

**Treasurer David Rousseau  
Departmental Testimony  
Assembly Budget Committee  
May 19, 2009**

Good afternoon.

Mister Chairman. Members of the Assembly Budget Committee. I am pleased to return to present the budget for the New Jersey Department of the Treasury.

I am joined today here by Deputy Treasurer Debra Bell, Charlene Holzbaur, the Director of the Office of Management and Budget, and other senior staff from the Treasurer's Office and many Division directors.

When I appeared before this committee last month, I talked about how the global economic crisis had spawned an imposing decline in State revenues and how that required historic reductions in year-to-year appropriations for the Fiscal Year 2010 budget.

As you are aware, State revenues have continued to decline since my testimony here in April. It bears repeating what I said to the committee then: Never in New Jersey history has it been more challenging to balance the needs of our state with the financial resources available to us.

Despite the challenging revenue picture, Governor Jon Corzine has maintained his commitment to ensuring the budget is responsive to the most vulnerable New Jerseyans and the core needs of working families.

To do so, we face the daunting challenge of meeting those needs while fulfilling our constitutional obligation to balance the budget, all of which means we must spend less, streamline State government, and get maximum mileage out of every budget dollar.

As all of you know, the responsibilities of the State Treasurer far transcend the task of managing the State budget. Admittedly, however, the net effect of this economy has been to make this part of the Treasurer's job all consuming.

Treasury is arguably the state department first and most profoundly affected by an economic downturn.

As the collector and forecaster of state revenue, we have a front row seat to ebbs and flow of economic cycles.

We monitor consumer spending, financial market activity, corporate income and many other barometers of financial health. As the agency also responsible for appropriating resources, we also take heed of how trends influence the State's ability to meet the financial obligations to government and to the people and organizations reliant on the budget.

More notably, we respond to these trends and vigilantly protect New Jersey's ability to operate effectively.

All Treasury divisions are put through this stress test, but none more vigorously than the Office of Management and Budget.

The OMB has been on the front lines of maintaining balance in state finances. Fiscal 09 will long be remembered as the year in which an eroding economy necessitated multiple rounds of budget cuts and solutions. OMB responded with remarkable excellence under fire, helping this administration achieve more than \$2 billion in savings by scrutinizing spending line by line, account by account, helping us to rebalance while minimizing the effects on programs.

I am proud to say that this steadfast approach to a fiscal challenge is prevalent among every division in Treasury. We work collectively as a department to stretch resources, minimize expenses and root-out inefficient practices or policies, and I am happy to detail these efforts for you today.

First, a quick description of the duties of the Treasury Department as we interact every day with a wide range of public and private constituencies.

We assist in the functions of businesses and government. We administer the benefits of employees and retirees. We oversee vendors and lottery agents, and we work with bankers and bond buyers.

Our duties also mean we are the State's landlord and real estate agent. We are also responsible for balancing the State's books and cutting the checks for payroll, pensions, rebates, and refunds.

In addition, we ensure that the equipment, supplies and other support services that State agencies need to function effectively are in place.

The FY10 Budget for the Department of Treasury totals \$2.6 billion, a decrease of \$770 million or more than 22 percent under the fiscal 2009 adjusted appropriation of \$3.4 billion. As you know, the vast majority of this amount passes through Treasury to be provided as State aid, grants in aid and property tax relief.

What remains is the Direct State Services appropriation for meeting the Treasury department's operational needs. Within this amount is operational funding for the in, but not of agencies, which are housed under Treasury.

This Direct State Service funding includes operational costs for the BPU, OIT, State Comptroller, the Inspector General, the Science and Technology Commission, the Public Defender, the Office of Administrative Law and the GSPT.

After removing these offices -- over which I as Treasurer have no direct control -- the core functions of Treasury and its operating divisions are supported by a \$216 million

appropriation from the General Fund. This amount reflects a \$5 million reduction from the current year appropriation of \$221 million.

The core functions of Treasury are delivered by a workforce of approximately 3,300 full-time employees. Most of these employees – about 3,000 -- are supported through either the General Fund or the pension fund, while the rest are supported by fee based or revolving funds.

Like state government as a whole, Treasury's workforce has continued to contract over the last three years.

When Governor Corzine first took office, Treasury's FTE count was 3,687. As of March of this year, that count stood at 3,312. This reduction of 375 employees has been achieved through attrition and strict adherence to the Governor's hiring freeze.

Those Treasury employees continue the hard work at streamlining services and cutting costs while also ensuring that the needs of businesses and taxpayers are properly facilitated.

The Division of Purchase and Property continues to be at the forefront of procurement savings in State government. The Division has streamlined processing activities, pursued technological advances, and followed an aggressive strategic agenda to drive down costs in every facet of procurement. It has done all this while also making it easier for agencies and suppliers to do business with the State.

Key efforts that will lead to savings in FY10 and are already under way include: Instituting a planning process in cross-agency procurement by requiring agencies to project needs and cut down on the number of procurements; developing a spend analysis tool to permit easy manipulation of spend data to facilitate smarter purchasing; streamlining the RFP contract template to simplify the process of bidding for suppliers; and joining available Cooperative Contracts established by other entities and states to drive down costs.

The Division is heading and/or participating in many Cross-Agency Savings Initiatives to leverage demand and achieve greater savings. In FY10, additional savings are expected in such areas as food procurement, waste hauling contract consolidation, computer hardware maintenance, and industrial and office supplies.

The Office of Energy Savings also continues to make great strides in cutting power costs by finding methods to reduce usage and by making upgrades.

The Office of Energy Savings and the Division of Property Management & Construction have developed a new, standardized energy audit RFP that can be used across all departments and facilities. This new tool will streamline the energy auditing process across targeted State facilities.

A new Energy Tracking System will provide online access to key energy, cost, and environmental metrics for all State buildings and will serve as the foundation of the State's energy savings program.

There is also a new program which will utilize Federal Stimulus funds to complete energy efficiency upgrades at some of the state's largest public institutions. In addition, there are currently more than 30 energy efficiency upgrade projects in various stages of development throughout State government

Finally, additional aggressive energy conservation efforts by the Office of Energy Savings and the Division of Property Management and Construction have resulted in a 9 percent average decrease in energy consumption across downtown Trenton buildings.

The finest example of this work is the Mary Roebling building where a 29 percent energy reduction was achieved, earning the first Energy Star label for a State building in New Jersey for superior energy performance.

Significant savings have also been realized through actions taken by our Division of Administration. These include the recall of more than 400 vehicles from the State passenger fleet, the shredding of commercial fuel credit cards and new postal technology that allows agencies to save on every piece of mail.

The reduction in the size of the vehicle fleet is expected to save over \$750,000 annually in fuel and maintenance, and generate almost \$500,000 in one-time revenue from the sale of the vehicles.

With the latest reduction, we have now recalled over 1,200 vehicles, or 12 percent of the passenger fleet, during the Corzine Administration.

The shredded credit cards mean State agencies have to fill-up at one of the many State-operated fueling facilities across New Jersey. Estimated annual savings due to the use of fuel purchased at lower bulk prices is approximately \$200,000.

Significant savings are also being realized by the Division of Property Management and Construction through space efficiency improvements. For FY10, a total of \$4.3 million in lease reduction savings are expected to be achieved.

The Division has also consolidated the collection of used furniture from various State agencies and centralized it in one location. The furniture is then redistributed to other State agencies to avoid the cost of new purchases.

A recent example of savings achieved by this initiative is the new Public Health, Environmental and Agricultural Laboratory currently under construction. The original FY10 budget request for furniture, fixtures and equipment for the new lab totaled \$4.8 million. This request was reduced to \$1.1 million in part due to the substitution of used furniture.

The cost of administering State employee benefits to active and retired workers is kept down thanks the efforts of the staff at the Division of Pensions and Benefits. Improvements to the Member Online Benefit System are one of the top reasons.

Electronic forms are being developed for Health Benefits Reports and Applications. That will eliminate 18,000 pages that previously needed to be printed and mailed on a monthly basis. This will also eliminate or minimize personnel involvement.

Employee Benefits Statements for smaller employer locations will also be offered through the online program, which will eliminate the need for additional printing and mailing.

In addition, the Retroactive Salary Reporting Web application will allow employers to properly report and submit salary changes resulting from negotiated contracts. This will ensure that pension member contributions are collected in a timely and efficient manner.

The Division of Revenue continues its migration from labor-intensive, paper-based systems to electronic formats. This has resulted in the Division reducing expenditures for seasonal staffing, overtime and contract services.

Revenue has also worked with the Division of Taxation and the Department of Labor and Workforce Development to implement a paperless quarterly employer filing system. Virtually all withholding and wage reporting forms -- over 500,000 transactions per quarter -- are submitted electronically via the Internet or through a secure digital bulk filing service.

This simple, consolidated and streamlined electronic filing system also supports the newly enacted Paid Family Leave Program.

An interagency team of Revenue, the Office of Information Technology and the Division of Archives and Records Management is also actively assisting State agencies in the development of enhanced, cost effective public records systems.

Revenue also continues to facilitate commercial activity in New Jersey by streamlining services. We recently implemented a new Customer Relationship Management system that provides for expeditious electronic responses to inquiries placed by the business community.

Compliance efforts at the Division of Taxation continue to produce strong results. Compliance related revenue continues to average more than \$150 million per month.

For the Tax Amnesty now under way, Taxation is maximizing the use of Internet-based applications to explain the program, and to allow taxpayers to apply, file, and pay electronically. The cost savings from reduced manual processing will be significant.

The creation of the Local Property Tax Internet portal also permits the use of electronic mail from Taxation to the 350 municipal assessors and the 21 County Tax Boards. The result is savings on paper, postage, and man-power associated with traditional mailing procedures while assuring receipt of important correspondence.

Taxation's Local Property Tax field representatives are also performing reviews of property deeds online since about 50 percent of the counties have deeds now available there. Previously, the field representatives had to drive to each county court house and incur mileage

costs and drive time that is now more efficiently spent performing their assigned work from the office.

The Division of Public Contracts and EEO compliance has also implemented cost saving efficiencies through the leveraging of technology and transferring its data entry and fee collection functions to Revenue. This allows more of a focus on field investigation and ensuring compliance. In addition, enhancements to the Division's database have made online reporting more user-friendly.

Our responsiveness to the business community includes the continued outreach to small, women and minority owned businesses. I'm pleased to report this effort through our Division of Minority and Women Owned Business Development is producing excellent results.

Last year, businesses owned by minorities and women combined to receive 8.5 percent of all payments on prime contracts, a significantly higher percentage than most other states.

The Division of Minority and Women Business Development was also part of an interagency-team that addressed the frequently-heard concern that doing business with the state is too costly. As a result, the cost of small business registrations was changed from \$100 for a one-year registration to \$100 for three years. The certification fee was similarly reduced and simplified.

The Division and the Office of Supplier Diversity – the OSD -- both operate within the Economic Development unit of the Treasury Department.

In its first full fiscal year of operation – FY 09, the OSD has made remarkable strides in carrying out its mission, which is to foster sustainable economic growth through training on State and private contracting for small, minority and women-owned businesses throughout New Jersey.

During the fiscal year, the OSD provided training to over 500 small businesses across the State. It has forged strong training and outreach partnerships with other business assistance groups, including Small Business Development Centers and the New Jersey Chamber of Commerce. As part of its outreach regimen, the OSD sends out regular e-mail updates and notifications to a mailing list of over 4,000 small businesses, as well as over 200 representatives from Chambers of Commerce and other stakeholders.

The Division of Lottery had its most successful year ever in FY08 by surpassing \$2.5 billion in gross revenues. That marked the seventh consecutive year the lottery surpassed the \$2 billion mark.

The Division of Purchase and Property and the Lottery also finalized the procurement of a new contract for a Lottery gaming system that will save the State approximately \$19 million per year during the seven-year agreement. This contract will also allow the Lottery to take advantage of newer gaming technology, and to implement best practices operating efficiencies.

The global financial crisis has certainly had a deep impact on our State and its residents as it has on the entire country. These have been historically rough times for investors, and the State's pension fund has suffered as well.

Still, the Division of Investment outperformed other states in calendar year 2008. The pension fund was down -21.8 percent, in an environment where the overall US equity market was -36.7 percent.

These results earned New Jersey a fourth place ranking nationally for performance among the 25 public funds that disclosed yearend results. The average public fund performance among funds disclosing results was -26.1 percent.

The pension fund's outperformance can be directly attributed to asset allocations approved by the State Investment Council over the past four years, and strategic decisions made by Division employees this fiscal year.

Those include increasing the fund's holdings in domestic and international fixed income holdings; relative to public equities; and maintaining an underweight position relative to the overall market in financial services stocks in both the domestic and international portfolios.

Our pension portfolio has an estimated market value of \$60.5 billion as of April 30, 2009, down from \$77.7 billion as of the beginning of the fiscal year but up from a fiscal year-to-date low of \$56.4 billion as of February 28, 2009.

The Division has also proven successful as lead plaintiff or plaintiff in several lawsuits, collecting more than \$200 million to date. In March 2009 the Division settled its lawsuit against Price Waterhouse Cooper, accountants for Tyco, resulting in a \$6 million award to the pension fund, and nearly \$5 million net of attorney fees.

Also in March, the Division filed suit against Lehman Brothers following an investigation by the State Attorney General for fraud and misrepresentations by Lehman that led to the loss of \$118 million in investments with the firm.

The staffing level at the Division – 70 employees -- has remained essentially unchanged since 1984, despite demand for expertise in new asset classes and despite the fact that New Jersey ranks 4th among the 200 largest pension funds in the size assets managed internally.

Some timely work by our Office of Public Finance enabled us to save money even as the market for borrowing was thrown into turmoil.

In September 2008, prior to the federal bailout of AIG, the New Jersey Sports and Exposition Authority issued refunding bonds whose proceeds were used, in part, to terminate a 1992 interest rate swap with AIG. This was executed in a planned rather than a forced way. As a result, a savings of over \$2 million was achieved.

In addition, the State's annual cash flow borrowing was completed on September 11, 2008, which was just prior to the onset of a severe disruption in the financial markets. From September 15, 2008, through October 2008, the bond markets were effectively closed to new bond issuance. Neither the State, nor the Independent Authorities which issue State Appropriation Bonds, needed to issue bonds during this period, therefore no impact on the State's capital construction spending was experienced.

As you are probably aware, New Jersey is again taking pro-active steps to avert any potential disruption that would delay a note sale. We are currently reviewing responses to an RFP to establish a cash flow facility.

Our goal is to solicit ideas so that we can weigh options for ensuring continuity in the functions of government should the need arise.

Our expectation is that these options would yield a substitute in size, cost and structure for a note sale until such time as a note sale could be transacted.

Also, during the first two months of FY09, the Office of Public Finance completed the last of the auction rate bond restructurings. The aggregate debt service savings across all restructured auction rate bond programs was over \$40 million dollars.

In closing, I would like to add that the type of streamlining and belt-tightening taking place in the Treasury Department is also happening in every department and agency of State government. We are working together to address the serious and significant challenges facing us as we go through the FY10 budget process.

As Governor Corzine said last week, as the effects of the recession progressed, our resolve to maintain balance in the budget was tested, and we responded each time by making tough but necessary choices. We continue to make these choices and make good on our constitutional obligation for a balanced budget.

At this time, I would welcome questions from the committee.