


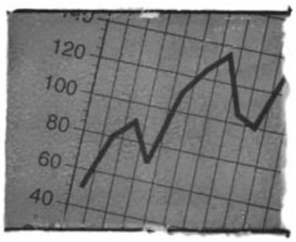



ANALYSIS OF THE NEW JERSEY BUDGET

INTERDEPARTMENTAL ACCOUNTS

FISCAL YEAR 2015 - 2016

PREPARED BY OFFICE OF LEGISLATIVE SERVICES
NEW JERSEY LEGISLATURE • MAY 2015

NEW JERSEY STATE LEGISLATURE

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INTERDEPARTMENTAL ACCOUNTS

Budget Pages....... C-7, C-15, D-421 to D-436

Fiscal Summary ($000)

	Expended FY 2014	Adjusted Appropriation FY 2015	Recommended FY 2016	Percent Change 2015-16
State Budgeted	$3,642,865	$3,905,897	$4,189,887	7.3%
Federal Funds	$0	$0	$0	—
Other	$49,217	$62,513	$53,313	(14.7%)
Grand Total	$3,692,082	$3,968,410	$4,243,200	6.9%

Personnel Summary - Positions By Funding Source

	Actual FY 2014	Revised FY 2015	Funded FY 2016	Percent Change 2015-16
State	0	0	0	—
Federal	0	0	0	—
Other	0	0	0	—
Total Positions	0	0	0	—

FY 2014 (as of December) and revised FY 2015 (as of January) personnel data reflect actual payroll counts. FY 2016 data reflect the number of positions funded.

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

Highlights

Property Rentals, Insurance, and Utilities

- The FY 2016 Governor's Budget recommends a reduction of $57.288 million in Property Rentals, Insurance, and Utilities. Property Rental appropriations decline by $3.485 million, primarily due to reductions to automatic escalations in multi-year leases for the gross cost for office space and other property rentals for State agencies, offset by reductions in direct rent reimbursements. Insurance and Other Services appropriations decline by $52.330 million, primarily due to the discontinuation of two supplemental FY 2015 appropriations: a $26.750 million supplemental appropriation for the Tort Claims Liability Fund and a $28 million supplemental appropriation for the Medical Malpractice Self-Insurance Fund for Rutgers, Rowan, and University Hospital. Utilities and Other Services decline by $1.473 million, due primarily to energy efficiencies realized at the Public Health, Environmental and Agricultural Laboratory.

Property Rentals, Insurance, and Utilities				
Program Area	**FY 2015**	**FY 2016**	**$ Change**	**% Change**
Property Rentals (Net)	$ 152,305	$ 148,820	$ (3,485)	-2.29%
Insurance and Other Services	$ 181,375	$ 129,045	$ (52,330)	-28.85%
Utilities and Other Services	$ 12,153	$ 10,680	$ (1,473)	-12.12%
Total	$ 345,833	$ 288,545	$ (57,288)	-16.57%

Aid to Independent Authorities, Capital Projects

- The FY 2016 Governor's Budget recommends a reduction of $32.917 million in appropriations to fund debt service on bonds issued by independent authorities as well as operating support in certain cases. The most significant changes are reductions in the amounts payable for debt service ($15.417 million) and operating costs for the New Jersey Sports and Exposition Authority ($17.5 million).

Aid to Independent Authorities, Capital Projects				
Program Area	**FY 2015**	**FY 2016**	**$ Change**	**% Change**
Debt Service	$ 126,974	$ 111,556	$ (15,418)	-12.14%
NJSEA Operating Costs	$ 32,500	$ 15,000	$ (17,500)	-53.85%
Total	$ 159,474	$ 126,556	$ (32,918)	-20.64%

- Debt service reductions are the result of both changes in current maturity schedules and the anticipated refunding of bonds issued to fund the Liberty Science Center.

- The FY 2016 Governor's Budget recommends a $10 million appropriation for Life Safety, Emergency, and IT Projects-Statewide.

Highlights (Cont'd)

Pensions

- The FY 2016 Governor's Budget provides total combined appropriations in FY 2016 of $1.298 billion in employer contributions to the defined benefit retirement systems. According to the Executive, this is approximately 3/10 of the FY 2016 annual required contribution of $4.327 billion. The amounts budgeted for the defined benefit pension payments represent a fiscal FY 2016 contribution under a modified phase-in plan proposed by the Governor. The modified phase-in plan calculates the annual required contribution on a schedule starting at 3/10 of the actuarial determined contribution beginning in FY 2016 and increases annually in 1/10 increments returning to full funding in FY 2023. As the first annual payment under the modified phase-in plan, this pension payment is 90.7 percent higher than the FY 2015 contribution. The total FY 2015 appropriation represents a payment of only the normal contribution component of the full FY 2015 contribution and omits the unfunded liability component. About $475.9 million of the proposed FY 2016 appropriations are budgeted in Interdepartmental Accounts and those appropriations increase by $240.7 million in FY 2016 above the FY 2015 adjusted appropriation. Please refer to the background paper entitled, Contribution Chronicles - FY 2010 to Present, included in this analysis, for a summary of the history of State pension funding over the past five years, including the effects of changes in statute, reevaluations, and economic and demographic assumptions.

Proposed FY 2016 State-Administered Retirement System Contributions			
System	Gross Contribution	Deferred Under Modified Phase-In	Phased-In Contribution
PERS	$ 1,163,524,818	($ 814,467,373)	$ 349,057,445
PFRS	$ 447,073,824	($ 312,951,677)	$ 134,122,147
SPRS	$ 116,730,189	($ 81,711,132)	$ 35,019,057
JRS	$ 47,163,524	($ 33,014,467)	$ 14,149,057
TPAF	$ 2,551,300,621	($1,785,910,435)	$ 765,390,186
CPFPF	$ 863,766	($ 863,766)	$ 0
Totals	$ 4,326,656,742	($3,028,918,849)	$ 1,297,737,893
Source: Division of Pensions and Benefits			

Health Care Benefits

- The FY 2016 Governor's Budget recommends total appropriations of $1.477 billion to fully fund health care benefits for active State employees and employees of institutions of higher education in FY 2016. This represents an increase of $77.389 million, or 5.53 percent, for medical, prescription drug, dental, and vision coverage. This increase reflects growth in the cost of benefits of about $96.7 million (6.9 percent); offset by an additional $19.32 million in premium-based employee contributions.

Highlights (Cont'd)

Health Care Benefits for State Employees DSS/GIA (000s)						
Program Area	FY 2015	Gross Increase	Offset	FY 2016	$ Change	% Change
Health Benefits	$ 1,066,608	$ 46,359	$ (16,168)	$ 1,096,799	$ 30,191	2.83%
Prescription Drug	$ 298,250	$ 52,200	$ (3,152)	$ 347,298	$ 49,048	16.45%
Dental	$ 34,402	$ (1,850)	$ -	$ 32,552	$ (1,850)	-5.38%
Vision	$ 700	$ -	$ -	700	$ -	0.00%
Total	$ 1,399,960	$ 96,709	$ (19,320)	$ 1,477,349	$ 77,389	5.53%

Post Retirement Medical Benefits

- The FY 2016 Governor's Budget proposes total appropriations of $1.779 billion for Post Retirement Medical Benefits (PRM) in FY 2016, a net increase of about $83.4 million, or 5 percent above FY 2015 adjusted appropriations. According to the Office of Management and Budget, the gross cost increase in post retirement medical costs was $250.228 million, or 14.7 percent. The FY 2016 Governor's Budget proposes to offset $166.840 million in higher costs with surpluses in the State Health Benefit funds. Within the Interdepartmental Accounts budget, PRM appropriations increase by about $31 million, from about $575 million to about $606 million. This increase reflects the use of about $81 million of surpluses in the health benefits funds to offset FY 2016 appropriations. Please see the Significant Changes section of this analysis for details of the reductions in the post retirement medical accounts in the Interdepartmental Accounts budget.

FY 2016 Impact of Use of Surplus in Post Retirement Medical Accounts				
Department	FY 2015	Gross Increase	Fund Balance Adjustments	FY 2016
Interdepartmental	**$ 574,850**	**$ 112,551**	**$ (81,261)**	**$ 606,140**
Education	$ 1,050,986	$ 132,117	$ (85,579)	$ 1,097,524
Treasury	$ 69,629	$ 5,560	$ -	$ 75,189
Total	$ 1,695,465	$ 250,228	$ (166,840)	$ 1,778,853

Affordable Care Act Fees

- Under the Patient Protection and Affordable Care Act (ACA) the State, as a self-funded non-federal sponsor of a group health plan, is required to pay the Transitional Reinsurance Fee and the Comparative Effectiveness Research Fee, also known as the Patient Centered Outcome Research Fee. The FY 2016 Governor's Budget recommends appropriations totaling $14.665 million, a decrease of $5.7 million in the Interdepartmental Accounts, Education, and Treasury budgets to pay for the State cost of employee health benefits related to these two fees, as shown in the following chart.

Highlights (Cont'd)

FY 2016 Affordable Care Act Fees ($ Millions)	
Allocation of Fees by Department	
Interdepartmental Accounts-DSS	**$ 8.655**
Interdepartmental Accounts-GIA	**$ 3.871**
Education-State Aid	$ 2.091
Treasury-State Aid	$ 0.048
Total ACA Fees	$14.665
State Costs by Fee	
Total Transitional Reinsurance Fee	$13.725
Total Comparative Effectiveness Fee	$ 0.940
Total	$14.665

Other Interdepartmental Accounts

- $13.2 million was appropriated in FY 2015 at the Legislature's initiative to provide a one-time upward contract adjustment for community care providers, effective January 1, 2015 that contract with the State to provide various services to community care clients. The contract adjustment is to support payments to direct care workers. This funding is eliminated in FY 2016.

Salary Increases and Other Benefits

- The FY 2016 Governor's Budget recommends $65.6 million for Salary Increases and Other Benefits. This funding includes about $41 million for step-increments, but no contractual COLA increases for Executive Branch employees. The Judiciary recommendation funds of about $14 million in progression increase for most employees. The total also includes $11 million for unused sick leave payments.

Background Papers

Fiscal and Personnel Summary

AGENCY FUNDING BY SOURCE OF FUNDS ($000)

	Expended FY 2014	Adj. Approp. FY 2015	Recom. FY 2016	Percent Change 2014-16	Percent Change 2015-16
General Fund					
Direct State Services	$2,451,583	$2,557,326	$2,823,511	15.2%	10.4%
Grants-In-Aid	1,081,023	1,129,856	1,156,710	7.0%	2.4%
State Aid	0	0	0	0.0%	0.0%
Capital Construction	110,259	218,715	209,666	90.2%	(4.1%)
Debt Service	0	0	0	0.0%	0.0%
Sub-Total	**$3,642,865**	**$3,905,897**	**$4,189,887**	**15.0%**	**7.3%**
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	**$3,642,865**	**$3,905,897**	**$4,189,887**	**15.0%**	**7.3%**
Federal Funds	$0	$0	$0	0.0%	0.0%
Other Funds	$49,217	62,513	53,313	8.3%	(14.7%)
Grand Total	**$3,692,082**	**$3,968,410**	**$4,243,200**	**14.9%**	**6.9%**

PERSONNEL SUMMARY - POSITIONS BY FUNDING SOURCE

	Actual FY 2014	Revised FY 2015	Funded FY 2016	Percent Change 2014-16	Percent Change 2015-16
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 2014 (as of December) and revised FY 2015 (as of January) personnel data reflect actual payroll counts. FY 2016 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 2015	Recomm. FY 2016	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	**$242,125**	**$237,336**	**($4,789)**	**(2.0%)**	**D-424**

This line item represents gross property rentals costs. This proposed reduction reflects lower costs directly related to the rental of real property for the conduct of State business. The factors causing this cost reduction are discussed below with respect to each component of the Property Rentals total.

Existing and Anticipated Leases	**$196,125**	**$191,333**	**($4,792)**	**(2.4%)**	**D-425**

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 $4.792 million results primarily from reductions in operating escalations (increases in payments from automatic escalation clauses in multi-year leases), rent costs, and other lease services totaling $7.135 million offset by an increase in costs totaling $2.343 million for approved new space, utilities, taxes, and janitorial services.

Existing and Anticipated Leases ($000's)	FY 2015 Adjusted Appropriation	FY 2016 Recommendation	Change
Rent	$ 138,614	$ 136,845	$ (1,769)
Taxes	$ 1,464	$ 1,699	$ 235
Janitorial	$ 3,443	$ 3,663	$ 220
Utilities	$ 13,706	$ 14,428	$ 722
Operating Escalations	$ 28,463	$ 23,376	$ (5,087)
Other Lease Services	$ 8,555	$ 8,276	$ (279)
Approved New Space	$ 1,880	$ 3,046	$ 1,166
Total	$ 196,125	$ 191,333	$ (4,792)

Source: Office of Management and Budget, Department of the Treasury.

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

Budget Item	Adj. Approp. FY 2015	Recomm. FY 2016	Dollar Change	Percent Change	Budget Page
Economic Development Authority	**$7,762**	**$7,043**	**($ 719)**	**(9.3%)**	**D-425**

The State has capital 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 on bonds issued for the acquisition, renovation, and construction of certain land, office buildings and improvements in Asbury Park, Camden, Capitol Place One, Cherry Hill, five State Police Barracks, as well as improvements related to parking, infrastructure, landscaping, passenger shuttle, and open space elements at Liberty State Park. This proposed FY 2016 reduction for the EDA consists primarily of minor changes in debt service on the State's capital lease agreements and a reduction of $712,000 in debt service for Liberty State Park. According to a Request for Proposal for Investment Banking Services dated October 28, 2014, the EDA plans to refund the State Lease Revenue Bonds (Liberty State Park Project) in the Fall of 2015; otherwise annual debt service would increase to about $1.6 million in FY 2016. The proposed changes in debt service with the EDA are shown below:

Economic Development Authority ($000)	FY 2015 Adjusted Appropriation	FY 2016 Recommendation	Change
Asbury Park	$ 1,030	$ 1,029	$ (1)
Camden	$ 1,420	$ 1,419	$ (1)
Capital Place One	$ 2,091	$ 2,089	$ (2)
Cherry Hill	$ 739	$ 737	$ (2)
Liberty State Park	$ 1,512	$ 800	$ (712)
State Police Barracks	$ 970	$ 969	$ (1)
Total	**$ 7,762**	**$ 7,043**	**$ (719)**
Source: Office of Management and Budget, Department of the Treasury.			

Budget Item	Adj. Approp. FY 2015	Recomm. FY 2016	Dollar Change	Percent Change	Budget Page
Other Debt Service Leases and Tax Payments	**$38,238**	**$38,960**	**$ 722**	**1.9%**	**D-425**

The Other Debt Service Leases and Tax Payments appropriation consists primarily of debt service costs, taxes, and payments in lieu of taxes (PILOTs) 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 proposed FY 2016 increase in this category is comprised of (1) $687,000 in increased property taxes for the Capitol One building, the Justice Complex, and the Taxation Building; and (2) $33,000 in higher operating expenses for Bridgeton. These increases are offset by minor changes in PILOT payments, insurance costs,

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

Budget Item	Adj. Approp. FY 2015	Recomm. FY 2016	Dollar Change	Percent Change	Budget Page

debt service, and administrative fees for various other State occupied agencies. In addition, the annual debt service of $21.48 million on bonds issued by the Health Care Facilities Financing Authority (HCFFA) for Greystone Psychiatric Hospital located in Morris County and for Marlboro Psychiatric Hospital located in Monmouth County is consistent with the debt service schedule published in the Fiscal Year (FY) 2014 Debt Report for FY 2016.

Other Debt Service Leases and Tax Payments ($000's)	FY 2015 Adjusted Appropriation	FY 2016 Recommendation	Change
Asbury Park Administration Fee	$ 20	$ 20	$ 0
Asbury Park PILOT	$ 81	$ 82	$ 1
Bridgeton Debt Service	$ 1,490	$ 1,489	$ (1)
Bridgeton Operating Expenses	$ 493	$ 526	$ 33
Camden 101 Haddon Ave. PILOT	$ 396	$ 404	$ 8
Camden 101 Haddon Ave. Administration Fees	$ 20	$ 20	$ 0
Capitol One Taxes	$ 2,121	$ 2,246	$ 125
Capital One-EDA Administration Fees	$ 22	$ 20	$ (2)
DOT Cherry Hill PILOT	$ 117	$ 118	$ 1
DOT Cherry Hill EDA Administration Fee	$ 20	$ 20	$ 0
Greystone	$ 15,155	$ 17,411	$ 2,256
Marlboro	$ 6,327	$ 4,071	$ (2,256)
Justice Complex Taxes	$ 9,880	$ 10,377	$ 497
Taxation Building Debt Service	$ 691	$ 691	$ 0
Taxation Building Insurance	$ 20	$ 15	$ (5)
Taxation Building Property Taxes	$ 1,312	$ 1,377	$ 65
Taxation Building TDA Taxes	$ 53	$ 53	$ 0
State Police Locations Administrative Fees EDA	$ 20	$ 20	$ 0
Total	**$ 38,238**	**$ 38,960**	**$ 722**
Source: Office of Management and Budget, Department of the Treasury.			

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

Budget Item	Adj. Approp. FY 2015	Recomm. FY 2016	Dollar Change	Percent Change	Budget Page
Less: Total Deductions	**$89,820**	**$88,516**	**($1,304)**	**(1.5%)**	**D-425**

This line item represents "direct rent" reimbursements to 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. To the extent that these reimbursements decrease, additional State appropriations are needed to fully fund rental and other costs.

Net Property Rentals	**$152,305**	**$148,820**	**($3,485)**	**(2.3%)**	**D-425**

The "central rent" requirement for FY 2016 is the net result of the increases and decreases in the Property Rental items noted above.

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 Medical Malpractice Self-Insurance Fund for Rutgers, Rowan, and University Hospital.

Tort Claims Liability Fund	**$15,000 (S)$26,750**	**$15,000**	**($26,750)**	**(64.1%)**	**D-425**

The Tort Claims Liability Fund provides funding for the payment of claims arising from wrongful actions or omissions (not based on contractual obligations), indemnification of pool attorneys engaged by the Public Defender for the defense of indigents, indemnification of a designated pathologist engaged by the State Medical Examiner, and 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. 59:1-1 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.

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

Budget Item	Adj. Approp. FY 2015	Recomm. FY 2016	Dollar Change	Percent Change	Budget Page

Tort Claims Liability Fund FY 2012 to FY 2016							
	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
($ Millions)							
Base Appropriation	$ 15.00	$ 15.00	$ 15.00	$ 15.00	$ 15.00	$ 15.00	$ 15.00
Supplemental	$ 5.75	$ 19.43	$ 7.15	$ 17.35	$ 4.66	$ 26.75	
Transfers	$ 4.00	$ -	$ 0.49	$ -	$ 2.20	$ 0.54	
Total Tort Funding	**$ 24.75**	**$ 34.43**	**$ 22.64**	**$ 32.35**	**$ 21.86**	**$ 42.29**	**$ 15.00**

In FY 2010 - FY 2014 the Tort Claims Liability Fund was underfunded and required supplemental appropriations and transfers, as shown above, above a base appropriation of $15 million each year. The FY 2016 Governor's Budget indicates the need for supplemental appropriations of $26.750 million in FY 2015 to bring total funding to $42.29 million, and recommends a FY 2016 of appropriation of $15 million. Since FY 2010, the baseline appropriation for the Tort Claims Liability Fund has not been increased to meet the level of funding needed to pay claims. As a result, supplemental appropriations have been required to fulfill the State's Tort Claim obligations. In FY 2013, there were 253 small claims (less than $100,000) rendered against the State totaling $2.3 million and 36 large claims (greater than $100,000) totaling $29.9 million. In FY 2014, there were 253 small claims totaling $2.5 million and 27 large claims totaling $15.3 million. In addition, the Division of Risk Management indicates that in FY 2014, a $166 million wrongful death jury verdict was rendered against the State, since then reduced by the court to $102.6 million based on the State's post–trial motions. The State has appealed the reduced verdict and is waiting for a decision from the appellate court. The defendant has cross-appealed to reinstate the full $166 million verdict. Given supplemental funding needs over the past six years and the pending outcome of the appeal there may be upward pressure on the level of funding needed to support the Tort Claims Liability Fund in FY 2016 beyond the recommended appropriation. Please refer to Discussion Point 1 and the associated attachments for further discussion and information regarding the Tort Claims Liability Fund, found on the State Legislature's website.

Workers' Compensation Self-Insurance Fund	**$92,000**	**$94,500**	**$ 2,500**	**2.7%**	**D-425**

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.

The FY 2016 Governor's Budget recommends an increase to the Workers' Compensation Self-Insurance Fund of 2.7 percent or $2.5 million. The proposed increase in FY 2016 is attributable to higher indemnity costs, i.e., costs of temporary and permanent wage replacement, offset by a lower injury rate and better network utilization.

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

Budget Item	Adj. Approp. FY 2015	Recomm. FY 2016	Dollar Change	Percent Change	Budget Page

According to the department, trends used as the basis of the FY 2016 recommendation include the accidental frequency rate, medical inflationary costs, and historical costs. The Division of Risk Management indicates that the accidental frequency rate has declined from 6.77 percent to 5.7 percent. This reduction in the accident frequency rate is partially offset by an anticipated 3.4 percent increase in indemnity costs (temporary and permanent) and due to increasing benefit rates over time. This is because of the fact that workers' compensation claims can continue for many years. Utilization of in-network medical care providers is extraordinarily high, 92 percent, and the in-network medical cost discounts are also high, 63 percent. There has also been increased interaction between the Division of Risk Management and employing State agencies resulting in prompt treatment and return to work for injured State employees. For employees who returned to work in FY 2014, the return to work rate was 91 days.

Workers' Compensation Cost Factors						
Fiscal Year	**Claims (1)**	**Medical Cost**	**Expense Cost**	**Temporary Cost**	**Permanent Cost**	**Total Cost**
2008	7,461	$35,924,399	$6,058,288	$6,692,340	$23,538,215	$72,213,242
2009	7,169	$35,348,189	$7,294,502	$6,928,780	$26,617,739	$76,196,379
2010	6,256	$45,568,163	$5,756,144	$8,985,716	$21,523,915	$81,839,259
2011	6,648	$46,524,888	$9,598,134	$8,345,243	$33,766,768	$98,241,681
2012	5,394	$43,777,774	$8,419,030	$12,096,334	$31,370,949	$95,664,087
2013	5,249	$35,895,101	$7,620,281	$13,736,841	$29,602,543	$86,854,765
% Change 2008-2013	-30%	-1%	26%	105%	26%	20%
% Change 2011-2012	-19%	-6%	-12	45%	-7%	-2.6%
% Change 2012-2013	-2.6%	-18%	-9.5%	13.5%	-5.6%	-9%

(1) Reported claims.
Source: Division of Risk Management, Department of the Treasury.

Property Insurance Premium Payments	**$3,468**	**$3,436**	**($ 32)**	**(.9%)**	**D-425**

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

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

Budget Item	Adj. Approp. FY 2015	Recomm. FY 2016	Dollar Change	Percent Change	Budget Page

include fine arts coverage and high-value van coverage. The proposed reduction consists of minor changes in the policies that are included in this appropriation, as shown below.

FY 2016 Property Insurance Premium Payments ($000)					
Policy	**Type of Coverage**	**FY 2015 (1)**	**FY 2016**	**$ Change FY15-FY 16**	**Percent Change**
Affiliated FM	Property Insurance	$2,999	$2,985	$ (14)	(0.5%)
Travelers	Fine Arts Floater–Museum	$ 19	$ 26	$ 7	36.0%
Travelers	Fine Arts Floater – DEP	$ 25	$ 0(2)	$ (25)	100.0%
Marsh USA	Brokers Services Fees	$ 175	$ 175	$ 0	0.0%
	National Flood Insurance	$ 250	$ 250	$ 0	0.0%
Total		**$3,468**	**$3,436**	**$ 32**	**(0.9%)**

Source: Office of Management and Budget.
(1) FY 2015 premium amounts are budgeted policies for FY 2015.
(2) Included in the Fine Arts Floater – Museum coverage.

Casualty Insurance Premium Payments	**$595**	**$544**	**($ 51)**	**(8.6%)**	**D-425**

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. According to the Administration, current casualty premiums include the New Jersey State Police marine fleet and submerged vessels as well as Aircraft Hull and Liability Insurance. The proposed reduction consists of minor changes in the policies that are included in this appropriation, as shown below.

FY 2016 Casualty Insurance Premium Payments ($000)

FY 2016 Casualty Insurance Premium Payments ($000)					
Policy	**Type of Coverage**	**FY 2015**	**FY 2016**	**$ Change FY15-FY16**	**Percent Change**
Global Aerospace	Aviation Liability & Hull	$379	$361	$(18)	(4.7%)
Zurich	Marine (watercraft) Hull-NJSP Marine Fleet	$105	$ 85	$(20)	(19%)
Essex Insurance	Submerged Vessel	$ 24	$ 24	$ 0	0%
Zurich	Marine (watercraft) Hull-DEP Marine Fleet	$ 87	$ 74	$(13)	(14.9%)
Total		**$595**	**$544**	**$51**	**(8.6%)**

Source: Office of Management and Budget.

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

Budget Item	Adj. Approp. FY 2015	Recomm. FY 2016	Dollar Change	Percent Change	Budget Page
Special Insurance Policy Premium Payment	**$437**	**$440**	**$ 3**	**.7%**	**D-425**

The Special Insurance Policy Premium Payment appropriation 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.

The proposed increase is due to a reduction of $17,000 in the Volunteer Business Travel Accident Policy and an increase of $20,000 in the Blanket Accident Policy–Superior Court. It is not evident whether the Volunteer Business Travel Accident Policy and the Blanket Accident Policy were consolidated, or whether the policy premium rates increased and the Volunteer Business Travel Accident Policy was discontinued.

The chart below itemizes the changes in each of the special insurance policies.

FY 2016 Special Insurance Policy Premium Payment ($000)					
Policy	**Type of Coverage**	**FY 2015**	**FY 2016**	**$ Change FY15-FY16**	**Percent Change**
Chartis	Special Contingency Coverage	$ 10	$ 10	$ 0	0.0%
Chartis	Primary Crime Insurance	$ 101	$ 101	$ 0	0.0%
Federal Insurance	Blanket Accident Policy-Superior Court	$ 32	$ 52	$ 20	62.5%
Federal Insurance	Volunteer Business Travel Accident Policy	$ 17	$ 0	($17)	(100.0%)
Peoples Benefit Life	Student Accident Policy - Katzenbach	$ 11	$ 11	$ 0	0.0%
Twin City & Hartford	Capital City (GL, AL, Umbrella)	$ 5	$ 5	$ 0	0.0%
Axis Insurance Company	Broadcasters Liability	$ 11	$ 11	$ 0	0.0%
Axis Insurance Company	Cyber Liability	$ 250	$ 250	$ 0	0.0%
Total		**$ 437**	**$ 440**	**$ 3**	**0.7%**

Source: Office of Management and Budget.

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

Budget Item	Adj. Approp. FY 2015	Recomm. FY 2016	Dollar Change	Percent Change	Budget Page
Medical Malpractice Self-Insurance Fund for Rutgers, Rowan, and University Hospital	**$10,000 (S)$28,000**	**$10,000**	**($28,000)**	**(73.7%)**	**D-425**

The Medial Malpractice Self-Insurance Fund for Rutgers, Rowan, and University Hospital is a Special Revenue Fund established by a Trust agreement between the State and the former University of Medicine and Dentistry of New Jersey (UMDNJ) to cover malpractice claims against the University and its hospitals. This insurance is required by the New Jersey Health Care Facilities Financing Authority for the protection of the Authority's bondholders. The State appropriation supplements assessments on affiliate hospitals and faculty of about $9.5 million.

The FY 2015 Appropriations Act (P.L.2014, c.14) provided that as long as the contributions made by University Hospital, Rutgers, the State University, and Rowan University and each of their affiliates to the University Hospital Self-Insurance Reserve Fund, the Rutgers University Self-Insurance Reserve Fund, or the Rowan University Self-Insurance Reserve Fund, respectively, are equal to the respective amounts established in memoranda of agreements with the Department of the Treasury, if those are insufficient to pay claims expenditures, then General Fund appropriations would be authorized in such amounts as may be necessary to pay the remaining claims for the respective institutions. The provision is proposed for FY 2016 without change.

According to an Official Statement prepared by the Transportation Trust Fund Authority to provide information for the purpose of issuing bonds,

> Prior to July 1, 2013, there were various numbers of claims and cases pending against the University of Medicine and Dentistry of New Jersey ("UMDNJ") and its employees, seeking recovery of monetary damages that were primarily paid out of the UMDNJ Self Insurance Reserve Fund created pursuant to the New Jersey Tort Claims Act (N.J.S.A. 59:1-1 et seq.). An independent study estimated an aggregate potential exposure of $148,897,000 for tort and medical malpractice claims for UMDNJ pending as of December 31, 2012. As a result, of the enactment of the New Jersey Medical and Health Sciences Education Restructuring Act, P.L.2012, c.45 ("the Restructuring Act"), all of UMDNJ has been transferred to Rutgers, the State University ("Rutgers"), with the exception of the School of Osteopathic Medicine, which has been transferred to Rowan University ("Rowan"), and University Hospital, as applicable. Pursuant to the Restructuring Act, Rutgers and Rowan each entered into a memorandum of understanding with the State Treasurer pursuant to which the State shall pay from a self-insurance reserve fund established for

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

Budget Item	Adj. Approp. FY 2015	Recomm. FY 2016	Dollar Change	Percent Change	Budget Page

each entity medical malpractice claims occurring prior to and post the effective date of the transfers, which was July 1, 2013. The Restructuring Act also provides for University Hospital's medical malpractice claims to be covered by a self-insurance reserve fund established by the State Treasurer and University Hospital entered into a memorandum of understanding with the State Treasurer for such claims. All claims, other than medical malpractice claims, incurred by UMDNJ with respect to the UMDNJ facilities transferred to Rutgers will be paid for by Rutgers out of its own funds. All claims, other than medical malpractice claims, incurred by Rowan will be paid from the Tort Claims Fund. The State is unable to estimate its exposure for these claims.

In FY 2014 and FY 2015, the Appropriations Act appropriated $10 million to fund medical malpractice self-insurance for Rutgers, Rowan, and University Hospital. In FY 2014, a supplemental appropriation of $8 million and transfers of $6.7 million were required in addition to the original appropriation of $10 million. The FY 2016 Governor's Budget projects a supplemental appropriation of $28 million will be required in FY 2015, as shown in the chart below.

Medical Malpractice Self-Insurance Fund for Rutgers, Rowan, and University Hospital			
($Millions)	**FY 2014**	**FY 2015**	**FY 2016**
Base Appropriation	$ 10.000	$ 10.000	$ 10.000
Supplemental	$ 8.000	$ 28.000	
Transfers	$ 6.700	$ -	
Total Funding	$ 24.700	$ 38.000	$ 10.000

According to the Administration, there were six FY 2014 claims over $1 million that were paid by the Fund. They averaged $3.7 million, representing $22.3 million out of the $35.6 million in total claims paid from the Fund. In FY 2015, the Administration estimates that there will be 11 claims each over $1 million to be paid from the Fund. The average value of these 11 claims is $3.4 million, representing $37.1 million out of $48.2 million in total claims estimated to be paid out of the Fund. The institutions have no financial commitment to the Fund; however, the medical professionals do. The State currently expects such affiliate contributions to total approximately $11 million annually.

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

Budget Item	Adj. Approp. FY 2015	Recomm. FY 2016	Dollar Change	Percent Change	Budget Page

Funding Medical Malpractice Self-Insurance Fund for Rutgers, Rowan, and University Hospital			
($Millions)	FY 2014	FY 2015	FY 2016
State Funding	$ 24.700	$ 38.000	$ 10.000
Non-State Funding	$ 10.900	$ 11.450	$ 11.000
Total Claims Cost	$ 35.600	$ 49.450	T/B/D

According to the Official Statement prepared by the Transportation Trust Fund Authority, total projected unpaid claims against the Fund are $146 million as of December 31, 2012. Although FY 2016 funding needs are undetermined at this time, due to uncertainty as to the timing and magnitude of claims settlements, there is a strong possibility that supplemental funding will again be required.

Public Health, Environmental and Agricultural Laboratory	**$3,575**	**$2,195**	**($1,380)**	**(38.6%)**	**D-425**

The Public Health, Environmental, and Agricultural Laboratory is a multiagency facility that was 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 former Department of Health and Senior Services and the Department of Agriculture laboratory and provide the Department of Environmental Protection with testing services currently contracted out to private laboratories.

Operating costs of the lab include electricity and gas, water, sewer, janitorial, security, and grounds maintenance. These costs have declined by 41 percent since FY 2013, when expenditures for the lab when it was first opened were $6.075 million including: $4.975 million for electricity and gas, $185,000 for water/sewer/other, and $915,000 for janitorial, security, and grounds maintenance. Savings were achieved in FY 2014 from lower gas and electricity costs totaling $2.395 million and lower water and sewer costs of $105,000. Additionally, while savings were recognized resulting from the closure of the old lab some residual costs for the old lab are included in the Fuel and Utilities and Household and Security accounts.

The Office of Management and Budget (OMB) indicates that the proposed reduction of $1.380 million in FY 2016 reflects savings from lower utility costs; however, OMB did not specify how the lower utility costs are expected to be achieved.

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

Budget Item	Adj. Approp. FY 2015	Recomm. FY 2016	Dollar Change	Percent Change	Budget Page
Household and Security	**$8,578**	**$8,485**	**($ 93)**	**(1.1%)**	**D-425**

The Household and Security appropriation funds contract costs for purposes such as janitorial and trash removal services and State Police civilian guards who serve as security guards in State buildings and facilities.

The FY 2016 Governor's Budget proposes a reduction of $93,000, or 1.1 percent in the Household and Security appropriation for FY 2016. According to OMB, the reduction reflects savings achieved through negotiations for new and renewed household and security contracts for State-owned buildings across the State. Changes in the account are shown in the chart below.

FY 2016 Household and Security Account ($000)			
Service	**FY 2015**	**FY 2016**	**Percent Change**
Household	$ 7,491	$ 7,061	(5.7 %)
Trash Removal	$ 324	$ 518	60.0 %
Security	$ 763	$ 906	18.7 %
Total	$ 8,578	$ 8,485	(1.1 %)

Source: Office of Management and Budget.

Grants-In-Aid

Aid to Independent Authorities

Budget Item	Adj. Approp. FY 2015	Recomm. FY 2016	Dollar Change	Percent Change	Budget Page
New Jersey Sports and Exposition Authority-Debt Service	**$68,474**	**$65,423**	**($3,051)**	**(4.5%)**	**D-425**

P.L.1971, c. 137 created the New Jersey Sports and Exposition Authority (NJSEA). The law provided for the acquisition, ownership, and operation of football 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; however, as the original issue bonds were refinanced, the bonds became secured, in part, by State appropriations. Debt service on the bonds is payable pursuant to a contract between the State Treasurer and the NJSEA, subject to appropriation by the Legislature.

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

Budget Item	Adj. Approp. FY 2015	Recomm. FY 2016	Dollar Change	Percent Change	Budget Page

According to the State of New Jersey Debt Report (debt report) for fiscal year 2014, the total amount of State Contract Bonds outstanding is $440.465 million with a final maturity date of March 1, 2025. The recommended appropriation is consistent with the debt service schedule presented in the debt report.

Budget Item	Adj. Approp. FY 2015	Recomm. FY 2016	Dollar Change	Percent Change	Budget Page
New Jersey Performing Arts Center, EDA	**$5,561**	**$5,546**	**($ 15)**	**(.3%)**	**D-425**

The New Jersey Performing Arts Center (NJPAC) was authorized by P.L.1974, c.80. In 1996, the Economic Development Authority issued $62.91 million in bonds for the construction of the NJPAC including a state-of-the-art center with multi-purpose theaters, support facilities, surface parking, and open plazas. State appropriations for the 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. The New Jersey Performing Arts Center bonds were refinanced in FY 2010. Refunding bonds totaled $26.92 million, with a final maturity date of June 15, 2016. According to the FY 2016 debt report, $10.455 million of those bonds are outstanding. The FY 2016 recommended appropriation of $5.546 million is consistent with the maturity schedule on outstanding bonds in the debt report, and should retire all outstanding debt.

Budget Item	Adj. Approp. FY 2015	Recomm. FY 2016	Dollar Change	Percent Change	Budget Page
Business Employment Incentive Program, EDA-Debt Service	**$27,850**	**$20,308**	**($7,542)**	**(27.1%)**	**D-425**

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 with bond offerings and to modify the terms and conditions of the grants when refinanced. Grants may be awarded for up to ten years and are between 10 and 50 percent of the State income taxes withheld on the newly created jobs or between 10 and 30 percent of the estimated tax of partners of an eligible partnership. 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. The total amount of bonds outstanding is $19.150 million due November 1, 2015. The FY 2016 recommended appropriation of $20.308 million is consistent with the maturity schedule as set forth in the FY 2014 debt report, and should retire all outstanding debt.

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

Budget Item	Adj. Approp. FY 2015	Recomm. FY 2016	Dollar Change	Percent Change	Budget Page
Liberty Science Center	**$10,945**	**$6,136**	**($4,809)**	**(43.9%)**	**D-426**

Under P.L.1974, c.80, the Economic Development Authority is authorized to issue bonds for the design, construction, renovation, expansion, and acquisition of science exhibits for the Liberty Science Center (LSC) begun in 2003. The LSC, located in Liberty State Park in Jersey City, is a science museum that provides interactive science and technology education for the study and exploration of nature, humanity, and technology. Expansion of the LSC was completed in 2007. The expansion included the renovation of the existing building and the construction of a new addition, the renovation of a parking lot, and the improvement of the Central Railroad of New Jersey terminal at Liberty State Park.

The FY 2016 Governor's Budget recommends a reduction of $4.8 million, from $10.9 million to $6.1 million, in the State appropriation for the Liberty Science Center. Budget language provides that the appropriation may be a combination of debt service on EDA bonds and operating support for the LSC. In addition, the appropriation may include funding for repayment of debts incurred by the Liberty Science Center independent of the EDA.

This proposed FY 2016 reduction for the Liberty Science Center consists of a decrease of $4.809 million in LSC debt service. According to a Request for Proposal for Investment Banking Services dated October 28, 2014, the EDA plans to refund the LSC bonds in the Fall of 2015; otherwise annual debt service would increase to about $8.240 million in FY 2016.

Budget Item	Adj. Approp. FY 2015	Recomm. FY 2016	Dollar Change	Percent Change	Budget Page
New Jersey Sports and Exposition Authority – Operations	**$15,000 (S)17,500**	**$15,000**	**($17,500)**	**(53.8%)**	**D-426**

According to the administration in October 2014, "the NJSEA subsidy stems from the effects of the New Meadowlands Stadium agreement in FY 2007, and operating both the Meadowlands and Monmouth park racetracks at a deficit until FY 2013. Budget language was added in FY 2011 that allows the Executive to approve supplemental appropriations to the NJSEA for operational costs. Since that point in time, the General Fund has provided subsidies totaling $80.7 million (FY 2011 $4 million; FY 2012 $15 million; FY 2013 $27.4 million; FY 2014 $35.3 million; and FY 2015 $32.5 million.) The FY 2014 amount includes the cost to host the Super Bowl and the Special Olympics USA Games, and excludes approximately $8.1 million that were deferred to the next fiscal year. The FY 2015 Appropriation Act provides for a $15 million grant-in-aid appropriation to the Authority for operations, and continuing budget language allows for a directory letter supplemental to cover their remaining need. NJSEA estimates a FY 2015 subsidized need of $32 million. According to the Department of the Treasury, the annual appropriation is based on anticipated cash flow needs to support the original appropriation and any necessary supplemental appropriations related to legacy costs and operating support. The ongoing annual cash flow needs are reviewed and monitored by

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

Budget Item	Adj. Approp. FY 2015	Recomm. FY 2016	Dollar Change	Percent Change	Budget Page

OMB and the NJSEA during the fiscal year to determine the timing of any subsidy. For FY 2016 the subsidy is expected to be approximately $13 million to $18 million. For a complete history of the operating subsidy of the NJSEA and further information, please refer to Discussion Point 5 in the FY 2016 Interdepartmental Budget Analysis, available on the State Legislature's website.

Capital Construction

Statewide Capital Projects

Statewide Capital Projects include capital additions, improvements, and equipment projects for the construction, maintenance, and repair of State-owned and State-financed buildings.

New Jersey Building Authority	**$101,923**	**$101,952**	**$ 29**	**.0%**	**D-426**

P.L.1981, c.120 created the New Jersey Building Authority (NJBA) for the purpose of financing, acquiring, constructing, reconstructing, rehabilitating, and improving office buildings and related facilities to meet the needs of State agencies. The authority is also responsible for the design and construction of correctional facilities, as well as the restoration and renovation of historic public buildings. The authority is authorized to issue bonds and notes to construct facilities for leasing to the State. The outstanding Building Authority Revenue Bonds are secured by annual rental payments from the State which are subject to annual appropriations by the Legislature.

On November 22, 2013, the NJBA issued $47.620 million in Bond Anticipation Notes (BANs) due June 15, 2016 bringing the total amount of bonds outstanding to $541.855 million. According to the FY 2014 Debt Report, debt service of $148.656 million in FY 2016 includes the $47.620 million in 2013 Bond Anticipation Note principal, which the NJBA expects to refund prior to maturity. The FY 2016 Governor's Budget recommends debt service of $101.952 million indicating the expectation to refund the 2013 BANs.

Life Safety, Emergency, and IT Projects - Statewide	**$19,076**	**$10,000**	**($9,076)**	**(47.6%)**	**D-426**

In FY 2015, the title of this appropriation was expanded to include Information Technology (IT) Projects. At the request of the Executive, the Legislature increased the FY 2015 appropriation from $10 million to $19.076 million, to replace funds appropriated prior to FY 2015 that were lapsed to balance the FY 2014 budget. The allocation of the funds for the Life Safety, Emergency, and IT Projects-Statewide appropriation includes the Life Safety projects shown below:

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

Budget Item	Adj. Approp. FY 2015	Recomm. FY 2016	Dollar Change	Percent Change	Budget Page

Life Safety Allocation ($000s)		
Capital Complex Roof Replacements	$	1,630
Nursing Call Stations	$	1,500
Ancora Hospital-Roof Replacement, Main Bldg.	$	1,030
Trenton Psychiatric-Boiler Conversion	$	170
Greenbrook Developmental Center-Air Handler Replacements	$	250
Trenton Psychiatric-Suicide Prevention	$	750
Albert C. Wagner Prison-Window Replacement	$	1,750
East Jersey Prison-Relocation of Water Meter	$	1,000
NJ Training School for Boys-Roof Replacement	$	600
State Police Headquarters-2 Generators at Bldg.15	$	1,320
Restoration of Funds for projects initiated in prior years	$	9,076
Total	**$**	**19,076**

The FY 2016 Governor's Budget recommends an appropriation of $10 million to fund ongoing Life Safety, Emergency, and IT projects in FY 2016. The reduction from FY 2015 eliminates the increase noted above.

All Other Funds

Budget Item	Adj. Approp. FY 2015	Recomm. FY 2016	Dollar Change	Percent Change	Budget Page
Capital Projects Statewide	**$9,200**	**$0**	**($9,200)**	**(100.0%)**	**D-427**

In FY 2014 a new line item was created under "All Other Funds," for Capital Projects – Statewide. A total of $15.820 million was appropriated for FY 2014 and $9.2 million was appropriated for FY 2015 to fund Statewide Capital Projects from the Clean Energy Fund, instead of from a Statewide Capital Construction line item and from the State-owned Real Property line item, as had occurred in prior years. The FY 2016 Governor's Budget shows that a total of $15.823 million was expended in FY 2014 on seven projects, and $9.2 million is proposed for two projects in FY 2015. Although no funding is projected in FY 2016, language is continued authorizing use of $9.2 million from the Clean Energy Fund for projects. According to the Office of Budget and Management, "The Clean Energy Fund language is continued in Fiscal 2016 because at the time of the Budget there was a concern the funds would continue to be needed to fund any remaining portion of the energy efficiency capital projects that were established in Fiscal 2015. The two largest continuing projects are $6.6m to replace the boilers in 8 buildings at the NJ Training School for Boys and $2.6m to replace the HVAC system and two chillers at Ancora Psychiatric Hospital."

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

Budget Item	Adj. Approp. FY 2015	Recomm. FY 2016	Dollar Change	Percent Change	Budget Page

Capital Projects-Statewide Projects Funded FY 2014 ($000s) Statewide Projects	
Garden State Youh Correctional Facility Steam Line	$ 2,560
Wagner Youth Correctional Facility Windows	$ 3,500
Vineland-Boiler Conversion	$ 485
Ancora Psychiatric Hospital Ivy Hall Transformer/HVAC	$ 875
Woodbine Condensing/Air Handling	$ 1,400
Green Brook Emergency Generator	$ 3,500
State Police Generators	$ 3,500
Total	**$ 15,820**

Capital Projects-Statewide Projects Funded FY 2015 ($000s)		
Ancora Hospital-HVAC Infrastructure Replacement	$	2,600
Juvenile Justice Complex-Boiler Decentralization Final Phase	$	6,600
Total	**$**	**9,200**

EMPLOYEE BENEFITS

There are five main categories of appropriations within the Employee Benefits accounts: Pensions, Health Benefits, Post Retirement Medical Benefits, employer taxes and pension bond debt service. Most State employees including those of State higher education institutions, and most employees of counties, municipalities, and school districts, are members of one of the seven State retirement systems: the Alternate Benefits Program (ABP), the Defined Contribution Retirement Program (DCRP), the Public Employees' Retirement System (PERS), the Teachers' Pension and Annuity Fund (TPAF), the Police and Firemen's Retirement System (PFRS), the State Police Retirement System (SPRS), and the Judicial Retirement System (JRS). The first two plans are defined contribution plans and the other five are defined benefits plans. In addition, there are two closed systems, the Consolidated Police and Firemen's Pension Fund (CPFPF) and Prison Officer's Pension Fund (POPF) that enroll no new members. Under current law, all defined benefit pension plans are subject to actuarial valuation every year and actuarial experience studies every three years.

The following table summarizes the recommended changes in these appropriations that are included in Direct State Services (DSS) and Grants-In-Aid Interdepartmental Accounts section of the FY 2016 Governor's Budget. Other appropriations for employee benefits are included in the budgets for the Department of Education and the Department of the Treasury.

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

Budget Item	Adj. Approp. FY 2015	Recomm. FY 2016	Dollar Change	Percent Change	Budget Page
Employee Benefits	**$3,135,850**	**$3,486,969**	**$351,119**	**11.2%**	**D-433**

Table 1

EMPLOYEE BENEFITS			
State and Higher Education Employees			
Changes in Appropriations by Program; Adjusted FY 2015 to Recommended FY 2016 ($000)			
	Change in Direct State Service (State Employees)	**Change in Grants-In-Aid (Higher Education)**	**Total Change DSS and GIA**
Total Pensions	$209,910	$ 33,333	$243,243
Pensions – Non-Contributory Insurance	$ 2,250	$ 3,883	$ 6,133
Volunteer Emergency Survivor Benefit	$ (22)	$ 0	$ (22)
Total Health Benefits Active	$ 52,456	$24,933	$ 77,389
Post Retirement Medical Benefits	$ 24,589	$ 6,701	$ 31,290
Affordable Care Act Fees	$ (4,152)	$ (1,555)	$ (5,707)
Employer Taxes	$ (9,596)	$ 5,521	$ (4,075)
Pension Bonds	$ 2,712	$ 156	$ 2,868
Total	$278,147	$ 72,972	$351,119

The FY 2016 Governor's Budget recommends an appropriation of about $3.487 billion to provide funding for benefits for State employees and retirees (Direct State Services) and employees and retirees of State higher educational institutions (Grants-In-Aid). This is $351.1 million, or 11.2 percent, higher than the FY 2015 adjusted appropriation of $3.136 billion. This proposed change is due to increases of: (1) $243.243 million in pension appropriations; (2) $6.133 million in Non-Contributory Insurance; (3) $77.389 million in health benefits for active employees; (4) $31.290 million in Post Retirement Medical Benefits; and (5) $2.868 million in debt service on Pension Obligation Bonds. These increases are offset by (1) a reduction of $5.707 million in Affordable Care Act Fees; (2) a $4.075 million reduction in Employer Taxes; and (3) a reduction of $22,000 in Volunteer Emergency Survivor Benefits. Details of the Direct State Services and Grants-In-Aid sections of the Employee Benefits budget are discussed in order below.

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

Budget Item	Adj. Approp. FY 2015	Recomm. FY 2016	Dollar Change	Percent Change	Budget Page
		Direct State Services			
Employee Benefits	**$2,178,668**	**$2,456,815**	**$278,147**	**12.8%**	**D-431**

As displayed in Table 1 above, the proposed increase in funding for employee benefits for active and retired State employees is due primarily to a $209.911 million increase in pension costs comprising employers' contributions to defined benefits pension costs for PERS, TPAF, PFRS, SPRS, and JRS and for the Alternate Benefit Program (ABP) and the Defined Benefit Program (DCRP). The $210.2 million increase in the employers' contribution for the defined benefit pension plans represents the difference between appropriating only sufficient funds to pay the normal cost portion of the full contribution in FY 2015 and 30 percent of the full statutory contribution in FY 2016, which according to the actuary who contracts with the State, "is less than the percentage according to the Chapter 1 phase-in schedule of 71.4 percent." Other major DSS employer benefit increases include: $52.456 million in health benefit costs for active State employees and $24.589 million in post-retirement medical benefit costs.

Pensions

Budget Item	Adj. Approp. FY 2015	Recomm. FY 2016	Dollar Change	Percent Change	Budget Page
Public Employees' Retirement System	**$123,586**	**$304,985**	**$181,399**	**146.8%**	**D-431**
Police and Firemen's Retirement System	**$42,862**	**$68,316**	**$25,454**	**59.4%**	**D-431**
Police and Firemen's Retirement System (P.L.1979, c.109)	**$3,400**	**$1,850**	**($1,550)**	**(45.6%)**	**D-431**
State Police Retirement System	**$31,491**	**$35,019**	**$ 3,528**	**11.2%**	**D-431**
Judicial Retirement System	**$14,118**	**$14,149**	**$ 31**	**.2%**	**D-431**
Teachers' Pension and Annuity Fund	**$563**	**$1,913**	**$ 1,350**	**239.8%**	**D-432**
Total Defined Benefit Retirement System	**$216,020**	**$426,232**	**$210,212**	**97.3%**	**__**

The Governor took action in FY 2014 to reduce the FY 2014 3/7 required employer contribution to the pension fund under P.L.2010, c.1 from $1.582 billion to $695.7 million. The FY 2015 Appropriations Act, after the Governor's line item veto, reduced the FY 2015 4/7

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

Budget Item	Adj. Approp. FY 2015	Recomm. FY 2016	Dollar Change	Percent Change	Budget Page

required employer contribution to the pension fund under P.L.2010, c.1 from $2.249 billion to $680.6 million. Both the FY 2014 and FY 2015 appropriation represented only the normal contribution, and omitted payment of the unfunded actuarially accrued liability.

According to the FY 2016 Governor's Budget Summary, the Governor's FY 2016 budget includes a defined benefit pension payment of about $1.3 billion. "Governor Christie recommends that the fiscal 2016 contribution serve as the first of future annual contributions that increase in 1/10th increments." The Governor asserts that "a regular schedule starting at 3/10ths that increases annually and results in a return to full funding of the actuarial determined contribution will ensure the long term solvency, health, and stability of the pension systems." This level of funding is unrelated to and is at variance with current statutory requirements. The $1.3 million proposed employer contribution represents approximately 30 percent of the actuarially required contribution (ARC) based on projection models reflecting the 7/1/13 valuation results. Under P.L.2010, c.1, the State is required to contribute $2.967 billion in FY 2016 equivalent to 5/7 of the ARC. The table above shows the differences between the FY 2015 employer cost contributions and the proposed FY 2016 employer cost contributions per line item for each State-administered retirement system in the DSS Interdepartmental Accounts budget.

It should be noted that, according to the Division of Pensions and Benefits, the $1.3 billion proposed pension contributions for FY 2016, which include the $30.527 million GIA component, represent 3/10 of the "full actuarially recommended contribution and were based on the latest actuarial projection models reflecting the 7/1/13 valuation results." Under standard procedures, the actuarial valuation determines the pension contribution to be paid for the fiscal year ending two years after the valuation date. Thus, the 7/1/13 actuarial valuation would determine the pension contribution to be paid in FY 2015 and the 7/1/14 actuarial valuation would determine the pension contribution to be paid in FY 2016. However, it does not seem that the FY 2016 contributions are based on the 7/1/14 valuations.

Alternate Benefit Program	**$1,307**	**$1,270**	**($ 37)**	**(2.8%)**	**D-431**

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).

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

Budget Item	Adj. Approp. FY 2015	Recomm. FY 2016	Dollar Change	Percent Change	Budget Page

The FY 2016 Governor's Budget recommends an appropriation of $1.270 million for active State professional administrative staff at public institutions of higher education. This amount is based on membership and wage trends and is consistent with the Division of Pensions and Benefits assumption of a 1 percent growth in costs over a revised base that is lower than originally assumed.

Defined Contribution Program	**$1,268**	**$1,438**	**$ 170**	**13.4%**	**D-431**

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 PERS and 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 $118,500 for calendar year 2015.

The FY 2016 Governor's Budget recommends an appropriation of $1.438 million to provide full funding of the calculated State contribution. The FY 2016 recommendation is consistent with the Division of Pensions and Benefits' assumption of a 15 percent growth in costs between FY 2015 and FY 2016.

Pension Adjustment Program	**$1,156**	**$721**	**($ 435)**	**(37.6%)**	**D-432**

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 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. COLA increases were suspended in FY 2011 pursuant to P.L.2011, c.78. The FY 2016 recommended amount reflects a downward revision to the appropriation to adjust for a lower projected FY 2015 need and declining costs in FY 2016 resulting from fewer living retirees and the suspension of the COLA.

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

Budget Item	Adj. Approp. FY 2015	Recomm. FY 2016	Dollar Change	Percent Change	Budget Page
Total Pensions	**$219,751**	**$429,661**	**$209,910**	**95.2%**	**---**

This total includes the proposed appropriations for the PERS, PFRS, SPRS, JRS, TPAF, the Alternate Benefit Program, the Defined Contribution Program, and the Pension Adjustment Act.

Non-Contributory Insurance

Budget Item	Adj. Approp. FY 2015	Recomm. FY 2016	Dollar Change	Percent Change	Budget Page
Public Employees' Retirement System	**$28,180 (S)$654**	**$30,106**	**$ 1,272**	**4.4%**	**D-431**
Police and Firemen's Retirement System	**$9,733**	**$10,163**	**$ 430**	**4.4%**	**D-431**
Alternate Benefit Program	**$221**	**$225**	**$ 4**	**1.8%**	**D-431**
Defined Contribution Retirement Program	**$410**	**$566**	**$ 156**	**38.0%**	**D-431**
State Police Retirement System	**$2,021**	**$2,407**	**$ 386**	**19.1%**	**D-431**
Judicial Retirement System	**$818**	**$818**	**$ 0**	**—**	**D-432**
Teachers' Pension and Annuity Fund	**$56**	**$58**	**$ 2**	**3.6%**	**D-432**
Total Non-Contributory Insurance	**$42,093**	**$44,343**	**$ 2,250**	**5.3%**	**---**

Non-contributory insurance (NCI) accounts fund the group life insurance plan for enrolled members, also known as the death benefit. NCI comprises part of the State's annual required contributions to the State-administered retirement systems, but is paid in full each year. NCI 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 proposed FY 2016 changes in each account reflect the pay-as-you go cost to fund NCI claims in FY 2016. According to the OMB, the supplemental appropriation for PERS reflects increased PERS membership eligible for receiving long-term-disability (LTD) insurance coverage that is budgeted in the NCI accounts. At the time of the FY 2015 Appropriations Act, $956,024 was

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

Budget Item	Adj. Approp. FY 2015	Recomm. FY 2016	Dollar Change	Percent Change	Budget Page

budgeted to pay for LTD premiums for eligible PERS members. The revised eligibility estimate increases this cost to $1.6 million.

In addition, $1.7 million was budgeted for LTD premiums for eligible TPAF members at the time of the FY 2015 Appropriations Act. The revised eligibility estimate increases this cost to $2.8 million. The OLS notes that NCI for TPAF is predominantly budgeted in the Department of Education on page D-101.

In total, $2.6 million was budgeted for aggregate (PERS and TPAF) LTD premiums at the time of the FY 2015 Appropriations Act. The revised eligibility estimate increases the aggregate cost to $4.4 million, necessitating $1.8 million in supplemental appropriations.

The new LTD program was created by P.L. 2010, c. 3 for PERS and TPAF members hired after the effective date of the legislation. As a result, the State is required to pay LTD insurance premiums to a vendor for all eligible PERS and TPAF members.

Pension Obligation Bonds

Budget Item	Adj. Approp. FY 2015	Recomm. FY 2016	Dollar Change	Percent Change	Budget Page
Debt Service on Pension Obligation Bonds	**$134,741**	**$137,453**	**$ 2,712**	**2.0%**	**D-432**

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. According to the FY 2014 debt report, the $2.5 billion in pension obligation bonds issued in 1997, $1.947 billion in bonds remain outstanding with a final maturity date of February 15, 2029. In March of 2003, $375 million in Refunding bonds, also due February 15, 2029, were issued. Total bonds outstanding as of June 30, 2014 are $2.322 billion. This appropriation represents continued State debt service payments on these bonds. Total pension obligation bond debt service is recommended at $348.454 million in FY 2016, consistent with the schedule of debt service payments in the Debt Report. Funding for debt service on these bonds is appropriated in three sections of the budget: Interdepartmental Accounts, the Department of Education, and the Department of the Treasury. The Interdepartmental Accounts budget includes appropriations totaling $145.383 million: $137.453 million in Direct State Services and $7.930 million in Grants-In-Aid (higher education). The budget for the Department of Education includes an appropriation for debt service on pension obligation bonds of $184.840 million and the remaining $18.231 million is budgeted in the Department of the Treasury. The amounts budgeted in FY 2016 are consistent with the current Debt Report.

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

Budget Item	Adj. Approp. FY 2015	Recomm. FY 2016	Dollar Change	Percent Change	Budget Page

FY 2016 Governor's Budget Debt Service on Pension Obligation Bonds ($ Millions)			
Department	**FY 2014 Actual**	**FY 2015 Adjusted Appropriation**	**FY 2016 Recommended Appropriation**
Interdepartmental Accounts-DSS	**$124.878**	**$134.741**	**$137.453**
Interdepartmental Accounts-GIA	$ 7.205	$ 7.774	$ 7.930
Dept. of Education-State Aid	$167.931	$181.194	$184.840
Treasury-State Aid	$ 16.246	$ 17.872	$ 18.231
Total Debt Service on Pension Obligation Bonds	$316.260	$341.581	$348.454

Volunteer Emergency Survivor Benefits	**$165**	**$143**	**($ 22)**	**(13.3%)**	**D-432**

The Volunteer Emergency-Worker Survivors' Pension (VESP) was established by P.L.2002, c. 134 and provides a survivors pension, paid by the State and administered by the Division of Pensions and Benefits, for certain volunteer emergency workers who are killed in the performance of their volunteer duties. Survivors (dependents) of a volunteer firefighter, first aid worker, rescue squad worker, or emergency medical technician who was killed while performing volunteer duties during an emergency (including during travel to and from the emergency site) on or after January 1, 2000 may be eligible for a VESP. The annual amount of the benefit, which is exempt from federal income tax, is paid monthly by the Division of Pensions and Benefits, and is as follows: widow or widower with or without dependent children, $15,000; dependent children (with no surviving widow or widower or after the death of a surviving widow or widower), $15,000 split equally between the eligible children; dependent children (after surviving widow or widower remarries), $10,000 split equally between the eligible children.

The FY 2016 Governor's Budget decreases by $22,000 the appropriation to pay VESP benefits in FY 2016. According to budget documents, there are currently eight VESP recipients. The Division of Pensions and Benefits assumes that one additional recipient will establish eligibility in calendar year 2016. The OLS assumes the FY 2015 appropriation exceeds benefit entitlements.

Health Benefits

The appropriations for State Employees' Health Benefits include State Health Benefit Program medical, prescription drug, dental, and vision coverage and pertain to active State employees. For plan year 2015, January 1, 2015 – December 31, 2015, overall premium rate increases for active employees recommended by the actuary are 7.8 percent for medical and prescription drug coverage (PPO and HMO combined). Recommended premium rates for dental coverage

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

Budget Item	Adj. Approp. FY 2015	Recomm. FY 2016	Dollar Change	Percent Change	Budget Page

reflect a reduction of 3.3 percent for Dental Expense Plans (DEPs) and a reduction of 17.6 percent for Dental Plan Organizations (DPOs). Member premium sharing through payroll deductions is projected to increase by $19.3 million: $15.989 million for Direct State Services (DSS) State employees and $3.330 million for Grants-In-Aid (GIA) active State employees of public education institutions in New Jersey (higher education).

The FY 2016 Governor's Budget recommends the following appropriations for health benefits for State employees (DSS):

State Employees' Health Benefits-DSS	**$707,545**	**$727,892**	**$20,347**	**2.9%**	**D-432**
State Employees' Prescription Drugs-DSS	**$197,120**	**$231,734**	**$34,614**	**17.6%**	**D-432**
State Employees' Dental Program-Shared Cost-DSS	**$23,824**	**$21,319**	**($2,505)**	**(10.5%)**	**D-432**
State Employees' Vision Care Program-DSS	**$700**	**$700**	**$0**	**—**	**D-432**
Total State Health Benefits-Active-DSS	**$929,189**	**$981,645**	**$52,456**	**5.6%**	**---**

The FY 2016 Governor's Budget recommends a total of $981.645 million for active State employees' medical, prescription drug, dental, and vision coverage. This is $52.456 million, or 5.6 percent more than FY 2015 adjusted appropriations. According to information provided by the Executive, actual Direct State Services health care costs are projected to increase by $68.445 million, or 7.4 percent in FY 2016. This increase is proposed to be offset by growth of $15.989 million in premium based employee contributions thus reducing the actual cost increase from 7.4 percent to 5.6 percent. The OLS notes that without the larger employee contribution offset total FY 2016 costs would have been $997.634 million.

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

Budget Item	Adj. Approp. FY 2015	Recomm. FY 2016	Dollar Change	Percent Change	Budget Page

The table below itemizes the changes in the Direct State Services State Employee Health Benefit accounts.

FY 2016 Summary of Changes State Health Benefits – Direct State Services				
	FY 2015 Adjusted Appropriation	**Gross Increase**	**Employee Contribution Offset**	**FY 2015 Recommendation**
State Employees	$707,545	$33,349	$(13,002)	$727,892
State Employees' Prescription Drug	$197,120	$37,601	$ (2,987)	$231,734
State Employees' Dental	$ 23,824	$ (2,505)	$ 0	$ 21,319
State Employees' Vision	$ 700	$ 0	$ 0	$ 700
Total	$929,189	$68,445	$(15,989)	$981,645

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 (PRM) are funded on a pay-as-you–go basis. Because the renewal rates are based on a calendar year, for budgeting purposes the Administration blends rates from two plan years. The OLS notes that because the State is self-insured for the provision of health care benefits for its employees and retirees as well as those of certain local governments, the budgeted appropriations are estimates of the claims costs that the State will incur in a given fiscal year. While the appropriations provide the source of funds to pay for claims costs, the actual expenditures are paid out of the State Health Benefit Funds. Balances carried in the funds from one fiscal year to the next are not reflected in the budget.

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

Budget Item	Adj. Approp. FY 2015	Recomm. FY 2016	Dollar Change	Percent Change	Budget Page
Public Employees' Retirement System-Post Retirement Medical	**$335,705**	**$352,477**	**$16,772**	**5.0%**	**D-431**

The FY 2016 Governor's Budget recommends a total of $352.477 million for retired State employees' medical and prescription drug coverage, $16.772 million, or 5.0 percent more than FY 2015 adjusted appropriations. According to information from the Executive, actual PERS post-retirement medical costs are projected to increase by $69.193 million, or 20.6 percent in FY 2016. This increase is proposed to be offset with $52.4 million in fund balance adjustments (use of surplus) from the State Health Benefits Fund. In addition, the Administration expects to lapse an unspecified portion of $25.4 million of the FY 2015 appropriation, also due to use of fund balance adjustments.

Budget Item	Adj. Approp. FY 2015	Recomm. FY 2016	Dollar Change	Percent Change	Budget Page
Teachers' Pension and Annuity Fund-Post Retirement Medical-State	**$3,629**	**$3,671**	**$ 42**	**1.2%**	**D-432**

The appropriation presented above funds a small subset of the Teachers' Pension and Annuity Fund (TPAF) retiree health benefit costs, those attributable to members that retired from State service. Information provided by the Executive indicates that expenditures for post-retirement medical billings for this set of retirees will increase by $42,000 in FY 2016.

Budget Item	Adj. Approp. FY 2015	Recomm. FY 2016	Dollar Change	Percent Change	Budget Page
Other Pension Systems-Post Retirement-Medical	**$125,322**	**$133,097**	**$ 7,775**	**6.2%**	**D-432**

The FY 2016 Governor's Budget recommends a total of $133.097 million for medical and prescription drug coverage for retired State employees in PFRS, SPRS, JRS, and the ABP. This is $7.775 million, or 6.2 percent more than the FY 2015 adjusted appropriation. According to information provided by the Executive, actual Direct State Services post-retirement medical costs are projected to increase by $32.2 million, or 25.8 percent for this group of retires in FY 2016. This increase is proposed to be offset with $24.45 million in fund balance adjustments (use of surplus) from the State Health Benefits Fund. The Administration expects to lapse an unspecified portion of $25.4 million of the FY 2015 appropriation, also by the use of fund balance.

Budget Item	Adj. Approp. FY 2015	Recomm. FY 2016	Dollar Change	Percent Change	Budget Page
Total Post Retirement Medical-DSS	**$464,656**	**$489,245**	**$24,589**	**5.3%**	**---**

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

Budget Item	Adj. Approp. FY 2015	Recomm. FY 2016	Dollar Change	Percent Change	Budget Page

The table below itemizes the gross changes in each Direct State Services post-retirement medical account and the offset in costs from the use of surplus funds in the State Health Benefits Fund from the FY 2015 adjusted appropriation to the recommended FY 2016 appropriation. The OLS notes that the actual growth in post retirement medical costs for Direct State Services is $101.464 million, or 21.84 percent in FY 2016. This increase is proposed to be offset with $76.875 million in fund balance adjustments (use of surplus) from the State Health Benefits Fund.

FY 2016 Summary of Use of Surplus in Post Retirement Medical Accounts Direct State Services ($000)				
Health Benefit Account	FY 15 Adjusted Appropriation	Gross Change	Fund Balance Adjustment	FY 16 Recommendation
PERS PRM	$335,705	$69,193	$(52,421)	$352,477
TPAF PRM	$ 3,629	$ 42	$ 0	$ 3,671
Other PRM	$125,322	$32,229	$(24,454)	$133,097
Total	$464,656	$101,464	$(76,875)	$489,245

Affordable Care Act Fees

Affordable Care Act Fees	**$12,807**	**$8,655**	**($4,152)**	**(32.4%)**	**D-432**

Under the Patient Protection and Affordable Care Act (ACA) the State, as a self-funded non-federal sponsor of a group health plan is required to pay the Transitional Reinsurance Fee and the Comparative Effectiveness Research Fee, also known as the Patient Centered Outcome Research Fee. The Transitional Reinsurance Fee is a three-year fee, starting in 2014 to stabilize the cost of individual and small group insurance offered through health insurance exchanges. Employer group health plans are assessed the fees to help mitigate anticipated losses due to adverse selection in the exchanges. The fee for plan year 2015 is $44 per non-Medicare member (i.e., employees, retirees, dependents). This is $19 or 30 percent less than the plan year 2014 transitional reinsurance fee. The ACA imposed the Comparative Effectiveness Fee to help fund medical outcomes research through the Patient-Centered Outcomes Research Institute (PCORI). The PCORI was authorized by the U.S. Congress to provide evidence-based research that is intended to help people make informed health care decisions. For plan year 2015, the Comparative Effectiveness Fee is $2.25 per member, or 6 percent higher than the fee in plan year 2014. The FY 2016 Governor's Budget recommends appropriations totaling $14.665 million in the Interdepartmental Accounts, Education, and Treasury budgets to pay for the State costs related to these two fees.

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

Budget Item	Adj. Approp. FY 2015	Recomm. FY 2016	Dollar Change	Percent Change	Budget Page

FY 2016 Affordable Care Act Fees ($ Millions)	
Allocation of Fees by Department	
Interdepartmental Accounts-DSS	**$ 8.655**
Interdepartmental Accounts-GIA	$ 3.871
Education-State Aid	$ 2.091
Treasury-State Aid	$ 0.048
Total ACA Fees	$14.665
State Costs by Fee	
Total Transitional Reinsurance Fee	$13.725
Total Comparative Effectiveness Fee	$ 0.940
Total	$14.665

According to the Office of Management and Budget (OMB), $13.725 million is budgeted for the State cost of employee health benefits related to the Transitional Reinsurance Fee in FY 2016. The budgeted amount for the fee was developed through applying the $44 fee to projected non-Medicare covered lives in SHBP plans, and projected early retiree lives in SEHBP plans. The allocation of costs was based on plan enrollment and coverage level distributions. The Transitional Reinsurance Fee is a three-year fee effective January 1, 2014 affecting the State budget in FY 2015, FY 2016, and FY 2017.

The FY 2016 Governor's Budget recommends $940,000 for the State cost of employee health benefits related to the Comparative Effectiveness Fee. The budgeted amount for the fee was determined by applying the $2.25 fee to the number of projected covered lives in SHBP plans, and projected early retiree/Medicare Retiree covered lives in the SEHPB plans. The allocation of costs was based on plan enrollment and coverage level distributions.

Employer Taxes

Social Security Tax-State	**$346,516 (S)$5,471**	**$345,989**	**($5,998)**	**(1.7%)**	**D-432**

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; 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 for calendar year 2015 is $118,500, 1.28 percent higher than calendar year 2014. As of January 2013, individuals with earned income of more than $200,000 ($250,000 for married couples filing jointly) pay an additional 0.9 percent in Medicare taxes.

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

Budget Item	Adj. Approp. FY 2015	Recomm. FY 2016	Dollar Change	Percent Change	Budget Page

The FY 2016 proposed reduction assumes that taxable wages will decrease by 1 percent in FY 2016.

Temporary Disability Insurance Liability	**$11,810**	**$11,171**	**($ 639)**	**(5.4%)**	**D-432**

All eligible State employees are included in the State Temporary Disability Insurance (TDI) 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 calendar year 2015 is $32,100. 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 2016, and taxable wages for Direct State Services are assumed to decrease by one percent.

The FY 2016 Governor's Budget recommends a reduction of $639,000, or 5.4 percent for TDI in FY 2016. Information supplied by the Executive indicates that taxable wages at mid-year were 4.9 percent lower than previously anticipated resulting in a lower than anticipated employer share for TDI expenditures, thus the recommended $269,000 year-end lapse in the FY 2015 appropriation. The FY 2016 Governor's Budget recommends an appropriation of $11.171 million in FY 2016, consistent with the assumption of a one percent taxable wage decline below a revised wage base that is lower than originally assumed.

Unemployment Insurance Liability	**$8,746 (S)$2,660**	**$8,447**	**($2,959)**	**(25.9%)**	**D-432**

The recommended appropriation for Unemployment Insurance Liability is the estimated amount the State is required to pay in unemployment claims for former State employees if the revenue from employee contributions proves to be insufficient. Unlike private industry, the State does not contribute a matching percentage of compensation to the Unemployment Compensation Trust Fund. Instead, the State operates on a pay-as-you-go basis. Employees contribute 0.425 percent of salary, up to the unemployment wage base of $32,100 in calendar year 2015. After the employees' contribution is disbursed, the State, as an employer, contributes sufficient funds to ensure the program meets its obligations. Taxable wages for Direct State Services are for Unemployment Insurance assumed to decline by 1.0 percent in FY 2016.

According to information supplied by the Executive, the FY 2016 recommended amount includes an additional $1.633 million to cover projected costs from FY 2015 approved employee actions, e.g., workforce reductions. The FY 2015 adjusted appropriation includes $4.877 million of additional funding to account for the impact related to the closures of the North Jersey and Woodbridge Development Centers and requires supplemental funding of

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

Budget Item	Adj. Approp. FY 2015	Recomm. FY 2016	Dollar Change	Percent Change	Budget Page

$2.660 million due to that impact. Absent these additional costs, the net reduction in funding for Unemployment Insurance is consistent with the downward trend in workforce levels and taxable wages.

Total Employer Taxes	**$375,203**	**$365,607**	**($9,596)**	**(2.6%)**	

Grants-In-Aid

Employee Benefits

Employee Benefits Total Grants-In-Aid	**$957,182**	**$1,030,154**	**$72,972**	**7.6%**	**D-432**

The same five main categories of Direct State Service Employee Benefit appropriations reoccur as Grants-in-Aid: Pensions, Health Benefits, Post Retirement Medical Benefits, employer taxes and pension bond debt service. Grants-In-Aid appropriations fund benefits and other costs for employees of State higher educational institutions.

Pensions

Public Employees' Retirement System	**$14,565**	**$44,073**	**$29,508**	**202.6%**	**D-432**
Police and Firemen's Retirement System	**$4,492**	**$5,173**	**$ 681**	**15.2%**	**D-432**
Teachers' Pension and Annuity Fund	**$63**	**$401**	**$ 338**	**536.5%**	**D-432**
Total State-Administered Defined Benefit Retirement System-GIA	**$19,120**	**49,647**	**$30,527**	**159.7%**	**----**

The Governor took action in FY 2014 to reduce the FY 2014 3/7 required employer contribution to the pension fund under P.L.2010, c.1 from $1.582 billion to $695.7 million. The Governor took action in FY 2014 to reduce the FY 2014 3/7 required employer contribution to the pension fund under P.L.2010, c.1 from $1.582 billion to $695.7 million. The FY 2015 Appropriations Act, after the Governor's line item veto, reduced the FY 2015 4/7 required employer contribution to the pension fund under P.L.2010, c.1 from $2.249 billion to $680.6 million. Both the FY 2014 and FY 2015 appropriation represented only the normal contribution, and omitted payment of the unfunded actuarially accrued liability.

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

Budget Item	Adj. Approp. FY 2015	Recomm. FY 2016	Dollar Change	Percent Change	Budget Page

According to the FY 2016 Governor's Budget Summary, the Governor's FY 2016 budget includes a defined benefit pension payment of about $1.3 billion. "Governor Christie recommends that the fiscal 2016 contribution serve as the first of future annual contributions that increase in 1/10th increments." The Governor asserts that "a regular schedule starting at 3/10ths that increases annually and results in a return to full funding of the actuarial determined contribution will ensure the long term solvency, health, and stability of the pension systems." This level of funding is unrelated to and is at variance with current statutory requirements. The $1.3 million proposed employer contribution represents approximately 30 percent of the actuarially required contribution (ARC) based on projection models reflecting the 7/1/13 valuation results. Under P.L.2010, c.1, the State is required to contribute $2.967 billion in FY 2016 equivalent to 5/7 of the ARC. The significant changes table above shows the differences between the FY 2015 employer cost contributions and the proposed FY 2016 employer cost contributions per line item for each State-administered retirement system in the GIA Interdepartmental Accounts budget.

It should be noted that, according to the Division of Pensions and Benefits, the $1.3 billion proposed pension contributions for FY 2016, which include the $30.527 million GIA component, represent 3/10 of the "full actuarially recommended contribution and were based on the latest actuarial projection models reflecting the 7/1/13 valuation results." Under standard procedures, the actuarial valuation determines the pension contribution to be paid for the fiscal year ending two years after the valuation date. Thus, the 7/1/13 actuarial valuation would determine the pension contribution to be paid in FY 2015 and the 7/1/14 actuarial valuation would determine the pension contribution to be paid in FY 2016. However, it does not seem that the FY 2016 contributions are based on the 7/1/14 valuations.

Alternate Benefit Program Employer Contributions	**$145,547**	**$148,353**	**$ 2,806**	**1.9%**	**D-432**

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 2016 Governor's Budget recommends an appropriation of $148.353 million in FY 2016 for active employees of institutions of higher education. This amount is based on membership and wage trends and is consistent with the Division of Pensions and Benefits assumption of a 3 percent growth in costs over a revised base that is lower than originally assumed.

Total Pensions-GIA	**$164,667**	**$198,000**	**$33,333**	**20.2%**	**---**

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

Budget Item	Adj. Approp. FY 2015	Recomm. FY 2016	Dollar Change	Percent Change	Budget Page
Non-Contributory Insurance					
Public Employees' Retirement System-Non-Contributory Insurance	$2,859	$4,948	$ 2,089	73.1%	D-432
Police and Firemen's Retirement System-Non-Contributory Insurance	$387	$406	$ 19	4.9%	D-432
Alternate Benefit Program-Non-Contributory Insurance	$23,480	$25,256	$1,776	7.6%	D-432
Teachers' Pension and Annuity Fund-Non-Contributory Insurance	$6	$5	($ 1)	(16.7%)	D-433
Total Non-Contributory Insurance-GIA	$26,732	$30,615	$ 3,883	14.5%	---

Non-contributory insurance (NCI) appropriations fund the group life insurance plan for enrolled members, also known as the death benefit. NCI comprises part of the State's annual required contributions, but is paid in full each year. Non-contributory 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 proposed FY 2016 increase reflects the pay-as-you go cost to fund NCI claims in FY 2016. According to budget documents, life insurance charges are assumed to increase by 7 percent across the systems in FY 2016 translating into the various projected increases in each system.

Budget Item	Adj. Approp. FY 2015	Recomm. FY 2016	Dollar Change	Percent Change	Budget Page
Pension Obligation Bonds					
Debt Service on Pension Obligation Bonds	$7,774	$7,930	$ 156	2.0%	D-433

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. According to the FY

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

Budget Item	Adj. Approp. FY 2015	Recomm. FY 2016	Dollar Change	Percent Change	Budget Page

2014 debt report, of the $2.5 billion in pension obligation bonds issued in 1997, $1.947 billion in bonds remain outstanding with a final maturity date of February 15, 2029. In March of 2003, $375 million in Refunding bonds, also due February 15, 2029, were issued. Total bonds outstanding as of June 30, 2014 are $2.322 billion. This appropriation represents continued State debt service payments on these bonds. Total pension obligation bond debt service is recommended at $348.454 million in FY 2016, consistent with the schedule of debt service payments in the Debt Report. Funding for debt service on these bonds is appropriated in three sections of the budget: Interdepartmental Accounts, the Department of Education, and the Department of the Treasury. The Interdepartmental Accounts budget includes appropriations totaling $145.383 million: $137.453 million in Direct State Services and $7.930 million in Grants-In-Aid (higher education). The budget for the Department of Education includes an appropriation for debt service on pension obligation bonds of $184.840 million and the remaining $18.231 million is budgeted in the Department of the Treasury. The amounts budgeted in FY 2016 are consistent with the current Debt Report.

FY 2016 Governor's Budget Debt Service on Pension Obligation Bonds ($ Millions)			
Department	**FY 2014 Actual**	**FY 2015 Adjusted Appropriation**	**FY 2016 Recommended Appropriation**
Interdepartmental Accounts-DSS	$124.878	$134.741	$137.453
Interdepartmental Accounts-GIA	**$ 7.205**	**$ 7.774**	**$ 7.930**
Dept. of Education-State Aid	$167.931	$181.194	$184.840
Treasury-State Aid	$ 16.246	$ 17.872	$ 18.231
Total Debt Service on Pension Obligation Bonds	$316.260	$341.581	$348.454

Health Benefits

The appropriations for State Employees' Health Benefits include State Health Benefit Program medical, prescription drug, dental, and vision coverage and pertain to active State employees. For plan year 2015, January 1, 2015 – December 31, 2015, overall premium rate increases for active employees recommended by the actuary are 7.8 percent for medical and prescription drug coverage (PPO and HMO combined). Recommended premium rates for dental coverage reflect a reduction of 3.3 percent for Dental Expense Plans (DEPs) and a reduction of 17.6 percent for Dental Plan Organizations (DPOs). Increased member premium sharing through payroll deductions is projected to increase by $19.3 million: $15.989 million for Direct State Services (DSS) State employees and $3.330 million for Grants-In-Aid (GIA) active State employees of public education institutions in New Jersey (higher education).

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

Budget Item	Adj. Approp. FY 2015	Recomm. FY 2016	Dollar Change	Percent Change	Budget Page

The FY 2016 Governor's Budget recommends the following appropriations for health benefits for employees of institutions of higher education.

State Employees' Health Benefits	**$359,063**	**$368,907**	**$ 9,844**	**2.7%**	**D-433**
State Employees' Prescription Drug Program	**$101,130**	**$115,564**	**$14,434**	**14.3%**	**D-433**
State Employees' Dental Program-Shared Cost	**$10,578**	**$11,233**	**$ 655**	**6.2%**	**D-433**
Total State Health Benefits-Active	**$470,771**	**$495,704**	**$24,933**	**5.3%**	**----**

The FY 2016 Governor's Budget recommends a total of $495.704 million for active employees' of institutions of higher education medical, prescription drug, dental, and vision coverage. This is $24.933 million, or 5.3 percent more than FY 2015 adjusted appropriations. According to information provided by the Executive, actual Grants-In-Aid health care costs are projected to increase by $28.264 million, or 6 percent in FY 2016. This increase is proposed to be offset by growth of $3.331 million in premium based employee contributions, thus reducing the actual cost increase from 6 percent to 5.3 percent. The OLS notes that without the employee contribution offset total FY 2016 costs would have been $499.035 million.

The following table itemizes the changes in the Grants-in-Aid State Employee Health Benefit accounts.

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

Budget Item	Adj. Approp. FY 2015	Recomm. FY 2016	Dollar Change	Percent Change	Budget Page

FY 2016 Summary of Changes State Health Benefits – Grants-In-Aid				
	FY 2015 Adjusted Appropriation	Gross Increase	Employee Contribution Offset	FY 2016 Recommendation
Higher Education Employees	$ 359,063	$ 13,010	$ (3,166)	$ 368,907
Higher Education Employees' Prescription Drug	$ 101,130	$ 14,599	$ (165)	$ 115,564
Higher Education Employees' Dental	$ 10,578	$ 655	$ 0	$ 11,233
Total	$ 470,771	$ 28,264	$ (3,331)	$ 495,704

Post Retirement Medical Benefits

The Post Retirement Medical appropriations 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 (PRM) are funded on a pay-as-you–go basis. Because the renewal rates are based on a calendar year, for budgeting purposes the Administration blends rates from two plan years. The OLS notes that because the State is self-insured for the provision of health care benefits for its employees and retirees as well as those of certain local governments, the budgeted appropriations are estimates of the claims costs that the State will incur in a given fiscal year. While the appropriations provide the source of funds to pay for claims costs, the actual expenditures are paid out of the State Health Benefit Funds. Balances carried in the funds from one fiscal year to the next are not reflected in the budget.

Public Employees' Retirement System-Post Retirement Medical-GIA	**$56,728**	**$60,000**	**$ 3,272**	**5.8%**	**D-432**

The FY 2016 Governor's Budget recommends a total of $60 million for retired employees of institutions of higher education medical and prescription drug coverage, $3.272 million, or 5.8 percent more than FY 2015 adjusted appropriations. According to information from the

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

Budget Item	Adj. Approp. FY 2015	Recomm. FY 2016	Dollar Change	Percent Change	Budget Page

Executive, actual PERS post-retirement medical costs are projected to increase by $5.903 million, or 10.4 percent above FY 2015. This increase is proposed to be offset with $2.631 million in fund balance adjustments (use of surplus) from the State Health Benefits Fund.

Teachers' Pension and Annuity Fund-Post Retirement Medical	**$4,854**	**$4,913**	**$ 59**	**1.2%**	**D-433**

The appropriation presented above funds a small subset of the Teachers' Pension and Annuity Fund (TPAF) retiree health benefit costs, those attributable to members that retired from service in public institutions of higher education. Information provided by the Executive indicates that expenditures for post-retirement medical billings for this set of retirees will increase by $59,000 in FY 2016.

Other Pension Systems-Post Retirement Medical	**$48,612**	**$51,982**	**$ 3,370**	**6.9%**	**D-433**

The FY 2016 Governor's Budget recommends a total of $51.982 million for medical and prescription drug coverage for retirees of PFRS, SPRS, JRS, and the ABP employed by public institutions of higher education in New Jersey. This is $3.370 million, or 6.9 percent more than the FY 2015 adjusted appropriation. According to information provided by the Executive, actual Grant-In-Aid post-retirement medical costs are projected to increase by $5.125 million, or 10.5 percent for this group of retires in FY 2016. This increase is proposed to be offset with $1.755 million in fund balance adjustments (use of surplus) from the State Health Benefits Fund.

Total-Post Retirement Medical-GIA	**$110,194**	**$116,895**	**$ 6,701**	**6.1%**	**---**

The table below itemizes the gross increase in each Grants-In-Aid post-retirement medical account and the offset in costs from the use of surplus funds in the State Health Benefits Fund from the FY 2015 adjusted appropriation to the recommended FY 2016 appropriation

FY 2016 Summary of Use of Surplus in Post Retirement Medical Accounts Grants-In-Aid ($000)				
Health Benefit Account	FY 15 Adjusted Appropriation	Gross Change	Use of Surplus	FY 16 Recommendation
PERS PRM	$56,728	$ 5,903	$(2,631)	$ 60,000
TPAF PRM	$ 4,854	$ 59	$ 0	$ 4,913
Other PRM	$48,612	$ 5,125	$(1,755)	$ 51,982
Total	$110,194	$11,087	$(4,386)	$116,895

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

Budget Item	Adj. Approp. FY 2015	Recomm. FY 2016	Dollar Change	Percent Change	Budget Page
Affordable Care Act Fees					
Affordable Care Act Fees	**$12,807**	**$8,655**	**($4,152)**	**(32.4%)**	**D-432**

Under the Patient Protection and Affordable Care Act (ACA) the State, as a self-funded non-federal sponsor of a group health plan is required to pay the Transitional Reinsurance Fee and the Comparative Effectiveness Research Fee, also known as the Patient Centered Outcome Research Fee. The Transitional Reinsurance Fee is a three-year fee, starting in 2014 to stabilize the cost of individual and small group insurance offered through health insurance exchanges. Employer group health plans are assessed the fees to help mitigate anticipated losses due to adverse selection in the exchanges. The fee for plan year 2015 is $44 per non-Medicare member (i.e., employees, retirees, dependents). This is $19 or 30 percent less than the plan year 2014 transitional reinsurance fee. The ACA imposed the Comparative Effectiveness Fee to help fund medical outcomes research through the Patient-Centered Outcomes Research Institute (PCORI). The PCORI was authorized by the U.S. Congress to provide evidence-based research that is intended to help people make informed health care decisions. For plan year 2015, the Comparative Effectiveness Fee is $2.25 per member, or 6 percent higher than the fee in plan year 2014. The FY 2016 Governor's Budget recommends appropriations totaling $14.665 million in the Interdepartmental Accounts, Education, and Treasury budgets to pay for the State costs related to these two fees.

FY 2016 Affordable Care Act Fees ($ Millions)	
Allocation of Fees by Department	
Interdepartmental Accounts-DSS	**$ 8.655**
Interdepartmental Accounts-GIA	$ 3.871
Education-State Aid	$ 2.091
Treasury-State Aid	$ 0.048
Total ACA Fees	$14.665
State Costs by Fee	
Total Transitional Reinsurance Fee	$13.725
Total Comparative Effectiveness Fee	$ 0.940
Total	$14.665

According to the Office of Management and Budget (OMB), $13.725 million is budgeted for the State cost of employee health benefits related to the Transitional Reinsurance Fee in FY 2016. The budgeted amount for the fee was developed through applying the $44 fee to projected non-Medicare covered lives in SHBP plans, and projected early retiree lives in SEHBP plans. The allocation of costs was based on plan enrollment and coverage level distributions. The Transitional Reinsurance Fee is a three-year fee effective January 1, 2014 affecting the State budget in FY 2015, FY 2016, and FY 2017.

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

Budget Item	Adj. Approp. FY 2015	Recomm. FY 2016	Dollar Change	Percent Change	Budget Page

The FY 2016 Governor's Budget recommends $940,000 for the State cost of employee health benefits related to the Comparative Effectiveness Fee. The budgeted amount for the fee was determined by applying the $2.25 fee to the number of projected covered lives in SHBP plans, and projected early retiree/Medicare Retiree covered lives in the SEHPB plans. The allocation of costs was based on plan enrollment and coverage level distributions.

Employer Taxes

Social Security – State	**$158,651 (S)$1,216**	**$166,515**	**$ 6,648**	**4.2%**	**D-433**

This Social Security Tax-State appropriation provides funding for the employer's share of Social Security contributions for State employees of public 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 for calendar year 2015 is $118,500, 1.28 percent higher than calendar year 2014. As of January 2013, individuals with earned income of more than $200,000 ($250,000 for married couples filing jointly) pay an additional 0.9 percent in Medicare taxes.

The FY 2016 Governor's Budget recommends a supplemental appropriation in FY 2015 reflecting higher trends than projected at the time of the FY 2015 Appropriations Act. The proposed increase for FY 2016 assumes taxable wages are expected to increase by 3 percent in FY 2016.

Temporary Disability Insurance Liability	**$6,877**	**$7,076**	**$ 199**	**2.9%**	**D-433**

All eligible State employees are included in the State Temporary Disability Insurance (TDI) 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 calendar year 2015 is $32,100. 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 2016, and taxable wages for Grants-In-Aid are assumed to increase by three percent.

The FY 2016 Governor's Budget recommends an increase of $199,000, or 2.9 percent, for TDI in FY 2016 consistent with the assumption of a three percent taxable wage growth.

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

Budget Item	Adj. Approp. FY 2015	Recomm. FY 2016	Dollar Change	Percent Change	Budget Page
Unemployment Insurance Liability	**$3,128 (S)$1,746**	**$3,548**	**($1,326)**	**(27.2%)**	**D-433**

The recommended appropriation for Unemployment Insurance Liability is the estimated amount the State is required to pay in unemployment claims for former State employees if the revenue from employee contributions proves to be insufficient. Unlike private industry, the State does not contribute a matching percentage of compensation to the Unemployment Compensation Trust Fund. Instead, the State operates on a pay-as-you-go basis. Employees contribute 0.425 percent of salary, up to the unemployment wage base of $32,100 in calendar year 2015. After the employees' contribution is disbursed, the State, as an employer, contributes sufficient funds to ensure the program meets its obligations. Taxable wages for Grants-In-Aid for Unemployment Insurance are assumed to increase by three percent in FY 2016.

The FY 2016 Governor's Budget recommends a supplemental appropriation of $1.746 million in FY 2015 due to an unanticipated 24.2 percent increase in reimbursable charges. The FY 2016 recommended appropriation of $3.548 million reflects the reduction of the supplemental appropriation in the budget year and is consistent with the assumption of a three percent taxable wage growth above a revised wage base.

Total Employer Taxes	**$171,618**	**$177,139**	**$ 5,521**	**3.2%**	

OTHER INTERDEPARTMENTAL ACCOUNTS

Direct State Services

Interest on Short Term Notes	**$6,000 (S)$6,000**	**$6,000**	**($6,000)**	**(50.0%)**	**D-435**

The State uses cash flow borrowing, in the form of lines of credit and tax and revenue anticipation notes (TRANS), to meet its cash flow needs in the early part of the fiscal year, when cash spending outpaces cash collections. This situation largely results from the need to expend significant sums on local aid and direct property tax relief in the first two fiscal quarters of the year, before major tax collections are received in the last two quarters of the year. It is exacerbated by year-end surpluses that are low when measured as a percentage of total appropriations.

The FY 2016 Governor's Budget proposes an appropriation of $6 million for Interest on Short Term Notes. Thus far in FY 2015, the State has drawn upon a line of credit for temporary cash flow financing in the amount of $2.6 billion. The interest rate on the loan is variable and is reset each month. It was set at 0.522 percent upon issuance. According to OMB, as of the

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

Budget Item	Adj. Approp. FY 2015	Recomm. FY 2016	Dollar Change	Percent Change	Budget Page

presentation of the Governor's Budget Message, $12 million had been appropriated to cover the anticipated FY 2015 interest costs. Because the interest rate is variable, OMB monitors the monthly resets to ensure the appropriation is sufficient. The commitment fee/expenses for the issuance are estimated at $30,000. For FY 2016, the amount of borrowing has not yet been determined and is dependent on the final cash surplus balance at the end of FY 2015. The OLS notes that with no significant change in cash flow patterns between FY 2015 and FY 2016, it is likely that additional funding above $6 million will be needed to cover short-term borrowing costs in FY 2016.

Grants-In-Aid

Budget Item	Adj. Approp. FY 2015	Recomm. FY 2016	Dollar Change	Percent Change	Budget Page
Community Provider Contract Adjustments	**$13,200**	**$0**	**($13,200)**	**(100.0%)**	**D-435**

$13.2 million was appropriated in FY 2015 at the Legislature's initiative to provide a one-time upward contract adjustment effective January 1, 2015 for community care providers that contract with the State to provide various services to community care clients. The contract adjustment is to support payments to direct care workers. No FY 2016 funding is recommended for further contract adjustments for community care providers.

FY 2015 budget language requires the Director of the Division of Budget and Accounting to provide a report to the Joint Budget Oversight Committee (JBOC) covering all contracting departments or divisions and detailing specific providers receiving contract adjustments, the basis of calculating the adjustment, and related information. According to the report submitted to JBOC on April 22, 2015, by the Director of the Division of Budget and Accounting, this funding is to be allocated to providers under contract with four State departments: Children and families, Health, Human services, and Labor and Workforce Development. Having established a minimum contract threshold of $20,000 in State funding as an eligibility criteria, the director will distribute funds to 2,418 unique providers, with contract adjustment payments ranging from about $153 to about $261,635.

SALARY INCREASES AND OTHER BENEFITS

Budget Item	Adj. Approp. FY 2015	Recomm. FY 2016	Dollar Change	Percent Change	Budget Page
Salary Increases and Other Benefits	**$11,000** **(S)$2,900**	**$65,626**	**$51,726**	**372.1%**	**D-436**

State employee compensation represents a significant portion of State operating expenditures. In FY 2016, the Governor's Budget (page H-18) projects a State funded Workforce of: Executive Branch 35,055, Judicial Branch 7,425, and Legislative Branch 489. The FY 2016 Governor's Budget also recommends $54.6 million for compensation increases that accrue in FY 2016 for the portion of the State workforce considered "State funded," i.e., not funded by federal or dedicated revenues. Factors influencing this recommended funding level include cost-of-living adjustments (COLAs) negotiated with some unions representing State employees and step

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

Budget Item	Adj. Approp. FY 2015	Recomm. FY 2016	Dollar Change	Percent Change	Budget Page

increments. Recommended funding levels may assume the availability of unexpended prior year balances.

Salary increases for existing State positions are budgeted centrally in the Interdepartmental Accounts budget, and then allocated to individual departments/agencies during the fiscal year. Salary increases could include employee increments, cost-of living adjustments (COLAs), and bonuses according to contractual agreements. The FY 2016 Governor's Budget recommends $51.726 million for step-increments, but no contractual COLA increases for Executive Branch employees. The Judiciary recommendation funds progression increase for most employees. The need for carry forward balances to supplement the recommended appropriation is undetermined. The original FY 2015 appropriations totaling $62.5 million for salary program were transferred to agency budgets and are no longer included in the FY 2015 adjusted appropriation reported above. The Administration intends to lapse $16.438 million at the end of FY 2015 in undistributed salary appropriations.

FY 2016 Salary Increases				
Salary Program	FY 2015	FY 2016	$ Change	Percent Change
Executive Branch	$ 53.037	$ 40.600	$ (12.437)	-23.45%
Judicial Branch	$ 8.848	$ 14.026	$ 5.178	58.52%
Legislative Branch	$ 0.623	$ -	$ (0.623)	-100.00%
Total	$ 62.508	$ 54.626	$ (7.882)	-12.61%
Lapse	$ (16.438)	n.a.	n.a.	n.a.
Total	$ 46.070	$ 54.626	$ 8.556	18.57%

The FY 2016 Governor's Budget reflects a supplemental appropriation of $2.9 million above a base level of $11 million pay for unused accumulated sick leave payments. According to OMB, the number of retirees and payments for unused accumulated sick leave is higher than trends from prior years. According to OMB, the FY 2015 adjusted appropriation of $11 million for unused sick leave payments has already been exhausted, which is why there is currently a supplemental requirement. Through April 2015, there have been approximately 1,600 unused sick leave payments issued averaging about $7,800 per payment. As for FY 2016, the OMB expects the $11 million appropriation will be sufficient to pay for unused sick leave payments and can support about 1,400 payments.

Significant Language Changes

Property Rentals-Post Warranty Product Maintenance Initiatives

Deletion

2015 Handbook: p. B-200
2016 Budget: N/A

~~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 amounts as necessary to reflect savings from post-warranty product maintenance initiatives. This additional sum is appropriated for Property Rentals.~~

Explanation

The FY 2012 Governor's Budget first anticipated the consolidation of contracts for warranties and maintenance to achieve savings of $1.425 million. The current language authorized the Director of the Division of Budget and Accounting to transfer the savings (departmental deductions) from each department and credit those amounts to the Property Rentals account. Because the initiative is considered to be completed, the language is no longer required.

Appropriation of Revenues from Solar Renewable Energy Credits – Approving Official

Amendment

2015 Handbook: p. B-201
2016 Budget: p. D-428

Revenue generated from the sale of Solar Renewable Energy Certificates is appropriated to fund energy-related savings initiatives as determined by the ~~Director of Energy Savings within the Department of the Treasury~~ State Treasurer, subject to the approval of the Director of the Division of Budget and Accounting.

Explanation

Executive Order No. 11 (Corzine), in FY 2006, created the position of Director of Energy Savings within the Office of Energy Savings in the Department of the Treasury, appointed by the Governor and reporting to the State Treasurer. The Director was responsible for implementing a program to increase energy efficiency, reduce energy usage, and improve the procurement of energy for all State facilities. New Jersey's solar energy generation capacity and the sale of solar renewable energy credits (SREC) is a significant component of the State's energy savings effort. In June 2011, the Administration established the State Energy Office in the BPU's Division of Economic Development and Energy Policy as the successor to the Office of Energy Savings in the Department of the Treasury. Because of this, the reference to the Director of the Office of Energy Savings is obsolete. As amended, this language designates the State Treasurer as the State official authorized to select energy-saving initiatives for funding from SREC revenues.

EXPLANATION: FY 2015 language not recommended for FY 2016 denoted by strikethrough.
Recommended FY 2016 language that did not appear in FY 2015 denoted by underlining.

Significant Language Changes (Cont'd)

Appropriation of Funds from the Petroleum Overcharge Reimbursement Fund

Amendment

2015 Handbook: p. B-201
2016 Budget: p. D-429

In addition to the amount hereinabove appropriated for Utilities and Other Services, of the unexpended balances in the Petroleum Overcharge Reimbursement Fund, there is appropriated such amounts as are required to fund the energy tracking and invoice payment system, ~~as determined by the Director of Energy Savings within the Department of the Treasury,~~ subject to the approval of the Director of the Division of Budget and Accounting.

Explanation

Executive Order No. 11 (Corzine), in FY 2006, created the position of the Director of Energy Savings within the Office of Energy Savings in the Department of the Treasury, appointed by the Governor and reporting to the State Treasurer. The Director was responsible for implementing a program to increase energy efficiency, reduce energy usage, and improve the procurement of energy for all State Facilities. New Jersey's solar energy generation capacity and the sale of solar renewable energy credits is a significant component of the State's energy savings effort. In June 2011, the Administration established the State Energy Office in the BPU's Division of Economic Development and Energy Policy as the successor to the Office of Energy Savings in the Department of the Treasury. Because of this, the involvement of the Director of the Office of Energy Savings in allocating funds to the energy tracking and invoice payment system no longer is appropriate.

Volunteer Emergency Survivor Benefit - Additional Appropriations

Amendment

2015 Handbook: p. B-203
2016 Budget: p. D-433

Such additional amounts as may be required for Public Employees' Retirement System - Post Retirement Medical, Public Employees' Retirement System - Non-contributory Insurance, Police and Firemen's Retirement System - Non-contributory Insurance, Alternate Benefit Program - Employer Contributions, Alternate Benefit Program - Non-contributory Insurance, Defined Contribution Retirement Program, Defined Contribution Retirement Program - Non-contributory Insurance, Teachers' Pension and Annuity Fund - Post Retirement Medical - State, Teachers' Pension and Annuity Fund - Non-contributory Insurance, State Police Retirement System - Non-contributory Insurance, Judicial Retirement System - Non-contributory Insurance, <u>Volunteer Emergency Survivor Benefit,</u> State Employees' Health Benefits, Other Pension Systems - Post Retirement Medical, State Employees' Prescription Drug Program, State Employees' Dental Program - Shared Cost, State Employees' Vision Care Program, Affordable Care Act Fees, Social Security Tax - State, Temporary Disability Insurance Liability, and Unemployment Insurance Liability are appropriated, as the Director of the Division of Budget and Accounting shall determine.

EXPLANATION: FY 2015 language not recommended for FY 2016 denoted by strikethrough.
Recommended FY 2016 language that did not appear in FY 2015 denoted by underlining.

Significant Language Changes (Cont'd)

Explanation

The language that provides for supplemental appropriations, as determined by the Director of the Division of Budget and Accounting, to certain Employee Benefit Accounts to ensure that these benefits are fully funded, is amended to include Volunteer Emergency Survivor Benefits.

The Volunteer Emergency-Worker's Survivors Pension (VESP) was established by Chapter 134, P.L. 2002, and provides a survivors pension of up to $15,000 to family members of certain volunteer emergency workers who are killed in the performance of their volunteer duties.

Community Provider Contract Adjustments

Deletion

2015 Handbook: p. B-205
2016 Budget: N/A

~~Of the amount hereinabove appropriated for Community Provider Contract Adjustments, amounts shall be transferred to departments and divisions contracting with community care providers in order to provide an upward contract adjustment effective January 1, 2015 for such providers, which shall be provided as payments to direct care workers. Contract adjustments shall be prorated to all such eligible providers proportional to their annual contract base. No later than January 1, 2015, the Director of the Division of Budget and Accounting shall submit a report to the Joint Budget Oversight Committee, detailing, for each department and division: the specific community care providers that will receive an upward contract adjustment in FY2015; for each provider receiving an upward adjustment, the contract base dollar amount upon which each contract adjustment was calculated and the dollar amount of the upward contract adjustment to be received in FY2015; the amount of the contract bases of all community providers receiving an upward adjustment; an explanation of how the amounts associated with the upward contract adjustment were calculated; and the manner in which the department or division administering each contract will ensure that the contract adjustment will be used to provide increased payments to direct care workers.~~

Explanation

P.L.2014, c.14 includes language directing the use of $13.2 million appropriated in FY 2015 to provide a one-time upward contract adjustment for community care providers, effective January 1, 2015 that contract with the State to provide various services to community care clients. The contract adjustment is to support payments to direct care workers. This language requires the Director of the Division of Budget and Accounting to provide a report to the Joint Budget Oversight Committee (JBOC) covering all contracting departments or divisions and detailing specific providers receiving contract adjustments, the basis of calculating the adjustment, and

Significant Language Changes (Cont'd)

related information. No FY 2016 funding is recommended for contract adjustments for community care provider, so this language is no longer required.

According to the report submitted to JBOC on April 22, 2015, by the Director of the Division of Budget and Accounting, this funding is to be allocated to providers under contract with four State departments: Children and families, Health, Human services, and Labor and Workforce Development. Having established a minimum contract threshold of $20,000 in State funding as an eligibility criteria, the director will distribute funds to 2,418 unique providers, with contract adjustment payments ranging from about $153 to about $261,635.

EXPLANATION: FY 2015 language not recommended for FY 2016 denoted by strikethrough.
Recommended FY 2016 language that did not appear in FY 2015 denoted by underlining.

Background Paper: Pension Contribution Chronicles - FY 2010 to Present

Introduction

New Jersey as a public employer provides retirement benefits to its employees through its State-administered defined benefit and defined contribution retirement systems.[1] Under the defined benefit retirement systems, employee and employer contributions, plus investment returns, accumulate to fund those benefits. Defined benefit plans have fixed benefits and fixed employee contribution rates. Actuarial valuations of assets and liabilities determine the amount of the State's employer contribution. The ratio of those assets to liabilities indicates the degree to which a plan is funded.

The basic premise of pension plans for public employees is that the employees and their respective employers will make regular contributions over time to fund a retirement benefit to be received at the end of decades of public service. As monies from these two contribution streams accumulate, they are invested to preserve or increase their value in anticipation of outflows to fund the obligation to retirees in the future. The investments create the third stream of funding. A comparison of assets to liabilities, expressed as a ratio, reveals to what extent the monies set aside will be able to meet the future obligation.

This background report presents a history of pension funding resulting from statutory reforms and changes in economic and actuarial assumptions since FY 2010 to New Jersey's State-administered defined benefit retirement systems for public employees who are members of State-funded systems. It provides information on key provisions of P.L.2010, c.1 and P.L.2011, c.78, as they relate to changes in required employer contributions and the funded ratios of the system over the past five years. It should be noted that the 2010 pension reform was prospective, meaning that the provisions, for the most part, affected new employees while the 2011 pension reforms affected all employees, new and existing.

FY 2010 Pension Reform

P.L.2010, c.1 made a number of changes to the State-administered retirement systems. The most significant change was phasing in employer contributions to the pension system over a seven-year period, commonly referred to as the "seven-year phase-in." In addition, the law made changes concerning eligibility, the retirement allowance formula, the definition of compensation, the positions eligible for service credit, the non-forfeitable right to a pension, the prosecutor's part of the Public Employees' Retirement System (PERS), and special retirement under the Police and Firemen's Retirement System (PFRS). Except for a few provisions, these changes affected mainly new employees, i.e., those who were hired on or after the effective date of the law, May 17, 2010. Specifically, the bill provided:

- 35 Hour per Week Rule (New Members): Employees are eligible to be enrolled in the Teachers' Pension and Annuity Fund (TPAF) and the PERS only if their hours of work are 35 or more per week for State employees and 32 or more per week for political subdivision employees. Persons not eligible for TPAF or PERS because their hours of work are fewer than required may be eligible for enrollment in the Defined Contribution Retirement Program (DCRP). The membership compensation threshold for the DCRP is increased to $5,000 from $1,500.

[1] For the purposes of this backgrounder, the State-administered defined contribution plans are not discussed.

Background Paper: Pension Contribution Chronicles - FY 2010 to Present (Cont'd)

- Increased Multiplier (New Members): The multiplier for retirement calculation purposes, other than for veterans and disability benefits, for new PERS and TPAF members was changed from 1/55 to 1/60, the pre-2001 level.

- Maximum Compensation for PFRS and SPRS Contributions Based on FICA (New Members): The maximum compensation upon which contributions are made for new PFRS and State Police Retirement System (SPRS) members is the amount of base salary equivalent to the annual maximum wage contribution base for Social Security, pursuant to the Federal Insurance Contributions Act (FICA). These members become a participant of the DCRP with regard to any amount over the maximum.

- Retirement Allowance Equals Highest Five-Year Average (New Members): The retirement allowance for a new member of TPAF or PERS will be calculated using the average annual compensation for the highest five years of service as opposed to using the current average for the three highest years of service. The retirement allowance for a new member of PFRS and SPRS will be calculated using the average annual compensation for the three highest years of service as opposed to using the current compensation in the final year of service.

- One Position Rule (New and Existing Members): A person is eligible for membership in PERS or TPAF based upon only one position of several that may be held concurrently. The position providing the higher compensation is designated as the basis for membership, contributions, and pensions calculations.

- Non-Forfeitable Right (New Members): New members of the Judicial Retirement System (JRS), TPAF, PERS, PFRS, and SPRS do not have a non-forfeitable right to receive benefits as defined by law upon the attainment of five years of service credit.

- Prosecutor's Part (New Members): The Prosecutor's Part of the PERS was closed to new members.

- PFRS Benefit Enhancement Eliminated (New and Existing Members): The benefit enhancement that would permit a member of PFRS to retire at any age, after 25 years of service credit, on a special retirement allowance of 70 percent of final compensation after the system reaches a funded level of 104 percent was eliminated.

- State Contribution Phase-In The State, beginning in Fiscal Year 2012, is to make in full the annual employer's contribution, as computed by the actuaries, to all five defined benefit retirement systems. The State would be in compliance with this requirement provided the State makes a payment to each system of at least 1/7th of the full contribution, as computed by the actuaries, in Fiscal Year 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 seventh fiscal year and thereafter.

Background Paper: Pension Contribution Chronicles - FY 2010 to Present (Cont'd)

The Department of the Treasury estimated that the provisions of P.L.2010, c.1, excluding the provision that permits the State to phase-in the payment of its full annual contribution to the various State-administered retirement systems, would reduce actuarially required contributions to the State-administered retirement systems by the State and local employers by $13.2 million in State FY 2013, $25.3 million in FY 2014, and $40.9 million in FY 2015. The cumulative State and local savings from FY 2013 to FY 2026 were projected to total $1.6 billion and $1.16 billion, respectively, excluding any associated phase-in impact. The Department of the Treasury indicated that the provision requiring the State to make its full annual pension contribution, phased-in over seven years, would result in a payment by the State of at least $504 million in State FY 2012, rising to $4.534 billion in FY 2016 and to $5.542 billion in FY 2017 when 100 percent of contributions are required, as illustrated in the table below.

Table 1

Pension Funding Projection (millions) Reflects Benefit and Contribution Provisions of P.L.2010, c.1							
Actuarial Evaluation Date	7/1/2010	7/1/2011	7/1/2012	7/1/2013	7/1/2014	7/1/2015	7/1/2016
Fiscal Year	2012	2013	2014	2015	2016	2017	2018
P.L.2010,c.1	**1/7th**	**2/7ths**	**3/7ths**	**4/7ths**	**5/7ths**	**6/7ths**	**7/7ths**
Employer Contributions	$504	$1,124	$1,849	$2,670	$3,570	$4,534	$5,542
Funded Ratio	57.21%	52.41%	48.45%	45.28%	42.91%	41.32%	40.48%
Source: Division of Pensions and Benefits 30 Year Fund Projection. Actuarial evaluation date, fiscal year, proportion of ARC due pursuant to P.L.2010, c.1.							

2011 Pension Reform Under P.L.2011, c.78

P.L.2011, c.78 made additional changes to public employee pension benefits in New Jersey affecting all employees, including increased member contributions, funding changes, benefits changes, and plan governance. First, the law increased the member contribution rate for PERS and TPAF from 5.5 percent of compensation to 6.5 percent of compensation effective October 2011. In addition, beginning July 1, 2012, the member contribution rate for all existing members increases by 1/7 of 1 percent each year until a 7.5 percent member contribution rate is reached in July 2018. The law also increased the member contribution rate from 3 percent to 12 percent for JRS, phased-in over seven years; from 8.5 percent to 10 percent for members of PFRS; and from 7.5 percent to 9 percent for members of SPRS. New employees were required to contribute at the maximum rates of their retirement systems immediately. Second, the automatic cost-of-living adjustment (COLA) was suspended and no longer provided to current and future retirees, unless it is reactivated in accordance with the provisions of the law.

The law also required that each member of PERS, TPAF, JRS, SPRS, and PFRS has a contractual right to the annual contribution required to be made by the member's employer or by any other public entity. The annual required contribution is defined in the law as the annual

Background Paper: Pension Contribution Chronicles - FY 2010 to Present (Cont'd)

normal contribution plus the annual unfunded accrued liability contribution. However, for the State, section 38 of P.L.2010, c.1 (C.43:3C-14) will apply, i.e., the State would be in compliance with its obligation to make the full contribution as required by law, provided it made contributions in accordance with the seven-year phase-in provisions in the law. P.L.2011, c.78 further states that the contractual right to the annual required contribution means that the employer or other public entity shall make the annual required contribution on a timely basis to help ensure that the retirement system is securely funded and that the retirement benefits to which the members are entitled by statute and in consideration for their public service and in compensation for their work will be paid upon retirement (N.J.S.A.43:3c-9.5.)

According to the FY 2016 Governor's Budget Summary, "these landmark, bipartisan reforms in June 2011 saved taxpayers $120 billion over the next 30 years." This is equivalent to $4 billion per year. The revised employer contributions and funded ratios that resulted from P.L.2011, c.78 are shown in Table 2. The lower employer contributions and increased funded ratios compared to Table 1 are attributable to larger employee contributions and reduced payments to retirees from suspension of the COLA.

Table 2

Pension Funding Projection (millions) Reflects Benefit and Contribution Provisions of P.L.2010, c.1 and P.L.2011, c.78							
Actuarial Evaluation Date	7/1/2010	7/1/2011	7/1/2012	7/1/2013	7/1/2014	7/1/2015	7/1/2016
Fiscal Year	2012	2013	2014	2015	2016	2017	2018
P.L.2010, c.1	**1/7th**	**2/7ths**	**3/7ths**	**4/7ths**	**5/7ths**	**6/7ths**	**7/7ths**
Employer Contributions	$468	$1,060	$1,758	$2,536	$3,365	$4,214	$5,045
Funded Ratio	66.75%	62.35%	58.49%	55.63%	53.76%	52.88%	52.94%
Source: Division of Pensions and Benefits 30 Year Fund Projection: Actuarial evaluation date, fiscal year, proportion of ARC due pursuant to P.L.2010, c.1.							

A comparison of the employer contributions and funded ratios from Tables 1 and 2 illustrate that the provisions of P.L.2011, c.78 were estimated to reduce the projected employer contributions by $36 million in FY 2012, $64 million in FY 2013, $91 million in FY 2014, $134 million in FY 2015, $205 million in FY 2016, $320 million in FY 2017, and $497 million in FY 2018 from what they would have been if the 2011 reforms had not been enacted. The annual funded ratios were estimated to improve by about 10 percentage points in FY 2012-FY 2016, by about 11 percentage points in FY 2017 and by about 12 percentage points in FY 2018, above estimated levels had the 2011 reforms not been enacted.

Modification of Economic Assumptions

The net effect of modifications to the economic assumptions adopted in the July 1, 2011 and the July 1, 2012 actuarial evaluations reduced the employer contributions further as illustrated in the table below. The economic assumptions that were changed include reducing the salary growth assumptions by 2 percent for five years and by 0.75 percent thereafter, and

Background Paper: Pension Contribution Chronicles - FY 2010 to Present (Cont'd)

reducing the investment return assumption to 7.95 percent from 8.25 percent. Except for the reduction in the investment rate of return, the changes in economic assumptions reduced the employer contribution. However, a reduction in the investment return assumption has the effect of increasing the employer contribution because an assumption of lower investment earnings requires the employer to contribute more in order to fund the actuarially required contribution. The revised employer contributions and funded ratios that resulted from the net impact of the change in the economic assumptions are shown in Table 3 below.

Table 3

Pension Funding Projection (millions) Reflects Benefit and Contribution Provisions of P.L.2010, c.1 and P.L.2011, c.78 with Modifications to the Economic Assumptions							
Actuarial Evaluation Date	7/1/2010	7/1/2011	7/1/2012	7/1/2013	7/1/2014	7/1/2015	7/1/2016
Fiscal Year	2012	2013	2014	2015	2016	2017	2018
P.L.2010, c.1	**1/7th**	**2/7ths**	**3/7ths**	**4/7ths**	**5/7ths**	**6/7ths**	**7/7ths**
Employer Contributions	$484[2]	$1,029	$1,675	$2,400	$3,175	$3,966	$4,743
Funded Ratio	66.75%	61.79%	58.85%	56.58%	55.10%	54.48%	54.86%
Source: Division of Pensions and Benefits 30 Year Fund Projection. Actuarial evaluation date, fiscal year, proportion of ARC due pursuant to P.L.2010, c.1.							

A comparison of the employer contributions and funded ratios from Tables 2 and 3 illustrate that the modification of the economic and demographic assumptions at first increased projected employer contributions in FY 2012, by $16 million, then reduced those contributions by $31 million in FY 2013, $83 million in FY 2014, $136 million in FY 2015, $190 million in FY 2016, $248 million in FY 2017, $302 million in FY 2018 from what they would have been if the economic assumptions had not been modified. The funded ratio improved annually beginning in FY 2014 from what they would have been absent modifications to economic assumptions.

Modification of Actuarial Methodology, Increased Employee Contributions

After the enactment of P.L.2011, c.78, a decision was made by the Administration to deposit the increases in the employee contributions into the pension funds as additional contributions instead of using all of the employee contributions as an offset to the employers' normal cost contributions, which is the generally accepted, actuarial, standard practice. This decision was not publicly disclosed prior to implementation. The change was disclosed in the annual actuarial valuation reports as follows: "Based on discussions with the Division of Pensions and Benefits, member [i.e., employee] contributions in excess of 5.5 percent of

[2]This FY 2012 employer contribution amount is greater than the FY 2012 employer contribution amount in Table 2 because of the lag effect of the salary assumption change. Reducing the investment rate of return increases the employer contribution. The net effect of the change in the salary assumptions and the reduction in the investment rate reduced the annual required employer contribution beginning in FY 2013 as compared to the savings under P.L.2011, c.78.

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compensation shall not reduce the employers' normal cost contributions." The practice continued for three years, in FY 2012, 2013, and 2014. The modification of actuarial methodology enhanced asset values and funding levels, lowered net pension obligations, but increased annual employer contributions above what they would have been had the methodology not changed.

Under current law, (N.J.S.A.43:3C-13) the State is required to use consistent and generally accepted actuarial standards, as established by the Government Accounting Standards Board, or its successor, for the purpose of determining fund or system asset values, obligations, and annual employer contributions. Any modification of the assumptions or actuarial methodology at the direction of the State that changes asset values, obligations, or annual contributions requires public disclosure prior to adoption, including a financial impact analysis.

2013 Pension Revaluation: Offset Employer Contribution with Increased Employee Contributions

In 2013, the Administration reversed its decision to modify the actuarial methodology and according to the actuary, as directed by the Administration, effective with the July 1, 2012 actuarial valuation, the determination of the State and local employers' normal cost contributions was revised to reflect the use of all member contributions as an offset. This was the methodology used to determine the State and local employers' normal cost contribution prior to the enactment of P.L.2011, C.78 and is consistent with the methodology typically used by contributory public-sector retirement systems to calculate the employer's normal cost contribution. As a result of the change in the methodology, future State employer contributions were revised downward from previously forecasted levels. The lower future employer contributions reduced future funding levels below those forecasted prior to the change in the funding methodology and caused the projected future unfunded actuarial liability to be higher than previously forecasted. The change in methodology also affects local employer contributions and funding levels in a similar manner.

The revised employer contributions and funded ratios that resulted from the reversal of the previously modified actuarial methodology are shown in Table 4 below.

Table 4

Pension Funding Projection (millions) Reflects Benefit and Contribution Provisions of P.L.2010, c.1 and P.L.2011, c.78. 2013 Pension Revaluation with Employer Offset							
Actuarial Evaluation Date	7/1/2010	7/1/2011	7/1/2012	7/1/2013	7/1/2014	7/1/2015	7/1/2016
Fiscal Year	2012	2013	2014	2015	2016	2017	2018
P.L.2010, c.1	**1/7th**	**2/7ths**	**3/7ths**	**4/7ths**	**5/7ths**	**6/7ths**	**7/7ths**
Employer Contributions	$484	$1,029	$1,584	$2,249	$2,967	$3,697	$4,413
Funded Ratio	66.75%	61.79%	58.85%	56.57%	53.72%	52.70%	52.46%
Source: Division of Pensions and Benefits 30 Year Fund Projection. Actuarial evaluation date, fiscal year, proportion of ARC due pursuant to P.L.2010, c.1.							

Background Paper: Pension Contribution Chronicles - FY 2010 to Present (Cont'd)

A comparison of the employer contributions and funded ratios from Tables 3 and 4 illustrate that the pension revaluation with employer offset would reduce the projected employer contributions by an additional $91 million in FY 2014, $151 million in FY 2015, $208 million in FY 2016, $269 million in FY 2017, and $330 million in FY 2018 from what they would have been if the modified actuarial methodology pertaining to increased employee contributions had not been reversed. The reduction in the employer contribution caused the annual funded ratio to decline beginning in FY 2014.

FY 2014 and FY 2015 State Contributions

The Governor took action in FY 2014 to reduce the FY 2014 3/7ths required employer contribution to the pension fund under P.L.2010, c.1 from $1.584 billion to $695.7 million. The FY 2015 Appropriations Act, after the Governor's line item veto, reduced the FY 2015 4/7ths required employer contribution to the pension fund under P.L.2010, c.1 from $2.249 billion to $680.6 million. Both the FY 2014 and FY 2015 appropriation represented only the normal contribution, and omitted payment of the unfunded actuarially accrued liability. The tables below show the original and revised FY 2014 and FY 2015 employer cost contributions to State-administered retirement system.

FY 2014 Pension Funding Summary			
	FY 2014 Appropriation (3/7ths)	**FY 2014 Revised for Employer Offset (3/7ths)**	**FY 2014 Revised for Governor's Budget Action (Normal Cost Only)**
PERS	$ 450,032,004	$ 425,599,208	$ 141,154,573
TPAF	$ 989,206,910	$ 929,175,720	$ 388,363,472
PFRS	$ 170,593,876	$ 166,983,796	$ 115,622,103
SPRS	$ 45,847,553	$ 44,225,733	$ 35,231,062
JRS	$ 19,149,594	$ 18,450,073	$ 15,334,108
CPFPF	$ 864,041	$ 0	$ 0
Total	$1,675,693,977	$1,584,434,530	$ 695,705,318

Background Paper: Pension Contribution Chronicles - FY 2010 to Present (Cont'd)

FY 2015 and FY 2016 Pension Funding Summary			
	FY 2015 Proposed (Includes Employer Offset) (4/7ths)	**FY 2015 Actual (Governor's Budget Action: Normal Cost only)**	**FY 2016 Proposed Appropriation Governor's Budget February 24, 2015**
PERS	$ 604,661,542	$ 138,151,208	$ 349,057,445
TPAF	$1,320,903,236	$ 379,897,191	$ 765,390,186
PFRS	$ 236,752,543	$ 116,976,477	$ 134,122,147
SPRS	$ 62,231,259	$ 31,491,069	$ 35,019,057
JRS	$ 25,334,002	$ 14,117,622	$ 14,149,057
CPFPF	$ 0	$ 0	$ 0
Total	$2,249,882,582	$ 680,633,567	**$1,297,737,893**

FY 2016 Proposed Pension Funding Included in the Governor's Budget

The Governor's FY 2016 budget proposes a defined benefit pension payment of about $1.3 billion, 3/10ths of the actuarially required contribution (ARC). According to the FY 2016 Governor's Budget Summary, "Governor Christie recommends that the fiscal 2016 contribution serve as the first of future annual contributions that increase in 1/10th increments". The Governor asserts that "[a] regular schedule starting at 3/10ths that increases annually and results in a return to full funding of the actuarial determined contribution will ensure the long term solvency, health and stability of the pension systems." This level of funding is unrelated to and is at variance with current statutory requirements. While the $1.3 billion proposed employer contribution represents about 30 percent of the ARC, under P.L.2010, c.1, the State is required to contribute $2.967 billion in FY 2016, equivalent to 5/7ths, or 71 percent, of the ARC.

The chart below recaps actual and proposed State contributions to the defined benefit retirement systems since FY 2012. If the FY 2015 and FY 2016 funding plans envisioned by the Governor are approved, State contributions will fall $4.2 billion (50 percent) short of the total required through the fifth year of the seven-year plan to attain full funding of actuarial required contributions.

Background Paper: Pension Contribution Chronicles - FY 2010 to Present (Cont'd)

Pension Funding Summary ($millions) FY 2012 to FY 2016						
Actuarial Evaluation Date	7/1/2010	7/1/2011	7/1/2012	7/1/2013	7/1/2014	
Fiscal Year	2012	2013	2014	2015	2016	
	1/7th	**2/7ths**			**3/10ths**	**Total**
Employer Contributions	$484	$1,029	$695	$680	$1,300	$4,188
Employer contributions Pursuant to P.L.2010, c.1	$484	$1,029	1,584	$2,249	$2,967	$8,404
P.L.2010, c.1 Shortfall	$0	$0	$ 889	$1,569	$1,667	$4,216

Discussion Points

Tort Claims Liability

1. In FY 2010, FY 2011, FY 2012, FY 2013, and FY 2014 the Tort Claims Liability Fund was underfunded and required supplemental appropriations of $5.75 million, $19.43 million, $7.15 million, $17.35 million, and $6.5 million respectively, above a base appropriation of $15 million each year. The FY 2016 Governor's Budget indicates the need for supplemental appropriations of $26.75 million for FY 2015 to bring total funding to $41.75 million, and recommends a FY 2016 appropriation of $15 million.

In the responses to Discussion Points in the FY 2015 Interdepartmental Budget Analysis, the Division of Risk Management indicated that in addition to the 114 tort settlements paid out of 5,000 claims made in 2012 and 2013, total tort payments of $22.6 million in FY 2012 and $32.4 million in FY 2013 resulted from a very small number of claims with relatively large settlement amounts. In addition, the division indicated that in FY 2014 a $166 million jury verdict, now in appeal, was rendered against the State.

Tort Claims Liability Fund FY 2012 to FY 2016							
Tort Payments	**FY 2010**	**FY 2011**	**FY 2012**	**FY 2013**	**FY 2014**	**FY 2015**	**FY 2016**
($ Millions)							
Base Appropriation	$ 15.00	$ 15.00	$ 15.00	$ 15.00	$ 15.00	$ 15.00	$ 15.00
Supplemental	$ 5.75	$ 19.43	$ 7.15	$ 17.35	$ 6.50	$ 26.75	
Total Tort Funding	**$ 20.75**	**$ 34.43**	**$ 22.15**	**$ 32.35**	**$ 21.50**	**$ 41.75**	**$ 15.00**

- ***Question:*** **What was the nature of the $166 million jury verdict? What is the status of the $166 million jury verdict? Has the appellate court ruled on the State's appeal? If so, what was the appellate court's ruling and what amount is the State required to pay the claimant(s)? Is there any information available with regard to the timing and the amount(s) of the payment(s) of the $166 million jury verdict tort claim?**

- ***Question:*** **Please provide a complete list of tort claims that were paid in FY 2013, FY 2014, and are anticipated to be paid in FY 2015. For the list of claims for each of those three fiscal years, please consolidate the claims that will cost less than $100,000 per claim for each fiscal year, but provide the total number of those claims and for each fiscal year please itemize the claims for more than $100,000. For the claims for more than $100,000 please include the nature of the claim, i.e., foster care, auto liability, etc; the cost to be paid for each settlement; the date each claim was filed, the date of settlement and the date of payment, if different from the date of settlement. Using the chart format below, please provide a separate chart for each fiscal year.**

Discussion Points (Cont'd)

Tort Claims Liability Fund				
FY 201X				
Small Claims				
	Total Number	**Total Value**		
Total Small Claims				
Large Claims				
Nature of the Claim	**Claim Cost**	**Filing Date**	**Settlement Date**	**Payment Date**
List				
Total				

- ***Question:*** **Does the department consider a $15 million appropriation for FY 2016 adequate given that costs have exceeded this amount for six consecutive years? What factors were considered in the division's determination of the budget recommendation for FY 2016?**

Workers' Compensation

2. 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 claims against the fund. Cost components are medical expenses, expenses to adjudicate claims including petitioner attorney fees, the cost of temporary wage replacement benefits, and the cost of court awards for permanency of the injury. Factors that contribute to changes in workers' compensation costs include changes in the number of claims, medical costs, and disability rates.

According to the Responses to the FY 2015 Interdepartmental Discussion Points submitted last year by the Division of Risk Management, the division indicated that, "the accidental frequency rate has declined since 2010, and is expected to decline again in 2015. The division anticipates a 3.5 percent reduction in accident frequency, partially offset by an anticipated 5 percent inflationary rise in medical costs. The increased medical cost for FY 2012 was attributable to $15 million in annual Sick Leave Injury (SLI) benefits being replaced by temporary compensation." The increased medical cost referred to is the difference in the medical cost in FY 2011 ($3.991 million) and FY 2012 ($9.836 million) of $5.845 million, or 146 percent, not the cumulative cost of $35.895 million as shown in the chart below.

From FY 2008 to FY 2013 Workers' Compensation expenditures grew by an annual average of 4.2 percent. Projected expenditures edged back up in FY 2014 after declining for one year in FY 2013. Total actual expenditures for FY 2014, as reported in the FY 2016 Governor's Budget, were $91.479 million out of an original appropriation of $92.990 million. FY 2015 expenditures as of April 8, 2015 as reported in the financial system, are $61.951 million. Total FY 2015 costs are still projected to total $92.0 million, and recommended funding for FY 2016 is $94.5 million.

Discussion Points (Cont'd)

Table 1 illustrates that while the number of claims, medical costs, expense costs, total costs, and permanent compensation costs are declining, temporary costs (wage replacement) continue to increase, although at a slower rate than in previous years.

Table 1

Fiscal Year	Claims (1)	Medical Cost	Expense Cost	Temporary Cost	Permanent Cost	Total Cost
2008	7,461	$35,924,399	$6,058,288	$6,692,340	$23,538,215	$72,213,242
2009	7,169	$35,348,189	$7,294,502	$6,928,780	$26,617,739	$76,196,379
2010	6,256	$45,568,163	$5,756,144	$8,985,716	$21,523,915	$81,839,259
2011	6,648	$46,524,888	$9,598,134	$8,345,243	$33,766,768	$98,241,681
2012	5,394	$43,777,774	$8,419,030	$12,096,334	$31,370,949	$95,664,087
2013	5,249	$35,895,101	$7,620,281	$13,736,841	$29,602,543	$86,854,765
% Change 2008-2013	-30%	-1%	26%	105%	26%	20%
% Change 2011-2012	-19%	-6%	-12	45%	-7%	-2.6%
% Change 2012-2013	-2.6%	-18%	-9.5%	13.5%	-5.6%	-9%

(1) Reported claims.
Source: Division of Risk Management, in the Department of the Treasury.

- ***Question:*** **Please provide a list by department or agency for FY 2014 showing the number of claims reported broken out by the number of temporary, permanent partial, and permanent disability claims reported in each year; total medical cost; total expense cost; temporary cost, i.e., the wage replacement cost; partial permanent disability cost; permanent disability cost; and total costs. Please provide an updated Performance Indicators Chart. What were the average wage replacement and the average duration, respectively, of a temporary disability case for FY 2014? What was the average court award for permanency of the injury for FY 2014?**

- ***Question:*** **What trend in total claims, medical costs, and permanent costs from FY 2014 actual data does the department use as the basis of its FY 2016 recommended appropriation? What is the current injury rate, return to work rate, utilization rate trend for in-network medical care, and in-network medical rate discounts, and change in population covered by the Workers' Compensation Fund? To what other factors does the division attribute the trend in workers' compensation costs? What is the division's projection for temporary costs? Are temporary costs expected to remain at or above 2014 levels? If they are expected to remain at or above 2014 levels, please explain why and what factors will contribute to the increased costs. Please provide an updated historical chart of worker's compensation costs from accident year 1981 through 2014 that includes the accident year, medical**

Discussion Points (Cont'd)

costs, other expense costs, temporary costs, permanent partial costs, permanent total, other, compensation total, and total costs.

Medical Malpractice Self-Insurance Fund for Rutgers, Rowan, and University Hospital

3. According to an Official Statement prepared by the Transportation Trust Fund Authority to provide information for the purpose of issuing bonds,

> Prior to July 1, 2013, there were various numbers of claims and cases pending against the University of Medicine and Dentistry of New Jersey ("UMDNJ") and its employees, seeking recovery of monetary damages that were primarily paid out of the UMDNJ Self Insurance Reserve Fund created pursuant to the New Jersey Tort Claims Act (N.J.S.A. 59:1-1 et seq.). An independent study estimated an aggregate potential exposure of $148,897,000 for tort and medical malpractice claims for UMDNJ pending as of December 31, 2012. As a result, of the enactment of the New Jersey Medical and Health Sciences Education Restructuring Act, P.L.2012, c.45 ("the Restructuring Act"), all of UMDNJ has been transferred to Rutgers, the State University ("Rutgers"), with the exception of the School of Osteopathic Medicine, which has been transferred to Rowan University ("Rowan"), and University Hospital, as applicable. Pursuant to the Restructuring Act, Rutgers and Rowan each entered into a memorandum of understanding with the State Treasurer pursuant to which the State shall pay from a self-insurance reserve fund established for each entity medical malpractice claims occurring prior to and post the effective date of the transfers, which was July 1, 2013. The Restructuring Act also provides for University Hospital's medical malpractice claims to be covered by a self-insurance reserve fund established by the State Treasurer and University Hospital entered into a memorandum of understanding with the State Treasurer for such claims. All claims, other than medical malpractice claims, incurred by UMDNJ with respect to the UMDNJ facilities transferred to Rutgers will be paid for by Rutgers out of its own funds. All claims, other than medical malpractice claims, incurred by Rowan will be paid from the Tort Claims Fund. The State is unable to estimate its exposure for these claims.

In FY 2014 and FY 2015, the Appropriations Act appropriated $10 million to fund medical malpractice self-insurance for Rutgers, Rowan, and University Hospital. In FY 2014, a supplemental appropriation of $8 million and transfers of $6.7 million were required in addition to the original appropriation of $10 million. According to the responses to the Discussion Points in the FY 2015 Interdepartmental Budget Analysis, several significant and unanticipated settlements occurred in FY 2014 requiring the supplemental funding. The FY

Discussion Points (Cont'd)

2016 Governor's Budget projects a supplemental appropriation of $28 million will be required in FY 2015.

- *Question:* **Please list each of the significant and unanticipated settlements that occurred in FY 2014 and provide the cost of each settlement. Please explain the need for the supplemental appropriations in FY 2015 and itemize the components of the total cost of the projected FY 2015 supplemental appropriation. What is the financial commitment to the fund of each respective institution and University Hospital? What is the financial commitment to the fund of the medical professionals from each institution? In light of the projected costs in FY 2015 of $25.3 million, why is the appropriation in FY 2016 considered adequate? What was the source of the independent study and what comprises the $148.9 million tort and medical malpractice exposure for UMDNJ?**

AID TO INDEPENDENT AUTHORITIES

New Jersey Sports and Exposition Authority-Operations (NJSEA)

4. State appropriations for NJSEA operations have been incurred annually since commencing in FY 2011 at about $4 million. It was explained that the NJSEA had fully depleted funds from the Xanadu project ground lease, of which a portion was used to offset operating costs, and that NJSEA's cash need would be significantly impacted by the potential lease/sale of NJSEA owned and operated racetracks in Meadowlands and Monmouth Park.

In FY 2012, it was explained that NJSEA's strategy was to divest from the horse racing business, which included both racetracks as well as its off-track wagering facilities. Consequently, by the end of calendar year 2011, the Meadowlands racetrack was privately operated. Press reports indicated that the NJSEA had committed to the chosen operator of Meadowlands Racetrack an advance of $5.5 million through 2012, with repayment over five years beginning in 2013. Regarding Monmouth Park, a five-year operating lease with options for three ten-year extensions was negotiated with the New Jersey Thoroughbred Horsemen Association to take over operations. Also according to press reports, the chosen operator of Monmouth Racetrack could receive an advance of $5 million to be repaid over five years beginning in 2015, a $4 million grant for the 2012 racing season, and up to $2 million annually to cover operating losses in 2013 and 2014, to be repaid in 2016 and 2017. In addition, in FY 2011, the operations of the Atlantic City Boardwalk Hall and Convention Center were transferred to the Casino Reinvestment and Development Authority.

- *Question:* **Was the Meadowlands advance made? If so, is the Meadowlands advance being repaid? What is the status of the operating lease with the New Jersey Thoroughbred Horsemen Association and Monmouth Racetrack? Were any advances made to the operator of the Monmouth Racetrack? If so, what were the total amounts of the advances and what is the repayment schedule. Are the repayments being made on a timely basis?**

5. The FY 2013 budget reflected the Governor's intent to realign the NJSEA from being "in but not of" the Department of Community Affairs to being "in but not of" the Department of

Discussion Points (Cont'd)

State, and to further expand the mission of the NJSEA to encompass the present duties and functions of both the Division of Travel and Tourism and the NJ Motion Picture and Television Commission. The FY 2013 Appropriations Act provided no initial funding for NJSEA operations, but the Executive subsequently approved $27.4 million in supplemental appropriations for that purpose.

No funding for operations was provided for the NJSEA in the FY 2014 Appropriations Act because the administration indicated that funding for operations could not be determined at that time and therefore none was proposed nor provided. Budget language concerning State funding for the NJSEA provides for supplemental appropriations if necessary to "maintain the core operating functions of the authority..." A FY 2014 supplemental appropriation of $35.303 million was provided to support the operations of the NJSEA in FY 2014 and the FY 2015 Appropriations Act appropriated $15 million to support the operations of the NJSEA in FY 2015.

According to the responses to the Discussion Points in the FY 2015 Interdepartmental Budget Analysis, "The FY 2015 Budget provides NJSEA with funding to cover costs such as salaries and benefits of staff, operating and maintaining the Meadowlands sports complex, PILOT payments, retiree pension and medical obligations, capital maintenance, and Racing Commission costs. The percentage of State support as part of NJSEA total operating resources was approximately 22 percent in FY 2013, and 38 percent in FY 2014."

	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
Actual Expenditures	$4.006	$23.7	$27.400	$35.3	to be determined	to be determined
Supplemental Appropriation	$4.006	$15.0	$27.400	$35.303	$17.5	to be determined
Original Appropriation	$0	$0	$0	$supp.	$15.0	$15.0 (rec)
State Support as a percentage of NJSEA Operating Resources	?	?	22%	38%	?	?

According to the administration in October 2014, "the NJSEA subsidy stems from the effects of the New Meadowlands Stadium agreement in FY 2007, and operating both the Meadowlands and Monmouth park racetracks at a deficit until FY 2013. Budget language was added in FY 2011 that allows for a directory letter supplemental appropriation to the NJSEA for operational costs. Since that point in time, the General Fund has provided subsidies totaling $80.7 million (FY 2011 $4 million; FY 2012 $15 million; FY 2013 $27.4 million; FY 2014 $35.3 million; and FY 2015 $32.5 million.) The FY 2014 amount includes the cost to host the Super Bowl and the Special Olympics USA Games, and excludes approximately $8.1 million that were deferred to next fiscal year. The FY 2015 Appropriation Act provides for a $15 million grant-in-aid appropriation to the Authority for operations, and continuing budget language allows for a directory letter supplemental to cover their remaining need. NJSEA estimates a FY 2015 subsidized need of $32 million."

Discussion Points (Cont'd)

In January 2015, the NJSEA Board of Commissioners voted to close the IZOD Arena, citing a projected $8.4 million deficit in 2015 arena operations. In February, the Governor signed legislation, the Hackensack Meadowlands Consolidation Act. P.L.2015, c.19 consolidates the New Jersey Meadowlands Commission and the New Jersey Sports and Exposition Authority. The law also reestablishes the Hackensack Meadowlands Transportation Planning District, revises the method of funding the inter-municipal tax sharing program under the "Hackensack Meadowlands Reclamation and Development Act, and transfers the responsibilities of development and operations of the Liberty State Park to the Meadowlands Region Commission.

- ***Question:*** **What effects of the New Meadowlands Stadium agreement in FY 2007 created the need for the NJSEA operating subsidy? How much of the operating need was and is attributable to the New Meadowlands Stadium agreement since FY 2011? How much of the operating subsidy was and is attributable to each racetrack since FY 2011? Are these the only factors that created the need for the operating subsidy? Please itemize the costs comprising the FY 2015 subsidized need of $32.5 million. What is the Administration's policy with regard to providing ongoing operational support to the NJSEA? What percentage of NJSEA total operating resources on a budgetary basis, were provided by the state in FY 2011, FY 2012, and FY 2015 and will be provided by state FY 2016 funding, respectively? Please provide a copy of the NJSEA approved or proposed budgets or operating plans that support the level of State operating support provided by FY 2014, FY 2015, and FY 2016 appropriations. Please explain why, if the closing of the Izod Arena saves $8.4 million in 2015, the operating subsidy is projected to decline by only $2.8 million from FY 2014 to FY 2015? What are the fiscal impacts of P.L.2015, c.10 on the NJSEA?**

Liberty Science Center

6. The Liberty Science Center is located in Liberty State Park. Liberty State Park is a 1,200 acres park covering land and marshes in the Meadowlands. It has two restaurants, a marina, the historic Central Railroad Terminal of New Jersey and the Liberty Science Center. In FY 2002 and FY 2005, the Economic Development Authority (EDA) issued a total of $95 million in bonds in three separate issuances for the design, construction, renovation, expansion and acquisition of exhibits for the Liberty Science Center. The projects included the renovation of the building, the construction of a new addition to the cente, the renovation and improvement of the Science Center's parking lot, and the improvement of the Central Railroad of New Jersey Terminal.

P.L.2015, c.19 consolidated the New Jersey Meadowlands Commission and the New Jersey Sports and Exposition Authority and transferred the responsibilities of development and operations of the Liberty State Park to the Meadowlands Region Commission.

The FY 2016 Governor's Budget recommends a reduction $4.8 million, or 43.9 percent in debt service payments for the Liberty Science Center.

- ***Question:*** **Please explain the proposed reduction in debt service for the Liberty Science Center and its fiscal relationship to P.L.2015, c.19.**

Discussion Points (Cont'd)

PENSIONS

Pensions and Health Benefits Reform

FY 2016 Proposed Pension Funding Included in the Governor's Budget

7. According to the FY 2016 Governor's Budget Summary, the Governor's fiscal 2016 budget includes a defined benefit pension payment of $1.3 billion, 3/10ths of the actuarially required contribution (ARC). "Governor Christie recommends that the fiscal 2016 contribution serve as the first of future annual contributions that increase in 1/10th increments". The Governor claims that "a regular schedule starting at 3/10ths that increases annually and results in a return to full funding of the actuarial determined contribution will ensure the long term solvency, health and stability of the pension systems."

- **Question: Does the 10-year phase-in in fact produce long-term solvency? Please justify the claim and provide the 30-Year Fund Projection substantiating the claim. What are the economic, actuarial, and demographic assumptions upon which the 30-Year Fund Projection supporting the claim is based, including salary assumptions, assumed rate of return, contribution rate, and adjustments? What are the investment return assumptions necessary to achieve a return high enough to maintain solvency?**

FY 2014 and FY 2015 Employer Contributions to the Pension Fund

8. The Governor took action in FY 2014 to reduce the FY 2014 3/7ths required employer contribution to the pension fund under P.L.2011, c.1 from $1.582 billion to $695.7 million. The FY 2015 Appropriations Act after the Governor's line item veto reduced the FY 2015 4/7ths required employer contribution to the pension fund under P.L.2011, c.1 from $2.249 billion to $680.6 billion. Both the FY 2014 and FY 2015 appropriations represented only the normal contribution, and omitted payment of the unfunded liability.

- **Question: By what amounts were the unfunded liabilities of each system increased by not paying the full 3/7ths employer contribution for FY 2014 and by not paying the full 4/7ths employer contribution for FY 2015? Please provide the 30-Year Fund Projection based on the FY 2015 Appropriations Act including Employer Pension Costs, Baseline Compared to Pension Reform and Pension Reform to the FY 2014 actuarial valuation, continuing with the assumption of a seven-year phase in for State contributions beginning in FY 2012. In addition, please list all of the economic, actuarial, and demographic assumptions upon which that 30-Year Fund Projection was based including the salary assumptions, investment rate of return, contribution rate, adjustments, etc.**

Effect of GASB Rulings

9. Every July, the actuaries submit actuarial valuations of each State-administered defined benefit retirement system (retirement system) to the Board of Trustees of each system for

Discussion Points (Cont'd)

approval. At the time of this writing, the FY 2014 actuarial valuations have not been approved and have not been made public. According to the Division of Pensions and Benefits, the auditors determined that the State and local pension funds for the Public Employees' Retirement System (PERS) and the Police and Firemen's Retirement System (PFRS) do not satisfy the accounting and procedural requirements under the new GASB 67 rule and this is why the actuarial valuations have not yet been approved. Specifically, the auditors question the calculation that deals with the State and local components of PERS and PFRS. Under the former GASB 25 and 27 rules, the State and local components of PERS and PFRS were valued as separate trust funds. Under GASB 67, the auditors interpret the new rules to mean that the State and local components of PERS are to be valued as one trust and the State and local components of PFRS are to be valued as one trust. However, with the assets and liabilities currently measured separately, deriving a combined valuation based on separate assets and liabilities in accordance with the new rules has proven to be enigmatic.

- *Question:* **Have the auditors resolved the calculation required to value the assets and liabilities of the two systems on a combined basis? What was the solution to the problem? Please quantify the impact of the new rules on the contribution amounts and unfunded liabilities for disclosure purposes and compare the GASB 67 disclosure amounts to the statutorily developed amounts. If no solution was found, why was no solution found? Please provide a copy of what was reported to GASB for accounting and financial reporting purposes.**

Funded Ratio

10. One objective of P.L.2011, c.78 was to improve the funded ratio of the pension plans. The change in funding methodology improved the funded ratios.

- *Question:* **Please provide a table that shows the funded ratios as reported in the approved July 1, 2011, 2012, 2013, and 2014 actuarial valuations of each State-administered retirement system and in the aggregate.**

- *Question:* **Please provide a table of the projected estimated actuarial value of assets and liabilities of each State-administered Retirement System as reported in the approved July 1, 2011, 2012, 2013, and 2014 valuation reports.**

- *Question:* **Please provide a table of the actuarial value of assets to the market value of assets in the approved July 1,2011, 2012, 2013, and 2014 actuarial valuations for each system and in the aggregate.**

- *Question:* **Please provide a table that illustrates the results of the most recent valuation reports as of July 1, 2014 as compared to the July 1, 2013 valuation reports. In the table, please indicate the actuarial value of the assets, the actuarial accrued liability, the unfunded actuarial accrued liability, the funded ratio, and the market value of the assets for each State-administered retirement system and the systems in aggregate.**

Discussion Points (Cont'd)

11. P.L.2011, c.18 provided for increases in the employee contribution rates for PERS, TPAF, PFRS, JRS, and SPRS phased in over seven years.

- *Question:* **What additional amounts were collected from the increased employee contributions for each of the defined benefit systems and in total for FY 2014, and FY 2015?**

Cost-of-Living Adjustment

12. P.L.2011, c.18 suspended the automatic cost-of-living adjustment applied to retirement allowances. Commencing with the effective date of P.L.2011, c.78 and thereafter, no further adjustments to the monthly retirement allowance or pension originally granted to any retiree and the pension or survivorship benefit granted to any beneficiary shall be made in accordance with the provisions of P.L.1958, c.143 (C.43:3B-1 et seq.), the Pension Adjustment Act, until the plan is 80 percent funded. In response, the Public Employee Unions filed a class action suit (New Jersey Education Association vs. State of New Jersey). After the suit was dismissed twice, in June 2014 the New Jersey Superior Court Appellate Division, ruled that retirees and workers have a contractual right to their COLAs under the New Jersey Constitution and remanded the case back to the original trial court for reconsideration.

- *Question:* **What COLA costs have been avoided each year beginning in FY 2012 by the suspension of the COLA under P.2011, c.78? Please provide a chart showing the dollar value of total benefit allowances paid each year for the past ten years and the total number of retirees/beneficiaries (number of checks) to whom benefit allowances were paid. Please provide a side-by-side chart showing the target funded ratio of each system and the current funded ratio of each system.**

Retirement Allowances

13. Each actuarial report provides the average retirement allowance by retirement classification such as service retirement, disability retirement, and gender, but does not provide **median** retirement allowance for each system.

- *Question:* **What is the median retirement allowance for each retirement system: PERS, TPAF, PFRS, SPRS, and JRS?**

Disability Insurance

14. P.L.2010, c.3 eliminated the accidental and ordinary disability retirement for new members of the Teachers' Pension and Annuity Fund (TPAF) and the Public Employees' Retirement System (PERS) who are enrolled in the retirement system after May 21, 2010. Instead, the new members of each system are eligible for disability insurance coverage. According to the responses to the Discussion Points in the FY 2015 Interdepartmental Budget

Discussion Points (Cont'd)

Analysis, "If the disability insurance program was eliminated and disability retirement was restored for the impacted members, members would no longer be eligible for a benefit that is greater than the disability benefit within the retirement systems. Chapter 3 provides the availability for long term disability benefits after 12 months at 60 percent of salary with the member continuing to earn service credit in the system at the expense of the employer." As of FY 2014, the Division of Pension and Benefits indicates that while there were no expenditures for the disability insurance program, they anticipated that to change in FY 2015.

- *Question:* **What are the differences between the accidental and ordinary disability retirement prior to the enactment of P.L.201, c.3 and the disability insurance coverage under P.L.2010, c.3? Please provide the expenditures of the disability insurance program to date, under P.L.2010, c.3 for PERS and for TPAF. If the disability insurance program were eliminated and the disability retirement restored under PERS and TPAF, what would be the fiscal impacts?**

STATE HEALTH BENEFITS

The "Cadillac Tax" under the Patient Protection and Affordable Care Act (ACA)

15. The Affordable Care Act (ACA) places an excise tax on high cost employer-sponsored health coverage. This is referred to as the "Cadillac Tax". Under the law, to the extent that employer-sponsored health coverage premiums exceed certain thresholds employers are required, beginning 2018, to pay an excise tax of 40 percent of the amount of the premium that is in excess of the federal threshold amounts. In 2018, the annual premium thresholds for coverage are $10,200 for single coverage and $27,500 for family coverage. Coverage thresholds are to be adjusted annually by a "health cost adjustment percentage." The Cadillac tax could affect both the School Employees' Health Benefits Program (SEHBP) and the State Health Benefits Program (SHBP). In the Responses to the FY 2015Interdepartmental Discussion Points, the Division of Pensions and Benefits estimated that the "State's excise tax exposure in 2018 will be $53 million."

- *Question:* **What options are the plan design committees considering in order to stay below the threshold and still meet the credible coverage test? Is the State's current excise tax exposure in FY 2018 still $53 million? If not, what is the current potential magnitude of the excise tax that the State would have to pay if the plans remain the same and they exceed the threshold in 2018, all else being equal?**

Implications of the Definition of Full-Time Employee under the Patient Protection and Affordable Care Act (ACA)

16. Beginning January 1, 2015, large employers are required to account for each employee's full-time or part-time monthly status, report each employee's full-time status to the IRS, and maintain each employee's employment status as part of their tax records, or be fined. The ACA defines full-time employee to mean an employee who works on average at least 30 hours per week. State law for the SHBP and the SEHBP defines full-time State employee to mean an employee who works 35 hours per week and defines full-time local employees to

Discussion Points (Cont'd)

mean an employee who works pursuant to a local resolution, but no less than 25 hours per week. Thus, with regard to the SHBP and the SEHBP, beginning in 2015 any individual who works an average of 30 hours or more per week, or at least 130 hours in a month, will have to be offered health benefits and treated in the same manner as any other full-time employee who is working 35 hours per week. In the Responses to the FY 2015 Interdepartmental Discussion Points, the Division of Pensions and Benefits estimated that 1,300 State employees who currently work an average of between 30 and 35 hours per week would be eligible for coverage under the SHBP in 2015.

- *Question:* **What is the current estimate of the number of employees who will be offered SHBP (State and local) and SEHBP health care benefits beginning in FY 2015 and what is the current estimate of the associated cost increase to provide health care benefits to these individuals in the SHBP (State and local) and separately in the SEHBP in FY 2015 and FY 2016? By what amount is the full-time definition projected to increase the premium?**

EMPLOYEE BENEFITS

17. P.L.2011, c.78 made various changes to public employees health benefits in New Jersey including increased member contributions and plan design changes for the State Health Benefits Program (SHBP) and the School Employees' Health Benefits Program (SEHBP). Specifically, the law required all public employees and certain public retirees to contribute toward the cost of health care benefits coverage based upon a percentage of the projected cost of coverage, referred to as the "premium," based on the type of coverage selected. Employees may opt out of State coverage if they have other coverage, for example, through their spouses employer, but they must submit a waiver. Each year, the Rate Renewal Reports include aggregate cost data that provides the actual total cost of employee and retiree health care in a Plan Year (calendar year) and the total premium (employee and employer contributions) collected to pay for health care coverage. The FY 2016 Governor's Budget recommends a net increase in funding for of employee health care benefits included in the Interdepartmental Accounts budget totaling $102.972 million according to the Summary of Changes.

- *Question:* **For the SHBP, for FY 2012, FY 2013, and FY 2014, FY 2015, and proposed FY 2016, please provide the dollar amount of member contributions, employer contributions, use of surplus in the health benefit fund, and total costs. Please provide updated estimates of the total projected savings from P.L.2011, c.78 contributions for State, local education, and local governments to the SHBP and the SEHBP that were achieved in FY 2014 and are anticipated to be achieved in FY 2015, FY 2016, and FY 2017. Please provide updated estimates of the projected savings from migration to lower costs plans for the State, local education, and local governments for FY 2013, FY 2014, FY 2015, FY 2016, and FY 2017. Please provide updated estimates of the projected enrollment for fiscal years 2013 – 2017. Based on the Plan Year 2015 open enrollment results, how many new waivers were submitted for Plan Year 2015 and what are the projected savings attributable to the new waivers?**

Discussion Points (Cont'd)

- ***Question:*** **Please provide for the SHBP and the SEHPB for the combined prescription and medical coverage, the premium amounts and annual growth rate the premium amount for five the past years (FY 2010 through FY 2014) for each coverage type: single, member/spouse, family, parent, and adult child for the plan with the highest enrollment.**

TAX REVENUE AND ANTICIPATION NOTES (TRANS)

18. The State uses cash flow borrowing, in the form of lines of credit and tax and revenue anticipation notes (TRANS), to meet its cash flow needs in the early part of the fiscal year, when cash spending outpaces cash collection. This situation largely results from the need to expend significant sums on local aid in the first two fiscal quarters of the year, before major tax collections are received in the last two quarters of the year. It is exacerbated by low surpluses as a percentage of total appropriations. The FY 2016 Governor's Budget proposes an appropriation of $6 million for Interest on Short Term Notes (page D-435). Thus far in FY 2015, the State has drawn upon a line of credit for temporary cash flow financing in the amount of $2.6 billion. The interest rate on the loan is variable and is reset each month. It was set at 5.22 percent upon issuance.

- ***Question:*** **Please report the estimated FY 2015 costs of cash flow borrowing, distinguishing between interest and fees. What projections of FY 2016 line of credit use and tax and revenue anticipation note issuance (par amount and date of sale), total and net interest costs, nominal interest rate and effective interest rate, were assumed when determining to recommend an appropriation of $6 million in FY 2016?**

COMPENSATION

Salary Increases and Other Benefits

19. State employee compensation represents a significant portion of State operating expenditures. In FY 2016, the Governor's Budget (page H-18) projects a State funded Workforce of: Executive Branch 35,055, Judicial Branch 7,425, and Legislative Branch 489. The FY 2016 Governor's Budget also recommends $54.6 million for compensation increases that accrue in FY 2016 for the portion of the State workforce considered "State funded," i.e., not funded by federal or dedicated revenues. Factors influencing this recommended funding level include cost-of-living adjustments (COLAs) negotiated with some unions representing State employees and step increments. Recommended funding levels may assume the availability of unexpended prior year balances.

- ***Question:*** **Please itemize, by branch, the specific components of change that make up the recommended $54.6million for Salary Increases, COLAs, and step increments. What amount of carry forward balances, if any, is needed to supplement the recommended appropriation to fully fund COLA and increments in FY 2015?**

Unused Accumulated Sick Leave Benefits

Discussion Points (Cont'd)

20. The FY 2016 Governor's Budget recommends a FY 2015 adjusted appropriation of $13.9 million including a supplemental appropriation of $2.9 million above a base level of $11 million. For FY 2016 the Governor's Budget recommends an appropriation of $11 million to pay for unused accumulated sick leave payments.

- ***Question:*** **Please explain the need for a supplemental appropriation of $2.9 million in FY 2015. What number of retirees and what average payment per retiree is projected in determining the amount recommended for unused sick leave payments for FY 2015 and FY 2016 respectively? Thus far, in FY 2015, how many retirees have been paid accumulated sick leave and at what average amount per retiree?**

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Individuals wishing information and committee schedules on the FY 2016 budget are encouraged to contact:

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