

ANALYSIS OF THE NEW JERSEY FISCAL YEAR 2000 - 2001 BUDGET



INTERDEPARTMENTAL ACCOUNTS

PREPARED BY

OFFICE OF LEGISLATIVE SERVICES

NEW JERSEY LEGISLATURE

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NEW JERSEY STATE LEGISLATURE

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INTERDEPARTMENTAL ACCOUNTS

Budget Pages..... C-13, D-457 to D-471

Fiscal Summary (\$000)

	Expended FY 1999	Adjusted Appropriation FY 2000	Recommended FY 2001	Percent Change 2000-01
State Budgeted	\$1,426,952	\$1,771,060	\$1,951,888	10.2%
Federal Funds	0	0	0	—
<u>Other</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>—</u>
Grand Total	\$1,426,952	\$1,771,060	\$1,951,888	10.2%

Personnel Summary - Positions By Funding Source

	Actual FY 1999	Revised FY 2000	Funded FY 2001	Percent Change 2000-01
State	0	0	0	—
Federal	0	0	0	—
<u>Other</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>—</u>
Total Positions	0	0	0	—

FY 1999 (as of December) and revised FY 2000 (as of September) personnel data reflect actual payroll counts. FY 2001 data reflect the number of positions funded.

Introduction

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

Key Points

- ! The FY 2001 recommended budget totals \$1.952 billion; **an increase of \$180.8 million (10.2 percent)** over the FY 2000 adjusted appropriation of \$1.771 billion. The budget recommendation for FY 2001 includes \$1.209 billion for Direct State Services, \$511 million for Grants-in-Aid and \$231.7 million for Capital Construction.

State and College Employee Benefits: Increase of \$91.8 million (7.9 percent), partially offset by \$52 million reimbursement

- ! In FY 2001, the State's share of employer pension contributions for all of the State-administered retirement systems is entirely offset by excess valuation assets. This is a result of the revaluation of pension assets to full market value in conjunction with the 1997 "Pension Security Program" (P.L. 1997, c. 114, c. 115) and the continued annual valuation to recognize the investment performance of pension system assets.
- ! Pension costs remaining in the FY 2001 recommended budget are for (1) post-retirement medical benefits, (2) the Alternate Benefits Program (a privately administered, defined contribution plan for higher education employees), and (3) debt service for the bonds issued as a result of the Pension Bond Financing Act of 1997. (One-time savings for the refinancing of these bonds was recognized in FY 2000). The total increase in these areas is \$34.3 million, \$24.3 million of which is for debt service.
- ! P.L. 1999, c. 415 reduced employee contributions to the Public Employees' Retirement System (PERS) from 4.5% in calendar year 1999 to 3% for calendar years 2000 and 2001. This is not expected to impact the budget or employer contributions for these years. Cumulative savings to State employees for these two years are estimated at \$96 million.
- ! The prescription drug component of employee health benefits is recommended to increase by \$32 million, or 28.6 percent in the FY 2001 budget. This is mainly attributed to increased usage and pricing of medication, as well as the extension of the rate-setting period from 12 to 18 months.
- ! Employer payroll taxes will increase by a net of \$21.6 million to reflect (1) the increase in the federal social security wage base and (2) the additional taxes related to employee salary increases.
- ! A \$52 million reimbursement for fringe benefits from the University of Medicine and Dentistry is expected to partially offset the increase in the recommended budget for Employee Benefits. The Budget in Brief does not explain the nature of this reimbursement or its basis.
- ! Additional public employee benefits funding is included in other departmental budgets. The Department of Education's State Aid budget includes \$783 million in recommended funding for teachers' pension and health benefits, as well as payroll taxes (Budget, p. D-131). The Department of Treasury's State Aid budget (p. D-443) includes \$12.9 million in recommended funding for certain pension and health benefit costs for local police and firefighters. The State's required pension contributions in these accounts are offset by excess valuation assets in FY 2001, as previously discussed.

Key Points (Cont'd)

Salary Adjustments: Increase of \$75.2 million for State employees; \$23.4 million for higher education employees

- ! The recommended budget supports employee increments, cost of living adjustments, and bonuses for eligible employees, consistent with negotiated agreements. The budget also reflects an upcoming request for \$55.1 million in FY 2000 supplemental funding for salary increases negotiated after the start of the current fiscal year. These increases will apply retroactively to the beginning of FY 2000.
- ! Salary increases totaling \$5.6 million for executive and judicial pay raises pursuant to P.L. 1999, c. 380, effective January 14, 2000, are included in the recommended salary budget. Salary increases for the Governor and the Legislature do not take effect until January 2002.

Capital Projects: Increase of \$35.1 million (17.9 percent)

- ! Significant funding increases for Capital Projects include (1) an additional \$4.1 million for pier renovations through the South Jersey Port Corporation; (2) an increase of \$20.4 million for debt service on approved and proposed projects by the New Jersey Building Authority; and (3) an increase of \$15 million in information technology infrastructure funding (see Information Technology discussion below).
- ! One-time funding of \$6 million provided in FY 2000 for the Battleship U.S.S. New Jersey is not requested in FY 2001.
- ! As provided in the State Constitution, \$98 million of funding is again included in the Capital Projects recommended budget for the second year of the Open Space Program. This program, operated through the Garden State Preservation Trust Fund Authority, provides funding for farmland preservation, open space acquisition, parks development, and historic preservation projects.

Aid to Independent Authorities: Increase of \$20.4 million (27.7 percent)

- ! According to the budget document, a \$20 million new initiative to "stimulate promising technology companies in New Jersey through the Economic Development Authority" is proposed in FY 2001. Funding for this initiative would be allocated as follows: \$10 million in venture capital for start-up firms, \$6 million to develop a new technology center for small to mid-size high-tech firms, and \$4 million to develop a commercialization center to provide space for the research and development efforts of emerging, high tech firms.
- ! Operating and debt service subsidies for the New Jersey Sports and Exposition Authority total \$61 million, only slightly more than in FY 2000. However, newly proposed budget language would allow the Director of the Division of Budget and Accounting to appropriate additional monies to fund the non-State portion of debt service costs for the Atlantic City Convention Hall - East Hall and Monmouth Park Racetrack Projects, in the event that the responsible parties are unable to make the payments. Maximum State contingent exposure for these two projects would be approximately \$8 million.

Key Points (Cont'd)

Property Rentals: Net Increase of \$12.4 million (9 percent)

- ! The recommended increase for the Property Rentals Account is due to (1) relocation of staff to consolidate space for programs and departments, (2) rental or lease/purchase of additional space for new programs/employees, and (3) increased debt service (State and EDA) and related tax payments. Additional rent revenues from non-State funded programs, savings from vacated State facilities and estimated savings from utility deregulation partially offset the increases in this account (\$3.7 million reduction).
- ! Utility Deregulation is estimated to result in savings of \$2.2 million statewide, of which \$1.4 million is allocated within departmental budgets, and \$749,000 is allocated to the Property Rentals Account.

Utilities and Other Services: Increase of \$535,000 (2.4 percent)

- ! The Utilities and Other Services account recommended budget is increased slightly due to inflation and use of additional facilities.

Insurance and Other Services: Decrease of \$700,000 (1.3 percent)

- ! The Insurance and Other Services account is decreased slightly due to an anticipated decrease in Workers' Compensation payout and property premium costs.

Other Interdepartmental Accounts decrease by \$25.3 million (41.2 percent)

- ! One-time funding of \$25 million was provided through legislation in FY 2000 for flood relief for victims of Hurricane Floyd. This funding is not required in FY 2001.
- ! A net increase of \$2.2 million in FY 2001 for information technology is recommended (see below).

Information Technology increase of \$27.2 million, partially offset by \$10 million decrease

The recommended funding for information technology includes \$32.2 million for new or expanded information technology projects in the Interdepartmental Accounts budget. These include:

- ! \$16.5 million for network infrastructure in FY 2001.
- ! \$8 million to provide upgrades to the State's mainframe computer systems.
- ! \$6.8 million for an online State portal to allow State agencies to provide online consumer services and transactions. Operating funds of \$3.3 million are included for inventory and system design (\$800,000), and for digital government certificates to provide online security (\$2.5 million). Recommended capital funding for purchase of related hardware is \$3.5 million.
- ! \$900,000 is recommended to fund an assessment and design of the State's data

Key Points (Cont'd)

management needs, including database integration.

- ! In addition to these amounts, budget language (p. D-469) would appropriate any additional amounts necessary to pay licensing and maintenance fees associated with the equipment upgrades, plus costs to develop and implement "portals" to conduct electronic commerce.
- ! The \$10 million Year 2000 Data Processing initiative is discontinued in the FY 2001 budget.

Note that additional information technology funding is included in the Department of Treasury and in various other State agency budget accounts.

Program Description and Overview

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

(1) Employee Benefits: Recommended Appropriation of \$1.203 billion

Pensions

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

- ! The **Public Employees' Retirement System (PERS)** (N.J.S.A. 43:15A-1 et seq.) provides coverage to substantially all full-time employees of State and local governments who are not members of one of the other systems described below. State and local governments pay the employer contributions for this system for their respective employees. Required State contributions are reflected in the Interdepartmental Accounts Budget.
- ! The **Teachers' Pension and Annuity Fund (TPAF)** (N.J.S.A. 18A:66-1 et seq.) provides coverage to all full-time school teachers in the State, including those in county vocational schools, as well as certain employees in the State Department of Education. The State pays the full employers' share of contributions (except for the cost of the early retirement incentive programs which are paid for by the participating districts) on behalf of local school districts. These payments are included in the State Aid portion of the recommended budget for the Department of Education.
- ! The **Judicial Retirement System (JRS)** (N.J.S.A. 43:6A-1 et seq.) provides pension coverage to members of the State judiciary. The State pays the employer contributions for this system as a part of the Interdepartmental Accounts budget.
- ! The **Police and Firemen's Retirement System (PFRS)** (N.J.S.A. 43:16A-1 et seq.) provides coverage to all full-time county and municipal and State police and firefighters. Employer obligations are paid by the local employers and the State (as an employer). Required State contributions are budgeted in Interdepartmental Accounts.
- ! The **State Police Retirement System (SPRS)** (N.J.S.A. 53:5A-1 et seq.) provides benefits to all uniformed officers and troopers of the Division of State Police in the Department of Law and Public Safety. The State pays the employer contributions for this system as a part of the Interdepartmental Accounts budget.
- ! The **Prison Officers' Pension Fund (POPF)** (N.J.S.A. 43:7-7 et seq.) provides coverage for certain employees of the Department of Corrections. Effective January 1, 1960, the system was closed to new employees. Although there are no remaining active members, there are approximately 300 retirees and beneficiaries. This system is entirely funded by current trust assets. State contributions may be necessary if the trust assets prove insufficient.

Program Description and Overview (Cont'd)

- ! The **Consolidated Police & Firemen's Pension Fund (CP&FPF)** (N.J.S.A. 43:16-1 et seq.) membership consists of policemen and firemen appointed prior to July 1, 1944. Although there are no remaining active members, there are approximately 2,000 retirees and beneficiaries. This system is entirely funded by current trust assets. State contributions may be necessary if the trust assets prove insufficient. (Local employers are billed for the cost of COLA adjustments.)
- ! The **Alternate Benefit Program (ABP)** (N.J.S.A. 18A:66-167 et seq.) is for full-time faculty of public institutions of higher education. Participants have the option to provide for their pensions through the purchase of fixed or variable annuities underwritten by private vendors, the Teachers Insurance and Annuity Association (TIAA) or the College Retirement Equities Fund (CREF). The minimum contribution by employees is 5 percent of base salary. The employer (State and Institutions of Higher Education) contributes a flat rate of 8 percent of base salary; this contribution is included in the Interdepartmental Accounts and the Department of Treasury's recommended budgets.

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

State law requires that all current pension systems be subject to actuarial valuation every year to determine the necessary annual contributions required to adequately fund the system. In addition, the systems must have an actuarial investigation every three years. Actuarial investigation requires the actuary to examine the various assumptions used to calculate the assets and liabilities of the system and adopt new assumptions as necessary to ensure that additional costs (or savings) resulting from experience or legislative changes are recognized.

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

In addition, P.L. 1997, c.115 permits the Treasurer to use surplus pension fund assets to offset the annual employer (State and local government) contributions to fund the retirement systems. In FY 2000, approximately \$172.1 million in surplus pension fund assets was used to offset State contributions, in FY 2001, the recommended budget reflects the use of \$218.3 million in surplus pension fund assets. The use of these assets has resulted in a significant reduction in requested appropriations for pension system contributions. Legislation enacted in December 1999 (P.L. 1999, c. 415) also reduced employee contributions to the PERS system to 3% of annual salary for calendar years 2000 and 2001.

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

Program Description and Overview (Cont'd)

Other State Appropriations for Pensions and Related Benefits		
<u>General Fund - State Aid</u>	<u>FY 2000</u>	<u>FY 2001</u>
<i>Department of Education: page D-131</i>		
Additional Health Benefits	\$19,916,000	\$27,056,000
Minimum Pension for Pre-1955 Retirees	\$6,000	\$2,000
<i>Department of Treasury: pages D-414, D-443</i>		
Employer Contributions - Alternate Benefit Program)	\$15,981,000	\$16,141,000
Employer Contributions - Teachers' Pension and Annuity Fund	\$121,000	\$167,000
Debt Service on Pension Obligation Bonds	\$70,000	\$70,000
Additional Health Benefits	\$2,342,000	\$3,259,000
Debt Service on Pension Obligation Bonds	\$8,708,000	\$6,539,000
Police and Firemen's Retirement System, Health Benefits	\$2,635,000	\$5,729,000
Police and Firemen's Retirement System	\$23,775,000	\$626,000
PFRS - P.L. 1979, c. 109	\$23,010,000	\$0
<u>Property Tax Relief Fund - State Aid</u>		
<i>Department of Education: page D-131</i>		
Employer Contributions - Teacher's Pension and Annuity Fund	\$119,948,000	\$165,070,000
Debt Service on Pension Obligation Bonds	\$69,191,000	\$69,545,000
TOTAL, State Aid	\$285,703,000	\$294,204,000

Health Benefits

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

Program Description and Overview (Cont'd)

insured, "premium rates" are established annually for the purpose of meeting the program's projected expenditures when they actually occur. Three of the HMO plans also have self-insured arrangements with the State.

The State's obligation to pay the premium or periodic charges for the SHBP coverage with respect to active employees and retirees is subject to collective bargaining. For FY 2001, employee premium sharing will be required for the Traditional and HMO plans, no employee premium sharing will be required for the NJ Plus plan. Current law requires local participating public employers to pay the cost of SHBP coverage for local employees and authorizes those employers to require an employee contribution toward some or all of the cost of dependent coverage. Many participating local employers, however, have assumed the cost of dependent coverage.

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

Other Fringe Benefits

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

(2) Salary and Other Benefits: Recommended Appropriation of \$160.7 million

Salary increases for existing State positions are budgeted centrally in the Interdepartmental Accounts budget, then allocated out to individual departments/agencies during the fiscal year. Increases for the majority of State employees are subject to collective bargaining. Contracts ratified in late fall 1999 (effective from July 1, 1999 to June 30, 2003) provide increases in FY 2001 ranging from 2.5% to 3.5%, plus bonuses, as follows:

Union	Membership/State	Across The Board Increase	Bonus
Communication Workers of America (CWA)	32,300	3.5%, (2% in 7/99 plus 1.5% in 1/00)	n/a
American Federation of State, County and Municipal Employees (AFSCME)	8,200	2.5%	\$450
International Federation of Professional and Technical Engineers (IFPIE)	5,000	3.0%	\$450

These increases, including retroactive amounts, as well as increments are included in the FY 2001 budget.

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

Program Description and Overview (Cont'd)

(3) Property Rentals and Leases: *Recommended Appropriation of \$150.5 million*

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

(4) Utilities and Other Services: *Recommended Appropriation of \$23 million*

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

(5) Insurance and Other Services: *Recommended Appropriation of \$52.5 million*

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 Department of Treasury administers these insurance accounts.

(6) Capital Projects - Statewide: *Recommended Appropriation of \$231.7 million*

This account funds various statewide capital projects administered by the Department of Treasury on behalf of State agencies. Current projects funded in this account include the removal of underground storage tanks and hazardous materials, building renovations related to compliance with the federal Americans with Disabilities Act (ADA), purchase of "open space" through the Garden State Preservation Trust Fund, and capital network infrastructure purchases.

(7) Aid to Independent Authorities: *Recommended Appropriation of \$94.1 million*

This account provides monies to Independent Authorities for operating expenses and construction costs for facilities. Recommended funding for the Governor's proposed new Commercialization Center (\$4 million) and Technology Center (\$6 million) is included in this account in FY 2001.

(8) Other Interdepartmental Accounts: *Recommended Appropriation of \$36.2 million*

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

Fiscal and Personnel Summary

AGENCY FUNDING BY SOURCE OF FUNDS (\$000)

	Expended FY 1999	Adj. Approp. FY 2000	Recom. FY 2001	Percent Change	
				1999-01	2000-01
General Fund					
Direct State Services	\$940,907	\$1,105,996	\$1,209,193	28.5%	9.3%
Grants-In-Aid	399,183	468,486	511,006	28.0%	9.1%
State Aid	0	0	0	0.0%	0.0%
Capital Construction	86,862	196,578	231,689	166.7%	17.9%
Debt Service	0	0	0	0.0%	0.0%
Sub-Total	\$1,426,952	\$1,771,060	\$1,951,888	36.8%	10.2%
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	\$1,426,952	\$1,771,060	\$1,951,888	36.8%	10.2%
Federal Funds	\$0	\$0	\$0	0.0%	0.0%
Other Funds	\$0	\$0	\$0	0.0%	0.0%
Grand Total	\$1,426,952	\$1,771,060	\$1,951,888	36.8%	10.2%

PERSONNEL SUMMARY - POSITIONS BY FUNDING SOURCE

	Actual FY 1999	Revised FY 2000	Funded FY 2001	Percent Change	
				1999-01	2000-01
State	0	0	0	0.0%	0.0%
Federal	0	0	0	0.0%	0.0%
All Other	0	0	0	0.0%	0.0%
Total Positions	0	0	0	0.0%	0.0%

FY 1999 (as of December) and revised FY 2000 (as of September) personnel data reflect actual payroll counts. FY 2001 data reflect the number of positions funded.

AFFIRMATIVE ACTION DATA

Total Minority Percent	NA	NA	NA	----	----
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Significant Changes/New Programs (\$000)

<u>Budget Item</u>	<u>Adj. Approp.</u> <u>FY 2000</u>	<u>Recomm.</u> <u>FY 2001</u>	<u>Dollar</u> <u>Change</u>	<u>Percent</u> <u>Change</u>	<u>Budget</u> <u>Page</u>
Property Rentals	\$138,040	\$150,491	\$12,451	9.0%	D-461

According to the Budget in Brief, the recommended increase for the Property Rentals Account is due to (1) relocation of staff to consolidate space for programs and departments, (2) rental or lease/purchase of additional space for new programs/employees, and (3) increased debt service (State and EDA) and related tax payments. Additional rent revenues from non-State funded programs, savings from vacated State facilities and estimated savings from utility deregulation partially offset the increases in this account (\$3.7 million reduction).

Utility Deregulation is estimated to result in savings of \$2.2 million statewide, of which \$1.4 million is allocated within departmental budgets, and \$749,000 is allocated to the Property Rentals Account.

Aid To Independent Authorities:

Venture Capital for Start-up Firms - EDA	\$0	\$10,000	\$10,000	—	D-462
New Technology Center, EDA	\$0	\$6,000	\$6,000	—	D-462
Commercialization Center, EDA	<u>\$0</u>	<u>\$4,000</u>	<u>\$4,000</u>	—	D-462
Total	\$0	\$20,000	\$20,000	—	D-462

According to the budget document, a \$20 million new initiative to "stimulate promising technology companies in New Jersey through the Economic Development Authority" is proposed in FY 2001. These initiatives are part of the New Jersey Jobs For The New Economy: High-Tech Workforce Development program. Funding for this initiative would be allocated as follows:

- \$10 million in venture capital for start-up firms to be used as seed money for a new public/private venture fund to be invested in small technology firms that need financing assistance. Supplementary budget material indicates that with the help of private money the fund will total \$40 million.
- \$6 million to develop a new technology center in South Jersey. It is expected these funds will attract \$18 million in private funds; and
- \$4 million to develop a commercialization center to provide space for the "commercialization" of small companies graduating from one of New Jersey's small business incubators. Supplementary budget material indicates these funds will attract some \$2 million in private investments. The center will occupy about one-third of a planned new building in the North Brunswick Technology Centre.

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

<u>Budget Item</u>	<u>Adj. Approp.</u> <u>FY 2000</u>	<u>Recomm.</u> <u>FY 2001</u>	<u>Dollar</u> <u>Change</u>	<u>Percent</u> <u>Change</u>	<u>Budget</u> <u>Page</u>
Capital Projects - Statewide	\$196,578	\$231,689	\$35,111	17.9%	D-462 D-463

Significant funding increases for Capital Projects include (1) an additional \$4.1 million for pier renovations through the South Jersey Port Corporation; (2) an increase of \$20.4 million for debt service on approved and proposed projects by the New Jersey Building Authority; and (3) an increase of \$15 million in information technology infrastructure funding (see separate discussion of Information Technology below).

One-time funding of \$6 million provided in FY 2000 for the Battleship U.S.S. New Jersey is not recommended in FY 2001.

State Retirement Systems	\$186,489	\$220,827	\$34,338	18.4%	D-466 D-467
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In FY 2001, the State's share of employer pension contributions for all of the State-administered retirement systems is entirely offset by excess valuation assets. This is a result of the revaluation of pension assets to full market value in conjunction with the 1997 "Pension Security Program" (P.L. 1997, c. 114 and c. 115) and the continued annual valuation to recognize the investment performance of pension system assets. In FY 2001, \$218.3 million in excess valuation assets will be used to offset a significant portion of required pension contributions.

Pension-related costs remaining in the FY 2001 recommended budget are for (1) post-retirement medical benefits, (2) the Alternate Benefits Program (a privately administered, defined contribution plan for higher education employees), and (3) debt service for the bonds issued as a result of the Pension Bond Financing Act of 1997. The total increase in these areas is \$34.3 million, \$24.3 million of which is for debt service. (One-time savings for the refinancing of these bonds was recognized in FY 2000).

Employee Health and Prescription Benefits	\$602,259	\$638,208	\$35,949	6.0%	D-466 D-467
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The prescription drug component of employee health benefits is recommended to increase by \$32 million, from \$112.0 million in FY 2000 to \$144.0 million (28.6 percent) in the FY 2001 budget, and is the largest increase in this category both as a percentage and as an absolute dollar amount. This is mainly attributable to increased usage and pricing of medication, as well as the extension of the rate-setting period from 12 to 18 months.

Other Health Benefits increase less than 1 percent. According to the Office of Management and Budget, the budgeted rate of increase in these health benefits is a result of increased employee premium sharing which will be implemented in FY 2001 in both the HMO and Traditional plans. Participants in the traditional plan will pay for 25 percent of their coverage and members of the various HMO's will contribute 5 percent. Membership in NJ Plus will continue to be free. Additional short-term savings are expected from migration of employees from more costly plans

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

<u>Budget Item</u>	<u>Adj. Approp. FY 2000</u>	<u>Recomm. FY 2001</u>	<u>Dollar Change</u>	<u>Percent Change</u>	<u>Budget Page</u>
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(Traditional and HMO's) to NJ Plus. Future costs of NJ Plus will likely increase, however, as migration occurs and the risk pool becomes more costly.

Social Security Taxes	\$359,533	\$382,372	\$22,839	6.4%	D-466, D-467
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The State's Social Security payments on behalf of State employees (Direct State Services) and higher education employees (Grants-in-Aid) will increase by \$22.8 million to reflect (1) the increase in the federal social security wage base from \$72,600 to \$76,200 and (2) additional taxes related to employee salary increases below the wage base. Budget language allows additional amounts to be appropriated if the budgeted amounts are insufficient to meet FICA requirements.

Temporary Disability Insurance Liability	\$6,714	\$7,446	\$732	10.9%	D-467
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All eligible State and higher education employees are included in the State Temporary Disability Insurance Plan. The plan is a shared-cost plan which provides payments to employees who are ineligible to work as the result of non-work connected illness or injury, who have exhausted their sick leave and who are not eligible for unemployment compensation or workers' compensation. The employee contribution rate is 0.5 percent of compensation up to \$21,200, while employers contribute between 0.1 percent and 0.75 percent up to the wage base of \$21,200. The employer rate is determined each year so that, together with employee contributions, it will produce sufficient revenue to keep the account in balance. Employer and employee contributions are deposited in the State Disability Benefits Fund. Budget language allows additional amounts to be appropriated if the budgeted amount is less than required.

Unemployment Insurance Liability	\$8,560	\$6,504*	(\$2,056)	(24.0)%	D-467
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Unlike private industry, the State does not contribute a matching percentage of compensation to the Unemployment Compensation Fund. The State is self-insured as the payer of last resort. Employees contribute 0.2 percent of salary, up to the wage base of \$21,200. When the employees' contributions are fully spent, the State, as an employer, contributes sufficient funds to pay benefits and keep the program solvent. The \$6.5 million recommendation is an estimate of what will be required to pay unemployment claims for former State and higher education employees above the amount raised from employee payroll taxes. Budget language permits the appropriation of additional amounts if the budgeted amount is insufficient to pay all valid claims. Note: The Governor has recommended a two-year elimination of the employee share of UI taxes in FY 2001 and FY 2002, amounting to a maximum worker savings of \$42.40 in the first year. If this reduction is enacted, the amount recommended for the State's share of UI payments may have to be increased.

*Revised 5/15/00

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

<u>Budget Item</u>	<u>Adj. Approp.</u> <u>FY 2000</u>	<u>Recomm.</u> <u>FY 2001</u>	<u>Dollar</u> <u>Change</u>	<u>Percent</u> <u>Change</u>	<u>Budget</u> <u>Page</u>
Reimbursements from Agency Accounts	\$0	(\$52,000)	(\$52,000)	—	D-467

A \$52 million reimbursement for fringe benefits from the University of Medicine and Dentistry is expected to partially offset the increase in the recommended budget for Employee Benefits. According to supplementary information provided by OMB, that in order to maximize federal payments, while not exceeding the Disproportionate Share Hospital Payments (DHS), the State agreed to make an enhanced payment of \$52 million to the University of Medicine and Dentistry (UMDNJ), which would be offset by a reduction in the UMDNJ benefits paid by the State.

Hurricane Floyd Flood Relief (Grants-in-Aid)	\$25,000	\$0	(\$25,000)	(100.0)%	D-469
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One-time funding of \$25 million was provided through legislation in FY 2000 for flood relief for victims of Hurricane Floyd. This funding is not recommended in FY 2001.

Enhanced 911 County Grants	\$525	\$0	(\$525)	(100.0)%	D-469
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P.L. 1999, c.125, effective June 24, 1999, requires an appropriation for county 911 coordinators under the enhanced 911 system in an amount not to exceed \$25,000 per county. This recommended appropriation would fund that requirement.

Centralized Geographic Data Management Systems	\$500	\$0	(\$500)	(100.0)%	D-469
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Language in the FY 2000 appropriations act permitted the appropriation of up to \$500,000 as a state match if required to leverage federal funding that may be obtained for the enhancement or expansion of geographic management systems. The same language is recommended for FY 2001.

Information Technology

The recommended funding for information technology includes \$32.2 million for new or expanded information technology in the Interdepartmental Accounts budget. These include:

Capital Construction: Network Infrastructure	\$5,000	\$16,500	\$11,500	230.0%	D-463
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The FY 2001 Budget in Brief describes this \$16.5 million appropriation as comprising "necessary upgrades and improvements to the Garden State Network -- the State's information highway." According to the Office of Management and Budget, the recommendation is broken down into \$5

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

<u>Budget Item</u>	<u>Adj. Approp.</u> <u>FY 2000</u>	<u>Recomm.</u> <u>FY 2001</u>	<u>Dollar</u> <u>Change</u>	<u>Percent</u> <u>Change</u>	<u>Budget</u> <u>Page</u>
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million to implement Statewide regional "server farm" technology, which will allow for equipment standardization and more efficient large-scale server operations; \$5 million to upgrade State agency connections to the Garden State Network; \$3 million for improvements to the network itself; and \$3.5 million for desktop operating systems in various State agencies.

The \$5 million displayed in the budget as a supplemental appropriation in FY 2000 has not yet occurred (as of May 10) but is expected to be activated prior to the close of the fiscal year pursuant to budget language authorization in the current appropriations act. The appropriation is to "implement the recommendations of the Statewide network infrastructure study...." If these funds are not spent in FY 2000, they will carry over and be added to the \$16.5 million recommended for network infrastructure enhancements in FY 2001.

Capital Construction:**Information Technology**

On-Line State Portal	\$0	\$3,500	\$3,500	—	D-463
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Direct State Services:**Information Technology**

On-Line State Portal	\$0	\$3,300	\$3,300	—	D-469
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The "On-Line State Portal" is an integral part of the effort to implement "E-Government;" that is, the ability to enable individuals, businesses and other governmental entities to conduct business with the State through the Internet. The \$6.8 million recommendation includes \$3.3 million for operating expenses (Direct State Services), including \$2.5 million for digital government certificates to provide security for online transactions and \$0.4 million for credit card payments and \$0.4 million for a study of departmental needs. The remaining \$3.5 million is for hardware (capital) purchases associated with the implementation of the digital certificate security plan.

Direct State Services:**Information Technology**

Equipment Upgrades	\$0	\$8,000	\$8,000	—	D-469
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Although this item is listed as equipment upgrades, it is, according to the Office of Management and Budget, primarily for licensing fees and maintenance associated with the State's mainframe computer systems. Therefore, it is included as a Direct State Services expense rather than a capital expense.

Direct State Services:**Information Technology****Data Sharing,
Integration and
Management**

	\$0	\$900	\$900	—	D-469
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According to the Budget in Brief, this recommendation is "to fund an assessment and design study of the State's data management needs." The objective is to simplify and reduce the variety of

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

<u>Budget Item</u>	<u>Adj. Approp. FY 2000</u>	<u>Recomm. FY 2001</u>	<u>Dollar Change</u>	<u>Percent Change</u>	<u>Budget Page</u>
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database software configurations currently used throughout State government.

Direct State Services:**Year 2000 Data**

Processing Initiative	\$10,000	\$0	(\$10,000)	(100.0)%	D-469
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The \$10 million appropriated in FY 2000 marked the last of a \$120 million expenditure (\$63.9 million appropriated centrally, the rest from agency operating budgets) to upgrade systems and software and remediate problems associated with the "Y2K" computer bug. The State experienced no failures or service disruptions in its critical mission systems.

Salary Adjustments	\$62,132	\$160,669	\$98,537	158.6%	D-470
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The recommended budget supports employee increments, cost of living adjustments, and bonuses for eligible employees, including higher education, consistent with negotiated agreements (see Program Description section). The budget also reflects a request for \$55.1 million in FY 2000 supplemental funding for salary increases negotiated after the start of the current fiscal year. These increases will apply retroactively to the beginning of FY 2000.

Recommended funding for salary increases for the senior higher educational institutions is \$23.4 million. Although no funds are included in this budget section for FY 2000, a total of \$19.7 million is included in budgets for the individual institutions for FY 2000.

Salary increases totaling \$10.2 million (for FY 2000 and FY 2001) for executive and judicial pay raises pursuant to P.L. 1999, c. 380, effective January 14, 2000, are included in the recommended budget. Salary increases for the Governor and the Legislature do not take effect until January 2002.

Language Provisions

2000 Appropriations Handbook

p. B-150

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.

2001 Budget Recommendations

p. D-463

The same language.

Explanation

This language authorizes the Director of the Division of Budget and Accounting to appropriate an additional amount, up to \$3 million above the recommendation, for Property Rentals without further legislative action. The Governor's budget (page D-461) recommends \$150.5 million for the Property Rentals account, an increase of \$12.4 million, or 9 percent above the FY 2000 adjusted appropriation.

2000 Appropriations Handbook

p. B-150

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.

2001 Budget Recommendations

p. D-463

The same language.

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 would be the maximum required in FY 2001 to cover these costs. \$2 million was appropriated in accordance with the budget language in FY 2000.

Language Provisions (Cont'd)

2000 Appropriations Handbook

p. B-150

There are appropriated such additional sums as may be required to pay tort claims under N.J.S.A.59:12-1, as recommended by the Attorney General and as the Director of the Division of Budget and Accounting shall determine.

2001 Budget Recommendations

p. D-463

The same language.

Explanation

This language allows additional funds for tort claims liability to be appropriated without further legislative action if current appropriations are insufficient. Pursuant to the FY 2000 language, \$4 million has been appropriated thus far.

2000 Appropriations Handbook

No comparable language.

2001 Budget Recommendations

p. D-464

There are appropriated such additional sums as may be required to pay claims not payable from the Tort Claims Liability Fund or payable under the Contractual Liability Act, as recommended by the Attorney General and as the Director of the Division of Budget and Accounting shall determine. The funds appropriated are available for the payment of direct costs of legal, administrative and medical services related to the investigation, mitigation and litigation of claims not payable from the Tort Claims Liability Fund or payable under the Contractual Liability Act, as recommended by the Attorney General and as the Director of the Division of Budget and Accounting shall determine. Notwithstanding any other law to the contrary, claims or costs paid from the monies appropriated under this paragraph on behalf of entities funded, whole or in part from non-State funds, may be reimbursed from such non-State funds sources as determined by the Director of the Division of Budget and Accounting. Appropriations under this paragraph shall not be available to pay punitive damages and shall not be deemed a waiver of any immunity by the State.

Language Provisions (Cont'd)

Explanation

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

The Office of Legislative Services has addressed a Discussion Point to the department concerning the need for and implications of this language provision (see p. 33).



2000 Appropriations Handbook

2001 Budget Recommendations

p. B-150

p. D-464

To the extent that sums appropriated to pay Workers' Compensation claims under R.S.34:15-1 et seq., are insufficient, there are appropriated such additional sums as may be required to pay Workers' Compensation claims, subject to the approval of the Director of the Division of Budget and Accounting.

The same language

Explanation

This language allows additional funds to be appropriated without further legislative action for Workers' Compensation claims if the current appropriations are insufficient. To date, \$4 million has been appropriated in FY 2000 in accordance with the language authorization.



2000 Appropriations Handbook

2001 Budget Recommendations

p. B-150

p. D-464

To the extent that sums appropriated to pay auto insurance claims are insufficient, there are appropriated such additional sums as may be required to pay auto insurance claims, subject to the approval of the Director of the Division of Budget and Accounting.

The same language

Explanation

This language allows additional funds to be appropriated without further legislative action for auto insurance claims if current appropriations are insufficient.



Language Provisions (Cont'd)

2000 Appropriations Handbook2001 Budget Recommendations

p. C-49

p. D-464

In addition to the amounts appropriated hereinabove for the Sports and Exposition Authority - Debt Service there are appropriated such additional sums as may be necessary to fund debt service costs for the East Hall Project and the Monmouth Park Project as required in the contract between the Sports and Exposition Authority and the State, subject to the approval of the Director of the Division of Budget and Accounting.

The same language.

Explanation

This language would allow the Director of the Division of Budget and Accounting to appropriate additional monies to fund the non-State portion of debt service costs for the Atlantic City Convention Hall - East Hall and the Monmouth Park Racetrack Projects, in the event that the responsible parties are unable to make the payments. According to the Department of Treasury, maximum State contingent exposure for these two projects would be approximately \$8 million.

2000 Appropriations Handbook2001 Budget Recommendations

p. E-20

p. D-465

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.

The same language.

Explanation

This language allows additional funds to be appropriated for debt service costs for projects undertaken by the New Jersey Building Authority. New projects of the Authority must be approved by the Legislature prior to issuance of bonds.

Language Provisions (Cont'd)

2000 Appropriations Handbook

No comparable language.

2001 Budget Recommendations

p. D-465

Prior to any funds being expended for the development of the server farm initiative as part of the Network Infrastructure account, a majority of the larger information technology-using departments, as defined by the Director of the Division of Budget and Accounting, must enter into a Memorandum of Understanding with the Chief Information Officer that no enterprise, data warehousing, application or database servers will be purchased by these departments but that they will participate in the implementation of the server farm.

Explanation

In FY 2001, \$16.5 million is recommended for "network infrastructure funding" (see budget page D-463). According to the Budget in Brief, this capital funding will be used to improve the Garden State Network, including departmental connections to the network. The Office of Information Technology will lead this initiative using the concept of statewide, regional "server farms." Currently existing large departmental servers will be consolidated into "farms." This process will require equipment to be standardized and, according to the Administration, will allow the network to "run faster and process transactions more efficiently." This language requires certain State departments to enter into a Memorandum Of Understanding to discontinue independent purchasing of equipment and to participate in the server farm initiative.

2000 Appropriations Handbook

p. E-20

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.

2001 Budget Recommendations

No comparable language.

Explanation

In FY 2000, this language authorizes \$5 million to be appropriated to implement the recommendations of an internal (OIT) study to strengthen the State's electronic network infrastructure (Garden State Network), as discussed above. To date, these funds have not been appropriated, although the Department of Treasury expects they will be appropriated prior to the close of the fiscal year. If not spent, any unexpended balance will be carried over to FY 2001 and

Language Provisions (Cont'd)

added to the other new funding (\$16.5 million) included in the recommended appropriation for network infrastructure improvements. The carrying forward of these funds is authorized through budget language in the general language provisions which allows all capital appropriations to be carried forward to FY 2001.

2000 Appropriations Handbook

p. E-21 to E-30

[Extensive language concerning the Garden State Preservation Trust Fund Account. This language (1) allocates the \$98 million appropriation for specific purposes and (2) provides lists of authorized properties and projects for which these funds may be spent.]*

*OLS Synopsis

2001 Budget Recommendations

p. D-465

The amount hereinabove for the Garden State Preservation Trust Fund Account is subject to the provisions of P.L. 1999, c.152 and the constitutional amendment on open space (Article VIII, Section II, paragraph 7).

Explanation

Extensive budget language was included in FY 2000 to provide guidelines and specific projects for which the FY 2000 open space preservation appropriation was provided. This language was necessary because legislation establishing the Garden State Preservation Trust had not yet been enacted. Legislation has since been enacted (P.L. 1999, c. 152) and has established the necessary funding mechanisms and policies to guide the distribution of these funds. The language included in the appropriations act for FY 2000, therefore, does not need to be repeated in FY 2001. Instead, the FY 2001 language directs that the appropriation is subject to the provisions of the constitution and the enabling legislation.

2000 Appropriations Handbook

p. E-30

The unexpended balances in the Capital Construction accounts in the Interdepartmental Accounts as of June 30, 1999 are appropriated.

2001 Budget Recommendations

p. F-4; General Language Provisions

The unexpended balances as of June 30, 2000 in the Capital Construction accounts for all departments and agencies are appropriated.

Explanation

This language, which allows unexpended capital funding to be carried forward to the next fiscal year, is not included in the Interdepartmental Accounts budget for FY 2001, but instead, is included in the General Language Provisions section of the budget (page F-4), which applies to all of the Governor's recommended budget, including Interdepartmental Accounts.

Language Provisions (Cont'd)

2000 Appropriations Handbook**p. B-152**

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.

Such additional sums as may be required for Unemployment Insurance Liability are appropriated as the Director of the Division of Budget and Accounting shall determine.

No comparable language.

No comparable language.

No comparable language.

2001 Budget Recommendations**p. D-467**

Such additional sums as may be required for State Employees' Health Benefits, State Employees' Prescription Drug Program, Social Security Tax, Temporary Disability Insurance Liability, and Unemployment Insurance Liability are appropriated as the Director of the Division of Budget and Accounting shall determine.

p. D-468

The amounts hereinabove for State Employees' Health Benefits, State Employees' Prescription Drug Program, Social Security Tax, Temporary Disability Insurance Liability, and Unemployment Insurance Liability may be transferred to the Grants-In-Aid accounts for the same purposes.

p. D-468

Such additional sums as may be required for Alternate Benefits Program, State Employees' Health Benefits, State Employees' Prescription Drug Program, Social Security Tax, Temporary Disability Insurance Liability, and Unemployment Insurance Liability are appropriated as the Director of the Division of Budget and Accounting shall determine.

p. D-468

The amounts hereinabove for State Employees' Health Benefits, State Employees' Prescription Drug Program, Social Security Tax, Temporary Disability Insurance Liability, and Unemployment Insurance Liability may be transferred to the Direct State Services accounts for the same purposes.

Explanation

The new language in FY 2001 does two things. (1) It allows the appropriation of additional funding for health, prescription, and certain pension benefits (for higher education employees), without legislative action, if the budgeted appropriations are insufficient. The FY 2000 language allowing additional funding for employer taxes is continued and incorporated in the new FY 2001 language.

Language Provisions (Cont'd)

(2) In addition the new (FY 2001) language provides the flexibility to move funding between Direct State Services and Grants-in-Aid throughout the year to manage funding requirements, since the fringe benefit amounts for higher education have been broken out as Grants-in-Aid within the Interdepartmental Accounts.



2000 Appropriations Handbook

p. B-152

In addition to the sum hereinabove appropriated to make payments under the State Treasurer's contracts authorized pursuant to section 6 of P.L. 1997, c.114 (C.34:1B-7.50), there are appropriated such other sums as the Director of the Division of Budget and Accounting shall determine are required to pay all amounts due from the State pursuant to such contracts.

2001 Budget Recommendations

p. D-468

The same language

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 liability (State portion) 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. This language authorizes the appropriation of additional funds if necessary to pay debt service or other bond costs in accordance with P.L. 1997, c. 114.



Language Provisions (Cont'd)

2000 Appropriations Handbook

p. B-153

There are appropriated to the Emergency Services Fund such sums as are required to meet the costs of any emergency occasioned by aggression, civil disturbance, sabotage, disaster, or for 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, and subject to the approval of the Director of the Division of Budget and Accounting.

No comparable language.

2001 Budget Recommendations

p. D-469

The same language.

p. F-4; General Language Provisions

The unexpended balances as of June 30, 2000 in all accounts established to provide relief to victims of Hurricane Floyd, including accounts established for administration of the relief program, are appropriated, subject to the approval of the Director of the Division of Budget and Accounting.

Explanation

The language would allow additional funding to be appropriated in cases of emergencies or natural disasters, and unexpended balances in accounts established for Hurricane Floyd relief to be carried over to FY 2001. Any additional Emergency Services Funding must be recommended by the Emergency Services Council and approved by the Governor and the Director of the Division of Budget and Accounting. In FY 2000, through the first budget language, \$26.9 million has been appropriated for damage caused by Hurricane Floyd. Of this amount, \$16.8 million has been expended to date, and the department anticipates that the remainder will be spent by the end of the fiscal year or early in FY 2001.

Language Provisions (Cont'd)

2000 Appropriations Handbook2001 Budget Recommendations

No comparable language.

p. D-469

In addition to the amount hereinabove for the Information Technology Equipment Upgrades account, there is appropriated an amount based on the realized costs for any accompanying increased licensing or maintenance fees, as determined by the Director of the Division of Budget and Accounting.

Explanation

This language allows additional funding to be appropriated as needed for licensing and maintenance costs associated with information technology equipment upgrades. There is no limit on the amount of such funding which can be appropriated without further legislative action.

2000 Appropriations Handbook2001 Budget Recommendations

No comparable language.

p. D-469

In addition to the amount hereinabove for the Information Technology On-Line State Portal account, there is appropriated such sums as necessary for the development and implementation of the portals, as determined by the Director of the Division of Budget and Accounting.

Explanation

This language allows additional funding to be appropriated as needed for on-line portals. A portal is an electronic doorway where individuals, business and government can transact business online in a secure environment and is an element of the E-Government program. The Governor's budget recommends a total of \$9.3 million for the design and implementation of portals. There is no limit on the amount of such funding which can be appropriated without further legislative action.



Language Provisions (Cont'd)

2000 Appropriations Handbook

p. B-154

In addition to the amount hereinabove for Unused Accumulated Sick Leave Payments, there are appropriated such sums as may be necessary for payments of unused accumulated sick leave.

2001 Budget Recommendations

p. D-471

The same language.

Explanation

The FY 2001 recommended budget includes \$7 million in estimated payments for accumulated sick leave at retirement. This language would allow additional funding if payouts exceed the budgeted amount.

2000 Appropriations Handbook

No comparable language.

2001 Budget Recommendations

p. D-471

The sums hereinabove shall be allotted to the various institutions of higher education for the cost of salaries, wages, or other benefits as determined by the Director of the Division of Budget and Accounting.

Explanation

This language provides for the transfer of appropriations for salary increases and other benefits for higher education employees from the Interdepartmental Accounts, for which \$23.6 million is recommended, to the various institutions of higher education. This language was not included in the Interdepartmental Accounts in FY 2000 because no funding for salary increases for the senior higher education institutions were originally included in the FY 2000 budget. In the FY 2000 adjusted appropriation column of the FY 2001 budget recommendations, supplemental appropriations that total \$19.7 million for salary adjustments are included in the budgets of the senior institutions. As of this writing, those supplemental appropriations have not yet been enacted.

Language Provisions (Cont'd)2000 Appropriations Handbook2001 Budget Recommendations

p. B-154

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 \$5,103,000 to reflect saving from a managed attrition program. This sum is appropriated for Salary Increases and Other Benefits.

No comparable language.

Explanation

The Administration established a "managed attrition" program applicable to FY 2000 and FY 2001. In FY 2000, salary reductions due to attrition are not allocated initially to individual departments in the budget, but rather provided for in the above language in Interdepartmental Accounts. The \$5.1 million amount represents a half-year attrition savings that is allocated to departments during FY 2000. In FY 2001, this language is not repeated because a full year of attrition savings is reflected at the outset in applicable departmental budgets.



Discussion Points

1. According to the Evaluation Data on page D-466 of the Budget Document, employee coverage in the State Health Benefits Plan (SHBP) has increased from 266,309 members in FY 1998 to an expected 320,217 members in FY 2001. This has reversed a trend that saw falling membership and employer participation earlier in the decade, reaching a low of 258,127 covered employees in FY 1997. All of the earlier decline and almost all of the recent growth has taken place among local governments and school districts, rather than at the State level.

! **Question:** What factors have accounted for the decline and recovery of SHBP participation? How many local employers have joined or rejoined the SHBP since FY 1997? How much of the increased coverage of local employees is due to additional entities participating as opposed to growth in employees (e.g., teachers) in entities that have retained membership in the SHBP throughout the decade? How many covered members are retirees eligible for post-retirement medical benefits through the SHBP, rather than active employees?

2. a. The prescription drug component of State and college employee health benefits is recommended to increase by \$32 million, or 28.6 percent in the FY 2001 budget. The Department of the Treasury attributes this to increased usage and higher pricing of medication, as well as the extension of the rate-setting period from 12 to 18 months.

! **Question:** Please describe the steps the department and the State Health Benefits Commission are taking to control prescription costs for the State plan. Have procurement and cost control measures implemented in other states or by large private employers been studied?

b. In January 2000, the commission implemented a pilot program which established a new retiree prescription plan. This program created a plan separate from retiree health plans, with separate copayments and out-of-pocket maximums.

! **Question:** What is the preliminary feedback and fiscal impact of the pilot program after the first three months of implementation?

3. Over the past year, there has been considerable discussion among State policy makers and within the media concerning the amount and growth of State debt. In his testimony before both legislative budget committees this year, the State Treasurer noted that Governor Whitman, at the time she took office, "...insisted that the State's financial reports should include *all* obligations of the State, including off-budget balance sheet debt and leases, unfunded pension liabilities and the liability to finance the accumulated sick and vacation time of State employees." (emphasis added)

The Treasurer cited this commitment by way of explaining that the actual growth in State debt since fiscal year 1993 has been far more gradual than generally depicted and has been "in line with that of previous administrations." This was illustrated by recasting official debt statements from FY 1993 through FY 1996 to add back amounts of then "unrecognized" debt, so as to suggest a more valid comparison of obligations the State has actually incurred, regardless of whether they were reflected in the State's financial statements. Although several categories of unreported debt were added back to those earlier statements, by far the largest amount consisted of unfunded pension liabilities, which totaled \$3.5 billion in FY 1993 and \$5.5 billion in FY 1996. In the following year, the State issued \$2.8 billion of bonds and deposited the proceeds in the various pension funds, eliminating any actuarial unfunded liabilities existing at that time. The outstanding pension bonds have been reported as debt on the State's books since FY 1997, unlike the unfunded pension

Discussion Points (Cont'd)

liabilities they replaced.

A significant component of earlier pension liabilities was due to the State's obligation to provide paid post-retirement medical (PRM) benefits to State employees, teachers and some other local employees who have at least 25 years of credited service when they retire. Under P.L.1994, c.62, the prefunding of this expensive benefit was halted, and replaced by a pay-as-you-go system. In essence, the unfunded liability for PRM benefits was defined out of existence, even though the benefit itself remains in place for all current and future eligible recipients. Last year, the Treasury Department estimated that the present value of actuarially determined liabilities for PRM benefits was \$4.0 billion. Under a pay-as-you-go system, with increasing numbers of State and teacher retirees and increasing medical costs, the liability associated with these benefits would be higher today and should continue to grow.

! **Question:** If the State's financial obligation under law for the payment of accumulated sick and vacation leave to State employees is considered to be a legitimate component of State debt, why is the State's much larger statutory obligation to provide paid PRM benefits for eligible State and local employees not considered to be a debt, regardless of how the benefit is financed? In Treasury's recasting of earlier debt statements, how much of the unfunded pension liabilities added back to the State debt display for FY 1993 through FY 1996 consisted of PRM liabilities? The Treasurer testified that the State's debt, reported on a consistent basis, is expected to aggregate \$17.3 billion at the end of fiscal 2001. How much higher would that amount be if PRM liabilities were included?

4. In the *Budget in Brief* (pp. 97-98), the summary for the Department of Labor notes the success achieved in the private sector workplace in reducing accidents and workers' compensation claims. This in turn has led to a 31.7 percent reduction in employers' premium rates for workers' compensation between 1996 and 2000.

The State is self-insured for workers' compensation payments made on account of claims filed by State employees. The State program is administered by the Bureau of Risk Management in the Department of the Treasury and funded in the Interdepartmental Accounts (Budget page D-461). State expenditures for workers' compensation have been increasing in recent years and the program has required supplemental appropriations each year since FY 1997. In response to prior questions on this subject, the department has indicated that a series of steps, ranging from medical managed care to the assignment of additional Deputy Attorneys General to the hiring of more claims investigators, were being initiated to hold down, and eventually reverse the pattern of increasing costs.

! **Question:** What factors account for the apparent inability to reduce workers' compensation costs in the State's self-insured program? Allowing for the risk-intensive nature of certain State occupations (e.g., corrections officers, transportation workers), are there reasons why the successes of the private sector in reducing accidents are not transferable to the State? Should the State be doing more under the Public Employees' Occupational Safety and Health Program? Please provide statistics for the past five years showing numbers of claims filed by State workers, claims disposed, total and average awards and other relevant program data.

Discussion Points (Cont'd)

5. Included in the Interdepartmental Accounts is a recommendation for \$4.1 million for pier renovations at the South Jersey Port Corporation. Several years ago, legislation was enacted (P.L.1997, c.150) to transfer the assets, liabilities and obligations of the South Jersey Port Corporation to the New Jersey Economic Development Authority (EDA). It authorized the EDA to issue bonds for port development, to issue refunding bonds to refinance and defease the existing debt of the corporation, and to enter into a contract with the State Treasurer to pay an amount equal to the debt service on the EDA bonds, subject to appropriations by the Legislature. The transference of the assets of the South Jersey Port Corporation to EDA was part of a larger proposal to unify the ports of Philadelphia and Camden into a more powerful and coordinated regional entity under the auspices of the Delaware River Port Authority, able to compete successfully with other East Coast ports for shipping traffic. However, this effort seems to have stalled.

! **Question:** Please describe this capital project in more detail, including the State's role in financing capital improvements at the South Jersey Port Corporation through direct appropriations. Please provide background and an update on why the provisions of P.L.1997, c.150 were never implemented. What is the status of the EDA assumption of South Jersey Port Corporation property and EDA's effort to enter into a lease with a subsidiary of the Delaware River Port Authority to operate the Camden/South Jersey port facilities? Is port unification still a viable initiative?

6. As part of an announced \$165 million high technology economic assistance initiative (using State, federal and private funds), the FY 2001 budget recommendation includes \$10 million to establish a Venture Capital fund to invest in small technology firms that have trouble competing for private venture capital. According to the budget materials, the State's \$10 million, to be administered by the Economic Development Authority, will leverage \$30 million in private sector investment capital.

! **Question:** How will this public/private venture capital fund work? What kinds of positions will the State be taking in the companies in which it invests? What evidence exists that start-up technology firms in New Jersey are having trouble attracting private investment? If this is true, why should the State's \$10 million be expected to attract triple that amount in private capital? Conversely, if \$30 million in private capital is available to match State funds, why are public dollars required at all? Other than the amount of the appropriation, what features make this program different from existing start-up technology assistance programs, such as the Seed Venture Fund run by the New Jersey Commission on Science and Technology?

7. An amount of \$79.5 million is recommended for debt service on approved and proposed projects financed through the New Jersey Building Authority. This is an increase of \$20.4 million over the FY 2000 appropriation. The authority last issued bonds in October 1999 for the purchase of the Hughes Justice Complex from the Mercer County Improvement Authority and for site acquisition and construction of a facility in Hamilton Township to house the Treasury Department's Division of Revenue and the headquarters for Troop C of the State Police.

When the 1999 Series bonds were sold late last year, the projected FY 2001 debt service on all outstanding Building Authority bonds (including the 1999 Series) was \$68.1 million, or \$11.4 million less than the amount contained in the FY 2001 budget. However, the *Budget in Brief* notes that "In the near future, the...Building Authority will undertake renovations of the Hughes Justice Complex, the Department of Transportation building, and the Executive portion of the State House."

Discussion Points (Cont'd)

- ! **Question:** Is the \$11.4 million difference between the scheduled debt service for the State Building Authority and the amount contained in the Governor's budget recommendation due to an assumption that new bonds will be issued for additional projects? When is this expected to occur and in what amount? How much of the new bonding is for the renovations to the Executive portion of the State House? What is the status and timetable for this project?

8. The Governor's budget contains numerous funding initiatives for computer and information technology. Within the Interdepartmental Accounts, \$32.2 million is budgeted for new or expanded projects, including \$16.5 million in capital funding for "network infrastructure," \$8 million to provide upgrades to the State's mainframe computer systems, \$6.8 million for "E-government" implementation through an online "portal" to allow State agencies to conduct consumer transactions and services through the Internet; and \$900,000 for an assessment and design of the State's data management needs, including database integration.

In addition to these amounts, budget language (p. D-469) would provide open-ended authority (subject to OMB approval) for the appropriation of any additional amounts necessary to pay licensing and maintenance fees associated with hardware upgrades, plus additional costs to develop and implement "portals" to conduct electronic commerce. Finally, budget language in this year's (FY 2000) appropriations act authorizes \$5 million for network infrastructure, which is likely to be carried over to FY 2001, bringing the total recommended amount of new funding for network infrastructure to \$21.5 million next year.

The Department of the Treasury advises that an internal assessment of network infrastructure has been completed and forms the basis for the additional funding requested for this purpose.

- ! **Question:** Please provide key components of the spending plan for the \$21.5 million that would be available in FY 2001 for network infrastructure improvements. What specific types of equipment upgrades are expected to be implemented? Who will perform the \$900,000 assessment and design of the State's data management needs, and how is this different from the study whose recommendations formed the basis for this year's \$5 million authorization for network infrastructure? How does the recommended FY 2001 funding for information technology fit into the "Executive Statewide IT Strategic Plan" identified in the Budget in Brief?

9. An appropriation of \$11 million is recommended for the Tort Claims Liability Fund, the same amount as in FY 2000. This sum is available to cover the State's potential liability under tort claims adjudicated or settled, as well as for direct legal, medical and administrative expenses related to the to claims investigations and litigation; and indemnification of Public Defender pool attorneys and pathologists contracted by the State Medical Examiner. Budget language appropriates any additional amounts as needed to pay tort claims, subject to the approval by the Attorney General and budget director.

The FY 2001 budget recommends, for the first time, language that would also appropriate "such additional sums as may be required to pay claims not payable from the Tort Claims Liability Fund or payable under the Contractual Liability Act...." The explanation that was given for this language was that it was requested by the Attorney General to permit greater flexibility in handling claims against the State of a non-tort nature for which funding is not available in agency budgets. An example was given of a non-tort claim that is settled against an individual working in a State agency, and the agency for which the individual works is required (currently) to pay the claim from its discretionary funds, thereby effectively penalizing the State agency. Under this language,

Discussion Points (Cont'd)

amounts required for such claims, as well as ancillary expenses, would be appropriated from General Fund balances.

- !** *Question:* Without violating the confidentiality of any specific claims, please discuss in more detail the nature and frequency of the problem this language is designed to address. How does this language relate to the claims payment language in the General Provisions of the budget, that caps at \$4,000 the amount that the State Treasurer may settle a claim from appropriations made to the respective departments of State government? How does it relate to a claimant's recourse to present non-tort claims over \$4,000 to the Legislature for consideration if they have been denied by a department head and, presumably, the Attorney General and State Treasurer?

Background Paper: Status of Pension Systems

The following charts provide information concerning the State-administered defined benefit pension systems. Specifically, for each system the valuation of assets or unfunded liabilities as determined by the State's actuaries as of June 30, 1999 is provided, except that for the Police and Firemen's Retirement System, the most recent actuarial valuation is dated June 30, 1998. In addition, the impact of legislation enacted *after* June 30, 1999 is estimated by OLS, based on related fiscal notes or estimates, in order to provide an updated status of pension assets. The Alternate Benefits Program for higher education employees is not included in this analysis because it is a privately administered defined contribution plan.

In the actuarial reports, an 8.75% annual rate of interest on the investment of pension assets is assumed. As provided in law, the actuaries also include the recognition of 20% of the difference between full market value and actuarial value, when calculating required contributions each year.

As the charts indicate, most of the retirement systems reflect a healthy balance of "excess valuation assets," and none have unfunded liabilities at this time. Moreover, all of the systems, with the exception of two small systems that are closed to new members and are being phased out, have additional "unrecognized" assets above and beyond the level officially recognized for valuation purposes. These unrecognized assets act as a buffer against the possibility of a market downturn that might otherwise require the State and local employers to contribute widely fluctuating amounts to the pension systems each year.

Several additional factors, not apparent from the charts on the following pages, should be considered when evaluating the overall status of the pension systems:

- ! In 1997, the Economic Development Authority issued \$2.8 billion in bonds to finance a portion of the unfunded liability of the State pension systems. Annual payments on the debt service for the issued bonds will increase for the next 20 years before leveling out. In FY 2001, debt service costs for these bonds included in the recommended budget total \$131 million.
- ! Accompanying the 1997 sale of bonds, P.L.1997, c.115 provided for what was intended as a one-time change in the value of the assets of the active pension systems to full (100 percent) market value for the valuations applicable to State FY 1998 contributions. However, recently enacted legislation (P.L.2000, c.8) again revalued the Police and Firemen's Retirement System assets to 100% of full market value as of June 30, 1998 for the State portion of the system assets (57% for the local employers portion). While these revaluations have allowed State contributions to the systems to be reduced or eliminated and employee contributions to be reduced, the cushion of excess assets in the systems has also been reduced.
- ! Post-retirement medical (PRM) benefits are offered to State employees, teachers and certain local public employees who retire with at least 25 years of credited service. Whereas the liabilities associated with funding these benefits were at one time included as part of the liabilities of the retirement systems, that has not been the case since 1994. PRM liabilities are no longer reflected in the actuarial valuation reports. Although the liabilities still exist, PRM benefits are, for the most part (other than a small reserve), financed on a pay-as-you-go basis. As such, they are characterized by generally rising costs.

Background Paper: Status of Pension Systems (Cont'd)

Status of Defined Benefit Retirement Systems
Excess Valuation Assets As Of 6/30/99
PERS, TPAF, PFRS

<u>Actuarial Information</u>	PERS <u>State</u>	PERS <u>Local</u>	TPAF	PFRS <u>State</u>	PFRS <u>Local</u>
# Members (Active, Inactive and Retired)	109,708	251,601	175,114	62,318*	62,318*
a Market Value of Assets	\$10,491,242,280	\$15,448,311,089	\$32,979,208,212	\$1,600,924,714	\$14,060,031,682
b Actuarial Value of Assets (Includes 20% Adj.)	9,126,584,407	13,248,481,144	27,929,389,853	1,455,799,850	12,183,559,835
c Present Value of Liabilities (Includes Early Retirement Liability)	(8,291,345,213)	(11,641,255,276)	(26,837,941,110)	(1,327,151,007)	(12,623,117,004)
d=b-c Excess Valuation Assets (Unfunded Liability)	835,239,194	1,607,225,868	1,091,448,743	128,648,843	(439,557,169)
e Reserve For Reduction of Employee Contributions (P.L.1998, c.115)	(16,200,000)	(25,700,000)	(74,782,012)	n/a	n/a
f Offset Of Normal Cost - FY 2001	<u>(114,503,208)</u>	<u>(172,243,927)</u>	<u>(333,798,826)</u>	<u>(95,219,959)</u>	<u>n/a</u>
g=d-e-f Balance: Excess Valuation Assets Available (Liability)	704,536,986	1,409,281,941	682,867,905	33,428,884	(439,557,169)
Adjusted Assets - (PFRS Only)**				36,281,213	(475,040,279)
<u>Legislation Enacted After Actuarial Reports</u>					
h Estimated Liability, P.L. 1999, c.415 (PERS Only)	(96,000,000)	(156,000,000)	n/a	n/a	n/a
i Estimated Liability, P.L. 1999, c.428 (PFRS Only)	n/a	n/a	n/a	(84,269,525)	(390,571,206)
j Additional Assets, P.L. 2000, c.8 (PFRS Only)	n/a	n/a	n/a	145,124,854	865,611,485
k Offset of Unfunded Liability, P.L. 2000, c. 8 (PFRS - Local)	n/a	n/a	n/a	n/a	Included In Row j
l Offset of Normal Contributions, P.L. 2000, c. 8 (PFRS - State)	<u>n/a</u>	<u>n/a</u>	<u>n/a</u>	<u>(79,479,062)</u>	<u>n/a</u>
m=g-(h,i,k,l)+j Estimated Remaining Assets After Recent Legislation	\$608,536,986	\$1,253,281,941	\$682,867,905	\$17,657,480	\$0
Unrecognized Market Value (Information Only)					
a-b Unrecognized Market Value of Assets - 6/30/99	\$1,364,657,873	\$2,199,829,945	\$5,049,818,359	\$145,124,864	\$1,876,471,847

Footnotes

* Breakdown of State and local PFRS membership is not provided; shown in total.

** Actuarial report for PFRS is as of 6/30/98; 1 year of interest added.

PERS = Public Employees' Retirement System

TPAF = Teachers' Pension and Annuity Fund

PFRS = Police and Firemen's Retirement System

Background Paper: Status of Pension Systems (Cont'd)

Status of Defined Benefit Retirement Systems
Excess Valuation Assets As Of 6/30/99
SPRS, JRS, POPF, CP&FPF

<u>Actuarial Information</u>	<u>SPRS</u>	<u>JRS</u>	<u>POPF</u>	<u>CP&FPF</u>
# Members (Active, Inactive and Retired)	4,428	764	268	1,657
a Market Value of Assets	\$1,845,498,990	\$391,485,856	\$19,137,919	\$46,845,293
b Actuarial Value of Assets (Includes 20% Adj.)	1,600,165,104	352,858,160	19,137,919	54,018,660
c Present Value of Liabilities (Includes Early Retirement Liability)	(1,469,144,146)	(313,873,659)	(15,292,629)	(52,226,208)
d=b-c Excess Valuation Assets (Unfunded Liability)	131,020,958	38,984,501	3,845,290	1,792,452
e Reserve For Reduction of Employee Contributions (P.L.1998, c.115)	n/a	n/a	n/a	n/a
f Offset Of Normal Cost - FY 2001	<u>(35,727,700)</u>	<u>(12,576,164)</u>	<u>n/a</u>	<u>n/a</u>
g=d-e-f Balance: Excess Valuation Assets Available (Liability)	95,293,258	26,408,337	3,845,290	1,792,452
 <u>Legislation Enacted After Actuarial Reports</u>	 n/a	 n/a	 n/a	 n/a
 Estimated Remaining Assets After Recent Legislation	 <u>\$95,293,258</u>	 <u>\$26,408,337</u>	 <u>\$3,845,290</u>	 <u>\$1,792,452</u>
 Unrecognized Market Value (Information Only)				
a-b Unrecognized Market Value of Assets - 6/30/99	\$245,333,886	\$38,627,696	\$0	(\$7,173,367)

Footnotes

SPRS = State Police Retirement System
JRS = Judicial Retirement System
POPF = Prison Officers' Pension Fund
CP&FPF = Consolidated Police and Firemen's Pension Fund

Background Paper: Retiree Prescription Drug Card Plan

In January 2000, a five-year pilot program for a new prescription drug card plan was established for retired employees who are members of the State Health Benefits Program (SHBP) and enrolled in the Traditional (fee for service) Plan or NJ Plus. According to administrative rule N.J.A.C. 17:9-6.10 adopted February 23, 2000, the goals of the new plan are to improve retiree access to prescription drugs by reducing the up-front costs to retirees, and to provide more cost-effective management of future program costs. Prior to January 2000, these retirees received prescription drug coverage under their medical plans which were subject to the deductible and co-insurance requirements of those plans. The new pilot program establishes a separate prescription card that is not related to retirees' health insurance plans, with a separate deductible and specified co-payments. Some major changes between the pilot program and the previous program include:

- ! Specified co-payments instead of cost sharing through percentage of prescription costs.
- ! Out-of-pocket maximum costs of \$300 for prescription drugs only, compared to previous out-of-pocket maximums set by medical plans for *medical* and *prescription drug* costs.
- ! Reduced supply at retail pharmacy from 90 days to 30 days dosage for one co-payment. Ninety day supply available for an amount equal to three 30-day co-payments.

Out-of-Pocket Expenses

Most retirees who are members of the SHBP are currently enrolled in the Traditional Plan, which requires individuals to pay a \$100 deductible, and a 20 percent share of the next \$2,000 in medical and prescription drug expenses. After the \$2,000 level is reached, any further expenses (medical or prescription) are fully reimbursed. Therefore, the out-of-pocket maximum for an individual is \$500 per year (and \$500 for first dependent and \$400 for each dependent thereafter).

Under the new drug plan, a separate out-of-pocket maximum of \$300 per participant is established for prescription costs only, and there is no deductible. The \$300 maximum will be effective for CY 2000 and 2001. Then, this maximum will be increased annually, based on the related increase in the SHBP's annual prescription costs and increased member utilization of the program. The increase for the following two calendar years, however, is capped at 15 percent annually, which would limit the out-of-pocket maximums to \$345 and \$397 for CY 2002 and 2003, respectively.

The State Health Benefits Commission may decide to limit the increase in other future years to prevent excessive annual increases, to maintain the spread between co-payment amounts (discussed below), and to prevent undue hardship to retirees. However, out-of-pocket costs and co-payments will increase to maintain a member's share of costs.

Co-payments on Prescriptions

As shown in the chart that follows, co-payments vary depending on the type of prescription selected by the retiree and his or her physician and the method of purchase. A three-tiered pricing mechanism is used, depending upon (1) whether a generic drug is selected versus a preferred or name brand drug, and (2) whether the purchase is made through a retail pharmacy or by mail order. (A "preferred" brand is a drug that is a more cost-effective alternative within a therapeutic class of brand drugs with comparable therapeutic efficacy.) Under the old system, the Traditional Plan required co-insurance of 20 percent of eligible medical and prescription drug expenditures after the

Background Paper: Retiree Prescription Drug Card Plan (Cont'd)

deductible was met and until the maximum co-insurance amount for medical and prescription drug costs was satisfied. The co-payments under the new plan will remain in effect for CY 2000 and CY 2001. Then, the co-payments will increase generally at the same rate as the average wholesale cost of prescription drugs covered under the plan. The increases for CY 2002 and 2003 will be limited to 7 percent annually.

According to the commission, this three-tiered co-payment schedule should encourage retirees to make more cost effective choices in filling prescriptions while still permitting access to brand name drugs.

Supply

Under the former retiree drug plan, the purchase of a 90 day supply for a single co-payment was available from retail pharmacies. The new prescription plan limits the purchase of drugs at a retail pharmacy to a 30-day supply for a single co-payment; up to a 90-day supply may be purchased for convenience, but the co-payment will be triple the 30-day dosage co-payment. However, the mail order option in the new plan allows those retirees who purchase pharmaceuticals through the mail to receive up to a 90 day supply at a lower cost. For each prescription purchased at a retail pharmacy, the State has to pay a negotiated dispensing fee. The State does not have to pay a dispensing fee for prescription drugs ordered through the mail and the State has negotiated discounted costs with the mail order supplier given the bulk purchase of prescription drugs. One of the goals of the new program is to encourage retirees to use the mail order option in order to save both the State and the retiree money. It is hoped that the increased supply allowed through mail order will provide an incentive for retirees to use this option.

Evaluation/Impact

Because this program has only been in place for approximately four months, the SHBP has not been able to evaluate the impact on retirees or the State from a fiscal or administrative perspective. The Department of Treasury advises that there are no data available yet to even provide a preliminary evaluation of the program. Based on the comparison of the previous policy to the new program, it appears that some retirees may benefit from the new program, while others may experience more out-of-pocket costs, depending on drug usage and other medical costs.

The department and the actuaries for the SHBP have advised that the data necessary to evaluate the program will be available after a full year of implementation.

The following chart compares major provisions of the Traditional (BC/BS Major Medical) Plan and the new retiree prescription program. The Traditional Plan is used as a basis for comparison because almost all current retirees are enrolled in this plan.

Background Paper: Retiree Prescription Drug Card Plan

Comparison of SHBP Retiree Prescription Benefits

	Old Plan (Traditional)	New Plan
Retiree Out-of-Pocket Maximums	\$500 per retiree (plus \$500 for first dependent, \$400 for each additional dependent) for <i>medical and prescription</i> costs.	\$300 per participant, <i>prescription costs only</i> .
Inflation, Out of Pocket Maximum	n/a; \$500 maximum has remained unchanged for many years.	Increase at the same rate as prescription drug expenses paid by the plan per member. 15% limit in CY 2002 and 2003 (i.e., \$345 and \$397 in CY 2002 and 2003, respectively).
Retiree Co-payments	20%, until \$500 limit for medical and prescription is reached.	3 tiered co-payments for 30-day retail and 90-day mail-order pharmacy: Generic: \$5, \$ 5 mail Preferred: \$10, \$15 mail Brand name: \$20, \$25 mail
Inflation on Co-Payments	Would be factored in when retiree pays 20% of the cost of a prescription.	Co-payments increase annually by the same percentage increase in the average wholesale price for a one-day supply of drug products covered under the plan. In CY 2002, and 2003, this increase is limited to 7%.
Retiree Payment Method	Total costs for prescription paid up-front to the pharmacy, then submitted to health plan for 80% reimbursement or 100% if deductible satisfied. Some retail pharmacies could submit the claim directly on behalf of the participant.	Co-payment only is paid to pharmacy or mail order supplier.
Supply	90 day supply available.	30 day supply at retail pharmacy (or 90 day with three co-pays), 90 day for mail order with one co-pay.

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Individuals wishing information and committee schedules on the FY 2001 budget are encouraged to contact:

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