

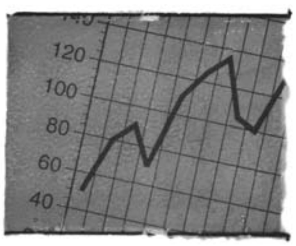



ANALYSIS OF THE NEW JERSEY BUDGET

INTERDEPARTMENTAL ACCOUNTS

FISCAL YEAR 2011 - 2012

PREPARED BY OFFICE OF LEGISLATIVE SERVICES
NEW JERSEY LEGISLATURE • MAY 2011

NEW JERSEY STATE LEGISLATURE

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INTERDEPARTMENTAL ACCOUNTS

Budget Pages....... D-409 to D-424

Fiscal Summary ($000)

	Expended FY 2010	Adjusted Appropriation FY 2011	Recommended FY 2012	Percent Change 2011-12
State Budgeted	$2,959,788	$3,343,305	$3,096,186	(7.4%)
Federal Funds	$0	$0	$0	—
Other	$37,775	$43,928	$43,800	(.3%)
Grand Total	$2,997,563	$3,387,233	$3,139,986	(7.3%)

Personnel Summary - Positions By Funding Source

	Actual FY 2010	Revised FY 2011	Funded FY 2012	Percent Change 2011-12
State	0	0	0	—
Federal	0	0	0	—
Other	0	0	0	—
Total Positions	0	0	0	—

FY 2010 (as of December) and revised FY 2011 (as of January) personnel data reflect actual payroll counts. FY 2012 data reflect the number of positions funded.

Link to Website: http://www.njleg.state.nj.us/legislativepub/finance.asp

Highlights

Pensions

P.L.2010, c.1 requires the State, beginning in FY 2012, to make in full the annual employer's contribution, as computed by the actuaries, to the PERS, TPAF, PFRS, SPRS, JRS, CPFPF, and the POPF. The law further provides that the State would be in compliance with this requirement provided the State makes a payment, to each State-administered retirement system or fund, of at least 1/7th of the full contribution for FY 2012, and makes a payment in each subsequent fiscal year that increases by at least an additional 1/7th until payment of the full contribution is made in the eighth fiscal year and thereafter. Full funding of the annual actuarially required employer contribution for the State-administered Defined Benefits Retirement System is approximately $3.542 billion in FY 2012. The Governor proposes total supplemental appropriations in FY 2011 of $506 million as early payment of the 1/7th contribution under P.L.2010, c.1, representing 1/7 of the actuarially required contribution based on the June 30, 2010 actuarial valuation. The Governor's proposal results in $171.6 million in supplemental FY 2011 appropriations in Interdepartmental Accounts, and a decrease of that amount in FY 2012.

Proposed State-Administered Retirement System Contributions			
System	**Gross Contribution**	**Deferred per P.L.2010, c.1**	**Minimum 1/7th Contribution**
PERS	$ 827,623,885	($ 709,391,901)	$ 118,231,984
PFRS	$ 373,477,651	($ 320,123,701)	$ 53,353,950
SPRS	$ 113,503,542	($ 97,288,750)	$ 16,214,792
JRS	$ 38,065,773	($ 32,627,805)	$ 5,437,968
TPAF	$2,188,060,305	($1,875,480,270)	$ 312,580,045
CPFPF	$ 1,216,530	($ 1,042,740)	$ 173,790
Totals	$3,541,947,686	($3,035,955,167)	$ 505,992,529
Source: Division of Pensions and Benefits			

Proposed Modifications to Health Care Benefits

The FY 2012 Governor's Budget includes $323 million in savings from proposed modifications to employee and retiree health care benefits. Few details of the proposed modifications to health care benefits that are assumed in the FY 2012 budget have been provided. Available information suggests that the proposed modifications are a combination of shifting to a percentage of premium sharing model and revising benefits for active State employees and retirees roughly estimated to be: (1) a 10 percent premium share; (2) a three to four percent premium savings from modifying benefits, e.g., co-pays for primary, specialist and emergency room visits, deductibles, and prescription drug co-pays; and (3) additional savings from eliminating the NJ DIRECT 10 plan and offering more health plan options from which to choose. Additionally, a September 1, 2011 implementation date is assumed. $224.1 million of these total costs reductions accrue to Interdepartmental Accounts appropriations.

Highlights (Cont'd)

Estimated Savings from Proposed Modifications to Health Care Benefits			
State	Teachers Post Retirement Medical	Higher Education. Post Retirement Medical	County Colleges Post Retirement Medical
$160.1 million	$97.0 million	$63.9 million	$1.9 million
Source: Governor's Budget Summary			

Salary Increases and Other Benefits

The FY 2012 Governor's Budget recommends salary program funding of $96 million for the Executive, Judicial, and Legislative Branches consisting of $49 million in progression payments (increments), $61.9 million in cost-of-living adjustments (COLAs), and $18.6 million in retroactive costs of unsettled contracts, which are partially offset by $25 million in projected Judicial Branch efficiencies and $8.7 million in savings from attrition.

Financial Support of Independent State Authorities

The FY 2012 Governor's Budget reduces appropriations for support of the New Jersey Sports and Exposition Authority by $17.9 million, reflecting the projected impact of debt restructuring and discontinuation of operating assistance. The Budget also increases appropriations for the New Jersey Building Authority debt service by $41.9 million reflecting the non-recurring nature of FY 2011 debt restructuring savings.

Employer Taxes

The FY 2012 Governor's Budget recommends reductions in the State's employer tax appropriations totaling $91.7 million. The largest reduction component is a $52.9 million savings resulting from a technical adjustment in social security tax funding for senior public colleges, which will have no negative budgetary impact on the colleges.

Background Paper

Fiscal and Personnel Summary

AGENCY FUNDING BY SOURCE OF FUNDS ($000)

	Expended FY 2010	Adj. Approp. FY 2011	Recom. FY 2012	Percent Change 2010-12	Percent Change 2011-12
General Fund					
Direct State Services	$1,927,269	$2,240,087	$2,071,766	7.5%	(7.5%)
Grants-In-Aid	$909,715	$968,789	$848,126	(6.8%)	(12.5%)
State Aid	0	0	0	0.0%	0.0%
Capital Construction	$122,804	$134,429	$176,294	43.6%	31.1%
Debt Service	0	0	0	0.0%	0.0%
Sub-Total	**$2,959,788**	**$3,343,305**	**$3,096,186**	**4.6%**	**(7.4%)**
Property Tax Relief Fund					
Direct State Services	$0	$0	$0	0.0%	0.0%
Grants-In-Aid	0	0	0	0.0%	0.0%
State Aid	0	0	0	0.0%	0.0%
Sub-Total	**$0**	**$0**	**$0**	**0.0%**	**0.0%**
Casino Revenue Fund	$0	$0	$0	0.0%	0.0%
Casino Control Fund	$0	$0	$0	0.0%	0.0%
State Total	**$2,959,788**	**$3,343,305**	**$3,096,186**	**4.6%**	**(7.4%)**
Federal Funds	$0	$0	$0	0.0%	0.0%
Other Funds	$37,775	43,928	43,800	15.9%	(0.3%)
Grand Total	**$2,997,563**	**$3,387,233**	**$3,139,986**	**4.8%**	**(7.3%)**

PERSONNEL SUMMARY - POSITIONS BY FUNDING SOURCE

	Actual FY 2010	Revised FY 2011	Funded FY 2012	Percent Change 2010-12	Percent Change 2011-12
State	0	0	0	0.0%	0.0%
Federal	0	0	0	0.0%	0.0%
All Other	0	0	0	0.0%	0.0%
Total Positions	**0**	**0**	**0**	**0.0%**	**0.0%**

FY 2010 (as of December) and revised FY 2011 (as of January) personnel data reflect actual payroll counts. FY 2012 data reflect the number of positions funded.

AFFIRMATIVE ACTION DATA

Total Minority Percent	0.0%	0.0%	0.0%	----	----

Significant Changes/New Programs ($000)

Budget Item	Adj. Approp. FY 2011	Recomm. FY 2012	Dollar Change	Percent Change	Budget Page

GENERAL GOVERNMENT SERVICES

Direct State Services

Property Rentals

Property Rentals appropriations encompass funding for existing and anticipated leases of office and other facilities used by State agencies, payment for debt service leases and payments in lieu of property taxes on facilities occupied by State agencies, as well as payments for various fire safety systems and office furnishings. The accounts also reflect the cost of rent for agencies that is ultimately financed from sources other than the General Fund, such as federal funds. The State recovers, from non-State fund sources, the cost of renting and maintaining office space. These recoveries, referred to as "direct rent," serve to reduce the cost to the General Fund. The net cost to the General Fund is referred to as "central rent."

Property Rentals	**$255,547**	**$247,646**	**($7,901)**	**(3.1%)**	**D-412**

This line item represents gross property rental costs. The FY 2012 Governor's Budget recommends a reduction of $7.9 million, or 3.1 percent, in the gross cost of Property Rentals. This proposed reduction reflects lower costs directly related to rental of real property for the conduct of State business. The factors causing this cost decrease are discussed below with respect to each component of the Property Rentals total.

Existing and Anticipated Leases	**$201,645 (S)$1,000**	**$194,954**	**($7,691)**	**(3.8%)**	**D-413**

The Existing and Anticipated Leases appropriation comprises the gross cost for office space and other property rentals for State agencies and includes (but is not limited to) rent payments, taxes, janitorial services, utilities, snow removal, advertising, moving, and security costs. The proposed reduction of $7.7 million results from: (1) increases of $5.2 million from rent and related cost escalations on existing leases; (2) $11.9 million in rent reductions from lease renegotiations and adjustments for anticipated leases; and (3) a reduction of $1.0 million in annually recurring supplemental funding for maintenance and security costs at closed State institutions.

Economic Development Authority	**$17,199**	**$16,914**	**($ 285)**	**(1.7%)**	**D-413**

The State has lease agreements with the New Jersey Economic Development Authority (EDA) for various facilities and facility improvements that the EDA has financed around the State. As lessee, the State is required to make rental payments sufficient to cover the debt service and other amounts payable to the EDA. The line item above represents the debt service for facilities

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

Budget Item	Adj. Approp. FY 2011	Recomm. FY 2012	Dollar Change	Percent Change	Budget Page

in Asbury Park, Camden, Cherry Hill and Trenton, as well as improvements to Liberty State Park. The decrease is due mostly to the final amortization in FY 2011 of financing for the Green Lights energy efficiency program.

Other Debt Service Leases and Tax Payments	**$33,498**	**$34,995**	**$ 1,497**	**4.5%**	**D-413**

The Other Debt Service Leases and Tax Payments appropriation consists primarily of debt service costs, taxes and payments in lieu of taxes for facilities financed by independent public entities and occupied by State agencies, including costs other than debt service of the EDA facilities noted above. The largest single cost component reflected in this appropriation is $15.7 million in annual debt service on bonds issued by the Health Care Facilities Financing Authority for Greystone Psychiatric Hospital. The growth in this category of funding is due to projected increases in local taxes and payments in lieu of taxes.

Less: Total Deductions	**($103,860)**	**($98,869)**	**$ 4,991**	**(4.8%)**	**D-413**

This line item represents "direct rent" reimbursements by State agencies from federal and other dedicated funds to defray facilities occupancy costs, based upon the use of those facilities in delivering programs and services supported by those resources. A decline in "direct rent" reimbursements of $8.9 million is projected to result from: (1) lower rent costs from lease renegotiations and adjustments for anticipated leases, $4.2 million; (2) non-recurring procurement savings reallocations from other agencies, $4.0 million; (3) other reimbursement reductions from realignment of actual and anticipated space utilization, $.7 million. Offsetting this decline is the projected recovery of $3.9 million in funding from other agencies from savings initiatives unrelated to property rental costs: (1) savings from improved management of Central Motor Pool services, potentially involving privatization, $2.0 million; (2) savings from consolidating contracts for maintenance services and warranties, $1.425 million, savings from consolidating State print shops, $0.5 million.

Net Property Rentals	**$149,482**	**$147,994**	**($1,488)**	**(1.0%)**	**D-413**

The "central rent" requirement for FY 2012 the result of the increase and decrease items noted above. While gross costs of property rentals are projected to decrease by $6.5 million, the ability to recover costs from federal and dedicated sources will also decrease, by $4.9 million. This net savings of $1.6 million directly related to property rentals is offset by $4 million in decreased reallocations for non-recurring prior year savings initiatives, and $3.9 million in increased reallocations from new savings initiatives, all unrelated to the matter of leasing property for the conduct of State business.

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

Budget Item	Adj. Approp. FY 2011	Recomm. FY 2012	Dollar Change	Percent Change	Budget Page
Additions, Improvements and Equipment	**$2,205**	**$783**	**($1,422)**	**(64.5%)**	**D-413**

The Additions, Improvements and Equipment appropriation provides funding for installment payments on Line of Credit financing of improvements to State-occupied buildings and purchase of equipment such as fire sprinklers and office furnishings. The Line of Credit program provides a way for the State to achieve short term financing of equipment acquisitions at competitive (low) rates. The proposed reduction of $1.422 million represents the expectation of lower payments in FY 2012 as the State continues to pay down outstanding loans for facilities improvements and purchase office equipment.

Insurance and Other Services

The Insurance and Other Services appropriations fund insurance premiums for property, casualty, and special insurance policies for coverage against losses to State-owned real property, machinery and fine art objects. The State self-administers its insurance programs and is self-insured for Tort Claims, Workers' Compensation, automobile (vehicle claims) liability, risks and claims arising from the Foster Parents Program, and the UMDNJ Self-Insurance Reserve Fund.

Budget Item	Adj. Approp. FY 2011	Recomm. FY 2012	Dollar Change	Percent Change	Budget Page
Tort Claims Liability Fund	**$15,000 (S)$12,500**	**$15,000**	**($12,500)**	**(45.5%)**	**D-413**

The Tort Claims Liability Fund provides funding for the payment of claims arising from wrongful actions or omissions (not based on contractual obligations), for the indemnification of pool attorneys engaged by the Public Defender for the defense of indigents, for the indemnification of a designated pathologist engaged by the State Medical Examiner, and for direct costs of legal, administrative, and medical services related to the investigation, mitigation, and litigation of tort claims against public entities under N.J.S.A. 59:101 et. seq., the "New Jersey Tort Claims Act." Budget language provides that additional funds may be appropriated for the purpose of paying tort claims under N.J.S.A. 59:12-1 as recommended by the Attorney General and as determined by the Director of the Division of Budget and Accounting. The FY 2012 Governor's Budget recommends an appropriation of $15 million for Tort Claims liability. This is $12.5 million, or 45.5 percent, less than the FY 2011 adjusted appropriation of $27.5 million. A supplemental appropriation of $12.5 million was required in FY 2011 due to the settlement of four large claims, three of which involved child abuse/neglect ($6.8 million in total) and one which resulted from a fallen tree ($5.9 million). The proposed reduction assumes that the additional funding provided by the FY 2011 supplemental appropriation will not be needed in FY 2012.

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

Budget Item	Adj. Approp. FY 2011	Recomm. FY 2012	Dollar Change	Percent Change	Budget Page
Workers' Compensation Self-Insurance Fund	**$73,700 (S)$13,600**	**$101,190**	**$13,890**	**15.9%**	**D-413**

The State is self-insured for workers' compensation payments made to State employees for work-related injuries. Under current law, the Workers' Compensation Self-Insurance Fund provides funding for the payment of direct costs of legal, investigative, administrative and medical services related to the investigation, mitigation, litigation, and administration of claims against the fund. Factors that contribute to changes in workers' compensation costs include changes in the number of claims, medical costs, and disability rates. According to the Division of Risk Management responses to discussion points in FY 2010, workers' compensation costs have risen steadily in recent years because of the escalating expense of medical care and statutory increases in the yearly rates for temporary, permanent partial, and permanent total disability benefits. The proposed $13.9 million increase reflects $10.9 million from the transfer of costs from the Sick Leave Injury Program, eliminated by P.L.2010, c.3, and $3.2 million resulting from medical cost growth. The Division of Risk Management estimates a 6 percent rate of growth over the $52.8 million that was expended in FY 2010 on medical payments. Supplemental funding in FY 2011 of $13.6 million is based upon the Division of Risk Management's re-projection of costs from year-to-date claims. This expected claims experience is assumed to recur in FY 2012 with adjustments as noted above.

Property Insurance Premium Payments	**$3,413**	**$3,085**	**($ 328)**	**(9.6%)**	**D-413**

The Property Insurance Premium Payments appropriation is used to purchase insurance coverage for property damage for State-owned real and personal property. Coverage includes standard protection for buildings and contents, marine vessels, catastrophic loss to vehicles parked in State locations, and mainframe computer equipment coverage. Additional policies include fine arts coverage and high-value van coverage. According to the Administration the property insurance policy was renewed for a two year period at a reduced cost.

Casualty Insurance Premium Payments	**$423**	**$643**	**$ 220**	**52.0%**	**D-413**

The Casualty Insurance Premium Payments appropriation is used to purchase automobile excess liability insurance, aircraft liability and physical hull damage insurance, workers' compensation for special classes of State employees supported by federal or non-State funds, and accidental health insurance to provide medical reimbursement, disability and death benefits to volunteers in State programs who do not qualify as State employees and would not be eligible for workers' compensation benefits. Higher premiums are expected to result from the addition of four State Police helicopters.

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

Budget Item	Adj. Approp. FY 2011	Recomm. FY 2012	Dollar Change	Percent Change	Budget Page
Special Insurance Policy Premium Payment	**$250**	**$189**	**($ 61)**	**(24.4%)**	**D-413**

The Special Insurance Policy Premium Payment Account is used to purchase special insurance policies such as: the New Jersey Network Public Broadcasters Liability (required by the Public Broadcasting Service); the Treasurer's Bond (the State Treasurer is bonded for the handling of various funds); and Blanket Position Bond insurance, which guarantees payment to the State for losses caused through employees' fraudulent or dishonest acts. In addition, special accident and health insurance is purchased to provide for medical expense reimbursement and disability and death benefits to students and volunteers who otherwise do not qualify as State employees and are precluded from collecting workers' compensation benefits. According to the Office of Management and Budget, the savings are due to a negotiated reduction in blanket bond premiums and a negotiated reduction in the New Jersey Network (NJN) liability premium unrelated to the transfer of NJN assets.

Budget Item	Adj. Approp. FY 2011	Recomm. FY 2012	Dollar Change	Percent Change	Budget Page
Public Health, Environmental and Agricultural Laboratory	**$3,498**	**$5,986**	**$ 2,488**	**71.1%**	**D-413**

The new Public Health, Environmental, and Agricultural Laboratory is a multiagency facility that is being financed and developed through the New Jersey Building Authority. It is located on the grounds of the New Jersey State Police Division Headquarters in West Trenton. The lab was designed to replace the existing Department of Health and Senior Services and the Department of Agriculture laboratory, located in downtown Trenton, and to provide the Department of Environmental Protection with testing services currently contracted out to private laboratories. Increased funding is to provide for full year operating costs of the new lab, the opening of which is dependent on certification by the US Center for Disease Control and the USDA and may to be delayed for up to 18 months. According to the Administration, given the uncertainty over certification dates, the Governor's FY 2012 budget recommendation assumes no savings from the closure of the existing laboratory. The Administration indicates that the disposition of the existing lab after the new lab is opened has not yet determined and is the subject of current discussion between Treasury, DHSS, and Agriculture. Because of the delay in the opening the new lab, funds appropriated for the operations of the new lab in FY 2011 will not be needed. As such, the Administration placed $3.498 million in FY 2011 utility and household costs for the new lab in reserve in anticipation of an FY 2011 year-end lapse to the General Fund.

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

Budget Item	Adj. Approp. FY 2011	Recomm. FY 2012	Dollar Change	Percent Change	Budget Page
		Grants-In-Aid			
New Jersey Sports and Exposition Authority-Debt Service	**$28,694**	**$14,791**	**($13,903)**	**(48.5%)**	**D-413**

P.L.1971, c. 137 created the New Jersey Sports and Exposition Authority (NJSEA). As amended over time, the law provided for the acquisition, ownership, and operation of stadiums, arenas, entertainment facilities, convention centers, and racetracks including the Meadowlands Sports Complex, the Monmouth Park Racetrack, the Atlantic City Boardwalk Hall, the Atlantic City Convention Center, Rutgers University stadium, and the Wildwood Convention Center. The NJSEA bonds originally issued were secured by the revenues the NJSEA received from operating the facilities; as the original issue bonds were refinanced, and additional facilities were acquired or built, the authority's bonds became secured in large part by State appropriations. According to the FY 2010 Debt Report, the total amount of NJSEA bonds issued is $1.094 billion with $610.3 million in bonds outstanding and a final maturity date of September 1, 2024. The Debt Report indicates that the FY 2012 debt service payment is $71.994 million.

The FY 2012 Governor's Budget recommends an appropriation of $14.791 million for debt service, a reduction of $13.9 million, or 48.5 percent, from the FY 2011 adjusted appropriation of $28.694 million and $57.203 million less than the reported debt service payment. The difference between what is indicated for debt service payment in the FY 2010 Debt Report and what is recommended in the FY 2012 Governor's Budget can be attributed to the assumption that approximately $44.3 million in debt restructuring, originally expected to occur in FY 2011, is now expected to take place by early 2012. In addition to the $44.3 million of proposed FY 2012 refunding savings, the Administration anticipates that the Atlantic City Convention Visitors Authority (ACCVA) will provide $8 million in support of debt service in FY 2012, for a total savings of $52.3 million. Even if these savings are achieved the FY 2012 recommended amount of $14.791 million is approximately $5 million short of the revised estimated debt service payments.

Budget Item	Adj. Approp. FY 2011	Recomm. FY 2012	Dollar Change	Percent Change	Budget Page
New Jersey Performing Arts Center, EDA	**$1,250**	**$7,442**	**$ 6,192**	**495.4%**	**D-413**

State appropriations for the New Jersey Performing Arts Center (NJPAC) are used to pay the State's debt service obligations pursuant to a lease with the New Jersey Economic Development Authority for real property, infrastructure, and the Performing Arts Center building. According to the FY 2010 Debt Report, the outstanding balance of the New Jersey Performing Arts Center bonds was refinanced in 2010. The total amount of bonds issued in the refinancing was $26.9 million with a final maturity date of June 15, 2016. The refinancing reduced FY 2010 debt service payments by $5.5 million. According to the Administration, FY 2011 debt service payment of $1.25 million reflects an interest payment only on the refunding bonds while the

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

Budget Item	Adj. Approp. FY 2011	Recomm. FY 2012	Dollar Change	Percent Change	Budget Page

proposed FY 2012 payment on the refunding bonds reflects both principal and interest. The proposed FY 2012 recommended appropriation of $7.442 million is consistent with the FY 2010 Debt Report schedule of debt service obligations.

Business Employment Incentive Program EDA-Debt Service	**$33,596**	**$33,420**	**($ 176)**	**(.5%)**	**D-413**

P.L.1996, c.26, known as the Business Employment Incentive Act (BEIP), authorized the Economic Development Authority to award grants to businesses expanding or relocating within the State. Seven years later, P.L.2003, c. 166 authorized the Economic Development Authority to finance the grants through sale of bonds. The debt service on the bonds is payable pursuant to a contract between the State Treasurer and the Economic Development Authority and is subject to appropriation by the Legislature through the Business Employment Incentive Program (BEIP) appropriation. According to the fiscal year 2010 Debt Report, the amount of BEIP bonds issued totals $219.9 million with $146.9 million remaining in bonds outstanding and a final maturity date of November 1, 2015. The FY 2012 Governor's Budget recommends an appropriation of $33.420 million which is 0.5 percent less than the FY 2011 adjusted appropriation for debt service payments. This recommended appropriation of $33.420 million is consistent with the FY 2010 Debt Report schedule of debt service obligations.

Liberty Science Center	**$6,892 (S)$3,600**	**$11,073**	**$ 581**	**5.5%**	**D-413**

This appropriation comprises both debt service and operating costs associated with the Liberty Science Center (LSC). The LSC, located in Jersey City, is a science museum that provides interactive science and technology education for the study and exploration of nature, humanity, and technology. Under P.L.1974, c. 80, the Economic Development Authority issued bonds for the design, construction, renovation, expansion, and acquisition of science exhibits for the LSC, and for an expansion of the LSC that was completed in 2007.

According to the FY 2010 Debt Report, LSC bonds totaled $95.270 million, with $88.415 million in bonds outstanding and a final maturity date of March 1, 2027. Debt service on all bonds outstanding is approximately $7.5 million in FY 2012. Proposed FY 2012 budget language provides that the Liberty Science Center appropriation is to be used not only for debt service, as in the past, but also, beginning in FY 2012, for operational costs of the Liberty Science Center. The proposed budget language provides that the amount of operational support for the Liberty Science Center is to be determined by the State Treasurer pursuant to an agreement between the State Treasurer and the Liberty Science Center. To the extent the recommended appropriation of $11.073 million is not needed for debt service obligations, it is available to support LSC operations. Supplemental funding for operations of the center appropriated through April 2011 totals $4.3 million, $700,000 more than is projected in the budget.

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

Budget Item	Adj. Approp. FY 2011	Recomm. FY 2012	Dollar Change	Percent Change	Budget Page
New Jersey Sports and Exposition Authority Operations	**(S)$4,006**	**$0**	**($4,006)**	**(100.0%)**	**D-414**

The Executive requested and the Legislature approved revisions to FY 2011 budget language concerning State funding for the New Jersey Sports and Exposition Authority (NJSEA) , to allow supplemental appropriations if necessary to maintain the core operating functions of the authority. This supplemental appropriation provided to the NJSEA for in FY 2011 for operating costs is not anticipated to reoccur in FY 2012. According to the Office of Management and Budget, NJSEA's cash need will be significantly impacted by the potential lease/sale of NJSEA owned and operated racetracks in Meadowlands and Monmouth Park.

Capital Construction

Budget Item	Adj. Approp. FY 2011	Recomm. FY 2012	Dollar Change	Percent Change	Budget Page
New Jersey Building Authority-General State Projects	**$26,429**	**$68,294**	**$41,865**	**158.4%**	**D-414**

According to the FY 2010 Debt Report, the amount of New Jersey Building Authority bonds issued for general State projects totaled $932.2 million with $661.6 million in bonds outstanding and a final maturity date of December 15, 2026. FY 2012 debt service on bonds outstanding is approximately $88.8 million according to the debt service schedule in the FY 2010 Debt Report. The FY 2012 Governor's Budget recommends an appropriation of $68.294 million, about $20.472 million lower than the reported debt service amount. New Jersey Building Authority bonds were refinanced in FY 2009 through two debt restructurings which, according to the Debt Report and the 2009 Building Authority Annual Report, reduced debt service obligations in FY 2010. According to the Administration, it was anticipated that $51 million would be saved through the issuance of refunding bonds in FY 2011. However, the Administration indicates that the issue has been delayed and now expects it to be completed before December 2011 for anticipated FY 2012 savings of $30.5 million. In order to provide funding to support the full cost of debt service in FY 2011, $46 million has been transferred to the New Jersey Building Authority account. Also, $4 million was provided from a portion of available New Jersey Building Authority project funds, re-purposed for debt retirement. If $30.5 million in savings from anticipated FY 2012 debt restructuring are achieved, the recommended appropriation of $68.294 million would provide approximately $10 million more than needed to pay for estimated debt service in FY 2012.

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

Budget Item	Adj. Approp. FY 2011	Recomm. FY 2012	Dollar Change	Percent Change	Budget Page

EMPLOYEE BENEFITS

There are three main categories within the Employee Benefits accounts: Pensions and Post Retirement Medical Benefits; Health Benefits; and Other Fringe Benefits, i.e., employer taxes. All State employees, and most employees of counties, municipalities, and school districts, are members of one of the seven State retirement systems: Public Employees' Retirement System (PERS), Teachers' Pension and Annuity Fund (TPAF), Police and Firemen's Retirement System (PFRS), Consolidated Police and Firemen's Pension Fund (CPFPF), State Police Retirement System (SPRS), Judicial Retirement System (JRS), and Prison Officer's Pension Fund (POPF). Under current law, all defined pension benefit plans are subject to actuarial valuation every year and actuarial experience studies every three years. Employee benefits for State employees are included in Direct State Services; Grants-In-Aid include benefits for employees of State higher educational institutions in Grants-In-Aid.

Employee Benefits Grand Total State Appropriation	**$2,819,296**	**$2,415,426**	**($403,870)**	**(14.3%)**	**D-421**

EMPLOYEE BENEFITS			
State and Higher Education Employees			
Appropriations Changes from FY 2011 to FY 2012 by Program (000's) (1)			
	Change in Direct State Service State Employees	**Change in Grants-In-Aid Higher Education**	**Total Change**
Pensions (2)	($158,706)	($ 14,640)	($173,346)
Pensions – Non-Contributory Insurance	$ 1,152	$ 1,584	$ 2,736
Total Health Benefits Active	($ 95,868)	($ 30,305)	($126,173)
Post Retirement Medical Benefits	($ 20,264)	($ 3,976)	($24,240)
Employer Taxes	($ 29,233)	($ 62,495)	($ 91,728)
Pension Bonds	$ 8,397	$ 484	$ 8,881
Total	($294,522)	($109,348)	($403,870)

Notes:
1. The Education and Treasury budgets contain pension, non-contributory insurance, post retirement medical, and pension bond amounts for education employees and some police and firemen, respectively. Changes in those appropriations are not included above.
2. This amount also includes the proposed appropriations for the Alternate Benefit Program, the Defined Contribution Program, and the Pension Adjustment Act.

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

Budget Item	Adj. Approp. FY 2011	Recomm. FY 2012	Dollar Change	Percent Change	Budget Page

The FY 2012 Governor's Budget recommends an appropriation of approximately $2.415 billion to provide funding for employee benefits for both Direct State Services (DSS – State employees) and Grants-In-Aid (GIA – higher education). This is $403.9 million, or 14.3 percent, lower than the FY 2011 adjusted appropriation of $2.819 billion. This proposed decrease is due to a projected reduction in State Employees' Health Benefits and post retirement medical benefits from proposed modifications of health care benefits for active employees and retirees, the proposed early payment of the FY 2012 employer pension contribution for the combined State-administered Retirement System pursuant to P.L.2010, c.1 through FY 2011 supplemental appropriations for each of the State's defined benefit retirement systems, and lower employer taxes due to workforce trends and a technical adjustment for colleges. These savings are partially offset by an increase in non-contributory insurance for the State-administered retirement systems and higher pension bond debt service obligations. Details of the Direct State Services and Grants-In-Aid sections of the Employee Benefits budget are discussed in order below.

Direct State Services

Budget Item	Adj. Approp. FY 2011	Recomm. FY 2012	Dollar Change	Percent Change	Budget Page
Employee Benefits Total Direct State Services	**$1,942,675**	**$1,648,153**	**($294,522)**	**(15.2%)**	**D-419**

The FY 2012 Governor's Budget recommends an appropriation of approximately $1.648 billion to provide funding for employee benefits in Direct State Services. This is $294.522 million, or 15.2 percent, lower than the FY 2011 adjusted appropriation of $1.943 billion. This proposed reduction is due primarily to: (1) $158.706 million in pension savings from moving the FY 2012 employer pension payment required under P.L.2010, c.1 to the current year through proposed PERS, PFRS, SPRS, TPAF, and JRS supplemental appropriations of $159.199 million, offset by increases of $493,000 in Alternate Benefit Program, Defined Benefits Contribution Program and Pension Adjustment Act funding; (2), $95.868 million in net savings from proposed modifications to health care benefits for both State active members and retirees, attrition, and a funding shift; (3) $20.264 million in post retirement medical savings from proposed modifications to health care benefits; and (4) $29.233 million in reduced employer taxes from lower workforce levels. These reductions totaling $304.071 million are partially offset by a projected increase in non-contributory insurance totaling $1.152 million and an increase in debt service totaling $8.397 million paid towards the outstanding balance of the pension bonds issued under P.L.1997, c.114. The components of change in each of these employee benefits programs are explained below.

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

Budget Item	Adj. Approp. FY 2011	Recomm. FY 2012	Dollar Change	Percent Change	Budget Page
Pensions					
Public Employees' Retirement System	(S)$108,122	$0	($108,122)	(100.0%)	D-419
Police and Firemen's Retirement System	(S) $27,727	$0	($27,727)	(100.0%)	D-419
Police and Firemen's Retirement System (P.L.1979, c.109)	(S) $968	$0	($ 968)	(100.0%)	D-419
State Police Retirement System	(S) $16,215	$0	($16,215)	(100.0%)	D-420
Judicial Retirement System	(S) $5,438	$0	($5,438)	(100.0%)	D-420
Teachers' Pension and Annuity Fund	(S) $729	$0	($ 729)	(100.0%)	D-420
Total State-administered Defined Benefit Retirement System	(S)$159,199	$0	($159,199)	(100.0%)	----

P.L.2010, c.1 requires the State, beginning in FY 2012, to make in full the annual employer's contribution, as computed by the actuaries, to the PERS, TPAF, PFRS, SPRS, JRS, CPFPF, and the POPF. The law further provides that the State could comply with this requirement by making a payment, to each State-administered retirement system or fund, of at least 1/7th of the full contribution for FY 2012, and making a payment in each subsequent fiscal year that increases by at least an additional 1/7th until payment of the full contribution is made in the eighth fiscal year and thereafter. Full funding of the annual actuarially required employer contribution for the State-administered defined benefits retirement systems is approximately $3.542 billion in FY 2012. The Governor proposes total supplemental appropriations in FY 2011 of $506 million as an early first payment under P.L.2010, c.1, representing 1/7 of the actuarially required contribution based on the June 30, 2010 actuarial valuation, and no funding of a second payment in FY 2012. For the Interdepartmental Accounts budget, this means that a total of $159.199 million is projected in FY 2011 through supplemental appropriations for PERS, PFRS, SPRS, TPAF, and JRS.

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

Budget Item	Adj. Approp. FY 2011	Recomm. FY 2012	Dollar Change	Percent Change	Budget Page
Alternate Benefit Program-Employer Contributions	**$1,299**	**$1,326**	**$ 27**	**2.1%**	**D-419**

The Alternate Benefit Program (ABP) (N.J.S.A. 18A:66-167 et seq.) is principally for full-time faculty of public institutions of higher education, but also includes certain State professional administrative staff. Participants have the option to provide for their retirement through the purchase of fixed or variable annuities underwritten by private vendors, the Teachers Insurance and Annuity Association (TIAA), or the College Retirement Equities Fund (CREF). The minimum contribution by employees is five percent of base salary. The employers (State and institutions of higher education) contribute a flat rate of eight percent of base salary. This contribution is included in the Interdepartmental Accounts and the Department of the Treasury's recommended budgets (the latter for county college faculty). The FY 2012 Governor's Budget recommends an appropriation of $1.326 million in FY 2012, consistent with the assumption of 3 percent salary growth above a revised FY 2011 base that is lower than originally assumed.

Budget Item	Adj. Approp. FY 2011	Recomm. FY 2012	Dollar Change	Percent Change	Budget Page
Defined Contribution Retirement Program	**$219**	**$773**	**$ 554**	**253.0%**	**D-419**

P.L.2007, c.92 established a Defined Contribution Retirement Program (DCRP) for elected and certain appointed officials and for certain other public employees. State and local government employers contribute three percent of the employee's base salary; group life insurance and the option for disability benefits coverage are provided to participants. Participants contribute 5.5 percent of their salary. P.L.2010, c.1 expanded the participation in the DCRP to include new public employees and teachers who do not meet the required number of work hours necessary to participate in the PERS and the TPAF and new PFRS (Corrections Officers) and SPRS (State Police Officers) employees whose salary exceeds the annual maximum wage contribution base for Social Security, which is $106,800 for calendar year 2011. The FY 2012 Governor's Budget recommends an appropriation of $773,000 to provide full funding of the calculated State contribution, including the projected increase in enrollment in the DCRP from the enactment of P.L.2010, c.1. The Division of Pensions and Benefits projects that membership in the DCRP will grow by approximately 80 percent in FY 2012.

Budget Item	Adj. Approp. FY 2011	Recomm. FY 2012	Dollar Change	Percent Change	Budget Page
Pension Adjustment Program	**$1,254**	**$1,166**	**($ 88)**	**(7.0%)**	**D-420**

The Pension Adjustment Program appropriation provides funding for cost-of-living adjustments (COLAS) in the benefits paid to retirees of the three closed State-administered defined benefit pension retirement systems: the Consolidated Police and Firemen Pension Fund (CPFPF), the Prison Officers Pension Fund (POPF), and the Central Pension Fund. The remaining State-administered defined benefit retirement systems' COLAs are paid as part of the liability of each system. Under the Pension Adjustment Fund, there is a fixed adjustment for those individuals who retired prior to January 1, 1955, and, for retirees after that date, the adjustment is 60

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

Budget Item	Adj. Approp. FY 2011	Recomm. FY 2012	Dollar Change	Percent Change	Budget Page

percent of the change in the consumer price index. Retirees become eligible for the adjustment 24 months after retirement. This program is funded on a pay-as-you-go basis through annual employer contributions. The proposed reduction is due to fewer living retirees receiving the pension adjustment.

Non-Contributory Insurance

Budget Item	Adj. Approp. FY 2011	Recomm. FY 2012	Dollar Change	Percent Change	Budget Page
Public Employees' Retirement System–Non-contributory Insurance	**$26,852**	**$27,625**	**$ 773**	**2.9%**	**D-419**
Police and Firemen's Retirement System-Non-contributory Insurance	**$8,262**	**$8,477**	**$ 215**	**2.6%**	**D-419**
Alternate Benefit Program-Non-contributory Insurance	**$180**	**$198**	**$ 18**	**10.0%**	**D-419**
Defined Contribution Retirement Program-Non-contributory Insurance	**$124**	**$197**	**$ 73**	**58.9%**	**D-420**
State Police Retirement System-Non-contributory Insurance	**$1,780**	**$1,833**	**$ 53**	**3.0%**	**D-420**
Judicial Retirement System-Non-contributory Insurance	**$911**	**$938**	**$ 27**	**3.0%**	**D-420**
Teachers' Pension and Annuity Fund-Non-contributory Insurance	**$79**	**$72**	**($ 7)**	**(8.9%)**	**D-420**
Total State-Non-contributory Insurance	**$38,188**	**$39,340**	**$ 1,152**	**3.0%**	**---**

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

Budget Item	Adj. Approp. FY 2011	Recomm. FY 2012	Dollar Change	Percent Change	Budget Page

Non-contributory insurance accounts fund the group life insurance plan for enrolled members, also known as the death benefit. Non-contributory insurance comprises part of the State's annual required contributions to the State-administered retirement systems, but is paid in full each year. Non-contributory group insurance is a group insurance plan in which the insured members pay no portion of the premium for their insurance. The group policyholder pays the entire premium. The enrollment of group members is automatic and all eligible members are covered. The FY 2012 Governor's Budget recommends a total combined appropriation for Non-contributory Insurance of $39.340 million, representing the full anticipated pay-as-you–go cost. This is $1.152 million, or 3 percent, higher than the FY 2011 adjusted appropriation of $38.188 million. According to the Division of Pensions and Benefits, the majority of the proposed non-contributory insurance cost estimates assume a 3 percent to 7.5 percent increase in claim charges between FY 2011 and FY 2012. The non-contributory insurance proposed cost estimates for the Alternate Benefits program assume a 10 percent increase in claim charges from FY 2011 to FY 2012. For the DCRP, the proposed cost increase of 58.9 percent for non-contributory insurance is due to the expansion in membership of the program under P.L.2010, c.1.

Health Benefits

Budget Item	Adj. Approp. FY 2011	Recomm. FY 2012	Dollar Change	Percent Change	Budget Page
State Employees' Health Benefits	**$650,254**	**$565,766**	**($84,488)**	**(13.0%)**	**D-420**
State Employees' Prescription Drug Program	**$205,407**	**$182,388**	**($23,019)**	**(11.2%)**	**D-420**
State Employees' Dental Program-Shared Cost	**$14,794**	**$26,433**	**$11,639**	**78.7%**	**D-420**
Total State, Health Benefits	**$870,455**	**$774,587**	**($95,868)**	**(11.0%)**	**---**

The appropriations for State employees' health benefits, prescription drugs, and dental coverage pertain to active State employees. The FY 2012 net reduction in these accounts is due primarily to proposed modifications to health care benefits which are partially offset by the overall anticipated increases in health care premiums, prescription drug and dental program costs. It should be noted that few details of the proposed modifications to health care benefits that are assumed in the FY 2012 budget have been provided. Available information suggests that the proposed modifications to health care benefits are a combination of shifting to a percentage of premium sharing model and modifying benefits for active State employees and retirees roughly estimated to be: (1) a 10 percent premium share; (2) a three to four percent premium savings from modifying benefits, e.g., co-pays for primary, specialist and emergency room visits, deductibles, and prescription drug co-pays; and (3) additional savings from eliminating the NJ

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

Budget Item	Adj. Approp. FY 2011	Recomm. FY 2012	Dollar Change	Percent Change	Budget Page

DIRECT 10 plan and offering more health plan option. Additionally, a September 1, 2011 implementation date is assumed.

State Employees' Health Benefits: the FY 2012 Governor's Budget assumes a net reduction of $84.5 million, or 13 percent, in State Health Benefits Program (SHBP) costs. Information from the Office of Management and Budget indicates that this decrease consists of $93.3 million in reductions offset by $8.8 million in increased program growth costs. The reduction items are: $91.0 million in savings from proposed modifications to health care benefits, $1.1 million in savings from attrition, and $1.2 million in savings due to program shifts to non-State funds. These savings are partially offset by $8.8 million in increased costs, consistent with the rate renewal assumption of 4.53 percent above a FY 2011 cost base that is lower than originally estimated.

Prescription Drugs: the FY 2012 Governor's Budget assumes a net reduction of $23.019 million in prescription drug costs for State active employees. According to the Office of Management and Budget, the reduction is due mainly to proposed modifications to health care benefits and attrition savings that are anticipated to save a combined $29.8 million in prescription drug costs in FY 2012. According to the budget, these savings are partially offset by an increase of $6.83 million due to higher costs of prescription drugs in FY 2012. According to the Division of Pensions and Benefits, prescription drug costs are anticipated to grow by 8.05 percent in FY 2012, based on the FY 2011 rate renewal estimates, above a FY 2011 cost base that is lower than originally estimated.

State Employees' Dental Program: the FY 2012 Governor's Budget recommends an appropriation of $26.4 million for State Employees' Dental Program costs (dental insurance coverage). This increase is due to lower projected fund balances in the Dental Expense Program Fund with which to offset FY 2012 costs. In FY 2011, larger balances were available and were used to cover incurred claim charges.

Post Retirement Medical Benefits

The Post Retirement Medical accounts fund benefits for State employees who retire after 25 years of service as members of various retirement systems. Employees who accrue 25 years of service receive paid health benefits coverage and reimbursement of the prevailing cost of Medicare Part B according to the terms specified in the union contract applicable to them at the time they attain 25 years of service credit or retire on disability. Post retirement medical benefits are funded on a pay-as-you–go basis.

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

Budget Item	Adj. Approp. FY 2011	Recomm. FY 2012	Dollar Change	Percent Change	Budget Page
Public Employees' Retirement System-Post Retirement Medical	**$257,505**	**$238,813**	**($18,692)**	**(7.3%)**	**D-419**

According to the Office of Management and Budget, this reduction is due primarily to savings from proposed modifications to health care benefits of $30.435 million, which is partially offset by an increase of $11.743 million reflecting medical cost growth, estimated at about 10.2 percent. Given that the Executive intends to lapse part of the FY 2011 appropriation, the current cost base estimate appears to have been lowered.

Budget Item	Adj. Approp. FY 2011	Recomm. FY 2012	Dollar Change	Percent Change	Budget Page
Teachers' Pension and Annuity Fund-Post Retirement Medical	**$3,355**	**$2,894**	**($ 461)**	**(13.7%)**	**D-420**

The FY 2012 Governor's Budget recommends this reduction, assuming $57,000 in lower costs based on participant and cost trends and savings from proposed modifications to health care benefits of $404,000.

Budget Item	Adj. Approp. FY 2011	Recomm. FY 2012	Dollar Change	Percent Change	Budget Page
Other Pension Systems-Post Retirement Medical	**$85,672**	**$84,561**	**($1,111)**	**(1.3%)**	**D-420**

According to the Office of Management and Budget, savings from proposed modifications to health care benefits are expected to total $8.648 million, which is partially offset by an increase of $7.537 million in growth of medical costs, anticipated at about 13.1 percent. Mid-year review of actual program costs indicates that post retirement medical costs will be lower than originally estimated in FY 2011.

Budget Item	Adj. Approp. FY 2011	Recomm. FY 2012	Dollar Change	Percent Change	Budget Page
Debt Service on Pension Obligation Bonds	**$98,251**	**$106,648**	**$ 8,397**	**8.5%**	**D-420**

P.L.1997, c.114 authorized the Economic Development Authority to issue bonds to finance a portion of the unfunded accrued liability of the State pension system. This appropriation represents a portion of debt service payments on these bonds. Total pension obligation bond debt service is recommended at $270.633 million in FY 2012, consistent with the schedule of debt service payments provided in the FY 2010 Debt Report. Total funding for debt service on these bonds is budgeted in three departments: Interdepartmental Accounts, the Department of Education, and the Department of the Treasury. The Interdepartmental Accounts budget includes appropriations totaling $112.801 million: $106.648 million in Direct State Services and $6.153 million in Grants-In-Aid (higher education). The budget of the Department of

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

Budget Item	Adj. Approp. FY 2011	Recomm. FY 2012	Dollar Change	Percent Change	Budget Page

Education includes an appropriation for debt service on pension obligation bonds of $143.417 million and the remaining $14.415 million is budgeted in the Department of the Treasury.

Employer Taxes

Social Security Tax - State	**$391,619**	**$379,367**	**($12,252)**	**(3.1%)**	**D-420**

The Social Security Tax-State appropriation provides funding for the employer's share of Social Security contributions for State employees, not including employees of institutions of higher education. The recommended appropriation is an estimate of the funding required to meet the State's liability as an employer to pay Federal Insurance Contributions Act (FICA), Old Age, Survivors, and Disability Insurance (OASDI), and Medicare taxes. The current employer rate for Social Security is 6.2 percent of taxable wages and the rate for Medicare is 1.45 percent. There is no Medicare wage base, so Medicare taxes are paid on total compensation. The taxable wage base for Social Security of $106,800 was the same in calendar year 2010 and calendar year 2011, and has yet to be established for 2012.

Information from the Office of Management and Budget indicates that the recommended $12.252 million reduction results from $10.418 million due to lower workforce levels, $665,000 from additional attrition, and $1.169 million in fringe savings from the elimination of the Sick Leave Injury program under P.L.2010, c. 3. The Division of Pensions and Benefits estimates that the growth in taxable wages will be one percent between FY 2011 and FY 2012, and it appears that FY 2011 costs will be lower than originally projected.

Temporary Disability Insurance Liability	**$11,860**	**$11,750**	**($ 110)**	**(.9%)**	**D-420**

All eligible State employees are included in the State Temporary Disability Insurance plan. The plan is a shared-cost plan which provides payments to employees who are unable to work as the result of non-work connected illness or injury and who have exhausted their sick leave and are ineligible for any unemployment compensation or worker's compensation. Employees and employers contribute 0.5 percent of compensation up to the State taxable wage base. The State taxable wage base in 2011 is $29,600. Information from the Office of Management and Budget indicates that $72,000 of the reduction is due to lower workforce levels and $38,000 is due to fringe savings from the elimination of the Sick Leave Injury program pursuant to P.L.2010, c.3. The Division of Pensions and Benefits estimates that the TDI employer rate is expected to remain at 0.5 percent of taxable wages in FY 2012 and that taxable wages are assumed to increase by one percent.

Unemployment Insurance Liability	**$22,631**	**$5,760**	**($16,871)**	**(74.5%)**	**D-420**

The Unemployment Insurance Liability program's recommended appropriation is the estimated amount the State is required to pay in unemployment claims for former State employees if the

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

Budget Item	Adj. Approp. FY 2011	Recomm. FY 2012	Dollar Change	Percent Change	Budget Page

employee payroll tax proves to be insufficient. Unlike private industry, the State does not contribute a matching percentage of compensation to fund the Unemployment Compensation Trust Fund. The State operates on a pay-as-you-go basis. Employees contribute 0.2 percent of salary, up to the unemployment wage base of $29,600. After the employees' contribution is disbursed, the State, as an employer, contributes sufficient funds to ensure the program meets its obligations. The FY 2011 appropriation appears to be excessive, because it was determined that the State's Extended Benefit Program would end in April 2011, with payments ending in June 2011, instead of August 2011. As a result, FY 2011 program costs are estimated at $14.383 million, $8.248 million below the original appropriation. Further reduction is due to anticipated lower reimbursable charges for regular unemployment insurance claims (from fewer layoffs and reemployment) and from Sick Leave Injury Program fringes savings under P.L.2010, c.3, offset by a two percent increase in plan assessment costs and a one percent increase in taxable wages.

Grants-In-Aid

Employee Benefits

Budget Item	Adj. Approp. FY 2011	Recomm. FY 2012	Dollar Change	Percent Change	Budget Page
Employee Benefits Total Grants-in-Aid	**$876,621**	**$767,273**	**($109,348)**	**(12.5%)**	**D-420**

The FY 2012 Governor's Budget recommends an appropriation of $767.273 million for benefits for active and retired employees of public colleges and universities. This is $109.348 million, or 12.5 percent, less than the FY 2011 adjusted appropriation of $876.621 million. This overall reduction is driven by: (1) $14.640 million in reduced employer contributions to the pension system, from the proposal to fund the first employer pension payment required under P.L.2010, c.1 to t through FY 2011 supplemental appropriations; and lower Alternate Benefit Program costs; (2) $30.305 million in net savings from proposed modifications to health care benefits, affecting both active members and retirees, which is partially offset by increases in program growth; (3) $3.976 million in net savings in post retirement medical benefits from proposed modifications to health care benefits, which is partially offset by increases in program growth; (4) $62.495 million in reduced employer taxes resulting primarily from a technical adjustment to payment of State colleges and universities' social security tax. These net employee benefit program reductions of $111.416 million are partially offset by $1.584 million in higher payments for the non-contributory insurance program, and an increase of $484,000 in projected pension bond debt service. The components of change in each of these employee benefit programs are explained below.

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

Budget Item	Adj. Approp. FY 2011	Recomm. FY 2012	Dollar Change	Percent Change	Budget Page
Pensions					
Public Employees' Retirement System	**(S)$10,110**	**$0**	**($10,110)**	**(100.0%)**	**D-420**
Police and Firemen's Retirement System	**(S) $2,136**	**$0**	**($2,136)**	**(100.0%)**	**D-420**
Teachers' Pension and Annuity Fund	**(S) $170**	**$0**	**($ 170)**	**(100.0%)**	**D-421**
Total State-administered Defined Benefit Retirement System-GIA	**(S)$12,416**	**$0**	**($12,416)**	**(100.0%)**	**---**

P.L.2010, c.1 requires the State, beginning in FY 2012 to make in full the annual employer's contribution, as computed by the actuaries, to the State-administered defined benefit retirement systems. The law further provides that the State could comply with this requirement by making a payment to each State-administered retirement system or fund of at least 1/7th of the full contribution for FY 2012, and a payment in each subsequent fiscal year that increases by at least an additional 1/7th until payment of the full contribution is made in the eighth fiscal year and thereafter. According to the Division of Pensions and Benefits, full funding of the annual actuarially required employer contribution is approximately $3.542 billion in FY 2012. The Governor proposes total supplemental appropriations in FY 2011 of $506 million as an early first payment under P.L.2010, c.1, representing 1/7 of the actuarially required contribution based on the June 30, 2010 actuarial valuation, and no funding of a second payment in FY 2012. For State-administered retirement systems in the Grants-In-Aid portion of the Interdepartmental Accounts budget, this means that a total of $12.416 million is projected in FY 2011 through supplemental appropriations for PERS, PFRS, and TPAF.

Alternate Benefit Program Employer Contributions	**$136,970**	**$134,746**	**($2,224)**	**(1.6%)**	**D-421**

The Alternate Benefit Program (ABP) (N.J.S.A. 18A:66-167 et seq.) is principally for full-time faculty of public institutions of higher education, but also includes certain State professional administrative staff. Participants have the option to provide for their retirement through the purchase of fixed or variable annuities underwritten by private vendors, the Teachers Insurance and Annuity Association (TIAA), or the College Retirement Equities Fund (CREF). The minimum contribution by employees is five percent of base salary. The employers (State and institutions of higher education) contribute a flat rate of eight percent of base salary. According to the Division of Pensions and Benefits, salaries are assumed to increase by three percent in the budget year. Mid-year review of program costs indicated that employer costs in FY 2011 will

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

Budget Item	Adj. Approp. FY 2011	Recomm. FY 2012	Dollar Change	Percent Change	Budget Page

be lower than originally forecast by about $6.5 million, which accounts for the net decrease in recommended funding.

Non-contributory Insurance

Budget Item	Adj. Approp. FY 2011	Recomm. FY 2012	Dollar Change	Percent Change	Budget Page
Public Employees' Retirement System-Non-contributory Insurance	**$2,661**	**$2,773**	**$ 112**	**4.2%**	**D-420**
Police and Firemen's Retirement System-Non-contributory Insurance	**$317**	**$359**	**$ 42**	**13.2%**	**D-420**
Teachers' Pension and Annuity Fund-Non-contributory Insurance	**$15**	**13**	**($ 2)**	**(13.3%)**	**D-421**
Alternate Benefit Program-Non-contributory Insurance	**$19,427**	**$20,859**	**$ 1,432**	**7.4%**	**D-421**
Total GIA Non-contributory Insurance	**$22,420**	**$24,004**	**$ 1,584**	**7.1%**	**---**

The Non-contributory Insurance account funds the group life insurance plan for enrolled members, also known as the death benefit. Non-contributory Insurance comprises part of the State's annual required contributions, but is paid in full each year. Non-contributory group insurance is a group insurance plan in which the insured members pay no portion of the premium for their insurance. The group policyholder pays the entire premium. The enrollment of group members is automatic and all eligible members are covered. The FY 2012 Governor's Budget recommends a total combined appropriation for Non-contributory Insurance of about $24 million, representing the full anticipated pay-as-you–go cost.

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

Budget Item	Adj. Approp. FY 2011	Recomm. FY 2012	Dollar Change	Percent Change	Budget Page
Health Benefits					
State Employees' Health Benefits	$305,961	282,544	($23,417)	(7.7%)	D-421
State Employees' Prescription Drug Program	$92,723	$85,354	($7,369)	(7.9%)	D-421
State Employees' Dental Program Shared Cost	$11,541	$12,022	$ 481	4.2%	D-421
Total State, Health Benefits	$410,225	$379,920	($30,305)	(7.4%)	---

The appropriations for State employees' health benefits, prescription drugs, and dental coverage pertain to active employees of institutions of higher education and are recommended at $379.920 million. The FY 2012 net reduction is due primarily to savings from proposed modifications to health care benefits, which are partially offset by anticipated increases in health care, prescription drug and dental program costs. It should be noted that few details of the proposed modifications to health care benefits assumed in the FY 2012 budget have been provided. Available information suggests that these proposed changes are a combination of shifting to a percentage of premium sharing model and modifying benefits for active State employees and retirees roughly estimated to be: (1) a 10 percent premium share; (2) a three to four percent premium savings from modifying benefits, e.g., co-pays for primary, specialist and emergency room visits, deductibles, and prescription drug co-pays; and (3) additional savings from eliminating the NJ DIRECT 10 plan and offerings more health plan options. Additionally, a September 1, 2011 implementation date is assumed.

State Health Benefits Program: the FY 2012 Governor's Budget assumes a reduction of $23.4 million, or 7.7 percent, in State Health Benefits Program (SHBP) costs. Information from the Office of Management and Budget indicates that the proposed reduction is due to $42.255 million in savings from proposed modifications to health care benefits, which are partially offset by an increase of $18.8 million in program growth due to premium rate renewal increases of 6.5 percent.

Prescription Drugs: the FY 2012 Governor's Budget assumes a reduction of $7.369 million in prescription drug costs for active employees of institutions of higher education. According to the Office of Management and Budget, the reduction is due mainly to proposed modifications to health care benefits measures that are anticipated to save $13.746 million in prescription drug costs in FY 2012. These savings are partially offset by an increase of $6.377 million in the projected cost of prescription drugs. Prescription drug costs are anticipated to grow by 8.9

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

Budget Item	Adj. Approp. FY 2011	Recomm. FY 2012	Dollar Change	Percent Change	Budget Page

percent in FY 2012 based on the FY 2011 rate renewal estimates. Mid-year review of actual program costs indicates that prescription drug costs will be lower than originally forecast for FY 2011.

State Employees' Dental Program: the FY 2012 Governor's Budget recommends an appropriation of $12.022 million for dental insurance for active employees of institutions of higher education, an increase of 4.2 percent that is consistent with recent cost trends.

Post Retirement Medical Benefits

The Post retirement medical accounts fund benefits for employees of institutions of higher education who retire after 25 years of service as members of various retirement systems. Employees who accrue 25 years of service receive paid health benefits coverage and reimbursement of the prevailing cost of Medicare Part B according to the terms specified in the union contract applicable to them at the time they attain 25 years of service credit or retire on disability. Post retirement medical benefits are funded on a pay-as-you–go basis.

Public Employees' Retirement System-Post Retirement Medical	**$40,526**	**$37,293**	**($3,233)**	**(8.0%)**	**D-420**

According to the Office of Management and Budget, this reduction is due primarily to savings from proposed modifications to health care benefits of $4.756 million, which are partially offset by an increase of $1.523 million in medical cost estimated at about 10.2 percent. The current year cost base estimate appears to have been lowered, given that the Executive intends to lapse part of the FY 2011 appropriation.

Teachers' Pension and Annuity Fund-Post Retirement Medical	**$4,976**	**$4,292**	**($ 684)**	**(13.7%)**	**D-421**

The FY 2012 Governor's Budget recommends a reduction of $684,000, or 13.7 percent assuming $85,000 in lower costs based on participation and costs trends, and $99,000 in proposed retiree health benefit modifications.

Other Pension Systems-Post Retirement Medical	**$26,052**	**$25,993**	**($ 59)**	**(.2%)**	**D-421**

According to the Office of Management and Budget, this reduction is due to savings from proposed modifications to health care benefits of $2.61 million, which are partially offset by an increase of $2.55 million in program growth.

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

Budget Item	Adj. Approp. FY 2011	Recomm. FY 2012	Dollar Change	Percent Change	Budget Page
Debt Service on Pension Obligation Bonds	**$5,669**	**$6,153**	**$ 484**	**8.5%**	**D-421**

P.L.1997, c.114 authorized the Economic Development Authority to issue bonds to finance a portion of the unfunded accrued liability of the State pension system. This appropriation represents a portion of the debt service payments on these bonds. Total pension obligation bond debt service is estimated to be $270.633 million in FY 2012, consistent with schedule of debt service payments provided in the FY 2010 Debt Report. Total funding for debt service on these bonds is budgeted in three departments: Interdepartmental Accounts, the Department of Education, and the Department of the Treasury. The Interdepartmental Accounts budget includes appropriations totaling $112.801 million: $106.648 million in Direct State Services and $6.153 million in Grants-In-Aid (higher education). The budget of the Department of Education includes an appropriation for debt service on pension obligation bonds of $143.417 million, and the remaining $14.415 million is budgeted in the Department of the Treasury.

Employer Taxes

Budget Item	Adj. Approp. FY 2011	Recomm. FY 2012	Dollar Change	Percent Change	Budget Page
Social Security Tax - State	**$196,721**	**$143,750**	**($52,971)**	**(26.9%)**	**D-421**

The Social Security Tax-State appropriation provides funding for the employer's share of Social Security contributions for employees of institutions of higher education. The recommended appropriation is an estimate of the funding required to meet the employer's liability to pay Federal Insurance Contributions Act (FICA), Old Age, Survivors, and Disability Insurance (OASDI), and Medicare taxes. The current employer rate for Social Security is 6.2 percent of taxable wages and the rate for Medicare is 1.45 percent. There is no Medicare wage base, so Medicare taxes are paid on total compensation. The taxable wage base for Social Security remained the same from calendar year 2010 to calendar year 2011 at $106,800, and has not yet been determined for 2012. Information from the Office of Management and Budget indicates that the recommended $52.971 million reduction is due to a technical adjustment in the way the senior public colleges' social security tax payment will be budgeted. In prior years, the appropriation provided funds to the colleges to cover the cost of the employer tax for all college employees, and the colleges subsequently reimbursed the State for the cost of employees that were not State-supported. The FY 2012 appropriation provides support for only State-funded employees. There is a corresponding reduction in anticipated revenues from college and university reimbursements.

Budget Item	Adj. Approp. FY 2011	Recomm. FY 2012	Dollar Change	Percent Change	Budget Page
Unemployment Insurance Liability	**$14,106**	**$4,580**	**($9,526)**	**(67.5%)**	**D-421**

The Unemployment Insurance Liability program's recommended appropriation is the estimated amount the State is required to pay in unemployment claims for former employees if the employee payroll tax proves to be insufficient. Unlike private industry, the State does not

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

Budget Item	Adj. Approp. FY 2011	Recomm. FY 2012	Dollar Change	Percent Change	Budget Page

contribute a matching percentage of compensation to fund the Unemployment Compensation Trust Fund. The State operates on a pay-as-you-go basis. Employees contribute 0.2 percent of salary, up to the unemployment wage base of $29,600. After the employees' contribution is disbursed, the State, as an employer, contributes sufficient funds to meet the program obligations. The FY 2011 appropriation appears to be excessive because it was determined that the State's Extended Benefit Program would end in April 2011, with payments ending in June 2011, instead of August 2011. As a result, FY 2011 costs are estimated at $9.089 million, or $5.017 million less than the FY 2011 appropriation of $14.106 million. Further reduction is due to anticipated lower reimbursable charges for regular unemployment insurance claims (from fewer layoffs and reemployment), which are partially offset by a two percent increase in plan assessment costs.

SALARY INCREASES

Budget Item	Adj. Approp. FY 2011	Recomm. FY 2012	Dollar Change	Percent Change	Budget Page
Salary Increases and Other Benefits	**($29,440)**	**$95,962**	**---**	**---**	**D-423**

Salary increases for existing State positions are budgeted centrally in the Interdepartmental Accounts budget, and are then allocated to individual departments/agencies during the fiscal year. Salary increases include employee increments, cost-of living adjustments (COLAs), and bonuses according to contractual agreements. The FY 2012 Governor's Budget recommendation for Salary Increases and Other Benefits is $95.9 million. The FY 2012 salary need of $125.9 million for the Executive, Judicial, and Legislative Branches consists of $49 million in progression payments (increments), $61.9 million in COLAs, and $18.6 million in retroactive costs of unsettled contracts. This gross need is partially offset by $25 million in projected Judicial Branch efficiencies and $8.7 million in savings from attrition. The negative adjusted appropriation for FY 2011 indicates that more funding was added to agency FY 2011 appropriation displays than was appropriated in this account. If this added amount is actually transferred to agency appropriations during FY 2011, then the shortfall will be made up from prior year unexpended balances carried forward into FY 2011.

Significant Language Changes

Property Rentals-Motor Vehicle Commission Management and Procurement Efficiencies

Addition

2011 Handbook: p.—
2012 Budget: p.D-415

Notwithstanding the provisions of section 105 of P.L.2003, c.13 (C.39:2A-36) or any law to the contrary, $10,940,000 is appropriated from the revenues appropriated to the Motor Vehicle Commission for transfer to the Interdepartmental Property Rentals account to reflect savings from implementation of management and procurement efficiencies, subject to the approval of the Director of the Division of Budget and Accounting.

Explanation

Over the past four years, management, procurement, and other efficiency savings initiatives have been budgeted in the Property Rentals account until each department's allocation of the savings has been determined over the course of year. Once the savings per department have been determined, the Property Rentals account is reimbursed by transfers from each department. In the following year, each department's base budget is reduced by the savings and the Property Rentals base budget is increased by the same amount. However, the Motor Vehicle Commission (MVC) does not receive an appropriation. Because of this, the MVC's base budget is not able to be reduced by the efficiency savings generated and the Property Rentals account is not able to be increased accordingly. As a result, the MVC must transfer prior years' efficiency savings to the Property Rentals account each year. The MVC achieved $1.675 million in efficiencies In FY 2009 and $9.265 million in FY 2010 for a total of $10.940 million. The FY 2012 proposed budget language authorizes the transfer of $10.940 million in MVC efficiency savings to the Property Rentals account.

Property Rentals-State Vehicle Recall Savings

Deletion

2011 Handbook: p.B-202
2012 Budget: p.—

~~Notwithstanding the provisions of any law or regulation to the contrary, the Director of the Division of Budget and Accounting shall transfer from departmental accounts and credit to the Property Rentals account such sums as necessary to reflect savings from a recall of State vehicles. The additional sum is appropriated to Property Rentals~~

EXPLANATION: FY 2011 language not recommended for FY 2012 denoted by strikethrough.
Recommended FY 2012 language that did not appear in FY 2011 denoted by underlining.

Significant Language Changes (Cont'd)

Explanation

The FY 2012 Governor's Budget recommends eliminating this language provision which provided the authority to the Director of the Division of Budget and Accounting to transfer an estimated $300,000 in savings derived from reducing the size of the State's motor pool by 325 cars, and credit those amounts to the Property Rentals account in order to offset leasing costs. Because the initiative is considered to be completed, and because other language provisions authorize the reallocation of savings related to motor pool initiatives, the language is not required.

Property Rentals-Security Savings

Deletion

2011 Handbook: p.B-202
2012 Budget: p.—

~~Notwithstanding the provisions of any law or regulation to the contrary, the Director of the Division of Budget and Accounting shall transfer from departmental accounts and credit to the Property Rentals account such sums as necessary to reflect savings from the reallocation of State Police guards within State-owned and leased facilities. This additional sum is appropriated to Property Rentals.~~

Explanation

The FY 2012 Governor's Budget recommends eliminating this language provision which provided the authority to the Director of the Division of Budget and Accounting to transfer an estimated $467,000 in FY 2011 savings from the replacement, reallocation, and reassignment of State Police civilian guards and credit those amounts to the Property Rentals account in order to offset leasing costs. Because the initiative is considered to be completed, the language is not required.

EXPLANATION: FY 2011 language not recommended for FY 2012 denoted by strikethrough.
Recommended FY 2012 language that did not appear in FY 2011 denoted by underlining.

Significant Language Changes (Cont'd)

Property Rentals-Post Warranty Product Maintenance

Addition

2011 Handbook: p.—
2012 Budget: p.D-415

<u>Notwithstanding the provisions of any law or regulation to the contrary, the Director of the Division of Budget and Accounting shall transfer from departmental accounts and credit to the Property Rentals account such sums as necessary to reflect savings from post warranty product maintenance initiatives. This additional sum is appropriated for Property Rentals.</u>

Explanation

The FY 2012 Governor's budget proposes to achieve savings of $1.425 million by consolidating contracts for warranties and maintenance and initiating the bidding process for service and maintenance contracts on State equipment. While the savings will affect various agency operating appropriations, the impact is initially reflected by reducing the Property Rentals account. This recommended budget language authorizes those savings to be transferred to the Property Rentals account.

Fuel and Utilities-Energy Conservation Initiatives

Deletion

2011 Handbook: p.B-203
2012 Budget: p.—

~~In addition to the sums hereinabove appropriated for Fuel and Utilities, the Director of the Division of Budget and Accounting shall transfer or credit to this account such sums that accrue from appropriations made to various spending agencies for Fuel and Utilities and Salaries and Wages, to reflect savings associated with electrical deregulation, fuel switch and other energy conservation initiatives.~~

Explanation

The FY 2012 Governor's Budget recommends eliminating this language provision as it is duplicative of and obviated by the transfer authority of the Director of the Division of Budget and Accounting under proposed language equivalent in effect to General Provision #23 of the FY 2011 appropriations act.

EXPLANATION: FY 2011 language not recommended for FY 2012 denoted by strikethrough.
Recommended FY 2012 language that did not appear in FY 2011 denoted by underlining.

Significant Language Changes (Cont'd)

Fuel and Utilities-Public Health, Environmental and Agricultural Laboratory

Revision

2011 Handbook: p.B-203
2012 Budget: p.D-416

Of the amount hereinabove appropriated for fuel and utility costs, amounts may be transferred to <u>or from</u> State departments to meet fuel and utility needs, subject to the approval of the Director of the Division of Budget and Accounting; and, in addition to the sums hereinabove appropriated for fuel and utility costs <u>and for the Public Health, Environmental and Agricultural Laboratory fuel and utility costs,</u> there are appropriated such additional sums as may be required to pay fuel and utility costs, subject to the approval of the Director of the Division of Budget and Accounting.

<u>Explanation</u>

The FY 2012 Governor's Budget recommends adding budget language that authorizes the Director of the Division of Budget and Accounting to appropriate additional sums as may be required to pay fuel and utility costs at the Public Health, Environmental and Agricultural Laboratory, reflecting the presence in the Budget of a second appropriation where those costs are funded. The FY 2012 Fuel and Utility account appropriation contains $1.210 million in funding for ongoing fuel and utility operating costs of the old Public Health, Environmental and Agricultural Laboratory because the opening of the new laboratory was delayed. In addition, the separate Public Health, Environmental and Agricultural Laboratory account appropriation contains $5.986 million in funding for fuel and utility operating costs of the new Public Health, Environmental and Agricultural Laboratory. This language permits the appropriation of additional funds to pay for fuel and utility costs of a Public Health, Environmental and Agricultural laboratory without further legislative involvement in the determination or the amount to be appropriated.

EXPLANATION: FY 2011 language not recommended for FY 2012 denoted by strikethrough.
Recommended FY 2012 language that did not appear in FY 2011 denoted by underlining.

Significant Language Changes (Cont'd)

Governor's Widow's or Widower's Annuity	
Deletion	2011Handbook: p.B-205 2012 Budget: p.—

~~There is appropriated a sufficient amount in order that upon application to the Director of the Division of Budget and Accounting, an annuity of $4,000 shall be paid to the widow or widower of any person, now deceased, who was elected and served as Governor of the State; provided such widow or widower was the spouse of such person for all or part of the period during which he or she served as Governor; and provided further, that this shall not apply to any widow or widower receiving a pension granted under R.S.43:8-2, and continued by R.S.43:7-1 et seq., and R.S.43:8-1 seq., and R.S.43:8-8 et seq.~~

Explanation

The FY 2012 Governor's Budget recommends eliminating this language that provided, upon application to the Director of the Division of Budget and Accounting an annuity of $4,000 to the widow or widower of a Governor of this State, as defined. According to the Office of Management and Budget, the statute that authorized the annuity was repealed in 1955, but this continued benefits granted prior to the elimination of the annuity benefit. No one has received a payment for this benefit over the last several years, so the language is no longer necessary.

Liberty Science Center Debt Service and Operating Support	
Addition	2011 Handbook: p.— 2012 Budget: p.D-417

<u>The amount hereinabove appropriated for Liberty Science Center is allocated for debt service obligations and for the operations of the Liberty Science Center, the amount of such operational support to be determined by the State Treasurer on such terms and conditions as the State Treasurer requires pursuant to an agreement between the State Treasurer and the Liberty Science Center, subject to the approval of the Director of the Division of Budget and Accounting. In addition, there are appropriated such additional sums as may be necessary to satisfy debt service obligations subject to the approval of the Director of the Division of Budget and Accounting. Furthermore, there are also appropriated such additional sums for support of the operations of the center, as determined by the State Treasurer on such terms and conditions as the State Treasurer requires pursuant to an agreement between the State Treasurer and the Liberty Science Center, subject to the approval of the Director of the Division of Budget and Accounting.</u>

EXPLANATION: FY 2011 language not recommended for FY 2012 denoted by strikethrough.
Recommended FY 2012 language that did not appear in FY 2011 denoted by underlining.

Significant Language Changes (Cont'd)

Explanation

The proposed FY 2012 budget language authorizes the Liberty Science Center (LSC) appropriation to be used not only for debt service, as in the past, but also, beginning in FY 2012, for operational costs of the Liberty Science Center. Authorization to appropriate additional funds for LSC operating support was previously included in the Department of Education's budget. Thus far in FY 2011, supplemental appropriations of $4.3 million for operations and support have been approved. The proposed budget language provides that the amount of operational support for the LSC is to be determined by the State Treasurer pursuant to an agreement between the State Treasurer and the LSC. This language permits the State Treasurer, subject to the approval of the Director of the Division of Budget and Accounting to determine and appropriate funds for debt service and operating costs of the LSC without further legislative involvement in the determination of the amount to be appropriated.

Water Infiltration-Transfer to the Department of Corrections for the Chiller System Replacement

Deletion

2011Handbook: p.B-209
2012 Budget: p.---

~~Notwithstanding the provisions of any law or regulation to the contrary, $1,700,000 from funds appropriated to the Water Infiltration account shall be transferred to the Department of Corrections Critical Repairs account for the Chiller System Replacement–New Jersey State Prison project.~~

Explanation

The FY 2012 Governor's Budget recommends eliminating this language provision which provided authority to the Director of the Division of Budget and Accounting to transfer funds from the Water Infiltration account to the Department of Corrections Critical Repairs account for the Chiller System Replacement–New Jersey State Prison project. According to the Department of Corrections, $1.7 million was transferred from the New Jersey Building Authority to the Department of Corrections and then to the Department of the Treasury to provide partial funding for the purchase of a new Chiller System. Because there is no plan to use the Water Infiltration account as a pass through mechanism in FY 2012, this language is no longer needed.

EXPLANATION: FY 2011 language not recommended for FY 2012 denoted by strikethrough.
Recommended FY 2012 language that did not appear in FY 2011 denoted by underlining.

Significant Language Changes (Cont'd)

Salary Increases and Other Benefits-Savings from Privatization Initiatives	
Deletion	2011Handbook: p.B-209 2012 Budget: p.---

~~Notwithstanding the provisions of any law or regulation to the contrary, the Director of the Division of Budget and Accounting may transfer from departmental accounts and credit to the Salary Increases and Other Benefits account such sums that reflect Savings from Privatization Initiatives. These additional sums are appropriated for Salary Increases and Other Benefits.~~

Explanation

The FY 2012 Governor's Budget recommends eliminating this language which provided the authority to the Director of the Division of Budget and Accounting to transfer an estimated $50 million in privatization savings from departmental accounts to the Salary and Other Benefits account in the Interdepartmental Accounts budget. It appears from the budget display, on page D-423, which reports an appropriation of negative $29.440 million, that the estimated amount of privatization savings was not fully realized and thus not fully reallocated to the Salary and Other Benefits account as planned. Because no similar savings initiative is anticipated in FY 2012, the language is not continued.

EXPLANATION: FY 2011 language not recommended for FY 2012 denoted by strikethrough.
Recommended FY 2012 language that did not appear in FY 2011 denoted by underlining.

Discussion Points

Economic Development Authority

1. FY 2012 budget language provides that the Liberty Science Center (LSC) appropriation is to be used not only for debt service, but also for operational costs of the LSC. The proposed budget language provides that the amount of operational support for the LSC is to be determined by the State Treasurer pursuant to an agreement between the State Treasurer and the LSC. In FY 2011 both general operating support and funding for educational services provided by the LSC is allocated through the Department of Education. In FY 2011, an original appropriation of $1.35 million for educational services is projected to be supplemented by $3.6 million for general operating support, but the Administration has already exceeded that projection, having approved $4.3 million through April 30, 2011. The recommended appropriation of $11.073 million for FY 2012 includes approximately $8.1 million for debt service (an increase of $581,000) and $3.0 million in additional funding to support the operations of the Liberty Science Center. The Department of Education's budget also includes $1.3 million for LSC educational services.

In November 2008, the Jersey City Council approved a bridge loan of $2.5 million (about 10 percent of the Liberty Science Center's operating budget) from the city to the Liberty Science Center. The balance of the loan was due by December 31, 2010.

- ***Question:*** **What percentage of LSC's annual operating budget is now and is projected to be subsidized by State funds? Has an agreement between the State Treasurer and the Liberty Science Center establishing terms and conditions for State operating support for LSC been finalized? If so, please summarize its key provisions and provide a copy. If not, please summarize the key provisions that the Treasurer anticipates will be included in the agreement. Will the total operating subsidy to LSC be limited in the agreement in any way, e.g., to a level no greater than that provided in FY 2011? Will the agreement include restrictions on LSC spending and other decisions, e.g., employee compensation levels, procurement of goods and services, similar to those the Governor believes are appropriate for independent State authorities? Given that the amount of operating subsidy in FY 2011 already exceeds earlier projections, is the amount recommended for FY 2012 adequate? What is the status of the repayment of the loan made by Jersey City to the Liberty Science Center? Did the State assume responsibility for the loan?**

Pensions

2.a. The Governor's pension reform proposal (Senate Bill No. 2705 of 2011 and Assembly Bill No. 3796 of 2011) revises the pension funding formulas in order to reduce future retirement benefits of current active employees. In addition, it increases employee contributions in order to decrease the employer contributions to four State-administered defined benefit retirement systems: the Public Employees' Retirement System (PERS), the Teachers' Pension and Annuity Fund (TPAF), the State Police Retirement System (SPRS), and the Judicial Retirement System (JRS). Among other things, the pension reform proposal reduces the TPAF and PERS benefit factor by 15.4 percent by changing it from 1/55 to 1/65, increases the number of years of service required to qualify for early retirement benefits from 25 to 30 years, and increase employee contributions from 5.5 percent of compensation to 8.5 percent of compensation. For PFRS and SPRS members with 25 years of service, the pension reform

Discussion Points (Cont'd)

proposal decreases the percentage of salary upon which a pension is based from 65 percent to 60 percent. It also suspends the adjustment on pension COLAs for all systems and all retirees.

- *Question:* **What is the present value of the savings estimated to be achieved by reducing the TPAF and PERS benefit factor and what is the estimated impact it will have on the unfunded actuarial accrued liability in 5 years, 10 years, 15 years, and 20 years? What is the present value of the savings estimated to be achieved by increasing the TPAF and PERS number of years required to qualify for benefits and what impact will it have on the unfunded liability in 5 years, 10 years, 15 years, and 20 years? What is the estimated value to each system of increasing the TPAF, PERS, and SPRS employee contribution and the total combined value and by how much will that reduce the employer contribution to each system? What is the estimated value of reducing the percentage of salary upon which a pension is based from 65 percent to 60 percent for PFRS and SPRS retirees with 25 years of service?**

2.b. Reducing the Unfunded Actuarially Accrued Liability (UAAL) significantly in the short term may require increasing employer and/or employee contributions into the system, achieving higher investment returns, and reducing expenditures out of the system. Revising the funding formulas and making changes in accordance with the Governor's pension reform proposal will have a relatively minor impact on the condition of the pension fund in the short term and an increasing impact over the long term.

- *Question:* **What measures can be taken in the short term to achieve an immediate, significant impact on the revenues and investment returns into the pension funds and expenditures out of the pension funds? By how much would the market have to improve to reduce the UAAL in the annual actuarial evaluation to achieve an 80 percent funded level within ten years, all other things being equal? By how much did the FY 2011 15 percent increase in investment value improve the funded ratio of the combined pension system? By how much would the State have to increase its pension contributions beyond the current statutory mandate under P.L.2010, c.1, combined with a realistic investment return, to achieve an 80 percent funded level within 10 years? By how much would the UAAL be reduced in 10 years and 30 years if the retiree COLA were suspended indefinitely?**

State Health Benefits

3.a. The FY 2012 Governor's Budget Summary outlines the Governor's plan for health care benefit reform for active employees. Additional details were subsequently outlined in several news reports. According to theses sources, the plan proposes to (1) require employees to pay 30 percent of premium for health care benefits by 2014 beginning with a ten percent required premium share for the first six months of FY 2012 increasing to 17 percent in the last six months of FY 2012, increasing to 20 percent in FY 2013, and 30 percent in FY 2014; (2) provide more options in health plans; (3) raise the required years of service to qualify for employer-paid post-retirement health benefits from 25 to 30 for those with less than 25 years of service; (4) eliminate NJDIRECT 10; and (5) modify benefits such as co-pays for primary, specialist, and emergency room visits, deductibles for out-of network providers, coverage percentile for reasonable and customary out-of-network services, and in-network out-of-pocket maximums.

Discussion Points (Cont'd)

- *Question:* **Please describe each of the provisions of the proposed Governor's health care reform initiative and how it would be implemented. Please provide an estimate and the assumptions made to derive the estimate, of the State, higher education, local, and school employee savings anticipated to be achieved by requiring employees to pay an increasing percent of their health care premium each year between now and full implementation in 2014. Please describe how the present value of the unfunded post-retirement medical benefits obligation would be changed by extending the number of years to qualify for post-retirement medical benefits from 25 to 30 years of service. How many and what percentage of the State workforce would be more than 65 years of age if required to work thirty years before becoming eligible for post-retirement medical benefits? What are the estimated savings and the assumptions used to determine the savings from eliminating NJDIRECT 10 for actives and retirees? How will the elimination of NJDIRECT 10 affect NJDIRECT 15 in terms of enrollment, utilization, and risk pool? Please provide the proposed plan to modify co-pays for primary, specialty, and emergency room visits; deductibles for out-of-network providers; coverage percentile for reasonable and customary out-of-network services; and in-network out-of-pocket premiums. Please provide an estimate of the savings in FY 2012, FY 2013, and FY 2014 from modifying benefits and the assumptions used to derive these savings. Will the federal Patient Protection and Affordable Care Act and Health Care Education Reconciliation Act have an impact on the State, as an employer, and on State employees by 2015? Please provide an estimate of the number of State employees who may qualify for federal health care benefits under the national health care reform law as result of the changes implemented by the State. What percentage of SHBP/SEHBP membership does this represent? To the extent that those who qualify for federal benefits shift out of the SHBP/SEHBP, how will this reduce the size of the SHBP/SEHBP in terms of membership and costs? How will the national health care reform law provide coverage for these employees?**

3.b. According to budget documents from the Division of Pensions and Benefits, the FY 2012 Governor's Budget includes an appropriation for the 1.5 percent member share for State health benefits in addition to the health care reform premium sharing requirements. Thus, employee contributions, in accordance with the proposed FY 2012 Governor's Budget, include the current 1.5 percent member share and an additional 10 to 17 percent premium share in FY 2012 which is equivalent to an 18 to 25 percent premium share requirement in FY 2012.

- *Question:* **What are the underlying assumptions in the proposed health care reform initiative for employee contributions in FY 2012, FY 2013, and FY 2014? Are the employee premium share requirements in the current proposal in addition to the current 1.5 percent member share or is the expectation that the employee contribution will shift from a member share to a premium share requirement entirely, the maximum of which is 30 percent in FY 2014?**

3.c. According to the Plan Year 2011 Rate Renewal Recommendation Report prepared by Aon Consulting for the State, local, and school employee groups, the SHBP (State and Local) and the SEHBP active and retiree costs for medical health care and prescription drugs are projected to rise by 6.9 percent for the SHBP State employee group, 11.7 percent for the SHBP

Discussion Points (Cont'd)

local government employee group, and 5.7 percent for school employees. For comparative purposes, Aon indicates that their industry surveys show an increase of 10 to 11 percent for health care costs for 2011. Aon suggests that a significant portion of the increase in health care costs for the SHBP/SEHBP can be explained by New Jersey mandated benefit claims such as Autism (0.4 percent of costs or $4 million per year) and chiropractic services (0.3 percent increase in costs or $4 million per year), and national health care reform provisions under the Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act, specifically the provisions relating to coverage of: (1) dependent children to age 26 which is estimated to increase employee and retiree costs by a combined 0.5 percent of costs with a total estimated annual cost of $6 million to the State Group; (2) the elimination of maximums on benefits which is anticipated to increase NJDIRECT costs by 0.1 percent, or $1 million, annually; and (3) the removal of the mental health/substance abuse maximum benefits which is anticipated to increase projected plan costs by 0.5 percent, or $6 million. Other factors include medical inflation and higher claims. According to Aon, the provisions relating to the Early Retiree Insurance Program (EERP) could provide up to $25 million in savings to the SHBP, but Aon is "not making any adjustments to the plan due to the uncertainties with the EERP process .i.e., no regulations have been issued".

- ***Question:*** **Please identify and rank in descending order the 7 most expensive health benefit coverages or mandated benefits enacted by State statute during the past 10 years; the estimated cost of the coverage in the last 12-month period; and the percentage of premium reduction that would result from removal of the mandate.**

Property Rentals

4. In FY 2011, the Governor proposed replacing State Police civilian security guards at low risk facilities with contract service guards. Those State Police civilian security guards who were displaced were to be reallocated and reassigned to high risk facilities to reduce overtime costs. The initiative was anticipated to save $467,000, all of which is to be transferred to the Property Rentals account in FY 2011 and used to offset leasing costs.

- ***Question:*** **Please provide a status report of the State Police civilian security guard initiative. What savings were achieved and how much was saved by each component of savings, e.g., salaries, overtime, shift hours? Were any State Police civilian guards laid off and their positions filled by contract service guards? What vendor(s) are under contract to provide security services and for what contract period?**

Insurance and Other Services

5. The State is self-insured for Worker's Compensation payments made to State employees. Claims are funded through the Interdepartmental Accounts budget. State expenditures for worker's compensation claims are projected to increase from $87.3 million in FY 2011, which includes a supplemental appropriation of $13.6 million, to $101.2 million in FY 2012. This $13.9 million increase reflects $10.9 million in increased Workers' Compensation costs from the elimination of the Sick Leave Injury Program under P.L.2010, c.3 and $3.2 million resulting from an increase in medical costs.

Discussion Points (Cont'd)

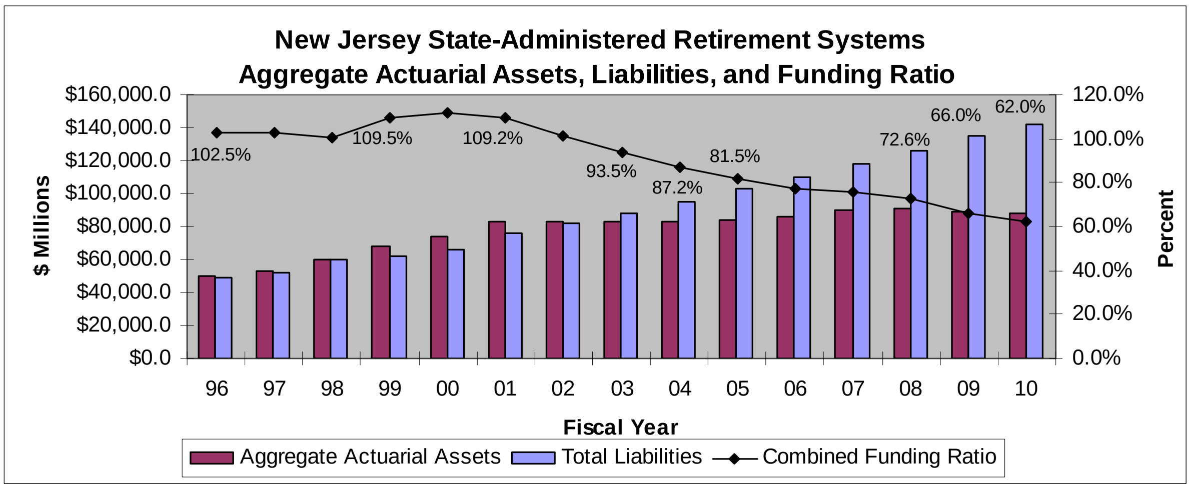
- ***Question:*** **Please explain how the $10.9 million increase to the Worker's Compensation program from the elimination of the Sick Leave Injury program was derived in terms of methodology and calculations, number of claims, cost of claims, and the costs and savings associated with conversion of SLI claims to workers' compensation claims, e.g., salaries and the billing and payment of medical claims.**

Background Paper: Pension Fund Performance Measures - A Historical Perspective

Introduction

This background report presents various aspects of New Jersey's combined State-administered retirement systems. It provides information on the collective pension fund (pension fund) from actuarial, accounting, and investment perspectives, and on the relationships between the key analytical factors such as: (1) combined funding ratio; (2) growth in assets and liabilities; (3) funding of the retirement systems; (4) member and employer contributions; (5) investment returns; (6) pension fund asset allocation; (7) actuarial value and market value of the assets; (8) change in active members and annuitants; (9) external cash flow.

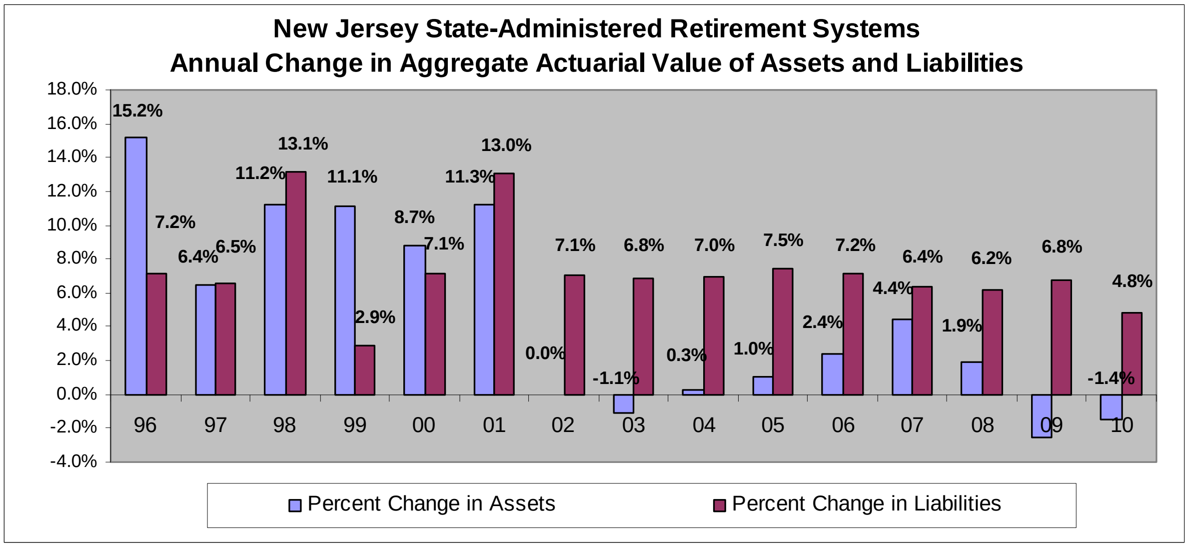
Combined Funding Ratio
Chart 1



The combined funding ratio measures the relationship between the actuarial value of the retirement system's assets to the value of its liabilities. A funding ratio of 100 percent means the plan is fully funded because the plan's assets equal the plan's liabilities. Chart 1 illustrates the decline in the funding ratio from 109.2 percent in FY 2001 to 62 percent in FY 2010. The FY 2010 funding level consists of an aggregate actuarial asset value of $87.8 billion and an aggregate actuarial liability value of $141.7 billion.

Background Paper: Pension Fund Performance Measures - A Historical Perspective (Cont'd)

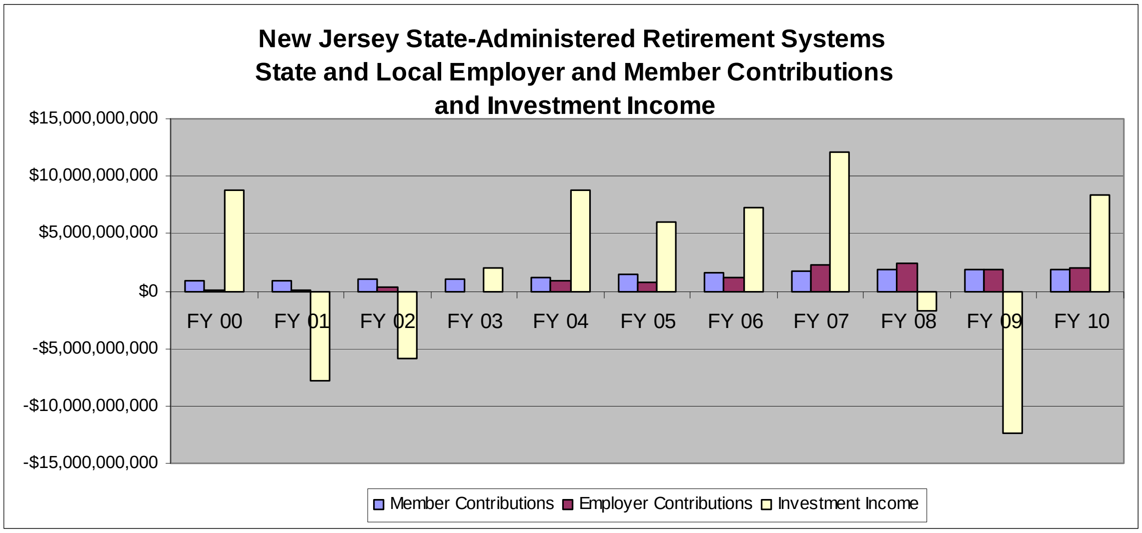
Asset and Liability Growth
Chart 2



The changes in assets and liabilities affects the funding level. Chart 2 illustrates the annual change in the aggregate actuarial value of the assets and the annual change in the aggregate actuarial value of the liabilities of the State-administered retirement systems from FY 1996 to FY 2010. During that time period, the average change in assets was 4.6 percent, with most of the asset growth occurring in FY 1996 through FY 2001. In comparison, the average change in the aggregate actuarial value of liabilities from FY 1996 to FY 2010 was 7.4 percent. In eleven of the fifteen years shown on the chart, the annual change in aggregate actuarial liability value exceeded the annual change in the aggregate actuarial asset value, resulting in a 40 percent decline in the funding level.

Background Paper: Pension Fund Performance Measures - A Historical Perspective (Cont'd)

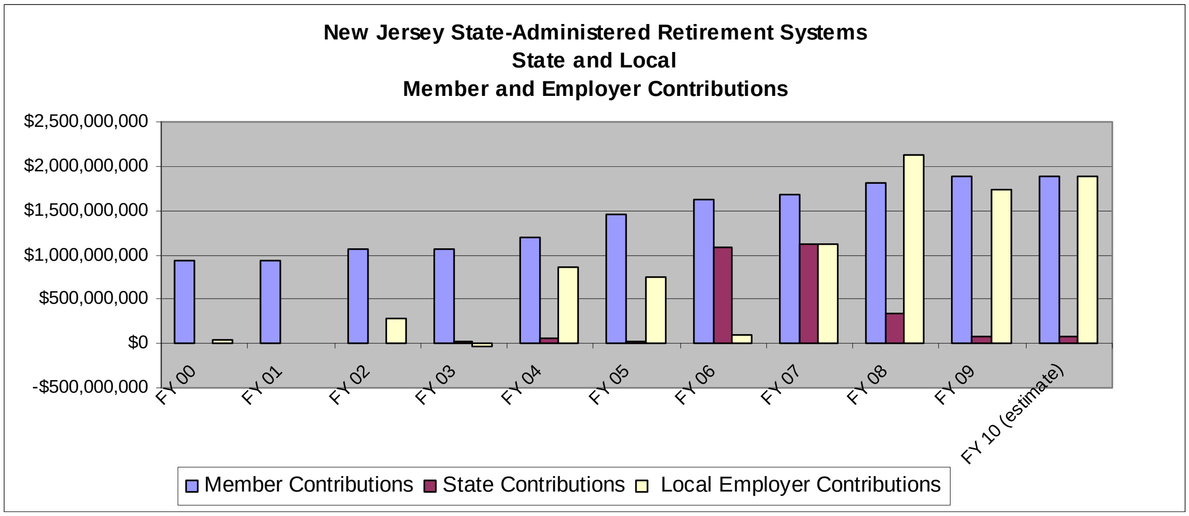
Funding the Retirement Systems
Chart 3



Contributions from employee members and their public employers, combined with investment earnings, fund a retirement system's defined benefits. Actuarial valuations are used to compute the yearly contributions of public employers needed to fund the benefits to assure that contributions and investment income are sufficient to fulfill system obligations, known as the actuarially required contribution (ARC). Investment gains and losses are significant components of a defined benefit retirement system's funding formula. From FY 2000 to FY 2010, a total of $52.9 billion in member contributions, employer contributions, and net investment income was contributed to the pension fund. Of this amount, member contributions comprised $15.5 billion and public employer contributions comprised $11.6 billion ($2.7 billion-State and $8.9 billion-Local), or together 51 percent, and net investment income comprised $25.8 billion, or 49 percent.

Background Paper: Pension Fund Performance Measures - A Historical Perspective (Cont'd)

Member and Employer Contributions
Chart 4



Under current law, employees who are members of the State-administered retirement systems are required to make annual payments toward their retirement benefits. Statutory contribution rates for members vary among the five State-administered retirement systems. Member contributions exceeded State and local employer contributions combined over the ten-year period from FY 2000 to FY 2010. Of the $27.1 billion in member and State and local employer contributions to the system since FY 2000, member contributions comprised $15.5 billion, or 57.2 percent, local employer contributions comprised $8.9 billion, or 32.8 percent, and State contributions comprised $2.8 billion, or 10 percent.

Background Paper: Pension Fund Performance Measures - A Historical Perspective (Cont'd)

Investment Returns
Chart 5

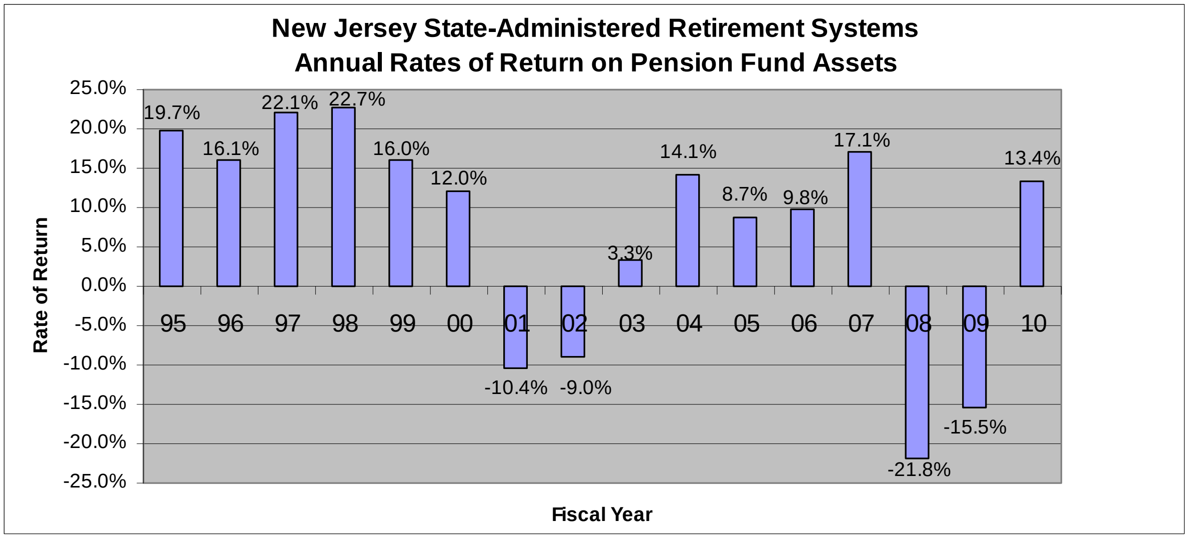


Chart 5 presents investment returns for the periods ending June 30, 1995 through June 30, 2010. Because the pension plans recognize investment gains and losses over five years, the investment losses from FY 2008 and FY 2009 are beginning to be recognized in the most recent annual actuarial evaluations. The FY 2010 actuarial evaluations are used in the development of the appropriations for the FY 2012 budget. In the five-year period, FY 1995 through FY 2000, the average rate of return on investment was 18.1 percent. From FY 2001 through FY 2010, the average rate of return on investment was less than one percent. Over the entire period from FY 1995 to FY 2010, the average rate of return was 7.4 percent.

Background Paper: Pension Fund Performance Measures - A Historical Perspective (Cont'd)

Actuarial Value and Market Value of Assets
Chart 6

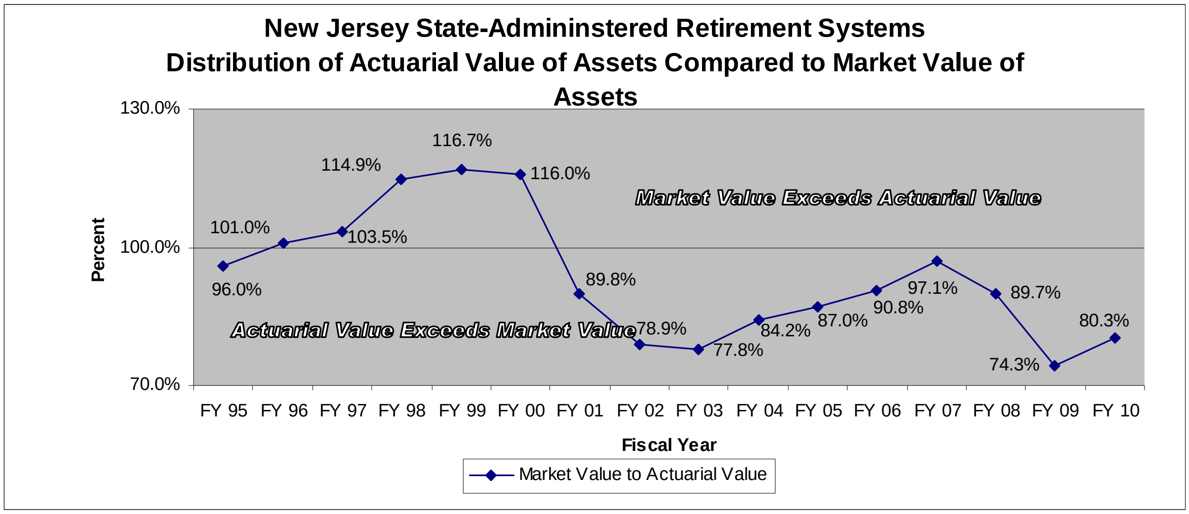


Chart 6 displays the plan market value of assets as a percentage of the actuarial value from FY 1995 to FY 2010. The market value and therefore investment gains and losses are measured each year on June 30th. Because the State uses a five-year smoothing technique to account for these market changes, only twenty percent of the annual change in the market are realized in the next actuarial evaluation. The effects of an annual change take five years to be fully realized.

Background Paper: Pension Fund Performance Measures - A Historical Perspective (Cont'd)

2008 Pension Fund Asset Allocation
Chart 7

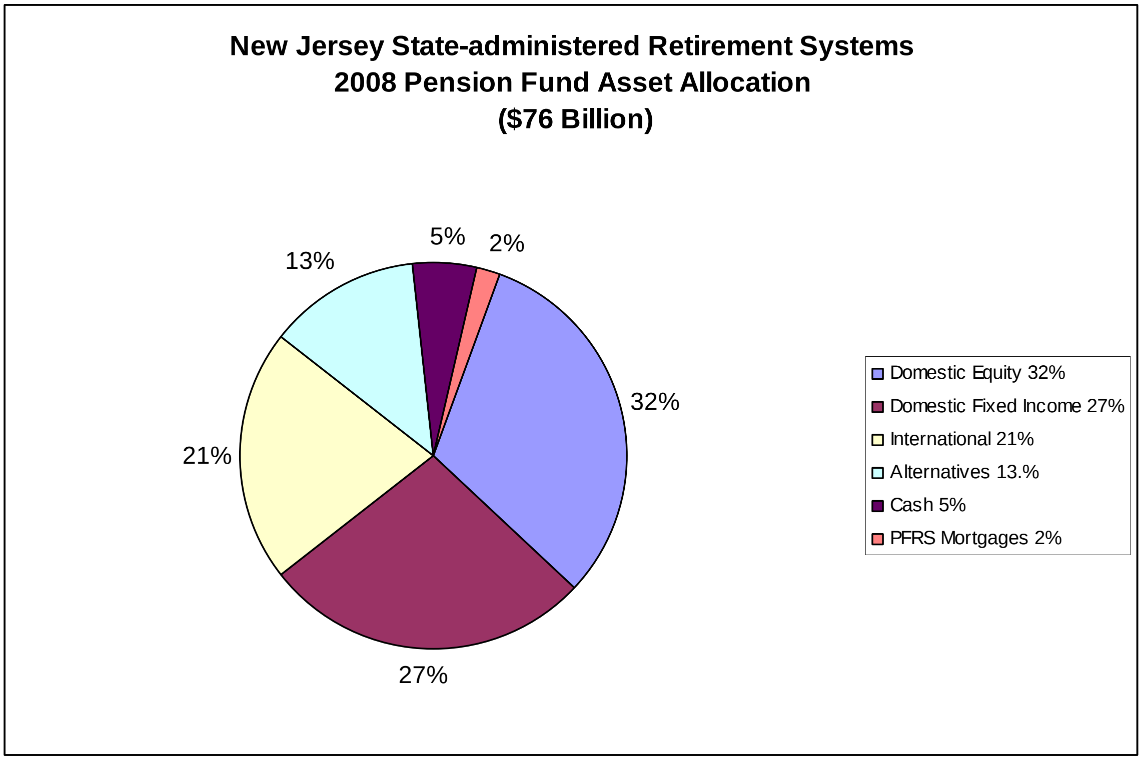


Chart 7 illustrates the allocation of the investment of the assets of the pension fund in 2008. Of the $76 billion in pension assets invested in 2008, nearly 80 percent were invested in domestic equity (31.4 percent), domestic fixed income (27.4 percent), and international investments (21 percent). A fourth emerging portfolio of alternative investments was adopted by the State Investment Council in 2005. The 2008 alternative investment portfolio includes investments in private equity funds, hedge funds, and real estate as well as commodities, and other real assets.

Background Paper: Pension Fund Performance Measures - A Historical Perspective (Cont'd)

2010 Pension Fund Asset Allocation
Chart 8

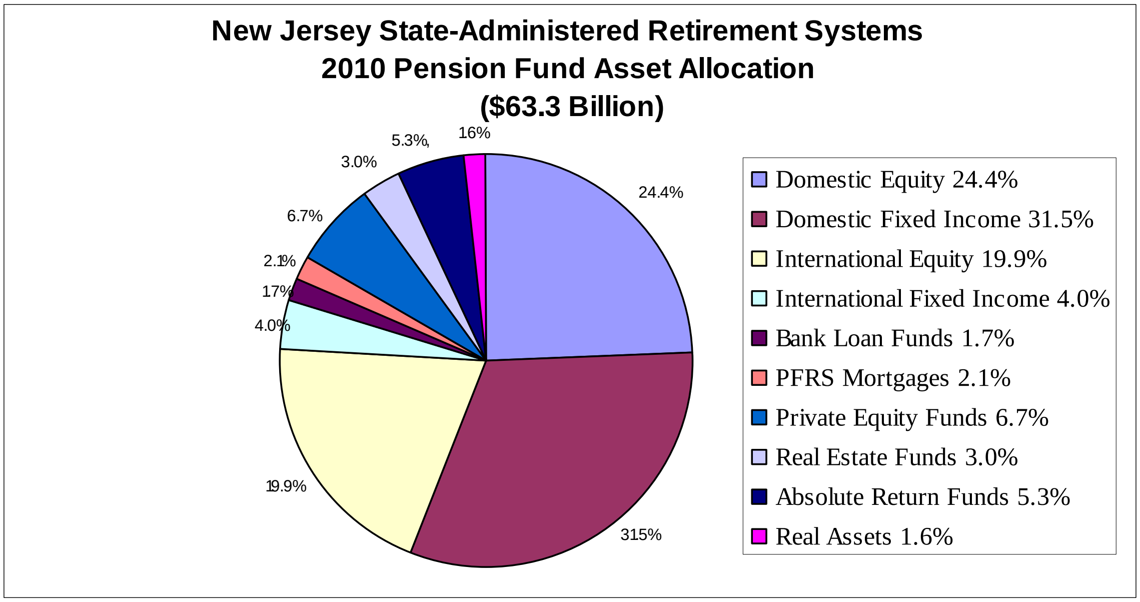


Chart 8 illustrates the allocation of the investment of the assets of the pension fund in 2010. Of the $63.3 billion in pension assets invested in 2010, nearly 80 percent are still invested in traditional equity and fixed income securities (stocks and bonds): domestic equity (24.4 percent), domestic fixed income (31.5 percent), international equity (19.9 percent), and international fixed income (4.0 percent). The portfolio of alternative investments has grown from 13 percent in 2007 to 16.6 percent in 2010 resulting from the inclusion of absolute return strategy investments in the investment mix.

Background Paper: Pension Fund Performance Measures - A Historical Perspective (Cont'd)

Change in Active Members and Annuitants
Chart 9

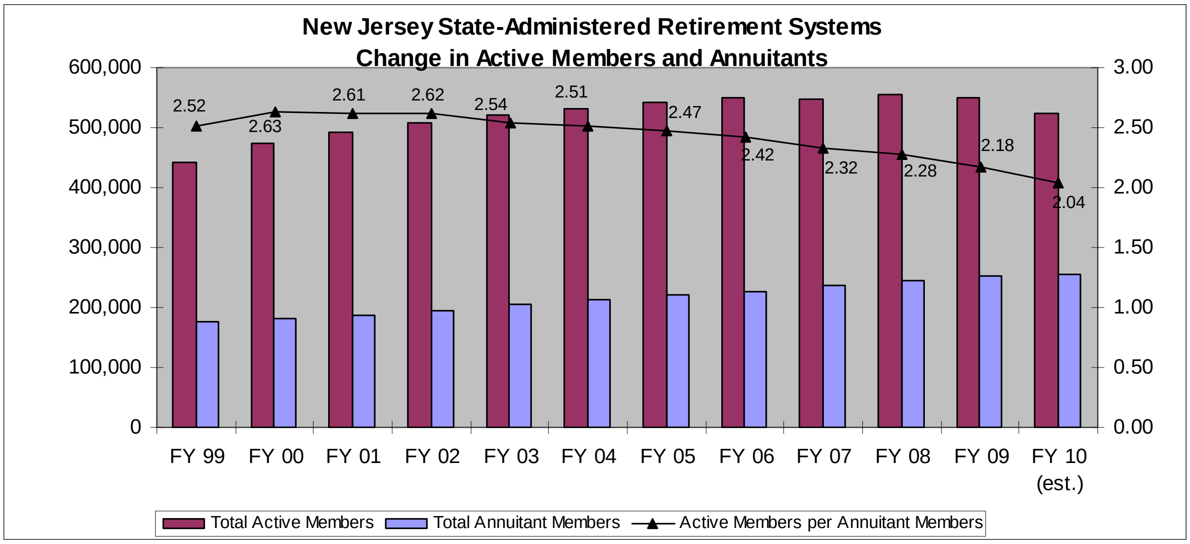
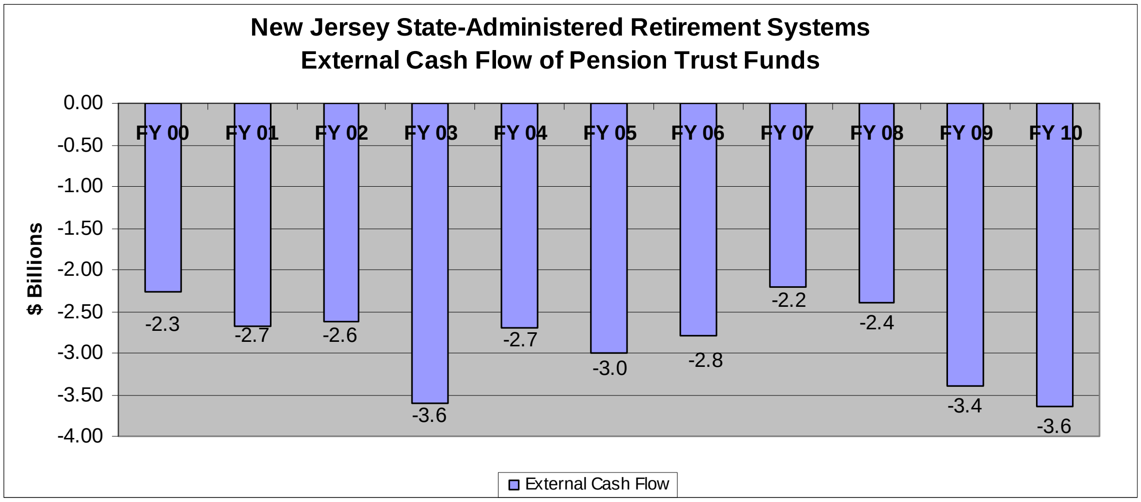


Chart 9 compares the number of active members of the State-administered retirement systems to the number of annuitants (retirees). From FY 1999 to FY 2010, the ratio of active members to annuitants declined from 2.5 to 2.0.

Background Paper: Pension Fund Performance Measures - A Historical Perspective (Cont'd)

External Cash Flow
Chart 10



The external cash flow is the difference between all contributions, from whatever source, and all expenditures (mostly for benefits but also administrative expenses) excluding investment earnings. It reflects in part, the number of active employees in a system to the number of annuitants. When the rate of growth of annuitant members is greater than the rate of growth of active members then the external cash flows have a tendency to become negative. According to the National Association of Retirement Administrators (NASRA), thirty to forty years ago, pension funds experienced strong positive cash flows as the number active employees far exceeded the number of annuitants. As the pension funds matured and more people retired, cash flows began to diminish. Since 1998, cash flows have averaged negative 2 percent nationwide. Factors that cause negative external cash flows include reductions in employer and employee contributions to the system and an increase in the ratio of annuitants to active members.

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Individuals wishing information and committee schedules on the FY 2012 budget are encouraged to contact:

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