Employee Health Benefits

DISCUSSION POINT 1

State Health Benefits Program and School Employees’ Health Benefits Program Renewal Rate.

The approved 2010 Plan Year Rate Renewal Recommendation Report for the School Employees’ Health Benefits Plan (SEHBP) indicates that school employees’ health care benefit costs are projected to increase by 23 percent in 2010. At the same time the approved 2010 Plan Year Rate Renewal Recommendation Report for the local governments participating in the State Health Benefits Program (SHBP) indicates that the local government employees’ health care benefit costs are projected to increase by 18 percent in 2010. In May 2009, former Governor Corzine ordered the State Health Benefits Commission and the School Employees’ Health Benefits Commission to review ways to prevent these increases in the future. Members in the SEHBP have lower co-pays ($10 instead of $15 per office visit) and more out-of-network coverage than other public employees in the SHBP.

QUESTION 1

What is the status of these two reviews? Have they been completed? If so, what are the findings? Please provide copies of the reports.

ANSWER 1

The Division of Pensions and Benefits and the health care consultant continually offer suggestions to mitigate the increases in the cost of healthcare. Some of these suggestions can be found in the 2010 Rate Renewal Report and will also be included in the 2011 report currently being developed. The 2010 Rate Renewal Report is available on the Division’s website, http://www.state.nj.us/treasury/pensions/shbp-rate-renewal.shtml.

DISCUSSION POINT 2

According to a May 2009 Star Ledger article, “Last year the State used $45 million to reduce premiums for school districts and $28 million for other public employers. Mr. Fred Beaver, Director of the Division of Pensions and Benefits in the Department of the Treasury, today said the system has been strained further by higher numbers of insurance claims and late payments from school districts.” He also said, “it’s important to treat this like a real insurance plan and hold districts accountable for late payments.” In addition, the Star Ledger reported that “premium increases have previously been kept in the single digits by using funds reserved for paying larger-than-expected insurance claims.”
QUESTION 2

Are school districts and local governments delaying premium payments? If so, what is the magnitude of the delinquent premium payments? Please explain the fiscal impact of the delay of the premium payments on the program and the State. Please provide the total year-end outstanding premium payments by schools and local governments over the past five years.

ANSWER 2

By law new local government and local education participating employers in the SHBP and the SEHBP may elect to delay making their initial premium payments for either 30 or 60 days. The impact of this is that claims will be incurred from these new employers prior to their first month or two of payments being received. However, the employer is ultimately responsible for the delayed payments and is required to make the payments when they leave one of the programs. The following chart reflects the number of new employers enrolling in the plans in FY 2009 and the number that chose to take advantage of the premium delay.

| Total New Local Government Employers Effective FY 2009 | 39 |
| Local Government Employers 30 Day Delayed Premium Effective FY 2009 | 6 |
| Local Government Employers 60 Day Delayed Premium Effective FY 2009 | 14 |

| Total New Local Education Employers Effective FY 2009 | 48 |
| Local Education Employers 30 Day Delayed Premium Effective FY 2009 | 8 |
| Local Education Employers 60 Day Delayed Premium Effective FY 2009 | 8 |

The following chart provides the year-end delinquent outstanding premium payments by schools and local governments over the past five years. These amounts do not include the premium delay amounts because those payments are not considered delinquent because the delay is authorized by law.

| Local Government Other | |
| Employer Contributions Receivable Health Benefits | $40,286,596 | $40,331,831 | $40,289,876 | $36,728,677 | $39,470,078 |
| Employer Contributions Receivable Prescription Drug | $4,675,499 | $5,099,866 | $4,540,873 | $4,764,395 | $6,277,772 |
| Local Education | |
| Employer Contributions Receivable Health Benefits | $36,674,369 | $42,596,219 | $34,496,607 | $31,038,366 | $33,932,513 |
| Employer Contributions Receivable Prescription Drug | $2,629,407 | $3,049,814 | $896,329 | $964,993 | $1,667,929 |
DISCUSSION POINT 3

P.L.2010, c.3 eliminates the Sick Leave Injury (SLI) program. This program was created legislatively in 1930 to provide compensation to State workers who were injured at work. State employees were not eligible for workers’ compensation benefits until 1944. SLI benefits applied to full and part-time State employees in the career, senior executive, and unclassified services.

QUESTION 3

What are the estimated savings associated with the elimination of the Sick Leave Injury program? How will the elimination of the Sick Leave Injury program affect the Workers’ Compensation program? Will workers’ compensation claims and costs increase? If so, by how much?

ANSWER 3

The financial impact of the elimination of SLI is hard to assess. SLI costs for FY 09 were approximately $15.3 million. Estimated savings, assuming no change in other variables, could be 30%.

Elimination of the SLI program will transfer costs of absences due to injury to the Worker’s Compensation program for the payment of Temporary Compensation. This cost is calculated at 70% of an employee’s salary up a maximum rate that is in effect for that year (for example, the 2010 maximum rate is $794 per week). Employees earning approximately $1,100 or more per week will cap at the maximum rate.

The number of overall claims should not increase, but elimination of SLI could encourage employees to return to work sooner. Under the current system (SLI), workers have no financial incentive to return to work because SLI compensates at 100%. The costs will transfer from the salary accounts of the agencies to the Workers’ Compensation account. Increased cost resulting from the termination of SLI to the Workers’ Compensation account could be approximately $10.7 million (70% of the $15.3 million paid in SLI for FY09). This still results in a net savings to the state of $4.6 million differential between SLI and Worker’s Compensation costs.

DISCUSSION POINT 4.a.

Pharmacy Benefits Manager Contract

Beginning January 1, 2010, Medco Health Solutions, Inc. (Medco) assumed management of the prescription drug benefit plan parts of the State Health Benefits Program (SHBP) and the School Employees’ Health Benefits Program (SEHBP). Administrative services for these plans were previously provided by Horizon Blue Cross Blue Shield of New Jersey through its subcontractor CVS/Caremark. The contract for pharmacy benefit management (PBM) was awarded to Medco of Franklin Lakes, New Jersey, in August of 2009, following a competitive process pursuant to a March 2009 Request for Proposal (RFP) by the Purchase Bureau in the Department of the Treasury. Medco submitted the bid that
received the highest technical score with the lowest cost. The projected value of the Medco contract is $5.8 billion over a five-year period with an option to extend the contract for an additional two years. This contract projects savings of $559 million compared to the former contract.

**QUESTION 4A**

What is the distribution of the PBM contract savings between the State and local governments? Are there any escalator or escape clauses in the contract? If so, please describe the terms and conditions of the clauses.

**ANSWER 4A**

Approximately two-thirds of the savings will accrue to the State, while the remainder will accrue to local government and education employers in the State health plans. The PBM contract does not contain an escalator clause; however, it does contain an escape clause vis-a-vis the termination for convenience language in the State's Standard Terms and Conditions, a part of the PBM contract, excerpted in pertinent part below.

Notwithstanding any provision or language in this contract to the contrary, the Director may terminate at any time, in whole or in part, any contract entered into as a result of this Request for Proposal for the convenience of the State, upon no less than 30 days written notice to the contractor.

**DISCUSSION POINT 4B**

The State contract was based on a pass-through pricing model in which the PBM passes the exact same costs to the State as to retail pharmacies but will charge higher administrative costs to make up for that difference, as opposed to a traditional pricing model in which the PBM will pay the pharmacy one amount but will charge its client another, usually higher amount, without charging higher administrative fees.

**QUESTION 4B**

What was Medco’s best and final offer under the traditional pricing arrangement? How does Medco’s best and final offer under pass-through pricing compare to Medco’s best and final offer under traditional pricing in each of the five pricing channels: retail, mail, specialty, rebate, and administrative, as referred to on page 41 of the Award Recommendation?

**ANSWER 4B**

Medco’s best and final offer (BAFO) under the traditional pricing arrangement was $5,820,443,000, while Medco’s BAFO under the transparent, pass-through pricing arrangement was $5,804,232,000. Given that there was no contemplation of awarding multiple contracts based upon pricing/savings individually for each of the five pricing...
channels (retail, mail, specialty, rebate and administrative), the cost analysis did not portray costs in that manner. Rather, the cost analysis underlying the State's decision to award the PBM contract to Medco was built upon a comprehensive view from both the transparent, pass-through and traditional models. Over the five-year term of the PBM contract, it is estimated that traditional pricing would have resulted in $542,666,000 savings while the transparent, pass-through pricing yields $558,877,000 in savings.

**DISCUSSION POINT 4C**

The bid evaluation process consisted of two components, an evaluation of the cost of each bidder’s proposal and a technical analysis of the services and capabilities of each bidder. The cost component and the technical component were weighted equally toward the total score. Medco submitted the lowest price and received the highest technical score. Each bidder was evaluated on eight technical components: network access/pharmacy distribution channels, clinical capabilities, member and client management services/programs, technology systems/capabilities, claim management services/quality control, financial, implementation/implementation capabilities, and organizational support and experience.

<table>
<thead>
<tr>
<th>Technical Evaluation Scores</th>
<th>Max Points Available</th>
<th>Catalyst</th>
<th>Express Scripts</th>
<th>Horizon</th>
<th>Medco</th>
</tr>
</thead>
<tbody>
<tr>
<td>Network access/pharmacy distribution channels</td>
<td>1,050</td>
<td>862</td>
<td>851</td>
<td>898</td>
<td>952</td>
</tr>
<tr>
<td>Clinical capabilities</td>
<td>1,050</td>
<td>877</td>
<td>870</td>
<td>865</td>
<td>952</td>
</tr>
<tr>
<td>Member and client managements and client services/programs</td>
<td>1,225</td>
<td>1,058</td>
<td>1,015</td>
<td>978</td>
<td>1,065</td>
</tr>
<tr>
<td>Technology systems/capabilities</td>
<td>700</td>
<td>573</td>
<td>567</td>
<td>553</td>
<td>583</td>
</tr>
<tr>
<td>Claim management services/quality control</td>
<td>1,050</td>
<td>836</td>
<td>692</td>
<td>827</td>
<td>885</td>
</tr>
<tr>
<td>Financial</td>
<td>525</td>
<td>439</td>
<td>466</td>
<td>428</td>
<td>455</td>
</tr>
<tr>
<td>Implementation/implementation capabilities</td>
<td>525</td>
<td>471</td>
<td>408</td>
<td>440</td>
<td>460</td>
</tr>
<tr>
<td>Organizational support and experience</td>
<td>875</td>
<td>751</td>
<td>768</td>
<td>718</td>
<td>778</td>
</tr>
<tr>
<td>Total</td>
<td>7,000</td>
<td>5,867</td>
<td>5,637</td>
<td>5,707</td>
<td>6,130</td>
</tr>
</tbody>
</table>

Source: Department of the Treasury, Purchase Bureau Award Recommendation.

According to the Evaluation Committee, “the Committee observed that all four bids subjected to a detailed analysis offered notable, positive attributes – some more than others. Admittedly, the differences in technical scoring among the four bidders were not remarkable.”
QUESTION 4C

Please describe what “notable, positive attributes,” in each of the eight categories, earned Medco the highest technical score.

ANSWER 4C

Some of the notable attributes from Medco's bid proposal are not provided below inasmuch as they contain protected information that is proprietary, confidential, and/or a trade secret and as such are afforded protections from public disclosure.

Network Access / Pharmacy Distribution Channels

- Medco provides 100% of employees and more than 99.6% of retirees with access to a participating network pharmacy within 10 miles of their home zip code. In addition, more than 82.1% of employees and more than 79.1% of retirees are located within 1.5 miles of a participating network pharmacy.

- Network pharmacies are re-credentialed every year; Medco requires contracted pharmacies to complete a provider verification form affirming all of the attributes identified in the initial application. Additional information is gathered including primary practice setting of the pharmacy, verbal commitment to the amount of liability coverage required by Medco, and the online pharmacy software vendor the pharmacy will be utilizing.

- For prescription medication and related products not covered under the State’s existing pharmacy benefit, Medco makes discounted pricing available through mail order as a potential cost savings and convenience to members.

- Medco operates nine (9) mail-order pharmacies consisting of administrative processing, therapeutic resource centers and dispensing facilities. The facilities are located in New Jersey, Ohio (two), Nevada, Texas, Florida, Washington, Virginia and Pennsylvania. A tenth facility is being built in Indiana. The ability for prescriptions to be processed at one of several facilities throughout the country, should the primary facility be unavailable, is advantageous in the event of a natural disaster.

- Medco’s mail order pharmacy will extend credit to participants who do not include a copayment with an order. Its standard credit limit is $100. If the total of the order and any outstanding balance does not exceed this limit, the order is filled without delay and the member receives a bill for the copayment amount due. Should an order exceed the credit limit, the member is contacted to request payment for their order.

- Medco’s dispensing accuracy levels and quality assurance policies are notable.
Clinical Capabilities

- Medco’s Pharmacy Report Card and Physician Prescribing Report are useful tools in modifying pharmacy and physician behavior and improving member outcomes.

- Medco’s medical integration program to date is nearly 20 million lives. Medco’s ability to track individuals as opposed to subscribers is also significant because it follows the member, not an ID number, thus providing continuity of care. This indicates Medco’s experience in integrating prescription drug with medical data.

- The involvement of a Clinical Account Executive as an integral part of the Account Team is impressive because it allows for direct interaction between the Division and the individual responsible for the critical clinical programs in the plan.

- Medco’s suite of generic utilization programs to encourage increased member use of generics and the details provided for each program was impressive.

- Medco’s physician outreach programs educate physicians in the most cost effective use of prescription drugs in positive outcomes for members. These services include Physician Consultation Services; Generic Launch Notifications; Therapeutic Interchange; Physician Practice Summaries; e-Prescribing Tools where physicians are shown generic substitution opportunities at the point of prescribing; and, Formulary Education Programs. The proactive nature of these programs is viewed as a value to the members.

- Medco’s member-centric communication programs were considered robust and provided members with needed information concerning new prescription drug launches.

- Medco’s generic dispensing rate guarantee significantly exceeded the State’s requested 1% per year guarantee.

Member and Client Management Services / Programs

- Medco had a dedicated Implementation Manager, an Installation Director, Installation Coordinator, and dedicated Communication Specialist. Medco’s account team showed an understanding of the enormity of the transition to a new vendor as well as its commitment to a smooth transition.

- Additional tools available to the State in the utilization of the prescription drug plan were impressive. The client website provides numerous tools for the State to utilize in its management of the plan. Also noteworthy were the member tools available on the member website. Two (2) of the tools outlined, My Rx Choice and Consumer Reports Best Buy Drug Recommendations, assist members in their drug buying decisions.
Technology / Systems Capabilities

- Medco offers registered users the convenience of printing temporary ID cards from the web.

Claim Management Services and Quality Control

- Use of a single system – TelePAID – for both eligibility and claims processing will minimize claims processing errors.

- Medco’s fraud detection capabilities are comprehensive. Medco uses automated auditing tools, trained staff and automated fraud detection programs. In addition, each quarter, 100% of participating pharmacies are subjected to analysis through the fraud detection programs. Medco's mail order pharmacists attend annual training sessions on the detection of prescription fraud. Medco’s investigators and analysts receive ongoing training and are experienced with pharmacy benefit fraud investigations, criminal proceedings, and pharmacy operations.

- Medco employs a team of 18 individuals dedicated to assisting clients and their auditors throughout the audit process. Medco's team has cooperated with approximately 500 client audits in a single year, making the team well experienced.

Financial

- Retail prescriptions not picked up at the retail pharmacy may be reversed out of the claims processing system for up to 30 days after transmission by the retail pharmacy. Medco also monitors return to stock. Medco’s monitoring and auditing of pharmacy reversals for potential return to stock through Medco’s Retail Pharmacy Audit program is a benefit that may help to promote pharmacy compliance thereby maintaining lower costs.

Implementation and Implementation Capabilities

- Medco’s bid conveyed its understanding of the critical nature of both member understanding and minimizing member inconvenience toward a smooth transition from the prior PBM contract.

- Medco's plan for Division staff training was both detailed and thorough. It includes a group of technical trainers specifically dedicated to training clients offer both on-site training and live train-the-trainer sessions; web-based training; and, "live" training provided through a web-enabled facility.

Organizational Support and Experience

- Medco’s financial capability is strong. The bidder's financial health appeared viable and sufficient to undertake the State's contract.
DISCUSSION POINT 4D

In the Governor's FY 2010 budget reduction list entitled, Rebuilding New Jersey, additional savings of $12 million were identified as savings “beyond previous estimates.”

QUESTION 4D

Please explain why the PBM contract is expected to save an additional $12 million beyond previous estimates.

ANSWER 4D

At the time that the fiscal 2010 budget was developed, the PBM contract had not been awarded. Pensions and Benefits actuarial consultants estimated general savings based on a contract award. Once awarded, the actuaries had specific contract terms to update projections and there is now $12 million in additional savings that is available to lapse.

DISCUSSION POINT 5A

Dependent Eligibility Verification Audit

In January 2009, Aon Consulting, the State Health Benefits Program/School Employees’ Health Benefits Program (SHBP/SEHBP) health benefits consultant retained by the Department of the Treasury, began a Dependent Eligibility Verification Audit (DEVA). The DEVA requires every subscriber in the SHBP/SEHBP to provide legal documentation verifying a dependent’s relationship to the subscriber and eligibility as a dependent. According to the Division of Pensions and Benefits in its responses to the FY 2010 Discussion Points, Aon projected that 15,000 to 20,000 SHBP/SEHBP dependents would be found to be ineligible at a cost savings of approximately $1,500 per year per dependent, or $22.5 million to $30 million.

QUESTION 5A

What is the status of the audit? Please provide preliminary or final results of the audit. What is the current estimate or final findings with regard to the number of ineligible dependents who were enrolled in SHBP/SEHBP? What are the estimated savings to the SHBP/SEHBP as a result of no longer paying benefits for ineligible dependents? Are these savings estimates reflected in the FY 2011 SHBP/SEHBP funding? Do these savings accrue to the overall system or to individual employers? What was the distribution of the number of ineligible dependents and associated savings between local and State employers? Will reimbursement be required from subscribers that were found to have ineligible dependents of costs of services provided to those dependents? If so, what is the estimated amount of reimbursement? If not, why not?
ANSWER 5A

Phase one of the audit, which involved State employees and retirees, was completed in December, 2009. Phase two of the audit, which involves employees and retirees of participating local government and education employers, is ongoing and will be completed by July 1, 2010. In phase one, there were 5,335 dependents who through audit responses were declared ineligible for coverage. In addition, 7,576 were categorized ineligible because employees either did not respond to the audit or supplied insufficient documentation to prove their dependents were eligible for coverage. Therefore a total of 12,911 dependents were terminated from coverage. The estimated annual savings to the Program as a result of phase one is approximately $19 million. As of April 23, 2010, 4,400 dependents declared themselves ineligible for coverage in phase two. The estimated cost savings for this group is approximately $6.5 million. In order to encourage self identification of ineligible dependents, amnesty was afforded to those individuals who identified ineligible dependents. Therefore no attempt has been made to seek reimbursement from these individuals.

DISCUSSION POINT 5B

Pursuant to the audit procedures, non-compliance by subscribers resulted in the termination of benefits for unverified dependents.

QUESTION 5B

Were subscribers able to have their dependents' benefits reinstated if they ultimately complied with the audit requirements? If so, what were the procedures to do so?

ANSWER 5B

Members who received termination of coverage notices could appeal that decision within 60 days of the notification by submitting proper documentation to the Division proving their dependent's eligibility, pursuant to the NJAC 17:9-3.3. If successful, the coverage was reinstated to the date of termination. Members appealing the termination after the 60 day period, if successful, had dependent coverage reinstated timely (i.e. approximately 2 months after receipt of proper documentation).

Property Rentals

DISCUSSION POINT 6A

The Division of Property Management and Construction (DPMC) procures and administers leases for the Legislative and Judicial branches upon request. The DPMC manages 322 leases Statewide comprising 8.8 million square feet of space, not including land or storage space. Approximately 7.8 million square feet is office space. The remaining one
million square feet of space includes police barracks, unemployment offices, motor vehicle agencies and inspection stations, courtrooms, and lab space. The DPMC has 7.5 full-time staff, including four administrative assistants who oversee the procurement, advertising, competitive bidding, selection process, and presentation to the State Leasing and Space Utilization Committee, five staff who monitor lease compliance, and three staff assigned to Space Master Planning who prepare strategic requests for proposals (RFPs), and work on consolidations and agency coordination.

**QUESTION 6A**

What are the current issues and problems with leasing efforts for the departments and the different types of leases they enter into and how are those problems being addressed? What measures are used to evaluate the cost effectiveness of different types of leases? What costs (in general) are imbedded in different types of lease payments? How much storage space is leased, for what agencies and for what purposes?

**ANSWER 6A**

DPMC confronts multiple needs for security and proximity to properly accomplish using agency’s function/mission. To address these issues, DPMC uses applicable guidelines, metrics and common sense practices in order to drive the most cost effective lease terms. Another current issue is the shrinking of State Government due to attrition and agency changes. To address this dynamic, DPMC distributed to agencies a list of each of their Month to Month leases and leases terminating through 2011 requesting detailed information on plans, prospective changes and potential effects on space. Meetings with the agencies will be set up to discuss all space issues. Upon completion, DPMC hopes to have the needed information to coordinate space moves and vacates between departments to maximize savings and efficiencies.

Cost effectiveness of leases are evaluated based on comparable market leases, leases within the State’s portfolio, and applicable internal metrics. Costs included in lease payments would be base rent, utilities, taxes, security, janitorial and other maintenance costs, tenant fit-out, parking and other operational costs, etc. In certain leases, some of the costs are paid directly by the State such as utilities, janitorial and security.

As of February 1, 2010 the State had 238,256 s.f. of leased space classified as “storage.” There is 49,623 s.f. of space listed as storage in conjunction with 1,070,000 s.f. of office space in 18 leases, to support functions of State Police Barracks, Environmental Response Units, Judiciary support functions and large consolidated buildings. This space is at a price of between $3-8/sf.

There are 5 leases solely for Storage totaling 188,633sf.

**Lease 4457, 121 First Ave, Hamilton, 112,653sf at $4.30/sf**
LPS-Central Criminal Justice Evidence repository
LPS-record/file storage (in process of vacating)
JUD - Central Court IT storage and Distribution
JUD - record storage (in process of vacating)
TRE - Surplus IT equipment Reuse/Disposal; Surplus Furniture Refurbishment/Reuse;
Taxation forms and envelopes
CSC - test apparatus for Fireman’s exam
AGR - Carpenter Shop and equipment

Lease 4458 - 70 Washington Road, W Windsor, 15,038sf @ $8.50/sf
OLS furniture/records storage, State/Legislative materials
(This site will be vacated and consolidated into lease 4457 on 8/1/2010)

Lease 4277-1600 Olden Ave, Trenton, 26,512sf @ $8.50/sf
MVC supplies/forms, IT equipment and maintenance equipment
(This lease, upon termination 1/1/2013, will be combined with Lease 3671 in a multi-
department Forms/Brochure Distribution Facility at the former Document Control
Center on Carroll St, an owned building.)

Lease 3671-171 Jersey St, Trenton, 34,430sf @ $3.50/sf
DOL supplies, forms, printed material, and IT equipment
DCF supplies, forms and printed material
(This lease will be reduced in size by 12,500sf in January of 2011, and will be
vacated to the Proposed Forms/Brochure Distribution Facility at Carroll St in Fiscal
2012.)

DISCUSSION POINT 6B

According to the Asbury Park Press in August 2008, the State was losing money in
leasing its property to others. Specific problem areas identified in the article included rent
collection and lease monitoring and management. For example, delinquent payments on the
part of the lessees were never collected by the State, rent increases were not imposed as the
value of the land or space increased, and leases were not managed and accounted for. Some
departments did not know how many or what types of leases were outstanding.

QUESTION 6B

Have steps been taken to ensure rents are collected, appropriate rent levels are
established, and leases are accounted for and monitored? Please elaborate. How much land
is leased by the State as lessor, for what purposes, and to whom? Does the State lease land
for pipeline purposes? If so, to whom, how much land, at what price, and for what pipeline
purposes is the land leased?

ANSWER 6B

In responding to the questions posed, the Department of the Treasury has reviewed
the Asbury Park Press article dated August 3, 2008 (Attachment A). Upon review, it is noted
that the article is directed towards other transactions as opposed to transactions handled by the Department of the Treasury.

In 1993, the Department of the Treasury entered into a Memorandum of Understanding with the Department of Environmental Protection ("DEP") for the management of DEP residential leases in DEP’s parks, fish and game, and water supply properties.

In 1993 there were approximately 90 residential leases. Currently there are 42 leases. Many of the houses have been demolished due to their deteriorated condition or to return the areas to their natural state. These leased properties consist of single family residences located on approximately 1 acre of land. Some of the tenants are the original owners of the properties and other properties are leased to the general public.

When Treasury took over the management of these leases, each property was visited by a Treasury Property Manager. The rents were set at the current fair market value and the leases were presented to the State House Commission for approval. The leases are for a term of one (1) year, with four (4), one (1) year renewal options with annual increases based on the Consumer Price Index as set by the Residential Housing Management Board. The lease requires the tenants to be responsible for repairs and maintenance up to $500, as well as maintaining insurance on the properties, with the State named as additional insured. The tenants are required to submit a certificate of insurance annually. The lease also requires that any rent received after the 15th of the month is assessed a $100 late fee. At the end of the renewal options, the leases are again presented to the State House Commission for approval. These leases are reviewed and approved by a Deputy Attorney General. In May of 2006, the Department of the Treasury ordered an appraisal of all of the leases to determine if the rents being charged were at fair market value. Since then, any rents that were determined to be under fair market value have been raised approximately 10 percent per year until the rents were at the appraised value. Currently, Treasury is in the process of updating the appraisals of all of the rental properties to ensure the current fair market value rent.

The tenants are required to send their rent payments directly to the Department of the Treasury, where they are logged in, deposited and monitored. At the end of each month the rent accounts are reviewed to determine if any tenant is in arrears. A letter is sent to a tenant determined to be in arrears. The letter states that continued late rent is a violation of the lease and grounds for eviction. An eviction notice is filed for any tenant that is 3 months in arrears. The property manager will then attend an eviction hearing with a Deputy Attorney General. At the hearing, either a payment schedule is agreed upon or the tenant is evicted. All of the properties are inspected annually by a property manager. The purpose of these inspections is to determine if the properties are being properly maintained by the tenants and to ensure there are no life, health or safety issues. The property manager also manages all tenant problems and complaints and arranges for required maintenance for issues over the $500 threshold.

The Department of the Treasury does not lease land for pipeline purposes.
DISCUSSION POINT 6C

Previous State Auditor reports have identified three areas of concern regarding lease management. In 2006, the State Auditor indicated that the “timeframe to obtain a lease through an advertised bid process exceeds two years.” The Auditor’s report suggested that the “extended timeframe could adversely impact property availability, undermine the competitive bid process, and affect final negotiated lease rates...the division’s timeline estimates that this portion of the process should take less than two months.”

QUESTION 6C

Has the DPMC been able to reduce its timeframe to obtain a lease through an advertised bid process? Why or why not? If the timeframe has been reduced, how long does it currently take to obtain a lease through an advertised bid process? What are the costs associated with delays in obtaining leases?

ANSWER 6C

DPMC has been able to reduce its timeframe to obtain a lease through an advertised bid process because of compressed scheduling.

DPMC’s rough timeframe for an advertised procurement (in conformance with applicable statutes and regulations) is approximately 13 months. This includes 8 months for planning, programming, advertisement and award prior to Space Utilization Committee approval and 5 months thereafter for final negotiations, fit-out, lease execution, and move-in. The SLSUC meets only twice a year, despite our requests for more frequent meetings, so the 13 months is typically extended by one to six months. Some landlords build into their costs the risk of delay associated with the statutory processes and lengthy approval process.

DISCUSSION POINT 6D

The State Auditor also indicated that the DPMC should institute a reporting format to track space utilization. NJAC 17:11-3.1 requires State agencies to report the capacity and utilization of all space owned, leased, and subleased. At the time there had been no reporting format available for agencies to use to comply with the requirement and because of this, the DPMC did not have enough information to identify underutilized properties. In its response to the State Auditor, the DPMC reported that it funded a project by the Office of Information Technology “to track all the people by location through the payroll system ... it will allow for headcount (based on payroll checks delivered) in all of our buildings. This number, cross-referenced against the full occupancy totals that the DPMC has, will give us a fairly good idea of underutilized properties.”

14
QUESTION 6D

Does the DPMC currently have a reporting format to track space utilization? If so, does it provide useful utilization information and is it in compliance with NJAC 17:11-3.1?

ANSWER 6D

DPMC, in a cooperative program with OMB, utilizes the Land Building Asset Management (LBAM) program set up by OMB. Though not specifically a lease management tool, it provides certain annual updates on staffing levels at all leases along with owned sites as well. DPMC utilizes this system to identify space usage below the state standard for consolidation reduction opportunities. Periodic audits by DPMC staff and periodic meetings with agency representatives supplement system data.

DISCUSSION POINT 6E

The State Auditor recommended that the DPMC should continue to reduce the use of month to month leases. According to the Auditor’s report, month-to-month leases represent expired term leases and these types of leases increase the potential for eviction and unanticipated rate increases. In its response to the State Auditor’s report, the DPMC reported that it will “continue to reduce its portfolio of month-to-month leases. Our ability to do so depends in large measure on policy driven initiatives not within the DPMC’s control and client agencies’ development and implementation of their long range plans. Uncertainty about layoffs, ERI’s, reorganizations, etc., can make it hard for agencies to plan their space needs relative to personnel, geography, and agency functional need. Month-to-month leases provide the flexibility to move out on short notice pending the receipt of a long range plan.”

QUESTION 6E

Please provide an update on the use of month-to-month leases. Please discuss how recent workforce reduction initiatives have affected the State’s space utilization plan and portfolio of month-to-month leases.

ANSWER 6E

In general, month to month leases (in a time of reducing workforce) allows DPMC to react to space becoming available in owned and “magnet” leased space for consolidation and closing these sites. Within the last 18 months, DPMC has closed 36 leases which were either M to M or had just reached their end of term. These leases were not replaced with new leases. This resulted in a reduction of 334,836 sq ft of leased space and savings in rent alone of $5,210,000. Overall our M to M portfolio tends to be at the low end of the rental scale, and in this market, the risk that a lessor will either increase the rent or seek to evict is very low.
Salary Increases and Other Benefits

DISCUSSION POINT 7

State employee compensation represents a significant portion of State operating expenditures. The FY 2011 Budget reflects $133.8 million for compensation increases that accrue in FY 2011 for the portion of the State workforce considered “State funded,” i.e., not funded by federal or dedicated revenues. Factors influencing this recommended funding level include a 3.5 percent cost-of-living adjustment (COLA) on July 1, 2010, the annualized impact of the mid FY 2011 restoration of the three percent July 1, 2009 COLA that was deferred in accordance with Memorandums of Agreement negotiated with some unions representing State employees during last year’s budget process, and step increments. Recommended funding levels may assume the availability of unexpended prior year balances.

QUESTION 7

Please itemize, by branch, the specific components of change that make up the recommended $133.8 million for Salary Increases, e.g., deferred COLA, new COLA, step increments. What amount of carryforward balances, if any, is needed to supplement the recommended appropriation to fully fund COLA and increments in FY 2011?

ANSWER 7

The $133.8 million fiscal 2011 recommendation for Salary increases is net of $50 million in anticipated privatization savings. The recommendation prior to this reduction is $183.8 million. This amount consists of $174.5 million for the Executive Branch, $7.3 million for the Judiciary and $2 million for the Legislature. Prior to a $6 million reduction for attrition and other employee actions, the Executive Branch need consisted of $87.2 million for the fiscal 2011 COLA, $40 million for increments, $30.9 million for the deferred COLA, and $22.4 million for a restoration to base for the utilization of carry forward balances in fiscal 2010. Prior to a $39 million reduction for its projected efficiencies, the Judiciary’s need consisted of $15.9 million for the fiscal 2011 COLA, $16 million for progression payments, $7.1 million for the deferred COLA, and $7.3 million for a restoration to base for the utilization of carry forward balances in fiscal 2010. The Legislature’s need consists of $1.3 million for the fiscal 2011 COLA and $678,000 for the deferred COLA. No amount is needed from carry forward balances to fund fiscal 2011 COLA and increments. There are some labor contracts that remain unsettled. A determination of the amounts needed from carry forward balances will not be available until the contracts are settled. These amounts will fund any retroactive payments as negotiated.
DISCUSSION POINT 8

In recent years the State has used cash flow borrowing, in the form of tax and revenue anticipation notes (TRANS), to meet its cash flow needs in the early part of the fiscal year, when cash spending outpaces cash collections. This situation largely results from the need to expend significant sums on local aid and direct property tax relief in the first two fiscal quarters of the year, before major tax collections are received in the last two quarters of the year. TheFY 2011 Governor’s Budget proposes an appropriation of $14 million for interest on short term notes (page D-446), a decrease of $10 million below the FY 2010 adjusted appropriation of $24 million for this purpose. Thus far in FY 2010, the State has issued $22.5 billion in TRANS to meet cash flow needs. Interest costs on these notes will total about $47 million which will be offset by original issue premiums of $36.7 million. Thus, the net interest cost will total approximately $10.3 million.

QUESTION 8

What projections of FY 2011 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 to recommended an appropriation of $14 million in FY 2011? Based on these assumptions, what amount of investment earnings, if any will be required to fully fund short-term borrowing interest costs? What percentage of total estimated investment earnings does that amount represent?

ANSWER 8

The State issued $2.25 billion of TRANS in FY 2010 and not $22.5 billion as stated in the question. Very preliminary estimates are a TRANS of $1.8 billion for FY 2011 with issuance in early September 2010. Total interest costs are estimated at $37 million with net interest cost of $6 million. A coupon rate of 2.5% and a yield of .4% were assumed. There will be no investment earnings available to offset the cost. The appropriation recommendation of $14 million included an estimate for banking services since there will also be insufficient investment earnings to fully fund that cost. The Administration will be submitting a resolution to reduce the interest on short term notes with an offset to reflect the need for a banking service appropriation.

Pensions

DISCUSSION POINT 9

The FY 2011 Governor’s Budget does not recommend any funding for State contributions to the defined benefit State-administered retirement systems. According to the actuarial valuations, the annually required contribution for FY 2011 for all systems combined is $3.058 billion. By not making any contribution to the defined benefits pension systems,
except for the required non-contributory insurance amounts, in FY 2011, the actuaries estimated that the annually required contribution will increase to $3.477 billion in FY 2012, an increase of $417 million, or 13.6 percent.

<table>
<thead>
<tr>
<th>Retirement System</th>
<th>FY 2011 Actuarially Required Contribution</th>
<th>FY 2011 Recommended Appropriation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public Employees’ Retirement System-State (PERS)</td>
<td>$ 754,168,635</td>
<td>$0</td>
</tr>
<tr>
<td>Police and Firemen’s Retirement System–State (PFRS)</td>
<td>$ 339,480,900</td>
<td>$0</td>
</tr>
<tr>
<td>State Police Retirement System (SPRS)</td>
<td>$ 103,745,281</td>
<td>$0</td>
</tr>
<tr>
<td>Judicial Retirement System (JRS)</td>
<td>$ 34,653,737</td>
<td>$0</td>
</tr>
<tr>
<td>Teachers’ Pension and Annuity Fund (TPAF)</td>
<td>$1,826,722,370</td>
<td>$0</td>
</tr>
<tr>
<td>Prison Officers Pension Fund (POPF)</td>
<td>$0</td>
<td>$0</td>
</tr>
<tr>
<td>Consolidate Police and Firemen’s Pension Fund (CPFPF)</td>
<td>$ 147,067</td>
<td>$0</td>
</tr>
<tr>
<td>Totals–State</td>
<td>$3,058,917,990</td>
<td>$0</td>
</tr>
</tbody>
</table>

According to the Division of Pensions and Benefits in the Department of the Treasury, the FY 2011 aggregate unfunded pension liability increased to $45.8 billion reducing the funded ratio to 66.1 percent from 72.6 percent a year earlier. The total actuarial liability of the systems is $134.8 billion. In response to the magnitude of the unfunded liability of the State’s pension system, P.L.2010, c.1 was enacted. It makes various changes to the pension systems. In particular, this law requires the State to make its annual contributions (as specified) and makes other changes concerning eligibility, the retirement allowance formula, the definition of compensation, positions eligible for service credit, non-forfeitable rights, the elimination of the prosecutors part of the PERS, and PFRS special retirement.

**QUESTION 9**

How will the State’s annually required contributions increase beyond 2012 if the State does not make a payment in FY 2011? If the State makes no further contributions to the system, but the employees continue to contribute at the current employee contribution rate, when will the State’s pension systems no longer be able to fund the State’s obligations to its retirees? How will the State’s annually required contribution change from FY 2012 to FY 2026 if the State starts making the minimum payment required under Section 39 of P.L.2010, c.1? If the State makes its annually required contributions under P.L.2010, c.1, how will this affect the aggregate funded ratio of the pension systems?
To the extent the State does not make its actuarially required contribution, the systems’ unfunded liability will increase by the amount of the shortfall dollar for dollar. That additional unfunded liability, starting with the next valuation period, is amortized over 30 years at the assumed rate of return of the retirement systems which is currently 8.25%. This will increase the annual unfunded accrued liability contribution requirement. To illustrate this, the chart below compares the projected amounts, assuming the full FY 2011 contribution is made, versus no FY 2011 contribution being made based on the payment requirements of Section 39 of P.L. 2010 c.1. The legislation calls for 1/7 of the actuarially recommended contribution in FY 2012 increasing by an additional 1/7 each year until reaching the full contribution in FY 2018. Therefore, the amounts reflected for FY 2018 through FY 2026 reflect the full contribution requirement. The variance between the two scenarios reflects how much more the state contribution would be each year if the full contribution is not made in FY 2011.

The following charts show projected state pension contributions from FY 2011 through FY 2026 under two scenarios. The first scenario assumes the State makes the FY 2011 recommended contribution and then makes minimum required contributions thereafter in accordance with Section 39 of P.L. 2010 c.1. The second scenario assumes the State does not make a contribution to the Pension Plans in FY 2011 and then makes minimum required contributions thereafter in accordance with P.L. 2010 c.1. This projection assumes an investment return of 8.25% for all out years.

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>PERS-State</strong></td>
<td>$742.5</td>
<td>$768.2</td>
<td>$797.9</td>
<td>$827.7</td>
<td>$868.7</td>
<td>$912.2</td>
<td>$956.5</td>
<td>$1,002.9</td>
<td>$1,052.7</td>
<td>$1,105.9</td>
<td>$1,161.3</td>
<td>$1,219.4</td>
<td>$1,280.2</td>
<td>$1,343.4</td>
<td>$1,409.3</td>
<td>$1,477.5</td>
</tr>
<tr>
<td><strong>TPAF</strong></td>
<td>1,828.3</td>
<td>1,867.9</td>
<td>1,911.6</td>
<td>1,960.2</td>
<td>2,012.9</td>
<td>2,069.5</td>
<td>2,130.5</td>
<td>2,194.5</td>
<td>2,261.0</td>
<td>2,331.5</td>
<td>2,405.6</td>
<td>2,485.0</td>
<td>2,569.0</td>
<td>2,657.0</td>
<td>2,749.1</td>
<td>2,845.8</td>
</tr>
<tr>
<td><strong>PERS-State</strong></td>
<td>330.5</td>
<td>347.3</td>
<td>365.0</td>
<td>383.7</td>
<td>403.6</td>
<td>425.0</td>
<td>447.4</td>
<td>470.9</td>
<td>495.6</td>
<td>521.3</td>
<td>548.3</td>
<td>577.0</td>
<td>607.0</td>
<td>638.0</td>
<td>671.0</td>
<td>705.8</td>
</tr>
<tr>
<td><strong>SPRS</strong></td>
<td>60.7</td>
<td>63.1</td>
<td>65.5</td>
<td>68.0</td>
<td>70.5</td>
<td>73.1</td>
<td>75.8</td>
<td>78.5</td>
<td>81.3</td>
<td>84.2</td>
<td>87.3</td>
<td>90.6</td>
<td>94.0</td>
<td>97.5</td>
<td>101.0</td>
<td>104.8</td>
</tr>
<tr>
<td><strong>JRS</strong></td>
<td>4.7</td>
<td>5.1</td>
<td>5.5</td>
<td>5.9</td>
<td>6.3</td>
<td>6.8</td>
<td>7.3</td>
<td>7.8</td>
<td>8.3</td>
<td>8.9</td>
<td>9.5</td>
<td>10.2</td>
<td>10.9</td>
<td>11.7</td>
<td>12.5</td>
<td>13.4</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$5,590.4</td>
<td>$5,695.3</td>
<td>$5,794.5</td>
<td>$5,897.2</td>
<td>$6,004.3</td>
<td>$6,116.3</td>
<td>$6,232.7</td>
<td>$6,353.2</td>
<td>$6,480.5</td>
<td>$6,614.1</td>
<td>$6,757.6</td>
<td>$6,908.3</td>
<td>$7,069.1</td>
<td>$7,240.9</td>
<td>$7,424.3</td>
<td>$7,620.1</td>
</tr>
</tbody>
</table>

For the first time in the actuarial valuations of the Retirement Systems dated June 30, 2009, the actuaries included certain information described in the actuarial valuations as “risk measures” in either tabular or textual format for each of the individual Retirement Systems. This information was designed to provide an indicator, described in several of the individual actuarial valuations as a “simplistic measure” of the number of years the assets of the Retirement Systems can cover benefit payments. The benefit payments used in the data are those actually paid out to retirees in the fiscal year ended June 30, 2009 and excludes increases in the number of retirees, future increases in those payments, State, Local and
member contributions and investment income. Differences in the Retirement Systems make the aggregation in a single combined presentation inappropriate. Therefore, the following chart provides this information for each of the Retirement Systems.

### STATE OF NEW JERSEY

#### PENSION FUND RISK MEASURES

**BASED ON ACTUARIAL VALUATIONS AS OF JUNE 30, 2009**

<table>
<thead>
<tr>
<th></th>
<th>Market Value of Pension Assets</th>
<th>Ratio of Assets to Benefit Payments</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Pension Plan</strong></td>
<td><strong>Pension Benefit Payments</strong></td>
<td><strong>Benefit Payments</strong></td>
</tr>
<tr>
<td>State</td>
<td></td>
<td></td>
</tr>
<tr>
<td>PERS</td>
<td>$7,974</td>
<td>$0.972</td>
</tr>
<tr>
<td>TPAF</td>
<td>24,974</td>
<td>2.806</td>
</tr>
<tr>
<td>PFRS</td>
<td>1,743</td>
<td>0.169</td>
</tr>
<tr>
<td>SPRS</td>
<td>1,564</td>
<td>0.129</td>
</tr>
<tr>
<td>JRS</td>
<td>0.262</td>
<td>0.037</td>
</tr>
<tr>
<td>Local</td>
<td></td>
<td></td>
</tr>
<tr>
<td>PERS</td>
<td>$13,395</td>
<td>$1.229</td>
</tr>
<tr>
<td>PFRS</td>
<td>16,284</td>
<td>1.262</td>
</tr>
</tbody>
</table>

The chart below reflects the projected contributions assuming the minimum funding requirements of Section 39 of P.L. 2010 c.1 which calls for 1/7 of the actuarially recommended contribution in FY 2012 increasing by an additional 1/7 each year until reaching the full contribution in FY 2018. Therefore, the amounts reflected for FY 2018 through FY 2026 reflect the full contribution requirement. The projection assumes an 8.25% investment return for all out years. The second chart below provides the aggregate funded ratio data requested for the same period of time.

#### Assumes No Pension Contributions in FY 2011 & Minimum Contributions Thereafter Under Section 39 of P.L. 2010 c.1

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>PERS-State</td>
<td>$50.0</td>
<td>$52.7</td>
<td>$52.7</td>
<td>$54.5</td>
<td>$56.6</td>
<td>$58.3</td>
<td>$60.4</td>
<td>$62.3</td>
<td>$63.1</td>
<td>$63.8</td>
<td>$63.3</td>
<td>$63.8</td>
<td>$64.4</td>
<td>$64.9</td>
<td>$64.9</td>
</tr>
<tr>
<td>TPAF</td>
<td>27.8</td>
<td>29.7</td>
<td>30.4</td>
<td>31.1</td>
<td>31.8</td>
<td>32.5</td>
<td>33.2</td>
<td>33.9</td>
<td>34.6</td>
<td>35.3</td>
<td>35.9</td>
<td>36.5</td>
<td>37.1</td>
<td>37.7</td>
<td>38.3</td>
</tr>
<tr>
<td>PFRS-State</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>SPRS</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>JRS</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$50.0</td>
<td>$52.7</td>
<td>$52.7</td>
<td>$54.5</td>
<td>$56.6</td>
<td>$58.3</td>
<td>$60.4</td>
<td>$62.3</td>
<td>$63.1</td>
<td>$63.8</td>
<td>$63.3</td>
<td>$63.8</td>
<td>$64.4</td>
<td>$64.9</td>
<td>$64.9</td>
</tr>
</tbody>
</table>

20
The following chart shows the projected aggregate funded ratio of the pension systems assuming the State makes annually required contributions under P.L.2010,c.1.

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Funded Ratio (1)</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY 2012</td>
<td>57.7%</td>
</tr>
<tr>
<td>FY 2013</td>
<td>53.1%</td>
</tr>
<tr>
<td>FY 2014</td>
<td>49.4%</td>
</tr>
<tr>
<td>FY 2015</td>
<td>46.3%</td>
</tr>
<tr>
<td>FY 2016</td>
<td>44.1%</td>
</tr>
<tr>
<td>FY 2017</td>
<td>42.2%</td>
</tr>
<tr>
<td>FY 2018</td>
<td>41.9%</td>
</tr>
<tr>
<td>FY 2019</td>
<td>41.8%</td>
</tr>
<tr>
<td>FY 2020</td>
<td>41.8%</td>
</tr>
<tr>
<td>FY 2021</td>
<td>41.9%</td>
</tr>
<tr>
<td>FY 2022</td>
<td>42.0%</td>
</tr>
<tr>
<td>FY 2023</td>
<td>42.1%</td>
</tr>
<tr>
<td>FY 2024</td>
<td>42.3%</td>
</tr>
<tr>
<td>FY 2025</td>
<td>42.5%</td>
</tr>
<tr>
<td>FY 2026</td>
<td>42.8%</td>
</tr>
</tbody>
</table>

(1) Projected funded ratios if the State does not make a contribution in FY 2011.

DISCUSSION POINT 9A

P.L.2008, c.89 shifted adjunct professors and part-time instructors at State institutions of higher education from the PERS to the Alternate Benefit Program.

QUESTION 9A

What percentage of the increase in the Alternate Benefits Program appropriation can be attributed to this transfer since FY 2009? How many adjunct and part-time faculty were affected and transferred?

ANSWER 9A

Any increase in the appropriation will be a combination of the new adjunct and part-time faculty added to the ABF membership ranks and the other full-time staff salary increases or net additions in full-time membership. However, based upon enrollment data and the salary reported at enrollment we can estimate that the employer pension contribution
for adjunct and part-time instructors for FY 2009 totaled $1,760,000. During FY 2010 that amount will be approximately $3,260,000.

A total of 8,889 adjunct and part-time instructors have been enrolled into the ABP since the enactment of P.L.2008, c.89. During FY 2009 a total of 4,916 were enrolled and an additional 3,973 during FY 2010 to date. Of that amount approximately 1,200 were former members of the PERS who transferred into ABP.

**Defined Contribution Retirement Program**

**DISCUSSION POINT 10**

New Jersey established a defined contribution retirement program beginning in FY 2008 for certain State and local elected and appointed officials who are elected or appointed after July 1, 2007, certain Public Employees’ Retirement System (PERS) members and Teachers’ Pension and Annuity Fund (TPAF) members who enroll in the PERS and the TPAF on or after July 1, 2007 and who earn wages exceeding a maximum compensation limit, and employees who do not earn the minimum annual salary or work the required number of hours per week required for participation in the PERS and TPAF systems. The DCRP provides a tax deferred defined contribution retirement plan to eligible public employees and includes employer-paid life insurance coverage and disability coverage. A PERS or TPAF member eligible to participate in the DCRP may choose to waive participation in the DCRP under certain circumstances. Elected and appointed officials are required to participate in the DCRP. Under the DCRP, employees contribute 5.5 percent of their base salary and the employer is required by statute to make a contribution at a rate equal to three percent of the employee’s base salary. P.L.2010, c.1 requires new police officers, firefighters, and State Police officers who become members of the Police and Firemen’s Retirement System (PFRS) and the State Police Retirement System (SPRS) and who earn in excess of the annual maximum wage contribution base for social security to become a participant of the DCRP with regard to any amount earned over the maximum.

**QUESTION 10**

How many employees in each employee group (elected and appointed officials, PERS members, TPAF members, and other employees) participated in the DCRP in FY 2008, FY 2009, and FY 2010? What were the total employee and employer contributions to the DCRP for each of these employee groups? What is the current estimate for future savings through FY 2026 in contributions to the State-administered defined benefits system resulting from the required participation in the DCRP of certain public employees?
Cumulative employee counts by group are as follows:

**Defined Contribution Retirement Program**

<table>
<thead>
<tr>
<th></th>
<th>Elected &amp; Appointed Officials</th>
<th>PERS Members</th>
<th>TPAF Members</th>
<th>Other / Part-Time Employees</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>State Employees</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>FY 2008</td>
<td>28</td>
<td>17</td>
<td>-</td>
<td>5</td>
<td>50</td>
</tr>
<tr>
<td>FY 2009</td>
<td>56</td>
<td>25</td>
<td>-</td>
<td>11</td>
<td>92</td>
</tr>
<tr>
<td>FY 2010 (to date)</td>
<td>118</td>
<td>27</td>
<td>-</td>
<td>13</td>
<td>158</td>
</tr>
<tr>
<td>Total State Employees</td>
<td>202</td>
<td>69</td>
<td>-</td>
<td>29</td>
<td>300</td>
</tr>
</tbody>
</table>

**Local Government Employees**

<p>| | | | | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>FY 2008</td>
<td>312</td>
<td>31</td>
<td>30</td>
<td>-</td>
<td>373</td>
</tr>
<tr>
<td>FY 2009</td>
<td>594</td>
<td>40</td>
<td>54</td>
<td>200</td>
<td>888</td>
</tr>
<tr>
<td>FY 2010 (to date)</td>
<td>808</td>
<td>41</td>
<td>55</td>
<td>765</td>
<td>1,669</td>
</tr>
<tr>
<td>Total Local Employees</td>
<td>1,714</td>
<td>112</td>
<td>139</td>
<td>965</td>
<td>2,930</td>
</tr>
</tbody>
</table>

Total All Employees: 1,916 (State), 181 (Local), 139 (PERS), 994 (Total)

We are not able to provide a breakdown by employee group but we are able to segregate contributions by State and Local employers as follows:

**Defined Contribution Retirement Program**

<table>
<thead>
<tr>
<th></th>
<th>FY2010 (thru Mar 2010)</th>
<th>FY2009</th>
<th>FY2008</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>State Employees</td>
<td>194,395</td>
<td>173,939</td>
<td>134,228</td>
<td>502,562</td>
</tr>
<tr>
<td>Local Government Employees</td>
<td>365,142</td>
<td>417,180</td>
<td>167,767</td>
<td>950,089</td>
</tr>
</tbody>
</table>

Total: 559,537 (State), 591,119 (Local), 301,995 (PERS), 1,452,651 (Total)
**Employer Contributions**

<table>
<thead>
<tr>
<th></th>
<th>122,161</th>
<th>65,968</th>
<th>31,326</th>
<th>219,455</th>
</tr>
</thead>
<tbody>
<tr>
<td>State Employees</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Local Government</td>
<td>203,319</td>
<td>203,303</td>
<td>96,153</td>
<td>502,775</td>
</tr>
<tr>
<td>Employees</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>325,480</td>
<td>269,271</td>
<td>127,479</td>
<td>722,230</td>
</tr>
</tbody>
</table>

A number of factors would impact this estimate. Before providing such an estimate of any future savings those factors would need to be determined.

However, based on the most recent 7/1/09 actuarial valuations for PERS and TPAF, the normal employer pension contribution rate for PERS members is 5.35% of base salary and 7.07% for TPAF members. The employer pension contribution rate under DCRP is 3% of base salary. Based on this comparison, it is clear that future savings will be realized from requiring certain public employees to participate in the DCRP rather than the defined benefit pension plans.

The savings for individuals enrolled under DCRP rather than TPAF shifts the costs from the State to the local employer, because the local government employer of TPAF members receives the benefit of employer pension costs paid by the State as a form of aid to the local government.

**The 2008 Early Retirement Incentive Program**

**DISCUSSION POINT 11**

P.L.2008, c.21 provided retirement incentives to certain Executive and Judicial Branch employees enrolled in the Public Employees’ Retirement System (PERS) and the Teachers’ Pension and Annuity Fund (TPAF). The 2008 Early Retirement Incentive (ERI) program included various backfill and hiring limitations to prevent the erosion of the anticipated ERI savings and was limited to certain employee groups. With regard to reporting requirements, the law requires the Division of Pensions and Benefits in the Department of the Treasury to report to the Joint Budget Oversight Committee beginning August 15, 2008 and annually thereafter on or before August 15, through 2014 on fiscal impact of the ERI, as specified. In addition, the law requires the State Treasurer to report to the Joint Budget Oversight Committee every six months for the first two years following enactment of the 2008 ERI law, and annually thereafter on: (1) the impact of the ERI on the State workforce, including an analysis of the allocation of position reductions that occur in each department and division as a result of the bill; and (2) the plans adopted by each department to maintain the essential government services provided by that department.

According to the Division of Pensions and Benefits, in the Department of the Treasury in its final report to the Legislature regarding P.L.2002, c.23 ERI Report,
With the report submitted last year it was suggested that a total recapture of the data be examined to develop an overall savings figure for the period beginning June 30, 2002 and ending June 30, 2008, the last year that reporting is required under statute. This would have allowed a complete review of all data provided to date to provide assurances that an accurate cost/benefit analysis was delivered. However, such a review has not occurred nor do we believe that an accurate recapture is possible at this late date. To suggest that we can rely on a methodology developed several years after program implementation would be misleading. As you know, this is one of the reasons that very specific reporting requirements were included in P.L.2008, c.21 and we fully expect to develop a robust reporting methodology which will satisfy the statutory requirement.

Under the law, due dates for the four six-month reports to the Joint budget Oversight Committee (JBOC) were December 2008, June 2009, December 2009 with the fourth report due June 2010 and subsequent reports due annually thereafter. To date, no reports have been submitted by the Treasurer to the JBOC and only two reports have been submitted by the Division of Pensions and Benefits to the Legislature through the Legislative and Budget and Finance Office. The first report submitted by the Division of Pensions and Benefits, dated August 15, 2008, and provided participation data only because savings and cost information was not available. The second report submitted by the Division of Pensions and Benefits one month later, dated September 15, 2008, provided preliminary savings information estimated by the Office of Management and Budget and additional pension liabilities developed by the Plan actuaries. Since that time no further reports have been submitted. When inquiries were made regarding when the reports would be submitted, no information was provided.

**QUESTION 11**

Please explain why no reports have been submitted since September 15, 2008 and what the department’s plans are to meet its statutory reporting requirements.

**ANSWER 11**

P.L. 2008, c.21, provided the last early retirement incentive (ERI) program which was offered to State employees. It requires the Division to report annually “based on information provided by relevant State agencies” as to “the aggregate costs incurred and aggregate savings realized by the State” as a result of the program. The Division has constantly monitored the additional pension costs associated with the ERI program required for the annual report. Since the initial report issued by the Division in August, 2008 (supplemented by the report issued in September, 2008), the Division has accounted for the additional pension liabilities and costs associated with the program by requesting the plan actuaries to update this data annually. However, a coordinated effort between the relevant State agencies to develop the procedures and data required to determine the actual savings under
the program has never occurred. Some of the information that would be necessary to complete a report is information pertaining to which positions in each State division were vacated under the program, how many were eventually refilled, and the salary-related costs associated with each of these positions. The updated pension costs associated with the Chapter 21 ERI program will be included in the Division's annual report due August 15, 2010.
GANNETT STATE BUREAU

Tenants know how it works: Rent goes up every year, and if it’s not paid, they get evicted.

But for years, when lessees did not pay New Jersey for using state parklands, they didn’t even get a slap on the wrist. As the value of the land they occupied went up, some kept paying the same rate.

As a result of getting $9 million from the Shore Protection Fund to keep parks open for another year, the Department of Environmental Protection has been given six months to find ways to increase revenue. Part of this undertaking is getting all the state’s lease agreements on file - something the state for years could not keep track of.

The DEP has 232 leases currently on file - which include family homes, education centers and utility lines - but no complete list is available. Staffers are combing through state park files to find the total number, which they estimate to be upward of 300. A review of records from the State House Commission, the state panel that oversees such agreements, shows at least 10 agreements approved since 2006 that are not included on the list.

Leases with the DEP generated $1.4 million in revenue in fiscal year 2007, the most current available data. Two of the state’s most vocal environmental lobbyists - Public Employees for Environmental Responsibility director Bill Wolfe and state Sierra Club director Jeff Titel - estimate millions of dollars are lost as a result of these uncollected or poorly constructed lease deals.

Raising park user fees may wind up plugging the park’s budget hole, but Wolfe says the state is going after the wrong people.

“(Gov.) Corzine’s willing to raise park user fees, but he’s not willing to say the corporations who are using these lands have to pay up,” Wolfe said.

DEP Assistant Commissioner Amy Cradic acknowledged the program for years had poor oversight and weak internal controls but says reforms are in place to remedy the situation.

“Leases were handled inconsistently with the Division of Fish and Wildlife and the Division of Parks and Forestry, so when (the new) Office of Leases was created under the assistant commissioner’s office, all of those leases are now handled more consistently and very closely with the Attorney General’s Office,” Cradic said.

But Marcy Green, the DEP’s Office of Leases administrator, said revising the lease deals alone will not solve the parks' financial problem.

“It’s not a huge amount of money that on its own will be able to fund parks,” Green said.

After a 2004 audit found “it does not appear that the monitoring of leases or collection of rent is a priority” for DEP, the department began attempting to tighten the program with new internal controls and policies, such as coordinating with Treasury Department officials to create an inventory and renegotiating expired leases for fair market value.

Since these leases can extend for decades, however, shoddy deals in the past still are felt today.

Leases are inconsistent, if the state is even aware the lease exists. Many expire without being updated. Temporary “special-use permits” are issued instead of long-term leases. Rent goes uncollected and unnoticed. Only recently was a standard policy adopted for when rent is reduced due to upgrades paid by tenants, known as rate abatements.

“At a time when we have a lack of funding for open space, this is one of the places we should be getting our monies from,” said Titel, of the Sierra Club.

The DEP will not provide a time line for when a complete list is expected, but recent legislation gives them six months to examine “facilities, services, resources, activities, and amenities” to see where revenue can be increased.

Assemblyman Douglas H. Fisher, D-Cumberland, sponsor of the fund’s reallocation, said the study is “going to help the DEP begin to put its arms around that and just see what we can come up with.” Fisher was not aware of the lack of information about leases with state parks, saying he only knows a review needs to be undertaken.

Leases the state enters are usually long-term, anywhere from 25 to 50 years. Not all existing leases, however, have escalation pricing in the agreement, which would keep rent current with fair market value. Lessees then in many cases get a cheaper deal on the land over the years, while the state loses out.

“That’s the problem. There’s no adjustments,” Titel said. “Many of these are for-profit businesses - they should be paying market rates.”
For example, before a new lease agreement was negotiated in 2007, Tennessee Gas and Pipeline Co. ran a pipeline through High Point State Park in Sussex for 50 years at $1,900 a year rent. After the DEP renegotiated the contract, it will now pay $4,250 per year for 20 years. But even the new agreement wasn't reached until 2007 - two years, according to State House Commission records, after the first lease expired.

"It's a slow process because there's a lot involved, but as we move forward, there will be better management agreements that are good for the lessee as well as the state," Cradic said.

Even if DEP isn't receiving fair market value from leased land because contracts lack escalation clauses, Green said, the department cannot change the terms. "The only way we can go in is when they end," she said.

Wolfe said DEP's lack of consistency in putting such clauses in contracts is based on favoring big companies.

"It's a political problem," Wolfe said. "They're not going to muscle the utility companies. . . . That is seemingly outside of the policy of the current administration."

In addition to an incomplete lease list, the state does not keep numbers on how many special-use permits have been issued - meaning an unknown number of these supposedly temporary permits could go on indefinitely, paying a lower rate than lease agreements.

The DEP recently requested approval of a 20-year lease agreement with Educational Arts Team Inc., a nonprofit organization, to run a summer camp at Liberty State Park in Jersey City. EAT since 1980 operated under a special-use permit before the lease was approved in March by the State House Commission. That lease remains absent from DEP's lease inventory.

Green said DEP is "working closely with the parks to identify the opportunity to convert special-use permits into proper leases."

Michael Rispoli: mrispol@gannett.com

BEHIND THE NEWS

In an attempt to balance next year's state budget, Gov. Corzine had suggested shuttering some state parks and raising fees for state park services. Following public outcry, the governor instead proposed borrowing $9 million from the Shore Protection Fund in order to keep parks and services available to state residents. That provision was in the final state budget, signed earlier this summer.

Reproduced with permission of the copyright owner. Further reproduction or distribution is prohibited without permission.