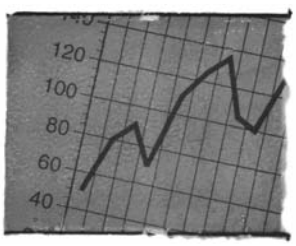

ANALYSIS OF THE NEW JERSEY BUDGET

DEPARTMENT OF THE TREASURY

FISCAL YEAR 2015 - 2016

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

NEW JERSEY STATE LEGISLATURE

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This report was prepared by the Revenue, Finance and Appropriations Section of the Office of Legislative Services under the direction of the Legislative Budget and Finance Officer. The primary author was Thomas Koenig. Matthew T. Szudajski authored the background paper entitled "Regional Trends in Business Entity Tax Homes."

Questions or comments may be directed to the OLS Revenue, Finance and Appropriations Section (609-847-3835) or the Legislative Budget and Finance Office (609-847-3105).

DEPARTMENT OF THE TREASURY

Budget Pages....... C-6 to C-7; C-14 to C-15; C-22; C-23 to C-24; D-363 to D-415; E-6 to E-7; G-4 to G-8

Fiscal Summary ($000)

	Expended FY 2014	Adjusted Appropriation FY 2015	Recommended FY 2016	Percent Change 2015-16
State Budgeted	$2,357,629	$2,074,427	$2,086,181	0.6%
Federal Funds	14,776	8,862	7,519	(15.2%)
Other	1,238,552	1,260,580	1,269,608	0.7%
Grand Total	$3,610,957	$3,343,869	$3,363,308	0.6%

Personnel Summary - Positions By Funding Source

	Actual FY 2014	Revised FY 2015	Funded FY 2016	Percent Change 2015-16
State	3,682	3,682	3,717	1.0%
Federal	52	50	54	8.0%
Other	1,820	1,822	1,858	2.0%
Total Positions	5,554	5,554	5,629	1.4%

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.

To be consistent with the data display in the Governor's FY 2016 Budget, the above table includes the funding data in the Department of the Treasury for Higher Educational Services. Other explanatory data for these programs are included in a separate booklet entitled "Higher Educational Services."

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

Highlights

PROPERTY TAX RELIEF: GRANTS-IN-AID AND STATE AID

- The Governor's FY 2016 Budget provides $1.92 billion for **property tax relief** in the Department of the Treasury, which is $11.0 million, or 0.6 percent, below the FY 2015 adjusted appropriation. Grants-in-Aid, which finance direct property tax relief to residents, account for $559.7 million of the total ($20.3 million, or 3.5 percent, less than in FY 2015) and State Aid to local subdivisions of State government accounts for the remaining $1.36 billion ($9.3 million, or 0.7 percent, more than in FY 2015). Table 1 on page 7 lists aggregated components of the recommended State Aid total.

- The Administration recommends a $33.2 million funding decrease in FY 2016 for the New Jersey Homestead Property Tax Credit program, renamed the **Homestead Benefit Program**. The reduction is ascribable to the expected continuation of diminishing enrollments. Specifically, an estimated 695,300 homeowners would collect an average $480 benefit in FY 2016, after 771,700 homeowners obtained an average $470 rebate in FY 2015. In FY 2010, some 992,000 homeowners had received a rebate.

- For FY 2016, the Administration recommends maintaining the FY 2015 parameters of the **Senior and Disabled Citizens' Property Tax Freeze program**, or Homestead Property Tax Reimbursement program. Specifically, the program would operate under its statutory provisions except that the income eligibility threshold would be $70,000 for tax years 2013 and 2014 in lieu of the statutory $84,289 for tax year 2013 and $85,553 for tax year 2014. Overall, the Executive forecasts a $1,278 average FY 2016 payment to 171,100 participants. In FY 2015, some 174,700 participants received an average $1,178 payment. The projected higher average amount reflects rising property tax liabilities offset, in part, by more recent cohorts of program participants with lower average benefits replacing long-time participants with larger average benefits.

- The Governor's FY 2016 Budget proposes that municipalities receive $1.13 billion from the off-budget **Energy Tax Receipts Property Tax Relief Fund** in FY 2016, a $16.7 million, or 1.5 percent, increase over FY 2015. Two funding sources comprise this appropriation: $788.5 million from the Energy Tax Receipts Property Tax Relief Fund proper and an amount not to exceed $341.9 million to be transferred to the fund from the Consolidated Municipal Property Tax Relief Aid (CMPTRA) account pursuant to budget language. The Administration also proposes that an additional $252.2 million in CMPTRA be expended in FY 2016, thereby bringing total distributions from the State's two formula-driven municipal aid programs to an unchanged $1.36 billion.

- The proposed FY 2016 appropriation to the public employee retirement funds equals $1.30 billion, representing 3/10th of the actuarially recommended full $4.33 billion State pension contribution, as projected based on July 1, 2013 actuarial valuation data. The FY 2015 contribution was $680.6 million, or the actuarially determined employer's share of the additional pension benefits earned by active employees in FY 2015 without any amortization of the $3.25 billion in accrued unfunded liabilities. Of the recommended $1.30 billion total, the Governor's FY 2016 Budget allocates $58.8 million to Treasury to make the State's required annual payment to the **Police and Firemen's Retirement System** on behalf of local governmental entities.

Highlights (Cont'd)

- The Administration recommends new language that would allow for the transfer of unspecified amounts out of the **Highlands Protection Fund – Planning Grants** account to the Highlands Water Protection and Planning Council for the payment of expenses related to the review and potential revision of the Highlands Regional Master Plan. The language supersedes statutory law that dedicates Highlands Protection Fund balances exclusively to four aid programs for municipalities in the Highlands planning area.

TREASURY OPERATIONS

- The Administration recommends a virtually unchanged $13.3 million FY 2016 appropriation to the **New Jersey State Lottery**. But the total does not include the administrative expenses of Northstar New Jersey Lottery Group, LLC (some $29.3 million in FY 2014). The compensation of the contractor that has been running the Lottery's sales and marketing operations since October 1, 2013 is instead deducted directly from Lottery revenues before the balance is transferred to the General Fund for the support of State institutions and State aid to education. The State Lottery's administrative expenses totaled $35.0 million in FY 2013 and $37.0 million in FY 2012, the last two full fiscal years in which the State Lottery ran its sales and marketing operations in-house. The Administration anticipates a $1.02 billion General Fund transfer from the State Lottery Fund in FY 2016 and a $955.0 million transfer in FY 2015 after $965.0 million was transferred in FY 2014, $965.0 million in FY 2013 (excluding a one-time $120.0 million prepayment by Northstar), and $950.1 million in FY 2012. Page H-3 of the Governor's FY 2016 Budget lists the programs that Lottery proceeds would partially fund.

- The Administration proposes increasing by $3.9 million from $13.0 million in FY 2015 to $16.9 million in FY 2016 the off-budget appropriation from the various State pension funds to the **Division of Investment to cover the expenses the division incurs in managing the funds' investment portfolios**. But the total does not include compensation payments to outside money managers, as the division makes these payments directly from the assets placed with the investment firms and their earnings. In FY 2014, the division paid $600.2 million in management and performance fees and expenses to private investment firms.

- As in past years, the Governor's FY 2016 Budget includes broad language that would permit the appropriation of additional resources for the **Division of Taxation** and the **Division of Revenue and Enterprise Services** without further legislative action.

DEBT SERVICE

- The Governor's FY 2016 Budget includes $3.47 billion in on-budget payments to service general obligation and appropriation-backed bonds. Based on the FY 2014 State of New Jersey Debt Report, the OLS estimates that an additional $206.9 million in off-budget debt service payments bring total recommended FY 2016 State **debt service**

Highlights (Cont'd)

payments on bonded indebtedness to approximately $3.67 billion. In all, the State had $35.11 billion in outstanding bonded indebtedness at the end of FY 2014 and $7.08 billion in legislatively authorized but unissued bonding authority.

- The Administration recommends a $445.8 million FY 2016 appropriation for the payment of **general obligation bond debt service**, of which $399.4 million would be funded in the Department of the Treasury budget and $46.5 million in the Department of Environmental Protection budget. The recommended FY 2016 appropriation reflects a $41.0 million, or 10.1 percent, increase over FY 2015, driven primarily by rising debt service payment requirements under the terms of existing bond covenants.

- The Background Paper entitled "Budgetary Impact of the State's Bonded Debt" that commences on page 202 of this booklet provides additional information on the State's bonded indebtedness.

OFFICE OF INFORMATION TECHNOLOGY

- The State is in the midst of a **multi-year initiative to update and upgrade its core information technology infrastructure and to replace its legacy administrative information technology systems**. The steady increase in the annual appropriations to the Office of Information Technology's (OIT) Services Other Than Personal and Additions, Improvements and Equipment accounts since FY 2012 attests to the investments in the State's enterprise-wide information technology infrastructure. Notably, the recommended $52.5 million combined FY 2016 appropriation to the two accounts exceeds the FY 2012 total of $10.2 million by $42.3 million, or 416.6 percent. The requested FY 2016 allocations to the two accounts are also $11.3 million, or 27.5 percent, higher than their adjusted FY 2015 appropriations.

- The Administration proposes appropriating $750,000 in FY 2016 to pay contractors for research related to upgrading the infrastructure of the **Statewide 9-1-1 emergency telephone system**. The State's current 9-1-1 system only supports emergency reports received by telephone. Consequently, the Office of Emergency Telecommunications Services has been looking to upgrade the network to a so-called "Next Generation" 9-1-1 system, which would allow for the processing of emergency services requests sent via e-mail or text message.

- The Governor's FY 2016 Budget proposes to renew a language provision on page F-5 requiring that the OIT approve all departmental purchase requests for information technology and telecommunications equipment, maintenance, and consultant services. In its review, the OIT is to ascertain that purchase requests comply with statewide policies and standards as well as the department's approved Information Technology Strategic Plan. One of these policies is a **partial moratorium on the procurement of information technology equipment, maintenance, and consultant services** that has been in place since December 2006.

Highlights (Cont'd)

ECONOMIC DEVELOPMENT AUTHORITY

- The FY 2016 Governor's Budget does not include funding for the payment of **Business Employment Incentive Program (BEIP) grants**, thereby continuing the program's unfunding begun in FY 2015. Instead, the Administration recommends the enactment of legislation that would permit BEIP grant recipients to voluntarily convert outstanding BEIP payment liabilities into refundable tax credits starting in FY 2017. In addressing last year's EDA Discussion Point #6, the EDA reported that the State had approximately $650 million in outstanding BEIP grant payment obligations owed to roughly 400 businesses that had submitted expenses for payment. P.L.2013, c.161 closed BEIP to new applicants effective on September 18, 2013.

- The Administration recommends an $11.7 million appropriation for the payment in FY 2016 of State **Economic Redevelopment and Growth (ERG) grants** for redevelopment projects, some $2.5 million, or 17.8 percent, less than the FY 2015 adjusted appropriation. However, the program's adjusted FY 2015 appropriation includes $9.2 million that has been placed in reserve in anticipation of a year-end lapse to the General Fund, leaving $5.1 million in FY 2015 budget authority. Accordingly, the program's recommended FY 2016 expenditure would actually grow by $6.7 million, or 131.1 percent. The increased FY 2016 funding request is indicative of the Administration's expectation that additional redevelopment projects will become eligible to receive their initial ERG grant payments. The OMB indicated that all anticipated FY 2016 payments would be made pursuant to grant agreements the EDA concluded under the terms of the ERG program as it existed before P.L.2013, c.161 restructured the program effective September 18, 2013. In addition to the recommended $11.7 million appropriation, and in order to meet contractual payment obligations when they fall due, the Administration also proposes the continuation of contingency language that would allow for supplemental appropriations of unspecified amounts to the program in the course of the fiscal year and without additional legislative approval.

- In October 2014, the EDA announced the launch of the **New Jersey Energy Resilience Bank**, which finances public energy resilience infrastructure projects in qualified municipalities. The bank received its initial $200 million endowment from the federal government under the federal Disaster Relief Appropriations Act of 2013. In a first funding round the EDA and the Board of Public Utilities allocated up to $65 million in financing capacity to the support of distributed energy resource systems at water and wastewater treatment facilities in 91 potentially qualified municipalities that were impacted by Superstorm Sandy or another qualifying natural disaster. Distributed energy resource systems are smaller, decentralized energy generation technologies installed at and serving local facilities that are interconnected with the electrical grid but capable of operating independently. The FY 2016 Governor's Budget does not delineate financial information for the New Jersey Energy Resilience Bank.

Highlights (Cont'd)

BOARD OF PUBLIC UTILITIES

- The Governor's FY 2016 Budget recommends **diverting an additional $157.3 million in Clean Energy Fund balances to the General Fund** in FY 2015 and FY 2016 combined: 1) $62.1 million in FY 2016 for New Jersey Transit utility costs; 2) $52.5 million in FY 2016 to defray the cost of utilities in State facilities; 3) $39.0 million in FY 2015 without a specified spending purpose; and 4) $3.7 million in FY 2016 to the Office of Sustainability and Green Energy in the Department of Environmental Protection. If the recommended FY 2015 and FY 2016 resource diversions were to be executed, some $1.18 billion would have been transferred from the Clean Energy Fund into the General Fund from FY 2008 through FY 2016. The $1.18 billion does not include the amounts transferred annually to the General Fund to defray the administrative expenses related to State-funded positions of the BPU's Office of Clean Energy ($2.3 million in FY 2016). The office's administrative costs do not capture the administrative expenses of the three contractors that operate the program on the BPU's behalf (a budgeted $27.5 million for FY 2014).

- As first reported in the 2011 Energy Master Plan, the BPU has been looking to **restructure the Clean Energy Program**, which is the umbrella for the State's various energy efficiency and renewable energy programs. The BPU's long-term goal is to reduce the reliance of the Clean Energy Program on the societal benefits charge as the program's funding mechanism and to inaugurate revolving loan funds as alternative funding vehicles.

LEGAL SERVICES OF NEW JERSEY

- The Governor recommends appropriating $26.1 million to **Legal Services of New Jersey (LSNJ)** in FY 2016, some $4.7 million more than the $21.4 million allocated in FY 2015. The increase is attributable to the annualization of disbursements from the dedicated, off-budget "21st Century Justice Improvement Fund." The fund will only operate for 7.5 months in FY 2015 after P.L.2014, c.31 authorized the Supreme Court of New Jersey to set higher court filing fees and established the fund as the repository of moneys generated by the higher fees. The Governor's FY 2016 Budget anticipates at least $42.1 million in FY 2016 fund disbursements and, consistent with the law's expenditure schedule, allocates $10.1 million thereof to LSNJ for the provision to low-income individuals of legal services in civil matters.

Background Papers:

Highlights (Cont'd)

Table 1
Department of the Treasury
State Aid to Local Governmental Entities
FY 2014 – FY 2016

STATE AID	Expended FY 2014	Adj. App. FY 2015	Recom. FY 2016
Energy Tax Receipts*	$1,108,124	$1,113,666	$1,130,374
Police & Firemen's Retirement System State Contribution	56,245	66,223	58,783
Veterans' Property Tax Deductions	58,275	56,300	53,800
Police & Firemen's Retirement System – Post Retirement Medical	41,786	45,284	49,133
South Jersey Port Corporation Support	19,856	24,520	24,020
Debt Service – Pension Obligation Bonds	16,246	17,872	18,231
Senior and Disabled Citizens' Property Tax Deductions	12,465	13,200	12,000
Other Distributed Taxes	6,488	6,488	6,488
Highlands Protection Fund Aid	2,566	4,400	4,400
Public Library Project Fund	3,763	3,751	3,757
County Boards of Taxation	1,840	1,903	1,903
Total State Aid	$1,327,654	$1,353,607	$1,362,889

* Energy Tax Receipts totals include annual transfers of varying amounts to the Energy Tax Receipts Property Tax Relief Fund from the Consolidated Municipal Property Tax Relief Aid account (please see pages 48 and 49 of this analysis for an explanation of the transfer).

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	$482,067	$475,478	$483,792	0.4%	1.7%
Grants-In-Aid	248,940	203,253	206,505	(17.0%)	1.6%
State Aid	244,877	34,574	34,080	(86.1%)	(1.4%)
Capital Construction	7	0	0	(100.0%)	0.0%
Debt Service	280,788	370,134	399,366	42.2%	7.9%
Sub-Total	**$1,256,679**	**$1,083,439**	**$1,123,743**	**(10.6%)**	**3.7%**
Property Tax Relief Fund					
Direct State Services	$0	$0	$0	0.0%	0.0%
Grants-In-Aid	609,983	580,000	559,700	(8.2%)	(3.5%)
State Aid	483,942	402,783	394,572	(18.5%)	(2.0%)
Sub-Total	**$1,093,925**	**$982,783**	**$954,272**	**(12.8%)**	**(2.9%)**
Casino Revenue Fund	$0	$0	$0	0.0%	0.0%
Casino Control Fund	$7,025	$8,205	$8,166	16.2%	(0.5%)
State Total	**$2,357,629**	**$2,074,427**	**$2,086,181**	**(11.5%)**	**0.6%**
Federal Funds	$14,776	$8,862	$7,519	(49.1%)	(15.2%)
Other Funds	$1,238,552	$1,260,580	$1,269,608	2.5%	0.7%
Grand Total	**$3,610,957**	**$3,343,869**	**$3,363,308**	**(6.9%)**	**0.6%**

PERSONNEL SUMMARY - POSITIONS BY FUNDING SOURCE

	Actual FY 2014	Revised FY 2015	Funded FY 2016	Percent Change 2014-16	Percent Change 2015-16
State	3,682	3,682	3,717	1.0%	1.0%
Federal	52	50	54	3.8%	8.0%
All Other	1,820	1,822	1,858	2.1%	2.0%
Total Positions	**5,554**	**5,554**	**5,629**	**1.4%**	**1.4%**

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	29.7%	30.7%		----	----

Significant Changes/New Programs ($000)

Budget Item	Adj. Approp. FY 2015	Recomm. FY 2016	Dollar Change	Percent Change	Budget Page
ECONOMIC PLANNING AND DEVELOPMENT					
NEW JERSEY ECONOMIC DEVELOPMENT AUTHORITY					
General Fund, Grants-in-Aid: Economic Redevelopment and Growth Grants, EDA	**$14,266**	**$11,725**	**($2,541)**	**(17.8%)**	**D-376**

This account provides for the payment of State Economic Redevelopment and Growth (ERG) grants for redevelopment projects. The program's adjusted FY 2015 appropriation includes $9.2 million that has been placed in reserve in anticipation of a year-end lapse to the General Fund, leaving $5.1 million in FY 2015 budget authority. Accordingly, the program's recommended FY 2016 expenditure would actually grow by $6.7 million, or 131.1 percent. In addition to the recommended $11.8 million FY 2016 appropriation, the Administration proposes the continuation of contingency language that would allow for supplemental appropriations of unspecified amounts to the program in the course of the fiscal year and without additional legislative approval in order to meet presently unanticipated contractual ERG payment obligations that may fall due in FY 2016 (page D-376).

The increased FY 2016 recommendation is indicative of the Administration's expectation that additional redevelopment projects subject to State ERG grant agreements will be completed in FY 2016 and thus become eligible to receive their initial grant payments. Upon inquiry, the Office of Management and Budget indicated that the State anticipated nine projects to receive grant disbursements in FY 2015 and 18 projects in FY 2016. All anticipated payments would be made pursuant to grant agreements the New Jersey Economic Development Authority (EDA) concluded under program terms in effect before P.L.2013, c.161, the "New Jersey Economic Opportunity Act of 2013," restructured the ERG program effective September 18, 2013.

P.L.2009, c.90 created the legacy ERG grant program as a tax-increment financing mechanism composed of a State and a municipal component. The law authorized the awarding of legacy State ERG grants to developers of redevelopment projects that would yield net fiscal benefits to the State and would not occur absent the financial assistance. Legacy State ERG grants were available for eligible redevelopment projects sited in certain areas only. Grant payments equaled up to 75 percent of the annual incremental State tax revenue attributable to a project and could be authorized for up to 20 years. But the combined amount of State and municipal ERG grant payments could not exceed 20 percent of a project's total cost. Disbursements begin after a project's completion. In all, the EDA approved $856.5 million in legacy ERG awards to 23 commercial and residential redevelopment projects that are expected to bring $5.4 billion in capital investments and 22,906 new jobs to New Jersey. All approved legacy ERG grants are listed at http://www.njeda.com/web/pdf/Approved_ERG_Legacy.pdf.

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

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

In the future this budget line-item will also include grant payments pursuant to ERG agreements concluded in accordance with P.L.2013, c.161. The law expanded the program effective September 18, 2013. Among its revisions, it newly distinguishes between commercial and residential redevelopment projects, with commercial redevelopment projects continuing to receive ERG grants subject to funding under the annual appropriations acts and residential projects newly receiving ERG tax credits, which do not necessitate funding under the annual appropriations acts. As of March 12, 2015, the EDA approved $243.0 million in ERG grant awards under P.L.2013, c.161 to six commercial redevelopment projects and $205.3 million in ERG tax credits awards to 15 residential redevelopment projects. Combined, the 21 projects are expected to bring $2.1 billion in capital investments and 5,081 new jobs to New Jersey. All approved ERG grants under the program's new configuration are listed at http://www.njeda.com/web/pdf/Approved_ERG_EOA.pdf.

General Fund, Grants-in-Aid: Brownfield Site Reimbursement Fund	**$8,200**	**$7,500**	**($700)**	**(8.5%)**	**D-376**

This account provides for payments to developers of brownfield sites under the Brownfields and Contaminated Site Remediation Program. The program's adjusted FY 2015 appropriation includes $3.2 million that has been placed in reserve in anticipation of a year-end lapse to the General Fund, leaving $5.0 million in FY 2015 budget authority. Accordingly, the program's recommended FY 2016 funding level would actually climb by $2.5 million, or 50.0 percent, on account of an anticipated rise in the number of redevelopment projects receiving payments. In the current fiscal year, six projects have collected payments to date. In FY 2016, some 17 projects are expected to do so.

In addition to the recommended $7.5 million FY 2016 appropriation, the Administration proposes the continuation of contingency language that would authorize the Office of Management and Budget (OMB) to appropriate, in the course of the fiscal year and without additional legislative approval, additional amounts to the program if necessary to meet additional unanticipated contractual payment obligations (page D-376). Supplemental appropriations may be allocated out of the General Fund or from the constitutional dedication of four percent of annual corporation business tax collections for environmental purposes that supports the remediation of the discharges of hazardous substances. The OMB, however, does not expect that any amount of the constitutionally dedicated revenue will support the program in either FY 2015 or FY 2016.

A tax-increment financing instrument, the Brownfields and Contaminated Site Remediation Program was established by P.L.1997, c.278 to reimburse developers for up to 75 percent of the costs they incur in remediating abandoned or underused, contaminated, commercial and industrial properties (N.J.S.A.58:10B-26 et seq.). Payments for a project are capped at the amount of incremental State tax revenues the redeveloped project generates. Although the law

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

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

created the Brownfield Site Reimbursement Fund as the account in which State tax revenue produced by redeveloped sites is deposited and then disbursed to developers, in actuality, the program account obtains its resources from General Fund appropriations as of FY 2012. Previously, amounts received from the constitutional dedication to environmental programs of four percent of annual corporation business tax collections had sustained the program account. In addressing EDA Discussion Point #11 in the OLS FY 2014-2015 Department of the Treasury Budget Analysis, the EDA noted that the State's aggregated program liability under memoranda of agreement with developers could reach $275 million over a ten-year repayment term, depending on the specific revenues to be generated by each project.

ECONOMIC REGULATION

BOARD OF PUBLIC UTILITIES

Budget Item	Adj. Approp. FY 2015	Recomm. FY 2016	Dollar Change	Percent Change	Budget Page
General Fund, Direct State Services: Utility Regulation TOTAL:	**$8,259**	**$5,988**	**($2,271)**	**(27.5%)**	**D-379**
Salaries and Wages	**$8,020**	**$5,678**	**($2,342)**	**(29.2%)**	
Other Direct State Services Accounts	**$239**	**$310**	**$71**	**29.7%**	

"Utility Regulation" amalgamates the BPU's Divisions of Energy, Gas, Reliability and Security, Telecommunications, and Water. The Administration proposes cutting the divisions' FY 2016 appropriation by a net $2.3 million with the divisions' Salaries and Wages accounts absorbing slightly more than the total recommended net decrease. Upon inquiry, the Office of Management and Budget indicated that the recommended Salaries and Wages cost savings were attributable to: a) efficiencies from consolidating the Division of Gas into the Division of Energy; b) efficiencies in the Division of Telecommunications made possible by caseload reductions and reduced case complexity induced by industry maturation; and c) funding realignments intended to properly fund accounts from the outset instead of through balance transfers across accounts at the fiscal year's conclusion. The divisions' count of funded positions diminished by 12 in FY 2015, as the FY 2015 Appropriations Act included funding for 84 positions and the FY 2016 Governor's Budget funds 72 positions. (The Division of Gas lost all ten of its funded positions, the Division of Telecommunication five, and the Division of Energy one, whereas the Division of Reliability and Security gained four.) In addition, the divisions' FY 2015 Salaries and Wages accounts include some $900,000 in cross-subsidy payments within the agency that would be discontinued in FY 2016.

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

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

In general, any change to the BPU's operating budget is net neutral for State budgeting purposes. This is so because cable television companies and utilities pay for the BPU's cost of regulation via an assessment. Lower BPU operating expenditures therefore diminish the State's assessment collections.

General Fund, Direct State Services: Regulation of Cable Television TOTAL:	**$2,253**	**$1,801**	**($452)**	**(20.1%)**	**D-379**
Salaries and Wages	**$2,222**	**$1,741**	**($481)**	**(21.6%)**	
Other Direct State Services Accounts	**$31**	**$60**	**$29**	**93.5%**	

The Governor proposes reducing the FY 2016 appropriation for the BPU's Office of Cable Television by a net $452,000. The Salaries and Wages account contributes the predominant part to the recommended net funding decrease. The account's recommended $481,000 reduction reflects mostly the discontinuation of a $403,000 cross-subsidy within the agency. In general, any change to the BPU's operating budget is net neutral for State budgeting purposes. This is so because cable television companies and utilities pay for the BPU's cost of regulation via an assessment. Lower BPU operating expenditures therefore diminish the State's assessment collections.

P.L.1972, c.186 created the Office of Cable Television (N.J.S.A.48:5A-1 et seq.). The office regulates basic rates as permitted by federal law, which exempts small systems and those facing competition. In addition, the office regulates the technical operations and quality of cable service supplied in New Jersey. The unit also oversees the cable television franchising and re-franchising process for municipalities and assists them with franchising negotiations.

General Fund, Direct State Services: Regulatory Support Services TOTAL:	**$4,513**	**$3,904**	**($609)**	**(13.5%)**	**D-379**
Salaries and Wages	**$4,331**	**$3,704**	**($627)**	**(14.5%)**	
Other Direct State Services Accounts	**$182**	**$200**	**$18**	**9.9%**	

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

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

The Governor proposes reducing the FY 2016 appropriation for the BPU's Regulatory Support Services by a net $609,000. The Salaries and Wages account contributes the predominant part to the office's recommended net funding decrease. Upon inquiry, the Office of Management and Budget indicates that the recommended $627,000 reduction in the Salaries and Wages account is mostly indicative of funding realignments within the BPU to better reflect where actual expenses occurred. Specifically, the $627,000 decrease mostly reflects the discontinuation of a $279,000 cross-subsidy payment within the agency and $254,000 in savings from eliminating three positions in FY 2015 that the FY 2015 Appropriations Act had funded. In general, any change to the BPU's operating budget is net neutral for State budgeting purposes. This is so because cable television companies and utilities pay for the BPU's cost of regulation via an assessment. Lower BPU operating expenditures therefore diminish the State's assessment collections.

Regulatory Support Services conducts audits of regulated utilities and provides economic analysis to the BPU and its technical divisions of conditions affecting regulated utilities.

General Fund, Direct State Services: Administration and Support Services TOTAL:	**$10,177**	**$13,109**	**$2,932**	**28.8%**	**D-379**
Salaries and Wages	**$9,706**	**$10,925**	**$1,219**	**12.6%**	
Services Other Than Personal	**$245**	**$1,834**	**$1,589**	**648.6%**	
Other Direct State Services Accounts	**$226**	**$350**	**$124**	**54.9%**	

The recommended $2.9 million increase in the FY 2016 appropriation to the BPU's Administration Division is the aggregation of several proposed changes, of which the most significant would occur in the Salaries and Wages and Services Other Than Personal accounts.

First, the Governor recommends $1.2 million growth in the division's FY 2016 Salaries and Wages appropriation. Several countervailing changes add up to the increase with the three largest being: 1) a new $551,000 cross-subsidy within the agency; b) some $380,000 in additional billings to the BPU for legal services provided by the Office of the Attorney General in the Department of Law and Public Safety and the Office of Administrative Law in the Department of the Treasury; and 3) $147,000 in additional salary expenditures related to personnel actions that in the aggregate would result in the filling of three additional positions.

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

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

Although the number of filled positions would grow from 77 to 80, the division's authorized position count is proposed to remain unchanged at 83.

Second, the Administration proposes a $1.6 million increase in the division's FY 2016 Services Other Than Personal appropriation, which pays for services provided by external parties. Upon inquiry, the Office of Management and Budget notes that the increase represents a funding realignment intended to properly fund accounts from the outset instead of through balance transfers across accounts at the end of the fiscal year. Moreover, in FY 2016, this account would pay contractors for unspecified program evaluations, legal services, and information technology initiatives.

In general, any change to the BPU's operating budget is net neutral for State budgeting purposes. This is so because cable television companies and utilities pay for the BPU's cost of regulation via an assessment. Lower BPU operating expenditures therefore diminish the State's assessment collections.

General Fund, Grants-in-Aid: Energy Assistance Programs TOTAL:	**$64,833**	**$65,472**	**$639**	**1.0%**	**D-379**
Payments for Lifeline Credits	**$29,199**	**$26,973**	**($2,226)**	**(7.6%)**	**D-379**
Tenants' Assistance Rebate Program	**$35,634**	**$38,499**	**$2,865**	**8.0%**	**D-379**

The Administration requests a $639,000 funding increase for the Lifeline Credit Program and the Tenants' Lifeline Assistance Program combined. The additional funding would primarily pay for an estimated $2.04 rise in the average benefit amount from $214.51 in FY 2015 to $216.55 in FY 2016. In addition, the Administration projects the number of beneficiaries to grow by 105 from 302,240 participants in FY 2015 to 302,345 in FY 2016. But the energy assistance programs' combined totals mask divergent individual program trends.

The Lifeline Credit Program (N.J.S.A.48:2-29.15 et seq.) provides for direct credits of up to $225 on the electric and natural gas bills of eligible low-income households. The recommended $2.2 million reduction in the FY 2016 program appropriation is a function of a lower forecast average benefit amount and a projected continued enrollment decline. Specifically, the Administration projects the number of program participants to fall by 2,570 from 127,220 in FY 2015 to 124,650 in FY 2016. Moreover, it projects the average benefit to drop by $13.13 from $229.52 in FY 2015 to $216.39 in FY 2016. (The FY 2015 average of $229.52 exceeds the

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

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

maximum $225 benefit, which may portend the availability of account surplus balances at the end of FY 2015.)

The Tenants' Lifeline Assistance Program (N.J.S.A.48:2-29.31 et seq.), in turn, provides energy assistance payments of up to $225 in the form of checks to eligible low-income households who have the cost of gas and electric utilities included in their rent. The proposed $2.9 million increase in the FY 2016 program appropriation reflects the Administration's projection of continued enrollment growth and a higher average benefit amount. Specifically, the Administration expects the number of program participants to increase by 2,675 from 175,020 in FY 2015 to 177,695 in FY 2016. Moreover, it projects the average benefit to climb by $13.06 from $203.60 in FY 2015 to $216.66 in FY 2016.

In accordance with a Memorandum of Understanding with the BPU, the Department of Human Services administers the two energy assistance programs. The programs receive their funding out of the off-budget Universal Service Fund by means of an interfund transfer (General Provision 54. on page F-7 of the Governor's FY 2016 Budget). New Jersey ratepayers replenish the Universal Service Fund, established pursuant to subsection b. of N.J.S.A.48:3-61, via the societal benefits charge included in their electric and natural gas bills. Page 112 of the "Supplementary Information" section in the Governor's FY 2016 Budget, available in the online version only, provides financial information on the Universal Service Fund.

Federal Funds:					
Utility Regulation	**$826**	**$600**	**($226)**	**(27.4%)**	**D-379**

Among its responsibilities, the BPU's Division of Reliability and Security operates the Pipeline Safety Program under which it monitors and inspects interstate gas pipelines for compliance with federal and state regulations. In support of that program the Administration projects that the division will receive $600,000 from the federal Natural Gas Pipeline Safety Grant Program in FY 2016, some $226,000 below the FY 2015 anticipation of $826,000. Upon inquiry, the Office of Management and Budget states that the lower figure is "more realistic" for FY 2016 than the higher FY 2015 estimate.

The Office of Pipeline Safety in the United States Department of Transportation's Pipeline and Hazardous Materials Safety Administration operates the Pipeline Safety Grant Program as part of its regulatory efforts to assure the safe transportation of natural gas, petroleum, and other hazardous materials by pipeline. Under the program, the federal government reimburses states up to 80 percent of the actual costs they incur in carrying out their pipeline safety programs. A State's grant amount depends upon the availability of appropriated funds and its program performance. The funds' allocation formula includes performance metrics such as the extent to which the state asserts safety jurisdiction over pipeline operators, whether the state has adopted all federal requirements, and the number and qualifications of state pipeline safety inspectors.

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

Budget Item	Adj. Approp. FY 2015	Recomm. FY 2016	Dollar Change	Percent Change	Budget Page
All Other Funds: Administration and Support Services	**$830**	**$1,941**	**$1,111**	**133.9%**	**D-379**

The Office of Management and Budget indicates that the $1.9 million in anticipated FY 2016 account expenditures will be adjusted to $1.1 million. Consequently, the FY 2016 increase would equal $250,000, or 30.1 percent, rather than $1.1 million, or 133.9 percent, as displayed in the FY 2016 Governor's Budget.

The budget line aggregates several off-budget accounts administered by the BPU's Division of Administration. While the BPU uses account balances to compensate contractors for the performance of certain services, the Board ultimately charges expenses back to concerned utility companies. Specifically, the projected $1.1 million in FY 2016 account expenditures has two components. Some $750,000, or $250,000 more than in FY 2015, would pay outside auditing firms for management and program audits that appraise the performance of the management and operations of regulated utility companies. The remaining $330,000, the same amount as in FY 2015, would compensate consultants for services rendered within the confines of the "BPU Basic Generation Services Project." The project provides services in connection with the establishment of the process and the conducting of two annual auctions for the procurement of electricity for ratepayers who purchase their electricity supply from electric utilities rather than third-party suppliers. The first auction concerns residential and small business customers who pay a blended rate for their electric supply starting on June 1 of each year that represents in equal measures the prices secured at the last three annual electricity auctions. The second auction sets supply prices for large commercial and industrial customers for twelve months starting on June 1 of each year without any rate blending.

GOVERNMENTAL REVIEW AND OVERSIGHT

EMPLOYEE RELATIONS AND COLLECTIVE NEGOTIATIONS

Budget Item	Adj. Approp. FY 2015	Recomm. FY 2016	Dollar Change	Percent Change	Budget Page
General Fund, Direct State Services: Employee Relations and Collective Negotiations TOTAL:	**$853**	**$953**	**$100**	**11.7%**	**D-381**
Services Other Than Personal	**$22**	**$122**	**$100**	**454.5%**	
Other Direct State Services Accounts	**$831**	**$831**	**$0**	**—**	

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

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

The Administration proposes augmenting by $100,000 the appropriation to the Governor's Office of Employee Relations and Collective Negotiations in FY 2016. The entire increase would accrue to the office's Services Other Than Personal account, which pays for services provided by contractors. Upon inquiry, the Office of Management and Budget indicated that, as per the Office of Employee Relations and Collective Negotiations, the requested increase would support the level of expenditures representative of the prior fiscal year. Even so, after routine mid-year balance transfers into the account, expenditures therefrom exceeded the recommended FY 2016 appropriation in each of the last three fiscal years: about $767,000 in FY 2013, some $323,000 in FY 2014, and $230,000 in FY 2015, as of April 14, 2015.

Established by Executive Order No. 33 of 1995, the Office of Employee Relations and Collective Negotiations administers and interprets State labor agreements, negotiates with unions and other representatives of State employees, and generally assists the Governor in developing and implementing policies and decisions concerning employee relations and related matters involving State employees.

OFFICE OF MANAGEMENT AND BUDGET

All Other Funds: Office of Management and Budget	**$12,255**	**$20,555**	**$8,300**	**67.7%**	**D-382**

This budget line represents the off-budget Office of Management and Budget (OMB) Indirect Cost Recoveries account. It captures payments State agencies make to the OMB out of federal and dedicated funds to reimburse Treasury for employee fringe benefit costs that Treasury incurs in performing administrative services on behalf of the State agencies within the scope of programs that are partially or wholly supported by federal and dedicated funds. Employee fringe benefits include retirement, social security, health and dental insurance, workers' compensation, unemployment, survivors', and disability insurance contributions.

The $8.3 million increase in this account reflects mostly an accounting change, as $8.0 million is proposed to be shifted into the account from the discontinued "Indirect Cost Recovery – Federal and Other Funds" State General Fund revenue line in Interdepartmental Accounts (page C-7). The proposed shift would reverse a similar $8.0 million reallocation that newly occurred in FY 2015 from the OMB account to the then-new "Indirect Cost Recovery – Federal and Other Funds" State General Fund revenue line. Upon inquiry, the OMB states that it is necessary to shift the $8.0 million back to the off-budget OMB Indirect Cost Recoveries account in FY 2016 to support unspecified capital expenses in unspecified accounts.

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

Budget Item	Adj. Approp. FY 2015	Recomm. FY 2016	Dollar Change	Percent Change	Budget Page
FINANCIAL ADMINISTRATION					
DIVISION OF REVENUE AND ENTERPRISE SERVICES					
General Fund, Direct State Services: Administration of State Revenues and Enterprise Services TOTAL:	$32,086	$32,250	$164	0.5%	D-387
Services Other Than Personal	$9,109	$8,051	($1,058)	(11.6%)	
Additions, Improvements and Equipment	$324	$1,916	$1,592	491.4%	
Other Direct State Services Accounts	$22,653	$22,283	($370)	(1.6%)	

Several countervailing changes aggregate to the Governor's proposed net $164,000 increase in the FY 2016 appropriation to the Division of Revenue and Enterprise Services. Two of these countervailing changes each exceed $1.0 million.

First, the Administration recommends lowering by $1.1 million the division's Services Other Than Personal appropriation, which pays for services provided by contractors. Upon inquiry, the Office of Management and Budget (OMB) indicates that the change reflects primarily funding at the level of actual need, as expressed by actual FY 2014 expenditures and including reallocations of appropriations from other Treasury divisions to the division's centralized Treasury Technology Services unit. (In FY 2014, Treasury Technology Services had received its funding from an eponymous revolving fund, which was discontinued in the course of FY 2015.) Services Other Than Personal account expenses totaled $9.8 million in each of FY 2014 and FY 2013 and $6.2 million in FY 2012.

Second, the Administration proposes increasing by $1.6 million the FY 2016 appropriation for the division's purchases of Additions, Improvements and Equipment. Upon inquiry, the OMB indicates that the change reflects primarily funding at the level of actual need, as expressed by actual FY 2014 expenditures and including reallocations of appropriations from other Treasury divisions to the division's centralized Treasury Technology Services unit and $534,000 growth in division line of credit debt service payments on unspecified purchases. Line of credit financing is available to State agencies to pay for their short-term (three years) equipment needs, such as computers, furniture, and vehicles purchases. Additions, Improvements and Equipment

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

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

account expenses totaled $1.1 million in FY 2014, $922,000 in FY 2013, and $143,000 in FY 2012.

All Other Funds: Administration of State Revenues and Enterprise Services	**$56,144**	**$49,269**	**($6,875)**	**(12.2%)**	**D-388**

This budget line aggregates several off-budget funds administered by the Division of Revenue and Enterprise Services and reflects the funds' administrative expenses and transfers to other State agencies. In FY 2016, three transfers account for $48.9 million of the $49.3 million appropriation: (1) $35.0 million transferred from the Division of Developmental Disabilities Community Placement and Services Fund — which contains the proceeds from the 5.3 percent assessment on the annual gross revenue of intermediate care facilities for persons with developmental disabilities pursuant to P.L.1998, c.40 (N.J.S.A.30:6D-43 et seq.) — to the Division of Developmental Disabilities in the Department of Human Services for reducing its waiting list, making appropriate community placements, and providing support services; (2) $9.0 million transferred to the Motor Vehicle Commission from collections of deficient and delinquent motor vehicle surcharges by contractors; and (3) $4.9 million in payments State agencies make to Treasury Technology Services out of federal and dedicated funds to reimburse Treasury Technology Services for the cost of performing administrative services on behalf of the State agencies within the scope of programs that are partially or wholly supported by federal and dedicated funds.

The $6.9 million reduction in this budget line primarily reflects a $7.0 million decrease in projected proceeds from the 5.3 percent assessment on the annual gross revenue of intermediate care facilities for persons with developmental disabilities from $42.0 million in FY 2015 to $35.0 million in FY 2016. Upon inquiry, the Office of Management and Budget notes that the decrease represents the closure of two developmental centers in FY 2015: North Jersey Developmental Center and Woodbridge Developmental Center.

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

Budget Item	Adj. Approp. FY 2015	Recomm. FY 2016	Dollar Change	Percent Change	Budget Page
DIVISION OF INVESTMENT					
General Fund, Direct State Services: Management of State Investments TOTAL:	$1,787	$1,287	($500)	(28.0%)	D-387
Salaries and Wages	$0	$528	$528	—	
Services Other Than Personal	$1,787	$759	($1,028)	(57.5%)	

As a result of two countervailing changes the Governor proposes a net $500,000 decrease in the FY 2016 appropriation to the Division of Investment. Specifically, the Administration recommends newly appropriating $528,000 to the division's Salaries and Wages account and decreasing by $1.0 million the appropriation to the division's Services Other Than Personal account, which pays for professional services provided by contractors. There were no Salaries and Wages account expenses in each of FY 2014, FY 2013, and FY 2012. Services Other Than Personal account expenses, in turn, totaled $1.3 million in FY 2014, $1.3 million in FY 2013, and $1.2 million in FY 2012.

It is unclear what costs the division's proposed FY 2016 on-budget appropriation would defray. As the division's management expenses on behalf of the State's several public employee retirement funds are charged directly to the funds (see next "Significant Change"), the above accounts likely reflect administrative expenses related to other funds under the division's management, such as the Cash Management Fund. Upon inquiry, the Office of Management and Budget only indicates that the proposed funding changes reflect a realignment of resources to the level of actual need without further specifying the need.

All Other Funds: Management of State Investments TOTAL:	$12,993	$16,902	$3,909	30.1%	D-388
Personal Services	$6,167	$7,949	$1,782	28.9%	
Services Other Than Personal	$6,768	$8,903	$2,135	31.5%	
Other Direct State Services Accounts	$58	$50	($8)	(13.8%)	

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

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

These off-budget accounts represent the expenses the Division of Investment charges directly to the various State pension funds for the management of the funds' investment portfolios. Two components make up the Administration's proposed $3.9 million net increase in the division's FY 2016 off-budget funding.

First, the Administration recommends a $1.8 million increase in the division's off-budget Personal Services account, which pays for salaries and wages as well as employee benefits. Upon inquiry, the Office of Management and Budget (OMB) indicates that the change reflects funding primarily at the level of actual need, as expressed by actual FY 2014 expenditures. Account expenses totaled $8.3 million in FY 2014, $8.2 million in FY 2013, and $7.9 million in FY 2012. But, the OLS notes that in FY 2016 there would also be a $1.1 million reduction in funding from unspecified other State resources that the State pension funds would backfill in FY 2016.

Second, the Governor's FY 2016 Budget proposes raising by $2.1 million the division's FY 2016 off-budget Services Other Than Personal account appropriation, which pays for services procured from external parties. Upon inquiry, the OMB indicates that the change represents unspecified growth in professional services contract expenditures that support the management of the State's pension funds. Account expenses totaled $4.9 million in FY 2014, $6.2 million in FY 2013, and $5.7 million in FY 2012.

The OLS notes that the Services Other Than Personal account does not include compensation payments to outside money managers. According to the *New Jersey State Investment Council Annual Report For Fiscal and Calendar Year 2014*, the division paid $600.2 million in management and performance fees and expenses in FY 2014 to private investment firms that handled $24.6 billion of State pension fund assets on June 30, 2014. The division effects these payments directly from the assets placed with the investment firms and their earnings. On January 31, 2015, the division valued the total assets of the State pension funds at $75.7 billion.

DIVISION OF TAXATION

Budget Item	Adj. Approp. FY 2015	Recomm. FY 2016	Dollar Change	Percent Change	Budget Page
All Other Funds: Taxation Services and Administration	**$169,763**	**$165,251**	**($4,512)**	**(2.7%)**	**D-388**

This budget line aggregates several off-budget funds administered by the Division of Taxation and reflects the funds' administrative expenses and transfers to other State agencies. In FY 2016, three components account for $165.1 million of the appropriation: (1) $125.1 million in anticipated collections from that part of the cigarette tax whose proceeds are deposited in the Dedicated Cigarette Tax Revenue Fund and pledged for the payment of debt service on the Cigarette Tax Revenue Refunding Bonds, Series 2012, as authorized in P.L.2004, c.68; (2) $23.9 million transferred from the New Jersey Domestic Security Account — which contains

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

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

the proceeds from the first $2 of the $5 per day vehicle rental surcharge pursuant to section 54 of P.L.2002, c.34 (C.App.A:9-78), as amended by P.L.2006, c.42 — to the Departments of Agriculture, Health, and Law and Public Safety for the Agro-Terrorism Program, Medical Emergency Disaster Preparedness for Bioterrorism program, State Police salaries related to Statewide security services, and counter-terrorism programs operated by the Office of Homeland Security and Preparedness; and (3) $16.1 million for the cost of Division of Taxation Compliance and Enforcement Activities.

The projected $4.5 million decrease in this budget line is the net effect of two countervailing changes. First, the Administration projects that New Jersey Domestic Security Account collections from the vehicle rental surcharge will increase by $700,000, or 3.0 percent, from $23.2 million in FY 2015 to $23.9 million in FY 2016. Second, the Administration anticipates that declining cigarette sales will drag down cigarette tax collections required to be deposited in the Dedicated Cigarette Tax Revenue Fund by $5.2 million, or 4.0 percent, from $130.3 million in FY 2015 to $125.1 million in FY 2016. But only $107.9 million of the anticipated revenue will be needed to pay scheduled Cigarette Tax Revenue Refunding Bonds, Series 2012, debt service in FY 2016, or $3.5 million less than the $111.4 million required FY 2015 payment. The difference between the amount deposited in the Dedicated Cigarette Tax Revenue Fund and the required debt service payment, which the Administration pegs at $17.2 million in FY 2016, will be appropriated to the General Fund in accordance with General Provision 66 on page F-8 of the Governor's FY 2016 Budget. The Administration includes the excess $17.2 million in its anticipated FY 2016 on-budget cigarette tax collections of $156.7 million on page C-3 of the Governor's FY 2016 Budget.

UNCLAIMED PROPERTY ADMINISTRATION

All Other Funds: Unclaimed Property Trust Fund Administration TOTAL:	**$7,486**	**$7,777**	**$291**	**3.9%**	**D-388**
Personal Services	**$5,654**	**$6,575**	**$921**	**16.3%**	
Services Other Than Personal	**$1,789**	**$1,159**	**($630)**	**(35.2%)**	
Other Direct State Services Accounts	**$43**	**$43**	**$0**	**—**	

These budget lines represent the administrative expenses of the Unclaimed Property Administration (UPA) that are charged to the dedicated, off-budget Unclaimed Personal

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

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

Property Trust Fund. As a result of two countervailing, unrelated changes the Governor proposes increasing FY 2016 UPA allocations by a net $291,000.

First, the Administration proposes a $921,000 increase in the FY 2016 appropriation for the UPA Personal Services account, which pays for salaries and wages as well as employee benefits. Upon inquiry, the Office of Management and Budget (OMB) ascribes the change primarily to funding at the level of actual need, as expressed by actual FY 2014 expenditures. Account expenses totaled $6.7 million in FY 2014 and $6.6 million in FY 2013. But, the OLS notes that in FY 2016 there would also be the non-recurrence of $880,000 in FY 2015 account funding from unspecified other resources that the Unclaimed Personal Property Trust Fund would backfill in FY 2016.

Second, the Administration recommends decreasing by $630,000 the UPA's Services Other Than Personal account appropriation, which pays for services provided by external parties. Upon inquiry, the OMB ascribes the change primarily to funding at the level of actual need, as expressed by actual FY 2014 expenditures. Account expenses were $888,000 in FY 2014 and $904,000 in FY 2013.

The UPA administers New Jersey's unclaimed property laws under which the State deems certain properties abandoned by their rightful owners if no activity related thereto has been recorded during statutorily defined periods of time. Once the State deems property abandoned, the UPA takes custodial possession of the property, seeks to return the property to its rightful owner, and records a portion of its value as State revenue. Rightful owners, however, can always reclaim their property. The UPA is funded "off-budget," as its administrative expenses are charged to the dedicated Unclaimed Personal Property Trust Fund. For FY 2016, the Administration anticipates $311.0 million in available trust fund resources, which is composed of $255.6 million in new revenues and a $55.4 million opening balance. On the other side of the ledger, the Governor's FY 2016 Budget anticipates $266.9 million in trust fund expenditures, which is comprised of: a) the return of $120.0 million of assets to their rightful owners; b) the transfer of $139.1 million into the State General Fund for general State purposes (page C-8); and c) the use of $7.8 million to cover the UPA's administrative expenses (page C-15). A $44.1 million projected fund balance would remain at the end of FY 2016 (page 54 of the "Supplementary Information" section of the Governor's FY 2016 Budget, available online only).

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

Budget Item	Adj. Approp. FY 2015	Recomm. FY 2016	Dollar Change	Percent Change	Budget Page
GENERAL GOVERNMENT SERVICES					
DIVISION OF PROPERTY MANAGEMENT AND CONSTRUCTION					
General Fund, Direct State Services: Property Management and Construction – Property Management Services TOTAL:	$20,137	$19,060	($1,077)	(5.3%)	D-393
Salaries and Wages	$12,336	$11,759	($577)	(4.7%)	
Services Other Than Personal	$1,272	$772	($500)	(39.3%)	
Other Direct State Services Accounts	$6,529	$6,529	$0	—	

The recommended $1.1 million decline in the FY 2016 appropriation to the Division of Property Management and Construction for property management services the division provides to State government is the sum of two proposed changes: a) a $577,000 decrease in the division's Salaries and Wages appropriation that the Office of Management and Budget, upon inquiry, primarily attributes to the reallocation of five positions to the division's off-budget Construction Management Services revolving fund (pages G-7 and G-8) and of two positions to the Division of Administration (page D-405); and b) a $500,000 decrease in the division's Services Other Than Personal appropriation that reflects the recommended non-renewal of the $500,000 FY 2015 supplemental appropriation for professional services purchased as part of the decommissioning of the former Department of Health laboratory facility in Trenton following the Public Health and Environmental Laboratories' 2011 move into their new building on the grounds of the State Police headquarters in Ewing Township.

The division manages the real estate needs of State government. In so doing, it purchases, sells, and leases office, warehouse, and other space for all State government entities, with certain exceptions. The division also provides full maintenance services for State-owned buildings in the Trenton area and manages building construction and renovation projects. It receives an on-budget appropriation to defray the costs of its building management services. In contrast, client agencies pay for the division's construction management services through reimbursements to an off-budget revolving fund (pages G-7 and G-8 of the Governor's FY 2016 Budget).

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

Budget Item	Adj. Approp. FY 2015	Recomm. FY 2016	Dollar Change	Percent Change	Budget Page
All Other Funds: Property Management and Construction – Property Management Services	**$3,230**	**$2,810**	**($420)**	**(13.0%)**	**D-393**

This budget line represents off-budget lease payments the Division of Property Management and Construction receives from tenants at State-owned, division-managed properties. The anticipated $420,000 reduction in FY 2016 lease receipts stems primarily from the James J. Howard Marine Sciences Laboratory in Sandy Hook. Its occupants are expected to pay $380,000 less to the division in FY 2016 as a result of the State having made the final debt service payment in FY 2014 on certificates of participation issued in 1991 to further the facility's acquisition, construction, renovation, and installation. In all, lease proceeds from the laboratory are projected to drop from $2.2 million in FY 2015 to $1.8 million in FY 2016. The Governor's FY 2016 Budget proposes the continuation of a language provision that appropriates laboratory lease proceeds to the laboratory's operation and maintenance (page D-394).

The James J. Howard Marine Sciences Laboratory in Sandy Hook is a marine research facility that houses research labs, administrative offices, and conference rooms. A major portion of the facility is subleased to the federal General Services Administration for use by the National Marine Fisheries Service in the National Oceanographic and Atmospheric Administration. The facility also houses New Jersey institutions of higher education and State agencies through the New Jersey Marine Sciences Consortium/New Jersey Sea Grant.

Budget Item	Adj. Approp. FY 2015	Recomm. FY 2016	Dollar Change	Percent Change	Budget Page
Revolving Fund, Property Management and Construction – Construction Management Services TOTAL:	**$3,965**	**$5,100**	**$1,135**	**28.6%**	**G-8**
Salaries and Wages	**$3,325**	**$3,780**	**$455**	**13.7%**	**G-8**
Services Other Than Personal	**$500**	**$1,200**	**$700**	**140.0%**	**G-8**
Other Direct State Services Accounts	**$140**	**$120**	**($20)**	**(14.3%)**	**G-8**

The Administration recommends increasing the FY 2016 appropriation to the Division of Property Management and Construction's off-budget Construction Management Services revolving fund by $1.1 million. The increase has two major component parts. First, $455,000

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

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

growth in the Salaries and Wages appropriation that the Office of Management and Budget (OMB), upon inquiry, attributes primarily to the reallocation of five positions to the revolving fund from the division's on-budget appropriation for property management services (page D-393). Second, a $700,000 increase in the Services Other Than Personal appropriation that the OMB, upon inquiry, ascribes to funding at the level of actual need, as expressed by actual FY 2014 expenditures. Services Other Than Personal expenses totaled $1.2 million in FY 2014, $466,000 in FY 2013, and $1.3 million in FY 2012.

The off-budget Construction Management Services revolving fund finances the division's building construction, renovation, and rehabilitation management services to State government. The division bills client agencies for the services it provides to them and the client agencies pay reimbursements that are deposited in the revolving fund.

GARDEN STATE PRESERVATION TRUST

Budget Item	Adj. Approp. FY 2015	Recomm. FY 2016	Dollar Change	Percent Change	Budget Page
General Fund, Direct State Services: Special Purpose: Garden State Preservation Trust	**$476**	**$278**	**($198)**	**(41.6%)**	**D-393**

This account represents the administrative expenditures of the Garden State Preservation Trust. Upon inquiry, the Office of Management and Budget relates that the lower proposed FY 2016 appropriation reflects funding at the level of actual need, as expressed by actual FY 2014 expenditures. Expenses totaled $178,000 in FY 2014, $170,000 in FY 2013, and $162,000 in FY 2012. In addition to the appropriation for administrative expenses, N.J.S.A.13:8C-16 also permits the Trust to avail itself of the services of any other State agency.

Established under a 1998 constitutional amendment and P.L.1999, c.152 (N.J.S.A.13:8C-1 et seq.), the Garden State Preservation Trust is an independent State financing authority placed "in but not of" the Department of the Treasury that issues bonds for the preservation of open space, farmland, and historic properties. The administration of the open space, farmland, and historic preservation programs, however, falls to the Departments of Environmental Protection and Agriculture. As required by article VIII, section II, paragraph 7 of the New Jersey State Constitution, the Governor's FY 2016 Budget proposes allocating $98.0 million in dedicated sales and use tax revenue to the Trust. Of that amount, some $278,000 would fund the Trust's administrative outlays and the remaining $97.7 million contractual debt service payments on outstanding open space and farmland preservation bonds (page D-426). In all, some $940.2 million in principal payments remained outstanding on the bonds as of June 30, 2014, with a final maturity on November 1, 2028. The constitutional revenue dedication that supports the bonds will expire on June 30, 2029.

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

Budget Item	Adj. Approp. FY 2015	Recomm. FY 2016	Dollar Change	Percent Change	Budget Page
PUBLIC BROADCASTING SERVICES					
All Other Funds:					
Public Broadcasting Services	**$5,536**	**$4,186**	**($1,350)**	**(24.4%)**	**D-393**

This budget line aggregates collections from recurring off-budget revenue streams that the New Jersey Public Broadcasting Authority (NJPBA) receives and turns over to Public Media NJ, Inc. in compliance with a 2011 Programming and Services Agreement. The $4.2 million in anticipated FY 2016 revenue collections has three components: a) $2.7 million from the lease of space on NJPBA transmitter towers and the lease of excess spectrum of the educational broadband authorizations held by the NJPBA; b) $1.2 million in annual Corporation for Public Broadcasting Community Service Grant funding; and c) $250,000 in payments from the Food Network in return for relinquishing to the Food Network the authority's "must-carry" rights, granted under federal law requiring cable providers to carry local television stations, on Time Warner's New York City cable television system. The projected $1.4 million revenue decrease in FY 2016 is comprised of a $1.0 million decline in anticipated Corporation for Public Broadcasting Community Service Grant funding and a $350,000 reduction in contractual Food Network payments.

Effective as of July 1, 2011 and in accordance with P.L.2010, c.104, the NJPBA ceased to operate New Jersey Network Public Television and Radio (NJN), which provided New Jersey public affairs and cultural programming on its four-station television network. While holding on to the television operating licenses, the authority transferred the management of NJN's television network to Public Media NJ, Inc., a New Jersey not-for-profit corporation, for the provision of public television programming and services. The five-year Programming and Services Agreement will expire on June 30, 2016.

Budget Item	Adj. Approp. FY 2015	Recomm. FY 2016	Dollar Change	Percent Change	Budget Page
OFFICE OF PUBLIC COMMUNICATION					
Revolving Fund:					
Salaries and Wages	**$1,086**	**$1,450**	**$364**	**33.5%**	**G-4**

Two factors add up to the $364,000 increase in the Administration's proposed FY 2016 appropriation to the Salaries and Wages account of the Office of Public Communication: 1) the non-recurrence of $195,000 in FY 2014 carryforward balances that was applied against $1.3 million in anticipated FY 2015 Salaries and Wages expenditures; and b) a net $169,000 in additional costs resulting from several countervailing changes in the office's individual payroll components. One of the changes is the continued funding in FY 2016 of one position that was added to the office's funded position count in FY 2015 after adoption of the FY 2015 Appropriations Act. Overall, the office's funded position count is to remain at 17 in FY 2016.

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

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

Executive Order #30 of 1976 established the Office of Public Communication in the Governor's Office and consolidated all press and public relations functions from the various State departments thereinto. Operating as a Department of the Treasury revolving fund, the self-supporting Office of Public Communication bills client agencies for the expenses it incurs in performing press and public relations services on their behalf. For FY 2016 the office has a recommended $1.6 million budget and 17 funded positions.

STATE CENTRAL MOTOR POOL

Budget Item	Adj. Approp. FY 2015	Recomm. FY 2016	Dollar Change	Percent Change	Budget Page
Revolving Fund: Materials and Supplies	**$14,300**	**$16,000**	**$1,700**	**11.9%**	**G-5**

The Office of Management and Budget related that the proposed increase in the FY 2016 appropriation to the Materials and Supplies account of the State Central Motor Pool (CMP) represented funding at the level of actual need, as expressed by actual FY 2014 expenditures. Account expenses totaled $16.0 million in FY 2014, $15.6 million in FY 2013, and $14.8 million in FY 2012.

The Bureau of Transportation Services in the Division of Administration runs the CMP. Operating as a revolving fund, the self-supporting CMP bills client agencies for the expenses it incurs in managing the State's motor vehicle fleet. Its responsibilities include vehicle purchasing, assignment, maintenance, repair, and fuelling. According to the Governor's FY 2016 Budget, the State's estimated FY 2016 vehicle count is 14,450, some 41 vehicles more than in FY 2015. This total includes 8,100 vehicles on agency assignment whose maintenance expenses are accounted for separately in agencies' budgets. The CMP expects to oversee the remaining 6,350 vehicles at an estimated FY 2016 cost of $30.8 million, about $1.3 million more than the adjusted FY 2015 appropriation.

PRINT SHOP

Budget Item	Adj. Approp. FY 2015	Recomm. FY 2016	Dollar Change	Percent Change	Budget Page
Revolving Fund: Salaries and Wages	**$1,247**	**$1,437**	**$190**	**15.2%**	**G-6**

Several countervailing changes add up to the recommended $190,000 increase in the Salaries and Wages account of the Treasury Print Shop in FY 2016. The most significant contributor to the net increase is a new $144,000 in unspecified cross-subsidy payments within the Treasury. Overall, the agency's number of budgeted positions is to remain unchanged at 24.

The Treasury Print Shop handles printing and photocopying services for State government agencies that do not operate their own print and copy shops. (The State Police and the

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

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

Departments of Corrections, Health, and Labor and Workforce Development are the other State government agencies with print and copy units.) Operating as a revolving fund, the self-supporting Treasury Print Shop bills client agencies for the expenses it incurs in printing and photocopying documents on their behalf. According to the Governor's FY 2016 Budget, the Treasury Print Shop is expected to have 24 employees in FY 2016 and operate with a $2.4 million appropriation.

Revolving Fund: Materials and Supplies	**$920**	**$820**	**($100)**	**(10.9%)**	**G-6**

The Office of Management and Budget indicates that the proposed $100,000 decrease in the FY 2016 appropriation to the Treasury Print Shop's Materials and Supplies account reflects funding at the level of actual need, as expressed by actual FY 2014 expenditures. Account expenditures totaled $810,000 in FY 2014, $796,000 in FY 2013, and $787,000 in FY 2012.

OFFICE OF INFORMATION TECHNOLOGY

General Fund, Direct State Services: Special Purpose: Office of Information Technology	**$63,500**	**$65,500**	**$2,000**	**3.1%**	**D-399**

This budget line represents transfers of federal and dedicated funds from State agencies to the Office of Information Technology (OIT) for billable services performed by the OIT. The Office of Management and Budget has indicated in prior years that increases in this budget line were mostly attributable to growing expenses for contractual maintenance services for new and existing software and hardware.

The OIT provides information technology services to State agencies and has a recommended FY 2016 budget of $163.4 million for 725 funded positions. Excluding the proposed $14.0 million for the Office of Emergency Telecommunication Services (Statewide 9-1-1 System), the OIT's recommended FY 2016 appropriation is $149.4 million. Of this amount, transfers of federal and dedicated funds from State agencies for billable OIT services account for $65.5 million, or 43.9 percent, and General Fund appropriations for the remaining $83.9 million, or 56.1 percent.

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

Budget Item	Adj. Approp. FY 2015	Recomm. FY 2016	Dollar Change	Percent Change	Budget Page
General Fund, Direct State Services: Services Other Than Personal	**$23,628**	**$25,128**	**$1,500**	**6.3%**	**D-398**

The Administration recommends raising the FY 2016 appropriation to the OIT's Services Other Than Personal account, which pays for services provided by outside vendors, by $1.5 million, or 6.3 percent. The Office of Management and Budget relates that the additional funding would support growth in unspecified licensing costs and unspecified contractual maintenance expenses related to new and existing hardware and software assets that support the statewide information technology infrastructure. Using the same basis for comparison, the recommended FY 2016 appropriation may actually increase $4.5 million, or 21.8 percent. This is so because the FY 2015 appropriation includes $3.0 million for the purchase of software, hardware, and professional services under the Cyber Security and Data Protection Plan that would enhance data protection and network monitoring capabilities so as to better guard the State's information technology assets against intrusion and attack. The Governor's FY 2016 Budget, however, newly breaks out Cyber Security and Data Protection as a distinct "special purpose" account and recommends funding at $3.0 million (page D-399).

After the Legislature did not fund the Administration's then-newly proposed "Information Security" and "IT Modernization" initiatives in the FY 2012 Appropriations Act, there has been a significant, not fully explained, increase in the annual appropriations to the OIT's Services Other Than Personal account and its Additions, Improvements and Equipment account. The increase appears to reflect a change in the way in which OIT projects that support the enterprise-wide information technology infrastructure have been displayed in the annual Governor's Budgets and Appropriations Acts. Prior to FY 2013, such projects were routinely and distinctly identified as "Special Purpose" or capital projects. Since FY 2013, however, they have been folded into and funded out of the OIT's Services Other Than Personal and Additions, Improvements and Equipment accounts, with the proposed FY 2016 "Special Purpose" appropriation for Cyber Security and Data Protection being the sole exception. The table below illustrates the sharp growth in the Services Other Than Personal account, exclusive of the amounts the OIT expended on Services Other Than Personal out of federal and dedicated funds that State agencies transferred to the OIT to pay for billable OIT services. The OIT's Additions, Improvements and Equipment account mirrors this trend (see following "Significant Change").

Office of Information Technology
Services Other Than Personal Account Expenditures from General State Resources
FY 2011 to FY 2016
(in $000)

Account	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015 Budgeted	FY 2016 Recommended
Services Other Than Personal	$8,697	$10,164	$15,895	$19,255	$23,628	$25,128

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

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

The Governor's FY 2012 Budget originally recommended a $4.0 million expenditure for: a) the procurement of new equipment and software that would help improve the State's information and data security under an "Information Security" initiative; and b) the first phase of a multi-year "IT Modernization" initiative that would replace the State's legacy administrative information technology systems, including those in the areas of pensions, payroll, accounting, purchasing, and personnel. It is unclear if the proposed FY 2016 appropriation relates to these initiatives. But OIT Discussion Point #6 in this year's OLS Department of the Treasury Budget Analysis addresses the State's currently ongoing multi-year initiative to rebuild the State's core information technology infrastructure and explores its possible rapport with the steep funding increases in the OIT's Services Other Than Personal and Additions, Improvements and Equipment accounts since FY 2013.

General Fund, Direct State Services: Additions, Improvements and Equipment	**$17,537**	**$27,377**	**$9,840**	**56.1%**	**D-399**

The Administration proposes a $27.4 million appropriation to the OIT to cover contractual line of credit debt service obligations in FY 2016. The growth in actual spending, however, would be larger than the line-item increase would suggest. This is so because the Governor's FY 2016 Budget includes $5.7 million in the program's adjusted FY 2015 appropriation that has been placed in reserve in anticipation of a year-end lapse to the General Fund, leaving $11.8 million in FY 2015 budget authority. Accordingly, the program's recommended FY 2016 expenditure increase would actually be $15.6 million, or 131.9 percent.

Line of credit financing is available to State agencies to pay for their short-term (three years) equipment needs, such as computers, furniture, and vehicles purchases. The OIT's current line of credit payments finance capital investments as part of a multi-year initiative to update and upgrade the State's core information technology infrastructure and to improve data center safety, power, and capacity. Specifically, the Office of Management and Budget indicated that FY 2016 line of credit allocations would pay for the following previous purchases, among others: a) emergency power enhancements at the Hamilton Data Center, including the purchase and installation of a new generator and a second uninterruptable power supply; b) network, storage, and hosting application equipment that would continue the refresh of data storage and network equipment to meet growing service demands; c) the replacement of the 30-year old fire detection and suppression system at the HUB Data Center; d) additional infrastructure upgrades and improvements with regard to the expansion of an alternate data center in Trenton that would help the OIT meet application hosting demands; and e) purchases of industry standard asset management, project management, and other tools to improve the delivery of information technology services.

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

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

After the Legislature did not fund in the FY 2012 Appropriations Act several new information technology initiatives proposed in the FY 2012 Governor's Budget — including $1.5 million to cover the first line of credit debt service payment for a $10.5 million investment in State information technology infrastructure upgrades — there has been a significant, not fully explained, increase in the annual appropriations to the OIT's Services Other Than Personal account and Additions, Improvements and Equipment account. The increase appears to reflect a change in the way in which OIT projects that support the enterprise-wide information technology infrastructure have been displayed in the annual Governor's Budgets and Appropriations Acts. Prior to FY 2013, such projects were routinely and distinctly identified as "Special Purpose" or capital projects. Since FY 2013, however, they have been folded into and funded out of the OIT's Services Other Than Personal and Additions, Improvements and Equipment accounts, with the proposed FY 2016 "Special Purpose" appropriation for Cyber Security and Data Protection being the sole exception. The table below illustrates the sharp rise in the Additions, Improvements and Equipment account since FY 2012, exclusive of the amounts the OIT expended on Additions, Improvements and Equipment out of federal and dedicated funds that State agencies transferred to the OIT to pay for billable OIT services. The OIT's Services Other Than Personal account mirrors this trend (see previous "Significant Change").

Office of Information Technology
Additions, Improvements and Equipment Expenditures from General State Resources
FY 2011 to FY 2016
(in $000)

Account	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015 Budgeted	FY 2016 Recommended
Additions, Improvements and Equipment	$6	$0	$1,500	$6,148	$17,537	$27,377

It is unclear if the proposed FY 2016 appropriation relates to the Administration's recommended $1.5 million FY 2012 appropriation to cover the first line of credit debt service payment for a $10.5 million investment in State information technology infrastructure upgrades that the Legislature did not fund. But OIT Discussion Point #6 in this year's OLS Department of the Treasury Budget Analysis addresses the State's currently ongoing multi-year initiative to rebuild the State's core information technology infrastructure and explores its possible rapport with the steep funding increases in the OIT's Services Other Than Personal and Additions, Improvements and Equipment accounts since FY 2013.

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

Budget Item	Adj. Approp. FY 2015	Recomm. FY 2016	Dollar Change	Percent Change	Budget Page
General Fund, Direct State Services: Special Purpose: Cyber Security and Data Protection	**$0**	**$3,000**	**$3,000**	**—**	**D-399**

The Governor's FY 2016 Budget newly includes this distinct "Special Purpose" account and recommends appropriating $3.0 million thereto for enhancements to the State's cyber security framework. Although the appropriation appears to be new, the OIT's FY 2015 Services Other Than Personal appropriation included $3.0 million for the purchase of software, hardware, and professional services under the Cyber Security and Data Protection Plan that were to enhance data protection and network monitoring capabilities so as to better guard the State's information technology assets against intrusion and attack. The Governor's FY 2016 Budget therefore merely appears to newly break Cyber Security and Data Protection Plan-related spending out of the general Services Other Than Personal account and to separately delineate it as a "Special Purpose" account instead. In general, OIT Discussion Points #3, #4, and #5 in this year's OLS Department of the Treasury Budget Analysis address cyber security practices and risk points in the Executive Branch of State government.

Budget Item	Adj. Approp. FY 2015	Recomm. FY 2016	Dollar Change	Percent Change	Budget Page
General Fund, Direct State Services: Special Purpose: Statewide 9-1-1 Emergency Telecommunication System	**$12,372**	**$13,122**	**$750**	**6.1%**	**D-399**

This account finances the operation and upkeep of the Statewide 9-1-1 emergency telephone system. The proposed $750,000 increase is to pay contractors for research related to upgrading the system's infrastructure. A research contract, however, has not yet been awarded.

The State's current 9-1-1 system only supports emergency reports received by telephone. Consequently, the OIT's Office of Emergency Telecommunications Services (OETS) has been looking to upgrade the network to a so-called "Next Generation" 9-1-1 system, which would allow for the processing of emergency services requests sent via e-mail or text message. In 2011, the OIT already issued a Request for Information on "Next Generation" 9-1-1 network offerings that would: a) assist in the development of a formal Request for Proposal; b) prepare for budgeting and funding; and c) provide direction in policy development, notably public safety answering point consolidation initiatives. But the initiative has not led to a contract award for the installation of a "Next Generation" 9-1-1 system. Any such installation would ultimately impose costs on the State as well as local governments, given that the OETS is responsible for the network infrastructure and individual local public safety answering points for their "Call Taker" systems. OIT Discussion Point #21 in this year's OLS Department of the

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

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

Treasury Budget Analysis addresses the status of and financing plan for the planned installation of a Statewide "Next Generation" 9-1-1 network.

The OETS plans, designs, implements, and coordinates the Statewide 9-1-1 emergency telephone system. The system is a network comprised of municipal and county public safety answering points that handle calls for emergency assistance from police, fire, and ambulance services. The Emergency Preparedness and 9-1-1 System Assessment, created by P.L.2004, c.48 (N.J.S.A.52:17C-17 et seq.), funds OETS operations, among other initiatives. Customers pay the $0.90 assessment in each billing cycle for their cell or landline phones. In addition to the $13.1 million FY 2016 funding recommendation for the operation and maintenance of the Statewide 9-1-1 system, the Governor's FY 2016 Budget proposes a separate unchanged $900,000 appropriation for OETS administrative expenses.

STATE SUBSIDIES AND FINANCIAL AID

Property Tax Relief Fund, Grants-in-Aid: Homestead Benefit Program (PTRF)	**$374,200**	**$341,000**	**($33,200)**	**(8.9%)**	**D-402**

The Administration recommends a $33.2 million funding decrease in FY 2016 for the New Jersey Homestead Property Tax Credit program (N.J.S.A.54:4-8.57 et seq.), renamed the Homestead Benefit Program. The decrease in actual spending, however, would be less than the line-item reduction would suggest. This is so because the program's adjusted FY 2015 appropriation includes $6.9 million that has been placed in reserve in anticipation of a year-end lapse to the General Fund, leaving $367.3 million in FY 2015 budget authority. Accordingly, the program's recommended FY 2016 expenditure decrease would actually be $26.3 million, or 7.2 percent. Overall, the Executive estimates that 695,300 homeowners would collect an average $480 benefit in FY 2016, after 771,700 homeowners collected an average $470 rebate in FY 2015.

The recommended reduction in the program's FY 2016 appropriation is ascribable to the Administration's expectation that the recent trend of diminishing enrollments will continue. Although the program's eligibility criteria have not changed since FY 2010, the number of claimants fell steadily by 220,300, or 22.2 percent, from 992,000 in FY 2010 to 771,700 in FY 2015. Some 44,200 fewer seniors, or 8.6 percent, participated in the program in FY 2015 (469,800 participants) than in FY 2010 (514,000 participants). But the more significant decline transpired among non-seniors whose participation dropped by 176,100 claims, or 36.8 percent, from 478,000 claimants in FY 2010 to 301,900 in FY 2015. For all claimants combined, the Administration projects a further 9.9 percent contraction in FY 2016 to 695,300 participants. In response to OLS Discussion Point #17 in the FY 2012-2013 Department of the Treasury Budget Analysis, the Treasury conveyed that its own analysis suggested that bracket creep was the

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

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

primary driver of the erosion in program participation. The incomes of many former non-senior participants in particular had grown beyond the $75,000 eligibility threshold.

Table 2 on page 37 indicates the benefit amounts individuals would receive under statutory provisions, the amounts they actually received in FY 2015, and the amounts they would receive in FY 2016, according to proposed language in the Governor's FY 2016 Budget. The following paragraphs elaborate on the details.

Statutory Program: Under the program's statutory structure, which proposed budget language would supersede, a homeowner's credit amount is based on the homeowner's gross income and the homeowner's property taxes paid in the last calendar year up to $10,000. Credits equal 20 percent of allowable property taxes paid up to $10,000 for incomes up to $100,000, 15 percent of allowable property taxes paid up to $10,000 for incomes over $100,000 up to $150,000, and 10 percent of allowable property taxes paid up to $10,000 for incomes over $150,000 up to $250,000. A homeowner who is disabled, blind or 65 years of age or older receives the higher of the payment to which the homeowner is entitled under the above schedule or an amount equal to the amount by which property taxes paid in a tax year exceed five percent of the claimant's gross income subject to the following ranges: if the gross income is not over $70,000 the claimant receives a $1,000 to $1,200 benefit, if the gross income over $70,000 but not over $125,000 the claimant receives a $600 to $800 benefit, and if the gross income is over $125,000 but not over $200,000 the claimant receives a $500 benefit. Statutory tenant rebates in FY 2016 are $150 for all tenants with incomes up to $100,000, with tenants who are blind, disabled or 65 years of age or older with incomes not exceeding $70,000 receiving up to $850.

Governor's FY 2016 Budget as it Pertains to Senior Homeowners: The proposed FY 2016 language maintains the parameters of the budgeted FY 2015 program for homeowners who are blind, disabled or 65 years of age or older. Specifically, the Governor recommends: a) eliminating homestead benefits for homeowners with incomes above $150,000; b) granting homestead benefits of 5.0 percent of property taxes paid up to $10,000 for homeowners with incomes between $100,000 and $150,000 (in lieu of the statutory 15.0 percent); c) allowing homestead benefits of 10.0 percent of property taxes paid up to $10,000 for homeowners with incomes not exceeding $100,000 (instead of the statutory 20.0 percent); d) eliminating the alternative benefit computation under which claimants receive the higher of the payment to which they are entitled under the above schedule or an amount equal to the amount by which property taxes paid in a tax year exceed 5.0 percent of the claimant's gross income subject to the ranges indicated in the above paragraph; and e) maintaining 2006 property taxes, as opposed to tax year 2014 property taxes, as the basis for calculating homestead benefits.

Governor's FY 2016 Budget as it Pertains to Non-Senior Homeowners: The proposed FY 2016 language maintains the parameters of the budgeted FY 2015 program for all other homeowners. Specifically, the Governor recommends: a) eliminating homestead benefits for homeowners with incomes above $75,000; b) granting homestead benefits of 6.67 percent of property taxes paid up to $10,000 for homeowners with incomes between $50,000 and $75,000 (in lieu of the statutory 20.0 percent); c) allowing homestead benefits of 10.0 percent of property taxes

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

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

paid up to $10,000 for homeowners with incomes not exceeding $50,000 (instead of the statutory 20.0 percent); and d) maintaining 2006 property taxes, as opposed to tax year 2014 property taxes, as the basis for calculating homestead benefits.

Governor's FY 2016 Budget as it Pertains to Tenants: As in FY 2015, the Governor proposes eliminating the homestead property tax rebate program for tenants in FY 2016. Statutory FY 2016 tenant rebates would be $150 for all tenants with incomes up to $100,000, with tenants who are blind, disabled or 65 years of age or older with incomes not exceeding $70,000 receiving up to $850.

Budget Item	Adj. Approp. FY 2015	Recomm. FY 2016	Dollar Change	Percent Change	Budget Page
Property Tax Relief Fund, Grants-in-Aid: Senior and Disabled Citizens' Property Tax Freeze (PTRF)	**$205,800**	**$218,700**	**$12,900**	**6.3%**	**D-402**

For FY 2016, the Governor recommends maintaining the FY 2015 parameters of the Senior and Disabled Citizens' Property Tax Freeze program, or Homestead Property Tax Reimbursement program (N.J.S.A.54:4-8.67 et seq.). Specifically, the program would operate under its statutory provisions except that the income eligibility threshold would be $70,000 for tax years 2013 and 2014 in lieu of the statutory $84,289 for tax year 2013 and $85,553 for tax year 2014. Overall, the Executive forecasts a $1,278 average FY 2016 payment to 171,100 participants. In FY 2015, some 174,700 participants received an average $1,178 payment. The anticipated higher average amount is due to rising property tax liabilities offset, in part, by more recent cohorts of program participants with lower average benefits replacing long-time participants with larger average benefits. The average New Jersey residential property tax bill increased by $173 in tax year 2014 from $7,988 in tax year 2013 to $8,161 in tax year 2014.

Under the Governor's proposal, the Senior and Disabled Citizens' Property Tax Freeze program would reimburse qualified homeowners for the difference between the amount of property taxes paid on a principal residence in tax year 2014 and the amount paid in the base year. Qualified homeowners in FY 2016 would have to be at least 65 years of age or disabled or both. They would also have to have a tax year 2013 and 2014 income not exceeding $70,000 (as opposed to not exceeding $84,289 in tax year 2013 and $85,553 in tax year 2014 under statutory provisions), whether married or single. Moreover, they would have had to have paid property taxes directly, or indirectly by means of rental payments, on any homestead or rental unit used as a principal residence in New Jersey for at least ten consecutive years, the last three of which must have been as owners of the homesteads for which they seek the reimbursement.

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

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

Table 2
Homestead Property Tax Credit/Homestead Benefit Amounts
Statutory, FY 2015 Actual, and FY 2016 Proposed

Homeowner or Tenant	Status	Gross Income	Rebate Amounts Statutory	Rebate Amounts FY 2015 Actual	Rebate Amounts FY 2016 Proposed
Homeowner	Senior or Disabled	Not over $70,000	$1,000 - $2,000	$0 - $1,000	$0 - $1,000
		$70,001 to $100,000	$600 - $2,000	$0 - $1,000	$0 - $1,000
		$100,001 to $125,000	$600 - $1,500	$0 - $500	$0 - $500
		$125,000 to $150,000	$500 - $1,500	$0 - $500	$0 - $500
		$150,001 to $200,000	$500 - $1,000	$0	$0
		$200,001 to $250,000	$0 - $1,000	$0	$0
	Under Age 65 and not Disabled	Not over $50,000	$0 - $2,000	$0 - $1,000	$0 - $1,000
		$50,001 to $75,000	$0 - $2,000	$0 - $667	$0 - $667
		$75,001 to $100,000	$0 - $2,000	$0	$0
		$100,001 to $150,000	$0 - $1,500	$0	$0
		$150,001 to $250,000	$0 - $1,000	$0	$0
Tenant	Senior or Disabled, Married	Not over $70,000	$150 - $850	$0	$0
		$70,001 to $100,000	$150	$0	$0
	Senior or Disabled, Single	Not over $35,000	$150 - $850	$0	$0
		$35,001 to $100,000	$150	$0	$0
	Under Age 65 and not Disabled	Not over $50,000	$150	$0	$0
		$50,001 to $75,000	$150	$0	$0
		$75,001 to $100,000	$150	$0	$0

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

Budget Item	Adj. Approp. FY 2015	Recomm. FY 2016	Dollar Change	Percent Change	Budget Page
Property Tax Relief Fund, State Aid: Senior and Disabled Citizens' Property Tax Deductions (PTRF)	**$13,200**	**$12,000**	**($1,200)**	**(9.1%)**	**D-402**

The Governor recommends reducing the FY 2016 appropriation for the State reimbursement to municipalities for the cost of senior and disabled citizens' property tax deductions, as the Treasury anticipates the steady, long-term decline in the number of program participants to continue. In FY 1999, some 121,000 claimants received deductions. In FY 2015, some 48,995 senior and disabled citizens did so, and the department expects the number to decrease further to 46,800 in FY 2016.

Article VIII, Section I, Paragraph 4 of the New Jersey Constitution provides a $250 property tax deduction to homeowners who are 65 years of age or older or disabled or both, if their annual income exclusive of Social Security benefits does not exceed $10,000. The State reimburses municipalities for 102 percent of the resultant revenue loss to cover their administrative expenses.

Budget Item	Adj. Approp. FY 2015	Recomm. FY 2016	Dollar Change	Percent Change	Budget Page
Property Tax Relief Fund, State Aid: Veterans' Property Tax Deductions (PTRF)	**$56,300**	**$53,800**	**($2,500)**	**(4.4%)**	**D-402**

The Governor recommends reducing the FY 2016 appropriation for the State reimbursement to municipalities for the cost of veterans' property tax deductions, as the Treasury anticipates the steady, long-term decline in the number of program participants to continue. In FY 1999, some 344,000 claimants received deductions. In FY 2015, some 217,871 veterans did so, and the department expects the number to decrease further to 211,000 in FY 2016.

Article VIII, Section I, Paragraph 3 of the New Jersey Constitution provides a $250 property tax deduction to veteran homeowners who were honorably discharged or released under honorable circumstances from active service in time of war or other emergency. The State reimburses municipalities for 102 percent of the resultant revenue loss to cover their administrative expenses.

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

Budget Item	Adj. Approp. FY 2015	Recomm. FY 2016	Dollar Change	Percent Change	Budget Page
Property Tax Relief Fund, State Aid: Police and Firemen's Retirement System – Post Retirement Medical (PTRF)	**$45,284**	**$49,133**	**$3,849**	**8.5%**	**D-402**

The recommended FY 2016 amount would cover the State's obligation to pay 80 percent of the medical and prescription drug claims for Police and Firemen's Retirement System (PFRS) members who retired on disability or with at least 25 years of creditable service in accordance with N.J.S.A.52:14-17.32i. The growth in the requested appropriation is attributable to a projected increase in the number of retirees and the cost of medical and prescription drug claims. In general, appropriation recommendations for each fiscal year reflect health benefit plan enrollment and claims projections for parts of two plan years, which run on a calendar year basis.

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 Benefits Fund. Balances carried in the State Health Benefits Fund from one fiscal year to the next are not reflected in the FY 2016 Governor's Budget.

Budget Item	Adj. Approp. FY 2015	Recomm. FY 2016	Dollar Change	Percent Change	Budget Page
Property Tax Relief Fund, State Aid: Police and Firemen's Retirement System (PTRF)	**$28,620**	**$34,495**	**$5,875**	**20.5%**	**D-402**
Police and Firemen's Retirement System (P.L.1979, c.109) (PTRF)	**$37,603**	**$24,288**	**($13,315)**	**(35.4%)**	**D-403**
TOTAL	**$66,223**	**$58,783**	**($7,440)**	**(11.2%)**	

The proposed FY 2016 appropriation to this account represents 3/10th of the actuarially recommended full $195.9 million State pension contribution to the Police and Firemen's Retirement System (PFRS) for full-time county and municipal police officers and firefighters, as

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

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

projected based on July 1, 2013, rather than July 1, 2014, actuarial valuation results. The full contribution is comprised of the employer's share of additional pension benefits earned by active employees in FY 2016 (some 26.7 percent of the total) and the accrued unfunded liabilities from prior years (some 73.4 percent of the total). According to the FY 2016 Budget Summary, the 3/10th contribution in FY 2016 marks the first step of a payment plan that grows in 1/10th increments annually until the achievement of full funding in FY 2023. The FY 2015 contribution, in turn, reflected the actuarially determined employer's share of the additional pension benefits earned by active employees in FY 2015 without any amortization of the accrued unfunded liabilities. The FY 2015 and FY 2016 contributions, however, deviate from the statutory funding formula, as P.L.2010, c.1 requires that State appropriations to the State public employee retirement system equal 4/7th of the actuarially determined full State contribution in FY 2015 and 5/7th thereof in FY 2016.

The total proposed FY 2016 State PFRS contribution is $134.1 million allocated among three budget sections: (1) Direct State Services under Interdepartmental Accounts, $70.2 million (page D-431); (2) Grants-in-Aid for State colleges' and universities' campus police, also under Interdepartmental Accounts, $5.2 million (page D-432); and (3) State Aid on behalf of local governmental entities in the Department of the Treasury, $58.8 million (pages D-402 and D-403). The actuarially recommended full State pension contribution to the PFRS in FY 2016 equals $447.1 million. It was $414.3 million in FY 2015 and $389.7 million in FY 2014. The State would therefore defer the payment of the unfunded portion of the FY 2016 accrued liability, or $313.0 million, into the future.

PFRS provides pension coverage to all full-time county, municipal, and State police officers and firefighters (but not to State Police officers who are covered by the State Police Retirement System). Local employers and the State pay employer contributions. The Police and Firemen's Retirement System account pays for the State's basic pension contribution, whereas the Police and Firemen's Retirement System (P.L.1979, c.109) account covers, at 1.1 percent of covered salary, the State's liability for enhanced pension benefits consisting of a retirement allowance of 65 percent of final compensation for PFRS members who retire after 25 years of service. The system is projected to have 45,748 pensioners in FY 2016, as displayed in the evaluation data in the Governor's FY 2016 Budget (page D-430).

MANAGEMENT AND ADMINISTRATION

DIVISION OF ADMINISTRATION

Budget Item	Adj. Approp. FY 2015	Recomm. FY 2016	Dollar Change	Percent Change	Budget Page
General Fund, Direct State Services: Salaries and Wages	**$9,525**	**$10,044**	**$519**	**5.4%**	**D-406**

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

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

The Governor proposes raising by $519,000 the FY 2016 appropriation to the Salaries and Wages account of the Department of the Treasury's Division of Administration. Upon inquiry, the Office of Management and Budget indicated that the increase would pay for the salaries and wages of seven full-time positions that were transferred to the Division of Administration from other unspecified Treasury divisions in the course of FY 2015. The reclassified employees had already provided administrative services to the Treasury's several divisions in their previous positions. The position reallocations would produce a corresponding $519,000 savings in the FY 2016 Salaries and Wages accounts of other unspecified Treasury divisions.

General Fund, Total Debt Service	**$370,134**	**$399,366**	**$29,232**	**7.9%**	**D-406, E-6, E-7**

The Administration recommends a $445.8 million FY 2016 appropriation for general obligation bond debt service payments, of which $399.4 million would be funded in the Department of the Treasury budget and $46.5 million in the Department of Environmental Protection budget (page D-134). The proposed FY 2016 appropriation for all general obligation bond debt service payments combined reflects a net $41.0 million, or 10.1 percent, increase over the $404.8 million allocated in FY 2015. The net increase has three major components: a) $64.2 million in additional debt service payments on existing refunding bonds; b) the non-recurrence of a $24.8 million FY 2015 appropriation for debt service payments on anticipated, unspecified future bond sales; and c) a net $1.5 million increase in debt service payments on bonds other than refunding bonds.

However, the $404.8 million FY 2015 appropriation includes $24.8 million that has been placed in reserve in anticipation of a year-end lapse to the General Fund, leaving $380.1 million in FY 2015 budget authority. The $24.8 million represents general obligation bond debt service payments defrayed by a portion of $65.8 million in original issue premium payments the State received as part of a December 2014 sale of $525.0 million in new general obligation bonds for various purposes. Accordingly, the recommended FY 2016 appropriation would actually grow by $65.8 million, or 17.3 percent, rather than by $41.0 million.

But the budgeted numbers capture only general obligation bond debt service payments from budgeted sources. Total FY 2015 and FY 2016 debt service payments actually exceed budgeted amounts after including several offsetting payments from other sources. Specifically, anticipated FY 2015 debt service payments from all sources equal $433.3 million, rather than $380.1 million, owing to the application towards required FY 2015 debt service payments of: a) $24.8 million in bond premiums the State realized as part of a December 2014 general obligation bond sale; b) $23.0 million in bond premiums the State realized in prior general obligation bond sales; and c) $5.5 million anticipated to be realized from a general obligation bond cash defeasance. Defeasance is a method of liquidating debt whereby the issuer sets aside cash in an escrow account to pay off the bonds. Doing so allows the issuer to remove the bonded indebtedness from the issuer's balance sheet. Anticipated FY 2016 debt service

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

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

payments from all sources, in turn, are $486.4 million, rather than the budgeted $445.8 million, owing to the application towards required FY 2016 debt service payments of $40.6 million out of the $65.8 million in original issue premium payments the State received as part of a December 2014 general obligation bond sale. The year-on-year growth in FY 2016 general obligation bond debt service payments is therefore $53.1 million, or 12.3 percent.

As of June 30, 2014, some $2.16 billion in principal payments on general obligation bonds remained outstanding, while $1.29 billion of authorized general obligation borrowing authority had not yet been used. Since then, the Treasury sold $525.0 million in new general obligation bonds in December 2014 for the following purposes: $450.0 million Building Our Future Bonds, which finance higher educational capital projects (P.L.2012, c.41); $60.3 million Green Acres, Water Supply and Floodplain Protection, and Farmland and Historic Preservation Bonds (P.L.2009, c.117); and $14.7 million Port of New Jersey Revitalization, Dredging, Environmental Cleanup, Lake Restoration, and Delaware Bay Area Economic Development Bonds (P.L.1996, c.70). The recommended FY 2016 general obligation bond debt service appropriation does not include funding for debt service payments on future bond sales.

As the background paper entitled "The Budgetary Impact of the State's Bonded Debt," which starts on page 202 of this booklet, explains, general obligation bonds account only for a fraction of the estimated $3.47 billion in State FY 2016 debt service payments on all forms of bonded indebtedness.

PROTECTION OF CITIZENS' RIGHTS

OFFICE OF THE PUBLIC DEFENDER

General Fund, Direct State Services: Services Other Than Personal	**$29,868**	**$25,271**	**($4,597)**	**(15.4%)**	**D-409**

This account pays predominantly for the Office of the Public Defender's (OPD) purchases of contracted services performed by court reporters, experts, and pool and per-diem attorneys. The OPD makes recourse to the latter to avoid conflicts of interest if several co-defendants have a legal right to OPD representation in the same case and the office's staff can only represent one co-defendant.

The recommended $4.6 million reduction in the OPD's FY 2016 Services Other Than Personal appropriation reflects the non-renewal of a $4.6 million FY 2015 supplemental appropriation. Upon inquiry, the OPD indicated that it had not yet received the $4.6 million and that the amount served merely as an estimated placeholder for a supplemental appropriation the office receives routinely as part of a year-end accounting adjustment. The accrual adjustment ensures

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

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

the payment in FY 2016 out of FY 2015 resources of contractor billings for services performed in FY 2015 but not billed until FY 2016. At any rate, the proposed $25.3 million FY 2016 account appropriation is not indicative of recent expenditure levels, which totaled $32.0 million in FY 2014, $29.6 million in FY 2013, and $34.5 million in FY 2012.

The State instituted the OPD in 1967 as the centralized agency of government to furnish legal counsel to indigent defendants in criminal cases. To initiate assistance from the office, a court must first assign a defendant to the OPD after determining that the defendant's financial status does not allow for the hiring of a private attorney. Each sitting Superior Court judge assigned to the criminal bench is served by an OPD team composed of two attorneys, one investigator, and 1.25 secretaries. Over time, the OPD's role expanded to the representation of parties in certain civil cases (Legal Services of New Jersey, a private non-profit corporation, typically represents low-income residents in civil matters). Among OPD's civil responsibilities, the Office of Law Guardian represents children in child abuse and neglect (Title 9) and termination of parental rights (Title 30) cases, and the Office of Parental Representation handles the representation of indigent parents in such family court proceedings. The OPD is an "in but not of" agency located in the Department of the Treasury.

STATE LEGAL SERVICES OFFICE

Budget Item	Adj. Approp. FY 2015	Recomm. FY 2016	Dollar Change	Percent Change	Budget Page
General Fund, Grants-in-Aid: Civil Legal Services for the Poor	**$14,900**	**$16,018**	**$1,118**	**7.5%**	**D-410**
Federal Funds: Civil Legal Services for the Poor	**$1,117**	**$0**	**($1,117)**	**(100.0%)**	**D-411**
All Other Funds: Civil Legal Services for the Poor	**$5,400**	**$10,100**	**$4,700**	**87.0%**	**D-411**
TOTAL	**$21,417**	**$26,118**	**$4,701**	**21.9%**	

The Governor recommends appropriating $26.1 million to Legal Services of New Jersey (LSNJ) in FY 2016, some $4.7 million, or 21.9 percent, more than the $21.4 million LSNJ received in FY 2015. Two proposed changes would affect LSNJ's FY 2016 grant funding: a) the annualization of disbursements from the dedicated, off-budget "21st Century Justice Improvement Fund," and b) a budget-neutral accounting shift concerning federal Social Services Block Grant funding allocated to legal services for low-income individuals.

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

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

First, LSNJ is anticipated to receive $10.1 million from the dedicated, off-budget "21st Century Justice Improvement Fund" in FY 2016, some $4.7 million more than in FY 2015. The increase reflects a full year of collections from the dedicated fund's revenue stream after the fund will have been in operation for 7.5 months only in FY 2015. Specifically, P.L.2014, c.31 authorized the Supreme Court of New Jersey to set higher court filing fees and established the "21st Century Justice Improvement Fund" as the repository of moneys generated by the higher fees. The Supreme Court adopted the new fee levels effective November 17, 2014. Consistent with the law's expenditure schedule, the Governor's FY 2016 Budget anticipates at least $42.1 million in FY 2016 fund disbursements: a) $22.0 million for the Judiciary's implementation of a future Statewide Pretrial Services Program (page C-15); b) $10.1 million to LSNJ for the provision to low-income individuals of legal services in civil matters (page C-14); c) $10.0 million for the Judiciary's implementation of a Statewide digital e-court information system (page C-15); and d) collections in excess of $42.1 million for court information technology and the implementation of the future Statewide Pretrial Services Program (language on page D-444).

Second, the Governor's FY 2016 Budget includes a budget-neutral accounting shift affecting the $1.1 million LSNJ receives in federal Social Services Block Grant (SSBG) funds for the provision of legal services to low-income individuals pursuant to an Inter-Departmental Sub-Block Grant Agreement between the Department of Human Services and the Department of the Treasury. In FY 2016, all federal SSBG funding will be newly consolidated in the Department of Children and Families with transfers of the department's General Fund dollars to SSBG partner agencies replacing the partner agencies' lost federal funding. In general, federal SSBG funds support the State's social services activities with the State having broad discretion in determining the funds' specific use. The Department of Human Services functions as New Jersey's general SSBG program administrator.

An independent non-profit organization, LSNJ provides free legal assistance in civil matters to low-income citizens. The organization also advocates for the disadvantaged and runs the Poverty Research Institute, which studies poverty in New Jersey. Its primary sources of funding are grants from the State of New Jersey and receipts from the Interest On Lawyers' Trust Accounts (IOLTA) Fund of the New Jersey Bar Association. But the organization also receives financial support from the federal government, private individuals and firms, and other sources.

Significant Language Changes

Operating Costs of Records Management Services' Microfilm Unit

Revision

2015 Handbook: p. B-184
2016 Budget: p. D-390

Receipts from New Jersey Public Records Preservation fees, not to exceed ~~$1,300,000~~ $1,500,000, are appropriated for the operations of the microfilm or other storage media unit in the Division of Revenue and Enterprise Services within the Department of Treasury, subject to the approval of the Director of the Division of Budget and Accounting.

Explanation

The recommended language provision increases from $1.3 million to $1.5 million the amount of FY 2016 New Jersey Public Records Preservation account receipts that would be expended off-budget to pay for the operations of the Division of Revenue and Enterprise Services' microfilm or other storage media unit. According to the Office of Management and Budget, the requested $200,000 increase would defray the costs of the ongoing construction and outfitting of an alternate electronic imaging site. The initiative replaces the State's current obsolete microfilming infrastructure with up-to-date digital technologies.

The State's centralized microfilming unit and the associated Specialized Document Imaging Center, both part of the division's Records Management Services, assist State, county, and local government agencies in the preservation of records by performing source-document microfilm and imaging services. Client entities pay for service costs. Consequently, in addition to the proposed $1.5 million off-budget appropriation for microfilming unit operations, the FY 2016 Governor's Budget expects $400,000 in client payments for deposit in the "Records Management Microfilm Unit Revolving Fund."

In all, the Administration forecasts $27.3 million in FY 2016 New Jersey Public Records Preservation account receipts in accordance with sections 38 and 39 of P.L.2003, c.117. The law raised each of the county recording fees charged by county clerks and registers under N.J.S.A.22A:4-4.1 by $5 and mandated the ensuing proceeds' deposit in the New Jersey Public Records Preservation account. Account balances are to fund the management, storage, and preservation of public records by the State (60 percent), counties, and municipalities (a combined 40 percent). The county and municipal share used to support the competitive Public Archives and Records Infrastructure Support (PARIS) and Records Disaster Recovery Triage (Records DIRECT) grant programs. But both programs are inoperative following their defunding in FY 2010 and the recurring enactment, first in the FY 2011 Appropriations Act, of budget language diverting into the State General Fund account receipts statutorily set aside for county and municipal use (page D-390 of the FY 2016 Governor's Budget).

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)

Granting Additional Mid-Year Spending Authority for Homestead Benefit Program

Revision

2015 Handbook: p. B-189
2016 Budget: p. D-403

The amount hereinabove appropriated for the Homestead Benefit Program shall be available to provide homestead benefits only to eligible homeowners pursuant to the provisions of section 3 of P.L.1990, c.61 (C.54:4–8.59) as amended by P.L.2004, c.40 and by P.L.2007, c.62, as may be amended from time to time except that, notwithstanding the provisions of such laws to the contrary: (i) residents who are 65 years of age or older at the close of the tax year, or residents who are allowed to claim a personal deduction as a blind or disabled taxpayer pursuant to subsection b. of N.J.S.54A:3–1, with (a) gross income in excess of $150,000 for tax year ~~2012~~ <u>2014</u> are excluded from the program; (b) gross income in excess of $100,000 but not in excess of $150,000 for tax year ~~2012~~ <u>2014</u> are eligible for a benefit in the amount of 5% of the first $10,000 of property taxes paid, and (c) gross income not in excess of $100,000 for tax year ~~2012~~ <u>2014</u> are eligible for a benefit in the amount of 10% of the first $10,000 of property taxes paid; (ii) residents who are not 65 years of age or older at the close of the tax year, or residents who are not allowed to claim a personal deduction as a blind or disabled taxpayer pursuant to subsection b. of N.J.S.54A:3–1, with (a) gross income in excess of $75,000 for tax year ~~2012~~ <u>2014</u> are excluded from the program; (b) gross income in excess of $50,000 but not in excess of $75,000 for tax year ~~2012~~ <u>2014</u> are eligible for a benefit in the amount of 6.67% of the first $10,000 of property taxes paid; and (c) gross income not in excess of $50,000 for tax year ~~2012~~ <u>2014</u> are eligible for a benefit in the amount of 10% of the first $10,000 of property taxes paid. These benefits listed pursuant to this paragraph will be calculated based on the 2006 property tax amounts assessed or as would have been assessed on the October 1, ~~2012~~ <u>2014</u> principal residence of eligible applicants. The total homestead benefit provided to an eligible applicant in a given State fiscal year shall not exceed the homestead rebate amount paid to such eligible applicant for tax year 2006, absent a change in an applicant's filing characteristics. The homestead benefit shall be paid in ~~may~~ <u>May</u>, subject to the approval of the Director of the Division of Budget and Accounting. <u>If the amount hereinabove appropriated for the Homestead Benefit Program is not sufficient, there is appropriated from the Property Tax Relief Fund such additional amounts as may be required to provide such homestead benefits, subject to the approval of the Director of the Division of Budget and Accounting.</u>

<u>Explanation</u>

The Governor's Budget recommends a $341.0 million line-item appropriation for the payment of homestead benefits averaging $480 to some 695,300 homeowners in FY 2016. The proposed language provision, in turn, describes the parameters of the recommended FY 2016 Homestead Benefit program, which are unchanged from FY 2015. In addition, the Administration recommends newly adding contingency language that would authorize the Office of Management and Budget to appropriate, during the course of the fiscal year and without additional

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)

legislative approval, sums for the payment of homestead benefits that exceed the specific amount allocated thereto in the FY 2016 Appropriations Act.

The "significant change" on the Homestead Benefit Program on page 34 of this publication discusses the details of the proposed FY 2016 program and the table on page 37 contrasts the benefit amounts individuals would receive under statutory provisions, the amounts they actually received in FY 2015, and the amounts they would collect in FY 2016 according to the recommended language above.

Charging Costs of Updating Highlands Regional Master Plan to Highlands Protection Fund

Addition

2015 Handbook: —
2016 Budget: p. D-404

Notwithstanding the provisions of any law or regulation to the contrary, the Department of the Treasury may transfer amounts as necessary from the Highlands Protection Fund -- Planning Grants account to the Administration and Operations of the Highlands Council account in the Department of Environmental Protection for the purposes set forth in section 8 of P.L.2004, c.120 (C.13:20--8), subject to the approval of the Director of the Division of Budget and Accounting.

Explanation

The Administration recommends new FY 2016 Appropriations Act language allowing the Office of Management and Budget to transfer unspecified amounts out of the Highlands Protection Fund – Planning Grants account to the Highlands Water Protection and Planning Council for the payment of expenses related to the review and potential revision of the Highlands Regional Master Plan. Absent the language Highlands Protection Fund balances could not be used for this purpose, since statutory law dedicates the moneys to four aid programs for municipalities in the Highlands planning area.

The Highlands Water Protection and Planning Act, P.L.2004, c.120, established the Highlands Water Protection and Planning Council and placed it "in but not of" the Department of Environmental Protection. A regional planning entity, the council crafted and implements the Highlands Regional Master Plan to protect and enhance the resources in the New Jersey Highlands. In so doing the council awards grants to eligible municipalities and counties for plan conformance expenses. The first master plan took effect in September 2008. Complying with a statutory requirement that the plan be updated at least once every six years (N.J.S.A.13:20-8), the council recently initiated the review process. Specifically, in a September 15, 2014 press release, it solicited public comments on the existing

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Recommended FY 2016 language that did not appear in FY 2015 denoted by underlining.

Significant Language Changes (Cont'd)

master plan as a first step in reviewing and potentially updating the plan. As in the last three fiscal years, for FY 2016 the Administration recommends appropriating $2.3 million to the council for operating expenses (page D-134 of the FY 2016 Governor's Budget) and $4.4 million for its grant programs (page D-402).

P.L.2004, c.120 dedicates $5.0 million in annual State realty transfer fee collections to the Highlands Protection Fund. Statutorily, the dedicated amount is to be distributed among four aid programs to municipalities in the Highlands planning area: a) the Highlands Municipal Property Tax Stabilization Fund (N.J.S.A.54:1-85 b.); b) the Incentive Planning Aid program (N.J.S.A.13:20-13) that provides grants to municipalities in the Highlands planning area that want to accept growth; c) the Watershed Moratorium Offset Aid program (N.J.S.A.58:29-8) that provides grants to municipalities in the Highlands planning area to help offset the loss of property tax revenues due to the imposition of a moratorium of the sale of certain watershed lands located within those municipalities; and d) the Regional Master Plan Compliance Aid program that provides grants to municipalities in the Highlands preservation area so that they can bring their plans into compliance with the Highlands Regional Master Plan (N.J.S.A.13:20-18). A statutory poison pill provision is intended to protect the annual appropriation to these programs by prohibiting the State from collecting the State portion of the basic fee and the additional fee under the realty transfer fee statute if the $5.0 million is not allocated to these programs. Nevertheless, language first included in the FY 2011 Appropriations Act suspended the statutory poison pill provision. The Governor's FY 2016 Budget recommends maintaining the suspending language (General Provision 72 on page F-9) and appropriating an unchanged $4.4 million to the programs: $2.2 million each to the Watershed Moratorium Offset Aid account and the Planning Grants account. The latter funds Highlands Protection Fund Incentive Planning Aid and Regional Master Plan Compliance Aid. As of April 9, 2015, the Highlands Protection Fund – Planning Grants account had pre-encumbered $800,000 and held $5.3 million in uncommitted balances. Account expenditures totaled $348,000 in FY 2014, $664,000 in FY 2013, and $2.6 million in FY 2012.

Municipal Aid Payment out of Energy Tax Receipts Property Tax Relief Fund

Revision

2015 Handbook: p. B-190
2016 Budget: p. D-404

There is appropriated from the Energy Tax Receipts Property Tax Relief Fund the amount of $788,492,000 and an amount not to exceed ~~$325,174,000~~ <u>$341,882,000</u> from Consolidated Municipal Property Tax Relief Aid is appropriated and shall be allocated to municipalities in accordance with the provisions of subsection b. of section 2 of P.L.1997, c.167 (C.52:27D–439), provided further, however, that from the amounts hereinabove appropriated, each

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Recommended FY 2016 language that did not appear in FY 2015 denoted by underlining.

Significant Language Changes (Cont'd)

municipality shall also receive such additional amounts from the Energy Tax Receipts Property Tax Relief Fund as provided in the previous fiscal year. Each municipality that receives an allocation from the amount so transferred from the Consolidated Municipal Property Tax Relief Aid program shall have its allocation from the Consolidated Municipal Property Tax Relief Aid program reduced by the same amount.

Explanation

The revised language concerns aid disbursements from the Energy Tax Receipts Property Tax Relief Fund (ETR Fund), which the State established in 1997 as an off-budget account through which it distributes receipts from the taxation of certain regulated utilities and telecommunications companies as aid to municipalities (N.J.S.A.52:27D-439). Amendatory legislation enacted in 1999 instituted a $755 million funding requirement for FY 2002 and mandated that the amount be annually adjusted for inflation thereafter (P.L.1999, c.168). Failure in a given year to appropriate moneys in the prescribed amount would void taxpayers' corporation business tax (CBT) liabilities for that tax year.

Since FY 2003, however, energy tax receipts allocated from the ETR Fund have been inadequate to cover statutorily required ETR Fund aid payments, as the annual excess of energy tax receipts above a set level ($788,492,000 since FY 2006*) has been used by the State General Fund. To fulfill the ETR funding requirement and avoid triggering the suspension of CBT collections, language provisions similar to the one above have thus transferred moneys from the Consolidated Municipal Property Tax Relief Aid (CMPTRA) program account to the ETR Fund. For municipalities, the net effect of these reallocations has been zero, as increased ETR disbursements have fully corresponded to decreases in CMPTRA. For FY 2016, the Administration proposes increasing the transfer from CMPTRA to the ETR Fund by $16.7 million from $325.2 million to $341.9 million, reflecting the required inflation adjustment.*

In all, the Governor recommends distributing an unchanged $1.36 billion to New Jersey's 565 municipalities from the State's two formula-driven municipal aid programs in FY 2016: an unchanged $788.5 million from the ETR Fund program and an unchanged $575.9 million from the CMPTRA program (page D-55 of the FY 2016 Governor's Budget). Every municipality would receive the same base CMPTRA and ETR Fund aid payment in FY 2016 that it received in FY 2015. Although the FY 2016 Governor's Budget recommends a $594.1 million, rather than a $575.9 million, CMPTRA appropriation, the $18.2 million difference constitutes a portion of five municipalities' awards from prior years under the discretionary Transitional Aid to Localities program that is folded into the municipalities' CMPTRA accounts: Atlantic City ($10.0 million), Beverly City ($280,000), Camden City ($2.5 million), Penns Grove Borough ($590,000), and Trenton City ($4.9 million).

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)

Compliance with "Best Practices Inventory" for Municipal Governments

Revision

2015 Handbook: p. B-190
2016 Budget: p. D-404

Notwithstanding the provisions of any law or regulation to the contrary, the release of the final 5% or $500, whichever is greater, of the total annual amount due for the current fiscal year from the Energy Tax Receipts Property Tax Relief Fund to municipalities is subject to the following condition: the municipality shall submit to the Director of the Division of Local Government Services a report describing the municipality's compliance with the "Best Practices Inventory" established by the Director of the Division of Local Government Services and shall receive at least a minimum score on such inventory as determined by the Director of the Division of Local Government Services; provided, however, that the Director may take into account the particular circumstances of a municipality in computing such score. In preparing the Best Practices Inventory, the Director shall identify best municipal practices in the areas of general administration, fiscal management, and operational activities, as well as the particular circumstances of a municipality, in determining the minimum score acceptable for the release of the final 5% or $500, whichever is greater, of the total annual amount due for the current fiscal year, but in no event shall amounts be withheld with respect to municipal practices occurring prior to the issuance of the Best Practices Inventory unless related to a municipal practice identified in the Best Practices Inventory established in the <u>prior fiscal year or related to compliance with a statute, regulation, or Executive Order in effect prior to the commencement of the</u> previous fiscal year.

Explanation

The proposed language provision sets the terms and conditions for the "Best Practices Inventory" for municipal governments and, to encourage cooperation with the initiative, requires the withholding of the greater of $500 or the final five percent payment of Energy Tax Receipts Property Tax Relief Aid to municipalities that do not attain an inventory score indicating compliance. The language revision would newly require the computation of a municipality's score to consider a municipality's adherence to statutes, regulations, and Executive Orders in effect prior to the commencement of the previous fiscal year. The Executive Branch has indicated that the revision clarifies that withholding penalties will be imposed for the failure to respect requirements in longstanding law, such as the filing of collective bargaining agreements with the Public Employment Relations Commission and deadlines related to the adoption of municipal budgets and financial reporting. Corresponding language in the Department of Community Affairs section of the Governor's FY 2016 Budget likewise directs the withholding of the greater of $500 or the final five percent Consolidated Municipal Property Tax Relief Aid (CMPTRA) payment to noncompliant municipalities (page D-56). The CMPTRA and Energy Tax Receipts Property Tax Relief Aid programs are the

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)

State's two formula-driven municipal aid programs through which the Administration intends to disburse $1.36 billion to municipalities in FY 2016.

Initially established in the FY 2011 Appropriations Act, the "Best Practices Inventory" charges the Division of Local Government Services in the Department of Community Affairs with the identification of best municipal practices in the areas of general administration, financial management, and operational activities. Each year, municipalities must submit a completed inventory to the division, which will then assess each municipality's observance of the identified best practices. Nevertheless, in computing each municipality's compliance rating the division may take into account a municipality's particular circumstances. Moreover, it may not penalize municipalities for engaging in practices occurring prior to the inventory's issuance, unless a particular practice is either related to municipal practices identified in the "Best Practices Inventory" for the previous fiscal year or violates longstanding law.

The FY 2015 "Best Practices Inventory" was released on September 10, 2014 and featured 50 questions covering the areas of general management, finance and audit, procurement, budget preparation and presentation, health insurance, and personnel. Municipalities operating on a Calendar Year or Transition Fiscal Year were required to return their completed inventories to the division by October 17 2014, and municipalities operating on the State Fiscal Year calendar by April 2, 2015.

Use of Drug Abuse Education Fund Balances

Revision

2015 Handbook: p. B-191
2016 Budget: p. D-406

Pursuant to the provisions of P.L.1999, c.12 (C.54A:9-25.12 et seq.) deposits made ~~to~~ <u>into</u> the "Drug Abuse Education Fund" and the unexpended balance at the end of the preceding fiscal year of such deposits are appropriated for collection or administration costs of the Department of the Treasury ~~and~~ <u>,</u> for transfer to the Department of Education such amounts as are necessary for ~~ProjectDARE (Drug Abuse Resistance Education) and~~ the Steroid Use and Prevention Program~~,~~ and to <u>provide drug use disorder education programs on a Statewide basis, and for transfer to</u> the Department of Human Services for substance ~~abuse~~ <u>use disorder</u> treatment and prevention programs, subject to the approval of the Director of the Division of Budget and Accounting.

<u>Explanation</u>

The proposed FY 2016 language provision would allocate moneys from the Drug Abuse Education Fund to: a) the Steroid Use and Prevention Program in the

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)

Department of Education, b) Statewide drug use disorder education programs, and c) other substance use disorder treatment and prevention programs in the Department of Human Services. The proposed language revision would broaden the pool of potential recipients of Drug Abuse Education Fund balances from Project DARE (Drug Abuse Resistance Education) to any Statewide drug use disorder education program. The recommended change is motivated by D.A.R.E. America having revoked D.A.R.E. New Jersey's charter in 2015 and thereby its right to operate as a D.A.R.E. organization. The New Jersey chapter had breached the charter agreement by not implementing the national organization's revised elementary school anti-drug curriculum.

The Drug Abuse Education Fund, created pursuant to P.L.1999, c.12 (N.J.S.A.54A:9-25.12 et seq.), derives its resources from taxpayer donations on gross income tax returns. Its proceeds are statutorily dedicated to the Department of Education for distribution to non-governmental entities that utilize law enforcement personnel in the provision of Statewide drug abuse education programs. Executive Order #72 of 2005 and budget language first introduced in FY 2007 extended the scope of permissible fund uses to anti-steroid programs. An FY 2008 language revision, in turn, extended permissible fund uses further to substance use disorder treatment and prevention programs in the Department of Human Services. The Administration expects $850,000 in FY 2016 fund receipts. The fund held $479,000 in uncommitted balances as of April 8, 2015.

Use of Previously Appropriated Bond Funds to Pay Debt Service

Revision

2015 Handbook: p. C-3
2016 Budget: p. E-7

Notwithstanding the provisions of any law or regulation to the contrary, such sums as may be needed for the payment of interest and principal due from the issuance of any bonds authorized under the several bond acts of the State, or bonds issued to refund such bonds, are appropriated and first shall be charged to the earnings from the investments of such bond proceeds, or repayments of loans, or any other monies in the applicable bond funds, or all of these, established under such bond acts, and monies are appropriated from such bond funds for the purpose of paying interest and principal on the bonds issued pursuant to such bond acts. Where required by law, such sums shall be used to fund a reserve for the payment of interest and principal on the bonds authorized under the bond act. Furthermore, where required by law, the amounts hereinabove appropriated are allocated to the projects heretofore approved by the Legislature pursuant to those bond acts. The Director of the Division of Budget and Accounting is authorized to reallocate amounts hereinabove appropriated among the various debt service accounts to permit the proper debt service payments. <u>Provided further however, that in the event monies in a bond fund are used to pay debt service pursuant to the preceding sentences, any prior appropriation of such</u>

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)

amounts, are hereby cancelled and the Director of the Division of Budget and Accounting shall provide to the Legislative Budget and Finance Officer a list of the bond funds which were used to pay debt service and the amount in such bond funds which were used to pay debt service.

Explanation

This language concerns the use of balances in funds established in accordance with various general obligation bond acts. The Office of Management and Budget (OMB) first charges required debt service payments against investment income and certain other balances in the bond funds before charging the remainder against amounts appropriated for that purpose in the FY 2016 Appropriations Act. The language also authorizes the OMB to transfer amounts among the various debt service appropriations to ensure that proper debt service payments are made.

In addition, the Administration recommends new language authorizing the OMB to cancel certain bond fund appropriations when it deems them unneeded for the original purpose and to apply those funds to pay debt service on the bonds. Notice of the cancellations and the amounts cancelled are to be provided to the Legislative Budget and Finance Officer. This new language would apply to bond proceeds for which the enabling legislation requires specific appropriations and does not grant discretion to use unexpended sums to pay down debt. In other cases, the OMB already has that authority. According to the OMB, the Administration's recommended FY 2016 appropriation of $445.8 million for the payment of general obligation bond debt service does not include any reductions attributable to a general obligation bond cash defeasance to be performed in application of the new language. The Administration first proposed the new language in the Governor's FY 2013 Budget. The Legislature, however, did not include it in the FY 2013, FY 2014, and FY 2015 Appropriations Acts.

Casino Simulcasting Fund Revenues

Revision	
	2015 Handbook: p. E-5 2016 Budget: p. F-7

47. There is appropriated ~~$300,000~~ $175,000 from the Casino Simulcasting Fund for transfer to the Casino Revenue Fund.

Explanation

The recommended language provision would transfer an estimated $175,000 in Casino Simulcasting Fund collections to the Casino Revenue Fund in FY 2016.

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)

This amount recognizes the decline in annual collections in recent years. Specifically, actual collections were $338,000 in FY 2012, $263,000 in FY 2013, and $227,000 in FY 2014. The FY 2015 Appropriations Act originally appropriated $300,000 for transfer to the Casino Revenue Fund in FY 2015. But the Governor's FY 2016 Budget subsequently lowered the FY 2015 revenue anticipation to $175,000. Nevertheless, in anticipating a revised $175,000 in FY 2015 revenues and maintaining the estimate for FY 2016, the Executive expects a break in the revenue's long-term downward trend (page 66 of the "Supplementary Information" section in the Governor's FY 2016 Budget, available in the online version only).

P.L.1992, c.19 (N.J.S.A.5:12-191 et seq.) established the Casino Simulcasting Fund to hold a portion of the State revenue generated from the wagering in Atlantic City casinos on horse races that are broadcast live from race tracks to the casinos. Moneys deposited in the fund shall finance services for senior citizens. By means of the recurring language provision reproduced above, Casino Simulcasting Fund revenues have been transferred to the Casino Revenue Fund, created pursuant to section 145 of P.L.1977, c.110 (N.J.S.A.5:12-145). The Casino Revenue Fund holds State revenues derived from casino gambling, which the New Jersey State Constitution dedicates to services for senior and disabled citizens (page H-5 of the Governor's FY 2016 Budget lists the programs supported through the fund).

Transfer of Universal Service Fund Balances into General Fund

Revision

2015 Handbook: p. E-5
2016 Budget: p. F-7

54. Notwithstanding the provisions of any law or regulation to the contrary, there is appropriated from the Universal Service Fund ~~$65,705,000~~ <u>$67,337,000</u> for transfer to the General Fund as State revenue.

<u>Explanation</u>

This language would authorize the transfer of $67.3 million from the off-budget Universal Service Fund (USF) to the General Fund to cover the expenses of the "Lifeline Credit Program" (N.J.S.A.48:2-29.15 et seq.) and the "Tenants' Lifeline Assistance Program" (N.J.S.A.48:2-29.31 et seq.). Of this amount, $65.5 million would be used to pay for program benefits and the remaining $1.9 million to reimburse the Department of Human Services for its cost of administrating the programs (in accordance with continued budget language on page D-380). The two programs provide low-income households with up to $225 in gas and electric utility credits.

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)

The proposed $1.6 million increase in the FY 2016 transfer is primarily the result of higher program costs in FY 2015 than originally anticipated. The higher program costs, in turn, are the net effect of larger average benefit payments and lower enrollment levels than first forecast. Notably, the $65.7 million appropriation included in the FY 2015 Appropriations Act assumed 308,781 beneficiaries receiving an average $207 benefit, according to the Evaluation Data on page D-379 of the Governor's FY 2015 Budget. While the revised FY 2015 program participation is lower than anticipated, at 302,240 low-income households, the average benefit is higher at $215, according to the Evaluation Data on page D-378 of the Governor's FY 2016 Budget. These trends prompted a mid-year $993,000 supplemental appropriation that increased the FY 2015 program appropriation to $66.7 million. For FY 2016, the Administration recommends budgeting an additional $639,000 to pay an average $217 benefit to 302,345 low-income households.

Established pursuant to subsection b. of N.J.S.A.48:3-61 as part of the "Electric Discount and Energy Competition Act," the USF is an off-budget fund through which the State finances several energy assistance programs: the USF program proper, the "Fresh Start" credit program, the Lifeline credit program, the Tenants' Assistance Rebate Program, as well as energy assistance payments under the Temporary Assistance for Needy Family (TANF) program. New Jersey ratepayers replenish the USF via the societal benefits charge included in their electric and natural gas bills. The Governor's FY 2016 Budget anticipates $253.6 million in USF expenditures for FY 2016 (page 112 of the "Supplementary Information" section in the Governor's FY 2016 Budget, available in the online version only).

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ECONOMIC DEVELOPMENT AUTHORITY

1. Established in accordance with P.L.1974, c.80, the New Jersey Economic Development Authority (EDA) is an independent public authority located "in, but not of," the Department of the Treasury. Its primary mission is to assist in the creation of employment opportunities through the provision of financial assistance to for-profit and not-for-profit enterprises. To that end the authority runs a myriad of financial assistance programs that it pays for out of its own financial resources. But the EDA also administers several economic development incentive programs that rely on the State's general financial resources as their funding mechanism. For example, the authority operates the Economic Redevelopment and Growth grant program under which developers receive multi-year grant payments from the State in support of qualifying projects. Other EDA-administered programs, such as the Grow New Jersey Assistance Program, reduce State revenue collections by granting incentive tax credits to eligible enterprises.

Comprehensive, aggregated information on the **accrued liabilities of EDA-administered incentive programs that rely on general State resources** does not appear to be published in any official State document; which, if true, would complicate the formulation of effective budgetary and fiscal policies. Disclosure, however, may soon be mandated. In October 2014, the Governmental Accounting Standards Board (GASB) issued for public comment by January 30, 2015 a draft of its proposed Statement, Tax Abatement Disclosures. The statement would require state and local governments to disclose information about economic development tax abatement agreements in financial statements for fiscal years beginning after December 15, 2015. In the meantime, in reply to EDA Discussion Point #1 in the OLS FY 2014-2015 Department of the Treasury Budget Analysis, the EDA provided the aggregated information presented in the table below on EDA-administered economic development programs that are financed with general State resources.

EDA-Administered Programs with Projected Obligations by Fiscal Year (2015-2019)
(in thousands of dollars)

Program	Award Amount	Capital Investment	New / Retained Jobs	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
Grow NJ (New)	$298,399	$253,619	2,898/2,587	$0	$171,764	$188,940	$207,834	$228,618
Grow NJ (Legacy)	$541,731	$810,757	2,723/6,685	$12,359	$36,004	$50,846	$54,182	$54,182
ERG (New)	$79,690	$308,518	393/0	$0	$32,000	$35,200	$38,720	$42,592
ERG (Legacy)	$856,546	$4,646,417	15,898	$13,791	$17,755	$22,632	$28,258	$33,779
UTHTC (Legacy)	$1,352,720	$3,262,661	3,720/2,935	$117,157	$135,968	$135,968	$135,968	$135,968
BEIP (Legacy)	$1,567,957	$12,472,875	84,409	$175,000	$175,000	$175,000	$175,000	$175,000
BRRAG (Legacy)	$123,946	$2,069,632	31,162	$20,000	$20,000	$20,000	$20,000	$20,000
Brownfields	$277,000	$378,000	N/A	$10,000	$77,000	$20,000	$20,000	$20,000
NOL	$773,000	N/A	N/A	$60,000	$60,000	$60,000	$60,000	$60,000
Film/Digital Media	$7,920	N/A	N/A	$10,000	$0	$0	$0	$0
Angel Investor	$1,529	N/A	N/A	$25,000	$25,000	$25,000	$25,000	$25,000
TOTAL	**$5,880,438**	**$24,202,479**	**153,410**	**$443,307**	**$750,491**	**$733,586**	**$764,962**	**$795,139**

Grow NJ = Grow New Jersey Assistance Program;
ERG = Economic Redevelopment and Growth Program (commercial projects);
UTHTC = Urban Transit Hub Tax Credit Program;
BEIP = Business Employment Incentive Program;

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BRRAG = Business Retention and Relocation Assistance Grant Program;
Brownfields = Brownfields and Contaminated Site Remediation Program;
NOL = Technology Business Tax Certificate Transfer Program;
Film/Digital Media = Film and Digital Media Tax Credit Program; and
Angel Investor = Angel Investor Tax Credit Program.

- ***Questions:*** **Please delineate, by program, the current dollar amount of all accrued liabilities under EDA-administered economic development programs that are financed with general State resources, as opposed to the EDA's own financial resources. What dollar amount of the total represents: a) outstanding, unpaid liabilities that have accrued in the past; and b) liabilities that will become payable in the future under concluded agreements? For fiscal years 2016 through 2020, please project each program's payable obligations. Please detail, by program, the size of capital investments and the number of jobs the incentive agreements support.**

2. P.L.2013, c.161, the "New Jersey Economic Opportunity Act of 2013," lowered the eligibility thresholds and expanded the geographic reach of the EDA-administered Economic Redevelopment and Growth Grant (ERG) and Grow New Jersey Assistance (GROW NJ) programs. P.L.2014, c.63, the "Economic Opportunity Act of 2014, Part 3" further adjusted the programs' eligibility and award calculation parameters and pushed back application and project completion deadlines under the ERG tax credit program for residential redevelopment projects. In the programs' first full year of operation, calendar year 2014, the EDA approved $1.99 billion in ERG and GROW NJ incentive awards to 93 projects ($416.5 million in ERG grants and tax credits for 17 projects and $1.57 billion in GROW NJ tax credits for 76 projects).

N.J.S.A.52:27D-489c et seq. provides the statutory authority for the **ERG program**. The tax-increment financing mechanism for redevelopment projects in eligible geographic areas has a State and a municipal component. State ERG reimbursements are available for **commercial redevelopment projects** that meet two financial criteria. First, the financial assistance must close a project financing gap that otherwise would prevent a project's realization. Second, the project must yield fiscal benefits to the State over a period of up to 20 years that equal or exceed 110 percent of the tax credit amount. There are no capital investment and job creation or retention thresholds. State ERG awards: a) equal up to 75 percent of the annual incremental State tax revenue attributable to a project (or up to 85 percent in a Garden State Growth Zone, a designation comprising the cities of Atlantic City, Camden, Passaic, Paterson, and Trenton); b) cannot exceed 30 percent of total project cost in conjunction with any municipal ERG award (or 40 percent in a Garden State Growth Zone municipality); and c) are paid in up to 20 annual installments. Aggregate State ERG reimbursement payments for commercial redevelopment projects are uncapped, but the EDA may only consider applications received prior to July 1, 2019. All ERG recipients obtain their reimbursements only after project completion. Through January 13, 2015, the EDA awarded $241.8 million in ERG grants to five commercial redevelopment projects under the terms of the "New Jersey Economic Opportunity Act of 2013."

A separate $600 million State ERG tax credit program applies to **residential redevelopment projects** in eligible geographic areas. Because these projects do not tend to create or retain

Discussion Points (Cont'd)

permanent full-time jobs, they are unlikely to generate fiscal benefits to the State at a level that would allow ERG reimbursements to close project financing gaps. Thus this separate tax credit program waived the requirement that residential redevelopment projects must generate fiscal benefits to the State in excess of the incentive amount. Under the program, projects may receive State ERG tax credits if they meet two financial conditions. First, the financial assistance must close a project financing gap that otherwise would be likely to prevent a project's realization. Second, the project must have minimum project costs ranging from $5.0 million to $17.5 million, depending on its specific location. Tax credit awards are authorized for taxpayer use in up to ten annual installments following project completion and cannot exceed 30 percent of total project cost in conjunction with any municipal ERG award (or 40 percent in a Garden State Growth Zone municipality). The application deadline for residential redevelopment projects is July 1, 2016 and projects must obtain temporary certificates of occupancy by July 28, 2018. Through January 13, 2015, the EDA awarded $179.5 million in ERG tax credits under the terms of the "New Jersey Economic Opportunity Act of 2013" to 13 residential redevelopment projects. All approved ERG awards under the program's "New Jersey Economic Opportunity Act of 2013" configuration are listed at http://www.njeda.com/web/pdf/Approved_ERG_EOA.pdf.

N.J.S.A.34:1B-243 et seq. establishes the statutory authority for the **GROW NJ tax credit program**, which is intended to encourage job creation and retention. There is no cap on the aggregate dollar amount of tax credit awards, but the EDA may only consider applications submitted prior to July 1, 2019. GROW NJ tax credits are available for eligible projects located in certain geographic areas that meet two financial conditions. First, the financial assistance must be a material factor in a project's realization. Second, the project must yield fiscal benefits to the State over a period of up to 20 years (or up to 30 years in the case of a "mega project" or a project in a Garden State Growth Zone, or up to 35 years if a project is located in the city of Camden) that equal or exceed 110 percent of the tax credit amount (or 100 percent in the case of the city of Camden). Minimum capital investment and full-time employment requirements vary depending on project characteristics. The EDA may grant individual tax credits for up to ten years in amounts ranging from $500 to $15,000 per year for each job created, depending on project attributes. Credit amounts for retained jobs are generally the lesser of 50 percent of those for new jobs or one-tenth of the capital investment divided by the number of retained and new full-time jobs (except that certain limited projects earn job retention tax credits equal to the 100-percent rate of new full-time positions). Tax credit recipients must maintain the project and related employment for 1.5 times the period in which they receive tax credits. Businesses forfeit outstanding tax credit amounts if their full-time workforce falls below certain thresholds. Tax credits are certified for taxpayer use only after project completion. Through January 21, 2015, the EDA awarded $1.72 billion in GROW NJ tax credits under the terms of the "New Jersey Economic Opportunity Act of 2013" to the following 88 projects: http://www.njeda.com/web/pdf/Approved_GrowNJ_EOA.pdf.

- ***Questions:*** **Please project the total dollar amount of Economic Redevelopment and Growth Grant (ERG) and Grow New Jersey Assistance (GROW NJ) incentive awards that the EDA anticipates approving in each of calendar year 2015 and 2016. Does the EDA expect to match or exceed the $1.99 billion in ERG and GROW NJ incentive awards it approved in calendar year 2014? Is it the EDA's sense that the calendar year 2014 total was a one-off outlier because businesses had held back submitting applications in anticipation of the passage of "New Jersey Economic Opportunity Act**

Discussion Points (Cont'd)

of 2013?" Please convey the number of projects and the cumulative dollar amount for which businesses have submitted ERG and GROW NJ applications that the EDA is currently evaluating. How many ERG and GROW NJ award applications for what cumulative dollar amount did the EDA reject in calendar year 2014 and for what reason(s)? Considering the applications and inquiries the EDA has received to date, does the authority project that the $600 million cap on aggregate ERG tax credit awards for residential redevelopment projects will suffice to meet demand?

- **Please provide the following data for each of the ERG and GROW NJ programs under their pre-P.L.2013, c.161 permutations: a) the number and nominal dollar value of incentive awards approved; b) the number and nominal dollar value of incentive awards finalized; c) the nominal dollar value of incentive awards that taxpayers have used to date; and d) the nominal dollar value of approved and finalized incentive awards that taxpayers have not yet used. Have ERG appropriations to date sufficed to meet all ERG grant payment obligations? Please specify the size of any ERG payment backlog and the number of businesses concerned.**

- **Please share the number of GROW NJ tax credit applications that the EDA has rejected under the program's P.L.2013, c.161 permutation because the EDA deemed the requested tax credit awards not a "material factor" in the applicant's decision to create or retain the minimum number of full-time jobs in New Jersey. Please also share the number of ERG grant and tax credit applications for commercial and residential redevelopment projects that the EDA has rejected under the program's P.L.2013, c.161 permutation because the EDA deemed no project financing gap to exist.**

3. P.L.2013, c.161 declared the cities of Camden, Passaic, Paterson, and Trenton blighted areas in need of rehabilitation and designated them as New Jersey's first **Garden State Growth Zones (GSGZ)**. A year later, P.L.2014, c.63 added the city of Atlantic City to the list. The GSGZ designation provides businesses that invest in the five municipalities with reduced eligibility requirements and higher incentive payments under the EDA-administered Economic Redevelopment and Growth Grant (ERG) and Grow New Jersey Assistance (GROW NJ) programs. For example, under the GROW NJ job creation and retention tax credit program, companies' minimum capital investment requirements are one-third lower and minimum full-time employment requirements one-fourth lower in GSGZs than in other eligible areas. Under ERG, for example, the maximum amount of any redevelopment incentive grant in GSGZs is 40 percent of total project costs instead of 30 percent in other eligible areas.

Furthermore, P.L.2013, c.161 authorized the original four GSGZ municipalities to opt into a property tax exemption program within 90 days of September 18, 2013 (N.J.S.A.52:27D-489s). A participating municipality may confer a 20-year property tax abatement on any new construction, improvement, and substantial rehabilitation of structures on real property that is undertaken by redevelopers qualifying as Garden State Growth Zone Development Entities (subsection b. of N.J.S.A.52:27D-489s). The exemption equals 100 percent of the value of the improvement for the first ten years after the issuance of a certificate of occupancy. Over the next ten years the exemption percentage declines gradually. Anyone who does not qualify as a

Discussion Points (Cont'd)

Garden State Growth Zone Development Entity can still receive a five-year property tax exemption equal to 100 percent of the value of any new construction, improvement, and substantial rehabilitation of structures on real property (subsection e. of N.J.S.A.52:27D-489s). In answering EDA Discussion Point #3 in the OLS FY 2014-2015 Department of the Treasury Budget Analysis, the EDA reported that three of the four original GSGZ municipalities opted into the property tax exemption program: the cities of Camden, Paterson, and Trenton. Moreover, the EDA stated that it could not provide the aggregate value of all real property improvements that have obtained GSGZ property tax abatements and the ensuing property tax savings to the taxpayers owning those improvements.

It appears uncertain in which GSGZ municipalities property owners, other than Garden State Growth Zone Development Entities, can receive a five-year property tax exemption equal to 100 percent of the value of any new construction, improvement, and substantial rehabilitation of structures on real property (subsection e. of N.J.S.A.52:27D-489s). Some contend that the law mandates the exemption in all five GSGZs and that the municipal opt-in provision applies only to the property tax abatement program for Garden State Growth Zone Development Entities (subsection b. of N.J.S.A.52:27D-489s). Others hold that both exemptions require an affirmative vote by GSGZ municipalities. The EDA's websites on the five GSGZ municipalities suggest that the authority interprets the exemption for non-Garden State Growth Zone Development Entities under subsection e. to be binding on all GSGZs. If so, this would have the effect that Garden State Growth Zone Development Entities are the only parties that are ineligible for any tax abatement under N.J.S.A.52:27D-489s in Passaic (which chose not to opt into the program) and Atlantic City (which was not yet a GSGZ when the opt-in window was open). The cities of Camden, Paterson, and Trenton, however, seemed to have interpreted the law in such a manner that both exemptions require affirmative municipal action. Their opt-in ordinances all explicitly authorize the two abatements, which would be superfluous in the case of the exemption for non-Garden State Growth Zone Development Entities if subsection e. were a State mandate.

- ***Questions:*** **Please confirm that Atlantic City cannot and Passaic did not and can no longer opt into the property tax abatement programs that subsections b. and e. of N.J.S.A.52:27D-489s authorized for real estate improvements in Garden State Growth Zone (GSGZ) municipalities. Is it the EDA's interpretation that subsection e., which grants any property owner other than Garden State Growth Zone Development Entities a five-year property tax exemption equal to 100 percent of the value of any real estate improvement, is a State-mandated property tax exemption in all GSGZ municipalities that is available whether or not GSGZ municipalities have opted into the program? If so, is it correct that only property owners that are not Garden State Growth Zone Development Entities can receive property tax abatements under P.L.2013, c.161 in Atlantic City and Passaic?**

- **Does any State agency collect information on the aggregate value of all real property improvements that have obtained property tax abatements pursuant to P.L.2013, c.161 and the ensuing property tax savings to the taxpayers owning those improvements?**

- **Please list any incentive awards the EDA has made in accordance with P.L.2013, c.161 and P.L.2014, c.63 under the Economic Redevelopment and Growth Grant and**

Discussion Points (Cont'd)

Grow New Jersey Assistance programs to businesses investing in the five GSGZ municipalities. Would any of the projects not have qualified for the incentives under the programs' standard terms? Did any of the projects also secure property tax abatements pursuant to N.J.S.A.52:27D-489s? How many applications for incentive awards under the GSGZ designation is the EDA currently evaluating?

4. P.L.2013, c.161 made significant revisions to the EDA-administered **Grow New Jersey Assistance (GROW NJ) program** effective as of September 18, 2013. One of the revisions created a **"mega project"** category that allows for enhanced tax credit amounts. Notably, along with projects in the Garden State Growth Zone municipalities of Atlantic City, Camden, Passaic, Paterson, and Trenton; "mega projects" qualify for the program's largest annual tax credit amounts of up to $15,000 per new full-time job for a period of up to ten years. Depending on project type, all other projects may earn maximum credits ranging from $2,000 to $12,000 per new full-time position for a period of up to ten years. In addition, full-time jobs retained at a project site are typically eligible for the lesser of 50 percent of the tax credit amount for new full-time positions or one-tenth of the capital investment divided by the number of retained and new full-time jobs. However, retained full-time positions qualify for 100 percent of the new full-time position tax credit amount if they are part of a "mega project" in a Garden State Growth Zone municipality or of a "mega project" involving the United States headquarters of an automobile manufacturer located in a priority area. (Full-time jobs retained at a new facility that replaces a facility that has been substantially damaged in a federally-declared disaster also qualify for the 100-percent rate). Lastly, "mega projects" also benefit from relaxed net benefit test requirements. Specifically, to qualify for a GROW NJ tax credit, a project must typically yield fiscal benefits to the State over a period of up to 20 years that equal or exceed 110 percent of the tax credit amount. For "mega projects," however, the calculation considers 30 years of benefits. (The only other easing of the net benefit test concerns projects in Garden State Growth Zones, for which the EDA shall also consider 30 years of fiscal benefits, and projects in the City of Camden for which the EDA shall consider 35 years of fiscal benefits against a lower threshold of at least 100 percent of the tax credit amount).

A business must apply for a GROW NJ tax credit by September 18, 2017 to attain "mega project" status. A "mega project" is an eligible business facility project located in an "urban transit hub" whose capital investment exceeds $50 million and whose count of new and retained full-time positions exceeds 250. In addition, "mega projects" are eligible business facility projects whose count of new and retained full-time positions exceeds 1,000, or whose capital investment exceeds $20 million and whose count of new and retained full-time positions exceeds 250 if the business facility is located in either: a) a port district and houses a business in the logistics, manufacturing, energy, defense or maritime industries; or b) an aviation district and houses a business in the aviation industry; or c) a Garden State Growth Zone; or d) a priority area and houses the United States headquarters and related facilities of an automobile manufacturer. P.L.2014, c.63 subsequently added to the "mega project" classification projects representing eligible capital investments of at least $20 million in a business facility located in an area designated in need of redevelopment in Atlantic, Burlington, Camden, Cape May, Cumberland, Gloucester, Ocean or Salem counties that will create or retain more than 150 full-time positions. The table on the following page lists the three GROW NJ tax credits the EDA has approved to "mega projects" through January 21, 2015.

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GROW NJ Program: Tax Credit Approvals for "Mega Projects"				
Project	**Municipality**	**Approved Tax Credit**	**Eligible Capital Investment**	**New and Retained Jobs**
JPMorgan Chase Bank, N.A.	Jersey City, Hudson County	$224,835,000	$76,906,632	3,612
Metropolitan Foods, Inc.	Wayne, Passaic County	$18,487,500	$67,600,000	354
Barrette Outdoor Living. Inc.	Galloway Township, Atlantic County	$29,810,000	$26,236,368	271
	TOTAL	**$273,132,500**	**$170,743,000**	**4,237**

- ***Questions:*** **In addition to the projects delineated in the table above, please list all GROW NJ tax credit awards the EDA has approved in accordance with P.L.2013, c.161 and P.L.2014, c.63 to: a) "mega projects" and b) projects whose retained jobs have earned 100 percent, instead of the standard 50 percent, of the new full-time position tax credit amount. How many GROW NJ applications is the EDA currently evaluating for: a) "mega project" status; and b) tax credits for retained full-time positions that equal the 100-percent rate for new full-time positions? Has the EDA received a GROW NJ tax credit application for a "mega project" involving the United States headquarters of an automobile manufacturer located in a priority area?**

5. Having failed to turn a profit since opening on April 2, 2012, the **Revel Casino in Atlantic City** closed on September 2, 2014. The casino's owners had filed for Chapter 11 bankruptcy protection with the United States Bankruptcy Court for the District of New Jersey on June 19, 2014, which marked the second bankruptcy proceeding in less than 18 months. (The first Chapter 11 filing had concluded with a court-approved reorganization plan.) Since the casino's closure two attempts to sell the property have failed. Brookfield US Holdings LLC's $110 million bid won an October 1, 2014 bankruptcy court auction. But the company terminated the deal in November 2014. This led to the initiation of sales proceedings with the backup bidder, Polo North Country Club, Inc., that had submitted a $95.4 million offer at the auction. These turned out equally futile so that the bankruptcy court consented on February 19, 2015 to the casino owners' request to terminate the sales agreement.

New Jersey made a financial commitment to the project, which cost $2.4 billion to build. On February 1, 2011, the EDA approved an Economic Redevelopment and Growth Grant (ERG) of up to $261.4 million to support the completion of the construction of the then-unfinished casino. Under the performance-based tax-increment financing program, the final grant amount would have equaled 75 percent of certain State tax collections the casino *actually* would have generated over 20 years. The State, however, has not made any grant payment because the casino did not generate sufficient revenues to qualify therefor, as the EDA related in reply to EDA Discussion Point #5 in the OLS FY 2014-2015 Department of the Treasury Budget Analysis. The authority attributed the casino's falling short of the anticipated economic performance to numerous factors, including the lingering national recession, increased gaming competition from other states, and the devastation resulting from Superstorm Sandy.

It is not clear whether the ERG award will be transferrable to any future purchaser of the Revel Casino. The current wording of subsection g. of N.J.S.A.52:27D-489i authorizes ERG grant

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recipients to "pledge, assign, transfer, or sell any or all of its right, title and interest in and to such agreements and in the incentive grants payable thereunder," subject to the approval of the EDA and the State Treasurer. But at the time of Revel's ERG grant award approval that section of law only allowed grant recipients to "pledge and assign as security or support for any loan or bond, any or all of its right, title and interest in and to such agreements and in the incentive grants payable thereunder," subject to the approval of the EDA and the State Treasurer.

The EDA approved the Revel grant under the terms of the ERG program as it existed prior to the revisions of P.L.2013, c.161, the "New Jersey Economic Opportunity Act of 2013." P.L.2009, c.90 created the program as a tax-increment financing mechanism with a State and a municipal component (N.J.S.A.52:27D-489a et seq.). The law authorized, but did not require, the awarding of State ERG payments for eligible redevelopment projects in certain areas of New Jersey that would yield fiscal net benefits to the State and that would not occur absent the financial assistance. State ERG payments could equal up to 75 percent of the annual incremental State tax revenue attributable to a project and could be authorized for up to 20 years. But the combined amount of State and municipal ERG grant payments could not exceed 20 percent of a project's total cost. Disbursements commence after a project's completion. All approved State ERG grants under the legacy program are listed at http://www.njeda.com/web/pdf/Approved_ERG_Legacy.pdf.

- **Questions: Please confirm that the State has not made any Economic Redevelopment and Growth Grant (ERG) reimbursement to the owners of the Revel Casino. Please indicate whether the casino's ERG award agreement is potentially transferrable to any future purchaser of the property. If so, would the ability to receive ERG payments depend on the property's future use as a casino? If the current casino owners are unable to transfer the ERG award to any purchaser of the property, will the EDA cancel the agreement upon any property sale? Would any future property owner be eligible for any EDA-administered economic development incentives?**

6. P.L.2014, c.63 established a new five-year EDA-administered **tax incentive program for redevelopers that donate to a governmental entity public infrastructure** with a minimum $5 million fair market value or open space without improvements with a minimum $1 million fair market value (N.J.S.A.34:1B-251). Redevelopers may apply for a corporation business tax credit equal to the cost of providing the public infrastructure, but not more than $5 million. To qualify for the credit the public infrastructure must be: a) donated or built and donated after January 1, 2013; b) part of a new capital investment of more than $10 million in a building or complex of buildings, which shall be completed within two years following tax credit approval; and c) part of a redevelopment project that has not received a Grow New Jersey Assistance (GROW NJ) tax credit or an Economic Redevelopment and Growth Grant (ERG) tax credit or grant. Incentive awards are available statewide and are not contingent upon the incentives being vital to the execution of a redevelopment project or its public infrastructure components. Moreover, redevelopment projects and their attendant public infrastructure components are not required to generate indirect fiscal benefits to the State in excess of the cost of the tax incentive. The EDA may award no more than $25 million in total tax credit awards over the program's

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five-year lifespan and redevelopers may apply for tax credits between October 24, 2014 and December 31, 2019.

- *Questions:* **Please provide a status update on the tax credit program for redevelopers that donate public infrastructure to governmental entities. Is the program operational? If not, by what date does the EDA expect the program to be operational? How many tax credit applications and for what dollar amount has the EDA received to date and what is the applications' current state in the evaluation process? Please list all approved tax credit awards, including a description of the donated public infrastructure or open space. Considering the applications and inquiries the EDA has received to date, does the authority project that the $25 million cap on aggregate tax credit awards will suffice to meet demand?**

7. P.L.2013, c.161 closed the EDA-administered **Business Employment Incentive Program (BEIP)** to new applicants effective on September 18, 2013, but did not cancel the future disbursement of any approved BEIP grant payment. In reply to EDA Discussion Point #6 in the OLS FY 2014-2015 Department of the Treasury Budget Analysis, the EDA related that owing to grant award terms of up to ten years it expected incurring additional BEIP payment obligations for ten to twelve more years.

The FY 2015 Appropriations Act included no funding for the payment of BEIP grants. The FY 2016 Governor's Budget proposal does not do so either (page D-376). But instead the Administration recommends the enactment of legislation that would permit BEIP grant recipients to voluntarily convert outstanding BEIP payment liabilities into refundable tax credits (page D-363). In addressing last year's EDA Discussion Point #6, the authority reported that the State had approximately $650.0 million in outstanding BEIP grant payment obligations owed to roughly 400 businesses that had submitted expenses for payment. While some payable invoices dated as far back as FY 2008 for various reasons, the majority of obligations for FY 2011 and beyond still remained outstanding. The OLS notes that the amount of outstanding BEIP payment obligations does not include required future debt service payments on $200.8 million in bonds the EDA issued in 2004 and 2005 to finance FY 2005 and FY 2006 BEIP grant payments. According to the State of New Jersey Fiscal Year 2014 Debt Report, as of June 30, 2014, some $45.7 million in debt service payments remained outstanding on the bonds through final maturity on November 1, 2015.

N.J.S.A.34:1B-124 et seq. established the statutory authority for the BEIP program under which the EDA provided grants to businesses that create jobs in New Jersey. BEIP grants could be awarded for up to ten years and could equal between 10% and 80% of the total amount of State income taxes withheld by the grant receiving business from wages of new employees subject to the grant agreement. To qualify for a grant, an applicant had to certify that receipt of the grant was a "material factor" in the business' decision to invest in New Jersey. In total, the EDA executed 483 BEIP grant agreements with a cumulative grant amount of $1.56 billion since the program's inception in 1996. In all, executed BEIP grants covered 115,305 new jobs and capital investments totaling $12.3 billion. All executed BEIP agreements are listed at: http://www.njeda.com/web/pdf/BEIP_Activity_Alphabetical.pdf.

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- ***Questions:*** **Please specify: a) the cumulative dollar amount of outstanding BEIP payment obligations that have become payable in the past; b) the number of businesses that are owed BEIP payments that have become payable in the past; c) whether all FY 2008, 2009, 2010, 2011, and 2012 obligations have been paid; d) the dollar value of all BEIP payment obligations that have become newly payable in FY 2015 and are projected to become newly payable in FY 2016; e) the dollar amount of all projected future BEIP payment obligations; and f) the year in which the EDA projects the last BEIP payment to come due.**

8. P.L.2013, c.161 closed the EDA-administered **Business Retention and Relocation Assistance Grant (BRRAG)** tax credit program to new applicants effective on September 18, 2013, but did not cancel any approved but not yet used BRRAG tax credit awards. In reply to EDA Discussion Point #7 in the OLS FY 2014-2015 Department of the Treasury Budget Analysis, the EDA detailed its projected schedule of taxpayers' future use of $97.1 million in total estimated BRRAG tax credits from calendar year 2014 through calendar year 2021.

The BRRAG program had a $20 million aggregate cap on the total dollar value of tax credits that taxpayers may apply against tax liabilities in a given tax period with a requirement that tax credits may only be used in the tax periods for which they are issued. Tax credits were available under the corporation business and insurance premiums taxes to businesses that relocated operations within New Jersey and retained jobs or that maintained jobs at a current location and made a qualified capital investment (N.J.S.A.34:1B-112 et seq.). The per-employee tax credit ranged from $1,500 to $9,000 depending on the number of full-time positions retained. Businesses earned a tax credit bonus of 50 percent of the base amount if they relocated at least 2,000 jobs from a location in New Jersey into a designated urban area. They could earn another 50 percent bonus if their capital investment was at least twice the amount of tax credits granted prior to the application of a bonus. In addition to the receipt of the tax credit being a material factor in the business' decision to retain full-time positions in New Jersey, an applicant business had to demonstrate that the tax credit would yield a net fiscal benefit to the State. Tax credit awards were only certified for use upon project completion. Since inception in 2005, the EDA executed BRRAG agreements totaling an estimated $125.1 million in tax credits for 85 projects representing an estimated $2.08 billion in capital investments and 31,654 in retained jobs. The EDA lists all BRRAG agreements at http://www.njeda.com/web/pdf/BRRAG_activity.pdf.

- **Questions: Please provide an updated estimate of the BRRAG tax credit amounts that taxpayers will use in tax period 2015 and every tax period thereafter. What was the total amount of approved BRRAG tax credits in tax period 2014? Did taxpayers use the full amount thereof? If not, what amount of approved tax period 2014 tax credits was forfeited and what amount did the EDA authorize for carryover to future tax periods?**

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9. P.L.2013, c.161 closed the EDA-administered **Urban Transit Hub Tax Credit program** to new applicants effective on September 18, 2013. The law, however, honors any approved but not yet used tax credit awards. In reply to EDA Discussion Point #8 in the OLS FY 2014-2015 Department of the Treasury Budget Analysis, the EDA specified that it had awarded $1.32 billion in tax credits: $834 million for commercial construction projects and $486 million for residential construction projects. In FY 2015, the EDA anticipated certifying about $131.3 million in tax credits for taxpayer use with the vast majority of approved tax credit awards continuing to represent future contractual State liabilities. The EDA lists all approved Urban Transit Hub Tax Credit agreements at: http://www.njeda.com/web/pdf/HUB_Activity.pdf.

P.L.2007, c.346 originally established the Urban Transit Hub Tax Credit program (N.J.S.A.34:1B-207 et seq.), under which the EDA was authorized to award tax credits to taxpayers who invested at least $50 million in real property situated in urban transit hubs. Subject to certain qualifying criteria, capital investments in business facilities that were to house at least 250 full-time positions could earn tax credits of 100 percent of the capital investment if at least 200 of the full-time positions were new to the State or of 80 percent of the investment if fewer than 200 of the full-time positions were new to the State. Residential investments, in turn, could earn tax credits of up to 35 percent of the investment and mixed use projects either of up to 35 percent for the entire investment or of up to 35 percent for the project's residential component if it represented at least a $17.5 million capital investment and of up to 100 percent for the project's business facility component if it represented at least a $17.5 million capital investment. Taxpayers receive their finalized tax credit awards in ten equal annual installments beginning after project completion. Urban transit hubs were the area within a one-half mile radius around a rail or light rail station in Camden, East Orange, Elizabeth, Hoboken, Jersey City, Newark, New Brunswick, Paterson, and Trenton, with the Camden urban transit hub covering the area within a one-mile radius around a rail or light rail station. In addition, there was an urban transit hub in the area within a one-mile radius of a rail or light rail station that was subject to a Choice Neighborhoods Transformation Plan. (The only New Jersey Choice Neighborhood was in Jersey City at the McGinley Square – Montgomery Corridor.) Acute care medical facilities and closed hospitals located within a one-mile radius of a rail or light rail station also qualified for tax credits.

Furthermore, the law includes several recapture provisions intended to ensure that tax credit recipients follow through on the commitments they made in their tax credit agreements. Specifically, the EDA is to reduce or void outstanding tax credit award use authorizations as follows for years in which a business fails to maintain certain employment levels:

Employment Level Change	Recapture Impact on Tax Credit Award
1) Fewer than 200 new full-time positions to the State housed at qualified facility	Tax credit reduced by 20 percent for years in which condition applies
2) Fewer than 250 full-time employees work at qualified facility	Forfeiture of tax credit installment for years in which condition applies
3) Business' statewide workforce drops by more than 20 percent below level in last tax accounting period prior to tax credit approval	Forfeiture of tax credit installment for years in which condition applies

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4) Business' workforce at any of its facilities in State other than the qualified facility drops by more than 20 percent, exclusive of positions transferred to qualified facility, below level in last tax accounting period prior to tax credit amount approval	Forfeiture of tax credit installment for years in which condition applies
5) Business sells prior to expiration of ten-year tax credit authorization period facility for which it received tax credit award	Forfeiture of remaining tax credit installments

- ***Questions:*** **Please indicate, by tax period, the number and dollar value of Urban Transit Hub Tax Credit awards the EDA has authorized for taxpayer use through calendar year 2014. What amount of that total, if any, have taxpayers carried over to future tax periods? Please project the dollar value of tax credit awards that taxpayers will be entitled to apply against tax liabilities in tax period 2015 and every tax period thereafter.**

- **Please comment on the prevalence of events that trigger the cancellation or reduction of previously approved Urban Transit Hub Tax Credit awards. Please list: a) any previously approved projects that have either been abandoned or modified to such an extent in their implementation that they have become tax credit-ineligible; and b) any projects whose previously approved tax credit awards the EDA has voided or reduced in accordance with the enabling law's recapture provisions. Based on its prior experience in managing economic development tax incentive awards, does the EDA project that a certain percentage of the dollar amount of approved Urban Transit Hub Tax Credit awards will not result in forgone State revenue?**

10. The EDA-administered Grow New Jersey Assistance (GROW NJ) program and Economic Redevelopment and Growth Grant (ERG) program for commercial—but not residential—redevelopment projects require that proposed projects pass the EDA's econometric net benefit test for tax incentive approval. Generally, the test seeks to ensure that a project's capital investment and employment creation or retention will yield additional State revenue equal to at least 110 percent of the requested State subsidy amount over a 20-year analysis horizon. Laxer standards apply to Camden-based commercial projects and so-called "mega projects" under the GROW NJ program only: the analysis period for both types of projects stretches over 30 years and the projected additional State revenue collections from Camden-based projects must only equal or exceed the tax credit amount.

The **net benefit test's treatment of economic substitution effects** is unclear. Substitution effects occur whenever economic activity at a new project site replaces economic activity that otherwise would have taken place in other regional establishments. The fiscal net effect to the State of such economic activity shifts is neutral. But if a project's net benefit test were to include substituted economic activity among the proposed project's State benefits, it would overcount State net benefits in the calculation, resulting in an overinflated incentive award. In the past, the EDA has faced substitution effect challenges when it evaluated hotel, restaurant,

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and retail projects for incentive awards. (In general, point-of-final-purchase retail facilities are ineligible for GROW NJ tax credits, but may receive ERG grants.)

For example, in November 2013, the EDA awarded an ERG grant of up to $390 million for distribution over 20 years following project completion under the program's previous configuration for the "American Dream Meadowlands" retail and entertainment redevelopment project in East Rutherford. The 3.3 million gross square foot project includes 2.1 million gross square feet of leasable retail and restaurant space. Its developers estimate the project to cost $2.6 billion and create 11,650 new jobs. In the "Net Positive Benefit Analysis" section of the November 1, 2013 EDA Board Memo on the grant award, the EDA forecast the project to yield $487 million in net fiscal State benefits over a 20-year period on a present value basis. The calculation purposefully ignored the project's effects on State sales tax collections, as market assessments anticipated the finished site to draw substantial economic activity away from other establishments in the State. The analysis did, however, include 66 percent of anticipated corporation business tax and gross income tax revenue to be generated at the site.

Likewise, in December 2013, the EDA approved a $105.6 million commercial Urban Transit Hub Tax Credit for MMC-DB Group, LLC in support of the group's mixed use construction project on the campus of St. Joseph's Regional Medical Center in Paterson. The project has two components, namely the construction of a first tower that will house a medical teaching and office facility and of a second tower that will house a 153,200 square foot, 132-room Hilton Garden Inn hotel and conference center with a parking facility. The project's estimated capital investments total $138.6 million, of which the hotel tower accounts for $85.4 million, according to the December 10, 2013 EDA Board Memo on the tax credit award. The project is forecast to create 321 new jobs by April 26, 2017, of which the hotel and conference center accounts for 140. The EDA projected the entire redevelopment to accrue $88 million in net fiscal State benefits over a 30-year period on a present value basis. State fiscal benefits included the project's anticipated corporation business tax, gross income tax, real estate tax, hotel tax, and sales tax collections. But the EDA Board Memo did not specify whether the EDA excluded from the analysis the State revenue the project will generate at the expense of hotels and conference centers in the project's wider region.

- ***Questions:*** **Please describe the manner in which the net benefit test generally treats economic activity that a proposed project would siphon away from other regional establishments. Does the calculation include projected State fiscal benefits from substituted economic activity? While the "American Dream Meadowlands" net benefit calculation excluded the project's anticipated sales tax collections on substitution effect grounds, did the EDA also adjust projected corporation business tax and gross income tax payments in recognition of profits that would be derived from regionally substituted economic activity? As to the mixed use construction project on the campus of St. Joseph's Regional Medical Center in Paterson, how did the EDA adjust the hotel and conference center's projected financial performance for economic activity the hotel and conference center will draw away from other regional hotels and conference centers?**

- **Please provide a status update for the "American Dream Meadowlands" retail and entertainment redevelopment project and the mixed use construction project on the campus of St. Joseph's Regional Medical Center in Paterson. To the best of the EDA's**

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knowledge, has construction begun on the two sites and what are the currently projected construction completion dates?

11. The EDA and the Board of Public Utilities (BPU) jointly administer the **New Jersey Energy Resilience Bank**, a federally-funded program financing public energy resilience infrastructure projects in qualified municipalities. The agencies collaboratively designed the program, while the BPU performs the technical review of proposed projects and the EDA the financial and applicant due diligence reviews. Both agencies must approve projects for financial assistance.

The New Jersey Energy Resilience Bank received its initial $200 million endowment from the federal government under the federal Disaster Relief Appropriations Act of 2013 (Pub.L. 113-2). Specifically, the sum is a component of the $1.46 billion in additional Superstorm Sandy recovery aid New Jersey is to receive in the second allocation round of the federal Community Development Block Grant – Disaster Recovery Funds program. The New Jersey Department of Community Affairs outlined the planned use of the additional moneys in the "Superstorm Sandy Community Development Block Grant — Disaster Recovery Action Plan Amendment Number 7," which the United States Department of Housing and Urban Development approved on May 30, 2014.

The EDA announced the New Jersey Energy Resilience Bank's launch on October 20, 2014. The program strives to keep critical facilities operational during power outages through the installation of distributed energy resource systems. The term refers to smaller, decentralized energy generation technologies installed at and serving local facilities that are interconnected with the electrical grid but capable of operating independently. Examples include combined heat and power (cogeneration) plants, fuel cells, and solar generation systems with energy storage technologies. Section 3.5.2. of the "Superstorm Sandy Community Development Block Grant — Disaster Recovery Action Plan Amendment Number 7" identifies potential beneficiaries of New Jersey Energy Resilience Bank financing: water and wastewater treatment plants, public housing, hospitals, emergency response facilities, municipal town centers, correctional facilities, transportation and transit networks, regional high schools that can function as emergency shelters, and private sector facilities performing critical emergency functions, such as liquid fuel refineries, distribution facilities, and pipelines. The New Jersey Energy Resilience Bank thus represents a second State incentive program for combined heat and power and fuel cell system projects, next to the BPU's existing Clean Energy Fund-supported incentive program for such projects (see BPU Discussion Point #7).

In a first funding round the EDA and BPU allocated up to $65 million in New Jersey Energy Resilience Bank financing capacity to the support of distributed energy resource systems at water and wastewater treatment facilities in 91 qualified municipalities that were impacted by Superstorm Sandy or another qualifying natural disaster. Of the $65 million, some $5 million is set aside for the purchase of electricity storage equipment. The application period opened on October 20, 2014 and will run until funding depletion with applications being reviewed on a rolling basis. There is no maximum award for individual projects, except for a $500,000 project maximum for electricity storage equipment. Financial assistance equals a project's unmet funding need and is composed to 40 percent of grants and forgiveable loans and to 60

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percent of low-interest, amortizing loans. Project equipment must be operational within two years of any loan or grant closing.

- **Questions: Please share: a) the number of applications the New Jersey Energy Resilience Bank program has received to date; b) the total amount of financial assistance sought; and c) the total generation capacity of all proposed combined heat and power generation installations. Please list the projects that have already secured an incentive award, including the generation capacity of any approved combined heat and power plants. Does the $65 million program budget satisfy all eligible project applications? If not, what method do the EDA and BPU employ to prioritize projects and do the agencies plan to up the program funding level? By what date do the EDA and BPU anticipate paying out the first incentive award? Are there any deficiencies in program operations and performance that must be addressed? What are the EDA's and BPU's plans for the unallocated $135 million program balance?**

12. On October 29, 2012, Superstorm Sandy made landfall in New Jersey. According to the preliminary damage assessment that the New Jersey Governor's Office released on November 28, 2012, the superstorm caused $29.4 billion in repair, response, and restoration expenses plus $7.4 billion in mitigation and prevention costs. Businesses in the 113 most impacted municipalities incurred an estimated $382 million in commercial property losses and $64 million in business interruption losses, as related in the "Community Development Block Grant Disaster Recovery Action Plan" published by the New Jersey Department of Community Affairs on March 12, 2013.

The federal Disaster Relief Appropriations Act of 2013 (Pub.L. 113-2) has supported the State's storm recovery efforts. In implementing the law, the United States Department of Housing and Urban Development (HUD) has allocated $4.2 billion in Community Development Block Grant – Disaster Recovery Funds (CDBG-DR Funds) to New Jersey in three stages. On April 29, 2013, it approved the Administration's "Community Development Block Grant Disaster Recovery Action Plan" for use of the first $1.8 billion. On May 30, 2014, it sanctioned the State's plan for a second $1.5 billion funding round (Action Plan Amendment Number 7 – Substantial Amendment for the Second Allocation of CDBG-DR Funds). Subsequently, HUD allocated another $882 million to New Jersey in a third funding round, but the agency still has to approve the State's fund use plan (Action Plan Amendment Number 12 – Substantial Amendment for the Third Allocation of CDBG-DR Funds: Rebuild by Design).

The State's action plan originally assigned $460 million to the EDA for the creation and administration of four **Superstorm Sandy-related relief programs for impacted businesses**. The amount has since been reduced to $300 million. The following paragraphs discuss the individual programs in greater detail.

1) **Stronger NJ Business Grant Program** ($100 Million; originally $260 Million): The program extends grants and forgivable loans of up to $50,000 to small businesses and non-profit organizations to alleviate storm damage costs they could not recover from other sources. The financial assistance may be used to pay for costs related to rehabilitation, new construction, equipment, inventory,

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and working capital, but not to recover financial losses from the storm. The application deadline was December 31, 2013. The Sandy Transparency Portal run by the New Jersey Office of the State Comptroller indicates that, as of December 1, 2014, the EDA had approved $55.5 million in financial assistance to 951 recipients and disbursed $46.5 million. The program's original allocation totaled $260 million but was later cut to $100 million in accordance with a subsequent EDA demand analysis. The freed-up $160 million was then transferred to non-business Sandy relief programs (Action Plan Amendment 4 – Substantial Amendment for the Transfer of Sandy CDBG-DR Funds).

2) **Stronger NJ Business Loan Program** ($100 Million): Creditworthy businesses and non-profit organizations may apply for no-cost loans of up to $5 million for a 24-month period to redress the uncompensated costs they incur in improving their storm-damaged properties and to expand existing and form new businesses in impacted areas. Loans can be used for renovation, new construction, equipment, and working capital. They may have a maturity period exceeding 24 months, but the EDA will charge interest after two years. The Sandy Transparency Portal indicates that, as of December 1, 2014, the EDA had approved $27.7 million in financial assistance to 39 applicants and disbursed $16.4 million. In reply to EDA Discussion Point #14 in the OLS FY 2014-2015 Department of the Treasury Budget Analysis, the authority noted that it had ceased to accept additional applications following the receipt of an unanticipatedly high volume of applications. The EDA expected to have its application review process substantially completed by the end of 2014 and funds fully disbursed by May 2015.

3) **Stronger NJ Neighborhood and Community Revitalization Program** ($75 Million): Three long-term economic revitalization programs support physical improvement projects in Sandy-affected communities and other activities that restore and strengthen local economies. A $62.5 million program provides grants and loans of up to $10 million for physical improvements that have commercial, mixed, recreational or cultural uses. Eligible projects must be public improvement projects or must benefit a diversity of occupants in the same location. Single business projects are ineligible. In response to last year's EDA Discussion Point #14, the authority noted that the program was oversubscribed with 80 applicants requesting $224.3 million, and that it had just approved a review and scoring process. Another program sets aside $10.0 million for grants to municipalities impacted by Superstorm Sandy for streetscape revitalization projects in established traditional business districts. Grants range from $125,000 to $1.5 million. The application deadline was January 21, 2014. In reply to last year's EDA Discussion Point #14, the authority reported that it had recommended ten projects for full, and one for partial, funding that would consume the entire $10 million program budget, but that all projects still needed to pass the New Jersey Department of Environmental Affairs' Environmental and Historic Review process. A third program allocates $2.5 million to Community Development Financial Institutions (CDFI) to fund loans to small businesses through currently existing lending programs. An individual CDFI may receive up to $500,000 in grant funds. In answering last year's EDA Discussion Point #14, the authority listed five CDFIs to which it had awarded $500,000 each. The Sandy Transparency

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Portal indicates that, as of December 1, 2014, the authority had approved and paid out only $3.4 million in financial assistance to four applicants under the three economic revitalization programs combined.

4) **Tourism Marketing Campaign** ($25 Million): The "Stronger than the Storm" tourism marketing campaign promoted the Jersey Shore in 2013. The "Going Strong" campaign did so in 2014. According to the Sandy Transparency Portal, the program budget has been fully spent. The State had allocated an additional $5 million from the second CDBG-DR funding round to expand the "Going Strong" campaign in 2014 (Action Plan Amendment Number 7 – Substantial Amendment for the Second Allocation of CDBG-DR Funds). But with HUD not having granted a needed waiver by the end of the 2014 summer tourism season, the State withdrew the waiver request and instead requested that HUD approve the transfer of the $5 million allocation to the Rehabilitation, Reconstruction, Elevation and Mitigation program (Action Plan Amendment Number 13 – Substantial Amendment for the Transfer of Sandy CDBG-DR Funds).

- **Questions: Please update the following information for each of the Stronger NJ Business Grant Program, Stronger NJ Business Loan Program, and the three subprograms of the Stronger NJ Neighborhood and Community Revitalization Program: a) the number of applicants approved for financial assistance; b) the dollar value of the approved financial assistance; c) the dollar value of the financial assistance that has already been disbursed; d) the number and dollar value of active applications that the EDA still has to process; and e) the expected approval process completion date.**

- **Given that the Stronger NJ Business Grant Program had $55.5 million in approved financial aid disbursements through December 1, 2014 and that applications may still be pending EDA approval, does the $100 million program allocation permit the awarding of grants and forgivable loans to all eligible applicants? If not, what method does the EDA employ to prioritize applications? Does the EDA anticipate the availability of unused financial capacity? If so, please quantify the anticipated spare capacity and indicate any plans therefor.**

- **Given that the Stronger NJ Business Loan Program had $27.7 million in approved financial aid disbursements through December 1, 2014 and that applications may still be pending EDA approval, does the $100 million program allocation permit the granting of loans to all eligible applicants? If not, what method does the EDA employ to prioritize applications? Does the EDA anticipate the availability of unused financial capacity? If so, please quantify the anticipated spare capacity and indicate any plans therefor. Has the EDA already received any loan repayment? How does the EDA intend to use any loan repayment proceeds?**

- **Please explain the reason(s) for the EDA only having approved and paid out a combined $3.4 million in financial assistance under the three subprograms of the Stronger NJ Neighborhood and Community Revitalization Program, as of December 1, 2014. By what date does the EDA anticipate the disbursement of additional aid amounts? Given that the Stronger NJ Neighborhood and Community Revitalization**

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> **Program has been oversubscribed, does the EDA anticipate increasing the program budget through the reallocation of amounts that may be overbudgeted in other Sandy relief program accounts or the receipt of additional moneys in another CDBG-DR funding round?**

13. Power outages following Superstorm Sandy rendered fuel pumps and point-of-sale systems at many retail gas stations inoperable for days. Especially along evacuation routes such inoperability can impede the evacuation of endangered citizens and emergency operations. Under the Hazard Mitigation Grant Program, the Federal Emergency Management Agency therefore extended approximately $7 million to New Jersey for an initiative that would keep more gas stations running during future power outages. The EDA has been disbursing the federal funds through the nonpermanent **Retail Fuel Station – Energy Resiliency Program**.

In a January 5, 2015 press release, the EDA set forth statistics on the program's first funding round and announced the opening of a second round with expanded eligibility criteria. Under the first program iteration the EDA had awarded $3.0 million in grants to 62 gas stations, with 86 applications for a combined $1.6 million still pending review. Grant-eligible were applications for retail fuel stations located within one-quarter of a mile of evacuation routes that met the March 4, 2014 submission deadline. Grant awards could reach $65,000 for the permanent installation of back-up electric generator units at eligible stations with a gasoline fuel storage capacity greater than 35,000 gallons. In addition, grant awards of up to $15,000 were available for eligible stations with a gasoline fuel storage capacity ranging from 30,000 to 35,000 gallons for the permanent installation of back-up electric generators or the purchase of "quick connect" technology that allowed for the ready connection of a portable generator to a gas station's emergency electrical panel. "Quick connect" technology and permanent back-up electric generators could be acquired and installed only after the signing of a grant agreement with the EDA. Upon receipt of the grant agreement a gas station owner had three months to purchase and install the "quick connect" technology and six months to purchase and install a permanent back-up electric generator. If a station sustained verifiable physical damage as a result of Superstorm Sandy, the owner had 12 months to complete the work. The EDA lists approved grant recipients at: http://www.njeda.com/web/pdf/RFS_List_Approved_Stations.pdf.

With $4.6 million of the $7.0 million program budget already expended or committed some $2.4 million in resources remain. Consequently, the EDA opened a second funding round with a March 31, 2015 application deadline. This time gas stations located anywhere in the state, not just within one-quarter of a mile of evacuation routes, can receive grants with priority assigned to stations that fuel county emergency vehicles or that are located at or near a bridge or tunnel. As before, grant awards of up to $65,000 are available for the permanent installation of back-up electric generator units at eligible retail fuel stations with a gasoline fuel storage capacity greater than 35,000 gallons. In addition, grant awards of up to $15,000 are available for eligible stations with a gasoline fuel storage capacity ranging from 18,000 to 35,000 gallons for the permanent installation of back-up electric generators or the purchase of "quick connect" technology that allows for the ready connection of a portable generator to a gas station's emergency electrical panel. The minimum gasoline capacity was 30,000 gallons in the first funding round.

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- ***Questions:*** **For the first funding round of the Retail Fuel Station – Energy Resiliency Program, please update the total number and dollar amount of: a) grants the EDA has already approved, and b) grant applications that are still pending EDA review. How many grant applications has the EDA received for the second funding round? By what date does the EDA expect to complete its application review process? What total dollar amount of financial assistance has the EDA already awarded to date in the second funding round and to how many applicants? Does the $7 million program budget satisfy all eligible grant applications? If not, what method does the EDA employ to prioritize applications?**

14. The federal Small Business Jobs Act of 2010, Pub.L. 111-240, created the $1.5 billion **State Small Business Credit Initiative**. Participating states must use the federal funds for programs that leverage private lending to help finance capital investments of creditworthy small businesses and manufacturers that have been denied access to the loans they need to expand and create jobs.

In September 2011, the United States Department of the Treasury issued a $33.8 million State Small Business Credit Initiative award to the State of New Jersey and released the first $11.1 million thereof. A second $11.1 million tranche followed in April 2013. The third and final installment will be made once New Jersey will have expended or obligated 80 percent of its previously received funds. The EDA expected the receipt of the remaining federal grant money by the third quarter of 2014, according to its answer to EDA Discussion Point #17 in the OLS FY 2014-2015 Department of the Treasury Budget Analysis. Irrespective of the exact timing of the last installment's release, federal law requires that the State expend the full $33.8 million allocation by March 31, 2017. Any funds available after that date will revert to the federal government. As part of the allocation agreement, the State must also file annual reports on its fund usage with the United States Department of the Treasury. The latter's Office of Inspector General found in its February 2013 audit report that New Jersey had complied with all federal requirements in administering the first $2.9 million in program funds it had disbursed as of June 30, 2012. The office has not published any update since.

According to the allocation agreement, the EDA will use the federal moneys in support of four existing programs: a) $13.5 million for EDA's participation in small businesses' bank loans for investments in fixed assets and permanent working capital; b) $9.8 million for EDA's provision of direct loans to small business for investments in fixed assets and permanent working capital; c) $5.5 million for the EDA to guarantee up to 50 percent of bank loans of eligible small businesses for investments in fixed assets and permanent working capital; and d) $5.0 million for the New Jersey Venture Capital Fund Program under which the EDA would invest in early-stage New Jersey technology businesses with less than $3.0 million in annual revenue. In addressing last year's EDA Discussion Point #17 the authority indicated that it had used the $22.3 million it had already received from the federal government to that date to approve $15.3 million in project financing and that it anticipated this investment to create and retain a combined 411 full-time positions in New Jersey. Of the committed $15.3 million, the EDA had already disbursed $9.7 million.

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- ***Questions:*** **Please report on the EDA's progress in using the federal $33.8 million State Small Business Credit Initiative award. Please identify the specific EDA programs receiving funding, and for each program delineate the amount allocated, the amount that has already been expended or committed, and any metrics on the expected economic benefits to New Jersey resulting from the investments receiving financial assistance. By what date does the EDA expect to receive the third tranche of its State Small Business Credit Initiative award?**

15. P.L.1997, c.278 created the Brownfield Site Reimbursement Fund whose balances finance the **Brownfields and Contaminated Site Remediation Program** (N.J.S.A.58:10B-30). The program reimburses qualified developers for up to 75 percent of the costs they incurred in remediating abandoned or underused, contaminated, commercial and industrial properties. To be eligible, a project must generate incremental State tax revenues in excess of the State reimbursement. Statutes require the deposit into the Brownfield Site Reimbursement Fund of State tax revenue generated by redeveloped sites. In actuality, however, the fund receives its resources from direct General Fund appropriations and, pursuant to budget language, from that portion of the constitutional dedication of four percent of annual corporation business tax collections for environmental purposes that supports the remediation of the discharges of hazardous substances. Annual budget language also authorizes the Office of Management and Budget to appropriate additional amounts to the fund if necessary to meet payment obligations.

Imperfect information has hampered annual budget projections for the Brownfields and Contaminated Site Remediation Program to the point that the EDA could not provide any estimate of required program disbursements for FY 2015, FY 2016, and FY 2017 in its answer to EDA Discussion Point #11 in the OLS FY 2014-2015 Department of the Treasury Budget Analysis. The EDA explained that a project's annual reimbursement amount was, in part, a function of the Department of Environmental Protection's assessment of eligible costs and the Division of Taxation's verification of State tax amounts the project generated. Both administrative partner agencies, however, did not project future eligible cost and reimbursement amounts for budgeting purposes. To gain a better understanding of the program's future budgetary needs, however, the EDA has implemented a new monitoring system for approved remediation and redevelopment projects. As of June 2013, EDA staff thus monitor projects and visit the 20 largest brownfields sites. According to the authority's reply a year earlier to EDA Discussion Point #10 in the OLS FY 2013-2014 Department of the Treasury Budget Analysis, the monitoring system's site visits and field reports would allow the EDA to better gauge each project's status, timeline, and finances; which, in turn, would enable the authority to determine required program disbursements in any given fiscal year. The EDA also expected the improved monitoring to result in the expungement from its records of long-standing, inactive projects which were once approved for financial assistance but have not reached completion. Doing so would reduce the program's total outstanding obligations.

The FY 2016 program budget for payments to developers of brownfield sites is unclear. The Governor proposes a direct $7.5 million General Fund appropriation in FY 2016 for that purpose, some $700,000 less than is appropriated for the program in FY 2015 (page D-376). But this number may only reflect a portion of total expected FY 2016 program disbursements. Additional funding may materialize from unexpended account balances carried forward from

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prior fiscal years and amounts received from the constitutional dedication to environmental programs of four percent of annual corporation business tax collections. Through FY 2011 these alternative funding sources financed the entire program. Beginning in FY 2012, however, the State ceased to allocate collections from the constitutional dedication to the Brownfields and Contaminated Site Remediation Program and replaced them with annual General Fund appropriations. In general, in response to EDA Discussion Point #11 in the OLS FY 2014-2015 Department of the Treasury Budget, the EDA indicated that eight developers received $3.1 million in reimbursements in FY 2013 and 12 developers $3.3 million in FY 2014. No new reimbursement agreements were signed in FY 2014. Moreover, the authority noted that the State's aggregated program liability under memoranda of agreement with developers could reach $275 million over the next ten years.

- ***Questions:*** **For each of FY 2014 and FY 2015, please provide the number of projects that received or are anticipated to receive reimbursements under the Brownfields and Contaminated Site Remediation Program as well as the aggregated disbursement amount. What amount of each year's funding originated in direct General Fund appropriations, the constitutional dedication of four percent of annual corporation business tax collections for environmental purposes, and unexpended account balances carried forward from prior fiscal years? Has the State concluded any new reimbursement agreements in FY 2015? Have any long-standing program obligations been expunged in FY 2014 and FY 2015? What is the total outstanding program liability, as measured in reimbursement amounts that would eventually come due under memoranda of agreement that developers have signed with the State?**

- **How many brownfield remediation and redevelopment projects does the EDA anticipate will receive reimbursements in FY 2016 and what is the total FY 2016 program budget? What amount of the FY 2016 funding is anticipated to originate from each of the following: direct General Fund appropriations, the constitutional dedication of four percent of annual corporation business tax collections for environmental purposes, and unexpended account balances carried forward from prior fiscal years? Please explain the basis for the program's proposed $7.5 million FY 2016 appropriation, if, as the EDA explained last year, the Department of Environmental Protection and the Division of Taxation do not project eligible cost and reimbursement amounts for budgeting purposes. Has the EDA's new project monitoring system informed the formulation of the program's recommended FY 2016 appropriation and has the system allowed the EDA to better gauge the program's future budgetary demands generally? Does the State anticipate signing any new reimbursement agreements in FY 2016?**

16. The EDA operates the **Edison Innovation Clean Energy Manufacturing Fund (CEMF)** and the **Edison Innovation Green Growth Fund (GGF)**. The CEMF provides up to $3.3 million in financial assistance to an eligible company that manufactures renewable energy and energy-efficiency products in New Jersey. Up to $300,000 is available as a grant to assist with manufacturing site identification and procurement, design, as well as permits; and up to $3 million as a low-interest loan to support equipment purchases and facility construction and improvements. The GGF, in turn, offers up to $2 million in low-interest loans as growth capital

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to emerging companies that seek to develop competitive renewable energy and energy-efficiency products in New Jersey. The two programs receive their funding from the dedicated, off-budget Clean Energy Program, which New Jersey ratepayers finance via the societal benefits charge included in their electric and natural gas bills. Authorized as part of the "Electric Discount and Energy Competition Act," P.L.1999, c.23 (N.J.S.A.48:3-49 et seq.), the Clean Energy Program seeks to promote increased energy efficiency and the use of renewable energy sources, including wind, geothermal, and sustainable biomass.

Participation in the two programs has not met initial expectations. In addressing EDA Discussion Point #12 in the OLS FY 2014-2015 Department of the Treasury Budget Analysis, the authority attributed the low pick-up rates to reductions in federal financial support and significant foreign competition that limited the anticipatable investment returns of renewable energy and energy efficiency manufacturing firms. This, in turn, had chilling effects on private capital markets, which companies must access to finance large capital investments. Consequently, although the EDA reported a slow, but steady increase in CEMF and GGF program interest, it did not expect a large participation uptick for FY 2015.

CEMF program statistics illustrate the relatively low demand. In reply to last year's EDA Discussion Point #12, the authority indicated that it had awarded \$14.2 million in financial assistance to five companies since program inception, of which it had expended \$10.9 million. The investments were expected to create or retain 137 jobs. For FY 2014, the Board of Public Utilities (BPU) allocated \$9.3 million to the program; actual expenditures were \$384,000. The FY 2015 program budget is \$8.5 million with \$2.7 million already committed, but not yet spent, as of June 30, 2014 (BPU Board Order dated December 17, 2014, Docket number QO14050489).

As to the GGF, in reply to last year's EDA Discussion Point #12, the authority indicated that it had awarded \$4.5 million in financial assistance to three companies since program inception, of which it had expended \$4.2 million. The investments were expected to create or retain 52 jobs. For FY 2014, the BPU adopted a \$5.7 million program allocation, some \$3.0 million more than the \$2.7 million actually expended. For FY 2015, the BPU allocated \$5.2 million to the program with \$270,000 already committed, but not yet spent, as of June 30, 2014 (BPU Board Order dated December 17, 2014 Docket number QO14050489).

- **Questions: For each of the Clean Energy Manufacturing Fund (CEMF) and the Edison Innovation Green Growth Fund (GGF), please set forth the following cumulative statistics: a) the number of applicants; b) the number of businesses that received financial assistance awards; c) the total dollar amount of financial assistance awarded; d) the amount of financial assistance that has already been disbursed and is committed to be disbursed in the future; and e) the size of capital investments and the number of jobs the financial assistance is expected to create and retain in New Jersey. Please provide the same statistics for each of FY 2014 and FY 2015 to date.**

- **Please update the EDA's assessment of the prospects for growing New Jersey's clean energy manufacturing sector in general. Have economics improved for that industry to develop in New Jersey? Is the EDA considering more aggressive financial assistance programs than the CEMF and GGF to buoy the State's clean energy manufacturing sector?**

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17. A former 1,126 acre federal military installation bordering the Monmouth County municipalities of Eatontown, Oceanport, and Tinton Falls, Fort Monmouth closed in September 2011. P.L.2010, c.51 established the **Fort Monmouth Economic Revitalization Authority (FMERA)** under EDA's supervision to implement the "Fort Monmouth Reuse and Redevelopment Plan," crafted by FMERA's predecessor authority, the Fort Monmouth Economic Revitalization Planning Authority. In redeveloping the fort for civilian use FMERA is to promote economic development, conserve natural resources, provide housing, and advance the overall quality of life in the affected communities and the State. FMERA expects to have the majority of the property conveyed to end-users within ten years, according to its reply to EDA Discussion Point #13 in the OLS FY 2013-2014 Department of the Treasury Budget Analysis.

A June 2012 Economic Development Conveyance agreement with the United States Army establishes a two-phased process to transfer the fort's premises to FMERA. The authority replied to EDA Discussion Point #13 in the OLS FY 2014-2015 Department of the Treasury Budget Analysis that the majority of the first 568-acre conveyance had been held up by the Army's environmental clearance process but that the entire first phase transfer was to be completed by mid-year 2014. Of the proceeds that would be realized over 20 years from selling and leasing those parcels to end-users, the Army would receive 60 percent and FMERA 40 percent. Negotiations on the modalities of transferring the remaining 558 acres to FMERA were ongoing but the authority anticipated the conclusion of a Phase 2 Economic Development Conveyance agreement by the second quarter of 2015, according to FMERA's December 2014 newsletter. Instead of a revenue-sharing model FMERA this time favored purchasing second-phase properties directly from the United States Army.

FMERA has already sold or leased several properties to end-users. In September 2012, it approved a purchase agreement with AcuteCare Health Systems, LLC for the fort's former Paterson Army Health Clinic. The company will refurbish the property and use it to provide medical services to the elderly, veterans, and other patients in need. According to the authority's answer to last year's EDA Discussion Point #13, the purchase agreement was executed in March 2014 and the renovation to begin by the end of 2014. FMERA's Discussion Point answer noted that it had also executed a purchase agreement in January 2013 with CommVault concerning a 55-acre parcel in Tinton Falls for the construction of a corporate campus. The company anticipated completing the construction of its headquarters, the first of three project phases, by the fourth quarter of 2014. In March 2012, the EDA had awarded the project a Business Employment Incentive Program grant of up to $7.2 million for creating 250 new jobs and a $1.35 million Business Retention and Relocation Assistance Grant for retaining 300 employees in New Jersey.

FMERA's Discussion Point answer also noted additional progress over the prior year, for example: a) the conversion of the Van Deusen Library into professional and administrative office space to which FMERA relocated its offices; b) Monmouth County's August 2013 opening of the Fort Monmouth Recreation Center in Tinton Falls, which includes an outdoor swimming pool and a teen center; c) the entering into exclusive negotiation with Kiely Realty Group, LLC for the purchase of Russell Hall, an administrative building; d) the January 2014 execution of a purchase and redevelopment agreement with HovWest Land Acquisiton LLC for the demolition of the 486 vacant housing units and a general purpose building in the 64-acre Howard Commons Area and their replacement with 275 townhomes for sale, a retail

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development, and 20.4 acres of open space and public recreation amenities; and e) the February 2014 selection of Atlantic Golf Management for the continued operation of the Suneagles Golf Course. Moreover, FMERA reported that it had issued ten pending Requests for Offers to Purchase (RFOTPs). One of them was for the building of a veterans community on the ten-acre Parcel V-I that can accommodate up to 120 housing units with a focus on providing permanent housing and community lifestyle for homeless veterans.

Two recent events, however, have slowed down the implementation of the redevelopment plan. First, the Federal Emergency Management Agency made 115 housing units on the former military installation available through April 1, 2014 to residents displaced by Superstorm Sandy. Replying to EDA Discussion Point #13 in the OLS FY 2013-2014 Department of the Treasury Budget Analysis, FMERA stated that the temporary housing in Buildings #360 and #365 in the Main Post's lodging area in Oceanport did not affect redevelopment plans, as the structures were part of the prospective second-phase land transfer to FMERA. But the temporary housing on the Suneagles Golf Course took place on a phase-one property, which had led FMERA to postpone the expected release of RFOTPs for the golf course and the attendant Megill Housing by one year to the spring of 2014. A year later, in response to that year's EDA Discussion Point #13, the authority reported a four-month extension of emergency housing in Buildings #360 and #365 but not in the Megill Housing area. Remaining Megill households would relocate to the Main Post buildings or other locations in Monmouth County. At the time, the former military installation still provided emergency housing to 28 households, of which 10 families stayed in Megill housing. FMERA planned to issue an RFOTP for the golf course, including the Megill Housing area, in the weeks following its discussion point reply. The majority of the Megill Housing units were envisioned to be demolished and replaced by a 150-room conference hotel.

It appears, however, that the Ebola outbreak in Western Africa may have delayed the release of the Suneagles Golf Course RFOTP. According to early February 2015 media reports, FMERA had signed a six-month memorandum of understanding with the New Jersey Department of Human Services that designated a limited number of Megill Housing units as a back-up State **Ebola quarantining facility** for individuals who arrive in Newark from West Africa and whom State officials deem "at risk" of having contracted the virus. The facility would only house "at risk" individuals if the State's primary quarantine location at Hagedorn Psychiatric Hospital in Hunterdon County hit capacity. Individuals showing Ebola-like symptoms, however, would not be sent to Fort Monmouth. The agreement reportedly will expire at the end of June 2015.

- ***Questions:*** **Please report on the progress of Fort Monmouth's repurposing since April 2014. Has the Fort Monmouth Economic Revitalization Authority (FMERA) taken possession of all Phase 1 properties? If not, by what date is FMERA scheduled to do so? Has FMERA sold, leased or issued Requests for Offers to Purchase (RFOTP) for all Phase 1 properties? What amount has FMERA collected to date from the sale or lease of Phase 1 properties? Has FMERA reached an agreement with the United States Army as to the conveyance of Phase 2 properties? If so, what is the transfer's current timetable and the distribution formula between the United States Army and FMERA for sale and lease proceeds to be realized from Phase 2 parcels? If the United States Army has agreed to structured payments for the Phase 2 parcels, please detail the payment schedule.**

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- **Please provide a status update for CommVault's corporate campus project and AcuteCare Health Systems' healthcare facility project. When are the capital projects forecast to be completed? What is the status of the RFOTP to build a veterans community on the ten-acre Parcel V-I with a focus on providing permanent housing and community lifestyle for homeless veterans? How many veterans is the facility expected to house?**

- **Is temporary housing still provided to residents displaced by Superstorm Sandy? How many households, if any, still live in the temporary housing units today?**

- **Please indicate the total number of Ebola quarantine cases at Fort Monmouth to date. Does FMERA expect an extension beyond June 2015 of the six-month agreement designating certain Megill Housing units as a State Ebola quarantine facility? Has the State Ebola quarantine facility designation delayed the issuance of an RFOTP for the Suneagles Golf Course and the attendant Megill Housing? By what date does FMERA envision issuing the RFOTP? Has FMERA observed that the State Ebola quarantine facility designation has caused apprehension among current and potential Fort Monmouth property owners and lessees? Please outline all instances of concrete adverse consequences.**

18. On August 5, 2014, the EDA signed a **Memorandum of Understanding with the Capital City Redevelopment Corporation (CCRC)** under which the EDA will provide the CCRC with staff, administrative support services, and conference rooms at the EDA's main or satellite offices for CCRC Board of Directors meetings and other official board business. The corporation will pay for some of the EDA's services, but not all. In any event, the CCRC Board of Directors will continue to function as the corporation's executive decision-making body and the Department of the Treasury will continue to provide accounting and financial reporting services to the CCRC.

Established pursuant to P.L.1987, c.58 (N.J.S.A.52:9Q-9 et seq.) and allocated "in but not of" the Department of the Treasury, the CCRC finances community and economic development projects in Trenton's Capital City District in accordance with the Capital City Renaissance Plan. The Capital City Redevelopment Loan and Grant Fund, a nonlapsing revolving fund, finances corporation activities out of moneys received from prior State appropriations and loan repayments. P.L.2009, c.252 changed the corporation's organizational structure and powers so as to transform it from a financing and regulatory agency to a municipal redevelopment agency. The corporation, now constituted as an independent, self-supporting authority, is newly able to add to its financial wherewithal through the sale of bonds, notes, and other obligations paid for from non-State sources.

The corporation, however, has had limited effectiveness in recent years on account of significant staffing and financial deficiencies. First, the Department of the Treasury noted in response to OLS Discussion Point #41 in the FY 2014-2015 Department of the Treasury Budget Analysis, that the CCRC lacked an Executive Director and full-time staff at the time, and that it only had the financial ability to fill one full-time position in FY 2015. Second, the Capital City Redevelopment Loan and Grant Fund, the corporation's sole reservoir of financial resources,

Discussion Points (Cont'd)

was in need of recapitalization with no loans outstanding for repayment to the corporation. Although the CCRC had not yet used its power to issue debt instruments to replenish the fund it intended to do so "at some point."

In its discussion point response, the Treasury listed the FY 2015 CCRC objectives: a) obtaining redevelopment authority designation for the Capital District from the City of Trenton; b) identifying opportunities to issue debt instruments with the assistance of the New Jersey Economic Development Authority; c) identifying funding alternatives to recapitalize the Capital City Redevelopment Loan and Grant Fund; d) assisting the City of Trenton in completing the Capital District lighting improvement plan; e) assisting Mercer County Community College with the expansion of its Capital Campus; f) collaborating with its Capital District partners to develop a business attraction, retention, and expansion strategy; and g) developing the Capital State Park. This priority list was identical to the one the Treasury supplied for FY 2014 in reply to OLS Discussion Point #38 in the FY 2013-2014 Department of the Treasury Budget Analysis. The corporation also still had several unattained FY 2013 objectives. The table below lists: a) several priorities and programming recommendations for FY 2013 that the CCRC had planned to present to the City of Trenton, Mercer County, and the Governor's Authorities Unit, according to its response to OLS Discussion Point #35 in the FY 2012-2013 Department of the Treasury Budget Analysis; and b) the project updates the CCRC provided in answering OLS Discussion Point #38 in the FY 2013-2014 Department of the Treasury Budget Analysis.

Initiative (April 2012)	Update (April 2013)
Craft economic development strategy inclusive of Downtown Master Plan	Ongoing.
Locate funding to provide capital to small and emerging businesses in the Capital District	Unable to secure funding
Develop façade improvement programs for S. Broad Street, N. Broad Street, and State Street	On hold due to lack of funding
Devise a comprehensive redevelopment plan for the former Glen Cairn Arms apartment building on West State Street	The building is demolished and the property will serve as Thomas Edison State College's new nursing education center. The CCRC is involved in planning the development of adjacent properties.
Assist in carrying out first phase of lighting and streetscape improvement plan for the Capital District	Ongoing

- **Questions: Please describe the services the EDA has provided to the Capital City Redevelopment Corporation (CCRC) to date under the terms of the August 5, 2014 Memorandum of Understanding. Does the CCRC have any filled positions or has the EDA effectively become the CCRC's sole administrative agent, with the exception of Treasury providing accounting and financial reporting services? How many filled full-time positions is the CCRC projected to have in FY 2016? Will a CCRC Executive Director be one of them?**

- **Please provide a copy of the CCRC's most current audited financial statement. Has the corporation been able in FY 2015 to replenish the Capital City Redevelopment**

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Loan and Grant Fund? If not, does the CCRC have a recapitalization strategy it intends to implement in FY 2016? Has the CCRC issued any bonds, notes or other debt instruments? Does it intend to do so in FY 2016?

- **What objectives does the CCRC plan to pursue in FY 2016? Please provide an update on the corporation's activities in FY 2015 and comment on the state of the revitalization of Trenton's Capital City District. Has the City of Trenton designated the corporation as the redevelopment authority for the Capital District? Has the CCRC co-developed an economic development strategy inclusive of the Downtown Master Plan? If so, please detail the elements of the strategy. Has the corporation co-developed and implemented the envisioned façade improvement programs for S. Broad Street, N. Broad Street, and State Street? Has the CCRC co-developed a redevelopment plan for the properties adjacent to Thomas Edison State College's future Nursing Educational Facility on West State Street? If so, please detail the elements of the redevelopment plan. Has the corporation co-administered and completed the first phase of the lighting and streetscape improvement plan for the Capital District? Has the CCRC provided capital for small and emerging businesses in the Capital District? Has the corporation developed a business attraction, retention, and expansion strategy for the Capital District? Has the corporation assisted Mercer County Community College with the expansion of its Capital Campus? Has the CCRC advanced the development of the Capital State Park?**

19. The EDA administers the **Edison Innovation Angel Growth Fund** and the **Angel Investor Tax Credit Program**. Both incentive programs are intended to encourage high net worth individuals to make equity placements into high-risk start-up ventures in New Jersey, or "angel investments."

In August 2011, the EDA announced the creation of three programs that provide financing to emerging technology and life science companies that have attracted angel and venture capital investments: the Edison Innovation Angel Growth Fund, the Edison Innovation Venture Fund, and the Edison Innovation Growth Stars Fund. Their combined allocation approximated $13 million. Under the Edison Innovation Angel Growth Fund eligible companies can receive up to $250,000 in subordinated convertible loans at a fixed annual interest rate of four to ten percent for a five-year term. Put differently, the EDA's claim to loan repayment will be subordinate to any senior bank debt. In return, the EDA obtains the right to convert the debt into equity in a future financing round and ten-year warrants that allow the EDA to acquire company shares at a determined strike price. To qualify for a loan a C-corporation must: a) have annual commercial revenues of $500,000; b) employ 75 percent of its employees in New Jersey or commit to growing ten jobs over two years with a minimum salary of $75,000; c) develop or own protected proprietary technology; and d) have attracted twice the loan amount from angel investors within 90 days prior to its loan application. In addressing EDA Discussion Point #16 in the OLS FY 2014-2015 Department of the Treasury Budget Analysis, the EDA related that the Edison Innovation Angel Growth Fund had not yet received any applications for assistance. In explaining the program's lack of demand, the authority pointed to market feedback suggesting that the $500,000 annual commercial revenue requirement was too high and the $250,000 cap on subordinated convertible loans too low.

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P.L.2013, c.14 created the Angel Investor Tax Credit Program under which the EDA grants corporation business and gross income tax credits for investing in New Jersey emerging technology businesses. Subject to certain limitations, the credits equal ten percent of a taxpayer's qualified investment in an emerging technology company with fewer than 225 employees, of whom at least 75 percent are filling a position in New Jersey. Purchase, production, and research agreements qualify as creditable investments. The permanent program is subject to a $25 million annual cap. In addition, tax credit recipients cannot claim tax credits for that part of an investment in a single company that exceeds $500,000. The EDA launched the program on July 1, 2013. In calendar year 2014, it approved over $6.0 million in tax credits for 181 investments totaling more than $60 million, according to an EDA press release from January 16, 2015. In its first, partial, year of operation, calendar year 2013, the program had awarded $1.4 million in tax credits for 28 investments totaling $14.1 million, as the authority responded to last year's EDA Discussion Point #16. The EDA also noted in its response that market feedback for program enhancement had largely focused on increasing the allowable tax credit percentage above the current 10 percent of the amount invested, as neighboring states offered tax credit rates ranging from 25 percent to 100 percent. The EDA believed that the credit could rise to 35 percent of the amount invested while keeping the program's cost under the current annual $25 million cap.

- **Questions: Please update for the Edison Innovation Angel Growth Fund: a) the number of loan applications the EDA has received to date; b) the number of approved loans to date; c) the total dollar amount of the approved loans; and d) the percentage of loan payments that is late by 30 days or more. Is the EDA considering eliminating or revamping the program in light of the program's lack of demand? What is the unexpended and uncommitted portion of the roughly $13 million allocation to the Edison Innovation Angel Growth Fund, the Edison Innovation Venture Fund, and the Edison Innovation Growth Stars Fund combined? Are available balances sufficient to operate the Edison Innovation Angel Growth Fund in FY 2015 and FY 2016?**

- **Please provide for the Angel Investor Tax Credit Program to date: a) the number of applicants; b) the number of tax credit awards; c) the number of businesses in which tax credit-earning investments have been made; d) the total dollar amount of the tax credit awards; and e) the size of capital investments and the number of jobs the capital investments support in New Jersey. Does the early tax credit pick-up rate meet EDA expectations and does the EDA project growth in the number and dollar value of tax credit awards for calendar years 2015 and 2016?**

20. Replying to EDA Discussion Point #5 in the OLS FY 2012-2013 Department of the Treasury Budget Analysis, the EDA noted that it launched the first phase of the **Incentives Data Management System (iDMS) portal** in February 2012. After completion of the project's first phase Business Employment Incentive Program (BEIP) grant recipients would be able to securely file and validate required annual compliance documents online. This web-based tool would reduce the need for nearly 400 BEIP recipients to send paper copies to the EDA and increase EDA processing efficiencies by ensuring that all necessary documents have been received and are in order prior to EDA review. Future project phases would expand the portal

Discussion Points (Cont'd)

to all other incentive programs; allow for the automated review of compliance documentation; and facilitate data collection, validation, and reporting.

According to the authority's response two years later to EDA Discussion Point #18 in the OLS FY 2014-2015 Department of the Treasury Budget Analysis, the iDMS' annual reporting module for BEIP was fully operational. Programming work continued on the reporting modules for the other major incentive programs (Grow New Jersey Assistance Program, Economic Redevelopment and Growth Program, Urban Transit Hub Tax Credit Program, and Business Retention and Relocation Assistance Grant Program). Moreover, the EDA reported that the project's actual costs have remained within its original $305,000 budget, but that an additional $60,000 may ultimately be required to finalize all programming features for the non-BEIP incentive programs.

- ***Questions:*** **Please provide an update on the status of the Incentives Data Management System portal. Has the project been completed? If not, at which development stage is the project currently and by which date does the EDA expect its completion? If the project has been completed, please comment on the EDA's experiences with the new technology. Has staff productivity improved? What problems has the EDA encountered with the new technology, if any, and what amount would have to be expended to correct the problems? What is the current cost estimate or, if the project is already completed, its actual cost? If applicable, what factors account for any cost overrun?**

Discussion Points

BOARD OF PUBLIC UTILITIES

1. The FY 2015 Appropriations Act **redirected** some $98.3 million **from the dedicated, off-budget Clean Energy Fund into the State General Fund**. In addressing BPU Discussion Point #1 in the OLS FY 2014-2015 Department of the Treasury Budget Analysis the Board avoided the question on the use the BPU would have made of the $117.4 million the Governor's FY 2015 Budget proposed at the time to newly lapse into the State General Fund in FY 2014 and FY 2015 combined. But a year prior, in replying to BPU Discussion Point #5 in the OLS FY 2013-2014 Department of the Treasury Budget Analysis, the Board had stated that the then anticipated FY 2014 lapse would not affect the FY 2014 Clean Energy Program. It did, however, keep BPU staff from recommending that fewer funds be raised from electric and natural gas ratepayers in support of the program.

Fund Usage	FY 2015 Approp. Act (June 2014)	FY 2015 Proposed (Feb. 2015)	FY 2016 Proposed
State General Fund (unspecified)	$0	$39,000,000	$0
State Utility Costs	$52,500,000	$52,500,000	$52,500,000
NJ Transit Utility Costs	$32,889,000	$32,889,000	$62,089,000
State Energy Efficiency Projects	$9,200,000	$9,200,000	$0
Office of Sustainability and Green Energy (DEP)	$3,700,000	$3,700,000	$3,700,000
TOTAL	**$98,289,000**	**$137,289,000**	**$118,289,000**
Fund Diversions Proposed in FY 2016 Governor's Budget		$39,000,000	$118,289,000

The Governor's FY 2016 Budget now includes a proposal to transfer another $157.3 million into the State General Fund in FY 2015 and FY 2016 combined. The table above shows the transfers authorized under the FY 2015 Appropriations Act and the Executive's proposed additional FY 2015 and FY 2016 redirections of funds as State revenue. The table excludes the annual transfers to the State General Fund to defray the administrative expenses related to State-funded positions of the BPU's Office of Clean Energy ($2.3 million in each of FY 2015 and FY 2016), given that these expenses fall directly within the scope of the statutorily authorized spending purposes of the Clean Energy Program.

Fiscal Year	Resources	Clean Energy Program Expenditures	General Fund Transfers	Year-End Fund Balance
2008	$378,224,000	$147,063,000	$15,305,000	$215,856,000
2009	$463,600,000	$154,658,000	$10,932,000	$298,010,000
2010	$595,641,000	$202,974,000	$198,830,000	$193,837,000
2011	$497,330,000	$226,174,000	$53,689,000	$217,467,000
2012	$633,735,000	$266,086,000	$255,097,000	$112,552,000
2013	$493,244,000	$193,908,000	$133,441,000	$165,895,000
2014	$543,750,000	$167,193,000	$273,660,000	$102,896,000
2015 est.	$447,716,000	$184,900,000	$139,576,000	$123,240,000
2016 est.	$468,060,000	$212,450,000	$120,594,000	$135,016,000

The table above, in turn, shows the actual or estimated amounts of financial resources, program expenditures, General Fund transfers, and year-end fund balances for FY 2008 to FY 2016, as they are displayed in the pertinent annual Governor's Budget proposals. (Page 70 of the

Discussion Points (Cont'd)

"Supplementary Information" section in the Governor's FY 2016 Budget, available in the online version only, exhibits the data for FY 2014, FY 2015, and FY 2016.)

As can be seen in the table, the Clean Energy Program has consistently produced significant surplus balances in recent years. BPU staff explain the technical reasons therefor in Section 2.3 of the "2nd Revised CRA Straw Proposal: Proposed Funding Levels FY14 - FY17," dated June 3, 2013. On the macro level, the BPU allocates specific amounts to new programs that may take months or years to develop and implement. On the micro level, the BPU sets aside funding for 100 percent of financing commitments made to individual projects. Experience suggests, however, that project completion rates for many programs are below 100 percent. The routine accumulation of significant excess balances prompted the BPU to include as a Clean Energy Program goal for FY 2014 that the BPU "[c]oordinate with Treasury to develop appropriate procedures to better match the collection of funds from ratepayers to actual program needs ..." (page 35 of the Board Order dated June 21, 2013, Docket number EO11050324V). The BPU specified in reply to BPU Discussion Point #1 in the OLS FY 2014-2015 Department of the Treasury Budget Analysis that its efforts in this respect included a renewed focus on financial analysis and expenditure forecasting, the market-driven assessment of program needs, and the more rigorous evaluation of program performance.

New Jersey ratepayers finance the Clean Energy Program via the societal benefits charge included in their electric and natural gas bills. Operative since April 2001, the program was authorized as part of the "Electric Discount and Energy Competition Act," P.L.1999, c.23 (N.J.S.A.48:3-49 et seq.). Through the program the BPU seeks to promote increased energy efficiency and the use of renewable energy sources. The program no longer supports the installation of solar energy generation systems, as the State has adopted Solar Renewable Energy Certificates (SRECs) as the subsidy mechanism for solar power (see Discussion Point #16). The Offshore Renewable Energy Certificate (OREC) program attempts to do the same for offshore wind energy installations (see Discussion Point #20. a.).

- ***Questions:*** **Please comment on the likely impact on the Clean Energy Program of the Executive's proposed transfer of another $157.3 million in fund balances into the State General Fund in FY 2015 and FY 2016 combined. Has the BPU raised or will it raise the Clean Energy Fund component of the societal benefits charge for FY 2016 to cover this additional expense? Absent the additional proposed diversions, how would the BPU expend the $157.3 million? Will alternative resources be allocated for these purposes? To what extent will any shift in moneys among BPU programs, prompted by the proposed transfer, reprioritize energy efficiency and renewable energy programs? If the BPU did not anticipate expending the $157.3 million on specific spending purposes, was it contemplating drawing the sum down to temporarily lower the Clean Energy Fund component of the societal benefits charge?**

- **Have the measures the BPU implemented in FY 2014 and FY 2015 to better align the collection of funds from ratepayers with actual Clean Energy Program needs been demonstrably effective in reducing the size of accumulated excess balances in the Clean Energy Fund? Does the BPU expect to take any additional steps in FY 2016 to improve the financial management of the Clean Energy Program?**

Discussion Points (Cont'd)

2. The BPU intends to achieve administrative efficiencies from replacing the three current Clean Energy Program administrators (Applied Energy Group Inc., Honeywell International Inc., and TRC Energy Services) with a single manager. But the planned **contract award to a single Clean Energy Program administrator has been subject to considerable delays**.

On June 11, 2012, the Division of Purchase and Property in the Department of the Treasury issued Request for Proposal (RFP) 13-X-22546 for "Management Consulting – Program Administrator New Jersey Clean Energy Program (NJCEP)." The BPU noted in its response to BPU Discussion Point #6 in the OLS FY 2013-2014 Department of the Treasury Budget Analysis that six companies submitted bids and that the Division of Purchase and Property issued Letters of Intent to Award the contract to Applied Energy Group Inc. on February 22, 2013. The winner's $87.0 million bid for the five-year contract exceeded Honeywell International's proposal by $11.76 million and TRC Energy Services' by nearly $28.0 million, according to The Record's May 4, 2014 "New Jersey's Clean-Energy Overhaul Stalled by Long Dispute over Bid Fairness" article.

The Record related that Honeywell International and TRC Energy Services filed protests against the intended contract award, alleging that the selection of Applied Energy Group was the result of favoritism and manipulation. Honeywell's protest reportedly noted that Applied Energy Group and one of its main subcontractors, Concord Engineering, employed several former BPU employees. Honeywell highlighted one former BPU executive in particular who had left the BPU in 2011 to work for Concord Engineering and who was the project director for Concord Engineering's part of Applied Energy Group's bid. Several of the former BPU executive's former subordinates were on the bid evaluation committee and the former BPU executive still attended an initial meeting in early 2011 with the Division of Purchase and Property to discuss the timeline and approach for the RFP before leaving the BPU, according to The Record. The newspaper reported further that the division requested the State Ethics Commission to determine whether the former BPU executive violated any State conflict of interest law. The commission found no infraction, for lack of evidence tying the former BPU executive to the RFP's actual drafting.

Irrespective of the State Ethics Commission's determination, the division's review of the contract award process "'revealed inconsistencies that raise questions as to the objectivity and fairness of the evaluation process'" (quoted from a Treasury official's letter to TRC Energy Services' attorney in The Record's article). In November 2013, the division therefore assembled a second RFP evaluation committee to review all bid submissions. The division ultimately cancelled the procurement on April 25, 2014 on account of unspecified "cogent and compelling reasons," as the BPU stated in reply to BPU Discussion Point #3 in the OLS FY 2014-2015 Department of the Treasury Budget Analysis.

The division has not yet released a new RFP. But it issued a Request for Information that calls upon interested parties to provide the BPU by August 7, 2014 with information that would support the BPU's formulation of a new RFP for a single Clean Energy Program administrator.

- ***Questions:*** **Please provide a status report on the planned replacement of the three current Clean Energy Program administrators with a single manager. How many responses has the BPU received to its Request for Information to assist the Board in drafting a new RFP for a single program administrator? Have Applied Energy Group,**

Discussion Points (Cont'd)

Honeywell International, and TRC Energy Services responded? By what date does the BPU expect issuing the RFP and making a final contract award?

- **Please outline the reasons for which the BPU intended to award the contract under RFP 13-X-22546 to Applied Energy Group even though Honeywell International and TRC Energy Services had reportedly submitted significantly lower bids.**

- **Please detail the reasons for which a second RFP evaluation committee was convened to review all bid submissions. Were any irregularities detected that materially affected the original contract award? If so, has the BPU taken any disciplinary actions against any BPU employee who may have acted improperly in evaluating the bids?**

- **Please set forth the "cogent and compelling reasons" that motivated the cancellation of the procurement under RFP 13-X-22546.**

- **What insights has the BPU gained from its procurement attempt under RFP 13-X-22546? Does the Board intend to alter its procurement practices, such as the appointment of staff members to RFP evaluation committees, as a result of the difficulties encountered with the evaluation of bids submitted under RFP 13-X-22546? Is the BPU considering tightening its post-employment restrictions or placing engagement limitations on companies that employ former BPU staff so as to avoid the appearance of impropriety?**

3. The BPU Board Order dated December 17, 2014, Docket number QO14050489 shows that the Clean Energy Program's total budget for FY 2015 is $507.2 million. Administration takes up $11.1 million, or 2.2 percent, of the total. But it appears that the amount only comprises the administrative costs incurred by the BPU's Office of Clean Energy ($2.4 million); its contracted program coordinator, Applied Energy Group, Inc. ($2.2 million); and miscellaneous administrative expenditures ($6.5 million) of which payments to contractors for research and program evaluation services constitute the lion share. **Total management costs of the Clean Energy Program**, however, are substantially higher once the administrative expenses of the two contracted program administrators are included: Honeywell International, Inc. and TRC Environmental Corporation.

For example, the BPU estimated that the contractors' FY 2014 administrative expenses, including those of Applied Energy Group, Inc., would approach $27.5 million, or 9.5 percent of a total $289.3 million program budget for energy efficiency and renewable energy programs under the BPU's jurisdiction. The equivalent administrative expenses were $37.1 million, or 10.0 percent of the $369.7 million total program budget for the 18-month period from January 2012 through June 2013; $32.2 million, or 9.8 percent of the $330.0 million total program budget, in calendar year 2011; and $53.2 million, or 12.9 percent of the $413.5 million program budget, in calendar year 2010. (This paragraph's data are based on BPU answers to BPU Discussion Point #2 in the OLS FY 2010-2011 Department of the Treasury Budget Analysis, BPU Discussion Point #7 in the OLS FY 2013-2014 Department of the Treasury Budget Analysis, and BPU Discussion Point #6 in the OLS FY 2014-2015 Department of the Treasury Budget Analysis.)

Discussion Points (Cont'd)

Replying to BPU Discussion Point #6 in the OLS FY 2014-2015 Department of the Treasury Budget Analysis, the BPU stated that the planned transition of the Clean Energy Program to a single program administrator would reduce annual administrative expenses by approximately $8.5 million. (Discussion Point #2 addresses the single program administrator contract.)

New Jersey Clean Energy Program FY 2014 Budget				
Program	Contractor	Total Budget	Direct Rebates	Administrative Cost
Residential Energy Efficiency Programs	Honeywell	$89,069,000	$76,886,000	$12,183,000
Commercial and Industrial Energy Efficiency Programs	TRC	$178,843,000	$168,529,000	$10,314,000
Renewable Energy Programs	Honeywell	$19,488,000	$16,371,000	$3,117,000
Program Coordinator	AEG	$1,863,000	$0	$1,863,000
Total		**$289,263,000**	**$261,787,000**	**$27,476,000**

- **Questions: For FY 2014, please update the above table showing for each program class under the Clean Energy Program the actual total budget, the actual amount of benefits paid out, and the contracted program manager's actual administrative cost. For FY 2015, please update the above table showing for each program class the estimated total budget, the estimated amount of benefits paid out, and the contracted program manager's estimated administrative cost.**

4. Following recommendations presented in the 2011 Energy Master Plan, the BPU is looking to **restructure the Clean Energy Program**, which is the umbrella for the State's energy efficiency and renewable energy programs. In its reply to BPU Discussion Point #8 in the OLS FY 2012-2013 Department of the Treasury Budget Analysis the Board stated that its long-term goal was to reduce the reliance of the Clean Energy Program on the societal benefits charge as the program's funding mechanism and to inaugurate revolving loan funds as alternative funding vehicles. Societal benefits charge collections would initially fund the revolving loan funds, however. Moreover, the BPU envisaged operating Clean Energy Program incentives more on a performance basis so as to reduce the incentives' costs and improve their effectiveness.

The restructuring initiative has been held in abeyance by delays in the contract award to a single Clean Energy Program administrator who would replace the three existing managers (see Discussion Point #2). Upon contract award the selected contractor was to have 120 days to develop a multi-year strategic plan for the Clean Energy Program in collaboration with the BPU that was to include program funding levels from FY 2015 through FY 2017 and the aforementioned transition in the program's financing method. The BPU was to perform preliminary studies in FY 2014 so as to assist the program administrator in crafting the strategic plan (BPU Discussion Point #6 in the OLS FY 2013-2014 Department of the Treasury Budget

Discussion Points (Cont'd)

and pages 19 and 20 of the Board Order dated June 21, 2013, Docket number EO13050376V). In addressing BPU Discussion Points #3 and #5 in the OLS FY 2014-2015 Department of the Treasury Budget, the BPU noted that it had formed three work groups to conduct the studies and that it anticipated the work groups to present their findings and recommendations in late summer 2014. The Utilities Work Group was to review and better coordinate the several energy efficiency and renewable energy programs run by utilities and the Clean Energy Program, including a review of the program's administrative structure and financing methods. The Evaluation Work Group, in turn, was to develop a long-term schedule of ongoing program evaluations and determine data needs. The Data Work Group was to collect available data points and metrics, identify unmet data needs and potential remedies, and in conjunction with other states standardize data collection and reporting methods so as to produce data that are useful for economic actors seeking to finance energy efficiency and renewable energy projects. Work group reports remained unpublished as of March 18, 2015.

- ***Questions:*** **Have the three work groups that the BPU had formed to assist the future program administrator in developing a multi-year strategic plan for the Clean Energy Program presented their findings and recommendations? If not, please specify the date by which they are expected to do so. If so, please share the findings and recommendations, including the recommended timeline of the new long-term evaluation plan, the performance metrics being assessed, and an explanation of the extent to which the new evaluation strategy differs from the one employed previously. Has the BPU begun to implement, or does it intend to implement, any of the recommendations? If the BPU is rejecting the implementation of any recommendations, please justify the rejection.**

- **Given the April 2014 cancellation of Request for Proposal 13-X-22546 for "Management Consulting – Program Administrator New Jersey Clean Energy Program (NJCEP)," does the BPU continue to defer the development of a multi-year strategic plan for the Clean Energy Program pending the engagement of a single program administrator? If not, please indicate by what date the BPU intends to have the multi-year strategic plan completed and adopted. If a multi-year strategic plan has already been adopted, please: a) provide a paper copy of the strategic plan or a link thereto on the Internet; b) describe the anticipated timetable for phasing in any new financing mechanism, such as revolving loan funds, and transitioning out of the societal benefits charge as a funding source; c) list all energy efficiency and renewable energy programs the BPU intends to end and provide a brief justification for ending each; and d) set forth any revisions to the performance metrics and targets for the Clean Energy Program.**

5. The delays in the engagement of a single program administrator and the development of a strategic plan for the Clean Energy Program (see previous Discussion Point) have in turn held up the adoption of a **Clean Energy Program budget for FY 2016 and FY 2017**. Subsection (3) of section a. of N.J.S.A.48:3-60 requires that the BPU set the program's funding levels for a four-year period. A budget for FY 2014 through FY 2017 was due by July 1, 2013. The BPU, however, only approved one-year budgets for FY 2014 and FY 2015 that continued the program under the existing framework and did not commence the envisioned restructuring

Discussion Points (Cont'd)

(Board Order dated June 21, 2013, Docket number EO13050376V and Board Order dated June 30, 2014, Docket number QO14050489). The Board deferred the production of a spending plan for FY 2016 and FY 2017 in the expectation that the envisioned strategic plan would be adopted in FY 2015 and guide program allocations from FY 2016 onward.

- ***Questions:*** **Please indicate the BPU's approach to the formulation of the Clean Energy Program budget for FY 2016 and FY 2017. Will the BPU once more opt for continuation budgets with some marginal adjustments? Will the BPU use the FY 2016 program budget as the vehicle through which to implement the first phase of the envisioned restructuring of the Clean Energy Program irrespective of the engagement of a single program administrator? Please summarize any planned programmatic changes in FY 2016 and provide a brief justification for each change. If applicable, please provide a paper copy of or Internet link to the program budget for either FY 2016 alone or the period from FY 2016 to FY 2017. If unavailable, please indicate the date by which the BPU intends to adopt a new spending plan.**

6. According to section 2.1 of the BPU's "Comprehensive Resource Analysis — Staff Straw Proposal: Proposed Funding Levels FY15," dated May 23, 2014, the BPU engaged the Center for Energy, Economic and Environmental Policy (CEEEP) at Rutgers, the State University of New Jersey, to perform a benchmarking and metrics study in FY 2015 for the suite of electricity and natural gas energy efficiency programs operating under the Clean Energy Program. Building upon the June 11, 2012 "Evaluation of New Jersey's Clean Energy Programs" benchmark study prepared by Applied Energy Group, the CEEEP study is to set benchmarks for the many energy efficiency programs.

In analyzing the benchmark data in 2012, Applied Energy Group noted an **"apparent under-performance" of the Clean Energy Program in comparison to 25 electric and natural gas energy efficiency programs operated in nine reference states** (Section 4.4 of the "2nd Revised CRA Straw Proposal: Proposed Funding Levels FY14 - FY17," dated June 3, 2013). Notably, the contractor calculated that while the Clean Energy Program's electric energy efficiency programs are relatively efficient by spending $0.20 per kilowatt-hour of electricity saved ($0.19 for the benchmark reference class), they are relatively ineffective in delivering electricity consumption savings of only 0.5 percent of total electricity sales (1.0 percent for the benchmark reference class). The Clean Energy Program's natural gas energy efficiency programs, in turn, are both inefficient and ineffective. While the Clean Energy Program spent $5.03 per therm of natural gas saved ($2.67 for the benchmark reference class), total consumption savings delivered by the suite of natural gas energy efficiency programs represent only 0.2 percent of total natural gas sales (0.6 percent for the benchmark reference class). Unable to explain the comparatively weak results of the Clean Energy Program, the BPU recommended a thorough review to determine their origins. The FY 2015 CEEEP benchmarking and metrics study is intended to provide further analysis.

- **Questions: Has the CEEEP completed the FY 2015 benchmarking and metrics study for the energy efficiency program portfolio under the Clean Energy Program? If so, please share the findings, policy recommendations, as well as recommended**

Discussion Points (Cont'd)

benchmarks and metrics. If not, please specify the date by which the CEEEP anticipates the study's completion.

- **Has the BPU determined the causes of the "apparent under-performance" of the Clean Energy Program's suite of electricity and natural gas energy efficiency programs relative to similar programs in the nine reference states that Applied Energy Group analyzed in its June 2012 benchmark study? If so, what are they? Is the Clean Energy Program's comparatively lower rate of energy consumption savings as a percentage of total energy sales primarily evidence of relative underfunding? Specifically, what factors account for the Clean Energy Program's natural gas energy efficiency programs expending $5.03 per therm of natural gas saved, whereas the reference class averages $2.67 per therm?**

7. The BPU deems effective **incentive programs for Combined Heat and Power and Fuel Cell (CHP-FC) systems** an important tool in: a) attaining the 2011 Energy Master Plan goal of developing 1,500 megawatts of CHP generation capacity by the end of 2021; and b) strengthening the resilience of the electric infrastructure of critical facilities during power outages. But the BPU's CHP-FC incentive program does not appear to be effective. Operating under the Clean Energy Program umbrella, the CHP-FC program had "minimal" participation in FY 2014, according to section 3.2 of the BPU's "Comprehensive Resource Analysis — Staff Straw Proposal: Proposed Funding Levels FY15," dated May 23, 2014. The Board attributed the lax response to CHP developers' wait-and-see attitude prior to the launch of a second CHP-FC incentive program and the existing CHP-FC program's unpredictable funding history.

The BPU related that the desire to maximize incentive awards motivated many potential applicants to defer their CHP-FC program application submissions pending the creation of the New Jersey Energy Resilience Bank. On October 20, 2014, the BPU and the Economic Development Authority (EDA) then inaugurated the new initiative with the first $65 million funding round supporting the installation of distributed energy resource systems, including CHP and FC systems, at water and wastewater treatment facilities in 91 qualified municipalities that were impacted by Superstorm Sandy or another qualifying natural disaster (EDA Discussion Point #11 elaborates on the New Jersey Energy Resilience Bank).

The BPU also opined that funding uncertainty had depressed CHP-FC program participation. The Board cited undisclosed CHP developers who had stated that it would take several months and a significant monetary commitment to plan a CHP project from performing energy audits, engineering studies, and financial analyses to obtaining the necessary permits. Applicants, however, could not rely on CHP-FC program incentive availability upon the conclusion of project planning. This is so because the State used $44.9 million of CHP-FC program allocations to balance the State budget in FY 2014 and the 18-month period running from January 1, 2012 through June 30, 2013, as the table on the following page illustrates (source for FY 2014 and FY 2015 figures: Board Order dated December 17, 2014, Docket number QO14050489). The $44.9 million represented 42.8 percent of the $104.9 million program budget for the 2.5-year period. In reply to BPU Discussion Point #8 in the OLS FY 2014-2015 Department of the Treasury Budget Analysis, the BPU affirmed, however, that the resource

Discussion Points (Cont'd)

diversions concerned only uncommitted balances and that the diversions did not affect any previously concluded incentive agreements or active incentive application.

Budget History of Combined Heat and Power and Fuel Cell (CHP-FC) Program					
Time Period	**Budgeted**	**Expended**	**Diverted to State General Fund**	**Year-End Carryover**	**Committed Expenses 6/30/2014**
FY 2015	$35,400,000	NA	NA	NA	$11,200,000
FY 2014	$54,400,000	$4,000,000	$17,900,000	$32,500,000	NA
Jan 2012 to June 2013	$50,500,000	$860,000	$27,000,000	$22,600,000	NA

Historically, the lack of a steady, sustainable funding source has limited the State to devising a series of limited duration CHP-FC incentive programs. (The setup for EDA Discussion Point #12 in the OLS FY 2013-2014 Department of the Treasury Budget Analysis traces the programs' history.) The BPU has therefore charged its Combined Heat and Power/Fuel Cell workgroup with developing concepts for the infusion of funding stability and predictability into the CHP-FC incentive program, as the Board replied to BPU Discussion Point #8 in the OLS FY 2014-2015 Department of the Treasury Budget Analysis. Although the workgroup studied several financing approaches, the BPU ultimately retained the current rebate incentive program for FY 2015. One of the funding alternatives the workgroup had considered was an energy efficiency portfolio standard for CHP-FC projects. The portfolio standard mechanism is already in use to impel solar energy capacity investments. The price support policy has three basic elements: a) the creation of demand for CHP-generated energy by obligating electric power suppliers and providers to meet specific quotas for CHP-generated energy; b) the issuance of certificates for every megawatt-hour of electricity generated by CHP installations, which are then sold separately from the generated electricity; and c) a trading platform on which electric power suppliers and providers can acquire from CHP energy generators the certificates they need to meet their annual CHP targets.

- *Questions:* **Please provide an update on the Administration's strategy to reach the 2011 Energy Master Plan target of developing 1,500 megawatts of Combined Heat and Power generation capacity through the end of 2021. Given current policies and trends, does the BPU estimate that the 1,500 megawatts capacity goal is attainable by 2021? What is the statewide generation capacity of currently installed Combined Heat and Power plants?**

- **Has CHP-FC program participation risen in FY 2015? Has the New Jersey Energy Resilience Bank's launch affected FY 2015 CHP-FC program participation? Is the $35.4 million FY 2015 program budget sufficient to meet demand? Please set forth by program year: a) the number of applications received; b) the number of projects approved for incentives; c) the total incentive amounts approved; and d) the amount of megawatts of CHP and fuel cell generation capacity that was or is to be created by those projects. Please provide an aggregated status update for projects that were approved for CHP-FC program incentives, indicating: a) the number of projects that are completed, still under construction, and abandoned; b) the incentive amounts for projects that are completed, currently under construction, and abandoned; and c) the**

Discussion Points (Cont'd)

generation capacity of projects that are completed, currently under construction, and abandoned.

- **What is the CHP-FC program's anticipated FY 2016 budget and spending level? Does the BPU anticipate changing the program design for FY 2016 and beyond? Does the BPU intend to shift the financing source for CHP-FC project incentives to another funding stream to achieve program funding stability?**

- **Is the Administration's proposed transfer of an additional $157.3 million in Clean Energy Fund balances into the State General Fund in FY 2015 and FY 2016 combined affecting the CHP-FC incentive program account? If so, please set forth the amount of the reduction in the CHP-FC incentive program account. Does the transfer: a) jeopardize the State's ability to reach its target of developing 1,500 megawatts of CHP generation capacity by the end of 2021; and b) impede the BPU from planning and implementing CHP-FC incentive program operations and specifications? Have previously awarded payments been deferred, scaled back or rescinded because of the proposed transfer? Has the BPU ceased accepting new applications or making new awards because of the proposed transfer? How long is any: a) wait list for program admittance; and b) backlog in disbursing approved assistance? Has the BPU tightened eligibility criteria or lowered assistance payments because of the proposed transfer?**

8. On October 23, 2014, the BPU issued the **FY 2015 Renewable Electric Storage Incentive Solicitation** with a December 8, 2014 application submission deadline. It was the first time the Clean Energy Program offered financial assistance to energy storage projects. Energy storage systems turn renewable energy into a more reliable power source by alleviating the mismatch between electricity demand and the intermittent supply of solar and wind energy. In addition, energy storage technology temporarily enables critical facilities to continue operating during electric grid outages.

The FY 2015 Clean Energy Program budget allocated $3 million to the FY 2015 Renewable Electric Storage Incentive Solicitation (Page 15 of the Board Order dated June 30, 2014, Docket number QO14050489). Incentive awards, which will be paid upon project completion, are capped at $500,000 per project and each applicant may not receive more than $750,000 for all its eligible projects combined. To qualify a renewable electric storage project must: a) have a minimum 50 kilowatts capacity; b) be integrated with a renewable energy generation installation; c) be interconnected with the New Jersey electric distribution system; d) be financially and economically viable; and e) be ready to be implemented expeditiously pending funding. In addition, like the FY 2015 Sustainable Biopower Incentive Solicitation (see Discussion Point #9), the solicitation assigns priority to projects whose installation will allow "public and critical" facilities to keep critical electric systems operating during power outages.

It is not clear, however, whether the solicitation's objective of hardening the electric infrastructure of critical facilities complies with the Clean Energy Program's statutory mandate. Notably, subsection (3) of N.J.S.A.48:3-60 mentions only two permissible uses of program resources: "demand side management" (i.e. energy efficiency) and renewable energy programs.

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Last year, BPU Discussion Point #7 in the OLS FY 2014-2015 Department of the Treasury Budget addressed the issue of possible Clean Energy Program mission creep within the context of the BPU promoting under the Clean Energy Program umbrella Combined Heat and Power systems and other types of distributed generation as a means to strengthen the resilience of the electric infrastructure of critical facilities during power outages. The BPU replied that it believed that doing so was consistent with the Clean Energy Program's mission, goals, and statutory mandate. The Board noted on that point that resilience and electric infrastructure hardening projects provided a benefit to ratepayers by ensuring the reliable delivery of power in the event of a disaster.

- ***Questions:*** **Please provide a status update on the FY 2015 Renewable Electric Storage Incentive Solicitation. How many applications did the BPU receive and for what total incentive award amount? By what date does the BPU expect to complete its application review process? Please list the projects that have already secured an incentive award to date. If the $3 million program budget does not satisfy all eligible grant applications, what method does the BPU employ to prioritize applications? By what date does the BPU anticipate paying out the first incentive award?**

- **Given the statutory mandate that Clean Energy Program resources be used for demand side management and renewable energy programs, does it represent Clean Energy Program mission creep when the solicitation prioritizes projects whose installation will allow "public and critical" facilities to keep critical electric systems operating during power outages?**

9. The Clean Energy Program has financially backed the installation of biomass electric power generation facilities since 2001. The **FY 2015 Sustainable Biopower Incentive Solicitation**, issued on October 23, 2014 with a December 22, 2014 application submission deadline, marks the latest such subsidy round. Sustainable biomass power plants generate electricity through the burning of renewable organic waste, such as wood, plant material, sewage sludge, and animal as well as food waste.

The FY 2015 Clean Energy Program budget allocated $3 million to the FY 2015 Sustainable Biopower Incentive Solicitation (Page 15 of the Board Order dated June 30, 2014, Docket number QO14050489). Incentive awards, which will be paid upon project completion, are capped at $900,000 per project and each applicant may not receive more than $1,375,000 for all its eligible projects combined, except that an additional ten percent bonus award is available for projects that are completed within 12 months of the initial incentive award notification. (A ten percent penalty applies to projects that are completed more than 18 months after the initial incentive award notification.) To qualify a sustainable biopower project: a) can have any capacity; b) must have received a biomass sustainability determination from the New Jersey Department of Environmental Protection; c) must demonstrate that the qualified biomass feedstock is available on a sustainable basis; d) must be interconnected with the New Jersey electric distribution system; e) must be financially and economically viable; and f) must be ready to be installed expeditiously pending funding. In addition, like the FY 2015 Renewable Electric Storage Incentive Solicitation (see Discussion Point #8), the solicitation assigns priority

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to projects whose installation will allow "public and critical" facilities to keep critical electric systems operating during power outages.

- *Questions:* **Please provide a status update on the FY 2015 Sustainable Biopower Incentive Solicitation. How many applications did the BPU receive and for what total incentive award amount? By what date does the BPU expect to complete its application review process? Please list the projects that have already secured an incentive award to date. If the $3 million program budget does not satisfy all eligible grant applications, what method does the BPU employ to prioritize applications? By what date does the BPU anticipate paying out the first incentive award?**

10. 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. The State Energy Office is to identify opportunities for reducing the energy consumption in State facilities. Since inception the office implemented energy audits; assisted State agencies with the determination of their energy-related needs and capital budget requests; reviewed energy funding requests with the Office of Management and Budget in the Department of the Treasury; and negotiated lower prices on the State's electricity and natural gas supply contracts that produced $13.2 million in State energy cost savings from January 2012 through March 2014, according to the BPU reply to BPU Discussion Point #10 in the OLS FY 2014-2015 Department of the Treasury Budget Analysis.

As part of its mission to identify opportunities for reducing the energy consumption in State buildings, the State Energy Office manages the **energy savings improvement program for State-owned and -operated buildings** in accordance with P.L.2009, c.4. The law strives to increase the number of energy conservation projects the State undertakes by allowing two financing mechanisms to defray the projects' up-front cost over a period not exceeding 15 years (or 20 years in certain cases). First, the State may contract with energy service companies that assume the up-front cost of infrastructure improvements with the State repaying its debt over time out of the energy cost savings it realizes from the investments. Alternatively, the State may enter into a lease-purchase financing agreement, whereby the State engages a contractor who will purchase certain energy conservation equipments on behalf of the State and lease them to the State in return for lease payments over a predetermined term. At the end of the term the State will assume ownership of the equipments.

The Department of the Treasury deems lease-purchase financing more cost-effective than energy savings improvement contracts, according to the BPU response to BPU Discussion Point #10 in the OLS FY 2013-2014 Department of the Treasury Budget Analysis. Consequently, the State still had yet to sign its first energy savings improvement contract but was implementing a multi-year energy savings project plan for State facilities that was to be financed through a series of lease-purchase financing agreements, as the BPU indicated in addressing BPU Discussion Point #10 in the OLS FY 2014-2015 Department of the Treasury Budget Analysis. Specifically, the State Energy Office intended to implement energy conservation projects at the 30 most energy-consuming State facilities that together accounted for 54 percent of the State's energy usage. The first project round comprised seven facilities and was projected to reduce annual energy use by 20 percent and save $15 million per year. To finance the capital improvements,

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the State awarded contract T-2872 to Banc of America Public Capital Corp. on October 7, 2013 in response to Request for Proposal (RFP) 14-X-22599 for "Financial Services: Energy Master Lease Purchase Financing." Under the State's first ever lease-purchase financing agreement for energy conservation projects, the contractor provides up to $100 million for the State to draw down over a three-year period to finance energy conservation projects. In return, the contractor receives fixed payments for twelve or fifteen years depending on the specific project. The RFP sets forth $87.4 million worth of projects for which the State intends to use the raised capital:

1) Bayside Prison/Southern State Prison:	$25.0 Million
2) Hunterdon Developmental Center/Edna Mahan Prison:	$20.0 Million
3) Department of Transportation Headquarters:	$12.0 Million
4) Trenton State Prison:	$11.0 Million
5) Katzenbach School:	$9.1 Million
6) Vineland Developmental Center:	$5.3 Million
7) New Jersey State Police Headquarters:	$5.0 Million

The State Energy Office appears to have since also entered into its first energy savings improvement contract with an energy service company. On December 23, 2014, the Division of Property Management and Construction in the Department of the Treasury awarded project number A1204-00 for $58,119 to Johnson Controls following a competitive bid solicitation under a September 2, 2014 "Request for Proposal to Select an Energy Services Company to Develop and Implement an Energy Savings Plan through an Energy Savings Improvement Program for the New Jersey State Police Headquarters." The relationship of the contract's scope of work with that of the lease-purchase financing agreement as it pertains to the New Jersey State Police Headquarters is uncertain.

- *Questions:* **Please describe the State Energy Office's activities since its response to BPU Discussion Point #10 in the OLS FY 2014-2015 Department of the Treasury Budget Analysis. Has the office achieved additional State cost savings in negotiating the State's electricity and natural gas supply contracts? Please provide an updated estimate of the aggregate and annual State cost savings the office has achieved since its inception in negotiating the State's electricity and natural gas supply contracts.**

- **Please provide a progress report on the State's energy savings improvement program for State-owned and -operated buildings. For each energy conservation project listed in RFP 14-X-22599 for "Financial Services: Energy Master Lease Purchase Financing," please indicate: a) whether work on the project has commenced, and, if not, the scheduled project start date; and b) the expected project completion date. Is the State Energy Office developing a project list for a second energy master lease-purchase agreement or energy savings improvement contracts? If so, what projects are on the list and by what date does the office anticipate seeking the additional financing? Please detail for each energy savings improvement contract signed the State building benefitting from energy-savings infrastructure improvements, the improvements being undertaken, their capital cost, the amortization period, the projected amount of energy cost savings over the amortization period, and the debt service payments the State is anticipated to make out of the projects' energy savings. How does the scope of work of the December 23, 2014 energy savings improvement**

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contract for the New Jersey State Police Headquarters relate to the scope of work for the headquarters under the October 7, 2013 lease-purchase financing agreement?

11. Imposed pursuant to N.J.S.A.48:3-60 as a component of the "Electric Discount and Energy Competition Act" (P.L.1999, c.23), the **societal benefits charge** is embedded in, but separately delineated on, electric and natural gas ratepayers' monthly utility bills. Proceeds finance nuclear plant decommissioning, manufactured gas plant remediation, utilities' uncollectible debts, energy consumer education, energy assistance programs to low-income utility customers via the Universal Services Fund (page 112 of the "Supplementary Information" section in the Governor's FY 2016 Budget, available in the online version only), and energy demand management programs including BPU's Clean Energy Program (page 70 of the "Supplementary Information" section in the Governor's FY 2016 Budget, available in the online version only). From calendar year 2009 to calendar year 2012, societal benefits charge collections fluctuated between a lower bound of $776.6 million generated in calendar year 2011 and an upper bound of $792.3 million generated in calendar year 2010. Depending on the utility, the charge represented between 3.59 percent ($45.84) and 5.56 percent ($68.15) of the annual bill of the average electric residential ratepayer as of April 2013 and between 5.82 percent ($63.30) and 7.07 percent ($83.70) of the annual bill of the average residential natural gas ratepayer.

- ***Questions:*** **Please indicate the amount the societal benefits charge raised in calendar years 2013 and 2014, as well as the amount of societal benefits charge collections that financed each program supported by the charge. Please list, by utility and by societal benefits charge component, the 2014 and 2015 rates of the charge and present the reasons for any increase. The charge represented what percentage of an average residential ratepayer's annual electricity and natural gas bills in calendar years 2013 and 2014 and represents what estimated percentage thereof in calendar year 2015?**

12. New Jersey ratepayers fund the **Universal Service Fund (USF**) via the societal benefits charge included in their electric and natural gas bills. The USF finances several State energy assistance programs: the USF, the "Fresh Start", and Lifeline credit programs, the Tenants' Assistance Rebate Program, as well as energy assistance payments under the Temporary Assistance for Needy Family (TANF) program. The Governor's FY 2016 Budget anticipates $253.6 million in USF expenditures for FY 2016 (page 112, available in the online version of the Governor's FY 2016 Budget only). Of this amount, the Governor proposes $170.9 million in direct fund expenditures as well as a transfer of $82.8 million to other funds, of which $67.3 million would finance the "Lifeline Credit Program" (N.J.S.A.48:2-29.15 et seq.) and the "Tenants' Lifeline Assistance Program" (N.J.S.A.48:2-29.31 et seq.), under which an estimated 302,345 low-income households would receive up to $225 in electric and gas utility credits in FY 2016. An additional $6.9 million would finance energy assistance payments for Work First New Jersey recipients (Work First New Jersey is the State's TANF program) and the Department of Community Affairs would receive another $8.6 million to administer the USF and "Fresh Start" credit programs.

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The USF credit program is an energy assistance program seeking to ensure that eligible utility customers pay no more than six percent of their annual income for their natural gas and electric service. The "Fresh Start" credit program, on the other hand, allows first-time USF credit recipients with at least $60 in arrears on their energy bills to retire their outstanding balances by paying their USF-adjusted affordable energy bill in full for 12 consecutive months following program admittance. The BPU carries the financial responsibility for the programs, the Department of Community Affairs administers them, and the electric and natural gas utilities credit the benefits to customer accounts. In program year 2013, the two programs disbursed $182.4 million in benefits and incurred $9.1 million in administrative expenses (reported program expenditures less reported benefit payments), as related by the BPU in response to BPU Discussion Point #12 in the OLS FY 2014-2015 Department of the Treasury Budget Analysis. For program years 2010 through 2013 the tables below display for each of the two credit programs the number of beneficiary households, total credit expenditures, and the average benefit per household. The timing of the program year was changed effective for program year 2012. The 2010 and 2011 program years started on November 1 and ended on October 31 the following year. Program year 2012, however, began on November 1, 2011 and ended on September 30, 2012, resulting in a one-time eleven-month program year. The 2013 program year then ran a full twelve months from October 1, 2012 to September 30, 2013. The average electric residential ratepayer paid $16.01 in program year 2011 to support the USF, $20.02 in program year 2012, $18.94 in program year 2013, and $17.80 in program year 2014. In turn, the average natural gas residential ratepayer paid $17.04 in program year 2011, $16.08 in program year 2012, $16.32 in program year 2013, and $7.80 in program year 2014. In addressing BPU Discussion Point #12 in the OLS FY 2014-2015 Department of the Treasury Budget Analysis, the Board stated that the decline in electricity and natural gas prices in recent years might explain in part the drop in program participation and cost.

Universal Service Fund Credit Program Metrics for Program Years 2010 through 2013			
Program Year	**Households Enrolled**	**Total Credit Cost**	**Average Benefit per Household**
2009 - 2010	194,660	$193,477,000	$993.92
2010 - 2011	223,088	$200,956,254	$900.79
2011 - 2012	221,451	$196,935,385	$889.30
2012 - 2013	215,121	$173,737,308	$807.63

"Fresh Start" Credit Program Metrics for Program Years 2010 through 2013			
Program Year	**Households Enrolled**	**Total Credit Cost**	**Average Benefit per Household**
2009 - 2010	23,359	$13,447,945	$575.71
2010 - 2011	26,770	$15,299,127	$571.50
2011 - 2012	24,360	$12,411,258	$509.49
2012 - 2013	17,210	$8,631,532	$501.54

- ***Questions:*** **For each of the USF credit and "Fresh Start" programs, please provide actual expenditures for the 2013-2014 program year and estimated expenditures for**

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the 2014-2015 program year. What are the USF rates built into the societal benefits charge for those years and what does the program cost the average residential and non-residential energy utility customer? What is the number of USF credit and "Fresh Start" beneficiaries in program years 2013-2014 and 2014-2015?

- **What factor(s) drove the: a) $93.16, or 10.3 percent, decline in the average USF household benefit from $900.79 in the 2010-2011 program year to $807.63 in the 2012-2013 program year; b) $69.96, or 12.2 percent, drop in the average "Fresh Start" household benefit from $571.50 in the 2010-2011 program year to $501.54 in the 2012-2013 program year; and c) 9,560, or 35.7 percent, decline in the number of households enrolled in the "Fresh Start" program from 26,770 households in the 2010-2011 program year to 17,210 households in the 2012-2013 program year? To what extent do the decreases reflect improving household incomes and falling prices for electricity and natural gas? Were the participation and benefit declines more pronounced for benefits paid towards beneficiaries' electricity or natural gas bills?**

13. P.L.2009, c.207 directs the BPU to make a one-time $25.0 million allocation out of unexpended and uncommitted societal benefits charge balances to an electric and gas utility assistance grant program for households experiencing a temporary financial crisis. The program has to be operated by a non-profit organization, which must submit a report to the Board detailing program statistics and other administrative information within one year of receiving the final tranche of the $25.0 million program budget. In application of the law, the BPU established the **Temporary Relief for Utility Expenses (TRUE) program** under the Clean Energy Program banner and, in March 2011, selected the non-profit Affordable Housing Alliance (AHA) as the program administrator. According to the Board Order dated December 19, 2012, Docket number EG10100740, the contract with AHA obligates the non-profit organization to submit the final program report within 90 days of program budget exhaustion or the contract's March 4, 2015 expiration date, whichever would come first.

According to the AHA website, the TRUE program was an assistance program designed to help low- and moderate-income households who newly faced financial hardship. In order to qualify, applicants had to meet income guidelines. For example, a three-person household had to have an annual income ranging from $39,588 to $88,617. In addition, applicants had to not have received energy assistance under the Universal Service Fund credit program and the Low Income Home Energy Assistance Program in the past 12 months. They also had to demonstrate that balances in their electric and gas accounts were at least 45 days overdue or that they had received a disconnection notice for their electric or gas service. Lastly, they had to demonstrate that they had made four electric or gas bill payments of at least $25 each within the past six months. Replying to BPU Discussion Point #13 in the OLS FY 2014-2015 Department of the Treasury Budget Analysis, the BPU noted that through March 2014 some 13,539 households had received one or more TRUE grants and that $19.6 million of the $25.0 million program budget had been released to AHA. The BPU anticipated the program budget's depletion by the end of calendar year 2014 and did not intend to make the program permanent.

- **Questions: For the Temporary Relief for Utility Expenses (TRUE) program, please indicate, by program year, the number of beneficiary households, the average benefit**

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amount, and the total budgetary outlay. Has the program been terminated and has the full $25.0 million program budget been spent? If the program has ended and unexpended balances remain, what uses does the BPU envision for the unexpended balances? Has the BPU received the final report from the Affordable Housing Alliance, as required by P.L.2009, c.207? If not, by what date must the alliance submit the report? Does the BPU still intend not to renew the program? If the Board is considering a renewal, what would be the program's funding source?

14. N.J.S.A.46:30B-74 created the off-budget Unclaimed Utility Deposits Trust Fund to hold unclaimed electric and natural gas utility customer deposits that escheat to the State. A contracted statewide non-profit energy assistance organization receives 75 percent of the fund's annual balances to provide assistance to utility ratepayers who have fallen behind on their electricity or natural gas bills. New Jersey Statewide Heating Assistance and Referral for Energy Services (NJ SHARES) was the contractor from 2001 through 2013 (Board Order dated February 2, 2001, Docket number EO00120976U). According to NJ SHARES' annual reports, it received $1.4 million from the Unclaimed Utility Deposits Trust Fund in calendar year 2012 for its general energy assistance program, $2.5 million in calendar year 2011, and $2.9 million in calendar year 2010. In July 2013, the BPU awarded the contract instead to the non-profit Affordable Housing Alliance (AHA) for the operation of the new **Payment Assistance for Gas and Electric (PAGE) program** from FY 2014 to FY 2018 (Board Order dated July 19, 2013, Docket number EG13030195). According to the Board's answer to BPU Discussion Point #14 in the OLS FY 2014-2015 Department of the Treasury Budget Analysis, the PAGE program received its first $2.7 million Unclaimed Utility Deposits Trust Fund payment in December 2013.

The PAGE program is to help pay the electric and natural gas bills of low- and moderate-income households whose incomes are too high to qualify for federal and State energy assistance programs. Applicants must be behind on their energy and natural gas bills and must otherwise have a history of regular payments to their energy provider. In order to qualify, applicants have to meet income guidelines. For example, a three-person household must have an annual income ranging from $39,588 to $88,617. In addition, applicants must not have received energy assistance under the Universal Service Fund credit program in the past six months and the Low Income Home Energy Assistance Program in the last heating season before applying for PAGE grants. They also must demonstrate that balances in their electric and gas accounts are at least 45 days overdue or that they received a disconnection notice for their electric or gas service. Lastly, they must demonstrate that they made two electric or gas bill payments of at least $25 each within the past six months or one payment of at least $100 within the past 90 days. According to the Board's answer to BPU Discussion Point #14 in the OLS FY 2014-2015 Department of the Treasury Budget Analysis, PAGE grants per household equal the amount the utility company needs so as to not discontinue the household's utility service, capped at $700 each for electricity and natural gas service in a one-year period.

- ***Questions:*** **For the Payment Assistance for Gas and Electric (PAGE) program, please indicate, by program year, the number of beneficiary households, the average benefit amount, and the total budgetary outlay. Is the PAGE program fully operational? Has the shift of Unclaimed Utility Deposits Trust Fund support from NJ**

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SHARES to the PAGE program been seamless from the vantage point of program beneficiaries? If not, what problems needed to be resolved in carrying out the transition? Are there any deficiencies in program operations and performance that the Affordable Housing Alliance still has to address? Is the number of annual benefit approvals roughly stable following the funding shift from NJ SHARES to the PAGE program? What was the number of applications in FY 2013 (NJ SHARES)?

15. The 2011 Energy Master Plan reaffirmed the State's commitment to sourcing 22.5 percent of the electricity used in New Jersey from renewable energy sources by 2021. That percentage reflects the pre-existing objective under the State's **Renewable Portfolio Standards (RPS)**. P.L.1999, c.23 (N.J.S.A.48:3-49 et seq.) established the RPS, which prescribe a minimum percentage of total kilowatt-hours sold in New Jersey by each electric power supplier and basic generation service provider that must be generated from renewable energy sources. While the law prescribes specific minimum RPS targets for some years and forms of alternative energy, it leaves the formulation of the overall RPS schedule to the BPU's discretion (subsection d. of N.J.S.A.48:3-87). Current RPS targets are outlined in N.J.A.C.14:8-2.3. The regulatory RPS schedule does not specify solar energy targets, however, as they are set forth in permanent statutes in accordance with P.L.2012, c.24. In energy years 2010 through 2013 all electric power suppliers and basic generation service providers complied with the RPS requirements, according to the BPU's answers to BPU Discussion Point #2 in the OLS FY 2013-2014 Department of the Treasury Budget Analysis and BPU Discussion Point #15 in the OLS FY 2014-2015 Department of the Treasury Budget Analysis. Had they not, they would have been subject to penalties, such as license suspension or revocation, fines, the disallowance of cost recoveries, and a prohibition on accepting new customers.

For energy years 2010 through 2021, the table on the following page lists the percentages of energy supplied in New Jersey that must be either from Class I or Class II renewable energy, with solar energy being a carve-out of the Class I percentage. The Class I and Class II targets reflect the RPS as delineated in N.J.A.C.14:8-2.3. The solar energy figures represent the RPS for energy year 2010; the gigawatthours-based (Gwhrs) targets for energy years 2011, 2012, and 2013 in accordance with P.L.2009, c.289; and starting in energy year 2014 the percentage targets set forth in the superseding P.L.2012, c.24. Class I energy sources are solar technologies, wind energy, photovoltaic technologies, geothermal technologies, fuel cells, wave or tidal action, the combustion of methane gas captured from landfills or biomass facilities, and hydropower facilities with a capacity not exceeding three megawatts. Electricity from hydroelectric facilities with a capacity exceeding three megawatts constitutes a Class II energy source. As to the nomenclature for an energy year, energy year 2010, for example, started on June 1, 2009 and ended on May 31, 2010.

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Renewable Portfolio Standards: Percentage of Energy Sold in New Jersey that Must Be from Renewable Energy Sources				
Energy Year	**Class I Energy**	**Solar Energy's Share of Class I Energy Targets**	**Class II Energy**	**Total Renewable Energy**
2010	4.685%	0.221%	2.50%	**7.185%**
2011	5.492%	306 Gwhrs	2.50%	**7.992%**
2012	6.320%	442 Gwhrs	2.50%	**8.820%**
2013	7.143%	596 Gwhrs	2.50%	**9.643%**
2014	7.977%	2.050%	2.50%	**10.477%**
2015	8.807%	2.450%	2.50%	**11.307%**
2016	9.649%	2.750%	2.50%	**12.149%**
2017	10.485%	3.000%	2.50%	**12.985%**
2018	12.325%	3.200%	2.50%	**14.825%**
2019	14.175%	3.290%	2.50%	**16.675%**
2020	16.029%	3.380%	2.50%	**18.529%**
2021	17.880%	3.470%	2.50%	**20.380%**

In addressing last year's BPU Discussion Point #15, the Board reaffirmed its previous estimate that the RPS requirements for energy year 2021 were likely to be attained and that the RPS requirements would help develop cost-competitive renewable energy markets at the least cost to ratepayers. All ratepayers combined paid an estimated $118.4 million in energy year 2010 to comply with the RPS targets, $197.5 million in energy year 2011, $148.6 million in energy year 2012, and $146.9 million in energy year 2013; according to the Board's replies to BPU Discussion Point #2 in the OLS FY 2013-2014 Department of the Treasury Budget Analysis and BPU Discussion Point #15 in the OLS FY 2014-2015 Department of the Treasury Budget Analysis. Furthermore, the Board noted in response to BPU Discussion Point #16 in the OLS FY 2014-2015 Department of the Treasury Budget Analysis that it estimated the energy year 2014 RPS cost to exceed more than $280 million. The Board attributed the near doubling in RPS costs over energy year 2013 mostly to the accelerated increase in the energy year 2014 RPS solar target under P.L.2012, c.24. Moreover, the BPU shared in reply to BPU Discussion Point #2 in the OLS FY 2013-2014 Department of the Treasury Budget Analysis that the average residential ratepayer paid $15.3 in energy year 2010 to meet the RPS targets, $24.3 in energy year 2011, and $19.3 in energy year 2012, assuming an average annual energy consumption of 10,000 kilowatt-hours. The BPU did not provide an energy year 2013 figure last year.

- ***Questions:*** **For energy year 2014, please indicate: a) the actual percentage of electricity sold in New Jersey that was generated from renewable energy sources; b) whether the electric power suppliers and basic generation service providers complied with the Class I, Class II, and solar energy targets of the Renewable Portfolio Standards (RPS); c) the breakout of the creditable components that electric power suppliers and basic generation service providers used to meet the Class I, Class II, and solar energy RPS requirements; and d) the RPS' total cost to ratepayers, and average cost per residential ratepayer, assuming an average annual energy consumption of 10,000 kilowatt-hours. For energy year 2013, please indicate the RPS' average cost per residential ratepayer, assuming an average annual energy consumption of 10,000**

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kilowatt-hours. Has the BPU revised its estimate from last year that the attainment of the energy year 2021 RPS targets is likely? If so, please share the revised estimate.

16. New Jersey must expand its solar energy generation capacity substantially to meet the gradually rising solar targets of the statutory Renewable Portfolio Standard (RPS) (subsection d. of N.J.S.A.48:3-87): solar energy must comprise 2.05 percent of New Jersey electricity sales in energy year 2014 (June 2013 through May 2014), 2.45 percent in energy year 2015, 2.75 percent in energy year 2016, and 4.1 percent by energy year 2028.

The State has set up a price-support system to impel the solar capacity investments needed to meet its solar targets. The system has three basic elements: a) solar targets, which create a demand for solar energy by obligating electric power suppliers and basic generation service providers to meet specific solar quotas; b) **Solar Renewable Energy Certificates (SRECs)**, which are issued for every megawatt-hour (MWh) of electricity generated by solar power installations and are sold separately from the generated electricity; and c) a trading platform on which electric power suppliers and providers can acquire from solar energy generators the SRECs they need to meet their annual solar targets. To limit the price-support system's cost to ratepayers, a gradually declining price ceiling applies to SRECs in the form of Solar Alternative Compliance Payments (SACP). Electric power suppliers and providers may make such alternative payments to the BPU in lieu of purchasing SRECs to meet their solar quotas. The OLS calculates that the solar targets would cost ratepayers $287 million in energy year 2014, $343 million in energy year 2015, and $385 million in energy year 2016; based on the Board response to BPU Discussion Point #16 in the OLS FY 2014-2015 Department of the Treasury Budget Analysis that it expected the cost of RPS compliance to increase by $56 million in energy year 2015 as a consequence of the RPS solar target rising from 2.05 percent of all electricity sold in New Jersey to 2.45 percent, all other variables held constant.

Turbulence rocked the SREC market until recently. After a precipitous drop that prompted statutory revisions to the SREC market infrastructure in 2012, the weighted average monthly SREC price has stabilized at around $180 per MWh for the last year-and-a-half. In fact, the weighted average monthly SREC price for December was $612 per MWh in 2010, $369 in 2011, $215 in 2012, $176 in 2013, and $179 in 2014. SREC prices tumbled in 2011 and 2012 in response to an unanticipated surge in solar energy supply. The surging supply, in turn, arose from market responses to previously high SREC prices, temporarily enhanced federal incentives, and declining prices for photovoltaic panels. Concerned that the low SREC price levels might deter the installation of additional solar energy generation capacity and thereby jeopardize the attainment of long-run RPS solar targets, the State enacted P.L.2012, c.24 so as to stabilize the market. Most significantly, the law altered the market's structure by: a) restricting future SREC supply through a new limitation on the construction of large-scale solar power generation facilities on farmland; and b) lifting SREC demand through the imposition of more aggressive RPS solar targets starting in energy year 2014. But the law also sought to control the solar targets' cost on ratepayers by replacing the previous regulatory ceilings on SREC prices with significantly lower statutory caps. With the average SREC price hovering around $180 per MWh, the BPU observed in reply to last year's BPU Discussion Point #16 that SREC prices appeared to be sufficient to induce continued investments in solar energy. Overall, the Board projected a gradually accelerating SREC oversupply so that retail electricity suppliers and basic

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generation service providers should have no difficulty finding SRECs on the spot market for the foreseeable future.

- **Questions: Please comment on the current state of the Solar Renewable Energy Certificates (SRECs) market. How many registered SRECs have and have not been traded in energy year 2015? By what month were all the SRECs sold that are required to meet the energy year 2015 solar quota? How much solar energy generation capacity has been added to the market in energy year 2015? Does the BPU detect an acceleration or slowdown in the construction of new solar energy generation capacity? If so, what factor(s) account for the acceleration or slowdown? If not, is it defensible to assume that solar generators find the creation of new solar capacity sufficiently profitable at current SREC prices? What percentage of the energy year 2014 solar target of 2.05 percent of electricity sales in New Jersey did electric power suppliers and basic generation service providers meet through SRECs and through the alternative SACP payments to the BPU?**

- **How significant is the risk that the SREC supply will be insufficient to meet the rising solar targets in energy years 2016 and 2017 and that electric power suppliers and basic generation service providers will have to make alternative SACP payments to the BPU? What will be the estimated annual cost to the average residential ratepayer of meeting the energy year 2015, 2016 and 2017 solar quotas?**

17. An unanticipated surge in the supply of installed solar energy capacity in 2011 and 2012 sent New Jersey Solar Renewable Energy Certificate (SREC) prices spiraling downward. The weighted average monthly SREC price for December stood at $612 per MWh in 2010. By December 2013 it was down to $176. Collapsing SREC prices led to the enactment of P.L.2012, c.24, which was to stabilize the solar market and ensure the installation of additional solar energy generation capacity. The law included measures to up SREC demand and restrict the supply of additional solar capacity. In addition, the law directed the BPU to prepare a report on the mitigation of solar market development volatility. In May 2014, Meister Consultants Group, Inc. and Sustainable Energy Advantage, LLC submitted their "Solar Market Development Volatility in New Jersey" report to the BPU, which forwarded the document along with the Board's findings and recommendations to the State Legislature in July 2014.

The consultants identified several **potential sources of future volatility in New Jersey's solar market that might hamper the development of solar power generation capacity in the state.** But the consultants also warned of substantial uncertainties that made it "difficult to develop a precise estimate of future solar market development over the course of the next 15 years" (page 28). The consultants noted that the current fixed solar demand schedule, as codified in the Renewable Portfolio Standard solar targets, might significantly contribute to future market volatility and undermine sustained, orderly market growth owing to: a) a built-in period of decreasing or flat annual incremental targeted capacity additions in the out-years that could foster persistent oversupply conditions; b) the apparent omission to appropriately account for the need to replace in the SREC market solar installations built in the 2011-2012 boom period when the installations lose their SREC eligibility after 15 years of operation; c) the expiration of the current 30 percent Federal Investment Tax Credit for eligible systems placed in service after

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December 31, 2016, which has the potential to accelerate solar capacity additions as developers race to meet the incentive deadline; and d) the rigid, statutory long-range solar demand curve potentially being suboptimal for market conditions prevailing in the future.

The consultants presented four policy options that the State may wish to pursue to address concerns about future volatility in New Jersey's solar market: 1) no substantial policy changes; 2) the implementation of complementary initiatives, such as the expansion of existing solar programs operated by New Jersey electric distribution companies and the creation of a green bank financing program for solar projects; 3) the replacement of the current fixed statutory solar demand schedule with a flexible regulatory supply-responsive demand formula that adapts to prevailing market conditions; and 4) the implementation of a capped-quantity incentive under a competitive procurement structure whereby a central authority controls the incentive supply by offering pre-determined quantities of long-term SREC purchase contracts.

Informed by the report, the BPU recommended no proactive policy change to the Legislature. The Board would continue to monitor market developments. If quarter-over-quarter solar power generation capacity additions change by at least 40 percent for more than three consecutive quarters the BPU would: a) evaluate whether regulatory intervention might be warranted; b) engage stakeholders in developing appropriate policy responses; and c) consider further restricting the SREC eligibility of large, potentially market-moving solar projects.

- ***Questions:*** **Please explain the rationale for the Board's recommendation to make no changes at the present time to the existing solar market structure when the "Solar Market Development Volatility in New Jersey" report by Meister Consultants Group, Inc. and Sustainable Energy Advantage, LLC included other policy options. For what reason(s) did the BPU reject the alternative policy options?**

- **In the BPU's estimation, do the Renewable Portfolio Standard solar targets of P.L.2012, c.24 adequately reflect current solar market conditions, given the objective of sustained, orderly solar market growth? Is the BPU confident that the existing statutory solar targets will still be adequate in five years and beyond or does the BPU anticipate the need for future legislative changes to the solar demand curve to respond to future market conditions?**

18. On October 21, 2013, the **New Jersey Solar Grid Supply Association and ten solar energy grid-supply developers filed a lawsuit against the State and the BPU** in Burlington County Superior Court seeking $500 million in compensatory damages (*New Jersey Solar Grid Supply Association v. State of New Jersey*). The plaintiffs challenged the BPU's implementation of P.L.2012, c.24, which had changed qualifying criteria for participation in the Solar Renewable Energy Certificates (SRECs) program. In applying the new law, the BPU had denied or deferred approval for participation in the SREC program for solar energy generation projects that the plaintiffs had planned or begun to realize based on previous eligibility criteria. The plaintiffs reportedly sought compensatory damages for some $43 million in stranded investments, some $58 million in foregone development income, and some $400 million in lost profits. In reply to BPU Discussion Point #17 in the OLS FY 2014-2015 Department of the Treasury Budget Analysis, the Board reported that the Burlington County Superior Court

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dismissed the case on April 11, 2014. It is not clear whether the plaintiffs appealed the decision. The BPU noted further in its discussion point reply that any court decision compelling the Board to approve all or most of the concerned solar projects could increase the current SREC oversupply in the market, which could deter future investments in solar power generation capacity.

P.L.2012, c.24 intends to correct an SREC market experiencing a substantial oversupply of solar electric power generation and to newly restrict the construction of large-scale solar power generation facilities on farmland. The law does not exempt from the new requirements solar facilities on farmland that were in the planning stages or under construction on the date of the law's enactment and that still had to receive final BPU approval for SREC program participation. Nevertheless the law instituted a special application process for such projects under subsection s. of N.J.S.A.48:3-87. One of its three conditions was BPU project approval; however, the law did not stipulate any guidelines concerning the evaluation of project applications. The BPU then used its discretion in a manner it deemed consistent with two objectives of P.L.2012, c.24: "limiting solar development on farmland and mitigating [SREC price] volatility" (page 19 of the Board Order dated May 8, 2013, Docket numbers EO12080832V, EO12090880V, EO12121101V, EO12121106V, and EO12121142V). It reviewed 57 applications for grid-supply solar projects on farmland under subsection s. of N.J.S.A.48:3-87. It approved three for SREC program participation owing to their advanced stage of development, deferred a decision on 20 projects, and denied 34 applications. The BPU pointed out that rejected projects could still seek approval for SREC market participation under a different provision of P.L.2012, c.24 that dealt with solar projects on farmland, namely subsection q. of N.J.S.A.48:3-87. (Board Order dated May 8, 2013, Docket numbers EO12080832V, EO12090880V, EO12121101V, EO12121106V, and EO12121142V concerns the three projects the BPU approved; and Board Order dated May 10, 2013, Docket numbers EO12090832V, EO12090880V, EO12121089V – EO12121144V the projects the BPU denied or deferred). In reply to last year's BPU Discussion Point #17, the Board related that it subsequently approved 18 of the 54 previously rejected or deferred projects under subsection q. of N.J.S.A.48:3-87.

- ***Questions:*** **Have the New Jersey Solar Grid Supply Association and ten solar energy grid-supply developers appealed the April 11, 2014 Burlington County Superior Court decision to dismiss their complaint against the State and the BPU? If so, please indicate the current status of the appeal. Have briefing or filing deadlines and oral arguments been scheduled? What are the expected decision date and the BPU's expectation of likelihood of success? What has been the State's cost to date of engaging in the court proceeding?**

- **Other than the 18 solar power generation projects whose construction the BPU approved in the first two application rounds under subsection q. of N.J.S.A.48:3-87, have solar grid-supply developers submitted any applications for SREC market participation under subsection q. of N.J.S.A.48:3-87 for any solar power generation projects for which the BPU had denied approval under subsection s. of N.J.S.A.48:3-87? If so, how many projects fall into that category and by what date does the BPU anticipate ruling on the applications?**

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19. In March 2011, the BPU suspended the **incentive program for small on-shore wind energy installations** over safety concerns following the failure of three New Jersey small-scale wind systems. Although the BPU ceased to accept new applications, it honored previously concluded incentive agreements and paid the final rebate commitments in FY 2014, according to section 3.2 of the BPU's "Comprehensive Resource Analysis — Staff Straw Proposal: Proposed Funding Levels FY15," dated May 23, 2014. In all, the program supported the construction of 42 wind installations.

The FY 2015 Clean Energy Program budget does not fund any on-shore wind energy project incentives (Board Order dated June 30, 2014, Docket number QO14050489). But the BPU reported in its "Comprehensive Resource Analysis — Staff Straw Proposal: Proposed Funding Levels FY15," that it anticipated reconvening the dormant NJ Small Wind Working Group in FY 2015 once it receives a contracted study of the performance and cost effectiveness of New Jersey's existing 42 small wind turbine installations. The working group was to make a recommendation to the Board whether to permanently forgo on-shore wind energy project incentives or whether to reinstate the suspended program in its previous or an altered form. In arriving at its recommendation, the working group was to consider the findings and recommendations of the aforementioned performance study and of a 2013 National Renewable Energy Lab forensic study that concluded that manufacturing design flaws caused the New Jersey wind turbine failures that prompted the 2011 suspension of the on-shore wind energy incentive program.

- **Questions: Please provide a status update on New Jersey's small wind rebate program. Has the study of the performance and cost effectiveness of New Jersey's 42 existing small wind turbine installations been completed? If so, what are its findings and recommendations? If not, by what date does the BPU expect the study's completion? Has the BPU reconvened the NJ Small Wind Working Group? If so, by what date does the BPU expect the working group to make recommendations regarding any future on-shore wind incentive program? Does the BPU anticipate the FY 2016 Clean Energy Program budget to fund on-shore wind incentives?**

20. a. The "Offshore Wind Economic Development Act," P.L.2010, c.57, directs the BPU to establish an **Offshore Renewable Energy Certificate (OREC)** program. A price-support system similar to the Solar Renewable Energy Certificate program addressed in Discussion Point #16 above, the OREC program is intended to contribute to meeting the 2011 Energy Master Plan goal of building at least 1,100 megawatts of offshore wind electric generation capacity. Under the OREC financing mechanism, the BPU would first determine the generation capacity of offshore wind installations approved for OREC program participation and convert that capacity into an annual percentage of New Jersey electricity sales that must be from offshore wind installations. Electric power suppliers and providers would then have to source that percentage of their New Jersey electricity sales from offshore wind farms. They would do so through the purchase of ORECs, which represent power generated by owners of offshore wind electric generation systems at prices that reflect the higher cost of renewable energy. ORECs would be sold separately from the electricity actually generated by the wind farms. To limit the price-support system's cost to ratepayers, the BPU would set a *de facto* price ceiling for the certificates in the form of Offshore Wind Alternative Compliance Payments. Electric power

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suppliers and providers could make such alternative payments to the BPU in lieu of purchasing ORECs to meet their offshore wind requirements.

The OREC program is not yet operational. To date, the BPU has promulgated regulations on the OREC application process and has begun to accept and review applications. But the Board still has to adopt regulations setting up the infrastructure for an OREC market. In reply to BPU Discussion Point #18 in the OLS FY 2014-2015 Department of the Treasury Budget Analysis, the BPU noted that it had retained Boston Pacific to develop the OREC market model and that it anticipated releasing a detailed proposal thereof for public review in mid-2014. The Board added that based on conversations with stakeholders and federal regulators it expected up to 12 developers to ultimately apply for ORECs.

Yet even if the OREC program were operational, applicants would find it difficult to qualify for two reasons. First, projects to be sited in federal waters, which begin three miles off the State's coast, must receive federal permits. The United States government, however, has been slow to issue rules and permits for offshore wind energy activity. This barrier to OREC program participation may soon be moot, however, as the Bureau of Ocean Energy Management in the United States Department of the Interior issued a proposed sale notice in the Federal Register on July 21, 2014 for two commercial wind energy leases in a 344,000-acre New Jersey Wind Energy Area off the coast of Atlantic City ("Atlantic Wind Lease Sale 5 (ATLW5) for Commercial Leasing for Wind Power on the Outer Continental Shelf Offshore New Jersey—Proposed Sale Notice," Docket No. BOEM—2014—0029; MMAA104000). Second, the "Offshore Wind Economic Development Act" requires OREC-eligible projects to yield positive economic and environmental net benefits to the State. But complying with the economic net benefit requirement has posed a challenge. (Discussion Point #20 b. below elaborates on the economic net benefit test.)

- ***Questions:*** **Please report on the BPU's progress in establishing the Offshore Renewable Energy Certificate (OREC) program. By which date does the BPU expect to have OREC rules promulgated, the market infrastructure set up, and the first certificates ready to trade? If an OREC funding mechanism proposal has not yet been released for public review, please explain the reason(s) for the delay. Please comment on the ways in which the anticipated federal sale of two commercial wind energy leases in the New Jersey Wind Energy Area has affected the content formulation and adoption timetable of the anticipated OREC rules.**

- **Please list the OREC applications the BPU has received to date, including the date of receipt and the status of the application evaluation process. Does the BPU foresee receiving additional OREC applications from future holders of the two federal commercial wind energy leases in the New Jersey Wind Energy Area?**

20. b. OREC-eligible projects must yield positive economic and environmental net benefits to the State (N.J.S.A.48:3-87.1b.(1)(b)). But complying with the economic net benefit requirement poses a challenge, according to unidentified wind project developers cited in the NJSpotlight January 22, 2013 article "New Funding Mechanism Could Stop State from Raiding Offshore Wind Revenue." In fact, the only project for which the BPU has received an OREC application

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thus far, Fishermen Energy's planned 25-megawatt Atlantic City Wind Farm, failed the **OREC economic net benefit analysis** in December 2012. Subsequent project modifications could not alter the outcome and so the BPU denied the project's application definitively on March 19, 2014 and again on November 21, 2014. Moreover, in reply to BPU Discussion Point #18 in the OLS FY 2014-2015 Department of the Treasury Budget Analysis, the BPU stated that even though it expected up to 12 developers to apply for ORECs based on conversations with stakeholders and federal regulators, it did not know whether any particular project would pass the economic net benefit test. A year earlier, the Board had supported the statutory net benefit requirement as an "essential" ratepayer protection and had not recommended amending the enabling law to facilitate projects' entry into the OREC program (BPU response to BPU Discussion Point #4 in the OLS FY 2013-2014 Department of the Treasury Budget Analysis).

The BPU appears to use a different economic net benefit test in evaluating proposed off-shore wind installations than the Economic Development Authority (EDA) routinely employs in analyzing project applications under its economic development incentive programs. For example, in the Board Order rejecting Fishermen Energy's OREC application for a second time (BPU Board Order dated November 21, 2014, Docket number EO11050314V), the BPU noted on page 6 that Boston Pacific conducted the net economic benefit test as the BPU's consultant in the case. Moreover, according to section 2.1 of the BPU's "Comprehensive Resource Analysis — Staff Straw Proposal: Proposed Funding Levels FY15," dated May 23, 2014, the Center for Energy, Economic and Environmental Policy (CEEEP) at Rutgers, the State University of New Jersey, performed an offshore wind analysis in FY 2014, which was to provide the BPU "with an integrated set of tools" for evaluating the economic impact of proposed offshore wind projects. The CEEEP was also in the process of linking various environmental and economic models to calculate the economic impacts of a generic offshore wind project in New Jersey.

- ***Questions:*** **Please explain the BPU's rationale for not using the EDA's existing economic net benefit test in evaluating the economic impacts of proposed offshore wind projects. Does the EDA's model have biases that affect the likelihood of proposed offshore wind projects passing the test? How does the economic net benefit test that Boston Pacific used in analyzing Fishermen Energy's OREC application for its planned Atlantic City Wind Farm differ in method and assumptions from the EDA's economic net benefit test? For what reason(s) has the BPU called on the CEEEP to develop a separate methodology and how is the CEEEP's model different from the EDA's and Boston Pacific's? Please provide a description of the methodology of the economic net benefit test the BPU is currently using.**

21. Pilgrim Pipeline Holdings, LLC is seeking to construct two parallel 24-inch underground pipelines to transport crude oil and refined petroleum products over 178 miles from Albany, New York to Linden, New Jersey. The pipeline's exact routing has not yet been made public. The developer contends that the project would provide New York and New Jersey with a safer, more reliable, and more environmentally friendly shipment mode for crude oil and refined petroleum products than their current transportation on Hudson River barges. Opponents reject the project on environmental, safety, and "not-in-my-backyard" grounds.

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Several federal and State government agencies share the responsibility for permitting and regulating interstate pipelines. The New Jersey Department of Environmental Protection would be at the forefront of the permitting process concerning the New Jersey siting of the **proposed Pilgrim oil pipeline**, given the absence of a comprehensive federal permitting process for the routing of interstate oil pipelines. Once approved and built, the pipeline would be subject to the inspection and enforcement of federal safety regulations for hazardous liquid pipelines by the Office of Pipeline Safety in the Pipeline and Hazardous Materials Safety Administration in the United States Department of Transportation. New Jersey currently does not regulate and monitor oil pipelines located in its territory post-construction.

It is not clear, however, to what extent the BPU might want to assert jurisdiction over the permitting process or the post-construction regulation and monitoring of the proposed Pilgrim oil pipeline. While the Board currently does not regulate oil pipelines, it has dormant statutory authority to do so. N.J.S.A.48:2-13 states that the "board shall have general supervision and regulation of and jurisdiction and control over all public utilities" and defines the term "public utility" to include every entity that may own, operate, manage or control within this State any pipeline. Moreover, in several other states, state agencies perform regulatory oil pipeline safety, security, monitoring, and compliance duties pursuant to agreements with the federal Pipeline and Hazardous Materials Safety Administration. In operating the Pipeline Safety Program, the BPU already performs that role with regards to natural gas pipelines in accordance with N.J.S.A.48:10-2 et seq. The law charges the board with the general supervision and regulation of natural gas pipeline utilities and their property, equipment, and facilities.

- ***Questions:*** **Please comment on the BPU's actual and planned involvement in the permitting process for the construction and operation of the Pilgrim oil pipeline. What is the nature of any involvement? If the BPU intends not to exercise jurisdiction, please provide the rationale for not doing so. If the oil pipeline were to be built, does the BPU intend to conclude an agreement with the federal government, whereby the BPU would perform the regulatory oil pipeline safety, security, monitoring, and compliance duties of the federal Pipeline and Hazardous Materials Safety Administration within the context of an expanded Pipeline Safety Program or a new program? Do the federal hazardous liquid pipeline safety regulations and their enforcement afford adequate protection to New Jersey residents?**

22. Hurricane Irene made landfall in New Jersey on August 28, 2011 and disrupted service to 1.9 million of the State's 3.9 million electric customers with some not having their electricity restored for eight days. Two months later, an October 29, 2011 snowstorm caused 1.0 million customers to loose power with the most unfortunate being without electric service for seven days. The **power restoration performance of electric distribution companies** in the wake of the two storms attracted the BPU's scrutiny. On December 14, 2011, the Board released its "Hurricane Irene Electric Response Report" in which it found that all electric utilities experienced challenges in their storm response and that some practices established in accordance with prior BPU actions were ineffective in the face of large-scale extreme weather situations. Accordingly, the BPU issued several directives so as to avert similar widespread and lengthy power outages in the future. They touched electric utility practices in the areas of communications, estimating outage restoration, supplemental crew mobilization, and

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mitigation of tree-related damages. The BPU also hired Emergency Preparedness Partnerships to review the electric utilities' performance in-depth. On August 9, 2012, the contractor submitted its final report. Its findings and recommendations led to the issuance of a Board Order containing 103 additional BPU directives New Jersey's electric distribution companies had to implement, mostly, by September 2013 to improve their preparedness for and restoration efforts following large-scale extreme weather events. The measures fell into five categories: preparedness efforts, communications, restoration and response, post event, and underlying infrastructure issues (Board Order dated January 23, 2013, Docket number EO11090543). The Board responded to BPU Discussion Point #19 in the OLS FY 2014-2015 Department of the Treasury Budget Analysis that all electric utilities had implemented the 103 directives from January 23, 2013.

Prior to the issuance of the January 2013 Board Order, Hurricane Sandy made landfall in New Jersey on October 29, 2012 and took a significantly larger toll on the State's electric infrastructure than the 2011 storms. In response to BPU Discussion Point #1 in the OLS FY 2013-2014 Department of the Treasury Budget Analysis, the BPU specified that 49 major substations were flooded, over 3,000 distribution circuits damaged, and more than 100,000 trees and 9,000 utility poles felled. The number of electric customers without power peaked at 2.9 million. In general, the Board acknowledged improvements in the utilities' restoration performance relative to the 2011 storms. It found restoration efforts to have been more focused, the mobilization of supplemental mutual aid assets unprecedented, the level of preparedness and response higher, and communications between State and utility officials more fluid and functional. The BPU, however, continued to express misgivings regarding the accuracy and content of information the utilities transmitted to ratepayers and issued a Board Order on May 29, 2013 that directed the electric utilities to implement eight communications-related measures in addition to those included among the 103 BPU directives from January 23, 2013 (Board Order dated May 29, 2013, Docket number EO12111050). The directives aimed at enhancing the content, accuracy, and timeliness of service restoration information given on the electric utilities' public outage websites and to municipal officials. In addition, the electric utilities had to make outage status information available to customers via text messaging, mobile applications or other similar methods. According to the Board's response to BPU Discussion Point #19 in the OLS FY 2014-2015 Department of the Treasury Budget Analysis, the electric utilities had already implemented two of the eight directives and had through June 10, 2014 to put the remaining six mandates into practice.

The service restoration expenses of investor-owned utilities are ineligible for federal emergency aid so the utilities have sought recovery from ratepayers in BPU base rate filings. To organize and streamline the approval process, the Board directed all utilities to file by July 1, 2013 a detailed report of their preparation, recovery, and restoration expenses for all recent storms (Board Order dated March 20, 2013, Docket number AX13030196). The BPU would then examine the prudency, cost-efficiency, and effectiveness of the utilities' restoration activities. Electric utilities ultimately petitioned the BPU to authorize the recovery of $896.5 million in Hurricane Sandy restoration expenditures and natural gas utilities of $49.6 million in such expenses, according to the Board's response to BPU Discussion Point #19 in the OLS FY 2014-2015 Department of the Treasury Budget Analysis. The BPU detailed that it had already approved storm-related recovery costs for Jersey Central Power & Light ($572.7 million) and Atlantic City Electric ($48.4 million). It had not yet ruled on storm-related recovery costs of the other electric and natural gas utilities. Atlantic City Electric recovery costs were already, and

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Jersey Central Power & Light recovery costs not yet, included in the respective utility's base rates.

- ***Questions:*** **Please comment on the electric distribution companies' implementation of the eight directives the BPU issued in the Board Order dated May 29, 2013, Docket number EO12111050 to improve the utilities' future service restoration communications following large-scale extreme weather events. Have all companies implemented the eight directives? If not, please indicate which electric distribution company must still put into practice which of the directives and provide an estimate as to the expected implementation date.**

- **Please indicate by electric and natural gas utility: a) the amount of service restoration expenses that each utility has sought to recover from ratepayers, according to filings under Board Order dated March 20, 2013, Docket number AX13030196; b) the recovery amount the BPU has already approved; and c) the impact on ratepayers of the requested and approved cost recoveries. Please set forth the timeline and process the Board intends to follow in reviewing and ruling on any outstanding service restoration cost recovery petitions submitted in accordance with the March 20, 2013 Board Order.**

23. Hurricane Sandy's large-scale damage prompted the BPU to examine the feasibility of different options to **enhance the resilience of electric utilities' infrastructure in future severe weather episodes**. To that end the Board instructed electric distribution companies to provide detailed cost-benefit analyses for several specific infrastructure upgrades, examine their infrastructure, and use data to determine more effective mitigation measures and procedures (Board Order dated January 23, 2013, Docket number EO11090543). The Board engaged General Electric Energy Consulting to review the companies' submissions and analyze possible options to shore up the reliability of New Jersey's electric distribution system in extensive, violent storms. The contractor presented its "Final Report for: NJ Storm Hardening Recommendations and Review/Comment on EDC Major Storm Response Filings" on November 26, 2014 replete with 22 policy recommendations:

Subject Area	Recommendation
Electric Distribution Company (EDC) Major Event Reports	Enhance EDC Major Event Reporting requirements to enable comparative and quantitative assessments of EDC performance.
Electrical Infrastructure Hardening	Track trees sited outside of right-of-way that risk causing power outages; predict and report associated damage, number of customer interruptions, and restoration time by danger tree.
	Segment customers by restoration priority; calculate and report for each customer an estimate of hours out of service due to damage caused by trees sited outside of right-of-way during normal weather.
	Communicate to customers estimates of hours out of service due to damage caused by trees sited outside of right-of-way during normal weather and provide convenient mechanisms for customers to report danger trees.

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	Where justified, grant EDCs the authority (for example via eminent domain) to remove danger trees outside of right-of-way.
	Determine the most cost-effective level of tree-trimming and optimal corridor width by circuit or segment.
	Underground the most critical distribution feeders and tap lines, where practical, to improve reliability and reduce storm restoration time.
	Determine the most cost-effective inspection cycle and method for poles and associated equipment by circuit, and prioritize based on criticality and condition.
	Upgrade electric transmission and distribution structures near coastal areas, and incorporate extreme wind and ice loading criteria in all transmission and distribution structure designs, regardless of height.
	Insert steel or concrete structures in long straight circuits with wood structures to prevent cascading failures (domino effect); alternatively reinforce wood poles with steel bands.
Electrical Substation Hardening	Add elevation attributes to every flood-prone asset in a substation equipment database; report number of assets below the 100-year flood and storm surge elevation plus 1 foot.
	Perform limited Failure Modes and Effects Analysis (FMEA) for substations using weather events as the modes with customer outages and substation equipment failure as an effect; report findings.
	Rank FMEA findings, estimate and report costs of hardening substation equipment to eliminate the top 20 percent of equipment failures leading to customer outages.
	Estimate and report costs of regular inspection for critical assets; optimize inspection cycles to achieve highest impact with lowest cost.
	Identify and report communications facilities critical to restoration process; estimate and report costs of providing backup power thereto.
	Require EDCs to include quick deployment of mobile substations and mobile backup generator equipment in emergency response plans.
Smart Grid and Distribution Automation Technologies	Mandate that EDCs assess impact of reliability-oriented smart grid and distribution automation technologies and create investment and deployment plans for the most impactful technologies.
	Target smart grid and distribution automation technologies deployment plans to evaluate the technologies' effectiveness for resiliency by strategic deployment on subsets of circuits with similar storm exposure and physical attributes.
	Define and mandate reporting requirements to track effectiveness of smart grid and distribution automation technologies in storm recovery activities.
	Require EDCs to quantify potential improvement in damage forecasts using storm tracking and damage prediction tools, and assess resulting improvement in storm response.
	Continue to look at the value of microgrids and back-up generation to the state, consistent with the Energy Master Plan, and initiate techno-economic feasibility studies where practical.
	Mandate enhanced EDC smart grid and distribution automation plan

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	submissions to ensure completeness, and to enable comparative evaluation and benchmarking of investment plans.

- ***Questions:*** **Please indicate the implementation status of each of the 22 policy recommendations that General Electric Energy Consulting made in its November 26, 2014 BPU-commissioned report to shore up the reliability of New Jersey's electric distribution infrastructure in extensive, violent storms. For each policy recommendation that the BPU does not intend to implement, please provide the rationale for not carrying out the recommended action item.**

24. On March 20, 2013, the BPU opened proceedings inviting all regulated utilities to submit, by September 3, 2013, **proposals for capital investments that would strengthen the ability of the utilities' infrastructure to withstand major storm events**, including detailed cost-benefit analyses for each proposed infrastructure upgrade (Board Order dated March 20, 2013, Docket number AX13030197). The BPU replied to BPU Discussion Point #20 in the OLS FY 2014-2015 Department of the Treasury Budget Analysis that it had received capital investment funding requests through the rate-setting process from three natural gas utilities and one electric distribution company: Elizabethtown Gas, $15 million; New Jersey Natural Gas Company, $102.5 million; South Jersey Gas Company, $280 million; and Public Service Electric and Gas Company (PSE&G), $3.9 billion.

On May 21, 2014, the BPU adopted a Stipulation of Settlement concerning **PSE&G's "Energy Strong Program,"** the most expansive of the proposed utility capital improvement plans (Board Orders dated May 21, 2014, Docket numbers EO13020155 and GO13020156). Originally, PSE&G had petitioned the BPU for approval of a $3.9 billion, ten-year capital improvement plan to fortify its electric and natural gas distribution infrastructure (Board Orders dated March 20, 2013, Docket numbers EO13020155 and EO13020156). In the end, the Stipulation of Settlement allows the company to recover only $1.0 billion in investments from ratepayers ($600 million for the Electric Investment Program and $400 million for the Gas Investment Program). But PSE&G will spend an additional $220 million in its Electric Investment Program that the company will seek to recover from ratepayers at its next base rate case, which the company agreed to file not later than November 1, 2017. As to ratepayer costs, on its website, PSE&G estimates that the scaled-back "Energy Strong Program" will add $4 to the average residential ratepayer's monthly bill by 2018. The Stipulation of Settlement lists the following sanctioned projects and requires PSE&G to provide quarterly performance, progress, and cost reports thereon to the BPU and the New Jersey Division of Rate Counsel:

1. Electric Station Flood Mitigation – Five-year program to wall, raise, and rebuild 29 switching or substations that had recent water intrusion events; $400 million Energy Strong plus $220 million PSE&G money;
2. Electric Distribution Contingency Reconfiguration Strategies – Three-year investment of up to $100 million in technologies that are to contain power outages to smaller geographic areas if electricity distribution infrastructure sustains damage;
3. Electric Advanced Technologies – Three-year investment of up to $100 million to equip electric stations with smart grid technologies that would continuously relay

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information on system operations to PSE&G, thereby improving the company's infrastructure monitoring, management, and restoration processes;

4. Gas Utilization Pressure Cast Iron – Three-year investment of up to $350 million to replace 250 miles of low-pressure cast iron main and related services with higher operating pressure systems in or near flood areas, so as to eliminate future water infiltrations; and
5. Gas Metering and Regulating Station Flood Mitigation – Five-year investment of up to $50 million to implement flood mitigation measures at five natural gas metering stations that had water intrusion from Hurricane Sandy and to provide an auxiliary generator at the Burlington Liquefied Natural Gas Plant station.

- **Questions: Please present the reason(s) for approving only a scaled-back $1.0 billion, instead of the requested $3.9 billion, recovery from ratepayers for PSE&G's "Energy Strong Program." Does the non-approval of the remaining $2.9 billion in infrastructure hardening investments put PSE&G's customers at an increased risk of prolonged power outages in future severe weather events? Does the BPU expect PSE&G to seek Board approval once more as part of the company's anticipated 2017 base rate proceedings for the "Energy Strong Program" components that were not included in the 2014 Stipulation of Settlement? Is the approved "Energy Strong Program" consistent with the policy recommendations General Electric Energy Consulting made in its "Final Report for: NJ Storm Hardening Recommendations and Review/Comment on EDC Major Storm Response Filings" that the BPU plans to implement (See Discussion Point #23)?**

- **Please provide a status update for PSE&G's approved "Energy Strong Program." Are the projects running on schedule and on budget? Please relate the cause(s) of any cost overrun or implementation delay, and, if applicable, provide updated project budgets and timetables. Would PSE&G be allowed to recoup any cost overrun from ratepayers or is the approved $1.0 billion program budget a hard cap?**

- **Please indicate whether the BPU has ruled on the funding requests through the rate-setting process for the following natural gas infrastructure hardening investment programs: Elizabethtown Gas, $15 million; New Jersey Natural Gas Company, $102.5 million; and South Jersey Gas Company, $280 million. What is the size of any BPU-approved capital programs and what is their current implementation status? If the BPU has not yet ruled on the infrastructure upgrade proposals, by what date does the Board anticipate doing so and what factor(s) account for the decision delay?**

25. On September 11, 2014, the United States Court of Appeals for the Third Circuit affirmed a lower court ruling that the **Long-Term Capacity Agreement Pilot Program (LCAPP)** violated the Supremacy Clause of the United States Constitution. The Supremacy Clause establishes the primacy of federal law whenever state and federal law clash. Specifically, the appeals court held that in establishing electricity capacity prices for participating power generators the LCAPP breached the Federal Power Act through which the United States Congress had granted the Federal Energy Regulatory Commission the exclusive jurisdiction over the regulation of wholesale electricity sales and the transmission of energy in interstate

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commerce (*PPL EnergyPlus, LLC v. Solomon*, --- F.3d ---- (2014) (3d Cir. 2014)). On December 10, 2014, the BPU filed a petition for a writ of certiorari with the United States Supreme Court asking the court to review the appeals court decision.

Although the United States Court of Appeals for the Third Circuit affirmed the LCAPP's unconstitutionality, it did so on narrower grounds than the lower court with potentially significant policy implications. In its October 11, 2013 decision, the United States District Court for the District of New Jersey had effectively ruled that any State action affecting interstate wholesale electricity sales and the transmission of energy, even if just incidentally, was preempted and unconstitutional (*PPL EnergyPlus, LLC v. Hanna*, 977 F.Supp.2d 372 (D.N.J. 2013)). The absolute prohibition extended to all state financial support for the construction of power plants, as the support distorted the electricity market. The appeals court disagreed in clarifying that states retained a regulatory role in the nation's electric energy markets and that the Federal Energy Regulatory Commission's "authority over interstate rates does not carry with it exclusive control over any and every force that influences interstate rates." Consequently, the appeals court reestablished the State's authority to provide financial incentives to support power plant construction. But it differentiated between constitutional and unconstitutional forms of support. Incentives are permissible as long as they do not set wholesale capacity prices, considering that the Federal Energy Regulatory Commission exercised exclusive control of that field. The LCAPP, however, failed that test in fixing wholesale capacity prices for the owners of the subsidized power plants.

The State originally enacted P.L.2011, c.9 to foster the construction of new electric generation facilities through the LCAPP. The BPU later selected three gas-fired combined cycle projects for program participation: NRG Energy Inc.'s Old Bridge Clean Energy Center, Competitive Power Ventures LLC's Woodbridge Energy Center, and Hess Corp.'s Newark Energy Center. The projects were supposed to add 1,950 megawatts to New Jersey's generation capacity and provide an estimated $1.8 billion in net economic benefits on a present value basis over 15 years. In general, combined cycle power facilities produce electric power via the combustion of fuel and use the resulting waste heat by-product to generate additional electric power.

To subsidize the projects, P.L.2011, c.9 provided for "Standard Offer Capacity Agreements" (SOCAs). A SOCA is a contract in which participating power generators would receive BPU-approved payments from electric public utilities for a defined amount of electric capacity at a guaranteed, fixed price for a term not to exceed 15 years. But in order to ultimately qualify for SOCA payments, the BPU-selected generation companies had to succeed at selling their capacity in interstate electricity auctions conducted by PJM Interconnection LLC, the regional transmission organization operating the wholesale competitive electricity market and power grid across thirteen Mid-Atlantic and Midwestern states and the District of Columbia. Two of the three projects cleared the 2012 capacity auction: the Woodbridge Energy Center and Newark Energy Center. NRG Energy's Old Bridge Clean Energy Center, however, failed the 2012 and 2013 capacity auctions. As a result, NRG Energy had already abandoned the project prior to the ruling by the United States District Court for the District of New Jersey.

The adverse court decisions therefore only affected the other two projects. According to the Board's response to BPU Discussion Point #21 in the OLS FY 2014-2015 Department of the Treasury Budget Analysis, Hess Corp. planned to finish the ongoing construction of the Newark Energy Center in June 2015, the court decision notwithstanding. As to Competitive Power

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Ventures LLC's Woodbridge Energy Center, the BPU reported that construction had commenced and that the company expected to take the plant into operation by June 2017. The BPU noted that neither operator had sued, or made known their intention to sue, the State for damages they would incur from the invalidation of the LCAPP price-support mechanism. Moreover, the BPU did not provide the plant operators with an alternative form of financial support, as the 2013 district court decision did not permit any financial incentive or price-support.

- ***Questions:*** **Please indicate the current status of the petition for a writ of certiorari that the BPU filed with the United States Supreme Court asking the court to review the United States Court of Appeals for the Third Circuit's September 2014 decision that declared the Long-Term Capacity Agreement Pilot Program (LCAPP) to be in violation of the United States Constitution. What is the status of the BPU's petition? If the Supreme Court has granted the petition: a) has it scheduled briefing or filing deadlines and oral arguments; b) what is the expected decision date; and c) what is the BPU's expectation of likelihood of success?**

- **Please comment on the effects of the appeals court decision. Is the Newark Energy Center still anticipated to be operational by June 2015 and the Woodbridge Energy Center by June 2017? Given that the appeals court reestablished the State's authority to offer certain forms of financial support to develop new generation capacity, is the BPU in negotiations with the two power plant owners concerning State financial assistance? In general, is the BPU planning any new financial incentive or price-support programs to develop new generation capacity in the State?**

26. The Oyster Creek nuclear power plant in Lacey Township, Ocean County, is expected to be decommissioned at the end of 2019. Its 615 megawatt (MW) capacity represents 15 percent of 4,108 MW in total statewide nuclear power generation capacity from four licensed nuclear power plants. In 2011, nuclear power accounted for 51.9 percent, or 39 million megawatt hours (MWh) of the 75 million MWh of electricity generated in New Jersey.

Because nuclear power is a carbon-free electricity generation resource the authors of the 2011 Energy Master Plan contend that Oyster Creek's closure jeopardizes the attainment of the greenhouse gas reduction targets of the Global Warming Response Act, P.L.2007, c.112: 2020 New Jersey greenhouse gas emissions are not to exceed their 1990 level and 2050 emissions 20 percent of their 2006 level. The plan's authors state that, consequently, "the Christie Administration supports the consideration of new nuclear generation as a potential baseload resource." They relate further that a planning process has begun to explore **substitution options for Oyster Creek's generation capacity** and that a State agency panel will be established to assess the **role of nuclear power in New Jersey's future in-state electricity generation**. In addressing BPU Discussion Point #22 in the OLS FY 2014-2015 Department of the Treasury Budget Analysis, the Board noted that the panel had not yet been created. The BPU was first awaiting an analysis from PJM Interconnection LLC on the effects of Oyster Creek's closure on New Jersey's energy requirements and infrastructure. PJM is the regional transmission organization operating the wholesale competitive electricity market and power grid across thirteen Mid-Atlantic and Midwestern states and the District of Columbia. But the BPU

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cautioned that, in general, its ability to promote new power generation capacity was curtailed by existing Federal Energy Regulatory Commission-approved PJM tariff rules. Nevertheless, the United States Court of Appeals for the Third Circuit just removed a second barrier to State-provided financial support for the construction of new power plants when its September 11, 2014 *PPL EnergyPlus, LLC v. Solomon* decision reestablished the federal constitutionality of certain such State incentives (see Discussion Point #25).

As to the region around the Oyster Creek nuclear power plant, the State, led by the Office for Planning Advocacy in the Business Action Center in the Department of State, intends to craft a specific redevelopment plan after holding two public information sessions in May 2013. The redevelopment was likely to include the construction of a new power plant. According to a footnote on page 84 of the 2011 Energy Master Plan, the new plant could be another nuclear power plant, as the location benefits from the presence of a highly-skilled workforce, community support for such an initiative, and the existing electrical transmission infrastructure. But a 650 to 850 MW natural gas-fired combined cycle generating plant was the most likely option, as maintained in a PowerPoint presentation on the Office for Planning Advocacy's website. The production of the Oyster Creek redevelopment plan was still ongoing, according to the Board's response to last year's BPU Discussion Point #22.

- **Questions: Please provide a status update on the work of the committee that is to craft a redevelopment plan for the region around the Oyster Creek nuclear power plant. By what date is the planning process supposed to yield a redevelopment strategy? If already available, please summarize the strategy and the reason(s) for its selection. Is the committee considering erecting a new nuclear power plant at Oyster Creek? Is the State considering offering financial incentives to develop new generation capacity at Oyster Creek?**

- **Has the State agency panel been established that is supposed to assess the role of nuclear power in New Jersey's future electricity generation pursuant to the 2011 Energy Master Plan? If so, please outline the composition of its membership and set forth by which date the panel is supposed to submit a report or make recommendations. Has the BPU received the anticipated analysis from PJM Interconnection LLC on the effects of Oyster Creek's closure on the State's energy requirements and infrastructure?**

27. On April 29, 2014, the BPU adopted a **Stipulation of Settlement concerning Verizon New Jersey, Inc.'s compliance with a 1993 BPU requirement that the company deploy broadband digital service to 100 percent of the customers in its service territory by 2010** (Board Order dated April 29, 2014, Docket number TO12020155). The New Jersey Division of Rate Counsel appealed the agreement to the New Jersey Superior Court, Appellate Division on May 27, 2014, contending that: a) substantively, the Board Order was contrary to law, arbitrary, and capricious; and b) procedurally, the BPU had denied ratepayers due process rights by not handling the matter as a contested case, which deprived affected parties of having material and factual issues properly adjudicated in a hearing.

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The controversy revolves around the transmission media that Verizon may use to satisfy its obligation under a 1993 Board Order to bring broadband digital service to 100 percent of the customers in its service territory by 2010 (Board Order dated May 6, 1993, Docket number TO92030358, reaffirmed by Board Order dated August 19, 2003, Docket number TO01020095). The Board Order defined "Broadband Digital Service" as "[s]witching technologies matched with transmission capabilities support data rates up to 45,000,000 bits per second and higher, which enables services, for example, that will allow residential and business customers to receive high definition video and to send and receive interactive (i.e., two way) video signals." Given that the language prescribes neither a transmission medium nor a minimum bandwidth speed, Verizon argued that it fully complied with the 100 percent broadband service requirement through a combination of its FiOS fiber-optic network, Digital Subscriber Line Services (DSL), and 4G-based wireless service. This technology-neutral interpretation of the term "broadband" is consistent with the Federal Communications Commission broadly defining the concept as: "high-speed Internet access that is always on and faster than the traditional dial-up access" that may be delivered through several high-speed transmission technologies, including DSL, fiber, and wireless. Adversaries contend to the contrary that the 1993 requirement meant that Verizon had to provide high-speed Internet access through a fiber-optic network. Although the wording of the 1993 Board Order does not seem to support such a reading, this view may be based on statements by New Jersey Bell officials at the time. New Jersey Bell was the predecessor to today's Verizon New Jersey. For example, a September 5, 1993 Associated Press article stated that New Jersey Bell planned "to bring fiber-optic cable ... to the curb outside every home and office by the year 2010," as part of its "Opportunity New Jersey" program. The article cited the company's then-President and Chief Executive Officer, who in referring to the plan to replace the company's copper wires with a fiber-based network said that: "There is no one else with so bold a plan."

The 2014 Stipulation of Settlement resolved the BPU's investigation into Verizon's compliance with the 100 percent broadband service deployment by 2010 requirement. In so doing, however, the agreement as well as its ratifying Board Order avoid an explicit statement as to whether the BPU agrees or disagrees with Verizon's assertion that the company fully complied with the requirement. Some observers may characterize the agreement as an implicit admission that the company had fallen short of its 100 percent obligation, as the agreement sets forth a procedure for the provision of broadband service, through any technological medium of Verizon's choosing, to customers who currently do not have access to broadband service. The Board also alluded to the contentious nature of Verizon's full compliance claim in the minutes of the April 23, 2014 Board Agenda Meeting. Specifically, the BPU noted that the Stipulation of Settlement would forestall protracted litigation over the exact meaning of the 100 percent broadband service requirement and that the greater legal certainty would allow Verizon to continue the deployment of broadband capabilities in New Jersey.

- ***Questions:*** **Please indicate the current status of the appeal the New Jersey Division of Rate Counsel filed against the Board Order adopting the 2014 Stipulation of Settlement that resolved the BPU's investigation into Verizon New Jersey's compliance with the requirement that the company provide broadband service to 100 percent of the customers in its service territory by 2010. Have briefing or filing deadlines and oral arguments been scheduled? What are the expected decision date and the BPU's expectation of likelihood of success?**

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- **Does the BPU agree with Verizon's assertion that the company fully complied with its obligation to bring broadband digital service to 100 percent of the customers in its service territory by 2010 under Board Order dated May 6, 1993, Docket number TO92030358 and Board Order dated August 19, 2003, Docket number TO01020095? If Verizon is in full compliance therewith, for what reason(s) did the Board not limit itself to a declaration affirming Verizon's compliance instead of concluding the 2014 Stipulation of Settlement that sets forth a procedure for the provision of technology-neutral broadband service to customers who currently do not have access to broadband service? Does the Stipulation of Settlement represent an implicit admission that Verizon had not fully reached the 100 percent mark and was exposed to potential litigation in the matter?**

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OFFICE OF INFORMATION TECHNOLOGY

Organized "in but not of" the Department of the Treasury, the Office of Information Technology (OIT) provides information technology services to Executive Branch agencies. To that end, it oversees the mainframes, servers, networks, and databases that comprise the State's information technology infrastructure; operates the Garden State Network, a statewide integrated communications network; and runs the State's major data centers, including the Office of Information Technology Availability and Recovery Site (OARS). In addition, it manages the State's Internet environment and offers application development and maintenance, geographical information systems, data management services, and telephone services for all Executive Branch offices. State agencies, in turn, are responsible for the day-to-day management and operation of their agency-specific infrastructure components. The OIT has a recommended FY 2016 budget of $163.4 million for 725 funded positions.

1. a. In recent years, the OIT has implemented several institutional changes intended to transform the office from a technology management-focused agency to an innovation leadership agency. One of the central changes was a **realignment of the OIT's governance structure** that the OIT announced in its May 2012 "NJOIT Dispatch" newsletter. Notably, the office was reorganized into two "service towers." The "Technology Operations" service tower performs the routine operations of the State's information technology systems under the direction of a newly established Chief Operating Officer position. The "Technology Governance and Strategic Planning" service tower, in turn, is headed by the Chief Technology Officer and pursues technology outreach; statewide information technology policy, planning, and standards development; the reformation of the OIT's Project Management Office (Discussion Point #10 below elaborates on this point); enterprise security; and other innovation and directional responsibilities. In response to OIT Discussion Point #2 in the OLS FY 2013-2014 Department of the Treasury Budget Analysis, the OIT explained that the restructuring was a means to allow for a shift in the Chief Technology Officer's focus from managing the OIT's day-to-day operations to strategic planning and communication with client State agencies.

- ***Questions:*** **Please comment on the OIT's experience with the new governance model that divided responsibilities between the Technology Operations "service tower" and the Technology Governance and Strategic Planning "service tower." Has the reorganization provided the hoped-for impetus for transforming the OIT from a technology management-focused agency to an innovation leadership agency? Please indicate any successes the new governance model has produced that would not have occurred absent the reorganization. Has the OIT become aware of any deficiencies in the governance structure that might call for additional modifications? How much involvement does the Chief Technology Officer retain in running the OIT's day-to-day operations? How autonomous is the Chief Operations Officer?**

1. b. The 2012 realignment of the OIT's governance structure redefined the role of the Chief Technology Officer but did so in **temporarily departing from the OIT's statutory governance structure**. Specifically, P.L.2007, c.56 had established a nine-member New Jersey Information

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Technology Governing Board to head the OIT and vested in it the responsibility for statewide information technology policies, planning, standards, and general direction. The Chief Technology Officer, in turn, was to run the office's day-to-day operations and coordinate information technology operations across the Executive Branch. The restructuring transferred statutory New Jersey Information Technology Governing Board competencies to the Chief Technology Officer and statutory Chief Technology Officer competencies to the newly created Chief Operating Officer position. But in response to OIT Discussion Point #2 the OIT pointed out that the board had never assumed its envisioned role. P.L.2013, c.253 ultimately sanctioned the OIT restructuring in January 2014 in eliminating the board and transferring its powers to the Chief Technology Officer.

- **Questions: Please present the legal authority for transferring New Jersey Information Technology Governing Board responsibilities, as set forth in P.L.2007, c.56, to the Chief Technology Officer prior to the January 2014 enactment of P.L.2013, c.253.**

2. The new OIT governance structure also incorporates the Statewide CIO [Chief Information Officer] Collaborative Council, a new instrument intended to strengthen the **interaction and collaboration of the OIT's Chief Technology Officer with Executive Branch agency information technology directors**. The council meets quarterly and serves as a forum to share best practices, determine areas for growth and improvement, and seek ways to leverage core competencies among partner agencies. In reply to OIT Discussion Point #2 in the OLS FY 2013-2014 Department of the Treasury Budget Analysis the OIT noted that the council had already increased the quality and quantity of the OIT's interactions with client agency information technology professionals, and identified agency-specific and State government-wide opportunities to provide higher-level technology services.

The council appears to encroach on the prerogatives of the Deputy Chief Technology Officers. To facilitate interoperability and the sharing as well as leveraging of technology, P.L.2007, c.56 authorizes the Chief Technology Officer to appoint up to six Deputy Chief Technology Officers with responsibilities for information technology management, planning, and budgeting within so-called Affinity Groups, or communities of interest that intersect several State agencies. There are currently five Affinity Groups: Administrative Services, Health and Social Services, Public Safety, Business and Community, and Workforce Enhancement. The Deputy Chief Technology Officers also serve as liaisons and customer service agents between the Executive Branch agencies and the OIT. The agency information technology directors, in turn, obtain guidance from their Affinity Group's Deputy Chief Technology Officer, but are accountable to their department heads.

- ***Questions:*** **Please describe the concrete accomplishments over the last two years from the Statewide CIO Collaborative Council facilitating the collaboration of the OIT with Executive Branch agency information technology directors. Given that the OIT has in the past had difficulties ensuring that State agencies implemented the OIT's directives, has the council helped improve not just the flow of information but also the implementation by State agencies of enterprise-wide OIT directives? In general, given that State agency information technology directors are accountable to**

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their department heads, what means does the OIT have to ensure that its enterprise-wide views prevail over department-centric perspectives in case of conflicting priorities?

- **How has the council's creation altered the role of the Deputy Chief Technology Officers, as they were to act as the OIT's liaisons and customer service agents in interfacing with client agency information technology directors? Are the Deputy Chief Technology Officers still functioning in that role?**

3. The wealth of residents' financial and personal information that resides on State government computers attracts cybercriminals. State of Texas government computer systems, for example, face millions of attempted cyberattacks every month, according to Karen Robinson, former State of Texas Chief Information Officer (cited in The Pew Charitable Trusts' October 2, 2014 "Cyberattacks on State Databases Escalate" article). Only a miniscule fraction of the attacks succeed, but any single breach can cause enormous damage. Moreover, the Privacy Rights Clearinghouse specifies that from 2005 through September 12, 2014, some 148.4 million records were stolen in 690 publicly disclosed breaches of computer networks at all levels of government in the United States. Those whose records were accessed improperly face an elevated identity theft risk. For that reason N.J.S.A.56:8-163 mandates that public entities disclose any breach of security of digital records to potentially affected New Jersey residents.

Hackers may attack an organization's computer network directly through queries on a web page until the database malfunctions and accepts an injection of malicious code. Alternatively, hackers may exploit human error through a scamming technique called phishing, whereby targeted victims are duped into clicking on an infested attachment or web link that is included in an e-mail. A related scamming practice, pharming, redirects users from a legitimate website that has been manipulated to a false, legitimate-looking, but ultimately infested website. The phishing and pharming malware then grants the hacker access to the computer, and if the computer is used for work, also to the employing organization's network and databases. Phishing e-mails coupled with human error represent the greatest threat to cybersecurity. Greg Henderson of the SAS Institute observed that in 95 percent of cases in which an organization is compromised through internet crime the hackers had successfully researched and targeted specific executives who then opened a phishing e-mail (cited in the November 14, 2012 USA Today "Lack of Security Policy Cited in S.C. Breach" article).

The **OIT's Statewide Office of Information Security bears central responsibility for cybersecurity for the Executive Branch of State government**. The office's mission is to develop and implement an Enterprise Information Security Management Framework to protect the confidentiality, integrity, and availability of data and information technology systems. The office is also to develop a governance model for information security to ensure compliance with appropriate risk management requirements, enhance the information sharing and analysis between various levels of government and the private sector, develop a comprehensive enterprise-wide security awareness and training program for employees, and provide information security resources and updates to citizens through the operation of the one-stop NJ Info Secure website (http://www.state.nj.us/njinfosecure/).

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To stay abreast of the latest cyberthreats New Jersey participates in the Multi-State Information Sharing and Analysis Center (MS-ISAC), a division of the non-for-profit Center for Internet Security, as the OIT noted in addressing OIT Discussion Point #15 in the OLS FY 2013-2014 Department of the Treasury Budget Analysis. The MS-ISAC focuses on cyberthreat prevention, protection, response, and recovery for the nation's state, local, territorial and tribal governments. All 50 states are members. The center gathers information on cyberthreats to critical infrastructure from and shares the information among its members. Its 24-hour watch and warning center provides real-time network monitoring, dissemination of early cyberthreat warnings, vulnerability identification and mitigation, along with education and outreach.

- ***Questions:*** **Please list each breach of computerized State records since January 1, 2010 and the number of records potentially accessed without authorization. What cost has the State incurred in responding to each breach, breaking out the cost of any technology upgrade, expert review, credit monitoring services for those affected, and litigation initiated against the State by those affected? Does the State carry data breach insurance protection? If applicable, please indicate the status of any litigation in which the State defends itself against charges brought by residents whose personal data have been improperly accessed. Has the State ever brought suit against software companies whose faulty code created the conditions for a cyberattack to succeed?**

- **Please describe the activities and accomplishments of the Statewide Office of Information Security. Has the office developed and implemented a comprehensive security awareness and training program for Executive Branch employees? If so, please indicate which employees must attend the end-user education program, the number of attendees to date, and at what intervals employees must attend. What is the frequency of any information technology security audits? Does the State have an information technology recovery plan and, if so, at what intervals does the State test it? Has the office developed and implemented an Enterprise Information Security Management Framework to protect the confidentiality, integrity, and availability of data and information technology systems? If so, please describe the framework. If not, by what date does the office anticipate the framework's development and implementation? Has the office developed and implemented a governance model for information security to ensure that appropriate risk management requirements are met? If so, please describe the governance model. If not, by what date does the office anticipate the governance model's development and implementation?**

- **Please present the organizational structure of the Statewide Office of Information Security, detailing the number of subdivisions, if any, the hierarchy, and the number of employees within each job title category. Is the office's chief administrator the Chief Information Security Officer? Is there a separate Chief Privacy Officer? If so, please explain the division of competencies between the office's chief administrator and the Chief Privacy Officer. What is the office's revised FY 2015 budget and its recommended FY 2016 budget?**

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4. Only 24.5 percent of State Chief Information Officers (SCIO) were extremely or very confident in their states' abilities to protect against external cyberthreats, as indicated in the "2014 Deloitte-NASCIO [National Association of State Chief Information Officers] Cybersecurity Study, State Governments at Risk: Time to Move Forward." Next to concerns about the growing sophistication of cyberattacks, shared by 61 percent of SCIOs, two of the three most often identified **barriers to effective cybersecurity** were internal: insufficient funding (cited by 75.5 percent of SCIOs) and a scarcity of qualified cybersecurity professionals (cited by 59 percent of SCIOs).

On average, State governments expended about one percent of their information technology budgets on cybersecurity, reported a NASCIO policy analyst in the "Cybercrime: 'It's Just a Matter of Time'" article in the July/August 2013 edition of The Council of State Governments' Capitol Ideas magazine. The percentage for banks and other industries approximated ten percent. For the federal government it is about 11 percent, according to Michael Cockrill, the Washington State Chief Information Officer (cited in the October 2, 2014 "Cyberattacks on State Databases Escalate" article published by The Pew Charitable Trusts).

Budget restrictions also contribute to difficulties in attracting and retaining qualified cybersecurity professionals. Some 90 percent of SCIOs viewed their agencies' salaries as uncompetitive with the private sector in a labor market in which demand exceeds supply. For example, the private sector pays cybersecurity professionals twice as much or more than the State of Washington does, according to Michael Cockrill. But uncompetitive compensation models are not the only talent attraction and retention obstacle. Some 67 percent of SCIOs were also critical of the absence of defined career paths and opportunities for cybersecurity professionals. Whatever the causes, states react to the talent shortage by developing cybersecurity expertise in-house through training and contracting for cybersecurity services from the private sector.

But the outsourcing of information technology functions gives rise to new dependency-related security risks. It opens up new access points for cyberattacks on contractor networks and transfers control to contractors over many aspects of data privacy and security (OIT Discussion Point #13 below elaborates on this point in the context of cloud-based computing). Dependency-related security risks echo through the Deloitte-NASCIO cybersecurity study finding that 81 percent of SCIOs were only somewhat confident in the cybersecurity practices of third-party contractors and 6.3 percent not very confident.

In New Jersey, the operation of outdated legacy administrative information technology systems adds to cybersecurity vulnerabilities. Notably, the OIT replied to OIT Discussion Point #1 in the OLS FY 2013-2014 Department of the Treasury Budget Analysis that the legacy systems' continued use complicated the achievement of the highest cybersecurity standards (OIT Discussion Point #6 below addresses plans for the legacy systems' replacement).

- ***Questions:*** **Does New Jersey's annual cybersecurity spending suffice to achieve the highest cybersecurity standards? Does New Jersey currently not implement any recommended best practice(s) due to budgetary constraints? Please specify the amount of the OIT's actual FY 2014 cybersecurity expenditures and their anticipated FY 2015 and FY 2016 amounts. For each of the three fiscal years, what is the percentage of cybersecurity spending relative to the OIT's actual, anticipated, and**

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requested budgets? What amount would the OIT have to expend to achieve the highest cybersecurity standards? What elements of the State's cybersecurity defenses would any additional funding strengthen?

- **Does the OIT experience difficulties in attracting and retaining qualified cybersecurity professionals? If so, what are the barriers? Is the OIT able to overcome the limitations of the State's compensation and civil service rules to compete successfully for cybersecurity talent? Does the OIT offer defined career paths and opportunities to cybersecurity professionals? What strategies does the OIT employ to meet its cybersecurity objectives in the face of any talent shortages? Does the OIT develop its own talent? Does it bring in and sponsor professionals from overseas? To what extent does the OIT contract with private firms for cybersecurity services?**

- **Not limited to cybersecurity vendors, is the OIT confident in the cybersecurity practices of its contractors? What cybersecurity requirements, if any, must contractors meet? Does the OIT monitor and test contractors' compliance with any cybersecurity requirements?**

5. The "2012 Deloitte-NASCIO [National Association of State Chief Information Officers] Cybersecurity Study, State Governments at Risk: A Call for Collaboration and Compliance" highlighted a common **organizational barrier to effective cybersecurity** in State governments. Notably, the study reported that many State Chief Information Security Officers felt deprived of authority to ensure that all state agencies were actually implementing adequate cybersecurity measures. This perceived lack of control was a by-product of the federated information technology governance model that most states, including New Jersey, deploy in the management of information technology resources. Under the model, a central information technology office is responsible for providing overall direction and managing centralized services that are shared by several state agencies. Individual state agencies, in turn, administer their own information technology resources and are supposed to implement any directive issued by the central information technology office. Whether individual agencies actually comply with central directives, though, is frequently unascertained.

New Jersey is emblematic in this regard, given that, in its FY 2011-2012 answer to OIT Discussion Point #15, the OIT did not reply affirmatively to the OLS' question whether, to the best of the OIT's knowledge, State agencies were following existing data security policies and procedures. The OIT merely stated that State agencies were aware of them. Two years later, however, in response to OIT Discussion Point #15 in the OLS FY 2013-2014 Department of the Treasury Budget Analysis, the OIT updated that State agencies were now following established data security policies and procedures. Moreover, the OIT reported that it communicated continually with State agency cybersecurity professionals regarding adherence to the policies and procedures, and that, in conjunction with the New Jersey Office of Homeland Security and Preparedness in the New Jersey Department of Law and Public Safety, it had initiated a survey of State agencies to measure cybersecurity practices. The OIT informed further that all proposed State agency information technology projects and major upgrades had to pass the OIT's System Architecture Review, which evaluates proposed projects' business and technical

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requirements, including security controls. Lastly, the OIT pointed out that State agencies were responsible for scanning their assigned systems at least quarterly.

- ***Questions:*** **Please report the findings of the OIT and New Jersey Office of Homeland Security and Preparedness survey of State agencies that was intended to measure their cybersecurity practices. What metrics were assessed? Are State agencies following established cybersecurity policies and procedures? Please list all instances of noncompliance with the cybersecurity policies and procedures that the survey revealed. Has the OIT become cognizant of any additional noncompliance events since the survey? Do State agencies report budgetary constraints as an inhibitor in implementing the OIT's recommended policies and procedures? What punitive consequences does noncompliance entail? At what interval do the OIT and Office of Homeland Security and Preparedness conduct the survey to reassess State agency cybersecurity practices? In the last two years, which State agencies have failed to scan their assigned systems at the required intervals?**

6. In response to OIT Discussion Point #1 in the OLS FY 2013-2014 Department of the Treasury Budget Analysis, the OIT identified five deficiencies the State encumbers in running antiquated legacy administrative information technology systems: 1) the difficult replacement of retiring employees versed in the operation and maintenance of now-obsolete computing programs and systems; 2) the crowding out of investments in modern systems and project development as limited resources are funneled into the legacy systems' operation and upkeep; 3) a restricted technological scope for improvements in service delivery to the public; 4) inefficiencies that make it impossible or costly to plan and innovate; and 5) difficulties in practicing the highest cybersecurity standards.

Aware of the risks and limitations inherent in the use of outdated information technology programs and systems, the State has embarked on a **multi-year initiative to rebuild the State's core information technology infrastructure**, as the State Treasurer testified during the Department of the Treasury's budget hearing before the Senate Budget and Appropriations Committee on April 26, 2012. The Asbury Park Press had reported in its September 6, 2011 article "Christie Pitches Computer Upgrade" that the initiative represented an anticipated $60 million investment distributed over five years. Responding to OIT Discussion Point #12 in the OLS FY 2013-2014 Department of the Treasury Budget Analysis, the OIT stated that it had expended $10.5 million on infrastructure updates and upgrades in FY 2012 and that a $13.8 million FY 2013 allocation was intended to pay for core information technology infrastructure refresh and upgrades. The scheduled FY 2013 investments had storage ($6.5 million), server ($4.0 million), network ($2.9 million), and data center ($400,000) components. The OIT anticipated future investments in, among other priorities, a new e-procurement system for State government, a new budget management system, a new employee time-keeping system, and a new uniform electronic messaging system for the Executive Branch of State government.

The initiative's elements and financing plan are not readily apparent from the OIT's budget displays, which do not delineate specific "special purpose" and capital projects. However, as the table below indicates, there has been a steep increase since FY 2011 in the annual appropriations to the OIT's Services Other Than Personal account, which pays for services

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provided by outside vendors, and the OIT's Additions, Improvements and Equipment account, which covers contractual line of credit debt service obligations. Line of credit financing allows State agencies to pay for their short-term (three years) equipment needs, such as computers, furniture, and vehicles purchases. The table excludes the amounts the OIT expended on Services Other Than Personal and Additions, Improvements and Equipment out of federal and dedicated funds that State agencies transferred to the OIT to pay for billable OIT services.

Office of Information Technology
Services Other Than Personal and Additions, Improvements and Equipment Appropriations from General State Resources
FY 2011 to FY 2016
(in $000)

Account	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015 Budget Authority	FY 2016 Recommended
Services Other Than Personal	$8,697	$10,164	$15,895	$19,255	$23,628	$25,128
Additions, Improvements and Equipment	$6	$0	$1,500	$6,148	$17,537	$27,377
TOTAL	**$8,703**	**$10,164**	**$17,395**	**$25,403**	**$41,165**	**$52,505**

- ***Questions:*** **Please provide the project list constituting the Administration's multi-year initiative to rebuild the State's core information technology infrastructure to which the State Treasurer alluded during the April 26, 2012 Senate Budget and Appropriations Committee budget hearing on the Department of the Treasury. For each project on the list, please indicate the actual or anticipated cost, implementation status, and expected completion date. Please describe any complication the OIT has encountered in implementing the initiative and the impact of the complication on project completion. What is the age of any legacy administrative information technology programs and systems that: a) are being retired as part of the initiative, and b) will remain in place after the initiative's conclusion?**

- **Please relate the initiative's anticipated total cost and its cost allocation by fiscal year. What amount has been spent on the initiative to date? In what budget lines in the Governor's FY 2016 Budget are the amounts displayed that sustain or are recommended to sustain the initiative? Is the steep rise since FY 2011 in the annual appropriations to the OIT's Services Other Than Personal account and Additions, Improvements and Equipment account attributable to the initiative? If not, for what reason(s) have the accounts' appropriations increased so markedly?**

7. The Executive Branch incurred $127 million in **information technology equipment, maintenance, and consultant services expenditures** in FY 2012, $149 million in FY 2011, $251 million in FY 2010, and $292 million in FY 2009; according to the OIT's replies to OIT Discussion Point #3 in the OLS FY 2013-2014 Department of the Treasury Budget Analysis and OIT Discussion Point #1 in the OLS FY 2011-2012 Department of the Treasury Budget Analysis.

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The Governor's FY 2016 Budget proposes to continue a language provision on page F-5 requiring that the OIT approve all departmental purchase requests for information technology and telecommunications equipment, maintenance, and consultant services. In its review, the OIT is to ascertain that purchase requests comply with statewide policies and standards as well as the department's approved Information Technology Strategic Plan. One of these policies is a **partial moratorium on the procurement of information technology equipment, maintenance, and consultant services** that has been in place since December 2006. Exempt from the moratorium are purchases: a) by the OIT; b) for ongoing projects whose disruption would increase future costs or trigger a significant loss of investment; c) for projects that are primarily paid for with federal or dedicated funds; d) for projects mandated by the federal government, State law or a court order; e) that avert that failing equipment or software will deteriorate or halt mission-critical business functions; and f) of emergency maintenance, repairs, and supplies under $2,500. In addition, the Office of Management and Budget may review purchase requests between $36,000 and $99,999 and must approve those of at least $100,000 (see Joint Office of Management and Budget and Office of Information Technology Circular Letter 12-13-OMB/OIT, Moratorium on Procurements of Information Technology (IT) Hardware, Software and Related Services). Responding to OIT Discussion Point #3 in the OLS FY 2013-2014 Department of the Treasury Budget Analysis, the OIT affirmed that it was unaware of the moratorium significantly affecting the quality of services provided by State agencies. It also did not anticipate the moratorium to significantly impact service quality in the future.

- ***Questions:*** **Is the OIT aware of any cases in which the partial moratorium on the procurement of information technology equipment, maintenance, and consultant services has eroded the quality of services provided by State agencies? If so, please describe the cases. Please indicate in which areas the OIT expects the continuation of the moratorium in FY 2016 to adversely impact program performance and service delivery. If continued over several years, would the current annual investment level be sufficient to maintain the performance of information technology systems? If not, what average annual investment level does the OIT recommend?**

- **Please specify the actual amount of Executive Branch expenditures on information technology equipment, maintenance, and consultant services in FY 2013 and FY 2014 as well as the projected amounts for FY 2015 and FY 2016. Please provide the number and value of each Executive department's requests for information technology equipment, maintenance, and consultant services procurements in FY 2013, FY 2014, and FY 2015 as well as the number and value of procurements approved by the OIT.**

8. The Governor's FY 2016 Budget proposes to continue a language provision on page F-5 requiring that the OIT approve all departmental purchase requests for information technology and telecommunications equipment, maintenance, and consultant services. In its review, the OIT is to ascertain that purchase requests comply with statewide policies and standards as well as a department's approved Information Technology Strategic Plan.

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Supported by the OIT's Project Management Office, the OIT's **Project Review Board** exercises the review, approval, and monitoring functions for large-scale information technology projects pursuant to N.J.S.A.52:18A-232. Section 46 of P.L.2013, c.253 newly clarified that the Governor sets the monetary threshold at and above which the Project Review Board assumes oversight responsibilities. As of the writing of the FY 2013-2014 OIT Discussion Points the limit was $5 million with the Project Management Office assuming jurisdiction for projects valued at less than $5 million. Composed of representatives from the OIT, the Office of Management and Budget, and the Purchase Bureau in the Division of Purchase and Property, the board has the authority to continue, hold or stop a project but has no additional authority to hold an agency accountable. Replying to OIT Discussion Point #8 in the OLS FY 2011-2012 Department of the Treasury Budget Analysis, the OIT stated that the Project Review Board met quarterly. Two years later, the OIT noted in response to OIT Discussion Point #4 in the OLS FY 2013-2014 Department of the Treasury Budget Analysis that the board monitored 16 projects at that time, all of which the board had begun to monitor prior to FY 2012. The board did not reject any projects in FY 2012 or FY 2013.

- ***Questions:*** **Has the role or composition of the Project Review Board changed in the last two years? Is the monetary threshold at and above which the board reviews, approves, and monitors an information technology project still $5 million? How many projects does the board currently monitor? How many new projects did the board begin monitoring in FY 2013, FY 2014, and FY 2015? How many projects did it reject in FY 2013, FY 2014, and FY 2015?**

9. Among the capital budget requests submitted to the New Jersey Commission on Capital Budgeting and Planning at the commission's November 21, 2014 meeting, the OIT requested $3.0 million in FY 2016 funding for the acquisition and implementation of a "mature, industry standard [information technology] **project management tool**." The investment would allow the OIT to more effectively manage departmental information technology projects. The OIT justified the capital request as follows: "The **past two years have been witness to major project struggles that have incurred unplanned costs that total millions of dollars**. With more effective project management capabilities that will more proactively identify risks and that are intended to be used in conjunction with more formal project oversight, cost overruns can be mitigated and projects can be completed more timely."

- ***Questions:*** **What new information technology project management system is the OIT considering acquiring? Has the OIT secured funding for the new project management system? If applicable, please indicate the budget line in the FY 2016 Governor's Budget that subsumes funding for the new project management system as well as the requested FY 2016 amount. Does the OIT foresee additional future costs for the new project management system?**

- **Please identify the information technology projects that over the past two years have experienced major difficulties producing "millions of dollars" of cost overruns that the OIT alluded to in its FY 2016 capital budget requests. For each project thus identified, please detail the original and current cost estimate, the projected original and current project completion date, and provide a description of the difficulties**

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encountered. To what extent would the requested new project management system have averted or mitigated the difficulties?

10. In answering OIT Discussion Point #5 in the OLS FY 2013-2014 Department of the Treasury Budget Analysis, the OIT described the **new approach its Project Management Office (PMO) had adopted to evaluate proposed information technology projects**. The new evaluation method expanded the analysis horizon from the acquisition stage to a project's complete lifecycle encompassing not only a new program's or system's initial impact but also its implications for maintenance, upgrades, and eventual replacement. The OIT expected the new process to yield a more accurate assessment of a project's lifetime impact on OIT resources and greater cost efficiencies from ensuring that a project was compatible with and leverageable across the State's existing information technology infrastructure.

At the time, the OIT still had to fully institutionalize the lifecycle evaluation method. Although the new framework had been instituted in FY 2013, the OIT still sought to establish all the attendant best practices in portfolio and project management so as to improve the OIT's project planning, management, and cost estimation. Furthermore, the OIT still planned to more clearly define expectations for vendor project management and customer relationship management in the Request for Proposal template for information technology procurements.

The PMO assists the Project Review Board in reviewing, approving, and monitoring information technology projects that exceed $5 million in estimated costs and conducts the reviews for projects falling under that threshold. In addition, the PMO coordinates multi-agency information technology initiatives and guides in-house staff on application development and implementation, engagement management, project management and control, risk assessment and mitigation, cost estimation, and integrated planning. The PMO, however, does not actively manage information technology projects. In response to OIT Discussion Point #9 in the OLS FY 2011-2012 Department of the Treasury Budget Analysis, the OIT indicated that in FY 2011 the PMO had 13 staff members, conducted 147 detailed project reviews, and reviewed and processed approximately 1,000 external procurements.

- ***Questions:*** **Please indicate whether the PMO has fully developed and implemented the lifecycle project evaluation method. Has the PMO established new best practices in portfolio and project management so as to improve the OIT's project planning, management, and cost estimation? If so, please describe the best practices. Has the OIT more clearly defined expectations for vendor project management and customer relationship management in the Request for Proposal template for information technology procurements? Are any additional actions necessary to fully institutionalize the lifecycle project evaluation method?**

- **In general terms and by means of specific examples, please comment on the PMO's experience with the lifecycle project evaluation method. Have there been any demonstrable successes and improvements? Has the PMO discovered any shortcomings in using the new process and what remedies has the PMO deployed? How many employees does the PMO have in FY 2015 and is it budgeted to have in FY**

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2016? Is the workforce sufficient in number and expertise to adequately implement the new evaluation approach?

- **How many detailed project reviews did the PMO conduct in FY 2014 and how many procurements did it review and process?**

11. In December 2010, the OIT contracted with several outside vendors for the provision of **quality assurance and project management consulting services for information technology projects** (State Contract No. T-2599 for "Quality Assurance/Project Management Services for IT Projects"). The contract runs for three years with three optional extension periods of up to one year, the first of which expired on November 30, 2014. Contractors are engaged on an as-needed basis for projects ranging from feasibility studies to post-implementation reviews, according to Request for Proposal 09-X-20029 for "Quality Assurance/Project Management Consulting Services Relating to Information Technology Projects for the State of New Jersey." In replying to OIT Discussion Point #6 in the OLS FY 2013-2014 Department of the Treasury Budget Analysis, the OIT stressed that the contracts did not represent an outsourcing of work previously performed by its Project Management Office, as the latter never had, or was intended to have, the specialized knowledge needed for all possible projects. The contractors therefore filled project-specific gaps in OIT in-house expertise.

As to the contracts' actual use, the OIT reported in addressing OIT Discussion Point #6 that eleven projects at a cost of roughly $6.2 million had been referred to the contractors since December 2010. The use of the contract was not automatic for any specific project category, but contractors tended to be hired for large-scale projects requiring multi-agency coordination or projects with a significant public-facing impact. The exception was the federally funded Broadband Technology Opportunities Program, for which the federal government mandated the use of contractors.

- ***Questions:*** **Please indicate a) the number of information technology projects for which the State engaged the quality assurance and project management consulting services vendors selected under State Contract No. T-2599, and b) the total amount the State has expended thereon. Please list the concerned projects. Does the OIT continue to use the contractors primarily for large-scale projects requiring multi-agency coordination and projects with a significant public-facing impact?**

- **Please assess the contractors' performance and cost-effectiveness. Given that the contract is in the second of at most three permitted one-year extension periods, does the OIT intend to prolong the contract for one final year this December? In light of the contract's expiration on November 30, 2016, at the latest, does the OIT plan to issue a new Request for Proposal for quality assurance and project management consulting services or cease contracting for the services?**

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12. In cooperation with Executive Branch agency information technology directors, the OIT had developed the "**State of New Jersey Information Technology Strategic Plan for Fiscal Years 2008 through 2010**." The plan articulates goals, objectives, and strategies in six information technology areas: governance, statewide efficiencies, enterprise architecture, e-government, security, and information technology workforce management. In addressing OIT Discussion Point #7 in the OLS FY 2013-2014 Department of the Treasury Budget Analysis, the OIT stated that following the September 2011 resignation of the previous Chief Technology Officer, the new OIT leadership had originally decided to maintain the existing strategic plan as the technical foundation for OIT's work. In January 2013, the OIT then initiated the development of a new strategic plan. The document would retain technical elements from the previous plan but also would add elements designed to enhance State technological development in recognition of the OIT's transformation from a technology management-focused agency to an innovation leadership agency. Overall, the new plan was intended to drive the adoption of shared services throughout the Executive Branch, improve State government service delivery, foster the adoption of innovative practices, and facilitate the adherence to industry best practices.

- ***Questions:*** **Has the OIT adopted a successor to the "State of New Jersey Information Technology Strategic Plan for Fiscal Years 2008 through 2010?" If so, please provide a copy of the new strategic plan and outline the most important changes relative to the previous plan. If there is no new strategic plan, by what date does the OIT expect the completion thereof and is the FY 2008 through FY 2010 strategic plan still guiding information technology strategies and action plans today?**

13. The judicious **implementation of cloud-based computing** carries the potential of improved cost-effectiveness and organizational performance. For that reason the OIT has examined cloud-based computing models for integration into the State's information technology infrastructure. Specifically, the OIT replied to OIT Discussion Point #1 in the OLS FY 2013-2014 Department of the Treasury Budget Analysis, that it would "methodically adopt mature, proven" cloud-based solutions whenever doing so would yield "significant gains in meeting State government priorities for capability, security and cost." But the OIT did not furnish any specific example of the State's use of cloud-based services or comment on the scale of the State's reliance thereon.

Cloud-based computing is a form of outsourcing. It enables users to store, manage, and process data and run related application software remotely on a vendor's external servers via the internet. This practice contrasts with traditional on-premise computing where data are stored on and programs run from an organization-owned local server or a personal computer's hard drive. Advocates contend that cloud-based computing lowers an organization's information technology expenditures. Central to that contention is that an organization only pays for the services it actually uses on a cloud provider's servers. This allows the organization to achieve economies of scale and scalability that are difficult to attain under the traditional information technology sourcing model of purchasing hard- and software and then actively operating and maintaining it in-house. In addition, advocates claim that the flexibility inherent in on-demand cloud-based information technology services enhances an organization's administrative capacity and service quality. This is so because cloud-based computing allows an organization

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to readily change service consumption levels and upgrade to more advanced technologies and programs. Conventional practices, to the contrary, are more inelastic, as the high upfront acquisition cost of new technologies and programs locks organizations into their existing information technology. Depending on the strength of an organization's in-house information technology staff and data security systems and protocols, cloud providers may also offer organizations more sophisticated security measures and technical support.

But the outsourcing of data and application services to cloud providers also gives rise to dependency-related risks. The internet infrastructure may fail and cause service interruptions. Cloud providers may be unable to deliver the contracted services. Then there is the issue of cybersecurity. Cloud-based computing requires organizations to store data on cloud providers' external servers. Not only does this practice open up new opportunities for cyber attacks but organizations also relinquish control to cloud providers over many aspects of data privacy and security.

- ***Questions:*** **What conditions must procurements of cloud-based computing services meet to receive OIT approval? Does the OIT have any formal policies, procedures, tests, best practices, and guidelines that apply uniquely to the cloud-based computing procurement decision-making process? Are mission-critical data authorized for storage on external cloud provider servers? If so, what identity management, access control, and data security standards must cloud providers meet?**

- **Please list the cloud-based computing services for which State government currently contracts and each service's using agency. What mission-critical data and software application services, if any, are subject to cloud-based computing outsourcing contracts? Please indicate State government's actual FY 2014 cloud-based computing expenditures and its projected FY 2015 and FY 2016 outlays. Does the OIT expect to procure more cloud-based computing services in the future?**

- **Has the OIT found in examining cloud-based computing options and deploying such solutions that they actually do, or have the potential to, lower costs and enhance State government's administrative capacity and service quality? Has cloud-based computing already led to the reassignment or reduction of positions in the OIT or State government information technology departments? Is it conceivable that cloud-based computing will cause a downsizing of the workforce of the OIT or State government information technology departments?**

14. P.L.2014, c.33 designated the **New Jersey Big Data Alliance (NJBDA)** as the State's advanced cyberinfrastructure consortium. Two of the six major initiatives that the law enumerates as possible consortium activities potentially affect the OIT: the organization of events that promote "Big Data" education and collaboration across State government, academia, and industry; and the development of an advanced cyberinfrastructure plan for New Jersey in collaboration with the OIT and the Rutgers Discovery Informatics Institute.

Cyberinfrastructure and "Big Data" are related concepts from the world of data-intensive, high-performance computing. "Big Data" refers to gargantuan data sets whose size and complexity

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overwhelm the abilities of commonly used computers, database management systems, and statistics software. Cyberinfrastructure, in turn, is an information technology ecosystem that allows for the processing and analysis of the gigantic data sets. It comprises advanced computing systems, data storage systems, instruments and data repositories, visualization environments, and people, all linked together by software and high-performance networks. The processing and analysis of "Big Data" by powerful computers makes possible the detection of otherwise undetectable patterns, trends, and associations. These findings ultimately improve research productivity and allow for the optimization of data-driven decision-making and resource allocations.

The NJBDA is a partnership of the state's higher education institutions that seeks to identify and close gaps in the statewide stock of advanced information technology equipment and related workforce talent so that the State's academic, commercial, and governmental entities can reap the potential benefits of "Big Data." In addition, the NJBDA intends to build awareness of the specialized advanced computing equipment housed at educational institutions throughout the state and facilitate the sharing of this equipment across universities, industry, and government.

- ***Questions:*** **Please describe the scope and depth of the OIT's interactions with the New Jersey Big Data Alliance. Has the OIT begun to collaborate with the alliance and the Rutgers Discovery Informatics Institute on a statewide advanced cyberinfrastructure plan? If so, please present the timeline for drafting, adopting, and implementing the plan.**

15. As discussed in OIT Discussion Point #14 in the OLS FY 2013-2014 Department of the Treasury Budget Analysis, the OIT had considered updating its data governance policies for years. In November 2013, the OIT's Data Governance Office then published the "**The State of New Jersey Data Governance Framework Strategic Plan**." The document describes the goals, objectives, principles, practices, standards, methodologies, and tools to be used in collecting, storing, managing, controlling the privacy of, and providing access to data across the Executive Branch of State government. A key objective of the framework is the creation of an integrated data management environment spanning across all Executive Branch agencies. The OIT holds that integrated data management is superior to letting each agency manage its own data in that it not only fosters the sharing and accessibility of information across the Executive Branch but also enhances data quality and usability. Rising data quality, in turn, has the potential to lift the performance of State government in creating the conditions for more informed operational and policy decisions. Conceptually, the OIT envisioned achieving data integration in part through the standardization of data definitions and formats across the Executive Branch and the establishment of universal reference data that serve as common identifiers across different databases.

The plan also outlines a new data governance structure for the Executive Branch that assigns decision rights and accountabilities for data management-related processes. A Data Governance Executive Committee composed of executive management representatives sets data governance policies, which the OIT's Data Governance Office implements. Each Executive Branch agency, in turn, designates a Data Steward who makes agency-specific

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decisions on data definitions, access, and use. Composed of all Data Stewards and Data Governance Office representatives, the Enterprise Data Stewardship Council drafts data governance policies for approval by the Data Governance Executive Committee, resolves data definition disputes, prioritizes enterprise data asset initiatives, and provides general guidance to information architecture and data management efforts. Lastly, Domain Data Stewardship Committees provide for governance over the data elements of a specific domain and consist of Data Governance Office representatives and Data Stewards from concerned agencies.

- *Questions:* **Please provide a status update on the implementation of the New Jersey Data Governance Framework Strategic Plan and indicate by which date the OIT anticipates the new data governance structure to be fully operational. Have all Executive Branch agencies formally designated their Data Stewards? Have the Data Governance Executive Committee, the Enterprise Data Stewardship Council, and the Domain Data Stewardship Committees all been created? How often do they meet? Please detail the composition of the Data Governance Executive Committee and list the actual or envisioned Domain Data Stewardship Committees. If the new data governance structure is operational, does its performance meet OIT expectations?**

- **Has the Data Governance Executive Committee already adopted data management policies intended to improve data quality and further the construction of the integrated data management environment? If so, please summarize the policies and comment on the extent of State agency compliance therewith. If the policies have not yet been adopted, please indicate the anticipated adoption date.**

- **Please comment on the technical and physical elements of the planned construction of an integrated data management environment. Is the data management environment operational? If not, please indicate the project milestones that must still be reached, including a timeline. What is the project's anticipated total cost?**

16. An enterprise data warehouse is a dynamic database environment dedicated to providing a single, comprehensive view of the enterprise and a reliable source of consistent information for financial and strategic decision-making for the enterprise as a whole. In response to Discussion Point #48 in the OLS FY 2009-2010 Department of the Treasury Budget Analysis, the OIT stated that fiscal constraints had hampered the structured development of the State's **enterprise data warehouse environment**. Instead, the OIT had developed the environment dynamically and opportunistically. For that reason, the OIT described the data warehouse as an aggregation of dozens of separate initiatives built incrementally over time when it addressed OIT Discussion Point #13 in the OLS FY 2013-2014 Department of the Treasury Budget Analysis. But the OIT did not expand the data warehouse haphazardly. Expansions occurred in an orderly, consistent manner using common tools and methodologies and referencing reusable technologies and data. The OIT also emphasized that the data warehouse met the needs of the constituent projects and sponsors. But the office pointed out that the hardware platform hosting the data warehouse environment would soon need to be refreshed and that the need to update the worn-out, outdated equipment would represent an opportunity to select a better functioning, more cost-effective data warehousing platform. The OIT already had replied to Discussion Point #48 in the OLS FY 2009-2010 Department of the

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Treasury Budget Analysis that the hardware platform needed to be refreshed in about two to three years.

- ***Questions:*** **Please detail any steps the OIT has taken in the last two years to further develop the enterprise data warehouse environment. How does the OIT intend to finance any expansion of the data warehouse in FY 2015 and FY 2016? Please explain whether the hardware platform hosting the data warehouse is still in need of being refreshed. If it has already been refreshed, please indicate the timing and cost of that action and project the length of time that will lapse until the next such action will become necessary. If the hardware platform has not been refreshed, please share by which date the OIT expects such an action to be necessary, the initiative's anticipated cost, its expected benefits, and the likely impact of delaying the refreshing of the hardware platform. Does the data warehouse currently meet the needs of State government?**

17. In December 2013, the United States Department of Commerce lifted the one-and-a-half year partial suspension of **"The State of New Jersey Broadband Network"** project. The OIT has since resumed the project, albeit with a revised scope and a September 2015, rather than an August 2013, deadline. The partial suspension and project revisions cascaded from a midstream change in the objective of the federal program funding the network's construction.

In September 2010, the OIT originally accepted a $39.6 million matching fund award from the United States Department of Commerce for the building of "The State of New Jersey Broadband Network" through the National Telecommunications and Information Administration (NTIA) Broadband Technology Opportunities Program (BTOP). Funded by the American Recovery and Reinvestment Act of 2009, the federal program was to construct several regional interoperable high-speed public safety broadband networks across the nation. The OIT was to use its federal grant award, as well as the State's $11.6 million matching contribution, to deploy an interoperable 700 MHz high-speed public safety broadband network in the Northern Jersey Urban Area Security Initiative region, which covers the counties of Bergen, Essex, Hudson, Middlesex, Morris, Passaic, and Union. If successful, the project was to enable 167 local, county, and State law enforcement agencies and 224 fire departments to use the network. The network was to allow paramedics to stream critical patient data to hospital personnel; give law enforcement officers field access to records management systems for criminal, fingerprint, and mug shot information; provide firefighters with access to building blueprints and infrastructure diagrams; and improve situational awareness at incident command posts through video applications. In addressing OIT Discussion Point #4 in the OLS FY 2011-2012 Department of the Treasury Budget Analysis the OIT stated that it intended to meet the $11.6 million matching fund requirement through an in-kind match in the form of the value of 77 tower sites that were supposed to house the network's radio access equipment.

In May 2012, the United States Department of Commerce partially suspended all BTOP-funded projects following the enactment of the federal Middle Class Tax Relief and Job Creation Act of 2012. The act altered the BTOP's objective from constructing several regional interoperable high-speed public safety broadband networks across the nation to building a single nationwide network. The law appropriated $7 billion to that purpose and charged the newly established

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First Responder Network Authority, an independent authority within the NTIA, with the program's administration. The nationwide initiative is to incorporate, to the extent feasible, the NTIA's previous efforts at creating several regional interoperable public safety networks. In support of the nationwide initiative the 2012 law also appropriated $135 million for a State and Local Implementation Grant Program, of which New Jersey received $2.7 million after identifying $680,000 in matching funds. Subsequent quarterly performance progress reports for broadband infrastructure projects that the OIT filed with the NTIA suggest two changes in "The State of New Jersey Broadband Network" project scope. Instead of implementing an interoperable high-speed public safety broadband network in the Northern Jersey Urban Area Security Initiative region, the OIT now appears to: a) construct a smaller broadband network in the Route 21 Paterson-Newark corridor as a pilot project; and b) identify and prepare government-owned sites statewide for the planned nationwide network.

- ***Questions:*** **Please outline the changes in "The State of New Jersey Broadband Network" project scope from the plan for which the OIT received the original federal Broadband Technology Opportunities Program grant award. How does the revised scope of work affect the project budget?**

- **Please report on the project's current implementation status and indicate the expected project milestones that must still be reached, including a timeline. By what date does the OIT anticipate the project's completion?**

- **Given that the quarterly performance progress reports for broadband infrastructure projects that the OIT has filed with the National Telecommunications and Information Administration suggest that the federal grant award would be used to prepare government-owned sites statewide for the planned nationwide public safety broadband network, is it reasonable to expect that "The State of New Jersey Broadband Network" now serves as a building block en route to the construction of the statewide component of a nationwide broadband network? If so, please present an estimate of the construction costs of a statewide network and the share thereof that will be borne by the federal government and the State. By what date does the OIT expect to have a statewide network completed and in service?**

18. The OIT has been pursuing a three-phased strategy to **consolidate the State's shared information technology infrastructure**. In the first phase, the office strives to physically collocate mission-critical information technology equipment to reduce the number of data centers and energy consumption, and to improve information technology disaster recoverability. Phase 2 involves the use of the procurement review process to optimize the information technology infrastructure through platform consolidation or virtualization. Phase 3 calls for service integration across affinity groups to improve service delivery and internal processes. To that end, the OIT intended to draft Service Level Agreement (SLA) templates that would specify the provision of OIT technical support services to client agencies.

Replying to Discussion Point #42 in the OLS FY 2009-2010 Department of the Treasury Budget Analysis, the OIT noted that Phase 1 progress in migrating equipment to a central location was slow due to a lack of available computer room floor space at OIT facilities. Nevertheless, as

Discussion Points (Cont'd)

indicated by OIT responses to OIT Discussion Points #10 in the OLS FY 2011-2012 Department of the Treasury Budget Analysis and #11 in the OLS FY 2013-2014 Department of the Treasury Budget Analysis, the OIT has since consolidated several State agency data centers in the OIT data center and advanced, in part, the consolidation of call center systems, such as the consolidation of the Division of Pensions and Benefits call center system into the Department of Labor and Workforce Development call center system. But the previously anticipated relocation of print operations and related equipment from the OIT HUB data center has stalled, as the OIT stated in responding to OIT Discussion Point #11 in the OLS FY 2013-2014 Department of the Treasury Budget Analysis. As a stopgap measure, the office planned to disconnect some of the printing equipment from the HUB data center's power supply system so as to ease a power constraint and enable the installation of a single electronic messaging platform serving the entire Executive Branch (NJDeliver). The new electronic messaging platform would replace the disparate and obsolete e-mailing systems previously used by Executive Branch agencies.

In its response to Discussion Point #42 in the OLS FY 2009-2010 Department of the Treasury Budget Analysis, the OIT also listed several successes in Phase 2 of the consolidation strategy. Two years later, in addressing OIT Discussion Point #10 in the OLS FY 2011-2012 Department of the Treasury Budget Analysis, the OIT conveyed that it continued to use the procurement review process to optimize the information technology infrastructure through platform consolidation and virtualization. As examples of virtualization, the OIT cited the continued expansion of the State government-wide storage area network and the use of the State government-wide hosting platform, which minimized the proliferation of standalone servers. As an example of platform consolidation, the office cited the ongoing consolidation of e-mail services in the State government-wide e-mail infrastructure. Another two years later, in replying to OIT Discussion Point #11 in the OLS FY 2013-2014 Department of the Treasury Budget Analysis, the OIT reported that it was in the middle of consolidating the Executive Branch voice infrastructure and deploying server backup equipment at a Trenton downtown facility to support local agency backups to a centralized virtual tape library.

Concerning Phase 3 of the consolidation strategy, the OIT indicated in answering OIT Discussion Point #10 in the OLS FY 2011-2012 Department of the Treasury Budget Analysis that it had abandoned SLAs in favor of performance indicators and that service integration across affinity groups was advancing with an emphasis on the areas of eligibility determination, fraud detection, and Health Information Technology. Two years later, in responding to OIT Discussion Point #11 in the OLS FY 2013-2014 Department of the Treasury Budget Analysis, the OIT stated that it was still fine-tuning the existing performance indicators.

- ***Questions:*** **Please provide an update on the progress over the last two years of the following projects related to the consolidation strategy for the State's shared information technology infrastructure: a) the relocation of print operations from the HUB data center or any other approach used to reduce the physical space requirements of print operations; b) the consolidation of call center systems; c) the installation of a single electronic messaging system for all Executive Branch agencies; d) the consolidation of the Executive Branch voice infrastructure; and e) the deployment of server backup equipment at a Trenton downtown facility to support local agency backups to a centralized virtual tape library.**

Discussion Points (Cont'd)

- **Apart from the projects enumerated above, please describe the progress the OIT has made in the last two years in implementing: a) Phase 1 of the consolidation strategy for the State's shared information technology infrastructure (the physical collocation of mission-critical information technology equipment); b) Phase 2 of the consolidation strategy (the use of the procurement review process to optimize the information technology infrastructure through platform consolidation or virtualization); and c) Phase 3 of the consolidation strategy (service integration across affinity groups). Have performance indicators served as a satisfactory tool to specify and ensure the provision of OIT technical support services to client agencies?**

19. In answering OIT Discussion Point #17 in the OLS FY 2013-2014 Department of the Treasury Budget Analysis, the OIT provided status reports on two long-term projects: **the migration of the legacy Garden State Network (a statewide integrated communications network) to the Next Generation Services Network (NGSN) and the consolidation of servers**.

The OIT related that the construction of the statewide dark fiber-based NGSN was nearing completion. The new network would consist of three rings of fiber-optic cable — one each in the northern, southern, and central parts of the state. While the northern and southern rings were already finished, the construction of the central ring was scheduled to begin in the third quarter of 2013. The final migration from the legacy Garden State Network to the NGSN, in turn, was expected to occur by 2015 and yield a significant increase in bandwidth capacity and support for internet protocol-based services. The migration may affect the following network services that the OIT provides to its client agencies and entities: internet services, wide area network (WAN) access, aggregation and backbone services, network infrastructure security and access control, data center infrastructure, e-commerce application hosting, secured remote access and extranet services, internet protocol-based mainframe access and unified communications, and Voice over Internet Protocol (VoIP) as well as video services.

The OIT also stated that it had advanced the consolidation of virtual servers that supported Executive Branch agency websites and web-based applications. First, the OIT had installed updated equipment for its Windows-based server virtualization environment. Next, it began the consolidation of virtual servers on the 20 Windows-based physical servers. As of the drafting of its discussion point response, the OIT had consolidated 149 of 523 virtual servers on the 20 Windows-based physical servers. The other virtual systems were still located on physical servers running IBM and Oracle operating systems. Physical limitations at the data centers, however, constrained the operation of additional physical servers that would allow for further migrations to the Windows-based virtualization environment.

- ***Questions:*** **Please report on the status of the migration of the Garden State Network to the Next Generation Services Network (NGSN). Has the migration been completed? If not, please indicate the project milestones that must still be reached, including a timeline. Please describe the expected technical benefits of the NGSN relative to the Garden State Network and explain how these benefits are to facilitate State and local government operational improvements. What is or was the project's total cost?**

Discussion Points (Cont'd)

- **Please comment on the current status of the project to consolidate virtual servers on Windows-based physical servers. Have all virtual servers been migrated? If not, please indicate the project milestones that must still be reached, including a timeline. Has the OIT developed and implemented a solution that would allow for further migrations of virtual servers to the Windows-based virtualization environment notwithstanding the physical limitations at the OIT data centers that previously constrained the operation of additional physical servers? Please describe the technical benefits of the server consolidation and explain how these benefits are to facilitate State and local government operational improvements. What is or was the project's total cost?**

20. In its July 2010 audit report on OIT's Billing and Contracting for Telecommunications Services, the Office of the State Comptroller commented on the assignment to employees of **State-issued cellular wireless devices** (cell phones, blackberries, tablets, etc.). At the time of the audit, each State agency established its own internal policies although each individual assignment had to be based upon the need to have constant communication and a determination that the benefits of the assignment justify the costs (Office of Information Technology, Circular Letter No. 04-06-OIT, Assignment and Use of Cellular Wireless). Agencies were to document an assignment's justification and maintain "appropriate records" of all device issuances. The State Comptroller found, however, that agencies' recordkeeping varied vastly and that out of a random sample of 518 devices, 426 devices, or 82 percent, did not have any documentation justifying their assignment. To alleviate this shortcoming, the State Comptroller recommended the development of a uniform policy governing the issuance of wireless devices that required agencies to assess and document the costs and the benefits of assigning a device.

Subsequently, the OIT updated wireless device management policies in FY 2013 and FY 2015. But the updated policies do not appear to address the State Comptroller's concerns about a lack of control over the assignment of individual devices. Under the current policy, individual wireless device assignments continue to have to be based upon the need to maintain constant or immediate communication and a determination that the benefits of the assignment justify the costs. Moreover, agencies continue to remain responsible for establishing their own internal policies for the issuance and use of wireless devices, but the policies must now include minimum OIT requirements concerning periodic reviews of usage and termination reports, an annual inventory of wireless devices, the need for appropriate approvals before a device is issued, a mandate that the agency notify the OIT when a wireless device is no longer in use, and rules requiring the reimbursement by employees of costs resulting from a device's improper use. But agencies retain their prior exclusive jurisdiction over the review of individual cellular device assignment requests, while the OIT continues to perform no control function and to have no access to each assignment's supporting documentation (Office of Management and Budget and Office of Information Technology, Circular Letter No. 15-04-OMB/OIT, Assignment and Use of State Owned Cellular Wireless Devices). In responding to OIT Discussion Point #19 in the OLS FY 2013-2014 Department of the Treasury Budget Analysis, the OIT contended that its continued noninvolvement with control functions reflected its imperfect knowledge, as an outsider, of the job responsibilities of thousands of State employees. As a result, it was not in a position to ably assess whether a specific employee's job

Discussion Points (Cont'd)

performance would benefit from the assignment of a wireless device. State agencies were better placed to perform that task. The OIT emphasized, however, that it: a) provided ample policy guidance to State agencies for the determination of which employees should be supplied with State-owned wireless devices, b) regularly reminded each State agency's designated Telephone Coordinator of the need to keep accurate records and conform with State phone policies, c) provided clear guidelines on the acceptable use of wireless devices, and d) followed up on any complaints it received of improper usage of State-owned wireless devices.

In reply to OIT Discussion Point #19, the OIT also reported that 19,917 cellular devices were issued in FY 2013, a 10.8 percent increase over the 17,981 devices issued in FY 2012. The Department of Children and Families and the Department of Human Services accounted for more than half of the increase. Expenditures for cellular wireless devices totaled $8.5 million in FY 2012 and the OIT estimated them at $6.0 million for each of FY 2013 and FY 2014.

- **Questions: Please indicate whether, to the best of the OIT's knowledge, State agencies are complying with the statewide minimum requirements for the issuance of cellular wireless devices as set forth in Office of Management and Budget and Office of Information Technology, Circular Letter No. 15-04-OMB/OIT, Assignment and Use of State Owned Cellular Wireless Devices. Is the OIT aware of State agencies actually having improved their documentation of justifications for the issuance of individual wireless devices since the release of the 2010 audit by the State Comptroller?**

- **Please report for FY 2014, FY 2015, and FY 2016 the actual or projected: a) number of State-issued cellular wireless devices, and b) budgetary outlay for supporting the devices. Please provide a breakout of the number of cellular wireless devices issued in FY 2015 by State agency.**

21. The Office of Emergency Telecommunications Services (OETS) in the OIT plans, designs, implements, and coordinates the Statewide 9-1-1 Emergency Telephone System. The system is a network comprised of municipal and county public safety answering points that handle calls for emergency assistance from police, fire, and ambulance services. The Emergency Preparedness and 9-1-1 System Assessment, created by P.L.2004, c.48 (N.J.S.A.52:17C-17 et seq.), funds OETS operations, among other initiatives. Customers pay the $0.90 assessment in each billing cycle for their cell or landline phones. In all, OETS' recommended FY 2016 appropriation is $14.0 million. Of that sum, the OETS would disburse $13.1 million to maintain and operate the Statewide 9-1-1 Emergency Telephone System and $900,000 for its administrative expenses.

In recent years there has been sustained interest in upgrading New Jersey's 9-1-1 system to a so-called **"Next Generation" 9-1-1 system**, which would allow for the processing of emergency services requests sent via e-mail or text message. The current system only supports emergency reports received by telephone. The upgrade's cost would fall on the State and local governments. Whereas the OETS is responsible for the network infrastructure, individual public safety answering points manage their "Call Taker" systems.

Discussion Points (Cont'd)

The OETS still has to secure funding for 9-1-1 network infrastructure upgrades. But, in 2011, the OIT issued a Request for Information with responses due on December 30, 2011 that solicited information on "Next Generation" 9-1-1 network offerings that would: a) assist in the development of a formal Request for Proposal; b) prepare for budgeting and funding; and c) provide direction in policy development, notably public safety answering point consolidation initiatives. Currently, there is no active contract concerning the installation of a "Next Generation" 9-1-1 system nor a Request for Proposal therefor.

The financing of the system upgrade's cost to municipal and county public safety answering points is also unresolved. But Assembly Committee Substitute (2R) for Assembly Bills Nos. 3461 and 3544 addresses this issue. The legislation requires 9-1-1 service facilities to be equipped, within three years following the bill's enactment, with a "Next Generation" 9-1-1 system approved by the OETS. The bill increases the 9-1-1 System and Emergency Response Fee by ten percent for 36 months to support the initiative. The legislation, however, does not provide funding to the OETS for 9-1-1 network infrastructure upgrades.

- **Questions: Please comment on the status of and financing plan for the OETS' planned installation of a Statewide "Next Generation" 9-1-1 network. What has been the outcome of the 2011 Request for Information concerning the installation of such a network? How many responses did the OETS receive? What did the responses indicate regarding the cost of implementing a "Next Generation" 9-1-1 network in New Jersey? Have the responses assisted the OETS in formulating a Request for Proposal? Has a Request for Proposal been issued? If so: a) how many bids has the OETS received; b) to whom has the OETS awarded the contract; c) what is the estimated project cost; and d) what is the project's anticipated completion date?**

- **Please estimate the cost of Assembly Committee Substitute (2R) for Assembly Bills Nos. 3461 and 3544. In so doing, please delineate the estimated capital cost of equipping local and county public safety answering points with "Next Generation" 9-1-1 systems as well as the systems' estimated annual operating cost after installation. How long would it take to upgrade the current 9-1-1 system to a "Next Generation" 9-1-1 system?**

Discussion Points (Cont'd)

DEPARTMENT OF THE TREASURY

1. Discussion Point replies in recent years have elaborated on at least two **areas of risk with respect to Department of the Treasury operations**. First, in answering Discussion Point #8 in the OLS FY 2013-2014 Department of the Treasury Budget Analysis, the Division of Taxation noted that attrition-related risk points existed "at all levels of the organization from staff, middle management to senior staff." The division highlighted its Audit, Collections, and Data Systems units as the most significant risk points. Second, Treasury has sought to mitigate information technology-related risks in recent years in systematically updating and replacing several of its legacy administrative information technology systems. According to the Office of Information Technology's (OIT) answer to OIT Discussion Point #1 in the OLS FY 2013-2014 Department of the Treasury Budget Analysis, the running of outdated systems exposed the State to five deficiencies: 1) the difficult replacement of retiring employees versed in the operation and maintenance of now-obsolete computing programs and systems; 2) the crowding out of investments in modern systems and project development as limited resources are funneled into the legacy systems' operation and upkeep; 3) a restricted technological scope for improvements in service delivery to the public; 4) inefficiencies that make it impossible or costly to plan and innovate; and 5) difficulties in practicing the highest cybersecurity standards. (Three discussion points below address the ongoing modernization of Treasury's administrative information technology systems: Discussion Point #13 focuses on the Division of Taxation's New Jersey Tax Systems Modernization Project, Discussion Point #32 on the Division of Purchase and Property's new web-based NJSTART procurement system, and Discussion Point #36 on the Division of Property Management and Construction's new lease management system.)

- ***Questions:*** **Please specify current risk points that Treasury leadership has identified as having the potential to disrupt department operations in the next five years and explain the strategies the Treasury is deploying to manage the risks.**

- **Please provide the number of Treasury employees who left the department in FY 2014 segregated by retirement-related departures and other separations. How many Treasury employees are anticipated to retire or otherwise leave in FY 2015? Does the FY 2015 departure count meet previous department expectations? Is the department prepared for the departures? Are any divisions experiencing particular challenges because of the departures? If so, please note the divisions concerned and describe the challenges.**

- **Please list Treasury's legacy administrative information technology systems that: a) have been replaced in the last five years; b) are currently being replaced; c) are slated for replacement; and d) are older than ten years and are planned to continue operating. What risks does the department see in the continued operation of the latter systems and how is it managing those risks?**

2. The Office of the State Auditor reported in its July 2011 audit report on the Office of Management and Budget (OMB) that the Department of the Treasury processed about 7.6 million paper checks and remittance advices for State payroll, pension benefit payments, tax

Discussion Points (Cont'd)

refunds and rebates, and vendor payments every year. In calendar year 2010, the cost for printing and postage totaled about $3.7 million. The Treasury has since been phasing out paper checks as a method of payment to State employees, retirees, and vendors. Instead, it has been processing more **State payroll, pension, and vendor payments as well as remittance advices electronically and is looking to issue prepaid debit cards for recipients without bank accounts.** Replying to OLS Discussion Point #4 in the FY 2014-2015 Department of the Treasury Budget Analysis, the department related that as a result it printed and mailed only 4.4 million paper checks and remittance advices in FY 2013 at an unknown total cost.

Specifically, the Division of Purchase and Property has required vendors to receive payments electronically as part of the terms of contracts awarded in accordance with Requests for Proposal issued as of August 2, 2011. Paper checks are only continued as a payment method under prior contracts. Accordingly, the percentage of active vendors in the State's procurement system who received electronic payments rose from 37 percent in FY 2012 to 53 percent as of the department's reply to last year's OLS Discussion Point #4.

Paper checks are similarly being phased out as a payment method for retirement benefits, as all State employees retiring on or after July 1, 2011 must receive their retirement benefits as an electronic direct deposit into their bank accounts. About eight percent of recent retirees, however, still received paper checks, according to the department's response to last year's OLS Discussion Point #4. Overall, about ten percent of all pensioners did so. In its quest to eliminate paper checks the Division of Pensions and Benefits continued to explore prepaid debit cards as the sole payment method for unbanked pensioners. A first attempt failed when an October 2011 Request for Proposal to outsource the State's pension payroll services garnered no cost-effective bids. But the department noted in its discussion point reply that the division had recently issued another Request for Proposal for pension disbursement services, which included the prepaid debit card feature.

State employees, in turn, used to elect to receive their regular biweekly pay either as a paper check or an electronic transfer to their bank accounts. But P.L.2013, c.28 imposed a direct deposit requirement as of July 1, 2014 from which the State Treasurer may grant exemptions. Accordingly, OMB Circular Letter 13-19-OMB, Mandatory Direct Deposit and Online Access to Pay Stub Information, exempts the following individuals: a) seasonal employees; b) New Jersey National Guard members who are activated for State emergencies; c) former State employees with retroactive contractual payments or Back Pay Awards; d) employees with disabilities that prevent them from using a computer to access their pay stubs; and e) recipients of wage payments as a result of consent decrees. Neither the law nor the circular letter addresses unbanked State employees, though. But the department replied to last year's OLS Discussion Point #4 that the OMB planned to issue Bank of America's CashPay prepaid debit cards to such employees by July 1, 2014. The OMB proceeded to list the cards' fees and noted that the State would save $0.017 per transaction from converting paper paychecks to prepaid debit cards. In addition, the OMB reported a reduction in the issuances of separate supplemental paper paychecks. After discontinuing the previously common practice of issuing separate supplemental paper paychecks for overtime, the OMB continued to cut supplemental paper paychecks only for non-standard overtime, salary restoration payments, retroactive pay, and payments for inactive employees.

Discussion Points (Cont'd)

- ***Questions:*** **Please share the number of paper checks and remittance advices that Treasury processed in FY 2014 for State payroll, pension benefit payments, tax refunds and rebates, and vendor payments. What was the total FY 2014 cost for printing and postage? What percentage of all contractual payments to vendors is now paid electronically?**

- **What percentage of former State employees who have retired after July 1, 2011 receive their pension payments through electronic funds transfer? How do unbanked State employees who have retired after July 1, 2011 receive their benefits? What is the status of the Request for Proposal for pension disbursement services, including prepaid debit cards? Has the division established a prepaid debit card alternative for unbanked State employees who have retired after July 1, 2011? If so, what are the fees associated with the debit cards and who is paying them? If the division pays the fees, what is the expected annual fee outlay? Do the fee expenditures exceed the cost savings from not issuing paper checks to all former State employees who have retired after July 1, 2011? What percentage of retirement benefits to all recipients is now paid electronically, by prepaid debit card, and by paper check?**

- **Please share the implementation status of the OMB's initiative to install prepaid debit cards as the alternative payroll disbursement vehicle to electronic funds transfers as of July 1, 2014. Has the OMB successfully implemented Bank of America's CashPay prepaid debit card alternative? If so, how many employees are currently enrolled in the CashPay prepaid debit card program? If the program is not yet operational, for what reason(s) has the implementation been delayed and by what date does the OMB expect full implementation? How many regular payroll checks, supplemental paper paychecks, and pay stubs did the OMB print in FY 2014 and has printed to date in FY 2015?**

3. Subject to certain exceptions, P.L.2001, c.404, the **Open Public Records Act (OPRA)**, makes government records accessible to the public. A governmental entity must grant or deny access to a record within seven business days unless a record is in storage or archived. Noncompliance may be penalized. A governmental entity charges for the copying cost and may levy special service charges when accommodating a request involves an extraordinary expenditure of time and effort or if copies cannot be reproduced by ordinary copying equipment in ordinary business size.

Replying to OLS Discussion Point #3 in the FY 2014-2015 Department of the Treasury Budget Analysis, the department reported that it received 925 OPRA requests in FY 2013, the same number as in FY 2012, and that 664 of them emanated from requestors identifying themselves as representing commercial interests. Overall, the Treasury denied 33 OPRA requests in whole in FY 2013, triggering the filing of two complaints with the Government Records Council and the New Jersey Superior Court. As of the time of its response, Treasury has never been penalized for OPRA noncompliance. In general, even though the number of OPRA requests has held fairly steady in recent years, the Treasury reported an increasing complexity of many individual filings. Some individual requests submitted by attorneys, for example, had work scopes that reached thousands of pages.

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In all, the Treasury reported spending over $800,000 in FY 2013 on responding to OPRA requests—this total, however, did not include the cost of legal advice provided to the department free-of-charge by the Division of Law in the Department of Law and Public Safety. Specifically, the Government Records Access Unit handles Treasury OPRA requests with three full-time equivalent positions. The unit had $234,737 in FY 2013 salary expenses and roughly $88,500 in fringe benefit costs. In addition, ten Treasury divisions and agencies each had one or two custodians who performed OPRA tasks. The Treasury estimated the cost of their time at over $500,000. On the other side of the ledger, in FY 2013, the department collected $688 in charges from 13 chargeable OPRA requests, mostly for the programming required for the retrieval of data in various information technology systems and databases. The amount was noticeably less than the $14,459 charged in FY 2011, as P.L.2010, c.75 lowered the per-page printing fees and required that records submitted electronically have to be provided free-of-charge. The department did not levy permissible charges for requests that require "an extraordinary expenditure of time and effort" in FY 2013 because the Government Records Council's rules for determining such charges are so complex that an employee might need several days to perform the calculation. In response to OLS Discussion Point #3 in the FY 2011-2012 Department of the Treasury Budget Analysis, the department had previously expressed support for increasing OPRA charges so that they may cover the cost of OPRA compliance and deter broad or frivolous requests.

- ***Questions:*** **Please provide Department of the Treasury Open Public Records Act (OPRA) statistics for FY 2014. How many OPRA requests did the department receive in FY 2014 in general and from commercial interests in particular? Was there a noteworthy change in the volume or nature of requests received for specific types of records? How many OPRA requests did the Treasury deny in FY 2014? How many denials, if any, have been appealed to the Government Records Council and how has the council ruled on the appeals? Was the department penalized for OPRA noncompliance in FY 2014?**

- **Please indicate the department's expenditures and employee hours devoted to OPRA requests in FY 2014. How many OPRA requestors were subject to "ordinary copying charges" and "extraordinary request charges?" What were the Treasury's total FY 2014 collections from OPRA requestors?**

4. a. Effective as of July 1, 2011 and in accordance with P.L.2010, c.104, the State ceased to operate **New Jersey Network Public Television and Radio (NJN)**. It divested NJN's radio assets and operating licenses for nine radio stations to two non-profit organizations. It also transferred the management of NJN's four-station television network to another non-profit organization, while holding on to its television operating licenses. Established pursuant to P.L.1968, c.405, the **New Jersey Public Broadcasting Authority (NJPBA)** hitherto owned and operated NJN, which broadcast New Jersey public affairs and cultural programming.

NJN's nine-station radio network was sold to WHYY and New York Public Radio for $1.9 million in cash and $2.4 million in non-cash compensation. As required by P.L.2010, c.104, the $1.9 million has been deposited in the nonlapsing "Trust Fund for the Support of Public

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Broadcasting." Including proceeds from the sale of NJPBA surplus equipment, the fund has received balances totaling $2.1 million, according to the Treasury's response to OLS Discussion Point #5 in the FY 2014-2015 Department of the Treasury Budget Analysis. Of that amount, the NJPBA had committed $1.6 million to four capital projects: a) $851,000 to paint and guy-wire coating at four broadcast towers; b) $315,000 to replace the tower lighting system at the Montclair site; c) $260,000 to construct a television studio in the Capitol Visitors Center and related equipment upgrades; and d) $141,000 for transmitter signal switching and monitoring improvements. The construction of the television studio in the Capitol Visitors Center and the transmitter signal switching and monitoring project were already completed. Work was underway to replace the tower lighting system at the Montclair site with an expected completion date of June 30, 2014. Although the paint and guy-wire coating project at four broadcast towers was under contract, work still had to begin towards expected project completion in September 2014. Some $560,000 in uncommitted trust fund balances remained.

Public Media NJ, Inc., a New Jersey not-for-profit corporation affiliated with WNET.org, runs NJN's four-station television network for five years starting on July 1, 2011. The State financially supports Public Media NJ by turning over to the corporation annual collections from certain NJPBA revenue streams. The Governor's FY 2016 Budget pegs the estimated FY 2016 support at $4.2 million: $2.7 million in revenue from the lease of space on the stations' broadcast towers and the lease of excess spectrum of the educational broadband authorizations held by the NJPBA, $1.2 million in annual Corporation for Public Broadcasting Community Service Grant funding, and $250,000 in payments from the Food Network for a cable waiver.

In addition, the State continues to fund management and engineering positions that allow the NJPBA to maintain, and if necessary operate, the television stations and other broadcast equipment in accordance with Federal Communications Commission licensing standards. The Governor's FY 2016 Budget recommends a $2.2 million FY 2016 appropriation for that purpose, the same amount as in FY 2015. The budget proposal also includes a language provision on page F-9 allowing for supplemental appropriations of unspecified amounts for the NJPBA's operation without additional legislative approval.

- ***Questions:*** **As the contract with Public Media NJ expires on June 30, 2016, please share the State's plans for the television network. Will the contract be extended or rebid?**

- **Please provide an accounting of the "Trust Fund for the Support of Public Broadcasting." Has the fund received any revenues other than the $2.1 million deposited through the end of FY 2014? Does the Treasury expect additional deposits into the fund in FY 2015 and FY 2016? Please delineate the amounts expended from the fund, specifying the purposes for which they were used. Please provide a status report on: a) the tower lighting system replacement at the Montclair site; and b) the paint and guy-wire coating project at four broadcast towers. If the projects have not been completed, by what date does the department expect their completion? How does the Treasury intend to use any remaining fund balances?**

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4. b. In answering OLS Discussion Point #1 in the FY 2013-2014 Department of the Treasury Budget Analysis, the department noted that the Division of Property Management and Construction had begun a $5 million **renovation and repurposing of NJN's former headquarters in the Trenton Office Complex**. State agency operations were to move into the building and the department anticipated $2 million in annual savings from a concomitant reduction in leased office space. Replying to last year's OLS Discussion Point #5, the department updated that the division had already finished limited interior renovations, such as painting and putting in new carpets. In addition, it was planning major renovations to the building's roof and mechanical equipment to be completed in 2015. Some Department of Health staff had already moved into the building as well as the Judiciary's warehouse operations. Once the roof and mechanical equipment would be completed, the division anticipated vacating a lease and relocating more Department of Health employees to the facility.

- **Questions: Please provide an update on the renovation and conversion of NJN's former headquarters in the Trenton Office Complex into an office building for other State agencies. What is the status of the planned renovations to the building's roof and mechanical equipment? What State agencies have moved into the renovated facility? Are all the moves into the facility complete and is the entire office space occupied?**

<u>OFFICE OF MANAGEMENT AND BUDGET</u>

5. In October 2014, the **Governmental Accounting Standards Board (GASB)** issued for public comment by January 30, 2015 a **draft of a proposed Statement, Tax Abatement Disclosures**. The statement would require state and local governments to disclose information about economic development tax abatement agreements in financial statements for fiscal years beginning after December 15, 2015, or in the State's case starting with the FY 2017 Comprehensive Annual Financial Report. Tax abatements refer to the amount of revenue a government forgoes due to the award of tax credits, deductions, and exemptions. Under the draft statement, state and local governments would have to provide: a) general descriptive information of economic development tax abatement programs; b) the number of tax abatement agreements entered into during the reporting period and the total number in effect as of the end of the reporting period; c) the dollar amount of taxes abated during the period; and d) commitments made, other than to abate taxes, as part of tax abatement agreements. New Jersey currently does not appear to publish in any official document comprehensive, aggregated information on the accrued liabilities of its economic development tax incentive programs.

But as the intent of GASB's draft statement is not to facilitate an evaluation of the effectiveness of tax abatement programs, it does not mandate the disclosure of information regarding the compliance of tax abatement recipients with the stipulations of any tax incentive agreement. If adopted, the draft statement will therefore not assist efforts to have the State produce a report that would allow the Legislature and the public to determine the effectiveness of the State's economic development programs and to perform oversight thereof. Notably, P.L.2007, c.200 already obligates the Department of the Treasury to publish an annual Unified Economic Development Budget Report, which must include comprehensive information regarding the

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costs and benefits of all State economic development expenses, including the costs of all economic development-related tax expenditures (N.J.S.A.52:39-6). Thus far, however, the Treasury has failed to prepare such a report, although its first edition would have been due in 2008. Responding to OLS Discussion Point #2 in the FY 2014-2015 Department of the Treasury Budget Analysis, the Treasury stated that it could not produce the report without amendments to the enabling law.

- *Questions:* **What would be the financial and operational impact of implementing GASB's proposed Statement, Tax Abatement Disclosures? Would compliance put significant strains on the Office of Management and Budget? Given that GASB would encourage the early application of its Statement, Tax Abatement Disclosures, does the office anticipate including the statement's required content in a Comprehensive Annual Financial Report for a fiscal year prior to FY 2017? Does the Treasury intend to use the GASB statement, if adopted, as an impetus to resume work on an annual Unified Economic Development Budget Report, whether in accordance with the report's current statutory requirements or in a modified form?**

6. On March 22, 2012, the OMB entered into **State Contract No. A81136 for "Forecasting Advisory Services and Modeling — State Cash Flow" with Acacia Financial Group Inc**. According to the soliciting November 2011 Request for Proposal 12-X-22364, the vendor was to assist in optimizing the OMB's cash flow management by making recommendations for the improvement or replacement of the State's existing Cash Flow Model. The model is an information technology system the OMB uses for projecting the State's cash position and forecasting the size and timing of the State's Tax and Revenue Anticipation Notes (TRANs) borrowing throughout the fiscal year. TRANs bridge temporary cash deficits arising from timing imbalances between the State's revenue collections and expenditures.

Specifically, Acacia Financial Group was to provide OMB within 45 business days of the project launch meeting a report reviewing the State's current cash flow management processes and Cash Flow Model and identifying the strengths and weaknesses thereof ("As-Is Assessment Report"). Within 22 business days of the first report's submission, the contractor was to provide a second report recommending the implementation of: a) best cash flow management practices; b) improved cash flow management processes and operational techniques; and c) improvements to the OMB's Cash Flow Model or of an alternative system ("Alternative Solutions Summary Report"). The vendor may also assist the OMB in implementing any recommended Cash Flow Model improvements or in purchasing and implementing any alternative system.

The status of the contract deliverables is unclear. The original contract expired on March 21, 2013. A first extension prolonged it through March 21, 2014 and lowered the contractor's hourly rate from $220 to $200. Subsequently, the contract was extended a second time to March 21, 2015.

- **Questions: Please update the status of State Contract No. A81136 for "Forecasting Advisory Services and Modeling — State Cash Flow." Has Acacia Financial Group Inc. submitted the required "As-Is Assessment Report" and "Alternative Solutions**

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Summary Report" within the contractually defined timeframes? If the contractor has not yet provided the deliverables, what factors account for the delay? If the contractor has submitted the reports, what recommendations has the OMB chosen to carry out and is Acacia Financial Group tasked with assisting in their implementation? Are all recommendations fully implemented and has the project been completed? If not, at which development stage is the project currently and by which date does the OMB expect its completion? What factors accounted for the two contract extensions? Will the contract be extended again?

- **If the project has been completed, please comment on the OMB's experiences with the new cash flow management processes and technology. Has the OMB achieved any expenditure reductions through contract-related improvements in its cash flow management? What problems has the OMB encountered with the new cash flow management processes and technology, if any, and what amount would have to be expended to correct the problems?**

- **Please indicate the amount Acacia Financial Group Inc. has been paid to date for its cash flow management consulting services. What was the contract's original cost estimate? What is its current cost estimate or, if the work has already been completed, its actual cost? If applicable, what factors account for any cost overrun?**

7. In 2008, the OMB and the Division of Purchase and Property first imposed a **moratorium on State agency non-information technology (IT) equipment purchases of $2,500 or more** (see OMB and Division of Purchase and Property Circular Letter 08-22-OMB/DPP, Moratorium on Procurement of Non-IT (Information Technology) Equipment). Since then, procurements in excess of $2,500 have only been allowed if they meet one of five exceptions: a) the equipment is needed for emergency maintenance or repairs; b) the equipment replaces failing equipment so as to not adversely impact or halt mission critical business functions; c) the procurement is related to a program mandated by the federal government, state law or a court order; d) the denial of the purchase request would significantly increase future costs or e) dedicated or non-state funds provide significant funding for the initiative and there is a compelling reason for the purchase.

Effective February 28, 2011, the OMB and the Division of Purchase and Property changed aspects of the moratorium's administration (see Office of Management and Budget and Division of Purchase and Property Circular Letter 11-12-OMB/DPP, Moratorium on Procurement of Non-IT (Information Technology) Equipment). The circular letter maintained the $2,500 threshold for the moratorium but newly required OMB pre-approval only for procurements of $36,000 or more instead of $2,500 or more. If a department seeks to make a procurement valued between $2,500 and $36,000, it can now invoke one of the exceptions and proceed with the purchase. Any such purchase, however, will be subject to an OMB post-audit review and if the OMB determines that a purchase was made in violation of the exemption rules the offending department may once more have to receive OMB pre-approval for all non-IT procurement requests exceeding $2,500. Replying to OLS Discussion Point #6 in the FY 2014-2015 Department of the Treasury Budget Analysis, the OMB relayed that its post-audit reviews had

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detected no violations. Consequently, no agency or department had to seek OMB pre-approval for non-IT procurements valued between $2,500 and $36,000.

In addressing OLS Discussion Point #6 the OMB also noted that the net effect of the 2011 circular letter on the office's workload and operations was minimal. While the OMB was reviewing fewer non-IT procurement requests as a result of the increased pre-approval threshold, it needed to devote additional resources to the post-audit review process. In all, the OMB processed 162 non-IT procurement requests in FY 2010 (before the increased pre-approval threshold), 73 in FY 2011, 125 in FY 2012, and 135 in FY 2013 (OLS Discussion Points #7 in the FY 2012-2013 Department of the Treasury Budget Analysis, #5 in the FY 2013-2014 edition, and #6 in the FY 2014-2015 edition).

- ***Questions:*** **For FY 2014, please state the number and dollar value of non-information technology (IT) purchase requests the OMB a) reviewed and b) rejected. In FY 2014, what was the number of post-audit reviews the OMB conducted for non-IT procurements valued between $2,500 and $36,000? From what time period dated the audited procurements? Are State agencies and departments still fully complying with the requirements of OMB and Division of Purchase and Property Circular Letter 11-12-OMB/DPP? What is the number, if any, of non-IT purchases valued between $2,500 and $36,000, broken out by State agency and department, that the OMB deemed to be in violation of the circular letter as part of a post-audit review? Does any State agency or department once again need OMB pre-approval for all non-IT procurement requests exceeding $2,500 because of circular letter violations?**

NEW JERSEY LOTTERY

8. Northstar New Jersey Lottery Group, LLC took full control of the New Jersey State Lottery's sales and marketing operations on October 1, 2013 and has since performed these functions under the supervision of the Division of Lottery in accordance with the 15-year State Contract No. T-2884 for "Lottery Growth Management Services." Northstar is a tripartite consortium consisting of GTECH Corp., Scientific Games International Inc., and a subsidiary of the Ontario Municipal Employees Retirement System. **State Lottery revenues have not met expectations in FY 2014 and FY 2015.**

The FY 2014 transfer of State Lottery income into the State General Fund equaled $965.0 million, some $55.0 million less than the $1.02 billion the FY 2014 Appropriations Act had anticipated. In all, the Lottery generated $2.94 billion in FY 2014 operating revenues, some $73.5 million less than the $3.02 billion originally anticipated, according to the State Lottery's FY 2014 "Financial Statements and Supplementary Information."

The outsourcing contract's pay-for-performance compensation model meant that Northstar needed to make a year-end payment to the State. The contractor's original prorated FY 2014 net income target for the period from October 1, 2013 through June 30, 2014 was $776.3 million. On January 17, 2014, the State lowered the target to $760.9 million "as the result of Superstorm Sandy," which had made landfall on October 29, 2012. The actual FY 2014 net income was $705.5 million, according to the Lottery's FY 2014 "Financial Statements and Supplementary Information." This $55.4 million shortfall required Northstar to make a $14.1

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million so–called "contribution shortfall payment" to the State. The contractor opted to apply the $14.1 million against a preexisting $20 million credit.

The FY 2015 Appropriations Act anticipated a $1.04 billion transfer of State Lottery income into the State General Fund. As part of the Governor's FY 2016 Budget, the Administration lowered its FY 2015 projection to $955.0 million, some $10.0 million less than the FY 2014 total and $81.9 million, or 7.9 percent, less than originally anticipated. Northstar's FY 2015 net income target equals $1.05 billion, some $32.5 million, or 3.2 percent, more than the $1.01 billion FY 2014 net income target absent the proration.

According to the August 2012 Request for Proposal 13-X-22694 for "Lottery Growth Management Services," the outsourcing initiative was to maximize Lottery proceeds for the support of State institutions and State aid for education. The compensation model reflects the pay-for-performance principle, shifts a portion of the Lottery performance risk to the vendor, and has three elements.

A) Accelerated Guarantee Payment: Northstar made a one-time $120 million Accelerated Guarantee Payment to the State in FY 2013. The vendor may use up to $20 million of the payment to offset any future Contribution Shortfall Payments. Northstar applied $14.1 million against the $20 million credit in FY 2014.

B) Contribution Shortfall Payments: Northstar must make Contribution Shortfall Payments for any contract year in which it fails to meet the Lottery net income target, but not more than 2.0 percent of a contract year's Lottery net income. The payments thus represent a partial shift to the contractor of the risk of Lottery net income shortfalls. The payment equals 50 percent of the difference between the net income target and the base net income level if the actual net income falls between the two markers. If the actual net income is less than the base amount, the payment is 50 percent of the difference between the net income target and the base amount plus 100 percent of the amount by which the actual net income falls below the base amount. The contract specifies gradually increasing base amounts and net income targets.

C) Incentive Compensation: Capped at 5.0 percent of the year's lottery net income, Incentive Compensation payments by the State to Northstar occur in any year in which the Lottery net income exceeds the contractual base net income level. The base net income level in contract year 1 is $959 million, which rises to $1,096 million in contract year 16, implying a 0.89 percent annualized growth rate. A payment is calculated as a percentage of the year's net income in excess of the base amount with the percentage ranging from 5 percent to 30 percent depending on the size of the excess over the base, middle, and upper net income levels, as defined in the contract. Net income targets are immaterial to the computation. Therefore, should a year's actual net income fall between the base net income level and the net income target, Incentive Compensation payments and Contribution Shortfall Payments will both come due and will offset one another to varying degrees. The table below shows Northstar's net income targets and base net income levels for FY 2014 through FY 2018.

Fiscal Year	Base Net Income Level	Net Income Target
2014 (Nine-Month Period)	$717,279,452	$760,897,061
2015	$967,000,000	$1,047,000,000
2016	$976,000,000	$1,060,000,000
2017	$985,000,000	$1,070,000,000
2018	$994,000,000	$1,080,000,000

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- ***Questions:*** **Please assess Northstar's performance as the manager of the State Lottery's sales and marketing operations. What factor(s) accounted for FY 2014 State Lottery operating revenues falling $73.5 million below the level originally anticipated? What factor(s) drive the year-to-date underperformance in FY 2015 Lottery operating revenues relative to original expectations? Has the Lottery identified any structural changes in consumer behavior that shift the demand curve for lottery products downwards? Since Superstorm Sandy motivated a January 2014 reduction in Northstar's FY 2014 net income target, do the superstorm's lingering effects also contribute to sluggish FY 2015 lottery ticket sales? In general, have Lottery ticket sales underperformed at a disproportionate rate relative to the rest of the State in the areas that were most impacted by the superstorm? For FY 2012, FY 2013, and FY 2014, please provide Lottery ticket sales totals for Monmouth and Ocean counties. Has the State Lottery reduced, or does it intend to reduce, Northstar's net income targets and base net income levels for FY 2015 and beyond?**

9. Northstar New Jersey Lottery Group, LLC took over the sales and marketing operations of the New Jersey State Lottery on October 1, 2013. According to the State Lottery's FY 2014 "Financial Statements and Supplementary Information," the contractor charged the State Lottery $29.3 million in **administrative expenses** in FY 2014: a) $16.3 million in advertising and marketing expenses, b) $9.4 million in manager expenses, and c) a $3.6 million management fee. As the table below shows, combining the administrative expenses of the Division of Lottery and Northstar, FY 2014 experienced the highest administrative expenses since at least FY 2008 at $45.0 million. From FY 2008 through FY 2011, annual administrative expenses fluctuated between $18.0 million and $22.0 million. Driven by increased advertising purchases, FY 2012 and FY 2013 administrative expenses rose to $37.0 million and $35.0 million respectively. Similarly, administrative expenses as a share of total operating revenues stood at 1.53 percent in FY 2014, exceeding the 0.68 percent to 0.89 percent range between FY 2008 and FY 2011, the 1.32 percent in FY 2012, and the 1.22 percent in FY 2013.

	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
Division of Lottery Administrative Expenses	$23,000,000	$22,000,000	$18,000,000	$22,000,000	$37,000,000	$35,000,000	$16,000,000
Northstar Fees and Expenses	$0	$0	$0	$0	$0	$0	$29,000,000
Total Administrative Expenses	**$23,000,000**	**$22,000,000**	**$18,000,000**	**$22,000,000**	**$37,000,000**	**$35,000,000**	**$45,000,000**
Total Operating Revenues	$2,579,000,000	$2,538,000,000	$2,648,000,000	$2,677,000,000	$2,798,000,000	$2,861,000,000	$2,942,000,000
Total Administrative Expenses As Share of Total Operating Revenues	**0.89%**	**0.87%**	**0.68%**	**0.82%**	**1.32%**	**1.22%**	**1.53%**

In part, the higher FY 2014 administrative expenses reflect an increased position count. The division replied to OLS Discussion Point #7 in the FY 2014-2015 Department of the Treasury Budget Analysis: "Northstar has 100 staff devoted to sales and marketing of lottery products, plus 15 staff in executive and administrative positions; all are newly created private sector jobs. This staff provides welcome added service and support to the growing network of lottery retailers throughout the State. By comparison, the State Lottery only had 64 staff devoted to sales and marketing. Looking ahead, Northstar is now recruiting multilingual sales staff."

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- ***Questions:*** **What are the projected FY 2015 administrative expenses of the Division of Lottery and Northstar? Does the division expect future administrative expenses to stabilize at the FY 2015 level? Is the division concerned that the ratio of division and Northstar administrative expenses over total operating revenues reached 1.53 percent in FY 2014, the highest level since at least FY 2008? Does the division have a target range for the ratio? Does the division exercise any control over Northstar's administrative expenses and staffing level? What is Northstar's current position count?**

- **Given Northstar's failure to meet performance targets and the higher administrative costs associated with privatizing the State Lottery's sales and marketing operations, has the Treasury considered ending the business relationship with Northstar, just as the State of Illinois publicly announced its intention in December 2014 to terminate its contract with Northstar for similar underperformance issues?**

10. In its February 2015 audit report on the Division of the State Lottery, the Office of the State Auditor **recommended operational changes related to debt collection, the verification of prize winner identities, and the division's backup facility as well as disaster recovery plan**.

First, the State Auditor criticized that the Division of Lottery only checked whether winners of $250,000 or more had debt outstanding to the State or federal government and, if so, applied the claimants' winnings against the claimants' liabilities before paying out any remaining balance. N.J.S.A.5:9-13.17, however, requires the debt collection process for all prize claims of $600 or more. Had the division done so, the State Auditor reckoned, it could have recovered an additional up to $890,000 in prize winnings from July 1, 2013 through July 28, 2014 to offset debts owed to the State and the federal government. Consequently, the State Auditor recommended that the division perform State debt collection matches for all claimants of lottery prizes of $600 or more, just as it was already doing for outstanding child support, overpaid public assistance, and defaulted student loan debt. In its audit reply, the division explained that federal law precluded it from using winners' social security numbers to perform automated matches for all State agencies participating in the Set-Off of Individual Liability (SOIL) system, a centralized debt collection program operated by the Division of Revenue and Enterprise Services. The State Lottery therefore crosschecked the SOIL database manually for winnings greater than $250,000 based on claimants' names and addresses. The division, however, was collaborating with the Office of the Attorney General and SOIL-participating State agencies to ensure that regulations were in place by the end of FY 2015 that would allow for the use of social security numbers in identifying opportunities for offsetting amounts owed to the State against lottery winnings.

Second, the State Auditor noted that if a prize claimant provided a social security or taxpayer identification number the Division of Lottery withheld federal personal income taxes on winnings of at least $5,000 and State gross income taxes on winnings of at least $10,000. If the claimant did not provide the information, federal tax was withheld on winnings of at least $600. The division, however, only verified the accuracy of the identification numbers provided if a winner claimed a top tier or jackpot. When crosschecking prize claimants' provided

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identification numbers with the Veris social security database, the State Auditor found 680 individuals whose numbers were listed as either "invalid" or "maybe." Of those individuals, 46 used identification numbers of deceased persons with different names. The State Auditor remarked that prize winners who provided invalid identification numbers created a risk of reduced tax withholdings, overpayment of public assistance, and lost collections on outstanding child support, defaulted student loans, and other debt owed to the State. For those reasons, the State Auditor recommended that the division lower its threshold for claim validation to $600 and use the Veris database to verify social security numbers. In its audit response, the division demurred that the State Auditor could not substantiate that the 680 questionable social security numbers were indeed fraudulent. Nevertheless, the division would study the adoption of fraud-reduction methods, including the Veris database.

Third, the State Auditor admonished that the division's backup Business Continuity Site in Cranbury was not fully operational and that its disaster recovery plan had not been updated since July 2007. Both were vital in keeping State Lottery operations running in case of an unplanned interruption. Accordingly, the State Auditor recommended making the backup facility fully operational and updating and testing the disaster recovery plan annually. In its audit reply, the State Lottery projected that the Business Continuity Site would be operational by the summer of 2015 pending the connection of the site to Treasury's information technology network by the Office of Treasury Technology. Moreover, once the connection would be established, the division would review and update its disaster recovery plan and run quarterly drills to test the plan's effectiveness.

- **Questions: Does the Division of Lottery intend to perform a Set-Off of Individual Liability (SOIL) system match of prize claimants for State debt collection purposes for all prize claims of $600 or more, as recommended by the Office of the State Auditor and required by N.J.S.A.5:9-13.17? If so, please specify the date by which the division plans to begin doing so; if not, please provide the reason(s) for not lowering the current $250,000 threshold. Does the State Lottery remain optimistic that all the necessary regulations will be promulgated by the end of FY 2015 so as to allow for a social security number-based SOIL system match of prize claimants for State debt collection purposes?**

- **Please indicate whether the division intends to lower the threshold for validating the social security numbers provided by claimants to prizes of $600 or more, as recommended by the Office of the State Auditor. If so, please specify the date by which the division plans to begin doing so; if not, please provide the reason(s) for not lowering the threshold. Has the division concluded its investigation into methods of verifying social security numbers provided by prize claimants? If so, what methods will the division employ? If the division is still studying the issue, by what date does it intend to conclude the examination period?**

- **Please update whether the division still projects to have its backup Business Continuity Site fully operational by the summer of 2015. If the facility is already fully operational, please share whether the division has already updated its disaster recovery plan and run drills to test the plan's effectiveness.**

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11. N.J.S.A.5:9-7 dedicates at least 30 percent of the gross receipts from the sale of lottery tickets to the support of State institutions and State aid for education. In FY 2014, some 33.3 percent of gross lottery sales were used for that purpose and the Administration anticipates that some 31.4 percent of gross lottery sales would be used in that manner in FY 2015 and some 31.5 percent in FY 2016, as displayed in the evaluation data in the Governor's FY 2016 Budget (page D-385).

The State Lottery has recently introduced the first drawing game with fixed top prizes. Notably, the Cash4Life multi-state game features two weekly drawings with a top prize per drawing of $1,000 a day for life and a second prize of $1,000 per week for life. **Fixed-prize payout games, however, make it more difficult to manage for the attainment of prize payout to sales ratio goals**. This is so because fixed top prizes weaken the link between ticket sales and prize payouts that makes for fairly stable and predictable prize payout to sales ratios irrespective of fluctuations in sales under traditional lottery games. Under a fixed-prize game, variable ticket sales have a more significant, less controllable effect on the ratio. For example, according to the February 2015 audit report on the Division of Lottery, the Office of the State Auditor related that the division projected the new Cash4Life game to have prize payouts equal to 55 percent of sales. Through August 31, 2014, however, prize payouts allocated to New Jersey ($22.8 million) represented 98 percent of total New Jersey sales ($23.3 million). In its audit reply, the division noted that it was closely watching the game's prize payout to sales ratio. Moreover, it expected the ratio to perform as designed over a peak and trough smoothing time period of at least one year.

- ***Questions:*** **Is the new Cash4Life multi-state game meeting the Division of Lottery's original performance expectations? Has the prize payout to sales ratio hit or fallen below its 55 percent target? If the ratio exceeds 55 percent, please detail any modifications the division may already have brought, or may intend to bring, to bear on the game's design. Please indicate total New Jersey sales and prize payouts to date for the Cash4Life game.**

- **How many fixed-prize payout games does the State Lottery currently operate? Does the State Lottery intend to increase their number? What strategies does the division employ to ensure that fixed-prize payout games attain the projected prize payout to sales ratio and contribute to meeting the State Lottery's overall statutory mandate that at least 30 percent of gross receipts from the sale of lottery tickets support State institutions and State aid for education?**

12. The Division of Lottery clarified in its response to OLS Discussion Point 8 in the FY 2014-2015 Department of the Treasury Budget Analysis that it did not sell any lottery games online. State Contract No. T-2884 for "Lottery Growth Management Services" also does not require Northstar New Jersey Lottery Group, LLC to offer online lottery games. In fact, the division noted in answering OLS Discussion Point #6. a. in the FY 2013-2014 Department of the Treasury Budget Analysis that the variables that determined the contractor's annual compensation did not include assumptions on any revenue from the introduction of **internet lottery ticket sales or internet-based lottery games**. The contract, however, allows for such

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internet-based offerings and the contractor would be ready to integrate them into its activities. Notably, Section 4.5 of the "Services Agreement" sets forth the procedure that must be followed if the Division of Lottery decided to create new online lottery game offerings during the contract period. The vendor, though, cannot make a decision to that effect. If online lottery games were to be allowed, the variables determining the contractor's annual compensation may be revised accordingly. Schedule 10.2 of the contract authorizes the Division of Lottery to recommend to Northstar upward adjustments to the variables if there was a material change in the gaming environment, such as "a change in law that would make available or expand Lottery sales channels or authorize game types or platforms currently unavailable to the Lottery." If Northstar disagreed with the recommendation, the issue would become subject to the contract's dispute resolution procedure.

Even so Section 21.1 of the "Services Agreement" also authorizes Northstar to recommend to the Division of Lottery downward adjustments to the variables determining its compensation in the event of an "Adverse Action." The contract defines an "Adverse Action" as any affirmative State action whose effect can reasonably be expected to have a material adverse effect on the Lottery's net income and, by extension, Northstar's compensation. However, several State actions do not qualify as an "Adverse Action," among them actions that permit **internet gaming** activities. P.L.2013, c.27 did just that by authorizing Atlantic City casinos to offer internet gambling to persons physically located in New Jersey for a ten-year trial period. Responding to OLS Discussion Point #6. b. in the FY 2013-2014 Department of the Treasury Budget Analysis, the Division of Lottery noted that the law's enactment had not affected contract negotiations with Northstar. Notwithstanding the contract's treatment of internet gambling, concerns over competition to the Lottery from internet gambling persist.

- ***Questions:*** **Does the State Lottery plan to sell lottery tickets over the internet or expand its internet-based lottery game offering in the next five years? If so, what are the plans and has the State Lottery already begun discussions with Northstar regarding the implementation of the changes to the business plan and possible upward adjustments to Northstar's compensation variables? Does the State Lottery intend to desist from offering internet-based lottery games, so as to not compete for players' attention with online games of chance operated by Atlantic City casinos, thereby potentially jeopardizing the viability of online casino gambling? Conversely, is the nascent online casino gambling putting downward pressure on Lottery instant ticket sales?**

DIVISION OF TAXATION

13. According to its response to OLS Discussion Point #10 in the FY 2014-2015 Department of the Treasury Budget Analysis, the Division of Taxation received eight submissions to its March 2014 **Request for Information (RFI) for the State of New Jersey Tax Systems Modernization Project**. The division intended for the submissions to inform the terms and conditions included in any future Request for Proposal (RFP). Specifically, the RFI solicited possible solutions for the replacement of the division's current separate tax administration and collection systems with a more versatile, integrated system. The division envisioned a benefit-based procurement model, whereby the vendor would get paid a percentage of the incremental

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savings and revenues the vendor's solution generates. The State would thus not face any significant up-front costs for the capital project and limit its financial liability in case of cost overruns and nonperformance of the vendor's solution. The Office of Information Technology subsequently stated in its FY 2014 Annual Report that the project team had readied an RFP whose release was expected at some point in FY 2015.

The State's current tax administration systems, collectively known as TAXNET, date from the mid-1980s. They are: 1) the Taxpayer Registration System (TAXREG); 2) the Generic Tax System (GENTS), which is used for taxpayer account maintenance; 3) the Taxation Unremitted Liability Inventory Plotting System (TULIPS), which is used for collections case management; 4) the Cash Receipts Account System (CRAS); and 5) the Set-Off of Individual Liability (SOIL) system. In addition, the division would like to replace its audit case management system (ESKORT), which dates from 2005. According to the March 2014 RFI, the division hopes that a new integrated tax administration system that delivers a single view of the taxpayer and audit process will: a) improve customer service, in part through the centralized capture and tracking of all taxpayer communications; b) increase online public access and services to taxpayers; c) comply with industry security standards; d) enhance the efficiency of the division's taxpayer accounting, tax compliance, and auditing processes through the use of up-to-date database technology and big data analytics strategies; and e) augment the system's long-term viability over the current legacy systems whose maintenance depends on a shrinking number of proficient programmers.

- ***Questions:*** **Please provide a status update on the State of New Jersey Tax Systems Modernization Project. Were the submissions to the March 2014 RFI responsive and helpful? To what extent have the RFI responses informed the formulation of the terms and conditions of any Request for Proposal (RFP)? Has the division issued an RFP to solicit bids for an integrated tax administration system? If so, please indicate: a) the number of RFP submissions; b) whether any of the respondents to the earlier RFI submitted bids; c) the date by which the division expects a contract award; d) if applicable, the name of the bidder to whom the State has awarded any contract; and e) if applicable, whether the contract winner was an earlier RFI respondent. If the State has not yet issued an RFP, by what date does the State expect releasing an RFP and awarding a contract? Does or will the successful vendor receive compensation in accordance with a benefit-based procurement model? If so, please explain the formula used to determine the vendor's compensation. If the State has abandoned the modernization initiative, please detail the reason(s) for doing so.**

14. a. The Division of Taxation operates two permanent amnesty-like programs: the voluntary disclosure agreement program and the closing agreement program. Discussion Point #14. b. addresses voluntary disclosure agreements, which the division uses to bring previously unknown, non-filing taxpayers into compliance with their tax return filing obligations. Closing agreements, in turn, settle ongoing cases and current issues involving known taxpayers who are already filing returns.

Specifically, N.J.S.A.54:53-1 et seq. authorizes the division to negotiate amnesty-like **closing agreements** with known taxpayers that permanently and conclusively resolve issues related to

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past and future tax liabilities. The law grants broad discretion to the division as to the type of cases it may settle and the scope of any agreement. Closing agreements may cover tax liabilities for any taxable period ending prior or subsequent to the date of the agreement. The division may conclude an agreement in any case in which there appears to be an advantage in having the case permanently and conclusively closed, or if the taxpayer shows good and sufficient reasons for desiring a closing agreement and the division determines that the State will sustain no disadvantage through consummation of an agreement. The applicable regulations under N.J.A.C.18:33-1.1 et seq. do not appear to restrict the division's discretion any further. It is also possible to use closing agreements as an economic development tool. According to its response to OLS Discussion Point #12 in the FY 2014-2015 Department of the Treasury Budget Analysis, the division was not prohibited from using closing agreements to condition prospective tax exemptions on certain capital investments and the creation and retention of a certain number of jobs. But the division stressed that it had not entered into a single closing agreement since FY 2010 that provided prospective tax exemptions contingent upon the generation of economic activity in New Jersey.

The division's use of closing agreements to settle disputed taxpayer cases has intensified of late, as the table below displays. The division reported in addressing last year's OLS Discussion Point #12 that it entered into 25 closing agreements in FY 2010, 52 in FY 2011, 84 in FY 2012, and 261 in FY 2013. Most of the increase is ascribable to the division's initiative to reduce a backlog in the administrative review of taxpayer protests and appeals of division tax determinations. As part of the initiative, the division has encouraged its Conference and Appeals Branch to make more frequent use of closing agreements. Accordingly, the branch concluded 82 such agreements in FY 2012, some 250 in FY 2013, and 151 in FY 2014 as of the division's response to last year's OLS Discussion Point #14. In addressing OLS Discussion Point #9 in the FY 2013-2014 Department of the Treasury Budget Analysis, the division had explained earlier that the settlements accelerated the collection of State revenue, added finality to the taxpayer's request for administrative review, avoided litigation, and conserved division resources for other matters.

	Closing Agreements	Closing Agreement Collections
FY 2010	25	$46,330,172
FY 2011	52	$11,696,567
FY 2012	84	$11,176,959
FY 2013	261	$8,977,314
FY 2014 (April 2014)	181	$80,281,503

- ***Questions:*** **For FY 2014 and FY 2015 to date, please indicate the number of closing agreements the division concluded, the amount of revenue collected pursuant to the agreements, and the amount of disputed tax liabilities and penalties that the agreements settled. If applicable, please indicate and describe every closing agreement which the division has concluded since FY 2014 that included prospective tax exemptions that were contingent upon the generation of economic activity in New Jersey.**

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14. b. The Division of Taxation's Audit group administers **voluntary disclosure agreements**. The amnesty-like program allows taxpayers who failed to file tax returns or collect sales tax to come forward prior to being contacted by the division and file the appropriate tax returns as well as registration materials, and pay outstanding tax obligations. If approved, a voluntary disclosure agreement requires the payment of taxes owed for a look-back period equal to the current year plus the three prior years, and interest. In return, the division waives the late filing and late payment penalties for the tax years covered by the agreement. In reply to OLS Discussion Point #13 in the FY 2014-2015 Department of the Treasury Budget Analysis the division provided the data presented in the table on the below on the number of voluntary disclosure agreement requests, the number of agreements concluded, and the total amount collected from the agreements. Voluntary disclosure agreements, however, are not the only option for noncompliant taxpayers to come forward. In its discussion point answer the division also noted that alternatively it might negotiate taxpayer-specific closing agreements in accordance with N.J.S.A.54:53-1 et seq. if a taxpayer did not qualify for the voluntary disclosure agreement program. (Discussion Point #14. a. addresses closing agreements.)

	Voluntary Disclosure Agreement Requests	Voluntary Disclosure Agreements Concluded	Voluntary Disclosure Agreement Collections
FY 2010	273	203	$106,869,988
FY 2011	357	286	$36,503,763
FY 2012	454	339	$91,177,294
FY 2013	321	144	$57,770,457
FY 2014 (As of Discussion Point Response)	280	139	$58,245,807

The division ran two special voluntary disclosure program initiatives from March 15, 2014 through May 15, 2014. The Partnership Tax and Partner Fees Initiative targeted partnerships and their individual partners that had New Jersey sourced income but that had not filed any of the required business registration forms or paid the required income tax amounts. The Intangible Asset Nexus Initiative, in turn, was for companies with income derived from the use of intangible assets in New Jersey that had heretofore failed to acknowledge their subjection to the State's taxing jurisdiction but that intended to henceforth comply with their corporation business tax filing requirements. Under both programs, participants had to remit payment of all taxes and fees owing within 45 days of the execution of the voluntary disclosure agreement.

- ***Questions:*** **For FY 2014 and FY 2015 to date, please provide summary statistics for the voluntary disclosure program: the number of taxpayers coming forward, the number of concluded voluntary disclosure agreements, the amount of revenue collected pursuant to the agreements, and the amount of penalties waived.**

- **Please provide summary statistics for each of the Partnership Tax and Partner Fees Initiative and the Intangible Asset Nexus Initiative: the number of taxpayers who contacted the division with a voluntary disclosure agreement request, the number of agreements concluded, the amount of revenue collected pursuant to the agreements, and the amount of penalties waived.**

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15. The Division of Taxation first stated in response to OLS Discussion Point #5 in the FY 2011-2012 Department of the Treasury Budget Analysis that its **Audit group was drafting a comprehensive Manual of Audit Procedures**, which would be published upon completion. A year later, in reply to OLS Discussion Points #8 and #9 in the FY 2012-2013 Department of the Treasury Budget Analysis, the division conveyed that the manual was in its late drafting stages and that the division's Office of the Taxpayer Advocate was reviewing and editing the draft at the time. Another year later, in answering OLS Discussion Point #10 in the FY 2013-2014 Department of the Treasury Budget Analysis, the division noted that it continued to work on the document with an eye towards publication by the end of calendar year 2013. As of March 26, 2015, the manual remains unpublished.

Irrespective of the final publication date, it is uncertain to what extent taxpayers would be able to cite the Manual of Audit Procedures in future disputes and litigation over division audit assessments and procedures. California's Franchise Tax Board, for instance, already publishes its audit manuals. But Franchise Tax Board Notice 1994-8 clarifies that the manuals primarily are to guide audit staff on auditing techniques and procedures without being authoritative interpretations of law or legally binding. The public should only use the manuals as an initial step in learning about audit procedures and guidelines and be aware that the documents may contain provisions that over time may have become obsolete.

- **Questions: Has the Division of Taxation finished and published the comprehensive Manual of Audit Procedures? If not, by what date does the division expect the completion and publication thereof? What factor(s) account for the delay in completing and publishing the manual?**

- **What objectives motivate the division's intent to publish the Manual of Audit Procedures? What will be the document's legal standing? Will taxpayers be able to cite the manual in audit assessment disputes and related litigation?**

16. The State Earned Income Tax Credit (EITC) program, which piggy-backs on the federal EITC credit program, is intended to offset the burden of Social Security payroll taxes on the working poor and provide an incentive to work. Pursuant to P.L.2000, c.80 (C.54A:4-6 et seq.), the State EITC provides a refundable credit under the State gross income tax, currently equal to 20 percent of the federal EITC benefit amount. To claim a State credit, taxpayers must first file for the federal EITC.

According to the Division of Taxation, beginning in Tax Year 2011, the division implemented an **EITC fraud screening process**. As part of the program, certain taxpayers claiming a NJ-EITC were asked to provide the division with supplemental documentation such as Social Security cards, IRS account transcripts, W-2's, 1099's, pay stubs, and birth certificates to substantiate their EITC claim. In reply to OLS Discussion Point #17 in the FY 2014-2015 Department of the Treasury Budget Analysis, the division reported that it sent notices to 145,168 Tax Year 2011 EITC claimants, or 25 percent of all claimants. Some 34 percent of recipients responded to the notices and 49,229 respondents provided sufficient information for the division to approve or adjust the EITC payment.

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The division also provided statistics, reproduced in the table below, on the number of EITC claims filed, paid, and rejected or withheld pending the receipt of additional information. As a result of the fraud screening initiative, the number of EITC filers whose claims have been rejected or held in abeyance spiked in Tax Year 2011 and has since held at a relatively elevated level. For Tax Year 2011, for instance, some 578,337 tax filers claimed EITC benefits, but only 469,401 received credits as of the division's discussion point reply, while the claims of the other 108,936 filers were either denied or still pending. According to the division, the number pending are those tax filers who were sent a notice requesting additional information but who have not yet responded, or have responded and are under review; however, the division anticipates that a "very low" number of claims will convert from "pending" to paid.

Tax Year	EITC Claims Filed	EITC Claims Paid	EITC Claims Rejected or Pending
2007	490,164	462,271	27,893
2008	500,260	470,358	29,902
2009	543,408	508,258	35,150
2010	545,030	492,025	52,005
2011	578,337	469,401	108,936
2012	570,952	471,419	99,533
2013	486,221	404,326	81,895

New Jersey is not alone in pursuing enforcement efforts within its EITC program. Research indicates that other nearby states, including Connecticut and New York, implemented their own screening processes around the same period. Indeed, evidence of overpayment of EITC credits due to either error or fraud has been widely reported by the Internal Revenue Service since at least the late 1990's. And, in its most recent report, dated December 2014, the Treasury Inspector General (TIG) for Tax Administration at the United States Department of Treasury estimated an error rate in the federal EITC program of between 22 percent and 26 percent for the 2013 Fiscal Year, costing the federal Treasury between $13.3 billion and $15.6 billion.

- **Questions: Please provide an update on the division's EITC fraud prevention efforts. Has the number of claims converting from "pending" to "paid" been in line with division expectations for TY 2012 and TY 2013? At what point are claims which are pending considered "closed" if the taxpayer does not respond to the division's request for supplemental documentation? Of the number of pending claims outstanding for TY 2011, TY 2012, and TY 2013 what amount, in accordance with GAAP principals, was accrued in FY 2013 and FY 2014 to account for refund claims? When and on what basis will such accruals be reversed? Since inception of the division's enforcement efforts in TY 2011, and updated through April 2015, what number and percentage of EITC claimants, by tax year, have received letters requesting additional information? What number and percentage of claimants were able to provide the information requested by the division? Have the criteria used to determine which claimants receive letters evolved since TY 2011?**

- **For all years since Tax Year 2007, please update the number of EITC claims: a) filed, b) paid, and c) rejected or pending.**

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17. In preparation for a July 2015 launch of its **proposed Arm's-Length Adjustment Service program, the Multistate Tax Commission (MTC)** requests that states commit to their program participation for an initial four-year period by April 30, 2015. Reportedly, New Jersey was one of nine states that spearheaded the development of the proposed service as members of the MTC's Arm's-Length Adjustment Service Advisory Group.

The proposed program is intended to pool state resources to develop staff analytical capabilities and procure outside expertise for more effective audits of complex multijurisdictional taxpayer transfer pricing documentation. (Transfer pricing is a technique that allows a corporate income taxpayer to minimize its overall tax burden by shifting income among related entities and across tax jurisdictions through prices the related entities charge one another for goods and services.) Program participants will be able to: a) select cases for related party and transfer pricing analysis by the service program; b) have staff participate in training activities; c) exchange information with other states; and d) request assistance in developing and resolving cases, improving compliance processes, and defending assessments on appeal. Each state's participation cost would vary depending on a state's service use, the total number of participating states, and the overall size of the state's general corporate tax revenues. Assuming ten participating states, the commission estimates that a state's annual cost would range from $140,000 to $380,000. But the MTC also projects that the ten assumed participants would see their combined tax collections climb by more than $110 million over the program's initial four-year period.

The MTC is an intergovernmental state tax agency that works on behalf of states to administer tax laws that apply to multistate and multinational enterprises. The commission: a) facilitates the proper determination of State and local tax liabilities of multistate taxpayers; b) promotes uniformity or compatibility in significant components of state tax systems; c) facilitates taxpayer convenience and compliance in tax administration; and d) avoids duplicative taxation. As a sovereignty member, New Jersey regularly participates in and provides financial support for the commission's general activities.

- **Questions: Please describe the scope of the Division of Taxation's participation in the development of the proposed Multistate Tax Commission's Arm's-Length Adjustment Service program. Will the division participate in the proposed program? What are the State's estimated cost and revenue implications of joining the program?**

18. In April 2014, the New Jersey Superior Court's Appellate Division affirmed a Tax Court judgment that allowed a nonresident limited partner to file for a corporation business tax refund even though the nonresident limited partner refused to submit to New Jersey's jurisdiction to tax income from an interest in a limited partnership operating in New Jersey (BIS LP, Inc. v. Director, Div. of Taxation, 2014 N.J. Tax LEXIS 6 (App.Div. Apr. 11, 2014)). Underlying litigation had already allowed the nonresident limited partner to avoid corporation business tax liability for its sole source of income, a 99 percent limited partnership interest operating in New Jersey. In response to this case, New Jersey enacted P.L.2014, c.13, which newly **required nonresident partners to file a tax return as a prerequisite to receiving refunds related to partnership activities in New Jersey**. The Department of the Treasury estimated informally at

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the time that the new requirement would result in an additional $40 million in FY 2015 State tax collections.

- **Questions: What is the status of the BIS LP, Inc. litigation? Does the Division of Taxation anticipate further litigation concerning the determination of the status of nonresident limited partners for purposes of the jurisdiction to tax?**

- **How has the division's workload changed following the implementation of P.L.2014, c.13's new requirement that nonresident partners must file tax returns as a prerequisite to receiving refunds related to partnership activities in New Jersey? How many additional tax returns has the division had to process because of the law change? Does the division maintain its prior estimate that the new filing requirement will increase FY 2015 State tax collections by $40 million?**

19. In September 2011, the Office of the State Auditor published its audit report on the Division of Taxation, Generic Tax System (GENTS). In the report the State Auditor recommended that the Divisions of Taxation and Revenue and Enterprise Services strengthen the tax administration system of internal control by routinely reconciling data in GENTS with those in the Cash Receipt Accounting System (CRAS). The Division of Taxation uses GENTS to manage individual taxpayer accounts and the Division of Revenue and Enterprise Services uses CRAS in processing cash receipts for the Division of Taxation. The data in the two systems are currently not being systematically cross-checked so that no assurance is given that receipts recorded in GENTS have actually been received and deposited. Replying to OLS Discussion Point #16 in the FY 2013-2014 Department of the Treasury Budget Analysis, the Division of Taxation reiterated that although a data reconciliation process was not in place, transactional control reports between CRAS and GENTS were routinely generated. To upgrade internal control capabilities, however, the division was also working on a project in conjunction with the Division of Revenue and Enterprise Services, the Office of Information Technology, and a vendor that would permit an automatic CRAS/GENTS reconciliation but whose objective was ultimately more far-reaching. Notably, the partners were **developing a proof of concept that would allow for the tracking of payment data and associated payments as they cascade through the State's tax filing and financial recordkeeping systems**. If successful, this tool would readily identify any inconsistencies across the disparate systems. A proof of concept is usually a small-scale realization of an idea to demonstrate its feasibility and usefulness. In response to OLS Discussion Point #11 in the FY 2014-2015 Department of the Treasury Budget Analysis, the Division of Taxation updated that the department had delayed the proof of concept's development until after the conclusion of the tax year 2013 tax return processing season so as to accommodate other priorities.

- ***Questions:*** **Please provide a status update on the development of the proof of concept that would allow for the tracking of payment data and associated payments as they cascade through the State's tax filing and financial recordkeeping systems. Has the proof of concept been developed? If so, what were the determinations as to its feasibility for full implementation? Will a full-fledged tracking system be developed? If so, by what date should the system be operational and what is the project's cost estimate? If the proof of concept has not been completed, by what date**

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does the division anticipate its completion? If there are no plans for a full-scale realization of the tracking system, please explain the reason(s) for sidelining it.

20. Created in April 2011, the **Office of the Taxpayer Advocate (OTA)** in the Division of Taxation is to help enhance voluntary compliance with tax laws by simplifying tax administration procedures and assisting taxpayers. Specifically, it is intended to identify systemic tax administration problems encountered by taxpayers and recommend administrative and legislative solutions. The office is also to assist taxpayers who: a) face a threat of immediate adverse action for a disputed tax liability; b) believe that they did not receive adequate notification of the division's actions or that the division's actions are unwarranted, unfair or illegal; c) suffer or are about to suffer "undue hardship" resulting from the division's administrative actions or d) have experienced a delay of more than 75 days in their quest to resolve a tax account problem or obtain a response to an inquiry from the division. The OTA clarifies on its website, however, that it does not handle inquiries involving the New Jersey Earned Income Tax Credit (EITC). In reply to OLS Discussion Point #18 in the FY 2014-2015 Department of the Treasury Budget Analysis, the office explained that the exclusion stemmed from the expectation that EITC case acceptance might crowd out the office's ability to assist taxpayers in non-EITC cases, considering the substantial volume of disputed EITC claims. Moreover, the office feared being ineffective, given that the Division of Taxation group handling EITC cases faced such a large case inventory that it would not have the spare capacity to assist the OTA.

The OTA received requests for assistance from 640 taxpayers in FY 2013 and FY 2014 through April, of which 548 requests met the office's case acceptance guidelines, according to the OTA's reply to last year's OLS Discussion Point #18. At the time of the response only seven of the cases remained still open and the office had closed another eight without a resolution. In all, since July 1, 2012 through the date of the discussion point reply, about 61 percent of all cases involved the gross income tax, 18 percent the corporation business tax, and 11 percent the sales and use tax with all other taxes combining for the remaining 20 percent. As an outgrowth of its interactions with taxpayers the OTA identified and reviewed several systemic issues in the year prior to its discussion point answer and made recommendations regarding, among others: 1) the alleviation of taxpayer confusion on the corporate dissolution process and related corporate business tax filing requirements; 2) inconsistencies in the penalties and interest calculation information provided to taxpayers; and 3) the Division of Taxation occasionally billing taxpayers for corporation business tax liabilities that were older than ten years and hence no longer legally collectible. In addition, the OTA reported reviewing with a "plain language" mandate more than 300 notices in FY 2014 that the Division of Taxation routinely sends out to taxpayers.

The OTA is funded out of the Division of Taxation's operating budget. According to the OTA's response to OLS Discussion Point #18, it has recently experienced staff reductions. At its inception in 2011, the OTA had four full-time positions with a chief fully committed to the OTA. By FY 2015, the office was expected to have three full-time positions including a chief who, subsequent to a promotion, was allocating less than 20 percent of her time to the OTA. Accordingly, the OTA's annual salary expenditures were to fall from $312,000 in FY 2012 (the

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OTA's response to OLS Discussion Point #9 in the FY 2012-2013 Department of the Treasury Budget Analysis) to $182,000 in FY 2015.

- **Questions: Please describe the Office of the Taxpayer Advocate's (OTA) activities in FY 2014 and FY 2015 to date. How many taxpayers have contacted the OTA in FY 2014 and FY 2015 to date? How many cases has the OTA accepted for assistance in FY 2014 and FY 2015 to date and how many cases has the office closed? What taxes have produced the most requests for OTA assistance in FY 2014 and FY 2015 to date? For the last 12 months, please indicate: a) the systemic tax administration problems encountered by taxpayers that the OTA has identified; b) the recommendations the OTA has made to rectify them; and c) the changes in tax laws, rules, and regulations that have actually been made subsequent to OTA recommendations.**

- **What are the OTA's budget and position count for FY 2015? Are any budgetary or staffing changes anticipated in FY 2016? Please comment on the impact on office operations of having reduced the full-time position count from four, including a chief fully committed to the OTA, to three with a chief who devotes less than 20 percent of the chief's time to the OTA. Has the OTA's workload allowed for the staffing reduction without any adverse effects on office performance and output? Is a case backlog developing? What is the average response time in replying to taxpayer requests for assistance? Has the OTA changed its priorities, procedures, and workflow in response to the staffing reduction?**

21. The contours of the Governor's proposed FY 2016 **New Jersey Homestead Property Tax Credit program** (N.J.S.A.54:4-8.57 et seq.), renamed the **Homestead Benefit Program** by the Administration, are unchanged from FY 2015. Overall, the Executive estimates that 695,300 homeowners would collect an average $480 benefit in FY 2016, after 771,700 homeowners collected an average $470 rebate in FY 2015. Although the program's eligibility criteria have not changed since FY 2010, the number of claimants fell by 220,300, or 22.2 percent, from 992,000 in FY 2010 to 771,700 in FY 2015. Some 44,200 fewer seniors, or 8.6 percent, participated in the program in FY 2015 (469,800 participants) than in FY 2010 (514,000 participants). But the more significant decline transpired among non-seniors whose participation dropped by 176,100 claims, or 36.8 percent, from 478,000 claimants in FY 2010 to 301,900 in FY 2015. For all claimants combined, the Administration projects a further 9.9 percent contraction in FY 2016 to 695,300 participants. In response to OLS Discussion Point #17 in the FY 2012-2013 Department of the Treasury Budget Analysis, the Treasury conveyed that its own analysis suggested that bracket creep was the primary driver of the erosion in program participation. Especially the incomes of many former non-senior participants had grown beyond the $75,000 eligibility threshold.

Under the program's statutory structure, a homeowner's credit amount is based on the homeowner's gross income and the homeowner's property taxes paid in the last calendar year up to $10,000. Credits equal 20 percent of allowable property taxes paid up to $10,000 for incomes up to $100,000, 15 percent of allowable property taxes paid up to $10,000 for incomes over $100,000 up to $150,000, and 10 percent of allowable property taxes paid up to $10,000 for incomes over $150,000 up to $250,000. A homeowner who is disabled, blind or

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65 years of age or older receives the higher of the payment to which the homeowner is entitled under the above schedule or an amount equal to the amount by which property taxes paid in a tax year exceed five percent of the claimant's gross income subject to the following ranges: if the gross income is not over $70,000 the claimant receives a $1,000 to $1,200 benefit, if the gross income over $70,000 but not over $125,000 the claimant receives a $600 to $800 benefit, and if the gross income is over $125,000 but not over $200,000 the claimant receives a $500 benefit. Statutory tenant rebates in FY 2016 are $150 for all tenants with incomes up to $100,000, with tenants who are blind, disabled or 65 years of age or older with incomes not exceeding $70,000 receiving up to $850.

Relative to statutory provisions, the Governor's FY 2016 Budget proposes to: a) eliminate rebates for non-senior homeowners with incomes above $75,000 and senior homeowners with incomes above $150,000; b) reduce rebates from 20 percent to 10 percent of property taxes paid up to $10,000 for senior homeowners with incomes not exceeding $100,000 and for non-senior homeowners with incomes not exceeding $50,000; c) reduce rebates from 20 percent to 6.67 percent of property taxes paid up to $10,000 for non-senior homeowners with incomes between $50,000 and $75,000; d) reduce rebates from 15 percent to 5 percent of property taxes paid up to $10,000 for senior homeowners with incomes between $100,000 and $150,000; e) eliminate the alternative benefit computation under which claimants who are disabled, blind or 65 years of age or older receive the higher of the payment to which they are entitled under the above schedule or an amount equal to the amount by which property taxes paid in a tax year exceed five percent of the claimant's gross income subject to the ranges indicated in the above paragraph; and f) maintain 2006 property taxes, as opposed to tax year 2014 property taxes, as the basis for calculating homestead benefits. The Governor also proposes continuing the elimination of the homestead property tax rebate program for tenants.

- ***Questions:*** **Has the Division of Taxation refined its analysis of the reasons for the 22.2 percent drop in Homestead Property Tax Credit program participation from 992,000 participants in FY 2010 to 771,700 in FY 2015? If so, please set forth any available quantification of the bracket creep hypothesis and any other explanatory variable(s) that may be tied to the impact of economic and credit market conditions on the incidence of homeownership among concerned income groups.**

- **For FY 2015 Homestead Property Tax Credit distributions, please provide the following data for the senior and non-senior homeowner populations: 1) distribution of rebates by income brackets and 2) distribution of rebates by rebate amounts.**

22. On November 14, 2007, the United States Government Accountability Office (GAO) released a report on **tax evasion by Medicaid providers** (<u>Medicaid: Thousands of Medicaid Providers Abuse the Federal Tax System</u>, GAO-08-17). The GAO found that over 30,000 Medicaid providers in seven selected states (New Jersey was not included in the sample), or over five percent, had federal tax debts totaling over $1 billion as of September 30, 2006. The unpaid taxes mostly consisted of individual income and payroll taxes. The GAO noted further that the federal government and the seven states surveyed had no process for screening health care providers for unpaid taxes and hence did not bar health care providers with tax debts from enrolling in or receiving payments from Medicaid.

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In response to OLS Discussion Point #10 in the FY 2008-2009 Department of the Treasury Budget Analysis, the division related that it did not have a database of Medicaid providers. Consequently, it was unable to screen the providers for unpaid taxes. Even so, the division intended to begin discussions with the Division of Medical Assistance and Health Services in the Department of Human Services to identify and to resolve any legal issues that might impede the exchange of provider information for tax administration purposes. If successful, the Division of Taxation could then provide information to the Medicaid program on medical providers who have unpaid State taxes so that the Medicaid program may terminate such providers from the program or withhold Medicaid reimbursements until resolution of the tax matter. Replying to OLS Discussion Point #17 in the FY 2013-2014 Department of the Treasury Budget Analysis, the Division of Taxation stated that the initiative was still ongoing and that a high-level meeting between the two divisions took place on this matter on April 5, 2013. The Division of Taxation related further that it was statutorily restricted from disclosing confidential tax information to outside parties. Therefore, it would have to perform the data match of Medicaid providers against outstanding tax liabilities. To enable the data match the Division of Medical Assistance and Health Services would have to provide the Division of Taxation with a listing of Medicaid providers and relevant identifying details. A year later, the division reported no progress on the project in addressing OLS Discussion Point #20 in the FY 2014-2015 Department of the Treasury Budget Analysis.

- ***Questions:*** **Have the Division of Taxation and the Division of Medical Assistance and Health Services in the Department of Human Services concluded their discussions concerning the exchange of information on medical providers so that the Medicaid program may terminate providers with unpaid State tax liabilities from the program or withhold Medicaid reimbursements until resolution of the tax matter? If so, what has been the outcome of the deliberations? If not, what are the stumbling blocks that stand in the way of implementing the information exchange?**

23. The Division of Taxation publishes an annual *Statistics of Income* report based on gross income tax returns filed with the division. The personal income report includes a wealth of information, such as the number of returns filed, the distribution and source of income, and the total cost to the State of assorted exemptions, tax credits and deductions. In contrast, the division does not disclose similar aggregate **Corporation Business Tax (CBT) filing data**. In response to OLS Discussion Point #18 in the FY 2013-2014 Department of the Treasury Budget Analysis, the division did, however, provide some summary information on tax year 2011 CBT filings, including an indication that 93.3 percent of CBT filers paid only the statutory minimum tax amounts (100,521 out of 114,742 C corporation filers, or 87.6 percent, and 100,257 out of 100,359 S corporation filers, or 99.9 percent, paid statutory minimum amounts). A year later, in answering OLS Discussion Point #21 in the FY 2014-2015 Department of the Treasury Budget Analysis, the division noted that it was working to resolve several CBT data issues and that it would provide tax year 2012 CBT statistics at a later date pending the data defects' resolution.

- ***Questions:*** **For tax years 2012 and 2013, please indicate: a) the number of corporation business tax (CBT) return filers, segregated into at least five net income**

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brackets; b) the total net income that taxpayers in each bracket declared; c) the total amount of tax they were charged; and d) the effective tax rate for each bracket. What was the number and percentage of CBT return filers paying the statutory minima? Please break out the number of S corporations paying the statutory minima. Please describe the CBT data issues that needed to be resolved and indicate whether they been corrected.

DIVISION OF REVENUE AND ENTERPRISE SERVICES

24. The processing of tax documents and payments is one of the core responsibilities of the Division of Revenue and Enterprise Services. FY 2013 marked the first year in which **private-sector contractors were fully responsible for the pre-processing of mailed paper gross income tax returns and payments as well as related data entry and verification services**. PRWT Services Inc. of Philadelphia, PA pre-processed the paper returns and payments and delivered them to designated State processing centers. Data Entry Company of Bethesda, MD then took possession of the pre-processed returns and performed data entry and verification services. In reply to OLS Discussion Point #24 in the FY 2014-2015 Department of the Treasury Budget Analysis, the division held that contracting for paper tax return mail processing and data entry services was beneficial. Relative to performing the functions in-house, contracting allowed the division to save $36 per batch of data-entered items and $0.42 per processed mail item plus unspecified savings from lease consolidation. Moreover, the contractual arrangement allowed for efficiency-favoring scalability. If the division were to perform the functions in-house, it would have to hire staff who would get paid irrespective of workload flows. The contractors, however, only get paid based on actual use. The division related that the two contractors received $2.6 million in FY 2012, $3.3 million in FY 2013, and were anticipated to be paid $4.1 million in each of FY 2014 and FY 2015.

In FY 2013, the processing of tax year 2012 paper gross income tax returns, refunds, and payments experienced atypical multi-month delays. In answering last year's OLS Discussion Point #24, the division related that the processing difficulties stemmed to a significant extent from the replacement of the division's 16-year old tax return and payment processing platform. As it turned out, not all of the new platform's automated applications were available on time so the division had to employ labor-intensive and time-consuming manual data entry programs to process paper returns. But the division also noted that the performance of the mail receipt and pre-processing services vendor (PRWT Services Inc.) fell short of expectations and added to processing delays. Conversely, the division rated the performance of the data entry contractor (Data Entry Company) highly. The division also related that FY 2014 tax return processing operations went more smoothly.

The three-year contracts with PRWT Services Inc. (State Contract T-2774 for "Front End Mail Receipt & Pre-Processing Service — Division of Revenue") and Data Entry Company (State Contract T-2775 for "Data Entry/Verification Services") expired on December 31, 2014. Both contracts allowed for two optional one-year extensions. The division extended the Data Entry Company contract for one year, but did not do so with the PRWT Services Inc. contract. Instead, it initiated a competitive bidding process for the latter contract in December 2013 and

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awarded it to SourceCorp BPS Inc. of Dallas, TX, effective on January 1, 2015 (State Contract T-2774 for "Front End Mail Receipt & Pre-Processing Services - DORES").

- ***Questions:*** **Please present the reasons for which the Division of Revenue and Enterprise Services did not extend the mail processing contract with PRWT Services Inc. and instead awarded the contract to SourceCorp BPS Inc. Did problems with PRWT Services Inc. persist in the FY 2014 tax return processing season? If so, what were the problems? Has the transition to SourceCorp BPS Inc. been seamless and is the vendor meeting expectations in the FY 2015 tax return processing season? Does the division still save $0.42 per processed mail item with the new vendor relative to performing the function in-house? Does the division anticipate extending the contract with Data Entry Company for a second year? What payment amounts did the mail processing and data entry contractors receive in FY 2014 and are expected to receive in FY 2015 and FY 2016? How is the FY 2015 tax return processing season progressing?**

25. P.L.2008, c.24 statutorily centralized the **non-tax debt management** functions for State government in the Division of Revenue and Enterprise Services; Office of Management and Budget Circular Letter 13-11-OMB, Statewide Non-Tax Debt Collection and Write-Off, in turn, details the general non-tax debt management policy. At the end of FY 2014, the division actively managed $603.0 million of outstanding non-tax debt. FY 2014 non-tax debt collections were $12.2 million in FY 2014 and the collection rate equaled 9.9 percent.

The division outsources the collection of non-tax debt to contractors. After a State agency transferred non-tax debt to the division a first referral debt collector has twelve months to collect it. Any amount still owed after the twelve-month period is transferred to a second referral non-tax debt collector. The division paid its non-tax debt collection contractors $984,000 in FY 2011, $889,000 in FY 2012, and $671,000 in FY 2013, according to its reply to OLS Discussion Point #26 in the FY 2014-2015 Department of the Treasury Budget Analysis.

In the FY 2013 annual report on New Jersey's centralized non-tax debt collection program, the division divulged that it intended to engage a new **second referral non-tax debt collection contractor**. The new contract would include a revised contingency fee arrangement that would make it financially viable for third-party debt collectors. In the past at least one firm, NCO Financial Systems, Inc., had stopped working on second referral cases because it suffered financial losses in attempting to collect the debt (see the FY 2009 annual report on New Jersey's centralized non-tax debt collection program). Furthermore, in reply to last year's OLS Discussion Point #26, the division noted that its first referral contractor also performed second referral debt collection functions pending the engagement of a new second referral debt collector. Subsequently, the Division of Purchase and Property issued Request for Proposal (RFP) 15-X-23677 for "Second Referral Non-Tax Debt Collection Services, DORES" on February 12, 2015 with a bid submission deadline of April 16, 2015. The RFP indicates in an attachment that the oldest non-tax debt case involves $60 and dates from 1944. The second oldest case dates from 1973.

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- ***Questions:*** **Please indicate the amount the Division of Revenue and Enterprise Services paid its non-tax debt collection contractors in FY 2014. Please provide a progress update on RFP 15-X-23677 for "Second Referral Non-Tax Debt Collection Services, DORES." How many bids has the division received in response to the RFP? Has the contract been awarded? If so, who is the contractor and what are the terms of payment to the vendor? How do the terms of payment differ from those of: a) the previous second referral non-tax debt collection contract, and b) the current first referral non-tax debt collection contract? If no contract has been awarded to date, please indicate by what date the division anticipates awarding the contract.**

- **Please describe the origin of the $60 in non-tax debt that dates from 1944. For what reason(s) is the debt still active and has not been written off?**

26. The State Auditor noted several **shortcomings in the operations of the Commercial Information Services Bureau** in its December 2014 audit of the bureau. Two weaknesses concerned notary public commissions and Small Business Enterprise designations.

First, the bureau awards five-year notary public appointments on behalf of the State. There were 121,750 active notary public commissions, as of October 6, 2014. Notary publics serve as impartial witnesses in performing a variety of official fraud-deterring acts related to the signing of important documents. After a random sample of 300 active notary publics yielded five officials who had not reported criminal convictions, the State Auditor criticized that the bureau relied on notary public applicants to self-attest their criminal history. Consequently, the **State Auditor recommended that the bureau perform some level of criminal background checks for all notary public applicants**. In its audit reply, the Division of Revenue and Enterprise Services stated that until June 2014 it was not operationally feasible to conduct criminal background checks of applicants on account of a paper-based application system. But, as of June 2014, the division operated a fully automated, web-based system, which could provide the foundation for conducting online criminal background checks pending the resolution of three issues: a) does the division have the legal authority to conduct criminal background checks; b) does it have the legal authority to require applicants to provide their Social Security numbers to facilitate the checks; and c) since the current $25 notary public application fee would be insufficient to cover the cost of criminal background checks, who would cover the checks' estimated $25 to $60 cost?

Second, the bureau also processes and awards Small Business Enterprise certifications, which entitle businesses to compete for State contracts under the State's set-aside program for small businesses and minority- and women-owned businesses. But, as the State Auditor admonished, the bureau currently did not confirm the accuracy of businesses' self-reported information through either database interfaces or follow-up audit procedures. Therefore, the **State Auditor recommended that the bureau verify the eligibility of businesses that receive the Small Business Enterprise designation.** In its audit reply, the division stated that it planned to automate the business registration check in calendar year 2015.

- ***Questions:*** **Please provide a status update on the Division of Revenue and Enterprise Services' feasibility study of the division conducting online criminal**

Discussion Points (Cont'd)

background checks on notary public applicants. Does the division have the legal authority to perform such checks? Can it require applicants to submit their Social Security Numbers for that purpose? Who would bear the background checks' cost? If applicable, by what date does the division expect to implement a criminal background check program for notary public applicants?

- **Has the division automated the business registration check for Small Business Enterprise designation applicants? If not, please indicate the date by which the division anticipates doing so.**

27. The Office of Treasury Technology (OTT) provides information technology services and support to the Department of the Treasury and agencies supported by the department. According to the Division of Revenue and Enterprise Services' response to OLS Discussion Point #26 in the FY 2014-2015 Department of the Treasury Budget Analysis, the division assumed jurisdictional control of the OTT from the department's Division of Administration in FY 2013. The administrative logistics of the realignment were completed effective in FY 2014. According to the Division of Revenue and Enterprise Services, the reorganization was to consolidate facilities, enhance the overall performance of the division as well as the OTT, and leverage staff and equipment more effectively.

Within the division, the OTT was first organized as a revolving fund. A revolving fund finances the operations of an intragovernmental service agency that bills client agencies for the goods and services it provides to them. According to the division's response to last year's OLS Discussion Point #26, the revolving fund financed 100 percent of the OTT's operations, including its 96 positions. Page C-24 in the FY 2016 Governor's Budget thus shows $12.7 million in actual "Treasury Technology Services" revolving fund revenues in FY 2014. But there are no anticipated equivalent revenues in FY 2015 and FY 2016. Instead, page C-15 in the FY 2016 Governor's Budget indicates that the Administration anticipates $3.4 million in dedicated, off-budget revenue in each of FY 2015 and FY 2016 for "Treasury Technology Services." In light of the apparent **discontinuation of the revolving fund to finance the Office of Treasury Technology**, it is unclear to what extent the office's operating expenses are part of the division's FY 2015 and FY 2016 budgeted expenditures.

- **Questions: Please present the rationale for discontinuing the revolving fund to finance the operations of the Office of Treasury Technology (OTT). Please indicate the OTT's anticipated resources and expenditures for FY 2015 and FY 2016 and detail where in the FY 2016 Governor's Budget they are allocated. What revenues does the $3.4 million in anticipated FY 2016 dedicated, off-budget revenue for "Treasury Technology Services" capture? How many funded "on-budget" and "off-budget" positions does the office have in FY 2015 and is anticipated to have in FY 2016?**

- **Please describe the initiatives the OTT has undertaken in FY 2015 and intends to undertake in FY 2016. Please delineate all operational changes the Division of Revenue and Enterprise Services has implemented at the OTT since taking jurisdictional control thereof. Has the division altered the services the OTT provides to client agencies?**

Discussion Points (Cont'd)

DIVISION OF INVESTMENT

28. The State Investment Council (SIC) adopts investment policies and procedures for the **various State public employee retirement funds** and functions like a board of directors in overseeing the Division of Investment. The division, in turn, implements the council's investment policies and runs the day-to-day operations of the portfolio. For each fiscal year, the SIC adopts within a regulatory framework an **asset allocation plan** that sets targets for the percentage of the portfolio that ought to be invested in specific asset classes, such as fixed income and domestic equities. The table below displays FY 2014 and FY 2015 target allocations, as well as the actual allocation on December 31, 2014, according to the New Jersey Division of Investment, December 2014 "Investment Reporting Package." As of December 31, 2014, the State retirement funds had an aggregate value of $76.8 billion.

The division continues to invest a gradually increasing share of the portfolio in alternative assets (hedge funds, private equity, real estate, and commodities). On December 31, 2011, some 21.0 percent of the portfolio was invested thusly; on December 31, 2012, some 24.8 percent; on December 31, 2013, some 25.2 percent; and on December 31, 2014, some 28.4 percent, or $21.8 billion. The long term target is 33.2 percent, according to the division's answer to OLS Discussion Point #23 in the FY 2013-2014 Department of the Treasury Budget Analysis. All these figures, however, fall under the 38 percent regulatory allocation ceiling for all alternative assets combined (N.J.A.C.17:16-69.9). The maximum allocation for hedge funds is 15 percent of the portfolio, for private equity firms 12 percent, for real estate nine percent, and for commodities seven percent.

Asset Allocation and Targets for Pension Funds (December 31, 2014)

Asset Class	Target Allocation *FY 2014*	Target Allocation *FY 2015*	Actual Allocation *(%)*	Actual Allocation *($ Million)*
Fixed Income	20.20%	18.75%	19.03%	$14,607.6
Alternative Assets:	27.50%	29.50%	28.35%	$21,779.7
Hedge Funds	*12.25%*	*12.00%*	*11.84%*	*$9,097.3*
Private Equity	*8.25%*	*9.25%*	*9.38%*	*$7,204.9*
Real Estate	*4.50%*	*5.25%*	*4.81%*	*$3,694.1*
Commodities	*2.50%*	*3.00%*	*2.32%*	*$1,783.4*
Domestic Equity	25.90%	27.25%	29.55%	$22,687.5
International Equity	19.20%	18.40%	16.75%	$12,863.2
Cash	6.00%	5.00%	5.13%	$3,935.3
Police & Fire Mortgages	1.20%	1.10%	1.18%	$903.7
TOTAL	100.00%	100.00%	100.00%	$76,776.8

In January 2005, the SIC adopted policies and procedures establishing the **Alternative Investment Program (AIP)** under which pension funds assets may be invested in private equity, real estate, commodities, and hedge funds. Private equity groups raise capital from institutional investors and wealthy individuals to either purchase companies or to further invest in companies they already run. Hedge funds, on the other hand, are private pools of capital that

Discussion Points (Cont'd)

are lightly regulated, often borrow to enhance returns, and pursue a myriad of investment strategies across various financial markets in the pursuit of returns that are not directly correlated with the performance of underlying financial markets. As of December 31, 2014, the division had placed $21.8 billion in the AIP. In all, it paid $518 million in management and performance fees for the AIP in FY 2014, $321 million in FY 2013, $192 million in FY 2012, $174 million in FY 2011, and $127 million in FY 2010. Replying to OLS Discussion Point #27 in the FY 2014-2015 Department of the Treasury Budget Analysis, the division indicated that through December 2013, the AIP's private equity program had a 9.63 percent internal rate of return since inception in July 2005 net of fees, the hedge fund program a 5.90 percent annualized rate of return since inception in April 2006 net of fees, and the real estate program a 2.91 percent internal rate of return since inception in December 2005 net of fees. From April 2006 through December 2013, the annualized rate of return of the domestic equity portfolio was 8.27 percent, of the fixed income portfolio 7.98 percent, and the international equity portfolio 2.82 percent.

- ***Questions:*** **Does the Division of Investment intend to revise the asset allocation plan for the remainder of FY 2015 or FY 2016? If so, please highlight any changes from the current plan and explain the rationale for the changes.**

- **Per AIP asset class, what have been the gross returns since the AIP's inception and what have been the returns net of management and performance fees paid to alternative investment firms? How do these rates of return compare with those of the pension funds' equity and fixed income portfolios?**

29. **Hedge funds have been contested as investment vehicles for public employee pension funds**. Advocates contend that hedge funds diversify pension fund portfolios and deliver returns that are not directly correlated with the performance of underlying financial markets. Detractors, on the other hand, demur that hedge funds charge relatively high management fees and have in recent years considerably trailed the most commonly referenced stock market indices. In fact, the HFRI Fund Weighted Composite Index of more than 2,000 hedge funds recorded average returns of 3.3 percent in calendar year 2014. In contrast, the S&P 500 was up by 11.4 percent and Barclays US Aggregate Bond Index by 6.0 percent. According to news reports, calendar year 2014 marked the sixth consecutive year that the S&P 500 outperformed average hedge fund returns, often by considerable margins. The relatively poor showing and high cost of hedge funds prompted the California Public Employees' Retirement System (CalPERS) to announce on September 15, 2014 that it would terminate within a year its entire hedge fund portfolio. In January 2015, the Netherlands' PFZW pension fund for public health workers announced their exit citing excessive costs, complexity, and a lack of performance.

New Jersey's public employee pension system's recent hedge fund experience mirrors national trends, as the table on the next page illustrates. It shows for each asset class in the Alternative Investment Program (the investment firm-managed hedge fund, private equity, real estate, and real asset portfolios): the total allocation as of June 30, 2014, FY 2014 fee payments to investment firms, fees paid per dollar invested, the FY 2014 rate of return, and the three-year as well as five-year annualized rates of return. For comparison purposes, the table also includes the rates of return for the asset classes that are either fully or mostly managed by Division of

Discussion Points (Cont'd)

Investment staff and the Dow Jones Industrial Average as well as the S&P 500. The New Jersey data are adopted from the State Investment Council Annual Report for 2014.

Alternative Investment Program (AIP) Performance and Fee Payments to Investment Firms

Asset Class	Allocation as of June 30, 2014	FY 2014 Management Fees	FY 2014 Performance Fees	FY 2014 Total Fees	FY 2014 Fees per $1 Invested	FY 2014 Rate of Return	3-Year Annualized Rate of Return	5-Year Annualized Rate of Return
AIP:								
Hedge Funds	$8,656,630,000	$93,100,000	$143,900,000	$237,000,000	$0.027	10.53%	7.08%	8.34%
Private Equity Funds	$7,358,950,000	$79,600,000	$91,300,000	$170,900,000	$0.023	24.14%	14.35%	16.39%
Real Estate Funds	$3,712,320,000	$37,200,000	$49,100,000	$86,300,000	$0.023	14.21%	11.86%	9.23%
Real Assets	$2,085,020,000	$14,600,000	$8,900,000	$23,500,000	$0.011	9.74%	-0.54%	4.36%
TOTAL AIP	**$21,812,920,000**	**$224,500,000**	**$293,200,000**	**$517,700,000**	**$0.024**	NA	NA	NA
Division of Investment:								
Domestic Equity	$21,450,300,000	NA	NA	NA	NA	25.45%	16.46%	19.36%
International Equity	$15,212,930,000	NA	NA	NA	NA	19.38%	3.70%	8.36%
Fixed Income	$15,755,470,000	NA	NA	NA	NA	7.66%	8.27%	9.45%
Cash	$6,098,340,000	NA	NA	NA	NA	NA	NA	NA
Police & Fire Mortgages	$890,000,000	NA	NA	NA	NA	NA	NA	NA
Total Pension Fund	**$81,219,960,000**	**NA**	**NA**	**NA**	**NA**	**16.87%**	**10.23%**	**12.37%**
Comparative Indices:								
Dow Jones	NA	NA	NA	NA	NA	12.86%	10.67%	14.78%
S&P 500	NA	NA	NA	NA	NA	22.04%	14.07%	16.40%

Hedge funds come in a multitude of forms with distinct investment techniques. Lightly regulated, they consist of private pools of capital, often borrow to enhance returns, and are partly paid on the basis of performance (the typical compensation model includes an annual management fee ranging from 1.5 percent to 2.5 percent of assets under management and a performance fee equal to 20 percent of investment returns). Their principle vocation is to produce returns that are not directly correlated with the performance of underlying financial markets. Their primary goal is therefore not to outperform the stock market during boom years.

- ***Questions:*** **Please share the Division of Investment's plans concerning hedge funds as investment vehicles for New Jersey's public employee pension funds. Is the division contemplating reducing or terminating its exposure to hedge funds in light of CalPERS' exit from the asset class and the hedge fund industry's relatively high remuneration standards as well as recent significant underperformance relative to domestic equity?**

30. In exercising its fiduciary duties, the Division of Investment makes use of its investor right to **cast votes by proxy in corporate meetings**. Replying to OLS Discussion Point #29 in the FY 2012-2013 Department of the Treasury Budget Analysis, the division stated that it voted according to its proxy voting guidelines so as to strengthen shareholder rights and promote good corporate governance practices. Every vote, however, is cast based on a case-by-case analysis and not the dogmatic application of the guidelines. In any event, the division's shareholder activism does not encompass social issues, as section b. of N.J.S.A.52:18A-89 requires the division's director "to manage and invest the portfolio [of the pension funds] solely

Discussion Points (Cont'd)

in the interests of the beneficiaries of the portfolio and for the exclusive purpose of providing financial benefits to the beneficiaries of the portfolio."

In addressing OLS Discussion Point #29 in the FY 2014-2015 Department of the Treasury Budget Analysis, the division furnished the "Fiscal Year 2013 Summary Proxy Voting Report" and the "State of New Jersey Division of Investment Proxy Guidelines." According to the "Fiscal Year 2013 Summary Proxy Voting Report," in FY 2013, the division voted 2,030 proxies and went against 1,526 individual proposals recommended by corporate management that were included in 900 of the 2,030 proxies. Most commonly, the division voted against management proposals concerning stock options or incentive or restricted stock plans as elements of non-salary compensation policies. Specifically, the division rejected plans diluting outstanding shares by more than 5 percent, offering stock at a discount, extending eligibility beyond employees and non-employee directors, and accelerating vesting provisions. The second most common vote against corporate management targeted proposals regarding capitalization, such as the issuance of additional shares, share buybacks, and capital increases.

Although identical to its FY 2012 iteration, the above ranking of the most common FY 2013 division proxy votes against corporate management marks a long-term change that is attributable to the enactment of the Dodd-Frank Wall Street Reform and Consumer Protection Act. Until FY 2010, the division's second most common type of votes against corporate management was the support of shareholder proposals seeking to impose shareholder votes on the compensation of executive officers ("say on pay"). But the Dodd-Frank Act newly required shareholders to cast non-binding advisory votes on the compensation of executive officers and on whether the "say on pay" ballot should be held every one, two or three years ("say on frequency"). The novelty of "say on frequency" votes made them the second most common instance in which the division voted against management proposals in FY 2011. In FY 2012 and FY 2013, though, division opposition to management on "say on pay" and "say on frequency" proposals became relatively rare. The division responded to OLS Discussion Points #26 in the FY 2013-2014 Department of the Treasury Budget Analysis and #29 in the equivalent FY 2014-2015 publication that its behavior change mirrored general shareholder behavior. Prior to the Dodd-Frank Act's institution of the non-binding "say on pay" vote, shareholders had frequently voted in retaliation against directors who served as members of a company's compensation committee. In FY 2011, FY 2012, and FY 2013, however, the number of directors who failed to receive majority shareholder support plummeted. Nevertheless, the division noted in reply to OLS Discussion Point #26 in the FY 2013-2014 Department of the Treasury Budget Analysis that the non-binding nature of "say on pay" votes did "not necessarily empower shareholders with respect to compensation." Moreover, the division believed that the overall impact of the non-binding votes "on executive compensation has been negligible." Consequently, division opposition to management-proposed remuneration packages could regain prominence in the future.

- ***Questions:*** **Please comment on the exercise of proxy voting rights by the Division of Investment in FY 2014. How many proxies did the division vote in FY 2014, how many management proposals did it vote against, and what areas did rejections of management proposals most commonly concern? Relative to FY 2011, FY 2012, and FY 2013, did the division revive in FY 2014 its proxy voting against a) corporate management on executive compensation arrangements and b) directors sitting on compensation committees? Has there been a policy change in the division's exercise**

Discussion Points (Cont'd)

of proxy voting rights since the beginning of calendar year 2014? Please indicate any changes the division has made since the beginning of calendar year 2014 to the "State of New Jersey Division of Investment Proxy Guidelines." Please submit a copy of the "Fiscal Year 2014 Summary Proxy Voting Report."

31. On November 21, 2013, the State Investment Council voted to **invest $300 million of the assets of the State public employee retirement funds in a separate account vehicle with Chatham Asset Management, LLC that will mimic the Chatham Asset High Yield Master Fund, Ltd**. The Division of Investment replied to OLS Discussion Point #29 in the FY 2014-2015 Department of the Treasury Budget Analysis that legal negotiations were still ongoing at the time regarding the proposed investment vehicle. The negotiations appear to have since been concluded, as the Division of Investment's December 2014 Investment Reporting Package shows an inception date of December 2014 for a $300 million "Chatham Fund, LP" hedge fund investment. However, the State had not yet made any contribution to the investment vehicle.

Chatham is also the largest owner of the bankrupt and closed Revel Casino in Atlantic City. The $300 million Chatham investment proposal therefore raised concerns that State pension funds might become exposed to the casino's failed performance. In the minutes of the November 21, 2013 council meeting, however, Division of Investment staff pointed out that Chatham was expected to divest its casino holdings by the time the pension fund investment in Chatham's hedge fund would close. As a result, no State pension funds were expected to be invested in the casino. In addition, the division reiterated in answering last year's OLS Discussion Point #29 that it did not intend to have any exposure to Revel Casino.

Revel Casino cost $2.4 billion to build and opened on April 2, 2012. After having failed to turn a profit, the casino's owners filed for Chapter 11 bankruptcy protection in June 2014, closed the casino on September 2, 2014, and have been attempting to sell the property since. New Jersey had pledged significant financial assistance to the project. In February 2011, the Economic Development Authority (EDA) approved an Economic Redevelopment and Growth Grant of up to $261.4 million to support the completion of the construction of the then-unfinished casino. The final grant amount would have equaled 75 percent of certain State tax collections the casino actually would have generated over 20 years. But the State has not made any grant payment because the casino did not generate sufficient revenues to qualify therefor, as the EDA related in reply to EDA Discussion Point #5 in the OLS FY 2014-2015 Department of the Treasury Budget Analysis. Moreover, the Casino Reinvestment Development Authority pledged the revenue it stood to collect under its agreements with the Revel Casino for the repayment of up to $50 million in bank loans whose proceeds were to be used for infrastructure improvements and redevelopment projects in the Atlantic City Southwest Inlet area adjacent to the casino.

In addressing last year's OLS Discussion Point #29 the division clarified that the proposed $300 million pension fund investment with Chatham was not connected to the firm's role as the largest investor in Revel Casino. The proposal was instead motivated by Chatham Asset High Yield Master Fund, Ltd.'s strong past performance, the terms negotiated by the division, and the investment needs of the State pension funds.

Discussion Points (Cont'd)

- *Questions:* **Please indicate by what date the Division of Investment anticipates placing the first State public employee retirement funds in the Chatham Fund, LP hedge fund. Is the division the sole investor in that fund? With the investment agreement concluded, please confirm that the Chatham Fund, LP investment will not, and does not have the potential to, expose the State public employee retirement funds in any way, even if marginally, to any investment losses Chatham may have incurred from its Revel Casino holdings.**

DIVISION OF PURCHASE AND PROPERTY

32. The Division of Purchase and Property is **transitioning from its nearly 25-year old mainframe-based information technology procurement system to a web-based electronic procurement system called NJSTART**, short for "State of the Art Requisition Technology." On May 1, 2014, the new vendor portal opened for registration at www.NJSTART.gov. In a May 2, 2014 press release, the Department of the Treasury announced that NJSTART was to be fully implemented by October 2014 and that following the system's launch vendors would only be paid if they were registered in the system. As of March 1, 2015, however, the internet portal does not yet appear to be fully operational. While businesses can register, the categories of "Registered Vendor Search," "Open Opportunities," "Active Contracts," and "Contract and Opportunity Search" remained inactive.

According to the Treasury's May 2, 2014 press release, the NJSTART portal is the result of a four-year dialogue between New Jersey's business community and the Division of Purchase and Property. The new portal is intended to streamline the procurement process and make it more efficient for both the State as well as businesses looking to contract with the State. Specifically, the portal would allow vendors to set up profiles and upload documents, which would eliminate the need to file duplicate forms every time they bid on a new contract solicitation. Moreover, the portal is designed to offer vendors an online "one-stop shop" from bid opportunity notification to the submission and tracking of quotes, certifications, contract awards, online invoices, and payments. In addition, NJSTART would allow vendors to access training manuals and reference guides. The Treasury also noted that other states, such as Arizona and Michigan, already ran similar eProcurement systems.

- *Questions:* **Please provide a status update on the NJSTART electronic procurement system. Was the portal fully operational by October 2014? If not, please share the reasons for the implementation delay and indicate the date by which the Division of Purchase and Property expects to run the new procurement system. How many vendor accounts have been created to date? Will the new system allow the public to research bid opportunities and contract awards without having to create an account?**

- **If NJSTART is fully operational, please comment on the division's experiences with the new eProcurement system. What was the new system's acquisition cost and will there be any ongoing payments to the vendor for the continued provision of services? Is the system performing as intended? Have staff productivity and the State's efficiency of the procurement process improved? Can any cost savings already be attributed to the new system? What problems has the division encountered with the new technology,**

Discussion Points (Cont'd)

if any, and what amount would have to be expended to correct the problems? What has been the feedback from the vendor community?

33. Standard purchasing procedures hinge on the awarding of contracts based on a formal, advertised, competitive bidding process. The **Delegated Purchasing Authority** (DPA) and **Request for Waiver of Advertising** (RWA) programs, to the contrary, exempt certain State agency purchases from the regular process. Agencies can only employ the two alternatives if they cannot procure a purchase transaction through a State contract, the State Distribution and Support Services Center, the Bureau of State Use Industries or the Central Non-profit Agency (CNA), ACCSES NJ. Of the roughly $1.8 billion the State spent on procurements in FY 2013, 21.5 percent, or $384 million, was expended under the DPA and RWA programs ($276 million, or 15.5 percent, for RWAs and $108 million, or 6.1 percent, for DPAs).

The DPA program covers State agency purchases valued at no more than $36,000, which threshold the Division of Purchase and Property increased from $29,000 effective July 1, 2010 pursuant to statutory authority (see N.J.S.A. 52:34-7 and N.J.A.C. 17:12-1A.2(b)). The table below summarizes basic DPA price solicitation requirements (see Division of Purchase and Property Circular Letter 11-10-DPP, Delegated Purchasing Authority (DPA)). To bypass the advertised competitive bidding process for a procurement whose price exceeds $36,000 a State agency must obtain the approval for an RWA from the Division of Purchase and Property and the Department of Law and Public Safety. Existing law sanctions RWAs if an agency has contacted at least three viable firms for price quotations and if a procurement is an emergency; the services to be performed are highly complex, technical, unique or specialized; or if only a single source of supply is available. The Department of Law and Public Safety reviews all RWAs so as to ascertain that they meet legal requirements. N.J.S.A. 52:34-8 et seq., N.J.A.C. 17:12-1A.2(f), and Division of Purchase and Property Circular Letter 11-14-DPP, Requests for Waivers of Advertising, set the legal framework for RWAs. The division reported in response to OLS Discussion Point #31 in the FY 2014-2015 Department of the Treasury Budget Analysis that the average processing time for an RWA was approximately 46 days at the time of writing the response (it was 75 days in FY 2009). It also noted that it declined 15 RWA requests in FY 2013 and that there were 11 known instances in FY 2013 in which State agencies engaged vendors prior to division approval of the RWA requests.

DPA Price Solicitation Requirements

Purchase Value	Solicitation Requirements
Up to $1,000	One Price Quotation
$1,000 to $17,500	Three Price Quotations
$17,500 to $36,000	Three Sealed Written Bids
Emergency	One Price Quotation

- ***Questions:*** **How many purchases for which total amounts were made, by State agency, under the Delegated Purchasing Authority (DPA) and the Request for Waiver of Advertising (RWA) programs in FY 2014? How do these figures compare to contracts awarded under the formal, advertised, competitive bidding process? What is currently the standard processing time for an RWA? In FY 2014 and 2015, how many RWAs did the Division of Purchase and Property decline? In how many**

Discussion Points (Cont'd)

instances did State agencies engaged vendors prior to division approval of the RWA in FY 2014?

34. The responsibility for the development of contract terms and contract management resides with contracting agencies. The Division of Purchase and Property runs only the purchasing process. Nevertheless, subsequent to the State Auditor's November 2007 report on the division that found that none of the contract managers in its sample had received any training, the division has taken a multi-pronged approach to ameliorating the **quality of contract management in State government**. Despite notable improvements, the division replied to OLS Discussion Point #30 in the FY 2014-2015 Department of the Treasury Budget Analysis that the effectiveness of the State's contract management continued to vary depending on several factors, such as the procurement's complexity and a contract manager's expertise, training, and ability to allocate an appropriate amount of time to contract management among competing responsibilities.

The development of contract management training programs has been a hallmark of the division's initiatives to enhance the State's contract management. In addressing OLS Discussion Point #21 in the FY 2009-2010 Department of the Treasury Budget Analysis, the division stated that all assigned contract managers were to take a newly implemented mandatory web-based State Contract Manager course and test in FY 2009, which cover State procurement law, policies, procedures, and efficient and effective procurement practices. In addition, the division continued to offer instructor-led State Contract Manager courses upon request. (Division of Purchase and Property Circular Letter 14-08-DPP, State Contract Manager, retains that policy.) In reply to OLS Discussion Point #33 in the FY 2012-2013 Department of the Treasury Budget Analysis, the division subsequently noted that it had also designated a senior staff member to head the training initiative, which newly incorporated insights from protests handled by the division and final agency decisions that were appealed to the Appellate Division of the New Jersey Superior Court. A year later, in addressing OLS Discussion Point #31 in the FY 2013-2014 Department of the Treasury Budget Analysis, the division added that while it did not intend to change the contract management training curriculum or require continuing education, many contract managers were now proactively contacting the division with questions and suggestions.

Furthermore, the division has over time assumed a limited oversight role vis-à-vis State agency contract managers. Notably, Division of Purchase and Property Circular Letter 14-08-DPP, State Contract Manager, states that it was the division's "intent to monitor State Contract Manager performance." To achieve that goal, the division assigned two of its contract administrators to overseeing all State contract managers who handle professional services contracts worth at least $1.0 million, according to the division's response to OLS Discussion Point #31 in the FY 2013-2014 Department of the Treasury Budget Analysis. To assist in the monitoring, the Circular Letter requires all contract managers for agency-specific contracts with an estimated value exceeding $1 million to file a biannual report with the division that identifies a project's status, timeliness, updated cost projections, and any other relevant performance issues. In addition, the Circular Letter notes that, upon a determination of deficient performance, the division would propose remedial action against the contract manager to the contract manager's employing agency.

Discussion Points (Cont'd)

- *Questions:* **Has the Division of Purchase and Property noticed any overall improvements in the State's contract management over the last five years? On what metrics and observations does the division base its assessment? Please detail any plans the Administration may have to further strengthen the State's contract management capacity. Does the division intend to expand its contract management training offerings and scope as well as depth of contract manager oversight? In how many cases over the last five years has the division proposed remedial actions against contract managers to the managers' employing agencies for deficient contract management performance? What State departments and agencies have been implicated and have they carried out the recommended remedial actions?**

35. Between July 1, 1998 and June 30, 2001, the State received $101.1 million in federal Medicaid funds for school-based health services claimed by school health providers under the **Special Education Medicaid Initiative (SEMI)**. In its May 18, 2006 audit of these claims, the Office of Inspector General in the United States Department of Health and Human Services recommended that New Jersey refund $51.3 million to the federal government after finding that 109 of 150 audited school-based claims had violated federal and State program guidelines. The State contested the findings. In its reply to OLS Discussion Point #32 in the FY 2012-2013 Department of the Treasury Budget Analysis, the Department of the Treasury conveyed that through the appeal process the United States Department of Human Services reduced its final reimbursement claim to $44.5 million. The State paid the amount in January 2012.

SEMI is a school-based federal Medicaid Title XIX reimbursement program that allows participating school districts to recover a portion of the costs for certain Medicaid-covered services provided to Medicaid-eligible pupils. The Department of the Treasury shares the administrative responsibility for operating SEMI with the Departments of Children and Families, Education, and Human Services. Specifically, Treasury serves as the contract manager for the billing agent whose responsibilities, in turn, include receiving and processing billing agreements and pupil registration information from school health providers; conducting Medicaid eligibility verification for registered pupils; and monitoring program compliance.

Maximus, Inc., served as the State's billing agent during the period covered by the federal $44.5 million refund claim. In response to the initial notification of disallowance, the Treasury did not release the $440,000 performance bond posted by Maximus and opined that it should seek to recover the contingency fees paid to the vendor on the final disallowed claim amounts, and, if possible, an additional amount for damages (department response to OLS Discussion Point #4 e. in the FY 2007-2008 Department of the Treasury Budget Analysis). In answering OLS Discussion Point #32 in the FY 2014-2015 Department of the Treasury Budget Analysis, the Treasury related that the Office of The Attorney General was ultimately seeking reimbursement from Maximus of the 3.5 percent commission the vendor was paid on the disallowed SEMI claims. The Treasury stated further that, at the time of the response, Maximus no longer served as the State's SEMI billing agent but still had two contracts with the State for other services, including arbitration and mediation services, and support and quality assurance services in connection with the Department of Human Services' now-cancelled Consolidated Assistance Support System (CASS) project. A year prior, in addressing OLS Discussion Point

Discussion Points (Cont'd)

#33 in the FY 2013-2014 Department of the Treasury Budget Analysis, the Treasury had noted that while N.J.A.C.17:12-6.3 (10) allowed for the debarment of a contractor for unsatisfactory performance, it could not debar Maximus for two reasons. First, the unsatisfactory performance had to have occurred within a reasonable time preceding the determination to debar. The unsatisfactory performance in this case, though, dates to 1998 to 2001. Second, the unsatisfactory performance had to have been caused by acts within the control of the debarred contractor. However, in this case Maximus was not solely responsible for the rejection of claims by the United States Department of Health and Human Services because some school districts had failed to properly document services eligible for reimbursement and because some services had been performed by providers who had been qualified under New Jersey Department of Education requirements, but not under federal Medicaid requirements.

- **Questions: Please provide a status update on the State's case against Maximus, Inc. seeking reimbursement of the 3.5 percent commission the vendor was paid on the $44.5 million the State had to reimburse the federal government for having filed claims in violation of federal and State Special Education Medicaid Initiative (SEMI) program guidelines. Will the State seek to recoup any additional amounts from Maximus or does the attempt to get back the commission payment constitute the only and final quest to secure reimbursement for damages sustained? Please detail the contracts under which Maximus is currently performing services for the State.**

DIVISION OF PROPERTY MANAGEMENT AND CONSTRUCTION

36. The Division of Property Management and Construction manages the real estate needs of State government. Its responsibilities include the leasing of office and warehouse space as well as the awarding of contracts for architectural, engineering, design, and construction services for State facilities and the management of the projects. It also provides State agencies with technical assistance in planning their real estate projects.

The Office of Information Technology (OIT) stated in its FY 2014 Annual Report that the Division of Property Management and Construction **replaced its legacy information technology system for tracking the State's real estate leases**. The new system went into service in May 2014 and supplanted the antiquated Lease Management Information System and the associated Subsidiary Account Management System. The OIT pointed out that it had helped the division procure and install the new, "proven," off-the-shelf, industry-standard, integrated system for managing the State's real estate portfolio.

- ***Questions:*** **Please comment on the Division of Property Management and Construction's experiences with the new lease management information technology system. How old was the previous lease management system and for what reasons did the division replace it with a more modern system? What was the new system's cost? What new capabilities and real estate portfolio management enhancements has the new system provided? Has staff productivity improved? Has the new system exposed any previously undetected inefficiencies in the State's real estate management practices that the division has since corrected? Can any cost savings already be attributed to the new system? What problems has the division**

Discussion Points (Cont'd)

encountered with the new technology, if any, and what amount would have to be expended to correct the problems?

37. In its December 2013 audit of the Division of Property Management and Construction, the Office of the State Auditor stated that the division's contractor prequalification and classification process, bid evaluation and contract award process, and contract management were adequate. Nevertheless, the State Auditor pointed to one **shortcoming pertaining to the prequalification and classification of firms seeking to perform construction services for the State**.

Firms must prequalify before they can bid on a State construction project. In order to receive a prequalification that is valid for 24 months a firm must submit comprehensive, multi-faceted information on its operations, including financial statements prepared by independent accountants. Since firms may submit the financial statements directly, however, they could alter or forge their accountants' documents. Indeed, among 35 sampled vendors the State Auditor found one whose independent financial statement appeared to have been altered. Wary of the submission of falsified financial documents the State Auditor thus recommended that the division require firms to have the preparers of their financial documents transmit them directly to the division. Apprehensive that this change would prolong the prequalification process, the division dismissed the idea in its audit reply. Instead, it intended to post a statement on its website that all information submitted by firms would be subject to verification and that any falsehoods would expose a firm to possible civil and criminal proceedings and disbarment from future work. In addition, the division intended to sample applicant materials to ascertain their accuracy. If the sampling revealed instances of strategic misrepresentation, the division would consider establishing a routine verification process in the future. In addressing OLS Discussion Point #35 in the FY 2014-2015 Department of the Treasury Budget Analysis, the division reported that it had since included the statement regarding false claims and disbarment on its website and in several locations on the prequalification application. But the division still had to commence the sampling of prequalification documents to ascertain their accuracy. It intended doing so by the end of FY 2014.

- **Questions: Please indicate whether the Division of Property Management and Construction has begun to sample and verify the accuracy of documents submitted by firms seeking to prequalify for State construction contracts. If so, what are the types and prevalence of any inaccuracies? Has the division initiated any debarment from future State work, or any criminal or civil proceedings, for false claims in a firm's prequalification materials? If the division has not yet started the sampling of applicant documentation, by what date does it intend doing so?**

OFFICE OF PUBLIC FINANCE

38. The Office of Public Finance (OPF) is responsible for issuing and managing all State-backed bonded debt. This task includes the temporal **structuring of the State's debt service payment obligations**. From a budgetary viewpoint, debt service payment requirements are

Discussion Points (Cont'd)

fixed costs in the State's operating budgets that crowd out other spending priorities for decades to come. Controlling year-over-year variances in this cost center is therefore an important contributor to budgetary stability. A level debt service payment schedule for the State's entire debt portfolio achieves this stability. An erratic aggregated payment schedule, to the contrary, introduces volatility into the State's budgeting, necessitating frequent and often sizeable adjustments to other accounts and depriving other policy objectives of sustained State funding.

State policies on the establishment of debt service payment schedules at the time of debt issuance are not clear. The individual debt service schedules in the FY 2014 State of New Jersey Debt Report suggest a preference for issuing indebtedness with a level debt service schedule. But other structures have been adopted as well. For example, the annual debt service payments under the *State Pension Funding Bonds, Series 1997A – 1997C* ($375 million of which were refinanced in 2003 as *State Pension Funding Variable Rate Refunding Bonds, Series 2003*) escalate over time from a little under $350 million in FY 2015 to about $500 million by FY 2023. In sum, the FY 2014 State of New Jersey Debt Report suggests that individual debt issuances are not primarily structured so as to equalize the State's total debt service payment stream over time. If they were, instead of being level, new debt service payment obligations would "wrap around" existing debt service to fill gaps between total annual debt service payment targets and the amounts thereof that have already been obligated. The following table displays the OPF's projected annual debt service payments supported by State revenues from FY 2014 through FY 2020.

Projected Annual Debt Service Payments Supported by State Revenues (in $ Millions)

FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
$3,080	$3,457	$3,985	$3,805	$3,948	$3,597	$3,402

- **Questions: Please describe the policies that govern the Office of Public Finance's structuring of debt service payment schedules when it formulates the terms of debt instruments it intends to issue. In issuing new indebtedness, what priority does the office assign to controlling fluctuations in annual debt service payment obligations across the State's entire debt portfolio? Does the office generally structure new individual debt issuances with debt service payment requirements that are level or that achieve an overall level debt service structure for the State's entire debt portfolio? Please provide a copy of the State's debt management policies.**

STATE CENTRAL MOTOR POOL

39. The Bureau of Transportation Services in the Division of Administration runs the **State Central Motor Pool (CMP)**. Operating as a revolving fund, the self-supporting CMP bills client agencies for the expenses it incurs in managing the State's motor vehicle fleet. Its responsibilities include vehicle purchasing, assignment, maintenance, repair, and fuelling. According to the Governor's FY 2016 Budget (page G-5), the State's estimated FY 2016 vehicle count is 14,450, some 41 vehicles more than in FY 2015. This total includes 8,100 vehicles on agency assignment whose maintenance expenses are accounted for separately in agencies'

Discussion Points (Cont'd)

budgets. The CMP expects to oversee the remaining 6,350 vehicles at an estimated FY 2016 cost of $30.8 million, about $1.3 million more than the adjusted FY 2015 appropriation and $320,000 more than actual FY 2014 expenditures. Replying to OLS Discussion Point #43 in the FY 2014-2015 Department of the Treasury Budget Analysis, the Division of Administration noted that the CMP had procured 494 new vehicles in FY 2014 through the date of its response at a $12.9 million cost. The FY 2013 equivalent was 798 new vehicles purchased for $28.4 million.

The Department of the Treasury has experienced mixed results in its recent attempts to generate cost savings in the management of the State passenger vehicle fleet through outsourcing initiatives. First, according to the FY 2012 Budget Summary, the State was expected to realize $4.0 million in savings in FY 2012 by privatizing the ownership and maintenance of all or a portion of the State passenger vehicle fleet. The initiative was abandoned in November 2011 after all five bid submissions to a May 2011 Request for Proposal (RFP) failed to fully meet the specifications of the bid solicitation, as the department indicated in response to OLS Discussion Point #36 in the FY 2012-2013 Department of the Treasury Budget Analysis. Similarly, the department reported a year later, in reply to OLS Discussion Point #37 in the FY 2013-2014 Department of the Treasury Budget Analysis, that it had closed another competitive bidding process without a contract award on April 8, 2013. The RFP had sought bids for scheduled and unscheduled maintenance for the CMP fleet. The bids, however, failed to provide any significant cost savings. Nevertheless, the department would continue to explore other options for potential cost savings.

In contrast to the aforementioned outsourcing efforts, the Treasury implemented a new short-term passenger vehicle rental program by joining a multi-state contract with Enterprise, Hertz, and National through the Western States Contracting Alliance. Since May 2012 State agencies and departments can newly avail themselves of the companies' services at discounted rates. Previously, employee travel on State business could only be effectuated in a State vehicle or the employee's own personal vehicle with the State reimbursing the employee for mileage driven. In addressing OLS Discussion Points #43 in the FY 2014-2015 Department of the Treasury Budget Analysis and #37 in the FY 2013-2014 equivalent publication, the department disclosed that, in FY 2013, State agencies used 4,289 vehicle-days at a cost of $174,454. Through March 2014, State agencies had used 7,079 vehicle-days for FY 2014 at a cost of $275,728. The use of car rental services allowed the CMP to reduce the size of its "rental" fleet by 80 vehicles. This resulted in the sale of 80 additional vehicles at auction, which netted $95,700. The Division of Administration did not anticipate that the new short-term passenger vehicle rental program would lead to any workforce reductions at the CMP.

- ***Questions:*** **Please comment on the use by State agencies and departments of the multi-state contract through the Western States Contracting Alliance that allows for short-term passenger vehicle rentals. How many vehicle-days have been rented in each of FY 2014 and FY 2015, at what cost, and what are the associated cost savings? What is the projection for contract usage in FY 2016? Does the FY 2016 Governor's Budget include any cost savings related to the contract? Beyond the 80 vehicles auctioned off in FY 2013, does the State Central Motor Pool's (CMP) anticipate any additional reductions in its vehicle count because of short-term passenger vehicle rentals? Please describe any other initiative(s) the CMP may have undertaken in FY**

Discussion Points (Cont'd)

2015, or may plan to undertake in FY 2016, to further lower the State's cost of employees traveling on State business.

- **For FY 2014 and FY 2015, please provide the number of vehicles retired and purchased, indicating how many of the vehicles purchased directly replaced a retired vehicle. What sum did the CMP expend in FY 2014 on new vehicle purchases and what sum does it expect to spend thereon in FY 2015 and 2016?**

- **For the most recent month for which the data are available, please indicate the total number of State vehicles listed by State department and agency. In the list, please differentiate between passenger vehicles and all other vehicles, and the number of vehicles on individual assignment and pool assignment.**

Background Paper: Regional Trends in Business Entity Growth

Budget Pages.... D-369, D-375 & D-385

New Jersey is a regional leader in the number of business entities making the State its tax home (354,507), behind only New York (927,169) and Pennsylvania (356,364).[1] [2] However, New Jersey's rate of growth (3.77%) over the last decade trails the region (17.88%) and nation (24.49%). This growth variation appears to be driven by two trends: (i) New Jersey's accelerated rate of decline in corporations (-31.12%), which is faster than both the regional (-8.95) and national decline (-12.59%); and (ii) New Jersey's unusual decline in S corporations (-10.46%), which contrasts with the regional (13.26%) and national (32.50%) rates of growth. The severity of the decline in corporations and unusual decline in S corporations is tempered by New Jersey's above average growth in partnerships. Behind only Delaware (68.42%) and New York (63.44%) regionally, New Jersey's rate of growth in partnerships (57.27%) exceeds the regional (53.38%) and national (50.72%) rates of growth.

Business Entity Growth Rates

New Jersey is above average in terms of its total number of business entities (354,507) in comparison to its five closest neighboring states, behind only New York (927,169) and Pennsylvania (356,364). However, its overall rate of growth (3.77%) during the last decade significantly trails the regional (17.88%) and national (24.49%) rates of growth. This growth variation appears to result from an above average rate of decline in corporations and unusual decline in S corporations.

Regional Business Entity Growth Rates for FFYs 2004 to 2014	
National Rate	24.49%
Regional Rate	17.88%
1. New York	25.58%
2. Delaware	21.80%
3. Pennsylvania	19.58%
4. Maryland	16.73%
5. Connecticut	6.34%
6. New Jersey	3.77%

Regional Business Entity Populations for FFY 2014	
Nationally	10,663,166
Regionally	1,998,238
1. New York	927,169
2. Pennsylvania	356,364
3. New Jersey	354,507
4. Maryland	198,865
5. Connecticut	120,590
6. Delaware	40,743

[1] This background paper examines trends corporations, partnerships, and S corporations in New Jersey and its five closest neighboring states using federal income tax return data from the Internal Revenue Services' Data Book for federal fiscal years 2004 through 2014 (FFYs). Data preceding 2004 was not incorporated into this analysis due to varying treatment of S corporations and Maryland return originations relative to the District of Columbia metropolitan area. The Internal Revenue Services' Data Book may be located at: http://www.irs.gov/uac/SOI-Tax-Stats-IRS-Data-Book.

[2] Overview of Business Entities Tracked: Corporations are a business entity traditionally associated with large business enterprises subject to corporate income tax. S Corporations are another form of corporate business entity, but are traditionally associated with small business enterprises subject to pass-through income taxation. Partnerships are a flexible form of business enterprise subject to pass-through income taxation, which commonly includes Limited Liability Companies (LLCs).

Background Paper: Regional Trends in Business Entity Growth

Corporate Growth Rates and Contraction

The use of conventional corporations has been on the decline at both the regional and national levels. New Jersey has tracked that trend, but at a faster pace. New Jersey's rate of loss (-31.12%) over the last decade surpasses both the regional (-8.95%) and national (-12.59%) rates of decline. Despite that weakness, New Jersey (72,424) remains second only to New York (250,046) in total corporations within the region. However, it may be noteworthy that New York and New Jersey are on the opposite ends of the region's corporate growth and contraction spectrum. New York has the highest positive corporate growth rate (5.48%) and New Jersey has the largest corporate loss rate (-31.12%) in the region.

Regional Corporate Growth and Contraction Rates for FFYs 2004 to 2014	
National Rate	-12.59%
Regional Average	-8.95%
1. New York	5.48%
2. Maryland	0.31%
3. Delaware	-5.59%
4. Pennsylvania	-24.35%
5. Connecticut	-22.94%
6. New Jersey	-31.12%

Regional Corporate Populations for FFY 2014	
Nationally	2,220,921
Regionally	467,998
1. New York	250,046
2. New Jersey	72,424
3. Pennsylvania	57,220
4. Maryland	53,359
5. Connecticut	24,959
6. Delaware	9,990

Partnership Growth Rates

New Jersey has exhibited above average growth in partnerships (57.27%) over the last decade, exceeding both the regional (53.38%) and national (50.72%) growth rates. New Jersey's rate trails only Delaware (68.42%) and New York (63.44%) regionally. The State's total number of partnerships (163,315) is second only to New York (280,754) within the region.

Regional Partnership Growth Rates for FFYs 2004 to 2014	
National Rate	50.72%
Regional Average	53.38%
1. Delaware	68.42%
2. New York	63.44%
3. New Jersey	57.27%
4. Pennsylvania	54.70%
5. Maryland	37.33%
6. Connecticut	24.20%

Regional Partnership Populations for FFY 2014	
Nationally	3,799,428
Regionally	735,941
1. New York	280,754
2. New Jersey	163,315
3. Pennsylvania	139,053
4. Maryland	69,209
5. Connecticut	67,534
6. Delaware	16,076

Background Paper: Regional Trends in Business Entity Growth

S Corporation Growth Rates and Contraction

While S corporations have grown steadily at the national (32.50%) and regional (13.26%) levels over the last decade, New Jersey has experienced a decline (-10.46%). This decline places New Jersey (118,768) third in the region in terms of the total number of S corporations, behind New York (396,369) and Pennsylvania (160,091). However, it may be noteworthy that though New Jersey ranks third regionally behind New York and Pennsylvania in the total number of S corporations, New Jersey's growth rate varies significantly. Pennsylvania (20.83%) and New York (20.31%) lead the region in S corporation growth, while New Jersey is the only state in the region with an S corporation loss rate (-10.46%).

Regional S Corporation Growth and Contraction Rates for FFYs 2004 to 2014	
National Rate	32.50%
Regional Average	13.26%
1. Pennsylvania	20.83%
2. New York	20.31%
3. Maryland	14.26%
4. Delaware	10.16%
5. Connecticut	5.50%
6. New Jersey	-10.46%

Regional S Corporation Populations for FFY 2014	
Nationally	4,642,817
Regionally	794,299
1. New York	396,369
2. Pennsylvania	160,091
3. New Jersey	118,768
4. Maryland	76,297
5. Connecticut	28,097
6. Delaware	14,677

Conclusion

Overall, New Jersey appears to be a competitive regional location for business entity tax homes, but there are open questions as to the stability of that regional position. New Jersey stands third in the region in total number of business entities compared to its five closest neighboring states. But the State's above average decline in corporations and unusual decline in S corporations have undercut the State's overall business entity growth rate. These dynamics may be mitigated by the State's above average growth in partnerships, which suggests the State may be ahead of the broader national shift toward partnerships as a preferred mode of business entity operations. The extent to which New Jersey's robust partnership growth has come at the expense of its corporate populations is unknown.

Another point of uncertainty underlying this dataset is the question of whether New Jersey's losses have been its neighboring states' gains. New Jersey has the strongest corporate loss rate in the region, while New York has the region's strongest corporate growth rate. New Jersey is the only state in the region with an S corporation loss rate, while New York and Pennsylvania lead the region in S corporation growth. Notwithstanding the uncertainty associated with the dynamics underlying these trends, the dataset does portray New Jersey as having a below average business entity growth rate that is weakening its historical position as a regional leader in business entities.

Background Paper: Resource Diversions from Energy-Related Dedicated Funds

Budget Pages....	C-7 ; C-14 ; C-15 ; D-122 ; D-360 ; D-368 ; D-378 ; D-380 ; D-428 ; D-429 ; F-2 ; page 70 of "Supplementary Information" section of Governor's FY 2016 Budget (online version only)

The Governor's FY 2016 Budget contains a recommendation to redirect an additional $157.3 million in Clean Energy Fund balances to the General Fund in FY 2015 and FY 2016 combined. If enacted, the transfer would represent a continuation of the recent practice of diverting unexpended balances in dedicated energy-related off-budget funds into the General Fund as State revenue. In all, including the proposed supplemental FY 2015 and new FY 2016 transfers, a cumulative total of some $1.40 billion will have been transferred from the Clean Energy Fund, Global Warming Solution Fund, and Retail Margin Fund into the State General Fund from FY 2008 through FY 2016.

As **Table 1** shows, the State began using balances in the dedicated energy-related off-budget funds as general State revenue in FY 2008. The $10 million displayed in FY 2008 and FY 2009 represents Clean Energy Fund moneys that paid for energy efficiency projects in State buildings. The State then accelerated its redirections of unspent balances in the Clean Energy Fund and the now functionally defunct Retail Margin Fund and Global Warming Solution Fund. Accordingly, more than $127 million was thus diverted annually between FY 2010 and FY 2015.

Table 1: Diversions into General Fund of Aggregated Clean Energy Fund, Global Warming Solutions Fund, and Retail Margin Fund Balances

FY 2016 Governor's Budget Proposal	$118,289,000
FY 2015 Governor's Proposed Supplemental	$39,000,000
FY 2015	$98,289,000
FY 2014	$271,771,000
FY 2013	$145,430,000
FY 2012	$252,500,000
FY 2011	$127,800,000
FY 2010	$326,000,000
FY 2009	$10,000,000
FY 2008	$10,000,000
Prior to FY 2008	$0
Cumulative Total	**$1,399,079,000**

Background Paper: Resource Diversions from Energy-Related Dedicated Funds (Cont'd)

Clean Energy Fund

The Clean Energy Fund (CEF) will have contributed the predominant part of the $1.40 billion that will have been transferred to the State General Fund from dedicated, energy-related off-budget funds from FY 2008 through FY 2016. Specifically, some $1.18 billion, or 84.5 percent of the total amount transferred, will have originated in the CEF. This number does not include the amounts transferred annually to the State General Fund to defray the administrative expenses related to State-funded positions of the BPU's Office of Clean Energy ($2.3 million in each of FY 2015 and FY 2016), given that these expenses fall directly within the scope of the statutorily authorized spending purposes of the Clean Energy Program.

The diversions from the CEF into the State General Fund have fallen into five categories. Of the $1.18 billion total, some $676.2 million, or 57.2 percent, will have been transferred for unspecified general State purposes. Another $305.0 million, or 25.8 percent, will have been redirected to defray the cost of utilities in State facilities; $118.3 million, or 10.0 percent, to pay for New Jersey Transit's utility costs; $75.0 million, or 6.3 percent, to cover the cost of energy efficiency projects in State facilities; and the remaining $7.4 million, or 0.6 percent, to support the operations of the Office of Sustainability and Green Energy in the Department of Environmental Protection (DEP). Among its functions, the office serves as the DEP's liaison to the BPU to support the development and implementation of the New Jersey Energy Master Plan, specifically relating to: a) the promotion of clean and renewable energy, energy conservation and energy efficiency, and alternative fuels for transportation; and b) the evaluation of new technologies.

Technically, the use of CEF resources for energy efficiency projects in State buildings and the DEP's Office of Sustainability and Green Energy are not diversions because statutory law authorizes the expenditure of fund balances for energy efficiency and renewable energy programs in general. However, the use of CEF balances for energy efficiency projects in State facilities and for the Office of Sustainability and Green Energy falls outside of the parameters of the Clean Energy Program and thus may be viewed as a fund diversion. But if one were to exclude from the $1.18 billion transfer total the $75.0 million allocated to energy efficiency projects in State facilities and the $7.4 million assigned to support the operations of the DEP's Office of Sustainability and Green Energy, some $1.10 billion would still have been transferred to the General Fund from the Clean Energy Fund from FY 2008 through FY 2016. **Table 2** on the subsequent page breaks down the elements of each fiscal year's balance transfers from FY 2008 through FY 2016.

As can be seen, the Administration proposes to divert an additional $157.3 million into the State General Fund in FY 2015 and FY 2016 combined. The proposed supplemental FY 2015 transfer equals $39.0 million for unspecified general State spending purposes.

The Administration's proposed $118.3 million FY 2016 diversion into the State General Fund, in turn, has three components: 1) the application of $62.1 million towards New Jersey Transit's utility costs (page D-360); 2) the use of $52.5 million to defray the cost of utilities in State facilities (page D-428); and 3) the use of $3.7 million to support DEP's Office of Sustainability and Green Energy (page D-122).

Background Paper: Resource Diversions from Energy-Related Dedicated Funds (Cont'd)

Table 2: Diversions into General Fund of Clean Energy Fund Balances	
FY 2016 Governor's Budget Proposal:	**$118,289,000**
New Jersey Transit Utility Costs	$62,089,000
State Utility Bills	$52,500,000
Office of Sustainability and Green Energy (DEP)	$3,700,000
FY 2015 Governor's Proposed Supplemental:	**$39,000,000**
State General Fund (unspecified)	$39,000,000
FY 2015 Appropriations Act:	**$98,289,000**
State Utility Bills	$52,500,000
New Jersey Transit Utility Costs	$32,889,000
Energy Efficiency Projects in State Buildings	$9,200,000
Office of Sustainability and Green Energy (DEP)	$3,700,000
FY 2014:	**$271,771,000**
State General Fund (unspecified)	$190,185,000
State Utility Bills	$42,486,000
New Jersey Transit Utility Costs	$23,280,000
Energy Efficiency Projects in State Buildings	$15,820,000
FY 2013:	**$131,500,000**
State General Fund (unspecified)	$89,000,000
State Utility Bills	$42,500,000
FY 2012:	**$252,500,000**
State General Fund (unspecified)	$200,000,000
State Utility Bills	$42,500,000
Energy Efficiency Projects in State Buildings	$10,000,000
FY 2011:	**$52,500,000**
State Utility Bills	$42,500,000
Energy Efficiency Projects in State Buildings	$10,000,000
FY 2010:	**$198,000,000**
State General Fund (unspecified)	$158,000,000
State Utility Bills	$30,000,000
Energy Efficiency Projects in State Buildings	$10,000,000
FY 2009:	**$10,000,000**
Energy Efficiency Projects in State Buildings	$10,000,000
FY 2008:	**$10,000,000**
Energy Efficiency Projects in State Buildings	$10,000,000
Cumulative Total	**$1,181,849,000**

Background Paper: Resource Diversions from Energy-Related Dedicated Funds (Cont'd)

In general, the CEF is a dedicated, off-budget fund that serves as the repository of moneys sustaining the activities of New Jersey's Clean Energy Program. New Jersey ratepayers finance the program via the societal benefits charge included in their electric and natural gas bills. Operative since April 2001, the program was authorized as part of the "Electric Discount and Energy Competition Act," P.L.1999, c.23 (N.J.S.A.48:3-49 et seq.). Through the program the BPU seeks to promote increased energy efficiency and the use of renewable energy sources. But the program no longer supports the installation of solar energy generation systems, as the State has adopted Solar Renewable Energy Certificates (SRECs) as the subsidy mechanism for solar power. The Offshore Renewable Energy Certificate (OREC) program attempts to do the same for offshore wind energy installations.

The BPU has not yet determined the Clean Energy Program budget for FY 2016. But the BPU Board Order dated December 17, 2014 Docket number QO14050489 shows a revised $379.6 million FY 2015 funding level for the program: a) $299.3 million, or 78.8 percent, support the portfolio of energy efficiency programs; b) $24.7 million, or 6.5 percent, three green energy-related economic development programs that the BPU co-administers with the Economic Development Authority; c) $24.5 million, or 6.4 percent, the Combined Heat and Power (CHP) and Fuel Cell Program; d) $18.2 million, or 4.8 percent, renewable energy programs; e) $11.1 million, or 2.9 percent, the administrative expenses of the BPU's Office of Clean Energy (including the $2.3 million mentioned earlier as being transferred to the State General Fund to defray the administrative expenses related to the office's State-funded positions); and f) $1.9 million, or 0.5 percent, the Temporary Relief for Utility Expenses (TRUE) program.

Notwithstanding the lack of an adopted program budget for FY 2016, the Governor's FY 2016 Budget anticipates $468.1 million in available CEF resources in FY 2016, which is composed of $344.8 million in new revenues and an opening balance of $123.2 million. On the other side of the ledger, the Governor's FY 2016 Budget anticipates $333.0 million in expenditures, which is comprised of $212.5 million in direct expenditures and $120.6 million in transfers to the State General Fund, including $2.3 million to pay for administrative expenses related to State-funded positions of the BPU's Office of Clean Energy. A $135.0 million projected fund balance would remain at the end of FY 2016 (page 70 of the "Supplementary Information" section of the Governor's FY 2016 Budget, available in the online version only).

Global Warming Solutions Fund

The Global Warming Solutions Fund (GWSF) contributed $79.1 million, or 5.7 percent, to the $1.40 billion that will have been transferred to the State General Fund from dedicated, energy-related off-budget funds from FY 2008 through FY 2016. As **Table 3** portrays, the transfer took place in two stages, notably in FY 2011 and FY 2013.

Balances in the GWSF represented the amounts New Jersey collected from auctioning off carbon dioxide emission allowances to power plant owners under the multistate Regional Greenhouse Gas Initiative (RGGI). In all, New Jersey reaped $113.3 million from the auctions. With New Jersey's exit from RGGI at the end of 2011, though, the GWSF is no longer credited with any new deposits.

Background Paper: Resource Diversions from Energy-Related Dedicated Funds (Cont'd)

Prior to New Jersey's 2011 departure from RGGI, the State had been among ten Northeastern and Mid-Atlantic states comprising the initiative. RGGI members pledge to cap annual regional carbon dioxide emissions from power plants at their projected 2009 level from 2009 through 2014 and to lower emissions by ten percent from 2015 through 2018. RGGI created a mandatory cap-and-trade program effective as of January 1, 2009 under which participating states first auction off carbon dioxide emission allowances to power plant owners who may subsequently trade the allowances in a secondary market so as to match them with their emission levels.

Table 3: Diversions into General Fund of Global Warming Solutions Fund Balances

FY 2013:	**$13,930,000**
State General Fund, returned from EDA (unspecified)	$12,500,000
State General Fund (unspecified)	$1,430,000
FY 2011:	**$65,200,000**
State General Fund (unspecified)	$65,200,000
Cumulative Total	**$79,130,000**

P.L.2007, c.340 authorized New Jersey's participation in RGGI and mandated that all proceeds from the auctioning of emission allowances be deposited in the GWSF and used for environmental purposes (N.J.S.A.26:2C-50 et seq.). The law directed the Economic Development Authority to use 60 percent of fund receipts to provide financial assistance to commercial, institutional, and industrial entities to support energy efficiency projects, combined heat and power production facilities, and new efficient electric generation facilities. The BPU was to use another 20 percent of the proceeds to support programs reducing the electricity demand or costs of low- and moderate-income residential ratepayers primarily in urban areas. The Department of Environmental Protection was to use the remaining 20 percent to manage the State's forests and tidal marshes and to support local government initiatives designed to lower greenhouse gas emissions.

Retail Margin Fund

The Retail Margin Fund (RMF) contributed $138.1 million, or 9.9 percent, to the $1.40 billion that will have been transferred to the State General Fund from dedicated, energy-related off-budget funds from FY 2008 through FY 2016. As **Table 4** depicts, the transfer took place in two stages, namely in FY 2010 and FY 2011. The $138.1 million reflected virtually the entire amount ever deposited in the RMF.

Balances in the RMF accrued from the 0.5¢ per kilowatt-hour retail margin that electric distribution companies charged certain non-residential customers remaining on Basic

Background Paper: Resource Diversions from Energy-Related Dedicated Funds (Cont'd)

Generation Service since August 2003 under sections 3 and 9 of P.L.1999, c.23 (N.J.S.A.48:3-51 and 48:3-57). For several years RMF balances accrued in the near-absence of assigned spending purposes. P.L.2009, c.34 then required that $60 million of the accrued RMF balances as of March 31, 2009 fund grants to support the development of Combined Heat and Power facilities. The law also authorized the BPU to use any remaining and future collections to operate programs for Commercial and Industrial Energy Pricing (CIEP) electric customers that maximize energy conservation and efficiency, reduce peak energy demand, and increase renewable energy sources. Balances in the RMF were never spent on the intended statutory purposes, however, and were instead diverted into the General Fund as State revenue. The BPU terminated the retail margin assessment effective June 1, 2011 so that the RMF is no longer credited with any new deposits.

Table 4: Diversions into General Fund of Retail Margin Fund Balances

FY 2011:	**$10,100,000**
State General Fund (unspecified)	$10,100,000
FY 2010:	**$128,000,000**
State General Fund (unspecified)	$128,000,000
Cumulative Total	**$138,100,000**

Background Paper: The Budgetary Impact of the State's Bonded Debt

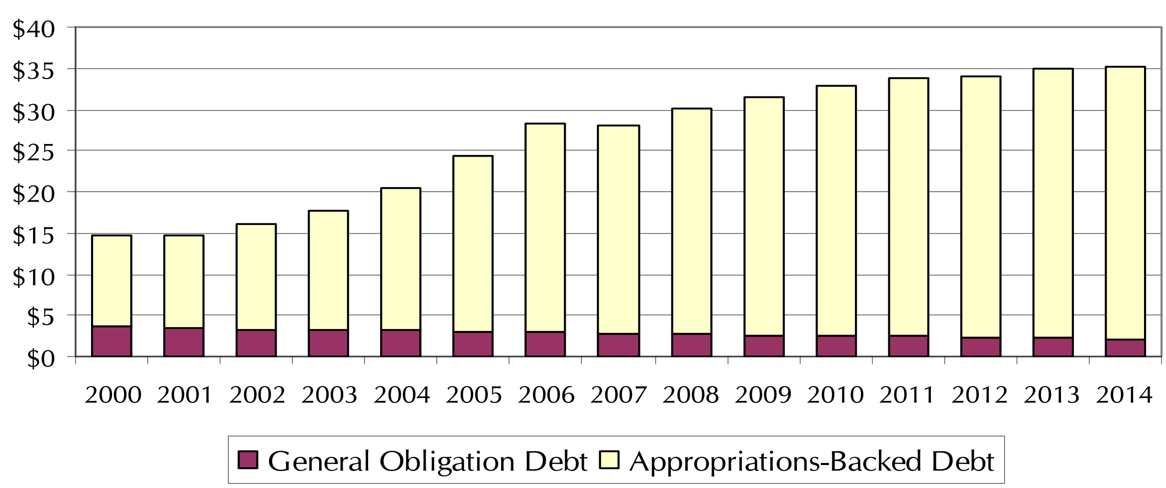
Budget Pages.... E-2 to E-7; H-8; H-15

The State of New Jersey had $35.11 billion in outstanding bonded indebtedness and $7.08 billion in legislatively authorized but unissued bonding authority at the end of FY 2014. The Governor's FY 2016 Budget includes $3.47 billion in on-budget payments to service that bonded debt. The amount represents 10.3 percent of the $33.81 billion in anticipated FY 2016 on-budget revenues. The $3.47 billion, however, does not include debt service payments from off-budget State sources. The Office of Public Finance in the Department of the Treasury projected in the FY 2014 State of New Jersey Debt Report that the State would have to make $206.9 million in FY 2016 off-budget debt service payments. If that number is still accurate, then total recommended FY 2016 State debt service payments on bonded indebtedness would approximate $3.67 billion. This total equates to 6.6 percent of the $55.99 billion in anticipated FY 2016 on- and off-budget State revenues.

The State's Outstanding Bonded Indebtedness

<u>Outstanding Bonded Indebtedness at the End of FY 2014:</u> The State had $35.11 billion in outstanding bonded indebtedness at the end of FY 2014, according to the FY 2014 State of New Jersey Debt Report. That debt burden was equivalent to 69.1 percent of the $50.85 billion in FY 2014 State revenues and 6.47 percent of New Jersey's calendar year 2013 gross domestic product (the Bureau of Economic Analysis in the United States Department of Commerce indicates that New Jersey's gross domestic product was $543.1 billion in calendar year 2013, the most recent year for which the information is available). Pages 68 and 69 of the FY 2014 State of New Jersey Debt Report set forth several statistics comparing New Jersey's debt burden as measured against population, personal income, and state gross domestic product to the debt burden of other states. At the end of FY 2014, the State still had $7.08 billion in legislatively authorized but unissued bonding authority.

Chart 1: Outstanding Bonded State Debt at End of Fiscal Year
(in $ Billion)



Background Paper: The Budgetary Impact of the State's Bonded Debt (Cont'd)

Outstanding Bonded Indebtedness since FY 2000: Since FY 2000, the State's outstanding bonded indebtedness has expanded at an annualized rate of 6.4 percent. In FY 2000, the State had $14.75 billion in debt. By FY 2014, the total had grown by 138.1 percent, or $20.36 billion, to $35.11 billion. **Chart 1** above displays the scale of the State's outstanding bonded debt service obligations at the end of each fiscal year from FY 2000 through FY 2014.

General Obligation and Appropriations-Backed Bonds: The State's bonded indebtedness has two elements: general obligation bonds and appropriations-backed bonds. A key difference between the two types of debt is that the consent of the voters has always been required for general obligation bonds, but only since a 2008 constitutional amendment has voter consent been required for newly enacted appropriations-backed bonds. Moreover, when the State issues general obligation bonds, it pays the required debt service out of the General Fund and pledges its full faith and credit, meaning that the State backs the debt issuance with a direct and irrevocable guarantee of its taxing power as a repayment source. Appropriations-backed bonds, in contrast, do not carry the State's full faith and credit pledge. Instead, when the State issues appropriations-backed bonds, it uses State Authorities as a conduit issuer and promises to provide for required debt service payments in the annual appropriations acts. That promise, however, is not a legally binding, irrevocable guarantee.

Initially, State bonds were issued as general obligation bonds, as the State Constitution requires voter approval before the State can borrow additional money if the total State debt after the bonds' issuance will exceed one percent of the amount appropriated for the fiscal year of the bonds' approval (Article VIII, Section II, paragraph 3). Over time, however, State courts have gradually loosened the voter-approval strictures. The New Jersey Supreme Court first held in *Clayton v. Kervick*, 52 N.J. 138 (1968), that debt obligations issued by State Authorities are not subject to voter approval if they are not backed by the State's full faith and credit. Since then, State statutes have repeatedly bypassed voters by opting to raise capital through appropriations-backed bonds with independent State Authorities serving as a conduit issuer of bonds. In November 2008, voters limited that practice by adopting a constitutional amendment requiring voter approval for new laws authorizing appropriations-backed bonds issued by independent State Authorities. The sole exceptions from the limitation are bonds that are to be paid off from a constitutional dedication of State revenue or from an independent non-State source of revenue paid by third persons for the use of the financed project.

Over time, the State chose to raise funds predominantly without voter approval by using bonds issued by independent State Authorities. The vast majority of its indebtedness today is therefore in appropriations-backed bonds, with the relative share of general obligation debt steadily declining. In FY 2014, appropriations-backed bonds made up 93.9 percent, or $32.96 billion, of the $35.11 billion in outstanding bonded indebtedness. General obligation bonds accounted for the remaining 6.1 percent, or $2.16 billion. In FY 2000, appropriations-backed bonds comprised 74.3 percent ($10.96 billion) of the $14.75 billion in outstanding debt service obligations and general obligation bonds 25.7 percent ($3.79 billion). It remains unclear whether the enactment of the 2008 constitutional amendment will change that trend. **Chart 1** on the previous page shows the relative weight of general obligation and appropriations-backed bonds from FY 2000 through FY 2014.

Background Paper: The Budgetary Impact of the State's Bonded Debt (Cont'd)

The State's Annual Bonded Debt Service Payments

The Governor's FY 2016 Budget includes $3.47 billion in on-budget payments the State would make in FY 2016 to service its bonded indebtedness. To put that number into perspective, it represents 10.3 percent of the $33.81 billion in anticipated FY 2016 on-budget revenues. The $3.47 billion, however, does not include debt service payments from off-budget revenue sources. The Governor's Budget does not quantify those payments. But the FY 2014 State of New Jersey Debt Report projected $206.9 million in FY 2016 off-budget debt service payments. If that number is still accurate, total recommended FY 2016 State debt service payments on bonded indebtedness would be $3.67 billion. This total equates to 6.6 percent of the $55.99 billion in anticipated FY 2016 on- and off-budget State revenues.

Debt Service Payments on General Obligation Bonds: The Governor's Budgets over the years have detailed contractually required general obligation bond debt service payments from budgeted resources in the "Capital Construction and Debt Service" section (see pages E-2 to E-7 in the Governor's FY 2016 Budget). In FY 2016, the State would pay $445.8 million from budgeted sources to service its general obligation bond debt, some $41.0 million, or 10.1 percent, more than the $404.8 million allocated therefor in FY 2015. The net increase has three major components: a) $64.2 million in additional debt service payments on existing refunding bonds; b) the non-recurrence of a $24.8 million FY 2015 appropriation for debt service payments on anticipated, unspecified future bond sales; and c) a net $1.5 million increase in debt service payments on bonds other than refunding bonds.

However, the $404.8 million FY 2015 appropriation includes $24.8 million that has been placed in reserve in anticipation of a year-end lapse to the General Fund, leaving $380.1 million in FY 2015 budget authority. The $24.8 million represents general obligation bond debt service payments defrayed by a portion of $65.8 million in original issue premium payments the State received as part of a December 2014 sale of $525.0 million in new general obligation bonds for various purposes. Accordingly, the recommended FY 2016 appropriation would actually grow by $65.8 million, or 17.3 percent, rather than by $41.0 million.

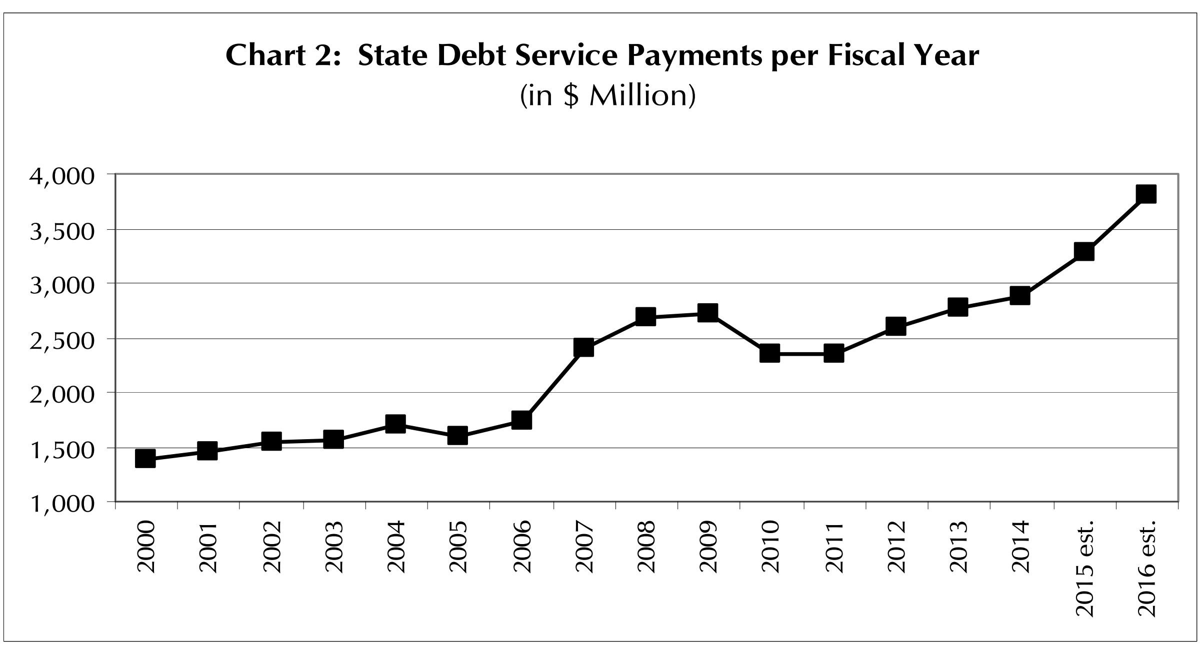
But the budgeted numbers are incomplete, for they capture only general obligation bond debt service payments from budgeted sources. Total FY 2015 and FY 2016 debt service payments actually exceed budgeted amounts after including several offsetting payments from other sources. Specifically, anticipated FY 2015 debt service payments from all sources equal $433.3 million, rather than $380.1 million, owing to the application towards required FY 2015 debt service payments of: a) $24.8 million in bond premiums the State realized as part of a December 2014 general obligation bond sale; b) $23.0 million in bond premiums the State realized in prior general obligation bond sales; and c) $5.5 million anticipated to be realized from a general obligation bond cash defeasance. Defeasance is a method of liquidating debt whereby the issuer sets aside cash in an escrow account to pay off the bonds. Doing so allows the issuer to remove the bonded indebtedness from the issuer's balance sheet. Anticipated FY 2016 debt service payments from all sources, in turn, are $486.4 million, rather than the budgeted $445.8 million, owing to the application towards required FY 2016 debt service payments of $40.6 million out of the $65.8 million in original issue premium payments the State received as part of a December 2014 general obligation bond sale. The year-on-year

Background Paper: The Budgetary Impact of the State's Bonded Debt (Cont'd)

growth in FY 2016 general obligation bond debt service payments is therefore $53.1 million, or 12.3 percent.

Debt Service Payments on General Obligation and Appropriations-Backed Bonds from On-Budget Sources: General obligation bonds represent only a fraction of the State's total annual debt service obligations, whereas appropriations-backed bonds comprise an overwhelming majority thereof. Proposed FY 2016 debt service payments on appropriations-backed bonds, however, are scattered among numerous accounts in several departments. On page H-15 of the Governor's FY 2016 Budget, the Administration lists its $3.65 billion in recommended FY 2016 on-budget debt service appropriations for general obligation and appropriations-backed bonds from on-budget sources. For purposes of this background paper, however, the OLS disregards some entries on that listing and arrives at $3.47 billion in recommended State appropriations for the payment of bonded debt service from on-budget sources. Specifically, the OLS excludes $181.5 million in obligations because they do not reflect bonded liabilities: a) non-bonded Capital Leases, $83.8 million; b) Line of Credit Borrowing, $58.4 million; c) New Jersey Transit Certificates of Participation, $33.2 million; d) Interest on Short-Term Notes, $6.0 million; and e) Interest on Interfund Borrowing, $100,000.

Total Debt Service Payments: The $3.47 billion in recommended FY 2016 State appropriations for the payment of bonded debt service from on-budget sources provides an incomplete picture of the State's total required FY 2016 debt service payments, as the number fails to include debt service payments that would be made from off-budget sources. The Governor's FY 2016 Budget does not aggregate these expenditures. The FY 2014 State of New Jersey Debt Report, however, indicates the Administration's previous projection that off-budget debt service payments would be $206.9 million in FY 2016 (from certain off-budget cigarette tax and motor vehicle fee revenues). If that number is still accurate today, total recommended FY 2016 State debt service payments on bonded indebtedness would approximate $3.67 billion.



Background Paper: The Budgetary Impact of the State's Bonded Debt (Cont'd)

Annual Total Debt Service Payments since FY 2000: Historical debt service payments broadly mirror the trend in outstanding debt service obligations with the exception of the impact of several refunding initiatives. Specifically, State bonded debt service payments have increased $2.29 billion, or 164.5 percent, from $1.39 billion in FY 2000 to an estimated $3.67 billion in FY 2016, representing an annualized growth rate of 6.3 percent. **Chart 2** on the previous page displays the amount of total annual debt service payments the State made from FY 2000 through FY 2014 and is forecast to make in FY 2015 and FY 2016. Bond refundings explain the dip relative to the FY 2009 level in FY 2010, 2011, and 2012. The expiration of front-loaded debt service reductions attributable to the refundings also explains a significant portion of the year-over-year increases in bonded debt service payments in FY 2013 and FY 2014. New bond sales, especially for schools facilities construction and the Transportation Trust Fund, account for most of the projected FY 2015 and FY 2016 increases.

Chart 2 relies on data in the annual State of New Jersey Debt Reports, except for the FY 2016 figure, which reflects the $3.67 billion calculated pursuant to the above method. The chart does not display the FY 2014 Debt Report's projections for FY 2016 through FY 2020 because the FY 2016 debt service projections differ between the Debt Report and the Governor's FY 2016 Budget. As the Governor's Budget is the more recent publication, the OLS uses its FY 2016 debt service figure, which may encompass the issuance of any new or refunding bonds subsequent to the Debt Report's date of publication.

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

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