## DEPARTMENT OF THE TREASURY

## FY 2007 INTERDEPARTMENTAL QUESTIONS

### DISCUSSION POINT

A combined $1.3 billion employer contribution is recommended in FY 2007 to the defined benefit pension plans — Public Employees' Retirement System, Teachers' Pension and Annuity Fund, Police and Firemen's Retirement System, Judicial Retirement System, and the Consolidated Police and Firemen's Pension Fund, among other systems. This proposal would accelerate the phase-in toward full funding, increasing from the 40 percent funding provided in FY 2006 for all systems other than State Police Retirement System (which was funded at 30 percent) to 70 percent in FY 2007.

### QUESTION 1a

Please detail, by each State-administered retirement system, the contribution amount certified by the actuary to fund both the normal cost and unfunded actuarial accrued liability (UAAL) in FY 2007. Please detail, by retirement system, the UAAL and the schedule of funding progress at the close of FY 2005. Please provide a chart showing estimated future FY payments into each retirement system.

### ANSWER 1a

Attachment A summarizes the information requested.

### DISCUSSION POINT

P.L.2003, c.108 provides for a prospective increase to the Police and Firemen's Retirement System (PFRS) special retirement benefit upon the attainment of a funded ratio level of 104 percent. PFRS members who have 25 or more years of service are currently eligible for a pension of 65 percent of final compensation, plus 1 percent of final compensation multiplied by the number of years of creditable service over 25 but not over 30 (70 percent maximum). This law will increase that benefit to a pension of 70 percent of final compensation, plus 1 percent of final compensation for each year of creditable service over 25 but not over 30 (75 percent maximum) once the funded level exceeds 104 percent. Thus, when PFRS reaches a more sound financial situation, this benefit enhancement would take effect and increase the PFRS liability. The State Benefits Review Task Force recommended an extension of the moratorium on benefit enhancements put in place by Governor Codey.

## QUESTION 1b

Does the Administration plan to seek the repeal of the prospective benefit enhancements under P.L.2003, c.108? What is the estimated impact on State and local employer contributions, respectively, using actuarial data for calculating liability for FY 2007 of these benefit enhancements? Would projected increases in local employer contributions constitute an unfunded State mandate?

## ANSWER 1b

The Administration currently has no plans to seek repeal of the legislation. According to this law, the enhancement would become effective once the PFRS funded level exceeds 104 percent. The increased employer pension costs associated with the prospective Chapter 108 pension increase was estimated to be as follows:

Additional Employer Pension Costs Attributable to the Benefit Enhancement Provisions of P.L. 2003, c.108

| | Normal Cost | Additional Accrued Liability |
|---|---|---|
| State | $5.3 million | $67.0 million |
| Local | $31.2 million | $447.3 million |
| Total | $36.5 million | $514.3 million |

These estimates were compiled at the time the Legislature was considering the merits of Chapter 108 and were based on the July 1, 2002 PFRS valuation data, which provided the basis for employer pension contributions due in FY 2005. The rationale behind Chapter 108's provision of providing the prospective benefit increase only after the PFRS funded level exceeds 104 percent was that, at that level, sufficient surplus pension assets would be available to cover the additional pensions liabilities associated with the pension enhancement, thus making Chapter 108 cost neutral to both the State and local employers. According to the draft July 1, 2005 PFRS valuation report, the combined State and local funded level is 80.6 percent. Based on reasonable expectations, the Division does not anticipate the PFRS funded level to exceed 104 percent in the near short-term.

Recognizing the unfunded State mandate issues, Chapter 108's provisions would establish a benefit enhancement fund (BEF) with the surplus assets that would exist after attaining a 104 percent funded level. Assets in this fund would be used to pay the additional State and local pensions costs associated with the pension increase. Further, Chapter 108 also provides that, should insufficient assets exist in the BEF to cover the increased local employer pension costs, the State would be fully liable for the payment of the increased local costs.

## DISCUSSION POINT

The FY 2007 budget recommends achieving savings of $7.7 million in State health benefits costs by imposing employee premium sharing on active unclassified State employees.

## QUESTION 2a

Please provide an estimate of the number of employees, by branch of government, that will be affected by mandatory premium sharing. What percentage of the total employees in each branch of government do these estimates comprise? Please provide specific examples of how the share will be calculated by type of health coverage selected. What is the assumed effective date of premium sharing? What assumed changes in premiums on January 1, 2007 are implicit in the estimate of savings?

## ANSWER 2a

The estimate of affected employees, by branch of government is as follows:

| Branch | Number of Employees Impacted | Total Number of Employees | Percentage of Employees impacted |
|---|---|---|---|
| Executive | 4,800 | 78,000 | 6% |
| Judiciary | 2,700 | 9,900 | 27% |
| Legislative | 520 | 520 | 100% |
| Total | 8,020 | 88,420 | 9% |

The assumed effective-date of the change in premium sharing for impacted employees is the first payroll associated with FY 2007 (or as soon thereafter as is administratively feasible). The projected savings of $7.7 million assumed changes in rates for State active employees effective with calendar year 2007 as follows: NJ PLUS 8%; HMOs 17%; Traditional 13%. These were the same rate actions that were used to develop the FY2007 budget request for active State employees.

The rate chart on the following page reflects current premium-share contribution requirements compared to those proposed for FY2007 for unclassified employees. Since the plan year for the State Health Benefits Program runs on a calendar year basis, the rates provided in the chart apply to CY2006. The State Health Benefits Commission, with the assistance of its consultant, is expected to establish rates for CY2007 in the first part of FY2007. (Note: The Traditional Plan is now closed to new hires and employees in certain law enforcement contracts.)

| PLAN/COVERAGE DESCRIPTION | TOTAL RATE (BIWEEKLY) CY06 | CURRENT PREMIUM SHARE* EMPLOYEE CONTRIBUTION BIWEEKLY | CURRENT PREMIUM SHARE* EMPLOYEE CONTRIBUTION ANNUAL | STATE PAYMENT BASED ON 90% NJ PLUS RATE EMPLOYEE CONTRIBUTION BIWEEKLY | STATE PAYMENT BASED ON 90% NJ PLUS RATE EMPLOYEE CONTRIBUTION ANNUAL |
|---|---|---|---|---|---|
| NJ PLUS | | | | | |
| Single | $148.29 | $0.00 | $0.00 | $14.83 | $386.62 |
| Member & Spouse/Dom. Partner | $323.21 | $0.00 | $0.00 | $32.32 | $842.58 |
| Family | $384.70 | $0.00 | $0.00 | $38.47 | $1,002.91 |
| Parent & Child | $223.08 | $0.00 | $0.00 | $22.31 | $581.62 |
| AETNA HMO | | | | | |
| Single | $150.91 | $7.54 | $196.57 | $17.45 | $455.02 |
| Member & Spouse/Dom. Partner | $333.29 | $16.66 | $434.33 | $42.40 | $1,105.26 |
| Family | $387.64 | $19.38 | $505.24 | $41.41 | $1,079.47 |
| Parent & Child | $222.84 | $11.14 | $290.42 | $22.07 | $575.26 |
| CIGNA HMO | | | | | |
| Single | $175.93 | $8.79 | $229.16 | $42.48 | $1,107.34 |
| Member & Spouse/Dom. Partner | $383.76 | $19.18 | $500.02 | $92.87 | $2,421.06 |
| Family | $457.70 | $22.88 | $596.48 | $111.47 | $2,905.99 |
| Parent & Child | $264.09 | $13.20 | $344.12 | $63.32 | $1,650.70 |
| OXFORD HMO | | | | | |
| Single | $157.35 | $7.86 | $204.91 | $23.90 | $623.02 |
| Member & Spouse/Dom. Partner | $346.14 | $17.30 | $451.01 | $55.24 | $1,440.18 |
| Family | $409.07 | $20.45 | $533.13 | $62.83 | $1,638.07 |
| Parent & Child | $236.03 | $11.80 | $307.63 | $35.26 | $919.18 |
| AMERIHEALTH HMO | | | | | |
| Single | $170.48 | $8.52 | $222.12 | $37.03 | $965.26 |
| Member & Spouse/Dom. Partner | $379.32 | $18.96 | $494.29 | $88.43 | $2,305.38 |
| Family | $441.75 | $22.08 | $575.63 | $95.51 | $2,490.07 |
| Parent & Child | $251.68 | $12.58 | $327.96 | $50.90 | $1,327.06 |
| HEALTH NET HMO | | | | | |
| Single | $173.00 | $8.65 | $225.51 | $39.55 | $1,031.02 |
| Member & Spouse/Dom. Partner | $376.86 | $18.84 | $491.16 | $85.97 | $2,241.18 |
| Family | $457.48 | $22.87 | $596.22 | $111.25 | $2,900.23 |
| Parent & Child | $265.39 | $13.26 | $345.69 | $64.62 | $1,684.66 |
| TRADITIONAL | | | | | |
| Single | $264.28 | $66.06 | $1,722.18 | $130.82 | $3,410.50 |
| Member & Spouse/Dom. Partner | $565.62 | $141.40 | $3,686.30 | $274.73 | $7,162.26 |
| Family | $673.19 | $168.29 | $4,387.32 | $326.95 | $8,523.67 |
| Parent & Child | $390.35 | $97.58 | $2,543.91 | $189.57 | $4,942.18 |

*Employee contribution: Traditional = 25%; HMOs = 5%.

## DISCUSSION POINT

It is possible that many employees who will be affected by this proposal perform substantially the same duties, for comparable pay, as employees that will not be subject to premium sharing. Furthermore, some employees subject to premium sharing may also be affected by salary compression, defined as compensation that is no greater than $2,000 above that of employees under their supervision. Salary compression may be exacerbated by the introduction of an additional top salary step increment in classified title pay ranges, beginning on July 1, 2006 pursuant to current contracts.

## QUESTION 2b

How does the Administration justify the apparent inequity that would result for many active employees by selectively, rather than comprehensively, imposing premium sharing? Does the Administration plan to address salary compression and if so, in what manner?

## ANSWER 2b

The Administration intends to pursue premium sharing with all state employee unions during future contract negotiations. Premium sharing is very common in the private sector. This is consistent with information and recommendations provided in the Benefits Review Task Force Report. The State non-aligned workforce is the first group of employees identified to be subject to this widely accepted cost sharing approach.

**The issue of salary compression is currently under review by the Governor's Office and the Department of Personnel.**

## DISCUSSION POINT

The FY 2007 budget recommends a State appropriation of $1.08 billion to fund post retirement medical (PRM) benefits for retired teachers, State employees and certain local government employees, an increase of 5.7 percent over the FY 2006 adjusted appropriation of $1.02 billion. The State's Benefits Review Task Force (2005) recommended retiree premium sharing, among other options, to help restrain PRM costs. For example, if retirees paid five percent towards premiums, savings in FY 2007 would total approximately $54.1 million, while a 10 percent premium share would save $108.2 million in State funding.

**QUESTION 3**

Does the absence of anticipated savings in post retirement medical benefits from premium sharing indicate that this proposal has been rejected by the Administration, or is it still under active consideration?

**ANSWER 3**

No potential saving opportunities have been rejected from consideration. All cost-saving measures and initiatives remain viable options for future implementation.

**DISCUSSION POINT**

The effect of rising health care costs on state budgets has been a challenge for the better part of the last two decades. The Government Accounting Standards Board (GASB), concerned about health care inflation and the degree to which states' financial statements do not capture its long-term implications, issued GASB Statement 45 — the "Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions." Reporting under this statement will be required for the states beginning with the FY ending June 30, 2008 (FY 2008) and a wide range of previously unmeasured liabilities will be reported as a consequence.

In essence, GASB 45 requires that government financial statements treat other post-employment benefits (OPEB) — which are largely attributable to retiree healthcare — in the same way pension obligations are presented. These benefits have traditionally been accounted for on a pay-as-you-go basis. Although the new OPEB accounting statement does not change the nature of these pre-existing retiree healthcare liabilities, it will cause states as employers to focus on this issue and their plans for managing these obligations.

Although an unofficial estimate places New Jersey's OPEB liability in the $20 billion range, according to a national benefits consultant, OPEB liability generally will be 40-60 times an entity's annual PRM expenditures. The recommended FY 2007 appropriation for PRM benefits is $1.08 billion. This suggests that New Jersey's OPEB liability is in the $40 billion to $60 billion range.

**QUESTION 4**

Please provide an update of the unfunded liability for future OPEB payable by the State for both TPAF and PERS. Does the Administration concur with the projected estimate for the State OPEB liability? If not, please explain why the Administration's estimate is over/under this projection.

**ANSWER 4**

An updated liability for future Other Post Employment Benefits (OPEB) payable by the State for TPAF and PERS retiree medical is not available. Liabilities estimated previously, in excess of $20 billion were not based on the requirements of GASB 45, because it had not been issued at the time. Consequently, the development of the liabilities must adhere to GASB 45 guidelines which includes completion of a valuation by an actuary at least once every two years utilizing one of six approved valuation methods. Since reporting is not required for the State as an employer until issuance of the financial statements for the period ending June 30, 2008, the actuarial valuation has not yet been started. However, GASB 43 requires the Plan to report the liabilities a year earlier in the financial statements for the period ending June 30, 2007. Therefore, the required actuarial work will be scheduled to coincide with the implementation date for the Plan.

**DISCUSSION POINT**

The FY 2007 budget projects savings in the State Employees' Prescription Drug Program and other prescription drug programs attributable to cost containment measures. These measures, and their estimated savings, include bulk purchasing of pharmaceuticals ($23.5 million), mandatory mail-order for maintenance drugs ($11 million), mandatory use of generic drugs ($9 million), and improved pharmacy administration ($6.1 million).

**QUESTION 5a**

Please elaborate on how and when each of these cost containment measures will be implemented and will serve to achieve the projected savings ascribed to it. Are there any obstacles to implementation of any measure due to existing contractual arrangements? How much of each component of savings is reflected in each line item, e.g., Direct State Services, Grants-In-Aid?

**ANSWER 5a**

The FY07 proposed budget includes a bulk purchasing initiative that would centralize prescription drug purchasing for the Medicaid, PAAD/Senior Gold, and State Health Benefits programs in the Department of Treasury. Under the proposal, the Treasurer, in consultation with the Commissioners of Human Services, Health and Senior Services and the State Health Benefits Program would negotiate and implement specific measures to maximize cost recoveries in the state's prescription drug programs to ensure that the State is a cost-conscious purchaser of prescription drugs.

Projected savings for FY 2007 is estimated at $23.5 million for the State Health Benefits Program. The goal of the initiative is to reduce state prescription drug costs without having to reduce or eliminate services to the State's beneficiaries. The State would reduce administrative expenses associated with individual agency purchasing and multiple vendor contracts. Additional savings would come in the form of increased supplemental rebates from pharmaceutical manufacturers.

The bulk purchasing initiative may call for certain changes to the State Health Benefits Program prescription drug program. The changes depend on how the bulk purchasing program is structured and the types of cost containment measures that are implemented. However, any plan changes will have to be within the parameters already established within existing contractual provisions.

In addition, the SHBP is prepared to release an RFP to contract directly with a Pharmaceutical Benefits Manager (PBM). This recommendation came from the Benefits Review Task Force Report. Projected savings for FY 2007 is estimated at $6.1 million.

Savings from generic and mail order drugs are all reflected in Direct State Service (DSS), bulk purchase is comprised of $16.5M DSS and $7.0 in Grants-in-Aid (GIA), pharmacy administration $4.8M in DSS and $1.3M in GIA.

**DISCUSSION POINT**

The budget also assumes the use of $60 million in State Prescription Drug Program fund balances to meet FY 2007 costs. According to the FY 2005 Comprehensive Annual Financial Report, opening FY 2005 fund balances for the Dental Expense Program Fund ($17.7 million), the Health Benefits Program Fund ($57.1 million) and the Prescription Drug Program Fund ($27.6 million) which were previously recorded as a reserved fund balance in the General Fund, are now recorded in discrete special revenue funds. The ending FY 2005 balances in those funds were $8.9 million, $109.4 million and $34.9 million, respectively. These funds are not yet included in budget appendices, so no projections of FY 2006 and FY 2007 fiscal activity are reported.

**QUESTION 5b**

What is the projected closing surplus in each of these three special revenue funds for FY 2006 and FY 2007? What amount does the Administration consider to be a prudent surplus for each fund and how is each amount calculated? What is the Administration's contingency plan for fully funding prescription drug benefits in the event that the projected surplus is not available? With respect to the State Health Benefits Program, why is a FY 2006 supplemental appropriation of $42.7 million necessary (page D-464) if the Health Benefits Program Fund began the year with a surplus of $109.4 million?

## ANSWER 5b

While the question posed refers to the "projected closing surplus" in each of the three special revenue funds for FY 2006 and FY 2007, we would prefer to characterize these balances as reserves against unexpected claims. From the perspective of a self-insured health benefits program, prudence dictates that sufficient reserves be established to protect the system against unexpected and significant fluctuations in claims. This is a common approach among self-insured large employers, both public and private, and in fact the State has taken a fairly aggressive approach in the establishment and maintenance of reserves. For example, the FY 2006 health benefits reserve is expected to be approximately 1.1 months of expected claims payments, or about $113 million. The expected reserve for year end FY 2007 is expected to be 1.24 months of payments or $139 million. A more prudent underwriting approach would require reserves ranging anywhere from 2 to 2.5 months of expected claims, or for FY 2007, between $225 and $281 million.

With respect to the prescription drug fund balance, we have already identified $60 million of reserve which can be used to reduce the FY 2007 budget request leaving a reserve of $26 million. This is a different situation from health in that the risk exposure is far less significant and the claims experience will be more predictable.

Again, dental has less exposure to risk of catastrophic claims given the limited nature of the benefits and the annual cap on available benefits so it is unnecessary to maintain the same level of reserve as for health benefits.

Of course, the projected fund balances for both health and prescription drug benefits assume that the savings initiatives described in the budget are implemented.

## DISCUSSION POINT

Medicare Part D regulations, in an effort to encourage employers to continue to provide prescription drug coverage to Medicare eligible retirees, offer employers three means of receiving federal assistance with the cost of the coverage. Last year the Department of the Treasury indicated that for calendar year 2006 the State Health Benefits Program (SHBP) would likely apply for the plan subsidy of up to 28 percent of current costs should retirees not opt to enroll in Medicare Part D. However, there were a number of issues that needed to be resolved before a final decision would be made.

## QUESTION 6

Please provide an update on how retiree prescription drug benefits are being integrated with the new federal prescription drug coverage under Medicare Part D. What is the amount of saving to the SHBP in FY 2007 under the option chosen by the State and has this amount been included as savings in the budget request?

## ANSWER 6

Medicare Part D regulations offer employers three options to receive federal assistance with the cost of the coverage as follows:

1) Apply for a plan subsidy of up to 28% of current cost (subject to a cap) to be returned to employers if their retirees do not opt to enroll in Medicare Part D.
2) Enrollment of eligible retirees in approved Medicare Advantage-Prescription Drug (MA-PDs) plans. MA-PD plans would provide all of a participant's Medicare benefits including a wrap-around prescription drug benefit.
3) Enter into an agreement with a Medicare approved Prescription Drug Plan (PDP), or adopt an arrangement that wraps around an approved PDP.

The option selected by most employer-sponsored health plans, including the State Health Benefits Program (SHBP), for calendar year 2006, was option 1, a reimbursement (employer subsidy) from the Center for Medicare and Medicaid Services (CMS). This is a retrospective payment based on a prescribed formula using paid claim data that must be submitted in the CMS format. The SHBP continues to explore the possibility of offering Medicare Advantage Plans as an alternative arrangement to its membership; however no Medicare Advantage Plans are expected to be available to SHBP participants in the near future.

The savings attributable to the Medicare Part D subsidy is not identified as a separate savings in the FY2007 budget proposal. When the State Health Benefits Commission approved the rates for Medicare eligible members for calendar year 2006, the rates reflected a $680 annual offset per Medicare eligible retiree/dependent, thus allowing the savings to be passed to the various groups that contribute to the cost of post-retirement medical care within the SHBP (the State, some local public employers, and retirees that do not qualify for employer-paid coverage) within the current plan year. Since the $680 subsidy offset was previously built into the 2006 plan year rates, it was already included in the base used to project the SHBP rates for FY2007 and therefore does not represent a new savings opportunity.

## DISCUSSION POINT

The FY 2007 budget now includes separate line item appropriations to the various pension systems and the Alternate Benefit Program for the State's contribution to the non-contributory group insurance premium funds. In previous years, this employer contribution for employee group insurance was made from excess valuation assets or employer contributions directly to the pension funds.

**QUESTION 7**

Does the FY 2007 budget proposal include the recommended amounts to the non-contributory group insurance accounts as part of the 70 percent of full funding for the pension systems? Please provide an explanation as to why the Administration is now recommending separate line-item appropriations for non-contributory group insurance? Is the State required, under federal regulation or GASB guidelines, to make back-payments into the pension funds to replenish these funds for the years the pension fund assets were used to pay costs associated with the group insurance benefit?

**ANSWER 7**

The FY 2007 budget includes the recommended amounts for non-contributory group life insurance accounts at full funding (not 70 percent). The decision was made to show a separate line-item appropriation, as was done for post-retirement medical funding several years ago, so the component costs can be more clearly identified and disclosed. Additionally, while there is no requirement to make back payments, outside legal counsel indicates that the more desired approach is to clearly separate the funding and accounting of the non-contributory group life insurance benefit from the pension benefit. This also contributed to the decision of giving non-contributory life insurance a separate appropriation line in the FY 2007 budget. However, it should be noted that this benefit is being funded in full in FY 2006 as well.

**DISCUSSION POINT**

In both FY 2005 and FY 2006, appropriations of $14.9 million were approved for "Enhanced 9-1-1 Grants," to fund replacements, upgrades and maintenance of the 9-1-1 emergency call system (E-911) throughout the State. The FY 2007 budget again recommends $14.9 million for this purpose. This grant program funds equipment upgrades and replacements to help county and municipal Public Safety Dispatch Points comply with Federal Communications Commission regulations regarding E-911 call centers, which require that all centers have the ability to handle a cell phone call to the 911 system in the same manner as the dispatch point handles a land line call. Grants have also been made to county and local governments to fund general operating expenses. Both FY 2005 and FY 2006 Appropriations Act language requires that grants be awarded on the basis of creating incentives for the regional consolidation of 911. At present, there are approximately 250 Public Safety Answering Points and more than 100 Public

Safety Dispatch Points throughout the State. None of the FY 2006 appropriation has been disbursed through April 2006.

## QUESTION 8

What is the overall estimated cost of the Enhanced 911 grants program and what amounts are projected annually after FY 2007 to establish and maintain a fully functional system? Is there a local match to this State funding or are these State grants used to provide 100 percent of funding? Are grants being awarded to fund operational expenses serving to offset increased costs that result from system changes, or are they reducing current local funding efforts? How many Public Safety Answering Points (PSAP) and Public Safety Dispatch Points (PSDP) have been consolidated to date? How many of the current PSAPs and PSDPs will be consolidated as a result of this grant program? When is the next round of grant awards planned?

## ANSWER 8

In both the FY-2005 and FY-2006, appropriations of $14.9 million were approved for "Enhanced 9-1-1 County Grants". It should be clarified that the $14.9 million was not a single Grant Program it was the total of three Grant Programs administered through the Office of Information Technology (OIT) as follows:

| Grant Program | Primary Purpose | Total |
|---|---|---|
| County 9-1-1 Coordinator Grants | Provide $25K annually to County 9-1-1 Coordinator to assist in carrying out their duties as mandated by N.J.S.A. 52:17C-13 | $525K |
| Enhanced 9-1-1 Equipment Grants | To replace or upgrade 9-1-1 call taking equipment at Public Safety Answering Points (PSAPs) throughout the state to enable them to efficiently receive and display the location of wireless 9-1-1 calls through integrated mapping when location information (latitudes/longitude) is provided in accordance with the FCC requirements. | $6.4M |
| Enhanced 9-1-1 General Assistance / Consolidation Grants | To provide population based financial assistance to qualifying PSAPs to offset their costs of maintaining, upgrading or purchasing equipment or services incurred in operating their PSAP. Funding that is not distributed to the smallest of PSAPs is made available for consolidation initiatives or the study of consolidation by local, regional or county agencies. | $8.0M |
| | **TOTAL:** | **$14.925M** |

The FY-2007 budget request looks for continuing the $14.925M with the three grant totals remaining substantially the same.

The FY-2007 Enhanced 9-1-1 Equipment Grants will likely complete the upgrade or replacement of the equipment needed to efficiently process wireless 9-1-1 calls. After FY-2007, the 9-1-1 Commission would like shift the focus to begin replacing other mandated equipment within the PSAPs, therefore, subsequent funding requests will likely remain at the $14.9M level. It should be noted that nationwide, 9-1-1 surcharges are intended to fund this type of activity.

There is no local match to the Enhanced 9-1-1 Equipment Grants, to date all equipment replacement or upgrades are funded through the grant. This covers only the direct call taking equipment, ancillary equipment such as console equipment, UPS's, recording equipment is the responsibility of the local agency. The FY-2005 Enhanced 9-1-1 Equipment Grants were prioritized, funding the larger PSAPs such as the NJSP PSAP's, the County PSAPs, and some larger city PSAP's like Jersey City, Woodbridge and Edison Twp. It is expected that the FY-2006 will begin to fund the medium size PSAPs.

The Enhanced 9-1-1 Operational Grants are population based and used to assist the local PSAP in funding their 9-1-1 operational costs. The Operational Grants are used in part to fund additional costs necessary to support changes necessary to process wireless 9-1-1 calls and to reduce current local funding efforts by assisting in funding the common costs involved in operating their PSAP. To encourage consolidation of 9-1-1 services the PSAP must have served a population base of at least 19,000 residents or serve at lease three municipalities to be eligible for FY-2005 grant funding. To further encourage efficiencies and consolidation efforts the FY-2006 Operational Grant criteria requires that in addition to the minimum population requirement the PSAP must be staffed by at least two call takers/dispatchers around the clock. The FY-2006 Grant Applications were distributed mid April and some awards may be made at the June 2$^{nd}$ 9-1-1 Commission meeting.

The FY-2005 Grant Program will provide just over $1 million for consolidation initiatives. In Bergen County the combined funding for Equipment and Consolidation will permit the Bergen County Police PSAP to move into a larger facility enabling other communities to participate in the County PSAP. In Warren County a grant will allow the town of Phillipsburg to combine 9-1-1 and dispatch services with the County 9-1-1 Center.

The FY-2005 Grant Program has awarded funding to Atlantic, Bergen, Sussex and Union Counties for the purposes of studying consolidation possibilities in their respective county.

While the Rutgers PSAP Consolidation is nearing completion, some of the general recommendations have already been incorporated in the FY-2006 Grant Criteria, additionally, the funds from the FY-2005 Grant Program are just now being distributed which will allow the five counties mentioned above to award contracts to consulting firms it is too early in the process to quantify results.

**DISCUSSION POINT**

A FY 2007 appropriation of $46 million is recommended for Interest on Short-Term Notes (page D-467). In FY 2006, the State issued $2.65 billion in tax and revenue anticipation notes to meet cash flow needs. Interest costs on these notes will total about $84.4 million, which will be offset by original issue premiums of $25 million. Thus, net interest cost will total approximately $59.4 million. Investment earnings will supplement FY 2006 appropriations of $46 million to fully fund these costs.

**QUESTION 9**

What projections of tax and revenue anticipation note issuance (par amount and date of sale), total and net interest costs, nominal interest rate and effective interest rate, were assumed when determining the FY 2007 recommended appropriation of $46 million? Based on these assumptions, what amount of investment earnings will be required to fully fund short-term borrowing interest costs? What percentage of total estimated investment earnings does that amount represent?

**ANSWER 9**

The FY2007 budget message estimate of $46M for short term borrowing interest is based on projections of tax and revenue anticipation note issuance of $2.0B on August 1, 2006 and $500 million on December 11, 2006. Interest costs, net of premium, were estimated at $92.7M. The estimated coupon rate was 5.5% with a yield of 4.5%. Investment earnings of $46.7M will be utilized to fund short term interest costs. This represents 86% of the estimate for interest earnings.

**DISCUSSION POINT**

The FY 2007 budget recommends $177.9 million for Salary Increases to fund scheduled cost-of-living and other compensation increases.

**QUESTION 10**

Please provide, by department, the estimated amounts of funding that will be transferred from this account and the components of the funding, e.g., cost-of-livings adjustments, increments. How many employees, by branch of government and department, are eligible for the new 10th step to the State Compensation Plan and Program? What is the total estimated cost of the 10th Step? How much will be paid from non-State funding sources?

## ANSWER 10

Allocations by Department are not available at this time and it would take some time to gather the information. The recommended appropriation of $177.9M assumes the use of $25M in carry forward balances and $14M in projected savings from reductions of non-civil service staff and is before the $50M reduction for management efficiencies. It includes projected cost of living adjustments (COLA) of $113.5M, increments of $69.1M, and other adjustments of $7.7M for the Executive Branch. $26.6M is included for the projected amount required for progression and COLA increases for the Judiciary. Based on the most recent payroll data, there are approximately 27,000 Executive Branch employees that will be eligible for the 10th Step, which does not apply to Judiciary employees. The total estimated cost of the $10th Step is $48.6M, of which $17.2Mwill be paid from non-state funding sources.

## DISCUSSION POINT

The FY 2007 budget recommends an appropriation of $325 million to fund the Social Security Tax obligations for State employees (page D-464). This appropriation would be supplemented by a transfer of $22 million (page D-302) from the Securities Enforcement Fund (Department of Law and Public Safety), thus a total of $347 million will be provided, or $1.7 million more than the FY 2006 adjusted appropriation. Since the employer contribution rate for Social Security is 7.65 percent, the recommended increase infers that total State workforce wages subject to Social Security contributions will increase by only $22.2 million above current levels.

## QUESTION 11

Please explain in detail how the projected cost of the State's FY 2007 Social Security Tax obligation was calculated. Please compare, by branch of government, estimated Social Security Tax costs for FY 2006 and FY 2007. Does the recommended FY 2007 appropriation plus the transfer from the Securities Enforcement Fund represent the total cost estimate, or are resources budgeted elsewhere? If so, please identify and quantify those additional resources.

## ANSWER 11

The amount required for Social Security Tax was calculated based on total current salaries and includes consideration of projected increases in salaries for increments, deferred FY2006 COLA increases, and FY2007 COLA increases in accordance with negotiated contracts. Projections also consider the increase in taxable wages from $96,900 to $100,900. The recommended FY2007 appropriation will be supplemented by the $22M transfer from the securities enforcement fund. Also, an $8M FY2006 supplemental appropriation will be used for the FY2007 projected need.

# ATTACHMENT A

SUMMARY OF ACTUARIALLY DETERMINED PENSION CONTRIBUTIONS

FY 2007

(In Millions)

| PENSION FUND | NORMAL COST | UNFUNDED AAL | TOTAL PENSION | NONCONTRIB INSURANCE | TOTAL PENSION & INSURANCE |
|---|---|---|---|---|---|
| Public Employees' Retirement System (PERS) | 161.0 | 173.4 | 334.4 | 24.2 | 358.6 |
| Teachers' Pension and Annuity Fund (TPAF) | 655.5 | 501.8 | 1,157.3 | 35.0 | 1,192.3 |
| Police and Firemen's Retirement System (PFRS) | 161.7 | 51.2 | 212.9 | 5.0 | 217.9 |
| State Police Retirement System (SPRS) | 41.6 | 8.5 | 50.1 | 1.3 | 51.4 |
| Judicial Retirement System (JRS) | 16.6 | 5.4 | 22.0 | 0.7 | 22.7 |
| Prison Officers' Pension Fund (POPF) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Consolidated Police and Firemen's Pension Fund (CPFPF) | 0.0 | 1.8 | 1.8 | 0.0 | 1.8 |
| TOTALS | 1,036.4 | 742.1 | 1,778.5 | 66.2 | 1,844.7 |

## New Jersey State-Administered Retirement Systems
## GASB 25 and 27 Schedule of Funding Progress
## (In Millions)

**Public Employees' Retirement System - State**

| Valuation Date | Valuation Assets | Accrued Liability | Unfunded Liability | GASB Funded Ratio |
|---|---|---|---|---|
| 6/30/2000 | 9,743.6 | 8,538.5 | (1,205.1) | 114.1% |
| 6/30/2001 | 11,123.8 | 9,886.5 | (1,237.3) | 112.5% |
| 6/30/2002 | 11,073.2 | 10,760.0 | (313.2) | 102.9% |
| 6/30/2003 | 10,829.9 | 11,942.3 | 1,112.4 | 90.7% |
| 6/30/2004 | 10,693.5 | 12,620.4 | 1,926.9 | 84.7% |
| 6/30/2005 | 10,631.3 | 13,432.5 | 2,801.2 | 79.1% |

**Public Employees' Retirement System - Local**

| Valuation Date | Valuation Assets | Accrued Liability | Unfunded Liability | GASB Funded Ratio |
|---|---|---|---|---|
| 6/30/2000 | 14,380.0 | 12,006.5 | (2,373.5) | 119.8% |
| 6/30/2001 | 16,625.3 | 13,819.0 | (2,806.3) | 120.3% |
| 6/30/2002 | 16,503.1 | 14,929.3 | (1,573.8) | 110.5% |
| 6/30/2003 | 16,406.3 | 15,887.0 | (519.3) | 103.3% |
| 6/30/2004 | 16,414.0 | 17,077.9 | 663.9 | 96.1% |
| 6/30/2005 | 16,482.0 | 18,341.9 | 1,859.9 | 89.9% |

**Police & Firemen's Retirement System - State**

| Valuation Date | Valuation Assets | Accrued Liability | Unfunded Liability | GASB Funded Ratio |
|---|---|---|---|---|
| 6/30/2000 | 1,884.9 | 1,666.8 | (218.1) | 113.1% |
| 6/30/2001 | 1,991.3 | 1,866.1 | (125.2) | 106.7% |
| 6/30/2002 | 2,033.0 | 2,046.8 | 13.8 | 99.3% |
| 6/30/2003 | 1,907.8 | 2,330.9 | 423.1 | 81.8% |
| 6/30/2004 | 1,940.9 | 2,509.2 | 568.3 | 77.4% |
| 6/30/2005 | 2,005.8 | 2,815.6 | 809.8 | 71.2% |

**Police & Firemen's Retirement System - Local**

| Valuation Date | Valuation Assets | Accrued Liability | Unfunded Liability | GASB Funded Ratio |
|---|---|---|---|---|
| 6/30/2000 | 15,644.7 | 14,924.9 | (719.8) | 104.8% |
| 6/30/2001 | 16,083.2 | 16,056.4 | (26.8) | 100.2% |
| 6/30/2002 | 16,392.2 | 17,181.1 | 788.9 | 95.4% |
| 6/30/2003 | 16,447.4 | 18,422.0 | 1,974.6 | 89.3% |
| 6/30/2004 | 16,762.5 | 19,769.0 | 3,006.5 | 84.8% |
| 6/30/2005 | 17,372.1 | 21,389.0 | 4,016.9 | 81.2% |

**Teachers' Pension and Annuity Fund**

| Valuation Date | Valuation Assets | Accrued Liability | Unfunded Liability | GASB Funded Ratio |
|---|---|---|---|---|
| 6/30/2000 | 30,203.2 | 27,404.6 | (2,798.6) | 110.2% |
| 6/30/2001 | 35,351.4 | 32,745.3 | (2,606.1) | 108.0% |
| 6/30/2002 | 35,148.2 | 35,146.6 | (1.6) | 100.0% |
| 6/30/2003 | 34,651.8 | 37,383.7 | 2,731.9 | 92.7% |
| 6/30/2004 | 34,632.9 | 40,447.7 | 5,814.8 | 85.6% |
| 6/30/2005 | 34,688.7 | 42,926.8 | 8,238.1 | 80.8% |

**State Police Retirement System**

| Valuation Date | Valuation Assets | Accrued Liability | Unfunded Liability | GASB Funded Ratio |
|---|---|---|---|---|
| 6/30/2000 | 1,752.4 | 1,512.9 | (239.5) | 115.8% |
| 6/30/2001 | 1,829.4 | 1,626.6 | (202.8) | 112.5% |
| 6/30/2002 | 1,853.7 | 1,739.4 | (114.3) | 106.6% |
| 6/30/2003 | 1,865.1 | 1,815.7 | (49.4) | 102.7% |
| 6/30/2004 | 1,897.5 | 1,949.3 | 51.8 | 97.3% |
| 6/30/2005 | 1,922.4 | 2,075.3 | 152.9 | 92.6% |

**Judicial Retirement System**

| Valuation Date | Valuation Assets | Accrued Liability | Unfunded Liability | GASB Funded Ratio |
|---|---|---|---|---|
| 6/30/2000 | 374.5 | 350.9 | (23.6) | 106.7% |
| 6/30/2001 | 379.6 | 372.8 | (6.8) | 101.8% |
| 6/30/2002 | 373.2 | 389.0 | 15.8 | 95.9% |
| 6/30/2003 | 372.8 | 431.5 | 58.7 | 86.4% |
| 6/30/2004 | 371.7 | 445.9 | 74.2 | 83.4% |
| 6/30/2005 | 369.5 | 466.1 | 96.6 | 79.3% |

**Prison Officers' Pension Fund**

| Valuation Date | Valuation Assets | Accrued Liability | Unfunded Liability | GASB Funded Ratio |
|---|---|---|---|---|
| 6/30/2000 | 18.3 | 14.2 | (4.1) | 128.9% |
| 6/30/2001 | 18.3 | 13.0 | (5.3) | 140.8% |
| 6/30/2002 | 17.9 | 11.8 | (6.1) | 151.7% |
| 6/30/2003 | 17.3 | 10.7 | (6.6) | 161.7% |
| 6/30/2004 | 15.9 | 10.1 | (5.8) | 158.1% |
| 6/30/2005 | 14.8 | 9.1 | (5.7) | 162.6% |

**Consolidated Police & Firemen's Pension Fund**

| Valuation Date | Valuation Assets | Accrued Liability | Unfunded Liability | GASB Funded Ratio |
|---|---|---|---|---|
| 6/30/2000 | 46.1 | 46.5 | 0.4 | 99.1% |
| 6/30/2001 | 38.6 | 41.6 | 3.0 | 92.8% |
| 6/30/2002 | 31.8 | 36.3 | 4.5 | 87.6% |
| 6/30/2003 | 29.6 | 41.4 | 11.8 | 71.5% |
| 6/30/2004 | 21.7 | 35.0 | 13.3 | 62.0% |
| 6/30/2005 | 21.9 | 30.0 | 8.1 | 73.0% |

**TOTAL-STATE & LOCAL**

| Valuation Date | Valuation Assets | Accrued Liability | Unfunded Liability | GASB Funded Ratio |
|---|---|---|---|---|
| 6/30/2000 | 74,047.7 | 66,465.8 | (7,581.9) | 111.4% |
| 6/30/2001 | 83,440.9 | 76,427.3 | (7,013.6) | 109.2% |
| 6/30/2002 | 83,426.3 | 82,240.3 | 1,186.0 | 101.4% |
| 6/30/2003 | 82,528.0 | 88,265.2 | 5,737.2 | 93.5% |
| 6/30/2004 | 82,750.6 | 94,864.5 | 12,113.9 | 87.2% |
| 6/30/2005 | 83,508.5 | 101,486.3 | 17,977.8 | 82.3% |

**PROJECTED STATE PENSION CONTRIBUTION AMOUNTS**
**FY 2007 - FY 2008**

*(In Millions)*

| Fund / Contribution | FY 2007 | FY 2008 |
|---|---|---|
| **PERS** | | |
| **Normal** | 133.0 | 180.8 |
| **Accrued Liability** | 121.3 | 162.4 |
| **Total** | 254.3 | 343.2 |
| **TPAF** | | |
| **Normal** | 490.4 | 562.0 |
| **Accrued Liability** | 351.2 | 482.6 |
| **Total** | 841.6 | 1,044.6 |
| **PFRS** | | |
| **Normal** | 118.2 | 141.5 |
| **Accrued Liability** | 35.8 | 48.2 |
| **Total** | 154.0 | 189.7 |
| **SPRS** | | |
| **Normal** | 30.4 | 37.1 |
| **Accrued Liability** | 5.9 | 9.8 |
| **Total** | 36.3 | 46.9 |
| **JRS** | | |
| **Normal** | 12.4 | 14.3 |
| **Accrued Liability** | 3.8 | 5.3 |
| **Total** | 16.2 | 19.6 |
| **CPFPF** | | |
| **Normal** | 0.0 | 0.0 |
| **Accrued Liability** | 1.8 | 1.1 |
| **Total** | 1.8 | 1.1 |
| **POPF** | | |
| **Normal** | 0.0 | 0.0 |
| **Accrued Liability** | 0.0 | 0.0 |
| **Total** | 0.0 | 0.0 |

| | | |
|---|---|---|
| **Total Normal Contribution** | 784.4 | 935.7 |
| **Total AL Contribution** | 518.0 | 708.3 |
| **Total Pension Contribution** | 1,302.4 | 1,644.0 |

**Assumptions: Phase-in of 70% in FY 07; 80% in FY 08**
**Assumed Rate of Return on Investments of 8.25%**

**Normal Contribution includes estimated noncontributory insurance costs.**