation from this account is only $8.9 million. What other non-State source would be used to fund the Statewide Fire, Life Safety and Renovation Projects account? Why is it appropriate to remove the Legislature from the project approval process?

7. The Governor's FY 2005 budget recommends $78.8 million to the New Jersey Building Authority for debt service payments (page D-449).

! *Question:* What amount of this recommended appropriation would fund debt service payments for Building Authority bonds that have already been issued and what amount represents funding for projected bond sales? Please describe any future projects that the Building Authority will be presenting to the Legislature for approval in FY 2005 and the amount(s) of new debt that would be incurred if such projects are approved.

Renovation Projects

8. The FY 2005 recommended budget includes $2.7 million (page D-449) in new funding for renovation projects at various leased facilities or facilities that are anticipated to be leased for State use.

! *Question:* Please provide information on facilities that are scheduled to be renovated and a brief description of these projects.

Discussion Points (Cont'd)

Pension Contributions

9. For FY 2005, $198.0 million is recommended by the Governor in total State pension contributions. This recommendation takes into account the five-year phase-in initiative and the utilization of an unspecified amount of reserves in the Benefit Enhancement Funds within the PERS and TPAF to reduce the pension contribution requirements of the State to the retirement systems. It is anticipated that these initiatives will provide a reduction of $1,013.9 million from the State's required pension contribution of $1,211.9 million for FY 2005. Standards and Poor's reported that after a brief hiatus, the number of government employers throughout the country that are funding all or a portion of their unfunded actuarial accrued liability (UAAL) with pension obligation bonds is surging. A number of conditions have fallen into place to spark this resurgence, including: rapid growth in UAAL; low interest rates; potential net present value or other cost savings from a pension obligation bond.

! *Question:* Please detail, by each State-administered retirement system, the contribution amount certified by the actuary to fund both the normal cost and unfunded actuarial accrued liability (UAAL) in FY 2005. Please detail, by retirement system, the UAAL in FY 2005. What is the estimated amount remaining in the Benefit Enhancement Funds for the PERS and TPAF? Has the sale of pension obligation bonds been considered to fund all or a portion of the total UAAL and, if so, what conclusions have been drawn regarding this approach? If not, please provide a schedule and description as to how and when the UAAL of these various funds would be paid in full. Please provide the schedule of funding progress as prepared by the actuary for each retirement system, for both State and local portions. Please submit the valuation reports for the fiscal year ending June 30, 2003.

Health Benefits Program

10. Under the terms of the recent contracts with the various State employee unions, the provisions of the State Health Benefits Program (SHBP) was amended as follows: Traditional Plan deductibles increase from $100.00 to $250.00; HMO/Point-of-Service co-payments for primary and specialists increase from $5.00 to $10.00; retail prescription drug co-payments increase to $10.00 for brand name and $3.00 for generic drugs; and mail-order co-payments increase to $15.00 for brand name and $5.00 for generic drugs, all effective July 1, 2004. As of July 1, 2003, newly hired employees become ineligible for enrollment in the Traditional Plan.

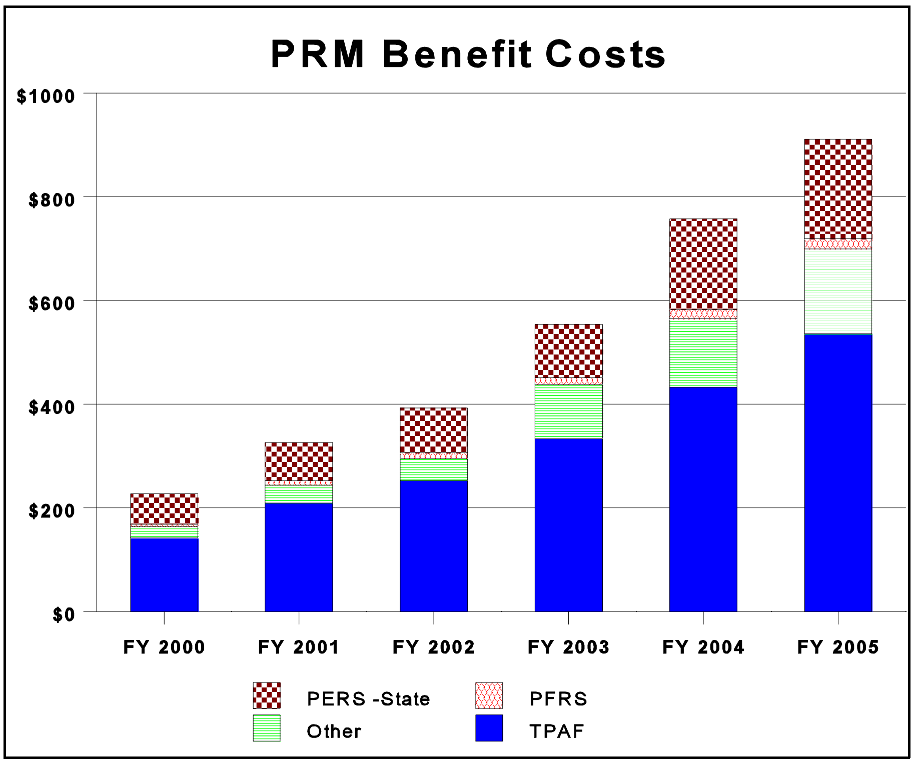
! *Question:* What is the estimated amount of increase in employee contributions to SHBP costs due to the changes in deductibles and co-payments referred to above? What is the estimated savings to the SHBP by closing Traditional Plan enrollment for new hires? As a matter of either fairness or economy, should the Traditional Plan also be closed to local new hires either across the board or upon initiation by the local employer? If implemented across the board, what are the estimated savings to local employers?

Discussion Points (Cont'd)

Post Retirement Medical Benefits

11. The FY 2005 recommended appropriation for post retirement medical (PRM) benefits is $911.2 million, up 20.2 percent or $153.3 million, over the FY 2004 adjusted appropriation of $757.9 million. The PRM program is a pay- as-you-go health care system for retired local school district employees, retired State employees, county college and higher education retirees, and local law enforcement retirees. Chart 1 below displays the costs for eligible State and local government retirees for FY 2000 - FY 2005 by retirement system.

Chart 1



Note: For the chart above, FY 2000 - FY 2003 show expended amounts; FY 2004 is the adjusted appropriation, and FY 2005 is the recommended budget appropriation. Dollars are in millions.

! *Question:* What is the present value of future PRM benefits payable? Please provide the actual and projected amount and rate of growth in gross PRM costs, by retirement system, attributable to growth in covered enrollment, medical cost inflation, increased benefits, and any other cost factor considered significant, for the period FY 2000 - FY 2005. Please provide this information separately for State and local employees.

Discussion Points (Cont'd)

SHBP Covered Members

12. According to evaluation data presented in the FY 2005 Budget (page D-453), employee coverage in the State Health Benefit Program (SHBP) is projected to increase 10.9 percent, from 339,716 members in FY 2002 to 376,775 members in FY 2005. This contrasts with a period of declining membership and local employer participation in previous years, which featured a low point of 258,127 covered employees in FY 1997. Most of the recent growth in covered members has taken place among local governments and school districts, rather than at the State level. State employee coverage rose a total of 6.9 percent during these four fiscal years, while local employee coverage rose a total of 13.6 percent.

! *Question:* What factors have accounted for the resumption of growth in SHBP participation? How many local employers have joined or rejoined the SHBP since FY 1997? How much of the increased coverage of local employees is due to participation of additional entities as opposed to growth in the number of employees (i.e., teachers) in entities that have retained membership in the SHBP? How many covered members are retirees eligible for Post Retirement Medical benefits through the SHBP, rather than active employees?

TPAF Enrollment

13. Evaluation data on pages D-82 and D-453 of the FY 2005 Budget reveals that the number of local members enrolled in the TPAF is increasing at more than double the rate of student enrollment. For example, from FY 2002 to FY 2004, the number of local TPAF enrolled members rose 5.87 percent, from 145,437 to 153,965. Application data for State school aid shows that over the same time period, the number of students enrolled Statewide rose by only 2.81 percent, from 1,344,190 in FY 2002 to 1,381,925 in FY 2004. State funds are appropriated to pay the employer share of the social security tax for these local school district employees and the State pays the cost of providing post retirement medical benefits for individuals who retire from the TPAF. In FY 2005, the recommended appropriation for these two items are $632.1 million and $525 million, respectively. As a means to help reduce the rate of growth in local property taxes, some states withhold a portion of state funds to local school districts if such districts consistently increase the number of employees at a rate that is greater than the increase in student enrollment.

! *Question:* Given the increase in the number of local TPAF employees hired over the past two fiscal years and the State's obligation to fund the employer share of the social security tax and post retirement medical benefits for these new members, has any consideration been given to capping the number of school district employees for which the State funds these fringe benefit costs?

Enhanced 911 Emergency Telephone System

14. The Governor's FY 2005 budget recommends a total $33.3 million for Emergency 911 Telephone Systems throughout the State (pages D-456 and D-457). This amount includes $18.4 million to fund the Statewide 911 Emergency Telephone System, of which $9.4 million would be chargeable to receipts derived from a proposed wireless communications / cell tower assessment, subject to enabling legislation. Funding for grants-in-aid to counties is recommended at $14.9 million to enhance their 911 Emergency Telephone Systems. Funding for this Enhanced E-911 County Grants program would also be chargeable to the assessment described above. Budget language stipulates that grants would be determined using criteria to be developed by the 911 Commission and the Departments of Treasury, Community Affairs and the Attorney's General

Discussion Points (Cont'd)

Office, which are intended to create incentives for the regional consolidation of 911 call services and public safety answering points.

! *Question:* Please itemize the costs to be funded with the recommended direct state services appropriation of $18.4 million and submit the details explaining the need for a $5.5 million increase in the amount of funding for the Statewide 911 Emergency Telephone System over the FY 2004 adjusted appropriation. Have grant criteria been determined by the 911 Commission and the departments referenced above? If not, when, and by what process, e.g., administrative regulation, will they be determined? What expenses and activities will be funded by these grants? Is the recommended language intended to restrict grants to only those projects that regionalize services, or merely to give priority to such projects in the allocation of grants?

Workers Compensation Fund

15. The State is self-insured for workers' compensation payments made to State employees. Claims are funded through the Interdepartmental Accounts budget. State expenditures for workers' compensation claims have been increasing in recent years and the program has required supplemental funding. In FY 2003, $40.9 million was expended; through April 2004, FY 2004 supplemental appropriations total $11.5 million, $3.5. million in excess of the amount projected in the FY 2005 budget (page D-447), and $44.9 million has been expended. For FY 2005, only $41.9 million is budgeted. Budget language (page D-451) allows any savings on workers' compensation claims that the Departments of Human Services, Transportation, Corrections, and Law and Public Safety may achieve to be transferred to the respective department.

! *Question:* Is the State expecting a significant decrease in claims in FY 2005? If not, given the rising cost of health care, why does the budget reflect a decrease in workers' compensation costs? Since only $1.6 million remains in this account, will additional supplemental funding be required in FY 2004 and, if so, in what amount? Please provide an overview of the administration of workers' compensation claims, including the identity and tenure of any third party administrator. What procedures are used to identify claims that may be fraudulent? Does the State monitor workers who are receiving workers' compensation benefits? How much has the State recovered in fraudulently obtained workers' compensation payments this fiscal year? Please provide a list, by department or agency, of the number of employees receiving workers' compensation for the past three fiscal years.

Background Paper: Health Benefit Cost Trends

Budget Pages.... D-99, D-398, D-399, D-429, D-453, D-454

Summary		
	!	The FY 2005 recommended appropriation for active State and higher education employee health benefits and for Post Retirement Medical (PRM) benefits for State and local retirees totals $1,876 million.
	!	The cost to fund these health benefits has increased 126.7 percent over the past five fiscal years, from $827.5 million in FY 2000.
	!	Should the growth rate continue, by FY 2008 costs would approach $3.4 billion.
	!	Since FY 2000, PRM costs rose an average 32 percent per year due to significant premium rate increases for retirees and increases in the number of eligible PRM beneficiaries. Active health benefit costs rose an average of 9.27 percent for State employees and 11.72 percent for higher education employees.
	!	As of July 1, 2002, the unfunded PRM accrued liability was $10.6 billion for TPAF and $4.4 billion for PERS.

Costs associated with providing health care benefits for active employees and post-retirement medical (PRM) benefits represent a significant funding issue for public sector employers. This paper examines cost trends to provide State-funded health care benefits for active State employees, active employees at State colleges and universities and eligible retired State employees, school district employees and other local employees.

State Health Benefits

The State Health Benefits Program (SHBP) was established in 1961 to provide health benefits to State employees and their dependents. It includes a Traditional Plan (basic indemnity type plan), a point-of-service plan (NJ Plus), and several HMOs. The prescription drug plan was initiated in 1974 and the dental program was initially established in 1978 and further expanded in 1984. For FY 2005, a total of 376,775 employees and their dependents will be covered in the SHBP, including 144,338 State and 232,436 local employees. This represents an increase of 3.5 percent from the 363,457 SHBP enrollees in FY 2004. In FY 2000, the number of covered members totaled 303,342, including 127,215 State and 176,127 local members.

Post Retirement Medical Eligibility and Benefits

Under current law, the State is responsible for payment of full or partial cost of PRM benefits under the State Health Benefits Plan for numerous State and local government retirees and their dependents, but not their survivors. State employees who accrued 25 years of service on or before July 1, 1997 receive fully paid health benefits coverage in the Traditional Plan (fee for service) as well as all the 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 coverage and Medicare Part B according to the terms

Background Paper: Health Benefit Cost Trends (Cont'd)

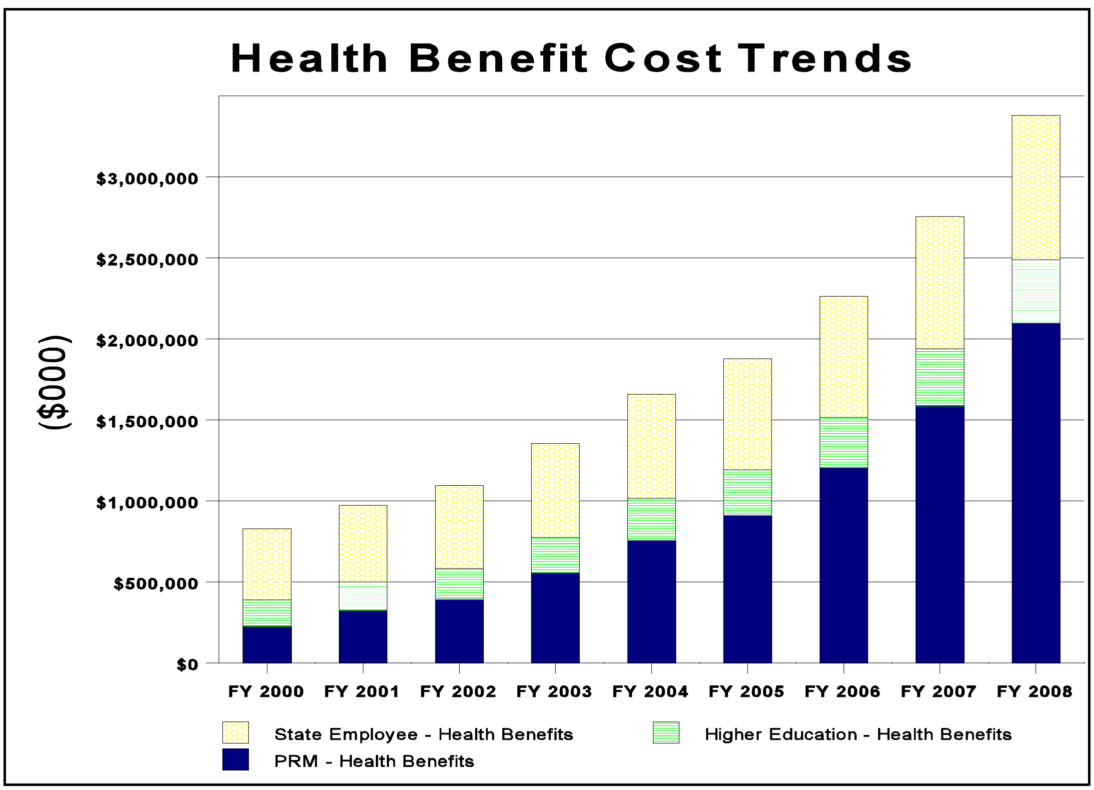
specified in the union contract applicable to them at the time they attain 25 years of service credit, or retire for disability.

Retired school board and county college employees who accrued 25 years of service are eligible to receive fully paid health benefits coverage in the Traditional Plan as well as all managed care plans. Approximately 80 percent of retired school board employees have remained in the more expensive Traditional Plan.

For certain police officers and firefighters and their dependents, but not survivors, who retire with 25 or more years of service credit, or on disability, and who do not receive any employer payment toward PRM benefits, the State pays 80 percent of the cost of the least expensive plan for the chosen type of coverage among the State health benefits plans. The retiree pays the remainder of the cost of whatever plan is chosen and pays for Medicare Part B.

Chart 1 displays State health benefit costs for active employees and PRM gross premium costs for the FY 2000 - FY 2008 time period. FY 2000 - FY 2003 are expended amounts, FY 2004 is the adjusted appropriation, FY 2005 is the recommended appropriation and FY 2006 - FY 2008 are projected costs based on past trends.

Chart 1



Note: FY 2005 is the estimated cost and FY 2006 - FY 2008 are projected costs.

Background Paper: Health Benefit Cost Trends (Cont'd)

Funding For Health Benefits

For FY 2005, the Governor recommends $1,876 million to fund health care benefits for active State and active higher education employees, as well as for retired State, school district and local employees. This amounts to an increase of $217.6 million, or 13.1 percent, over the FY 2004 adjusted appropriation of $1,658.4 million. However, the rates of increase for active and retired employees, as well as within the active and retiree categories, has varied greatly since FY 2000. For example, the rate of growth in health care costs has been fastest among the PRM accounts, rising an average of 32 percent annually from FY 2000 - FY 2005. This compares to an average annual increase of 9.27 and 11.72 percent for active State and active higher education employees, respectively. Should these rates of increase continue, by FY 2008 the cost for these benefits would total nearly $3.4 billion.

The FY 2005 recommended appropriation for active State employee health benefits, as measured in the direct state services appropriation for health benefits, prescription drug program, dental program - shared cost, and the vision care program — is $684.4 million, an increase of $40.1 million or 6.2 percent over the FY 2004 adjusted appropriation. Rates have increased an average of 9.3 percent annually since FY 2000 and if this trend continues, by FY 2008 such costs would amount to $893 million.

The FY 2005 recommended grants-in-aid appropriations to fund health benefits, prescription drugs and dental benefits for higher education employees is $280.6 million. This represents an 9.5 percent increase over the $256.2 million FY 2004 adjusted appropriation. Since FY 2000, these costs have increased an average of 11.7 percent each year and would total $391.3 million in FY 2008 if current trends continue.

Rate of Increase Fastest For PRM

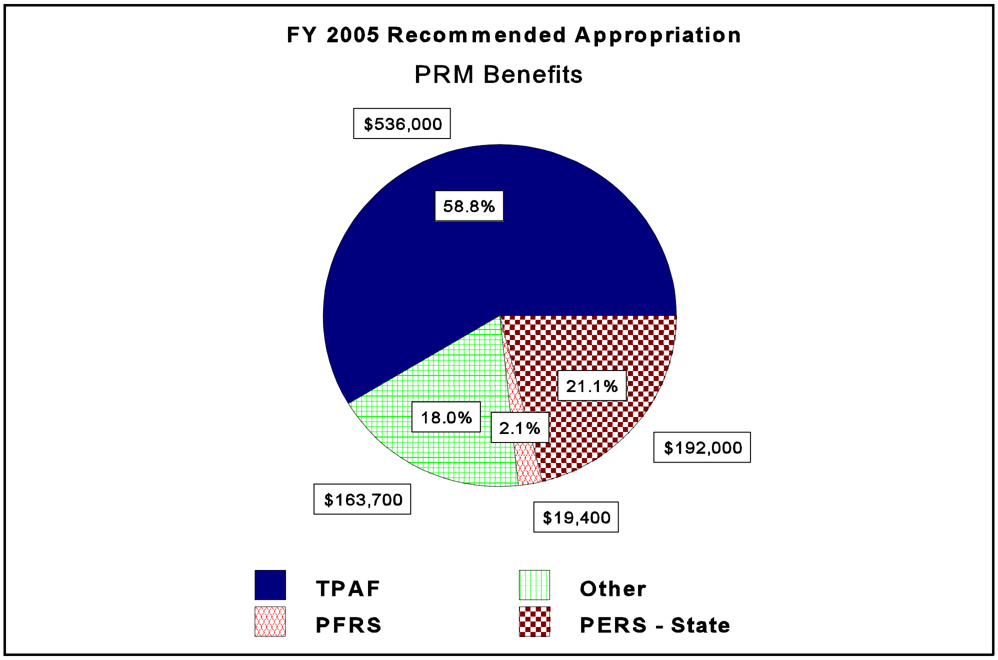
The two main reasons costs are increasing faster among the PRM accounts are: (1) significant premium rate increases for retirees and (2) and increase in the number of eligible PRM beneficiaries. As of June 30, 2003, there were 61,549 retirees receiving State-funded PRM benefits, up 7,056 retirees from the 54,493 retirees receiving such benefits in the previous year. At the end of FY 2000 (June 30, 2000) there were 48,156 retirees eligible for PRM benefits. Thus, the number of eligible retirees has risen 27.8 percent during the FY 2000 - FY 2003 three-year time period.

Among funding trends for the PRM accounts, the rate of expenditure growth for the Public Employees Retirement System (PERS) - State retirees has averaged 26.7 percent from FY 2000 - FY 2005, compared to the overall increase of 32 percent for the system during the same time period. One reason for this slower rate of growth in PRM costs for PERS - State retirees may be the requirement that individuals who retiree after July 1, 1997 may be required to share in paying the cost of coverage and Medicare Part B according to terms specified in the union contract applicable to them at the time they attain 25 years of service credit, or retire for disability.

Of the total $911.1 million FY 2005 recommendation, approximately 58.8 percent — or $536.0 million — would fund health care for local school district TPAF retirees. Another $192.0 million — or 21.1 percent — is recommended for retirees of PERS - State. The remainder of the recommended appropriation would fund retirees of county colleges, institutions of higher education, local governments, certain school district employees who are not members of the TPAF and State retirees who did not retire from PERS, such as Judiciary Retirement System and State Police retirees. These percentages are displayed on Chart 2 below.

Background Paper: Health Benefit Cost Trends (Cont'd)

Chart 2 ($ 000)



Unfunded PRM Accrued Liability

Because PRM benefits are funded on a current, as opposed to actuarial or reserve basis, the State is not at present required by generally accepted accounting principles to record a liability for the value of future PRM obligations. Nevertheless, a future liability undeniably exists, and is substantial. For example, the present value of the future PRM benefits payable as of the July 1, 2002 actuarial valuation for PERS was $4.4 billion and for TPAF was $10.6 billion. The Governmental Accounting Standards Board is currently considering whether states and other governmental entities should be required to incorporate a liability for future PRM obligations into their financial statements, which could have a significant impact on the fiscal position of New Jersey and other governmental entities that fund PRM on a current basis.

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Individuals wishing information and committee schedules on the FY 2005 budget are encouraged to contact:

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