OFFICE OF LEGISLATIVE SERVICES  
ANALYSIS OF THE NEW JERSEY BUDGET  
FISCAL YEAR 2011-2012 

Budget Questions for Interdepartmental Accounts 

**Question 1:**  
The FY 2011 budget required all departments to cope with reduced appropriations. In some instances these reductions could be handled through improved efficiency and operational adjustments. In other instances less money resulted in programmatic reductions, including both fewer recipients and reduced benefits. Please provide examples of operational improvements in your department that saved money in FY11 and provide examples where less government meant reduction in services. 

**Answer 1:**  
The Interdepartmental Accounts provide funds for the cost of certain mandatory services that are appropriated and administered centrally on behalf of all state agencies primarily by the Department of the Treasury. Responses to these questions were addressed by the Department of the Treasury. 

**Question 2:**  
The FY 2011 budget included reductions requiring Federal approvals, waivers or similar actions in order to achieve the projected savings. Please identify each such reduction in your FY 2011 budget, and indicate whether approvals/waivers have been obtained. If not, please explain whether approvals are still expected in this case, and if so, why. If federal approval is not received, what alternative actions may have to be taken to achieve savings of comparable value? 

**Answer 2:**  
Not applicable. No Federal action is required. 

**Question 3:**  
The revised budget plan for Fiscal Year 2011 requires appropriation lapses of $605 million to achieve a balanced budget and an ending surplus. Please list all appropriation items and amounts in your agency’s chart of accounts that have been identified to contribute to that lapse target. Please describe the impact of each lapse on the nature, breadth or level of service or benefit provided by each appropriation, and identify and quantify the population that may be affected. Please also identify the amount of FY 2012 funding, if any, recommended to restore, in part or in full, the lapsed amount.
Answer 3:

The Office of Management and Budget has submitted under separate cover the list of anticipated lapses totaling $605 million. This amount represents under-spending by departments due to their diligence and oversight in managing their budgets. In addition, oversight of discretionary spending and hiring has led to surplus balances. In some cases, funds that were not needed in FY 2011 to fund programs and services will be necessary in fiscal year 2012.

Question 4:

The FY 2011 Appropriation Act assumed savings of $50 million from privatization initiatives. Please describe all privatization initiatives undertaken/to be undertaken by your department, and specify the effective date, the amount of savings in FY 2011 and FY 2012, respectively, and the reduction in positions, filled and vacant. Please also indicate the private vendor(s) involved in the initiative, and the quantity and quality of services required of the vendor(s) relative to the quantity and quality provided by the department prior to privatization.

Answer 4:

It has been a top priority of the administration that all state departments and independent authorities carefully explore a variety of opportunities to improve efficiency, reduce the cost of government services, and right-size government’s footprint in New Jersey. Among those opportunities are those that would privatize, outsource or otherwise make available a service previously provided by government employees via the private sector – but only if it can be done more efficiently and less expensively. Following the issuance of the findings contained in the Zimmer commission report, numerous recommendations, either identified in that report or by the administration before and after the release of that report, have been in various degrees of implementation.

While certain initiatives were included in the Interdepartmental section of the Zimmer report, these initiatives were referred to the appropriate departments for consideration. Those initiatives referred to the Department of the Treasury are addressed in Treasury’s response.

Question 5:

For each line item reduction in the department’s or unit’s FY 2012 budget, specify the change, if any, in the nature, breadth or level of service or benefit that will be provided and identify and quantify the population that may be affected.
Answer 5:

Savings in the central rent account are derived from actual initiatives enacted by DPMC to reduce the number of leased facilities presently utilized by State agencies and have backfilled existing state owned or leased space in order to do so. Another savings initiative has been the renegotiation of longer term/larger leases. Through these efforts DPMC has identified savings in the rent account, that in no way will change the nature, level of service or benefit provided by the State agencies involved in these consolidations.

Reductions in employee benefits programs accounts have been taken in anticipation of significant pension and benefit reform as proposed by the Governor.

Reductions in Grant in Aid to Authorities is related to debt service.

Question 6:

For each line item reduction in the department’s or unit’s FY 2012 budget, please indicate the number of positions (budgeted, funded and filled or unfilled) that will be eliminated and the number of individuals whose employment will be ended. Please also indicate areas where funded and/or filled positions are projected to significantly increase, and the justification (s) for those increases.

Answer 6:

Not applicable (interdepartmental accounts do not have funded positions).

Question 7:

In his budget address, the Governor stated that "Zero-based budgeting...has finally come to New Jersey." This would mark a change from budget processes used in other years. Please provide examples of how the recommended budget for your department is substantively different than it would have been if the budget had been developed by the procedures used in prior years.

Answer 7:

The Interdepartmental Accounts provide funds for the cost of certain mandatory services that are appropriated and administered centrally on behalf of all state agencies primarily by the Department of the Treasury. Responses to these questions were addressed by the Department of the Treasury.
**Question 8:**

Please identify any reductions in the department’s or unit’s FY 2012 budget that constitute one-time savings that are not likely to recur in Fiscal Year 2013.

**Answer 8:**

OMB will provide the response to this question for all agencies.

**Question 9:**

Are any of the appropriations recommended for FY 2012 required to compensate for the effects of Fiscal Year 2010 or FY 2011 reductions? If so, please identify and explain.

**Answer 9:**

OMB will provide the response to this question for all agencies.

**Question 10:**

Please list any anticipated increase in fees, fares or co-payments that are reflected in the FY 2012 budget recommendation, including the amount of revenue or cost reduction, and the intended effective date.

**Answer 10:**

The fiscal year 2012 proposed budget does not anticipate any new or increased fees, fares or co-payments in the Interdepartmental accounts.

**Question 11:**

Please identify proposed FY 2012 budget reductions which require Federal approvals, waivers or similar actions, and the timetable for seeking and obtaining approvals in order to achieve the projected savings. Please indicate whether approvals/waivers have been previously sought and not obtained, and explain why approvals should be expected in this case. If federal approval is not received, what alternative actions may have to be taken to achieve savings of comparable value? Please also identify proposed budget reductions that may reduce the receipt of federal funds, and the estimated loss of federal funds that would result from such reductions.

**Answer 11:**

Not applicable. No Federal action is required.
**Question 12:**

The FY 2011 Budget included $2.5 million in savings from capping contributions to the Alternate Benefit Program (ABP). P.L.2010, c.2 reduced the maximum salary on which the State makes employer contributions for the ABP from $245,000 (federal maximum) to the Executive Branch Commissioner salary ($141,000). The savings estimate of $2.5 million was calculated using actual salaries provided by the colleges for their fiscal 2010 budgets. Please update this savings estimate based on the availability of FY 2011 salary and staffing information.

**Answer 12:**

Based on the latest available information, the Division of Pension's identified 2,308 ABP members with salary in excess of the $141,000 salary cap. For these participants, total compensation in excess of $141,000 but not exceeding the maximum compensation limit for retirement plan benefits of $245,000 is $102,150,821. Based on the 8% employer contribution rate, this translates to a projected savings of approximately $8.2 million for Fiscal Year 2011.

**Question 13:**

FY 2011 appropriations for the State employees' prescription drug program reflected estimated savings from the pharmacy benefits management (PBM) contract with Medco that commenced January 1, 2010. At the time the contract was awarded, savings from the contract were projected to total $559 million over five years, with about $114.8 million estimated in FY 2011. Please update the estimated impact on FY 2011 prescription drug program costs resulting from the Medco PBM contract, and explain the methodology by which cost savings attributable to the contract are calculated.

**Answer 13:**

The updated estimate of the savings from the PBM RFP for FY2011 is $105 million. To calculate this projected savings, Aon used Plan Year 2010 incurred prescription drug claims and applied the Medco guaranteed pricing under the Best and Final Offer (BAFO) (rebates, discounts, dispensing fees, and ASO fees) compared to the guarantees in place prior to the BAFO. This resulted in projected savings of $102 million for Plan Year 2010. Plan Year 2010 claims were projected to Plan Year 2011 using 9% annual trend (4.5% for utilization and 4.5% for cost) and applied the Medco BAFO guarantees compared to prior guarantees, which resulted in Plan Year 2011 projected savings of $108 million. Fiscal Year 2011 savings are the average of Plan Year 2010 and Plan Year 2011 savings.
$105 million is the projected FY 2011 savings for the entire SHBP/SEHBP and is allocated as follows:

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<th>Actives</th>
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<tr>
<td>Total</td>
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The savings are attributable to increased rebates and discounts, with a small savings due to decreased dispensing fees.

**Question 14:**

The several FY 2011 appropriations for debt service on NJSEA State contract bonds anticipated $47 million in reduced debt service payments through debt restructuring. Thus far in FY 2011, transfers of appropriations ($49 million) and supplemental appropriations ($4 million) have added $53 million to NJSEA appropriations, suggesting that anticipated restructuring of NJSEA bonds has not occurred. Please provide an update of plans to restructure NJSEA State contract bonds and savings that are expected.

**Answer 14:**

In response to the question, Treasury did not yet undertake the NJSEA bond restructuring that would have produced the anticipated FY 11 savings. Therefore, the $47 million projected savings was added back to this appropriation.

The remaining $6 million is composed of two pieces, a $4 million supplemental appropriation for Authority operations (see question #15), and a $2 million transfer in lieu of supplemental to support debt service on the 1999 A taxable bonds. The debt service shortfall on that particular series was due to lower than anticipated payments from the Casino Reinvestment Development Authority (CRDA), resulting from lower than anticipated casino tax revenues. If the CRDA payments are insufficient, the State supports any amount needed to satisfy the debt service payments, pursuant to the State Contract between the NJSEA and the State Treasurer.

Going forward, Treasury anticipates a bond restructuring to be transacted either late in FY11 or early FY 12 that will yield an estimated $44.3 million in FY 12 debt service savings. Treasury has begun the planning process for that issue, the timing of which will depend on many factors, including the volatility of the bond market.
**Question 15:**

The Executive requested and the Legislature approved revisions to FY 2011 budget language concerning State funding the New Jersey Sports and Exposition Authority (NJSEA), to allow supplemental appropriations if necessary to “...maintain the core operating functions of the authority...”, as well as to meet all necessary debt service obligations. As noted above, transfers and supplemental appropriations have added $53 million to NJSEA appropriations, and nearly all appropriations to the NJSEA have been expended. Please indicate what amount of funding has been provided to the NJSEA to maintain its “core operating functions” and to which NJSEA fiscal year(s) any such funding was credited. Please also indicate whether additional funding is to be provided for NJSEA “core operating functions” from the State FY 2011 Budget.

**Answer 15:**

NJSEA operates on a calendar year basis. $4 million in supplemental funding was provided to NJSEA to maintain its FY11 core operating functions. The remaining balance of the $53 million referenced in the question above was utilized for debt service.

It is unknown at this point in time whether NJSEA will require additional supplemental funding in State FY11. NJSEA’s cash need will be significantly impacted by the potential lease/sale of NJSEA owned and operated racetracks in Meadowlands and Monmouth Park. Cash flow will continue to be closely monitored.

**Question 16:**

The FY 2011 Appropriations Act includes savings of $5 million due to the renegotiation of new electricity and natural gas contracts. Savings from the renegotiated contracts were expected to be achieved by locking in lower rates, and expanding the list of facilities participating in the agreements. Please provide an update of this savings estimate, and identify any contracts renegotiated and changes in prices that resulted from that renegotiation.

**Answer 16:**

The $5 million FY11 energy savings is primarily based on the July 2010 electric rate reduction for 295 statewide electric accounts with high annual consumption. To date, July 2010 through January 2011, State electric savings is over $4.1 million despite the summer of 2010 being one of the warmest on record. The total energy savings to date is $3.1 million. The electric savings of $4.1 million is offset by increased charges in chilled water that is used for cooling State Owned facilities.

Barring any significant weather events over the next few months, the continued electrical savings and anticipated savings from a new natural gas contract beginning in January 2011 should allow the State to be in line with the original $5 million target.
Question 17:

The FY 2011 Appropriations Act includes an appropriation $3.498 million to fund utility and household and security costs for the new Public Health, Environmental and Agricultural Laboratory, and also includes utility savings of $1.2 million and household and security savings of $116,000 from the closure of the old health lab. The FY 2011 Appropriations Act expected completion of the lab in April 2010 (2011?). Please provide an update on the status of the new laboratory, the old laboratory and these savings estimates.

Answer 17:

The new laboratory building is complete and DHSS and AG have taken over operational responsibility for the buildings. DHSS and AG have a move-in schedule for the new lab that is dependent on their receiving certification for lab operations through the US Center for Disease Control and USDA. The timetable for that move-in is estimated at up to eighteen months. The disposition of the existing lab and administration buildings in downtown Trenton is the subject of current discussions between Treasury, DHSS and AG.

FY11 utility savings of $1.2 million and household and security savings of $116,000 from the closure of the existing laboratory represented partial year savings, assuming it would be closed by April 2011. Delays in the completion of the new laboratory will necessitate supplemental funding for these planned savings since closure of the existing lab will not occur in FY11. Given the uncertainty over the certification date, the Governor’s FY12 Budget Recommendation assumes no savings from the closure of the existing laboratory.

Question 18:

According to the June 30, 2010 and June 30, 2009 Division of Investment’s Annual Report (page 15), the Pension Fund “is obligated”, under certain private equity, real estate, and absolute return strategy alternative investment agreements to make additional capital contributions up to contractual levels over the investment period specified for each investment. As of June 30, 2010, the Fund had unfunded contributions totaling approximately $5.6 billion.” Please explain why the pension fund has unfunded capital contributions totaling $5.6 billion. Please describe the obligations of the pension fund, under these contractual agreements and in accordance with the covenants, to make additional capital contributions for each investment, itemizing each investment under these agreements and describing the pension funds’ additional capital contribution obligation for each investment. What are the financial consequences for failing to meet these contractual obligations and what has been the impact on the pension fund?
The nature of alternative asset class investments differs from the purchase of traditional securities. When a decision is made to purchase a traditional security, the transaction occurs within the same day, where capital is exchanged for ownership of the security. When a decision is made to commit capital to a private equity or private real estate investment fund, a commitment amount is agreed upon and the investments are purchased over time, typically, four to five years. As the General Partner identifies investments for the fund, it requests funds from the Limited Partners known as “capital calls.” Over time, as the fund makes investments, the amount contributed to the fund increases, and the unfunded commitment decreases. At the end of the investment period the fund ceases to call capital for new investments. In many cases, the fund does not call the entire initial commitment amount.

Attachment A provides capital contribution detail for the $5.6 billion in this asset class. When entering into a Limited Partnership Agreement (LPA) with a fund, the Pension Fund is then contractually obligated to send funds when capital is called. If the Pension Fund fails to meet its contractual obligation to make capital calls, it becomes a “defaulting partner” and, depending on the terms of the LPA, may lose various rights in the fund, including its investment, as well as be charged penalties. The manner in which the Division of Investment invests in private equity and real estate is the norm amongst both public and private, including corporate, pension funds.
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**Heads and Subheads**

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- Keying
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**Notes**

- The schedule is for key control purposes only and is not intended for legal purposes.
- The schedule is provided as of June 30, 2010.