ANALYSIS OF THE NEW JERSEY

FISCAL YEAR 1999 - 2000 BUDGET

INTER-DEPARTMENTAL ACCOUNTS

PREPARED BY

OFFICE OF LEGISLATIVE SERVICES

NEW JERSEY LEGISLATURE

MAY 1999

NEW JERSEY STATE LEGISLATURE

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INTER-DEPARTMENTAL ACCOUNTS

Budget Pages....... D-425 to D-436; E-23 &24

Fiscal Summary ($000)

	Expended FY 1998	Adjusted. Appropriation FY 1999	Recommended FY 2000	Percent Change 1999-00
State Budgeted	$1,394,965	$1,638,605	$1,778,545	8.5%
Federal Funds				—
Other				
Grand Total	$1,394,965	$1,638,605	$1,778,545	8.5%

Personnel Summary - Positions By Funding Source

	Actual FY 1998	Revised FY 1999	Funded FY 2000	Percent Change 1999-00
State				—
Federal				—
Other				—
Total Positions	NA	NA	NA	NA

Introduction

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

Key Points

! The Office of Management and Budget has indicated that $50 million will lapse at the close of FY 1999 to the General Fund from an account identified as the Post Retirement Medical Surplus account.

Key Points (Cont'd)

! According to the Budget in Brief (page 1), $36.4 million, of the $92.8 million in revenue anticipated in the budget from the recent settlement, with the Tobacco industry, will be used to fund "state employees' health benefits".

! The Governor's recommended appropriation for Property Rentals is $203.3 million, a decrease of $5.1 million, or 2.5 percent, from the FY 1999 adjusted appropriation. However, budget language (page D-430), provides for an additional appropriation of up to $3 million to pay property rental obligations.

According to the Budget in Brief (page 33), the debt service reserve fund for the South Jersey Port Corporation is reduced by $2.3 million, there is a $1 million initiative to curtail agency office renovation and other special projects, and the maintenance costs for the vacated North Princeton Developmental Center and Marlboro Psychiatric Hospital are reduced by $2.5 million. In addition, there will be savings of $6.4 million as a result of the acquisition of the Justice Complex by the New Jersey Building Authority. Partially offsetting these reductions are $4.5 million in additional funding to support lease consolidation efforts, $1.3 million for Other Debt Service Leases and Tax Payments, and $922,000 for increased debt service for the Economic Development Authority.

! Funding for the Aid to Independent Authorities classification is recommended to increase by $18.7 million, from $61 million to $79.7 million.

According to the Budget in Brief (page 34), funding for the Sports and Exposition Authority - Debt Service account is recommended to increase by $21.7 million, from $33.9 million to $55.7 million. The additional funding is to "support the debt service for the Wildwood Convention Center, the Monmouth Park Racetrack, the Authority's capital renewal program, and East Hall of the old Atlantic City Convention Center." The Governor's recommended budget includes $6 million for the Liberty Science Center. In the current fiscal year, the $6 million is authorized by budget language in the Department of Education, PTRF - State Aid (Handbook page G-4). Partially offsetting these increases is a reduction of $4 million in the Sports and Exposition Authority Operations account and $5 million for the Trenton Hotel Project.

! According to the Budget in Brief (page 41), the FY 2000 budget anticipates the use of $172.1 million in surplus pension fund assets to reduce or offset the State's obligations to fund the various State retirement systems. As in FY 1999, no appropriation is necessary to fund the State Police Retirement System, the Judicial Retirement System, or the Prison Officers' Pension System and the State contributions to fund the Teachers' Pension and Annuity Fund and the Public Employees' Retirement System are less than "the actuarially determined normal contribution for the current year."

! The State contribution to fund the Police and Firemen's Retirement System is recommended to increase by $33.5 million, from $1.8 million to $35.3 million. The recommended increase is due to a decline in surplus pension fund assets to offset the State contribution, as an employer, for this retirement system.

! The Debt Service on Pension Obligation Bonds is decreasing $22 million to reflect savings in the current year (FY 1999) from refinancing a portion of the outstanding debt at lower interest rates.

Key Points (Cont'd)

! The cost of providing health benefits, including medical, prescription drug, dental and vision care, for State employees continues to rise. Funding for the State Employees' Health Benefits account is recommended to increase $40.3 million, or 9.3 percent, to $473.4 million and funding for the State Employees' Prescription Drug is recommended to increase $19.3 million, or 19.5 percent, to $118.4 million. According to the Budget in Brief (page 42), "This growth is a result of anticipated rate increases for all State health plans, reflecting continued cost escalation in the health care industry."

The State Health Benefits Commission voted to increase, effective July 1, 1999, the employee co-payment for generic and mail order prescriptions to $5 per prescription. The co-payment for generic prescriptions was $1 and there was no co-payment for mail order prescriptions to encourage participants to utilize less expensive generic substitutes and the less expensive mail order program.

! Funding for the Year 2000 Data Processing Initiative is recommended to decrease by $21.9 million, from $31.9 million to $10 million. According to the Budget in Brief (page 46), "approximately 75% of centrally maintained State systems are complete; departmental systems are in varying stages of remediation, and all systems are expected to be complete and tested prior to the beginning of the year 2000." However, budget language (Budget page D-435) provides for an additional appropriation of up to $7.5 million to ensure completion of all Year 2000 related data processing projects.

! The Governor's recommended budget of $38.4 million for Salary Increases and Other Benefits does not include funds to pay across-the-board salary increases (COLAs) because the State is negotiating new contracts with the CWA, AFSCME, IFPTE, and PBA, although it does include increases pursuant to contractual agreements with the Judiciary Council of Affiliated Unions (JCAU) and the State Troopers Fraternal Association of New Jersey (STFA) through FY 2000.

The State is in the fourth year of four-year contracts expiring June 30, 1999 with the Communications Workers of America (CWA), the American Federation of State, County, and Municipal Employees (AFSCME), the International Federation of Professional and Technical Engineers (IFPTE) and the Policemen's Benevolent Association (PBA). These unions represent approximately 52,100 State employees.

! The Governor's recommended budget for capital construction includes $98 million for the Open Space Program, the first appropriation for the voter approved program to purchase and preserve one million acres of open space over the next ten years. According to the Budget in Brief (page 30), "The program will provide for open space and farmland preservation, historic preservation and park development in urban, suburban and rural areas" and is addition to the $88.4 million in capital funds recommended for the Department of Environmental Protection.

! The Governor's budget recommends $22.5 million for various statewide capital construction projects. This recommendation is $6.1 million, or 37.2 percent larger than the FY 1999 adjusted appropriation. According to the Budget in Brief (page 32), $4 million of the recommended amount is to preserve buildings within the Capitol Complex and $2 million is for energy efficiency projects. The balance of the recommendation, $16.5 million, is to comply with federal and State requirements.

Key Points (Cont'd)

Background Papers

Program Description and Overview

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

Administration of the State Retirement Systems

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

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

The FY 2000 Direct State Services recommended appropriation for the Inter-Departmental Accounts includes $232.8 million to pay for the employer contributions to the various pension systems and the Alternate Benefits Program and to fund the following pension-related programs: the Pension Adjustment Act, the Minimum Pension Benefit Act and the debt service on the pension obligation bonds. This is an increase of $22.4 million, or 10.6 percent, above the FY 1999 adjusted appropriation. Most of the increase is attributable to additional State contributions to fund the Police and Firemen's Retirement System (PFRS). According to the Budget in Brief (page 41), $172.1 million in surplus pension fund assets have been drawn down to offset FY 2000 State contributions. The recommended increase for the PFRS is necessary because, unlike FY 1999, there are insufficient surplus pension fund assets to offset the State's normal contribution to fund this retirement system in FY 2000.

In addition to the Inter-Departmental appropriations to fund the State retirement systems, the Governor's FY 2000 recommended budget includes $239 million as State Aid to fund the Teachers' Pension and Annuity Fund (TPAF), as well as other pension related costs, on behalf of county colleges and certain municipal and school district employers. This is a decrease of $244.8 million, or 50.6 percent, below the FY 1999 adjusted appropriation. This reduction is attributable to major pension legislation enacted in June 1997. P.L.1997, c.114 which authorized the Economic Development Authority (EDA) to issue $2.8 billion in bonds to finance a portion of the unfunded liability of the State pension systems, which together with the use of additional assets recognized by the one-time change to full-market value of assets (P.L.1997, c.115) were sufficient to fully fund the retirement systems (State liability), excluding the liability of employer-paid post-retirement medical benefits. The table on the following page displays the various pension related programs funded through State Aid appropriations:

Program Description and Overview (Cont'd)

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

General Fund - State Aid	FY 1999	FY 2000
Department of Education		
Additional Health Benefits (D-121)	$17,000,000	$19,916,000
Minimum Pension for Pre-1955 Retirees (D-121)	$6,000	$6,000
Department of Treasury		
Employer Contributions - Alternate Benefit Program (D-383)	$15,910,000	$15,981,000
Employer Contributions - Teachers' Pension and Annuity Fund (D-383)	$391,000	$327,000
Debt Service on Pension Obligation Bonds (D-383)	$69,000	$70,000
Additional Health Benefits (D-383)	$1,417,000	$2,240,000
Debt Service on Pension Obligation Bonds (D-410)	$3,103,000	$8,708,000
Police and Firemen's Retirement System, Health Benefits (D-410)	$6,149,000	$2,635,000
Property Tax Relief Fund - State Aid		
Department of Education		
Teachers' Pension and Annuity Fund (D-121)	$371,487,000	$119,975,000
Debt Service on Pension Obligation Bonds (D-122)	$68,297,000	$69,191,000
TOTAL, State Aid	$483,829,000	$239,049,000

Recent Legislation Affecting Pension Funding

P.L.1992, c.41 revalued the assets and recalculated the unfunded liabilities of the Public Employees' Retirement System (PERS), the Teachers' Pension and Annuity Fund (TPAF), the Police and Firemen's Retirement System (PFRS), the State Police Retirement System (SPRS), the Judicial Retirement System (JRS) and the Consolidated Police and Firemen's Pension Fund (CP&FPF). As a result of these changes, the pension funds adopted an assumed interest rate of 8.75%, which reduced the employer (State and local government) contributions required to annually fund these retirement systems.

Program Description and Overview (Cont'd)

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

The enactment of major pension legislation in June 1997 permitted the State to refinance its pension obligations. P.L.1997, c.114 authorized the Economic Development Authority to issue $2.8 billion in bonds to finance a portion of the unfunded liability of the State pension systems, which together with the use of additional assets recognized by the one-time change to full-market value of assets (P.L.1997, c.115) were sufficient to fully fund the retirement systems (State liability) excluding the liability for employer-paid post-retirement medical benefits. In addition, P.L.1997, c.115 permits the Treasurer to use surplus pension fund assets to offset the annual employer (State and local government) contributions to fund the retirement systems. In FY 2000, approximately $172.1 million in surplus pension fund assets are used to offset State contributions.

The FY 2000 total recommended appropriation (DSS and State Aid combined) to fund the debt service on the pension bonds is $108.3 million, or $25 million less than the actual $133.3 million debt service cost. The Governor's budget includes language (Budget page D-434) to carryforward unexpended funds from FY 1999 to pay a portion of the FY 2000 debt service costs. As of May 6, 1999, $25 million in the account is uncommitted. According to the department, these funds will be available as a result an agreement to refund a portion of the outstanding pension bonds. The debt service payments are structured to mirror the annual State unfunded accrued liability contributions required under prior law. The payment schedule starts out with low annual payments that initially do not cover the annual interest cost of the bonds and then rise steeply over time.

The FY 2000 recommended budget for the Department of Treasury, State Aid (Budget page D-410), also includes an appropriation of $2.6 million for the Police and Firemen's Retirement System, Health Benefits account. Recent legislation, P.L.1997, c. 330, provides State-paid post-retirement medical (PRM) benefits to certain PFRS members, who were employed by local governments but do not receive employer-paid PRM benefits.

Pension Benefits

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

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

PERS was established in January, 1955, to provide coverage to substantially all full-time employees of the State or local governments or public agencies who are not required by law to become members of another contributory retirement system. Membership is mandatory and vesting occurs after 10 years of membership. Members are generally eligible for retirement at age 60 with

Program Description and Overview (Cont'd)

the retirement benefit calculated by formula (1/60 x average final compensation x number of years of service). Employees enrolled in this retirement system contribute to and are eligible to receive pension benefits and Social Security benefits. Employer obligations are paid by the local employers and the State (as an employer). This system is maintained on an actuarial reserve basis.

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

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

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

The State pays the full employers' share of contributions (except for the cost of the early retirement windows which are paid for by the participating districts) on behalf of local school districts. As a result, the State's payments are budgeted as State Aid to the Department of Education. The recommended budget includes $119,975,000 in the Department of Education, Teachers' Pension and Annuity Fund account; $69,191,000 for Debt Service on Pension Obligation Bonds; and $491,368,000 in the Social Security Tax account as Property Tax Relief Fund - State Aid in the FY 2000 Budget (page D-121).

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

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

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

PFRS was established in June, 1944, to provide coverage to all full-time county and municipal and State police and firemen appointed after June 1944 in municipalities where local police and firemen pension funds existed or where this system was adopted by referendum or resolution. Membership is mandatory and vesting occurs after 10 years of membership. A member may retire after 25 years of service or at age 55 with 20 years of service. The retirement benefit is calculated by formula (2% x final compensation x number of years of service up to 30, plus 1% of final compensation for each year of service in excess of 30 years). Special retirement is available to members with 25 years of service at 65 percent of final compensation plus 1 percent of final compensation for each year of service over 25, to a maximum of 70 percent of final compensation.

Program Description and Overview (Cont'd)

Employer obligations are paid by the local employers and the State (as an employer). This system is maintained on an actuarial reserve basis.

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

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

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

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

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

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

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

The Alternate Benefit Program was established in 1967 for full-time faculty members of public institutions of higher education. All eligible faculty members were permitted to transfer their membership in State retirement systems to these programs. Participants have the option to provide for their pensions through the purchase of fixed or variable annuities underwritten by private vendors, the Teachers Insurance and Annuity Association (TIAA) or the College Retirement Equities Fund (CREF). The minimum contribution by employees is 5 percent of their base salary. The employer (State and the Institutions of Higher Education), contribute a flat rate of 8 percent of base salary. Almost immediate vesting is available to those participating in this program.

Health Benefits

The State Health Benefit Program (SHBP) was created in 1961 to provide health insurance coverage for State employees. In 1964, the program was expanded to allow local governments to participate. The SHBP is administered by the Division of Pensions and Benefits in the Department

Program Description and Overview (Cont'd)

of Treasury. The SHBP is a multiple option program offering: (1) a Traditional fee-for-service plan (Blue Cross/Blue Shield/Major Medical), nine Health Maintenance Organizations (HMOs) and a hybrid of the two, NJ Plus, also known as a Preferred Provider Organization or point-of-service (POS) medical plan. Both the Traditional Plan and NJ Plus (POS) are self-insured, which means that the money paid out for benefits comes directly from the State, participating local governments and employees. Though the Traditional Plan and NJ PLUS are self-insured, "premium rates" are established annually for the purpose of meeting the program's projected expenditures on an accrual basis (when they actually occur).

Beginning in FY 1999, three of nine HMOs - Aetna/USHealthcare, Horizon HMO (formerly HMO Blue) and CIGNA - shifted to a self-insured financial arrangement. This financial arrangement is similar to the self-insured arrangement for the Traditional Plan and NJ Plus. The participating HMO will offer its network of doctors and hospitals to SHBP participants selecting HMO coverage, administer the program and the HMO will be reimbursed for all claims. The HMO administering the program does not provide any insurance and the risk of adverse claim experience will the responsibility of the SHBP. (The non-self-insured HMOs operate under a different financial arrangement with the State and participating local government employers paying a flat fee per participating employee directly to the HMO.) Buck Consultants, Inc., a benefits consulting firm under contract to the SHBP, estimated savings of $7 to $9 million from self-insuring these HMOs. Based on September 1998 enrollments, almost 74 percent of the active employees are enrolled in the three self-insured HMOs.

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

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

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

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

Program Description and Overview (Cont'd)

P.L.1996, c.8 made the State's obligation to pay the premium or periodic charges for the SHBP coverage with respect to active employees and retirees subject to collective bargaining. With respect to State employees for whom there is no majority representative for collective negotiations purposes, the State Health Benefits Commission may, in its sole discretion, modify the respective statutory payment obligations of the State and such employees in a manner consistent with the terms of any collective negotiations agreement binding on the State. Current law requires local participating public employers to pay the cost of SHBP coverage for an employee and authorizes those employers to require an employee contribution toward some or all of the cost of dependent coverage. Many local employers, however, have assumed the cost of SHBP dependent coverage. Legislation, similar to P.L.1996, c.8, has been introduced, Assembly Bill No. 1342 and Senate Bill No. 1397 of 1998, to make participating local governments' obligations to pay SHBP charges of active members and retirees subject to collective bargaining.

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

In FY 1998, the State utilized $115.8 million of the surplus that had accumulated in the Health Benefits Program Fund (HBPF) - State Plan, to offset the State cost of funding the SHBP. The HBPF - State Plan has an accumulated surplus from better than anticipated experience (in prior years) under the self-insured Traditional Plan and NJ Plus programs. According to Buck Consultants, Inc., SHBP Financial Projections and Claims Analysis report, the Traditional Plan and NJ Plus had a combined surplus of $69.9 million for the period ending June 30, 1996. This surplus increased to $122.5 million for the period ending June 30, 1997 (FY 1997). The FY 1998 drawdown of the accumulated surplus was projected to leave the HBPF - State Plan with a surplus of $8.8 million for the period ending June 30, 1998. A portion, $7.3 million, of the remaining surplus is being used in FY 1999 to partially offset the Traditional Plan premium rates. Buck Consultants is projecting a $1.9 million deficit for the Traditional Plan, $7.7 million deficit for the NJ Plus plan and a $3.6 million surplus for the Prescription Drug Program, for a net deficit of $6 million as of June 30, 1999. Because the State Plan does not currently have any existing margins against adverse experience, the State will have to fund the accumulated deficit.

(According to the SHBP Financial Projections - Local Plan report, dated January 19, 1999, after using $2.8 million to partially offset premiums and the adoption of a one month premium holiday for FY 2000, the HBPF - Local Plan has a projected surplus, as of June 30, 2000, of $76.6 million. This surplus represents 17.1 percent of projected plan costs.)

The $473.4 million recommendation for the State Health Benefits Program (State Plan) is an increase of $40.3 million, or 9.3 percent, above the FY 1999 adjusted appropriation. The recommendation is an estimate of the total cost to provide health insurance to State employees through the SHBP.

Salary and Other Benefits

The New Jersey Employer-Employee Relations Act, (N.J.S.A. 34:13A-1 et seq.), guarantees public employees the right to collective bargaining. According to the Office of Management and

Program Description and Overview (Cont'd)

Budget's Payroll Position System, as of January 1999 (pay period 1), there were 68,594 full-time employees paid through the State payroll system. This number includes the Legislature (471), Judiciary (1,706) and County Court (7,176) employees. This figure does not include employees of Rutgers, the State University; the University of Medicine and Dentistry of New Jersey (UMDNJ); the New Jersey Institute of Technology (NJIT); and the nine State colleges which are not included in the State payroll system. Of the 68,594 State employees on the payroll system, approximately 63,000 are represented by authorized employee organizations.

The State is in the final year of contracts, expiring June 30, 1999, with the Communications Workers of America (CWA), the American Federation of State, County, and Municipal Employees (AFSCME), the International Federation of Professional and Technical Engineers (IFPTE) and the Policemen's Benevolent Association (PBA).

In 1998, the State settled with the Probation Association of New Jersey, the CWA and the Judiciary Council of Affiliated Unions which represent approximately 8,200 Judiciary employees. In December 1998, the State concluded contracts (through arbitration) with two unions representing approximately 2,600 commissioned officers, non-commissioned officers and troopers of the Division of State Police. These contracts expire June 30, 2000.

The FY 2000 recommended budget includes $38.4 million to pay for salary adjustments. According to the Budget in Brief (page 40), these funds are to pay "increments, deferred increments and across the board raises from employee contracts ending June 30, 1999. Also recommended are increases in accordance with contractual agreements with the Judiciary employee unions running through fiscal 2000. In addition, this total includes employee increments, across the board raises and maintenance allowances in accordance with contractual agreements with the State Troopers Fraternal Association of New Jersey (STFA) through fiscal 2000."

Property Rentals and Leases

The $243.5 million recommended for Property Rentals includes: $59.1 million for debt service and payments in lieu of taxes for facilities built and under construction by the New Jersey Building Authority; $13.4 million for debt service for the Economic Development Authority; $5.2 million for the debt service for the South Jersey Port Corporation; $14.9 million for Other Debt Service, Leases and Tax Payments; and $150.9 million for all other State leases. The State anticipates receiving $40.2 million from non-State funding sources, resulting in a net cost for all other leases of $203.3 million.

The FY 2000 recommended appropriation for Property Rentals is a decrease of $5.1 million from the FY 1999 adjusted appropriation. According to the Budget in Brief (page 33), the debt service reserve fund for the South Jersey Port Corporation is reduced by $2.3 million, there is a $1 million initiative to curtail agency office renovation and other special projects, and the maintenance costs for the vacated North Princeton Developmental Center and Marlboro Psychiatric Hospital are reduced by $2.5 million. In addition, there will be savings of $6.4 million as a result of the acquisition of the Justice Complex by the New Jersey Building Authority. Partially offsetting these reductions are $4.5 million in additional funding to support lease consolidation efforts, $1.3 million for Other Debt Service Leases and Tax Payments, and $922,000 for increased debt service for the Economic Development Authority.

Program Description and Overview (Cont'd)

Insurance and Other Services

The State self-administers and self-insures its liability as an employer for Tort Claims, Workers' Compensation, and automobile (Vehicle Claims) liability risks. Claims are reported as expenditures in the year they are actually paid. The amounts recommended for the Tort Claims Liability Fund, Workers' Compensation Fund, and Vehicle Claims Liability Fund are estimates based on prior experience for the purpose of funding projected losses on an accrual basis.

Property exposure is handled through the purchase of commercial insurance. The amounts recommended are used to purchase insurance for property and casualty, and various special insurance policies such as New Jersey Network Public Broadcasters Liability (required by the Public Broadcasting Services).

Grants-In-Aid - General Fund

The Inter-Departmental Accounts Grants-In-Aid display is new for FY 2000. Most of these items were shifted from Direct State Services accounts to more accurately reflect the expenditures as local aid. For example, the recommended increase in the Sports and Exposition Authority - Debt Service Grants-In-Aid account will provide funds to pay the debt service costs of the bonds issued by the Sports and Exposition Authority to finance the construction of the Wildwood Convention Center, the Monmouth Park project, the renovations to the East Hall of the old Atlantic City Convention Center and other capital projects.

Fiscal and Personnel Summary

AGENCY FUNDING BY SOURCE OF FUNDS ($000)

	Expended FY 1998	Adj. Approp. FY 1999	Recom. FY 2000	Percent Change 1998-00	Percent Change 1999-00
General Fund					
Direct State Services	$1,347,068	$1,511,226	$1,578,353	17.2%	4.4%
Grants - In - Aid	38,726	60,964	79,667	105.7%	30.7%
State Aid	0	0	0	0.0%	0.0%
Capital Construction	9,171	66,415	120,525	1214.2%	81.5%
Debt Service	0	0	0	0.0%	0.0%
Sub-Total	$1,394,965	$1,638,605	$1,778,545	27.5%	8.5%
Property Tax Relief Fund					
Direct State Services	$0	$0	$0	0.0%	0.0%
Grants-In-Aid	0	0	0	0.0%	0.0%
State Aid	0	0	0	0.0%	0.0%
Sub-Total	$0	$0	$0	0.0%	0.0%
Casino Revenue Fund	$0	$0	$0	0.0%	0.0%
Casino Control Fund	$0	$0	$0	0.0%	0.0%
State Total	$1,394,965	$1,638,605	$1,778,545	27.5%	8.5%
Federal Funds	$0	$0	$0	0.0%	0.0%
Other Funds	$0	$0	$0	0.0%	0.0%
Grand Total	$1,394,965	$1,638,605	$1,778,545	27.5%	8.5%

PERSONNEL SUMMARY - POSITIONS BY FUNDING SOURCE

	Actual FY 1998	Revised FY 1999	Funded FY 2000	Percent Change 1998-00	Percent Change 1999-00
State	0	0	0	0.0%	0.0%
Federal	0	0	0	0.0%	0.0%
All Other	0	0	0	0.0%	0.0%
Total Positions	NA	NA	NA	--	--

AFFIRMATIVE ACTION DATA

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

Significant Changes/New Programs ($000)

Budget Item	Adj. Approp. FY 1999	Recomm. FY 2000	Dollar Change	Percent Change	Budget Page
PROPERTY RENTALS					
Mercer County Improvement Authority	$7,316	$0	($7,316)	(100.0)%	D-429
New Jersey Building Authority	$58,119	$59,053	$934	1.6%	D-430

No appropriation is necessary for the Mercer County Improvement Authority accounts because (Budget page D-429), the debt service payments for the Richard J. Hughes Justice Complex will be made to the New Jersey Building Authority (NJBA). Assembly Concurrent Resolution No. 152 of 1999 authorizes the NJBA to acquire the Richard J. Hughes Justice Complex from the Mercer County Improvement Authority (MCIA) by issuing sufficient debt to defease the outstanding MCIA debt. The NJBA will acquire the Justice Complex and lease the building to the State. The Department of Treasury estimated that the present value of the MCIA obligations (to be paid off) under the proposal is $91.57 million, and the par amount of the NJBA bonds expected to be issued under the proposal to retire the MCIA obligations would be $83.10 million. The department estimated the net present value savings to the State (in reduced lease payments) over the 20-year life of the new NJBA bonds at $8.47 million. This estimate was computed at prevailing interest rates as of January 4, 1999 and the actual savings will depend on interest rates at the time the new NJBA bonds are issued. According to the Budget in Brief (page 34), "The Complex, previously funded by the Mercer County Improvement Authority, will be refinanced by the Building Authority, resulting in budgetary savings of $6 million over several years."

Budget Item	Adj. Approp. FY 1999	Recomm. FY 2000	Dollar Change	Percent Change	Budget Page
South Jersey Port Corporation	$7,500	$5,200	($2,300)	(30.7)%	D-429

The State provides the South Jersey Port Corporation with funds to cover all debt service and property tax requirement when the Corporation's earned revenues are anticipated to be insufficient to cover these obligations. According to the Budget in Brief (p.33) "the South Jersey Port Corporation Debt Service Reserve Fund will be reduced by $2.3 million."

P.L.1997, c.150 transferred the assets, liabilities and obligations of the South Jersey Port Corporation from the Department of Commerce and Economic Development to the EDA. The legislation authorized the EDA to issue bonds for port development and issue refunding bonds to refinance existing debt. In addition, the EDA is authorized to enter into a management agreement with a subsidiary of the Delaware River Port Authority to lease, manage, operate and maintain the port facilities, subject to the approval of the State Treasurer. The legislation has not yet been implemented.

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

Budget Item	Adj. Approp. FY 1999	Recomm. FY 2000	Dollar Change	Percent Change	Budget Page
Economic Development Authority	$12,522	$13,444	$922	7.4%	D-429

The New Jersey Economic Development Authority (EDA) was established in 1974 to provide long-term, low-interest financing, and other forms of assistance for the purpose of maintaining and expanding employment opportunities, encouraging economic development and enlarging the tax base of the State and local governments in New Jersey.

The EDA has floated bonds, backed by lease agreements with the State, for the construction of various facilities around the State. As lessee, the State is required to make rental payments sufficient to cover the debt service and other amounts payable to the EDA, including certain administrative expenses of the EDA. According to the Budget in Brief (page 34), "Funding for the Authority finances the debt service of the Trenton Office Complex, construction of the New Jersey Performing Arts Center in Newark, the purchase of the Riverview Building in Trenton, and the anticipated purchase of the Camden State Office Building." The Trenton Office Complex includes facilities to house the New Jersey Division of Motor Vehicle Services and the New Jersey Network (the State's public television station).

The total amount required to fund the debt service costs of the EDA in FY 2000 is $18,987,000. Of this amount, $5,543,000 is included in the Grants-In-Aid - General Fund account, New Jersey Performing Arts Center, EDA.

Budget Item	Adj. Approp. FY 1999	Recomm. FY 2000	Dollar Change	Percent Change	Budget Page
Other Debt Service Leases and Tax Payments	$13,668	$14,931	$1,263	9.2%	D-429

This account provides funds for the debt service on the Taxation Building, OTIS-HUB and the Bridgeton Consolidation Site (occupied in November 1993). In addition, this account provides "in lieu of tax" payments for the Trenton Office Complex, the Justice Complex, the Taxation Building and the OTIS-HUB.

This account also provides funds for the Department of Treasury's share of the Master Lease payments. Since 1984, the State has entered into various lease and installment purchase agreements (municipal lease-purchase financing) as a means of acquiring various equipment and furniture. Municipal lease-purchase financing is essentially the purchase of property through the payment of installments, principal plus interest. The State funds its lease-purchase program by issuing debt in the form of Certificates of Participation.

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

Budget Item	Adj. Approp. FY 1999	Recomm. FY 2000	Dollar Change	Percent Change	Budget Page
INSURANCE AND OTHER SERVICES					
Property Insurance	$1,565	$1,200	($365)	(23.3)%	D-429

This account is used to purchase insurance for property damage to State-owned real and personal property. Coverage includes standard protection for buildings and contents, marine vessels, catastrophic loss to vehicles parked in State locations and mainframe EDP coverage. Additional policies include: fine arts coverage, high-value vans coverage (New Jersey Network television vans and Department of Health and Senior Services mobile dental and medical clinics), and monies and securities coverage to protect client funds. All-Risk insurance coverage usually provides for the replacement or full repair subject to a deductible per occurrence. In prior years, the deductibles ranged from $100,000 for buildings and contents valued under $5 million and $500,000 for buildings and contents valued $10 million and above. The department has not provided information on the types and amounts of insurance to be purchased in FY 2000, however, according to the Budget (page D-425), a decrease "is attributable to a reduction in Property premium costs."

Budget Item	Adj. Approp. FY 1999	Recomm. FY 2000	Dollar Change	Percent Change	Budget Page
Casualty Insurance	$811	$450	($361)	(44.5)%	D-429

The casualty insurance account is used to purchase automobile excess liability insurance, aircraft liability and hull physical damage insurance, workers' compensation for special classes of State employees supported by federal or non-State funds, and accidental health insurance to provide medical reimbursement, disability and death benefits to volunteers in State programs who do not qualify as State employees and would not be eligible for workers' compensation benefits. A medical malpractice policy has been procured for the Department of Human Services for residents doing psychiatric internships at Trenton Psychiatric Hospital. According to the Budget (page D-425), the decrease "is attributable to a reduction in Property premium costs."

Budget Item	Adj. Approp. FY 1999	Recomm. FY 2000	Dollar Change	Percent Change	Budget Page
Special Insurance Policies	$225	$200	($25)	(11.1)%	D-429

This account is used to purchase special insurance policies such as: New Jersey Network Public Broadcasters Liability (required by the Public Broadcasting Service), Treasurer's Bond (the Treasurer is bonded for the handling of various funds), and Blanket Position Bond (insurance policy that guarantees payment to the State by bonding all employees for losses caused through fraudulent or dishonest acts). Special accident and health insurance is purchased to provide for medical expense reimbursement and disability and death benefits to students and volunteers who otherwise do not qualify as State employees and are precluded from collecting Workers' Compensation benefits. According to the Budget (page D-425), the decrease "is attributable to a reduction in Property premium costs."

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

Budget Item	Adj. Approp. FY 1999	Recomm. FY 2000	Dollar Change	Percent Change	Budget Page
GRANTS-IN-AID-GENERAL FUND					
Sports and Exposition Authority Operations	$15,000	$11,000	($4,000)	(26.7)%	D-430

In addition to appropriating sufficient funds to finance the debt service on the State Contract Bonds, $15 million was appropriated in FY 1999 as an operating subsidy to the New Jersey Sports and Exposition Authority (NJSEA). The $11 million appropriation recommended for NJSEA Operations represents a $4 million, or 26.7 percent decrease from the FY 1999 adjusted appropriation.

Budget Item	Adj. Approp. FY 1999	Recomm. FY 2000	Dollar Change	Percent Change	Budget Page
Sports and Exposition Authority - Debt Service	$33,918	$55,624	$21,706	64.0%	D-430

P.L.1991, c. 375 authorized the New Jersey Sports and Exposition Authority (NJSEA) to: issue State-guaranteed bonds to refinance the outstanding debt of the NJSEA to take advantage of lower interest rates; finance a feasibility study for the existing convention center in Asbury Park; construct a convention center in Atlantic City; and expand the football stadium at Rutgers, the State University. The State has contracted with the NJSEA to provide annual appropriations to the Authority in amounts sufficient to provide for the debt service on State Contract Bonds issued by the Authority. As of June 30, 1998, the amount of State Contract Bonds outstanding was $455.7 million. According to the Budget in Brief (page 34), the increase "is required to support the debt service for the Wildwood Convention Center, the Monmouth Park Racetrack, the Authority's capital renewal program, and East Hall of the old Atlantic City Convention Center. These funds also support debt service for projects throughout the state, including Rutgers Stadium, the Meadowlands Complex and the new Atlantic City Convention Center."

Budget Item	Adj. Approp. FY 1999	Recomm. FY 2000	Dollar Change	Percent Change	Budget Page
Trenton Hotel Project Supplemental Approp.	$5,000	$0	($5,000)	(100.0)%	D-430

The adjusted appropriation is displayed in anticipation of legislation, not yet introduced, to be enacted during the current (FY 1999) year to provide $5 million towards the cost of constructing a hotel in the City of Trenton next to the War Memorial Building.

Budget Item	Adj. Approp. FY 1999	Recomm. FY 2000	Dollar Change	Percent Change	Budget Page
Liberty Science Center	$0	$6,000	$6,000	—	D-430

Although this appropriation appears to be a new initiative, language was included in the FY 1999 Appropriations Act (Department of Education - PTRF - State Aid, Handbook page G-4) allocating $6 million of the Abbott v. Burke Parity Remedy account to Abbott districts and paid on their behalf to the Liberty Science Center " . . . for the provision of educational services to students in the Abbott districts to achieve comprehensive core curriculum standards as established by law."

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

Budget Item	Adj. Approp. FY 1999	Recomm. FY 2000	Dollar Change	Percent Change	Budget Page
EMPLOYEE BENEFITS					
Public Employees' Retirement System	$50,942	$54,200	$3,258	6.4%	D-433

The recommended appropriation is an estimate of the amount required to fund the cost of post-retirement medical benefits for State employees enrolled in the Public Employees' Retirement System who retire on disability or a retirement benefit based on 25 or more years of service. Funding of post-retirement medical (PRM) benefits changed from a prefunding basis to a pay-as-you-go basis in FY 1994. In accordance with the provisions of P.L.1994, c.62, the State is required to fund the pay-as-you-go cost of PRM benefits for current retirees and make an additional contribution that will ensure an increase in the Post Retirement Medical Reserve Fund equal to one half of 1 percent of payroll.

According to the department, the State, as an employer, will not have to make a normal pension contribution because surplus pension fund assets (P.L.1997, c.115) are sufficient to offset the entire State liability to fund basic pension benefits and cost-of-living adjustments in FY 2000.

Budget Item	Adj. Approp. FY 1999	Recomm. FY 2000	Dollar Change	Percent Change	Budget Page
Police and Firemen's Retirement System	$1,790	$35,330	$33,540	1873.7%	D-433

The recommended appropriation is an estimate of the amount necessary to fund this retirement system prior to the completion of the annual actuarial valuation of the retirement system. This appropriation is necessary because the surplus pension assets will only partially offset the State's normal contribution to fund this retirement system in FY 2000. Recent legislation, P.L.1997, c.115 permits the Treasurer to use surplus pension fund assets to offset the employer (State and local governments) contributions to fund the retirement systems, excluding post-retirement medical benefits.

Budget Item	Adj. Approp. FY 1999	Recomm. FY 2000	Dollar Change	Percent Change	Budget Page
Police and Firemen's Retirement System (P.L. 1979, c.109)	$23,555	$27,119	$3,564	15.1%	D-433

The recommended appropriation is an estimate of the amount necessary to fund this program prior to the completion of the annual actuarial valuation of the retirement system. By law (P.L.1994, c.62) the State contributes 1.1% of payroll to fund the additional benefits provided by P.L.1979, c.109 (special retirement benefit of 60% of compensation after 25 years of service). The estimated increase is primarily due to an increase in the total number of members and an increase in the total compensation (payroll) paid to members. This appropriation is necessary because surplus pension assets are not available to offset the State's contribution to fund this program in FY 2000.

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

Budget Item	Adj. Approp. FY 1999	Recomm. FY 2000	Dollar Change	Percent Change	Budget Page
Teachers' Pension and Annuity Fund and Non-Contributory Group Life Insurance -State	$4,074	$2,644	($1,430)	(35.1)%	D-433

The recommended appropriation of is an estimate of the amount necessary to fund this program prior to the completion of the annual actuarial valuation of the retirement system. According to the department, the recommended amount is to fund the cost of post-retirement medical (PRM) benefits for State employees (employed by the Department of Education and the Department of Treasury Higher Educational Services, formerly the Department of Higher Education) who are enrolled in the Teachers' Pension and Annuity Fund (TPAF) retirement system and who retire on disability or a retirement benefit based on 25 or more years of service. Funding of PRM benefits changed from a prefunding basis to a pay-as-you-go basis in FY 1994. In accordance with the provisions of P.L.1994, c.62, the State is required to fund the pay-as-you-go cost of PRM benefits for current retirees and make an additional contribution that will ensure an increase in the Post Retirement Medical Reserve Fund equal to one half of 1 percent of payroll.

The State appropriates additional funds, in other departments, for the cost of local boards of education employee members of the TPAF. The total amount recommended to fund post-retirement medical benefits for members of the TPAF (Direct State Service and State Aid combined) in FY 2000 is $122,946,000. Of this amount, $119,975,000 is in the Department of Education (page D-121) and $327,000 is in the Department of Treasury (page D-383).

According to the department, the State, on behalf of local boards of education, will not have to make a normal pension contribution because surplus pension fund assets (P.L.1997, c.115) are sufficient to offset the entire employer (State) liability to fund basic pension benefits, cost-of-living adjustments and life insurance benefits in FY 2000.

Budget Item	Adj. Approp. FY 1999	Recomm. FY 2000	Dollar Change	Percent Change	Budget Page
Debt Service on Pension Obligation Bonds	$52,380	$30,332	($22,048)	(42.1)%	D-433

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 (State portion) liability of the State pension systems, which together with the use of additional assets recognized by the one-time change to full-market value of assets (P.L.1997, c.115) were sufficient to fully fund the retirement systems (State liability), excluding the post-retirement medical liability. The recommended reduction represents the anticipated savings in FY 1999 from refinancing a portion of the pension bonds. The Governor's budget recommends language (Budget page D-434) to carryforward the unexpended balance from FY 1999 to offset the FY 2000 reduction.

The recommended appropriation to the Inter-Departmental Accounts is the portion of the total debt service attributable to the portion of the total unfunded liability attributable to the pension systems

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

Budget Item	Adj. Approp. FY 1999	Recomm. FY 2000	Dollar Change	Percent Change	Budget Page

for State employees. The total amount (DSS and State Aid combined) required to fund the debt service payments for FY 2000 is $133.3 million.

Budget Item	Adj. Approp. FY 1999	Recomm. FY 2000	Dollar Change	Percent Change	Budget Page
Alternate Benefits Program-Employer Contributions	$75,907	$81,391	$5,484	7.2%	D-433

The Alternate Benefits Program (ABP) is the retirement program for full-time faculty members of public institutions of higher education. The recommended appropriation is an estimate of the amount needed to fund the employer contributions (8.0% of salary) for this retirement program. The program permits faculty members to join in contributing toward individual annuity policies wholly owned by the employees. ABP participants may allocate and transfer portions of their contributions (employee and employer) among authorized investment carriers, such as the Teachers Insurance and Annuity Association of America (TIAA) and the College Retirement Equities Fund (CREF).

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

Budget Item	Adj. Approp. FY 1999	Recomm. FY 2000	Dollar Change	Percent Change	Budget Page
State Employees' Health Benefits	$433,090	$473,423	$40,333	9.3%	D-433

The recommendation is an estimate of the total cost to provide health insurance to State employees through the State Health Benefits Program (SHBP). This program includes State employees as well as public employees of participating local governments and school district employees.

The recommended appropriation reflects the "net" cost for State employees and their dependents only. Current law, P.L.1996, c.8, provides that the obligations of the State to pay the premium or periodic charges for SHBP coverage with respect to active employees and retirees is subject to collective negotiations. The current collective bargaining agreements, between the State and unions representing most public employees, require employees choosing Traditional Plan health insurance coverage to contribute a portion of the cost of that coverage. Beginning July 1, 1997, State employees earning $40,000 and over who elect Traditional Plan coverage will be required to pay the full difference between the Traditional Plan and the weighted average of the NJ Plus and HMO plans. The State is only obligated to pay the weighted average premium or periodic charges of the NJ Plus and HMO plans for SHBP coverage.

As of September, 1998, approximately 40,000 State employees and retirees participate in the Traditional Plan, a decrease of 13 percent from September, 1997 to September, 1998. Active enrollment in the Traditional Plan has declined by 42 percent since the implementation of premium

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

Budget Item	Adj. Approp. FY 1999	Recomm. FY 2000	Dollar Change	Percent Change	Budget Page

sharing in July 1, 1996. Approximately 29,000 State employees and retirees participate in NJ Plus and approximately 55,000 are enrolled in HMO plans.

According to the Financial Projections report dated January 19, 1999, prepared by Buck Consultants, Inc., the State portion of the Traditional Plan and NJ Plus is projected to have a deficit of $9.6 million as of June 30, 1999. According to the Buck report, "the State plans do not have any existing margins available; nor do our projections include such margins, as the State will fund any accumulated shortfall."

According to the Financial Projections - Local Plan report, dated January 19, 1999, after using $2.8 million to partially offset premiums and the adoption of a one month premium holiday for FY 2000, the Local Plan has a projected surplus, as of June 30, 2000, of $76.6 million. This surplus represents 17.1 percent of projected plan costs.

Budget Item	Adj. Approp. FY 1999	Recomm. FY 2000	Dollar Change	Percent Change	Budget Page
State Employees' Prescription Drug Program	$99,080	$118,355	$19,275	19.5%	D-433

The Prescription Drug Program is part of the collective bargaining agreement between the State and its employees. The program is available to eligible State employees and their dependents who are eligible to participate in the State Health Benefits Program. The program, which helps employees meet the cost of doctor-prescribed drugs, is funded and administered by the State. Under the program, the State pays for each prescription subject to an employee co-payment. The current collective bargaining agreements, which expires June 30, 1999, sets the maximum co-payment at $5.00 per prescription.

Currently, to encourage participants to utilize less expensive generic substitutes, the $5 co-payment is only applicable to non-generic prescriptions or refills. The co-payment for generic prescriptions is $1 and there is no co-payment for mail order prescriptions. The State Health Benefits Commission recently voted to re-institute the mail order co-pays of $5 for Brand and $1 for Generic drugs and to reduce the maximum days supply at retail pharmacies from 36 days to 30 days (effective July 1, 1999).

According to Buck Consultants, Inc., (the actuary for the SHBP) prescription drug costs have come in at lower than expected levels, resulting in a projected FY 1999 surplus of $3.6 million for the Prescription Drug Plan. Buck is projecting $113.4 million in incurred claims, as of June 30, 2000 (FY 2000), or $ 5 million less than the Governor's recommendation.

Budget Item	Adj. Approp. FY 1999	Recomm. FY 2000	Dollar Change	Percent Change	Budget Page
State Employees' Dental Program - Shared Cost	$23,380	$25,230	$1,850	7.9%	D-433

The recommendation is an estimate of the State share of the cost of providing dental care to State employees. The Dental Care Program is part of the collective bargaining agreement between the

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

Budget Item	Adj. Approp. FY 1999	Recomm. FY 2000	Dollar Change	Percent Change	Budget Page

State and its employees. The program is voluntary and the cost is shared equally between the employee (50% of the cost of coverage) and the employer (State). The Dental Care Program offers a traditional indemnity plan (the Dental Expense Plan) administered by Prudential Insurance Co. and a Dental Plan Organization (DPO).

Approximately 47,600 employees participate in the Dental Expense Plan with a projected annual cost to the State of $16.6 million and 38,567 employees participate in DPO plans with projected annual cost to the State of $7.6 million, for a total projected cost to the State of $24.2 million.

According to Buck Consultants, the experience under the Dental Expense Plan indicates that, on a self-supporting basis, the appropriate rate increase effective July 1, 1999 is 7.1 percent. However, the Dental Expense Plan has a projected surplus of $7.9 million, or approximately 24 percent of annual costs, as of June 30, 1999 (FY 1999). Buck recommended using $1.1 million of the projected surplus to subsidize or offset the premium rates. Adopting this action would result in a 3.5 percent rate increase.

Budget Item	Adj. Approp. FY 1999	Recomm. FY 2000	Dollar Change	Percent Change	Budget Page
Temporary Disability Insurance Liability	$8,373	$6,714	($1,659)	(19.8)%	D-433

All eligible State employees are included in the State Temporary Disability Insurance Plan. The plan is a shared-cost plan which provides payments to employees who are unable to work as the result of non-work connected illness or injury and who have exhausted their sick leave and are ineligible for any unemployment compensation or workers' compensation. The employee contribution rate is 0.5 percent compensation up to $20,200, while employers contribute between 0.1 and 0.75 percent up to the wage base of $20,200. The employer rate is determined each year "which, in combination with worker contributions, will produce sufficient revenue to keep the account in balance . . ." The employer and employee contributions are deposited in the State Disability Benefits Fund.

Budget Item	Adj. Approp. FY 1999	Recomm. FY 2000	Dollar Change	Percent Change	Budget Page
Unemployment Insurance Liability	$10,869	$8,560	($2,309)	(21.2)%	D-433

Unlike private industry, the State does not contribute a matching percentage of compensation to fund the Unemployment Compensation Trust Fund. The State operates on a pay-as-you-go basis as an insurer of last resort. Employees contribute .625 percent of salary, up to the unemployment wage base of $20,200. When the employees' contribution is expended, the State, as an employer, contributes sufficient funds to keep the program solvent. The $8,560,000 recommended appropriation is an estimate of the amount required to pay unemployment claims for former State employees if the employee payroll tax proves to be insufficient. Should additional funds be required during the course of FY 2000, recommended budget language, page D-434, permits the Director of the Division of Budget and Accounting to appropriate additional funds to pay unemployment claims.

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

Budget Item	Adj. Approp. FY 1999	Recomm. FY 2000	Dollar Change	Percent Change	Budget Page
Fringe Benefit Impact From Agency Initiatives	$1,595	$2,349	$754	47.3%	D-433

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

OTHER INTERDEPARTMENTAL ACCOUNTS

Budget Item	Adj. Approp. FY 1999	Recomm. FY 2000	Dollar Change	Percent Change	Budget Page
Restoration to Emergency Services Fund	$1,500	$0	($1,500)	(100.0)%	D-434

The $1.5 million is to provide funds to meet the costs of any emergency occasioned by aggression, civil disturbance, sabotage, disaster, or flood expenses for State owned structures to comply with Federal Insurance Administration requirements, as recommended by the Emergency Services Council and approved by the Governor. Although the Governor's budget does not recommend an appropriation to this account in FY 2000, language (page D-435) allows an appropriation of "such sums as are required to meet the cost of any emergency . . . " The FY 1999 amount was added to the budget by the Legislature.

Budget Item	Adj. Approp. FY 1999	Recomm. FY 2000	Dollar Change	Percent Change	Budget Page
Year 2000 Data Processing Initiative	$25,900	$10,000			
Supplemental Approp.	$6,000	______	_______	____	D-435
Net	$31,900	$10,000	($21,900)	(68.7)%	

These funds will be used to hire experts to identify the size and scope of the State's Year 2000 data processing and information technology problem and begin analyzing lines of computer code so that the various programs can recognize the year 2000 and beyond.

According to the Budget in Brief (page 46), approximately 75 percent of centrally maintained State computer systems are Year 2000 compliant, departmental systems are in varying stages of remediation, and all systems are expected to be complete and tested prior to the beginning of the year 2000.

In addition to the recommended appropriation, budget language, on page D-435 would appropriate an additional amount, not to exceed $7.5 million, to ensure completion of all Year 2000 related data processing projects.

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

Budget Item	Adj. Approp. FY 1999	Recomm. FY 2000	Dollar Change	Percent Change	Budget Page
Interdepartmental Initiatives	$5,000	$0	($5,000)	(100.0)%	D-435

According to the FY 1999 Budget in Brief (page 45), the $5 million appropriation is to provide funds "to begin the procurement process for the implementation of a centralized automated revenue interface system" for the Department of Treasury, Division of Revenue.

Budget Item	Adj. Approp. FY 1999	Recomm. FY 2000	Dollar Change	Percent Change	Budget Page
Statewide Infrastructure Study and Enhancements Supplemental Approp.	$2,000	$0	($2,000)	(100.0)%	D-435

The FY 1999 supplemental appropriation of $2 million is to solicit a private vendor to design an electronic network telecommunications infrastructure to support governmental operations. A standard open architecture for networks and systems is to be adopted to allow uninterrupted access to the Internet 24 hours per day seven days per week to handle the anticipated increase in capacity and to provide flexibility to assimilate new technologies. Although the Governor's budget does not recommend an appropriation to this account in FY 2000, language (page D-435) authorizes an appropriation of up to $5 million to implement the recommendations of the network infrastructure study.

Budget Item	Adj. Approp. FY 1999	Recomm. FY 2000	Dollar Change	Percent Change	Budget Page
Salary Increases and Other Benefits	$11,722	$38,377			
Supplemental Approp.	$5,028				D-436
Net	$16,750	$38,377	$21,627	129.1%	

The recommended appropriation is to fund normal increments, deferred increments, and cost-of-living-adjustments (COLAs) which are based on collective bargaining agreements from employee contracts. According to the Budget in Brief (page 40), these funds are to pay "employee increments, deferred increments and across the board raises from employee contracts ending June 30, 1999. Also recommended are increases in accordance with contractual agreements with the Judiciary employee unions running through fiscal 2000. In addition, this total includes employee increments, across the board raises and maintenance allowances in accordance with contractual agreements with the State Troopers Fraternal Association of New Jersey (STFA) through fiscal 2000." In addition to the recommended appropriation, language (page D-436) authorizes the Director of the Division of Budget and Accounting to transfer a sum of $7,245,000 from various departmental accounts to reflect savings from a managed attrition program to be used for salary increases and other benefits.

Most State employees are covered by four-year contracts expiring June 30, 1999. These agreements called for a two-year wage freeze, followed by a $250 bonus payable April 12, 1997, and provide

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

Budget Item	Adj. Approp. FY 1999	Recomm. FY 2000	Dollar Change	Percent Change	Budget Page

for a 2 percent COLA payable July 1997, a 1 percent COLA payable January 1998, a 2 percent COLA payable July 1998, and a 1.25 percent COLA payable January 1999. Funding from this central account is allocated each year to the various departments, where it becomes part of the agency's adjusted appropriation.

Budget Item	Adj. Approp. FY 1999	Recomm. FY 2000	Dollar Change	Percent Change	Budget Page
Funding in Lieu of Privatization	$1,885	$0	($1,885)	(100.0)%	D-436

In FY 1999, the fringe benefit accounts (i.e., pension, health insurance, etc.) were reduced to reflect savings to be generated from the privatization of food service workers at seven correctional institutions. Because this proposal was not implemented, the $1,885,000 FY 1999 adjusted appropriation was added by the Legislature to restore funding for the various fringe benefit accounts.

STATEWIDE CAPITAL PROJECTS

Budget Item	Adj. Approp. FY 1999	Recomm. FY 2000	Dollar Change	Percent Change	Budget Page
Americans with Disabilities Act Compliance Projects - Statewide	$1,000	$3,000	$2,000	200.0%	E-23
Capital Improvements, Capitol Complex	$0	$2,600	$2,600	—	E-23
Energy Efficiency Projects		$2,425	$2,425	—	E-23
Fire Detection/Security Central Station Upgrade	$2,415	$1,000	($1,415)	(58.6)%	E-23
Fuel Distribution Systems/Underground Storage Tank Replacements - Statewide	$10,000	$10,000	$0	0.0%	E-23
Hazardous Materials Removal Projects - Statewide	$3,000	$3,500	$500	16.7%	E-23
Total	$16,415	$22,525	$6,110	37.2%	E-23

The recommended appropriations provide funds for various Statewide capital construction projects. Additional funds will be requested in the future to complete the projects. For example, the total

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

Budget Item	Adj. Approp. FY 1999	Recomm. FY 2000	Dollar Change	Percent Change	Budget Page

cost of the Underground Storage Tank Replacement program was originally estimated to cost $106 million.

State-owned underground storage tanks (UST's), like private underground storage tanks, must be upgraded, replaced or closed by December 22, 1998 pursuant to a federal mandate set by the Environmental Protection Agency 10 years ago. The recommended funds are for the actual upgrade, replacement or closure of the State-owned underground storage tanks. (Budget language in the Department of Environmental Protection (see Budget page G-7) authorizes unspecified sums from dedicated Corporation Business Tax appropriations to be utilized for site remediation costs associated with State-owned UST's.) Approximately 45 percent of the underground storage tanks have been replaced or are under contract. The cost to complete the underground storage tank replacement program is estimated at $58 million.

The Governor's recommendation includes funding for two new programs: Energy Efficiency Projects and Capital Complex Improvement. The Energy Efficiency Projects recommendation is to provide funding to replace inefficient boilers, air conditioners, chillers, pumps and other energy equipment in existing facilities. The equipment to be replaced has to have a minimum 10-year service life. The department estimates that these projects will result in energy savings that will recover the initial capital expense within five years.

The Capital Complex Improvements appropriation provides funds to replace underfloor wiring in various Capital Complex facilities. According to the National Electrical Code, the underfloor wiring system is above capacity and a potential fire hazard.

OPEN SPACE PRESERVATION PROGRAM

Budget Item	Adj. Approp. FY 1999	Recomm. FY 2000	Dollar Change	Percent Change	Budget Page
Garden State Trust Fund Authority - Open Space Preservation	$50,000	$98,000	$48,000	96.0%	E-24

The $50 million FY 1999 adjusted appropriation provided funds for the Open Space - Local Match program. These funds were made available to the Department of Environmental Protection to acquire land for open space under the Green Acres Program and for farmland preservation.

The Governor's $98 million recommendation for FY 2000 for the Garden State Trust Fund is the first appropriation for the voter approved program to purchase and preserve one million acres of open space over the next ten years. Funds from this account will ultimately be distributed to three State departments: Agriculture, for farmland preservation; Environmental Protection, for land acquisition and development; and State, for historic preservation purposes. According to the Budget in Brief (page 30), "The program will provide for open space and farmland preservation, historic preservation and park development in urban, suburban and rural areas" and is in addition to the $88.4 million in capital funds recommended for the Department of Environmental Protection.

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

Budget Item	Adj. Approp. FY 1999	Recomm. FY 2000	Dollar Change	Percent Change	Budget Page

The statewide referendum approved last November amended the State Constitution to provide:

- Beginning July 1, 1999 and in every fiscal year thereafter through FY 2009, $98 million will be appropriated annually to a special account in the General Fund. This sum will be derived from State sales tax revenues for the purpose of providing direct (i.e. "pay-as-you-go" funding to acquire and develop lands for recreation and conservation purposes, to preserve farmland and historic sites, and to meet debt service payments for up to $1.0 billion in bonds that may be issued during this ten-year period for these purposes.

- Beginning July 1, 2009 and in every fiscal year thereafter through FY 2029, up to $98 million will be appropriated annually to the General Fund from sales tax revenues to satisfy any debt service payments relating to the bonds issued from FY 2000 through FY 2009 for open space preservation purposes pursuant to this amendment.

Language Provisions

1999 Appropriations Handbook	2000 Budget Recommendations
p. B-162	
An amount shall be appropriated to implement the Facilities Master Plan, subject to the approval of the Director of the Division of Budget and Accounting.	No comparable language.

Explanation

During FY 1995, the Department of Treasury began a review of the State's leasing operations and office space needs. One outcome of the review was the development of a Facilities Master Plan that would guide future State facilities decisions. Budget language was deemed necessary in prior years because the department did not know exactly how much funding would be necessary to implement portions of the plan in any given year. The language is not recommended in FY 2000 because "the majority of those goals have been achieved". (Budget in Brief page 33).

1999 Appropriations Handbook	2000 Budget Recommendations
	p. D-430
No comparable language.	To the extent that sums appropriated for property rental payments are insufficient, there are appropriated such additional sums, not to exceed $3,000,000 as may be required to pay property rental obligations, subject to the approval of the Director of the Division of Budget and Accounting.

Explanation

This language authorizes the Director of the Division of Budget and Accounting to appropriate an additional amount up to $3 million for Property Rentals without further legislative involvement. The Governor’s budget (page D-429) recommends $203.3 million for the Property Rentals account, a reduction of $5.1 million from the FY 1999 adjusted appropriation.

Language Provisions (Cont'd)

1999 Appropriations Handbook

p. B-162

There are appropriated from amounts hereinabove for the Economic Development Authority such sums as may be necessary to meet the requirements of the "South Jersey Port Corporation Reserve Fund" under section 14 of P.L.1968, c.60 (C12:11A-14), the expenditure of which shall be subject to the approval of the Director of the Division of Budget and Accounting.

2000 Budget Recommendations

p. D-430

There are appropriated such additional sums as may be certified to the Governor by the South Jersey Port Corporation as necessary to meet the requirements of the "South Jersey Port Corporation Reserve Fund" under section 14 of P.L.1968, c.60 (C.12:11A-14), the expenditure of which shall be subject to the approval of the Director of the Division of Budget and Accounting.

Explanation

This language permits the Director of the Division of Budget and Accounting to appropriate additional funds to meet the requirements of the South Jersey Port Corporation Reserve Fund. The State provides the South Jersey Port Corporation with funds to cover all debt service and property tax requirements when the Corporation's earned revenues are insufficient to cover these obligations. The Governor's budget (page D-429) recommends $5.2 million for the South Jersey Port Corporation, a reduction of $2.3 million from the FY 1999 adjusted appropriation.

Recent legislation, P.L.1997, c.150, transferred the assets, liabilities and obligations of the South Jersey Port Corporation to the New Jersey Economic Development Authority (EDA). The legislation, however, has not yet been implemented.

1999 Appropriations Handbook

p. B-162

An amount not to exceed $3,000,000 shall be appropriated for the costs of security, maintenance, utilities and other operating expenses related to the Marlboro Psychiatric Hospital and North Princeton Developmental Center closure initiatives, subject to the approval of the Director of the Division of Budget and Accounting.

2000 Budget Recommendations

p. D-430

An amount not to exceed $2,000,000 shall be appropriated for the costs of security, maintenance, utilities and other operating expenses related to the Marlboro Psychiatric Hospital and North Princeton Developmental Center closure initiatives, subject to the approval of the Director of the Division of Budget and Accounting.

Explanation

Although the Marlboro Psychiatric Hospital and the North Princeton Developmental Center have been closed and the clients transferred to other facilities, the buildings and grounds have to be maintained until such time as the final disposition of these properties is determined. The department estimates that $2 million will be sufficient in FY 2000 to cover these costs.

Language Provisions (Cont'd)

1999 Appropriations Handbook

p. B-162

There are appropriated such additional sums as may be required to pay future debt service costs for projects undertaken by the New Jersey Building Authority, subject to the approval of the Director of the Division of Budget and Accounting.

No comparable language.

2000 Budget Recommendations

p. D-430

The same language.

The unexpended balance as of June 30, 1999 in the New Jersey Building Authority account is appropriated.

Explanation

According to the Budget (page D-429), the debt service payments for the Richard J. Hughes Justice Complex will be made to the New Jersey Building Authority (NJBA). Assembly Concurrent Resolution No. 152 of 1999 authorizes the NJBA to acquire the Richard J. Hughes Justice Complex from the Mercer County Improvement Authority (MCIA) by issuing sufficient debt to defease the outstanding MCIA debt. The NJBA will acquire the Justice Complex and lease the building to the State. The department estimated that the present value of the MCIA obligations (to be paid off) under the proposal is $91.57 million, and the par amount of the NJBA bonds expected to be issued under the proposal to retire the MCIA obligations would be $83.10 million. The department estimated the net present value savings to the State (in reduced lease payments) over the 20-year life of the new NJBA bonds at $8.47 million. This estimate was computed at prevailing interest rates as of January 4, 1999 and the actual savings will depend on interest rates at the time the new NJBA bonds are issued.

1999 Appropriations Handbook

p. B-163

In addition to the sums hereinabove for Fuel and Utilities, the Director of the Division of Budget and Accounting shall transfer or credit to this account such sums that accrue from appropriations made to various spending agencies for Fuel and Utilities and Salaries and Wages, to reflect savings associated with the fuel switch and other energy-conservation initiatives.

2000 Budget Recommendations

p. D-431

In addition to the sums hereinabove for Fuel and Utilities, the Director of the Division of Budget and Accounting shall transfer or credit to this account such sums that accrue from appropriations made to various spending agencies for Fuel and Utilities and Salaries and Wages, to reflect savings associated with electrical deregulation, fuel switch and other energy-conservation initiatives.

Language Provisions (Cont'd)

Explanation

This language permits the Director of the Division of Budget and Accounting to transfer unspecified amounts from appropriations made to any State department or agency for Fuel and Utilities and Salary and Wages to the Inter-Departmental Accounts Fuel and Utilities account. Although anticipated savings from specific energy conservation initiatives to be implemented in FY 2000 have not been identified, P.L.1999, c.23, the "Electric Discount and Energy Competition Act" requires all electric public utilities to reduce their current rates by at least 5 percent no later than August 1, 1999 and by at least 10 percent during a period to be determined by the Board of Public Utilities. Since the utility costs for many State facilities are funded in the departmental appropriation accounts, these savings accrue in the departmental accounts.

1999 Appropriations Handbook	2000 Budget Recommendations
	p. D-434
No comparable language.	Such additional sums as may be required for Social Security Tax are appropriated as the Director of the Division of Budget and Accounting shall determine.

Explanation

This language authorizes the Director of the Division of Budget and Accounting to appropriate additional funds to meet the State's liability as an employer to pay F.I.C.A. (Old Age, Survivors, and Disability Insurance) and Medicare taxes without further legislative involvement in the amount to be appropriated. The Governor's budget (page D-433) recommends $356.9 million for the Social Security Tax - State account, an increase of $3.6 million, or 1.0 percent, from the FY 1999 adjusted appropriation. The amount of salary on which Social Security is based is increasing from $68,400 to $72,600. There is no Medicare wage base, so Medicare taxes (1.45 percent) are paid on total compensation.

1999 Appropriations Handbook	2000 Budget Recommendations
	p. D-434
No comparable language.	The unexpended balance as of June 30, 1999 in the Debt Service on Pension Obligation Bonds account is appropriated for the same purpose.

Language Provisions (Cont'd)

Explanation

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 (State portion) liability of the State pension systems, which together with the use of additional assets recognized by the one-time change to full-market value of assets (P.L.1997, c.115) were sufficient to fully fund the retirement systems (State liability), excluding the post-retirement medical liability. The recommended appropriation of $30.3 million is a decrease of $22 million, or 42.1 percent, from the FY 1999 adjusted appropriation. The recommended reduction represents the anticipated savings in FY 1999 from refinancing a portion of the outstanding pension bonds. The Governor's budget recommends language to carryforward the unexpended balance from FY 1999 to offset the FY 2000 reduction.

The recommended appropriation to the Inter-Departmental Accounts is the portion of the total debt service attributable to the portion of the total unfunded liability attributable to the pension systems for State employees. The total amount (DSS and State Aid combined) required to fund the debt service payments for FY 2000 is $133.3 million.

1999 Appropriations Handbook	2000 Budget Recommendations
	p. D-435
No comparable language.	In addition to the amount herein above for year 2000 Data Processing, an amount not to exceed $7,500,000 shall be appropriated to ensure completion of all Year 2000 related data processing projects, subject to the approval of the Director of the Division of Budget and Accounting.

Explanation

The Governor's budget (page D-435) recommends $10 million for Year 2000 Data Processing Initiative. This language authorizes the Director of the Division of Budget and Accounting to appropriate an additional amount up to $7.5 million to ensure completion of all Year 2000 related data processing projects without further legislative involvement.

According to the Budget in Brief (page 46), approximately 75 percent of the centrally maintained State computer systems are Year 2000 compliant, departmental systems are in varying stages of remediation, and all systems are expected to be complete and tested prior to the beginning of the year 2000.

Language Provisions (Cont'd)

1999 Appropriations Handbook	2000 Budget Recommendations
	p. D-435
No comparable language.	An amount not to exceed $5,000,000 shall be appropriated to implement the recommendations of the statewide network infrastructure study, subject to the approval of the Director of the Division of Budget and Accounting.

Explanation

According to the Department of Treasury, the department is preparing a Request for Proposal (RFP) to solicit private vendors to design an electronic network infrastructure for the State. A standard open architecture for networks and systems will be adopted to allow uninterrupted access to the Internet 24 hours per day seven days per week to handle the anticipated increase in capacity and to provide flexibility to assimilate new technologies.

This language authorizes the Director of the Division of Budget and Accounting to appropriate up to $5 million to implement the recommendations of the network infrastructure study without further legislative involvement.

1999 Appropriations Handbook	2000 Budget Recommendations
	p. D-435
No comparable language.	To the extent that the costs of imaging projects are reduced, funds appropriated to individual departments for imaging related projects may be available for reallocation to a centralized function, as the Director of the Division of Budget and Accounting shall determine.

Explanation

According to the Department of Treasury, the Document Storage and Retrieval imaging system (Budget in Brief page 45) is a three-part initiative to aid departments in bringing workflow and imaging technology into their departments. Part 1 will develop a best practices methodology for all State departments. This methodology is being developed in FY 1999 by a consultant working with various department pilot sites. Part 2 will establish a central analytical group that will work with each department to plan and develop workflow and imaging projects. Part 3 will establish a central processing capability for scanning and indexing, document storage, and "hot site" recovery. "Funding for this centralized unit will be obtained through reallocation of agency savings." The FY

Language Provisions (Cont'd)

2000 budget also includes funding for imaging projects in the Departments of Personnel ($470,000), Military and Veterans' Affairs ($145,000), and Law and Public Safety ($80,000).

The recommended language will allow departmental savings resulting from this initiative to be reallocated as the Director of the Division of Budget and Accounting shall determine to a "centralized function".

1999 Appropriations Handbook	2000 Budget Recommendations
	p. D-435
No comparable language.	An amount not to exceed $500,000 shall be appropriated as state match if required to leverage federal funding that may be obtained for the enhancement or expansion of geographic management systems subject to the approval of the Director of the Division of Budget and Accounting.

Explanation

According to the Budget in Brief (page 45), "the Geographic Information System (GIS) team is organizing an Internet-based GIS clearinghouse that will allow users to search GIS data from multiple sources through a single, central repository. . . . This centralized unit will also research and identify available grant funding, thereby leveraging State funds."

This language authorizes the Director of the Division of Budget and Accounting to appropriate up to $500,000 to be used as a State match for federal grants to New Jersey for the implementation of this technology.

Language Provisions (Cont'd)

1999 Appropriations Handbook	2000 Budget Recommendations
p. B-166	p. D-436
The Director of the Division of Budget and Accounting shall transfer from departmental accounts and credit to the Salary Increases and Other Benefits account a sum of $12,160,000 from appropriations made to various spending agencies to reflect savings as a result of statewide efficiency initiatives. This additional sum is appropriated for Salary Increases and Other Benefits.	The Director of the Division of Budget and Accounting shall transfer from departmental accounts and credit to the Salary Increases and Other Benefits accounts a sum of $7,245,000 to reflect savings from a managed attrition program. This additional sum is appropriated for Salary Increases and Other Benefits.

Explanation

The Governor's budget includes a direct appropriation of $38,377,000 (page D-436) to fund normal increments, deferred increments, and cost-of-living-adjustments (COLAs) which are based on collective bargaining agreements from employee contracts. According to the Budget in Brief (page 40), these funds are to pay "employee increments, deferred increments and across the board raises from employee contracts ending June 30, 1999. Also recommended are increases in accordance with contractual agreements with the Judiciary employee unions running through fiscal 2000. In addition, this total includes employee increments, across the board raises and maintenance allowances in accordance with contractual agreements with the State Troopers Fraternal Association of New Jersey (STFA) through fiscal 2000." This language authorizes the Director of the Division of Budget and Accounting to transfer a sum of $7,245,000 from various departmental accounts to reflect savings from a managed attrition program. The Budget in Brief (page 38) indicates the program will be based on historical attrition rates.

Language Provisions (Cont'd)

1999 Appropriations Handbook	2000 Budget Recommendations
	p. E-24
No comparable language.	Pursuant to the provisions of pending legislation and the constitutional amendment on open space (Article VIII, section II.7), the amount hereinabove in the Garden State Trust Fund Authority account shall be used to pay debt service on bonds issued by the Garden State Trust Fund Authority, and the remainder shall be paid into the Garden State Open Space Fund and used for such purposes as defined in the plans submitted by the Commissioner of the Department of Environmental Protection and the State Agriculture Development Committee to the Garden State Trust Fund Authority, or into the Garden State Historic Trust Fund for historic preservation purposes, or into such similar funds as are established pursuant to enabling legislation.

Explanation

In November 1998, a stable funding source for open space acquisition and development was approved by voters at the general election. This measure amended the State Constitution to allow up to $98 million in sales tax revenues to be appropriated annually over the next 30 years to purchase land for preservation and recreational purposes. The Open Space Preservation initiative will therefore continue the financing of the Green Acres, Farmland Preservation and Historic Preservation programs.

On Budget page E-24, in the Inter-Departmental Accounts, the Governor's $98 million recommendation for the Garden State Trust Fund is the first appropriation for the voter approved program to purchase and preserve one million acres of open space over the next ten years. Funds from this account will ultimately be distributed to three State departments: Agriculture, for farmland preservation; Environmental Protection, for land acquisition and development; and State, for historic preservation purposes. Enabling legislation is being developed to establish the necessary funding mechanisms and policies to guide the distribution of these funds.

Discussion Points

1. a. Although the audit report displays the total assets of the Post Retirement Medical Fund invested in the Cash Management Fund, the Division of Pensions and Benefits indicates that the assets are invested in a similar manner as the pension fund assets (i.e., in stocks, bonds, mortgages, etc.). According to the division, the Post Retirement Medical Fund is credited with investment income at the 8.75 percent assumed rate of return on investments for the PERS and TPAF retirement systems ($28,812,846 in 1998). Earnings in excess of 8.75 percent are credited to the Contingent Reserve Fund or the Special Reserve Fund. Based on 22.7 percent actual rate of return on pension fund assets in 1998, an estimated $45.9 million was transferred to these funds from the Post Retirement Medical Fund. The Contingent Reserve Fund is the fund to which contributions by the State and local employers are credited to provide the benefits paid from retirement fund assets. The Special Reserve Fund is the fund to which any excess interest earnings are transferred and against which any losses from the sale of securities are charged.

The pay-as-you-go cost of providing employer-paid post-retirement medical benefits would be considerably less if all of the investment earnings of the Post Retirement Medical Fund were used to finance post-retirement medical benefits. P.L.1997, c.115 permits the Treasurer to use surplus pension assets to offset the employer (State and local government) contributions to fund the retirement systems. Because of the availability of surplus pension fund assets, the State does not have to make any contributions in FY 2000 to fund basic pension benefits (pension, cost-of-living adjustments and life insurance), excluding post-retirement medical benefits for PERS or TPAF.

! *Question:* Are the investment earnings in excess of 8.75 percent from the Post Retirement Medical Fund that are credited to the Contingent Reserve Fund and/or the Special Reserve Fund used in the calculation of surplus pension fund assets and used to offset State contributions to fund basic retirement benefits? If so, what is the rationale for using these investment earnings to reduce the State's contributions to fund the non-negotiable basic pension benefits of PERS and TPAF retirees as opposed to using the investment earnings to (1) finance the pay-as-you-go cost of the negotiable post-retirement medical benefits or (2) to build up a reserve to finance the unfunded post-retirement medical liabilities of public employees? What are the liabilities for post-retirement medical benefits on an actuarial rather than a pay-as-you-go basis?

1. b. P.L.1992, c.41 accelerated recognition and funding of the liabilities of employer-paid post-retirement medical benefits to certain retirees. The PERS and TPAF retirement systems set up Voluntary Employees Beneficiary Association (VEBA) trusts, authorized by section 401 (h) of the Internal Revenue Code, to hold contributions to fund future post-retirement medical benefits. Section 401 (h) of the Internal Revenue Code, which, in part, states: "a pension or annuity plan may provide for the payment of benefits for sickness, accident, hospitalization, and medical expenses of retired employees, their spouses and their dependents, but only if --

(1) such benefits are subordinate to the retirement benefits provided by the plan,
(2) a separate account is established and maintained for such benefits,
(3) the employer's contributions to such separate account are reasonable and ascertainable,
(4) it is impossible, at any time prior to the satisfaction of all liabilities under the plan to provide such benefits, for <u>any part of the corpus or income of such separate account to be (within the taxable year or thereafter) used for, or diverted to, any purpose other than the providing of such benefits</u>, . . ." (emphasis added)

P.L.1994, c.62 that revised the funding of the State retirement systems eliminated pre-funding of post-retirement medical benefits. Consequently, the division eliminated the PERS and

Discussion Points (Cont'd)

TPAF VEBA trusts. To comply with the provision of P.L.1994, c.62 requiring the retirement systems to establish a separate fund with the amount necessary to pay the anticipated premiums for the following valuation period and ensure an increase in the fund equal to ½ of 1 percent of the salary of active State employee members of PERS and active members of the TPAF for the current valuation period, the division established the Post Retirement Medical Funds in PERS and TPAF.

! *Question:* If the PERS and TPAF Post Retirement Medical Funds were still VEBA subtrusts authorized under federal law, would the division be allowed to transfer the investment earnings in excess of the 8.75 percent from the Post Retirement Medical Fund to the Contingent Reserve Fund and/or the Special Reserve Fund?

2. a. The Prescription Drug Program is available to State employees and their dependents who are eligible to participate in the State Health Benefits Program. The program, which helps employees meet the cost of doctor-prescribed drugs, is funded by the State and administered by Horizon Blue Cross/Blue Shield. Under the program, the State pays for each eligible prescription subject to an employee co-payment. To encourage participants to utilize less expensive generic substitutes, the $5 co-payment is only applicable to brand name prescriptions or refills. The co-payment for generic prescriptions is $1 and currently there is no co-payment for mail order prescriptions.

In FY 1993, the program charged $5 for brand name prescriptions and $3.50 for generic prescriptions. The co-pays were reduced in response to a report by the benefits consulting firm, Foster Higgins & Co., Inc., that stated decreasing the deductible for generic prescription drugs would encourage more substitution of less expensive generic drugs for more expensive branded drugs. According to Foster Higgins, a change from a plan with a $5 co-pay for branded and no co-pay for generic drugs would save the State approximately $1.5 million. According to the FY 1999 <u>Budget in Brief</u> (page 45), "An attractive benefit already available to State employees is a mail order program for prescription drugs. Employees who take advantage of this program receive their prescriptions with no copayment. . . The mail order program is also beneficial to the State because the costs for dispensing drugs are much lower using this approach than through more traditional methods."

The State Health Benefits Commission recently voted to re-institute the mail order co-pays of $5 for non-generic or brand drugs and $1 for generic drugs and to reduce the maximum days supply at retail pharmacies from 36 days to 30 days (effective July 1, 1999).

! *Question:* What are the actual mail order and retail costs of a sampling of several maintenance prescription drugs employees usually purchase through the mail order program? What are the anticipated savings from each of the design changes adopted by the commission? Can the FY 2000 recommendation of $118.4 million be reduced to reflect the implementation of the design changes?

2. b. According to Buck Consultants, Inc., (the actuary for the SHBP) prescription drug costs have come in at lower than expected levels, resulting in a projected FY 1999 surplus of $3.6 million for the Prescription Drug Plan. Buck recommended (and the State Health Benefits Commission adopted) design changes for the Prescription Drug Program (i.e., re-institute the mail order copays of $5 for Brand and $1 for Generic Drugs, reduce the maximum days supply at retail pharmacies from 36 days to 30 days, and eliminate coverage of prescription drugs under the Traditional Plan and NJ Plus for active employees) to reduce the FY 2000 rate increase from 11.3 percent to 9.0 percent.

Discussion Points (Cont'd)

The Governor's recommended appropriation of $118.4 million for the Prescription Drug Program, is an increase of $19.3 million, or 19.5 percent, over the FY 1999 adjusted appropriation of $99.1 million and $5 million more than Buck's projection of $113.4 million incurred claims for FY 2000.

! *Question:* Why does the Governor's budget recommend a 19.5 percent increase for the Prescription Drug Program when the actuary has recommended a 9 percent rate increase?

3. P.L.1993, c.8 imposed a surcharge on insurance carriers providing health benefits coverage to local boards of education that do not participate in the State Health Benefits Program (SHBP). The law was enacted in response to the adverse financial impact that two earlier State laws had on the traditional indemnity component of the SHBP. P.L.1987, c.384 provides State-paid post-retirement health benefits coverage for certain retirees of the Teachers' Pension and Annuity Fund (which is paid indirectly through State contributions to the TPAF) and P.L.1992, c.126 provides State-paid post-retirement health benefits coverage to certain retirees of local boards of education from the Public Employees' Retirement System (PERS) and certain county college retirees from PERS or the Alternate Benefits Program. These retirees may enroll in the SHBP regardless of whether the retirees' former employers participate in the SHBP for active employees. Significant to this problem is that many of these retirees are under 65 years of age and not yet eligible for Medicare.

As these retirees joined the program, the Division of Pensions and Benefits added them to the local employer group (employers other than the State) to determine the premium rates under the program. The addition of this group of retirees to the local employer group increased the average premium to school boards who do participate in the SHBP because of the sizable differential between the cost of providing coverage to active employees and the cost of providing coverage to retirees who are under 65 years of age. According to the division, this blending of rates for active employees and retirees under 65 years of age (those not covered by Medicare) is used by most employee health plans. While this blending of rates may be a reasonable practice when the number of retirees under age 65 in the pool is small (in comparison to the number of actives), the number of retirees under age 65 in the SHBP has increased over the years relative to the number of active employees in the SHBP, due in part because many local employers have left the SHBP taking their active employees with them. The premiums paid by the State for these retirees are also considerably lower than the premiums would be if the division did not use a blended rate for these retirees.

In recognition of the significantly higher than average claim cost of State employee retirees under age 65 compared to the average claim cost for active State employees, the State has implemented separate rates for actives and retirees (State component of the SHBP) under age 65, effective July 1, 1997. According to Buck Consultants, Inc. the separate rates were adopted in recognition of the "significant cost differential between these two risk pools."

! *Question:* Why has the division established a separate rating pool for State retirees under age 65 but not for local school board retirees under age 65? Would the surcharge on insurance carriers providing health benefits coverage to local boards of education that do not participate in the SHBP be necessary if the division established a separate rating pool? What would be the financial impact to the State of adopting a separate rating pool for school board retirees under age 65? What would be the financial impact (savings) to local boards of education of establishing a separate rating pool?

Discussion Points (Cont'd)

4. The Governor's recommended appropriation for Property Rentals is $203.3 million, a decrease of $5.1 million, or 2.5 percent, from the FY 1999 adjusted appropriation. However, budget language (page D-430) provides for an additional appropriation of up to $3 million to pay property rental obligations should conditions warrant the need.

! *Question:* How would the recommended budget language appropriation be "triggered"? Would, for example, the entire $203.3 million appropriation for property rentals and any departmental balances have to be expended before establishing the additional appropriation?

5. The Governor recently signed legislation, P.L.1999, c.23, which restructures the electric utility industry and requires customer electric rates to be reduced by at least five percent beginning no later than August 1, 1999, with further reductions in future years. Budget language (page D-431) permits the Director of the Division of Budget and Accounting to transfer unspecified amounts from appropriations made to any State department or agency, for Fuel and Utilities and Salary and Wages, to the Inter-Departmental Fuel and Utilities account. Although anticipated savings from specific energy conservation initiatives to be implemented in FY 2000 have not been identified, there should be an estimated 5 percent rate reduction from electrical deregulation. Since the utility costs for many State facilities are funded in the departmental appropriation accounts, these savings accrue in the departmental accounts.

! *Question:* Given the large use of electricity by the State, how much savings in Fiscal Year 2000 can be anticipated from the "electricity deregulation"? Please explain what savings in the Salary and Wages accounts would be effected as a result of savings associated with energy deregulation? Why should these funds be transferred to the Inter-Departmental Fuel and Utilities account and the Salaries and Wages account?

6. The federal Mental Health Parity Act of 1996 (MHPA) mandates that employee health benefit plans not impose an aggregate lifetime or annual dollar limit on mental health benefits that is less than the limit that is imposed on the plan's medical/surgical benefits. The Traditional Plan and NJ Plus components of the State Health Benefits Program (SHBP) do not comply with the federal standards in that the costs of extended inpatient mental health care benefits and outpatient visits are capped through annual (Traditional Plan $10,000 & NJ Plus $15,000) and lifetime (Traditional Plan $20,000 & NJ Plus $50,000) dollar maximums that are different than the overall $1 million maximum for medical/surgical benefits. Therefore, the SHBP must annually file for an exemption from compliance with the MHPA with the Federal Health Care Financing Administration (HCFA) for the Traditional Plan and NJ Plus. No exemption is necessary for the HMO components of the SHBP because the HMOs have visit and day limits, but no annual and lifetime dollar maximums.

! *Question:* In the current health insurance market, it might be advantageous for SHBP members seeking enhanced mental health benefits to decline SHBP coverage in order to purchase or qualify for better mental health benefits coverage through the individual or small employer markets. What, if any, is the impact of the SHBP's non-compliance with the MHPA, on the New Jersey small group and individual markets? Is the small group/individual market "population" sufficiently large enough to provide adequate risk sharing to minimize any cost increase applicable to the experience of any one group? It appears that the cost impact of mental health parity has not been excessive in states where mental health parity laws have been applied to state employees (i.e., Texas and North

Discussion Points (Cont'd)

Carolina). Would the department support legislation eliminating the separate annual and lifetime dollar limits on mental health benefits?

7. a. The Traditional Plan and NJ Plus and three of the ten HMOs in the SHBP are actually self-funded programs administered by an insurance carrier. This means the employers (State and participating local governments) pay the value of actual claims and the "premiums" are only for the convenience of billing the various employers. The premiums paid by the participating employers are deposited in the Health Benefits Program Fund. When premiums exceed plan costs, the fund accumulates a positive balance. If a substantial surplus accumulates in the fund, the State Health Benefits Commission can use the surplus to reduce future premium increases or return the funds to participating employers by establishing premium holidays. According to the SHBP Financial Projections - Local Plan report, dated January 19, 1999, after using $2.8 million to partially offset premiums and a one month premium holiday, the local plan has a projected surplus, as of June 30, 2000, of $76.6 million. This surplus represents 17.1 percent of projected plan costs.

According to the SHBP Financial Projections - State Plan report, dated January 19, 1999, "Margins of 5% to 10% are generally reasonable to protect against random claim fluctuations or adverse experience."

! *Question:* What is the industry standard for a reserve to protect against claim fluctuation? Why is the State Health Benefits Commission using only $2.8 million of the surplus to partially offset premiums and authorizing a one month premium holiday when the local plan has a projected surplus, as of June 30, 2000, of 17.1 percent of plan costs when the Buck Consultants indicates margins of 5 to 10 percent are generally reasonable?

7. b. In FY 1999, the SHBP offered ten HMOs to active State and local government employees and non-Medicare eligible retirees. In three of these HMOs - Aetna/USHealthcare, Horizon HMO (formerly HMO Blue) and CIGNA - the benefits are self-insured. (For FY 2000, there will be nine HMO options because NYLCare has been acquired by Aetna/USHealthcare.) Based on September 1998 enrollments, almost 74 percent of the active employees who are enrolled in HMOs are enrolled in the three self-insured HMOs.

According to the SHBP Financial Projections - State Plan report, dated January 21, 1998, the primary advantage to the SHBP of self-funding the HMO plans is financial in that it removes HMO vendor profits. The total estimated annual savings of self-funding Aetna/USHealthcare, Horizon HMO and CIGNA are $7.5 million to $8.5 million. The primary disadvantage to the SHBP of self-funding HMOs are the increased risk and administrative costs. Under self-funding, the SHBP would be fully liable for any adverse claim experience in any given year, whereas under an insured arrangement, the HMOs retain this risk.

! *Question:* Do the anticipated financial rewards of self-funding HMO coverage in a shifting environment (large numbers of employees have recently shifted from Traditional Plan coverage to NJ Plus or HMO coverage) outweigh the additional administrative expenses and the liability for any adverse claim experience? What would be the estimated savings of self-funding all of the HMOs?

Discussion Points (Cont'd)

8. Active enrollment in the Traditional Plan has declined by 42 percent since the implementation of employee premium sharing on July 1, 1996. Retiree premium sharing was implemented July 1, 1997. Although retiree premium sharing only applies to a small subset of all retirees, over time, premium sharing may encourage more retirees to enroll in the SHBP managed care components, i.e., NJ Plus and HMO plans.

! *Question:* What is being done to expand the HMO offerings of the SHBP to out-of-State Medicare and non-Medicare eligible retirees?

9. a. P.L.1992, c.41 sets the assumed or anticipated interest rate of the State retirement systems at 8.75 percent, which means the estimated rate of return on the assets of retirement systems will be, on average 8.75 percent per year. These earnings, including earnings in excess of 8.75 percent, reduce the employer contributions to fund the retirement systems.

According to a recent audit report, as of June 30, 1998, the combined assets of various pension funds were $70.1 billion. Of this amount, approximately $50 billion, or 71 percent, was invested in stock and $20.1 billion, or 29 percent, was invested in fixed income investments (cash, bonds and mortgages). Although a rising stock market has offset the impact of lower money market, bond and mortgage rates, the flat yield curve, meaning long term rates are not much higher than short term rates, means it is difficult to earn a return approaching the 8.75 percent assumed interest rate, on new fixed income investments.

! *Question:* Most pension funds are 60 percent invested in equities (stocks). Are the assets of the State retirement systems overweighted in equities? What is the danger or risk to the assets of the retirement systems of a recession or stock market correction occurring at the same time that interest rates are low?

9. b. State law requires that all pension systems, except the Prison Officers' Pension Fund, which is closed to new members, be subject to actuarial valuation every year and actuarial investigation every three years. An actuarial investigation requires the actuary of each retirement system to examine the various assumptions used to calculate the assets and liabilities of the system and adopt new assumptions if the actual experience differs significantly. Such valuations and investigations are designed to insure that these programs adequately recognize the additional costs (or savings) resulting from experience or legislative changes.

According to Milliman & Robertson, Inc., the actuary for the Teacher's Pension and Annuity Fund (TPAF), "Because of the interplay of the various elements of actuarial assumptions it is not adequate to review only one of the assumptions but rather the overall effect must be evaluated."

! *Question:* When was the last time actuaries of the State retirement systems examined the 8.75 percent assumed interest rate and the 5.95 percent rate of general salary growth assumptions?

Background Paper: Collective Bargaining

Although many public employee benefits are set by statute, some are negotiated through collective bargaining agreements. Consequently, many State and local government employees are represented by unions or professional associations.

However, because of the vital nature of many of the services provided by public employees, the law has traditionally made a distinction between the rights of State (and local government) employees and private employees. Whereas the State Constitution gives private employees the right "to organize and bargain collectively," it gives public employees the right to organize and make known "their grievances and proposals through representatives of their own choosing" (Article I, Paragraph 19). The State Constitution does not specifically ban strikes by public employees, and in an opinion handed down following the passage of the law creating the Public Employment Relations Commission (PERC), the New Jersey Supreme Court held that "it has long been the rule in our State that public employees may not strike . . ."

New Jersey Employer-Employee Relations Act

In response to work stoppages by public employees, the Legislature enacted the "New Jersey Employer-Employee Relations Act", P.L.1968, c.303 (N.J.S.A. 34:13A-1 et seq.), which created a process to avert and settle labor disputes between public employees and their employers. The seven-member PERC was charged with making "... policy and establish[ing] rules and regulations concerning employer-employee relations in public employment relating to dispute settlement, grievance procedures and administration including enforcement of statutory provisions concerning representative election and related matters . . ." (N.J.S.A. 34:13A-5-2) In addition, PERC was given the authority to determine which units of employees and terms and conditions of employment are appropriate for collective negotiations and to resolve unfair labor practice disputes.

In general, under the Act, the terms and conditions of employment, grievance procedures (which may include binding arbitration), and working conditions are considered negotiable. (Since the Act was silent as to what exactly constituted terms and conditions of employment, it has generally been left to the courts to sort out what is and what is not negotiable.) If negotiations reach an impasse, either party may request mediation. If mediation fails, PERC may conduct fact-finding sessions and recommend a final settlement. According to Jeffrey B. Tener, a former PERC Commissioner, fact-finding is intended to serve as a substitute for a strike by public employees or a lockout by public employers. When the parties are unable to resolve their differences directly or through mediation, then a fact-finder is appointed. The fact-finder listens to the evidence and arguments of each party and then issues a written report with recommended terms of settlement. The parties have a short time to reach an agreement on the basis of the report and, if no settlement is reached, then the report is made public. The law establishing PERC does not provide it with the authority to impose penalties for striking or for failure of the parties to adopt its recommendations for settlement.

State Employee Union Affiliation

According to the Office of Management and Budget's Payroll Position System, as of January 1999 (pay period 1), there were 68,594 full-time employees paid through the State payroll system. This number includes Legislative (471), Judicial (1,706) and county court (7,176) employees. This figure does not include employees of Rutgers, the State University; the University of Medicine and Dentistry of New Jersey (UMDNJ); the New Jersey Institute of Technology (NJIT); and the nine State colleges which are not included in the State payroll system. Of the 68,594 State employees on the payroll system, approximately 63,000 are represented by authorized employee organizations.

Background Paper: Collective Bargaining (Cont'd)

State Employee Union Affiliation

Union	Full-Time Employees	Contract Expires
Communications Workers of America (CWA)	31,700	June 30, 1999
American Federation of State, County, and Municipal Employees (AFSCME)	8,100	June 30, 1999
International Federation of Professional and Technical Engineers (IFPTE) and New Jersey State Motor Vehicle Employees Union (SEIU)	4,900	June 30, 1999
Policemen's Benevolent Association (PBA)	7,400	June 30, 1999
Judicial Employee Unions (various)	8,200	June 30, 2000
State Troopers Fraternal Association (STFA)	2,700	June 30, 2000
Sub-Total (State Payroll)	63,000	
American Federation of Teachers (AFT)*	3,200	NA

* Faculty, professional staff and library employees at the nine State colleges are not included in the State payroll system.
Source: Office of Management and Budget

Contract Provisions

The State has different collective bargaining agreements with the different employee unions. For example, the cost-of-living adjustments and health insurance premium sharing arrangements for active employees and retirees can vary from contract to contract. The State contracts (through arbitration) with approximately 7,400 State employees represented by the State Law Enforcement Conference of the New Jersey State Policemen's Benevolent Association (PBA) and 2,700 commissioned officers, non-commissioned officers and troopers of the Division of State Police, which expire June 30, 1999 and June 30, 2000 respectively, require the State to pay the full cost of the State Health Benefits Program (SHBP) - Traditional Plan health insurance for the employees and their eligible dependents. In contrast, the State contracts, expiring June 30, 1999, with the Communications Workers of America (CWA), the American Federation of State, County, and Municipal Employees (AFSCME), and the International Federation of Professional and Technical Engineers (IFPTE), the three unions representing most State employees, require employees and eligible retirees who select SHBP - Traditional Plan health insurance to pay part of the annual premium or cost of the coverage.

Background Paper: Collective Bargaining (Cont'd)

Proposed Changes in Layoff Rules, Seniority and Compensation

During the FY 1998 budget process, the Governor announced that the Department of Personnel (DOP) would promulgate regulatory changes to eliminate the practice known as "bumping". Bumping is the process where a more senior employee exercises displacement rights against a less senior employee within a layoff unit. (Most employee contracts include layoff provisions which permit permanent employees, classified employees who have completed their probationary period, to exercise bumping rights.) The DOP also indicated its intention to replace the existing range and step compensation system with a pay-for-performance system.

In FY 1999, the DOP proposed rule changes affecting layoff units, bumping rights, credit for performance, seniority and special reemployment rights for State employees. Under civil service law, an appointing authority may institute layoff actions for purposes of economy, efficiency or other related reasons. In State service, a permanent employee, covered by civil service, in a position affected by a layoff action must be provided applicable lateral and demotional title rights. The employee must select individual job locations in preferential order from the list of all job locations and indicate those job locations at which he or she will accept lateral or demotional title rights. Under existing regulations, seniority is calculated as the amount of continuous permanent service in the jurisdiction, regardless of title. Seniority is based on total calendar years, months and days in continuous permanent service. If two or more employees have equal seniority, preference will be given to a disabled veteran over a veteran and to a veteran over a non-veteran. If two employees are still "tied" after these considerations, preference is based on other criteria, such as which employee has the higher performance rating.

The DOP has proposed a new system of "merit points" (to be derived by a combination of points for seniority and performance) for the purpose of determining the order of layoffs in State service. In State service, the layoff unit is the department and includes all programs administered by that department. Under the DOP's proposed regulatory changes for State service, the layoff unit will no longer be an entire department, but only a potion (no less than 50 employees) of a department.

In FY 1999 $800,000 was appropriated to the DOP in a special purpose account - Classification and Compensation Redesign. The Governor's FY 2000 budget recommends an additional $800,000 for this account. On September 9, 1998 (FY 1999), the DOP issued a Request for Proposal (RFP) "to solicit bids from qualified professional consulting firms with experience in designing classification and compensation models, including some experience in broadbanding or gradebanding. The consultant must design, develop, install and test a revised classification and compensation model for New Jersey's 77,000 State employees and New Jersey's 108,000 local government employees." This contract was recently awarded to Buck Consultants, Inc., a benefits consulting firm.

According to the FY 2000 Budget in Brief (page 87), "The fiscal 2000 recommended Budget supports the continuing efforts of the Department's State and Local Government Operations group to consolidate job titles and thereby simplify human resource management. This work is integral to the overhaul of the salary compensation plan. The existing rigid range and step system does not lend itself to the more progressive concepts of broad banding and pay for performance. . . .Crucial to the overhaul of the State employee salary plan is the pay for performance concept, so that exceptional employees are rewarded for merit and success while still acknowledging seniority."

Background Paper: Collective Bargaining (Cont'd)

Union Response

In response to the Governor's initiative to develop and implement a new classification and compensation system, which includes pay-for-performance, the CWA, AFSCME, IFPTE, PBA, New Jersey State Motor Vehicle Employees Union (SEIU), and the American Federation of Teachers (AFT) filed, on April 26, 1999, an unfair labor practices charge with PERC. The unions claim the State is engaging in unfair practices and contend that compensation, including merit pay, is a mandatory subject of collective negotiations. The administration contends that merit-based pay can be implemented by regulation and does not require new statutory authority or negotiations with the various employee unions.

Background Paper: Y2K: The Year 2000 Data Processing Initiative

Budget Page.... D-435

Summary

Substantial amounts of State funds are being allocated to the "Year 2000 Data Processing Initiative," which is the effort to ensure that the State's computer systems, applications, software, telecommunications and computer-driven equipment are fully operable on January 1, 2000. Direct appropriations earmarked for "Year 2000" (or "Y2K") include $15 million in FY 1998, $31.9 million in FY 1999, and up to $17.5 million more requested in the FY 2000 budget, for a potential total of $64.4 million. Additional amounts have been appropriated directly to departments without necessarily being identified as Y2K-specific. Estimates to address all of the State's Year 2000 computer remedies range up to $120 million or more.

The scope of the Y2K effort, whether measured by the time and resources devoted to it, or by the potential for disruption if there are system failures, is of sufficient importance to invite legislative involvement and oversight. Although the State maintains a Year 2000 website which outlines goals and progress, little in the way of information or data has been provided by the Executive Branch to document, for a legislative audience, either the activities or costs associated with this effort.

Background

In early computer applications, magnetic storage of information was expensive and storage capacities were limited. As a result, software applications routinely conserved space by using only the final two digits for recording calendar years; i.e., the year 1990 would be stored as 90. When the year 2000 arrives, this two-digit year field will contain "00". Computer generated calculations that automatically take the higher number and subtract it from the lower one will result in incorrect elapsed time calculations. For example, a person born in 1996 may be calculated to be 96 years old or minus 96 years old, rather than four years old.

A considerable portion of the State's everyday business is still conducted on large mainframe and mid-size computers using software written with potentially faulty date codes. To correct this problem will require programmers to rewrite millions of lines of code, plus in some cases the purchase of upgraded hardware and software. However, the problem goes beyond this; many personal computers may be affected, either through their operating systems or their internal clocks; telecommunications devices could malfunction; and many types of equipment governed by microprocessors on timed sequences also are vulnerable.

Given the extensive use of dates in computer programs to make calculations tied to financial investments, payroll support, license renewals, court records and social benefits payments, the scope of this problem becomes apparent. While some of the more dire predictions such as inoperative traffic signals and prisoners being set free are more dramatic than accurate, the possible failure of information systems to operate correctly can mean anything from minor inconveniences to major breakdowns.

Background Paper: Y2K: The Year 2000 Data Processing Initiative (Cont'd)

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

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

Planning and Project Management

When the Year 2000 problem became more evident, the New Jersey Information Resources Management Commission, created by P.L. 1993, c.199 to "initiate and oversee an ongoing Statewide information planning process in State government," began promoting and coordinating New Jersey's awareness of the problem. Through the Commission's efforts, the Governor appointed a central coordinator to work with each department in compiling its own departmental needs and to function as the State's coordinator of information to ensure the successful completion of all Year 2000 conversion efforts. However, in February 1998, the commission was essentially deactivated and the responsibility for the Year 2000 project was assumed by a newly-appointed Chief Information Officer located in the Governor's office.

In September 1998, Governor Whitman issued Executive Order No. 87, which abolished the former Office of Telecommunications and Information Systems (OTIS) and transferred all of its functions, powers and duties to a new Office of Information Technology (OIT), to be located in but not of the Department of the Treasury (the former OTIS was a functional part of Treasury). OIT is headed by a public/private Governing Board chaired by the Chief Information Officer.

OIT has operational responsibility for the State's major data centers and data applications and for developing the Garden State Network, a statewide integrated communications network capable of carrying data and voice transmissions. The HUB houses this telecommunications network and provides data processing disaster recovery. OIT is also coordinating the Executive Branch Year 2000 Project under the direction of the Chief Information Officer, to ensure that computer systems which serve the general public and private industry will be Year 2000 compliant. As changes reach completion, OIT will conduct comprehensive tests to verify their effectiveness. OIT will also require all of the State's major software and data services suppliers to be Year 2000 compliant. OIT has been using its own staff as well as contract vendors to address Y2K needs.

The Chief Information Officer has issued a policy declaring the Y2K problem to be the State's top information technology priority, to the extent of imposing a moritorium on non-Year 2000 data processing activities until required Y2K remediations are complete.

Budget Impact

Through FY 1999, the Legislature has appropriated $46.9 million for a "Year 2000 Data Processing Initiative." Although the appropriations are made to the Inter-Departmental Accounts (see

Background Paper: Y2K: The Year 2000 Data Processing Initiative (Cont'd)

p. D-435 of the Governor's FY 2000 budget), the bulk of the money is administered through OIT.

The Governor's FY 2000 budget recommends an additional $10 million in State funding to continue the Year 2000 Initiative, plus budget language that would allow the Director of the Office of Management and Budget to approve spending up to $7.5 million more "to ensure completion of all Year 2000 related data processing projects." The Budget in Brief (p. 46) notes that the total cost to remediate Y2K impacts is projected at $120 million. The balance, after accounting for direct State appropriations, "derives from agency base budgets and non-State fund sources."

Additional Information

The Office of the State Auditor is currently conducting an updated audit of the Executive Branch's Year 2000 compliance activities. The audit, which follows a similar audit conducted last year, should be completed by mid-May of 1999. Members of the budget committees will have the opportunity to review the audit findings and recommendations in the context of the FY 2000 budget deliberations.

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Individuals wishing information and committee schedules on the FY 2000 budget are encouraged to contact:

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