Discussion Points

1. In recent years in response to OLS Discussion Points, the Department of the Treasury has elaborated on at least two areas of risk with respect to departmental operations. First, the Division of Taxation has noted attrition-related risk points existed “at all levels of the organization from staff, middle management to senior staff,” identifying 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 According to the Office of Information Technology’s (OIT), the running of outdated systems exposes the State to five deficiencies: 1) the difficult replacement of retiring employees versed in the operation and maintenance of now-obsolete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.

The Department has additionally identified specific measures being undertaken to address it long-term information technology needs. Specifically, for those projects currently being undertaken, the department listed: Tax System Modernization; New Integrated Program Budgeting System; New State-wide Procurement System, NJ START; Upgraded Local Area Network; Active Directory overhaul; Windows Server/SQL Server modernization; Enhanced Data Export Facility; Lottery Server and Network Upgrade; New Disaster Recovery Site for the department’s data base systems; and New Image Processing Host Facility. The department has also identified those systems that were more than ten years old and intended to remain in operation while planning for their replacement was ongoing: Comprehensive Financial System; Centralized Payroll System; Electronic Image Repository; Pensions Retirement System; and Land and Building 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.

Answer:
Risks/Risk Mitigation
Running legacy systems entails risks in various areas, including continuity/reliability, support, institutional knowledge (risk of loss of subject matter experts) and security. To the maximum extent possible, the Department works to mitigate these risks by employing contractors and staff for maintenance and minor upgrade efforts, base system updates, and security patches. Individual line agencies continue to provide training – formal and on-the-job, to sure-up institutional knowledge.

Questions: Please provide the number of Treasury employees who left the department in FY 2015 segregated by retirement-related departures and other separations.

Answer: Please see the attached spreadsheet (Attachment Q1) detailing FY 2015 attrition statistics for the Department of the Treasury.
Discussion Points (Cont’d)

• **Questions:** How many Treasury employees are anticipated to retire or otherwise leave in FY 2016? Does the FY 2016 departure count meet previous department expectations? Is the department prepared for the departures?

  **Answer:** Attrition rates for the Department of the Treasury remain relatively consistent from year-to-year. A 5–9% rate is generally expected. The rate for FY 2015 was 7.23%. If we project an 8% rate for FY 2016, this means about 235 departures. Generally, the department is prepared for these departures because it properly positions itself and plans for those departures it deems critical.

• **Questions:** Are any divisions experiencing particular challenges because of the departures? If so, please note the divisions concerned and describe the challenges.

  **Answer:** We have successfully managed our operations so that we not only maintain service levels in the face of a shrinking workforce, but have even increased the customer service experience for our clients. Divisions are not experiencing any specific problems related to attrition except for the challenges associated with the civil service process and the difficulties it creates in recruiting and maintaining the most qualified individuals.

• **Questions:** Please provide an update on the modernization and replacement of the legacy administrative information technology systems that the Treasury listed in last year’s Discussion Point response as being: a) currently replaced; b) slated for replacement; and c) older than ten years and 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?

  **Answer:** Major Legacy Systems that have Been Replaced in the Last 5 Years

  **New Items:**
  - Electronic filing for amended individual tax returns (Added to Modernized eFile Federal-State program; replaces a legacy paper system)
  - Modernized integrated business formation/registration service (Hosted service that allows business to form and register in real time; replaces outdated legacy system; won 2016 achievement award from the Public Technology Institute)
  - New Image-Processing Host Facility (Cross-agency service; platform is now in place)
  - Enhanced public records disposition request and authorization service (covers municipalities, school districts, counties and State government; fully automates process and updates underlying technology.)
  - New public records center system (modernized, expandable system that supports the tracking and management of nearly 1 million storage locations for public records cutting across multiple storage formats, from paper to digital records repositories.)

  **Previously Reported Items (that have been completed):**
  - Modernized front-end document/remittance processing platform;
Discussion Points (Cont’d)

- Implemented State Lease Management System for the Division of Property Management and Construction;
- Converted the Department of the Treasury’s e-Mail system to a Cloud-based service;
- Completed installation of a Desk-Top Operating System for the department;
- Reengineered Unclaimed Property Filing and Payment System;
- Implemented a new system for Internal Billing;
- New Corporate Business Tax Filing System;
- Implemented a New Tax Filing Service for Fiduciaries;
- Replaced the Payment Card Processing Platform;
- Reengineered Uniform Commercial Code Filing and Search System;
- Replaced Business Entity Records System;
- Replaced a legacy system with a New Secure Bulk Electronic Filing Platform for the State of New Jersey; and
- Overhauled the Notary Public Commissioning System.

Major Legacy Systems Currently Being Replaced or Significantly Upgraded:
The following in-process initiatives will all have beneficial and far-reaching impacts on Departmental and State government operations once completed.

- Tax System Modernization (Planning and procurement strategies under review)
- New Integrated Program Budgeting System
- New State-wide Procurement System
- Upgraded local area network (resource that links the Department to the State’s wide area network and acts as the conduit through which most of the Department’s electronic services flow; effort is in progress with substantial work complete)
- Active Directory overhaul (system that authenticates the identity of every individual accessing Departmental information assets and controls access to those assets; effort is in progress and is now in initial user acceptance testing phase)
- Enhanced Data Export Facility
- Lottery Server and Network Upgrade
- New Disaster Recovery Site for the Department’s Data Base Systems

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 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. According to the department, it printed and mailed only 2.8 million paper checks and remittance advices in FY 2014 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 53 percent in FY 2013 to 57.4 percent as of FY 2014.

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 Points. Overall, about ten percent of all pensioners did so. In its quest to eliminate paper checks the Division of Pensions and Benefits explored prepaid debit cards as the sole payment method for unbanked pensioners; however, two attempts at implementation failed for being cost-prohibitive, and the department was not currently pursuing alternative methods for unbanked pensioners.

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; however, these employees have been provided with a prepaid debit card through the State’s banking contract with Bank of America.

Questions: Please share the number of paper checks and remittance advices that Treasury processed in FY 2015 for State payroll, pension benefit payments, tax refunds and rebates, and vendor payments. What was the total FY 2015 cost for printing and postage?

Answer: The number of regular paychecks printed was 18,505 and the number of supplemental checks printed was 192,156 for FY 2015. Tax refund checks totaled 1,177,398 and rebates were 217,557. Pension benefit checks totaled 355,806. Vendor checks totaled 348,068. Postage and printing costs specifically for the production and mailing of checks is not specifically tracked separate from all printing and postage expenditures.

Questions: 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 receives pension payments through electronic funds transfer? What percentage of retirement benefits to all recipients is now paid electronically, by prepaid debit card, and by paper check?

Answer: The percentage of all contractual payments to vendors now paid electronically is 59%. As of the May 1, 2016 pension payroll, 94.51% of employees who retired after July 1, 2011 receive their monthly benefit payment via electronic funds transfer. As of the May 1, 2016 pension payroll, 91.49% of all monthly benefit
payments were paid via electronic funds transfer. The remaining 8.51% were paid via check.

- **Questions:** How many employees are currently enrolled in the CashPay prepaid debit card program? How many regular payroll checks, supplemental paper paychecks, and pay stubs did the OMB print in FY 2015 and has printed to date in FY 2016?

**Answer:** As of April 2, 2016, 1,220 active employees are enrolled in the CashPay Card program. In FY 2015, OMB printed 18,505 regular checks and 192,156 supplemental checks. For FY 2016 to date, OMB printed 20,878 regular checks and 150,178 supplemental checks.

- **Questions:** For the time being, has Treasury ended the implementation of policy changes designed to reduce the number of paper check issuances? If not, what new measures is Treasury currently implementing or is about to implement to further reduce the number of paper check issuances? What is the potential for additional reductions in paper check issuances over the next five years?

**Answer:** Newly hired employees who do not submit a direct deposit application within two pay periods of their initial employment start date are automatically enrolled into the CashPay Card program by Centralized Payroll. Employees who have a rejected direct deposit application or direct deposit cancelled by their banking institution are also automatically enrolled into the CashPay Card program after 2 pay periods of non-direct deposit status.

Centralized Payroll has adjusted its supplemental payroll business practice to allow direct deposit of supplemental pay checks. All payroll offices have adjusted to the new practice and are submitting supplemental time sheets a day earlier. Centralized Payroll is working to implement direct deposit of supplemental pay checks. Implementation will be done in stages to accommodate the different types of payments made on the supplemental pay period. Active employees' supplemental pay is the largest group and will be the first moved into direct deposit.

Centralized Payroll is working to add direct deposit enrollment to the Employee Self Service program. The feature would eliminate the current direct deposit card process and allow employees to input their bank account information themselves through Employee Self Service. The project is currently in the planning stage and may, if cost effective, require the use of third-party vendor software to verify routing numbers for each transaction.

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
**Discussion Points (Cont'd)**

Expenditure of time and effort or if copies cannot be reproduced by ordinary copying equipment in ordinary business size.

The department reported that it received 998 OPRA requests in FY 2014, an increase over FY 2013, and that 717 of them emanated from requestors identifying themselves as representing commercial interests. Overall, the Treasury denied 47 OPRA requests in whole in FY 2014, triggering the filing of nine 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 had previously reported an increasing complexity of many individual filings. Some individual requests submitted by attorneys, for example, had work scopes that reached thousands of pages.

In all, the Treasury reported spending over $1.1 million in FY 2014 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 $235,574 in FY 2014 salary expenses. In addition, ten Treasury divisions and agencies each had various custodians who performed OPRA tasks. The Treasury estimated the cost of their time at $548,545. Fringe benefits costs for all Treasury employees working on OPRA requests were $392,000. In all, Treasury collected $85 in charges from OPRA requests. 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 2014. In the past, the department has 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 2015. How many OPRA requests did the department receive in FY 2015 in general and from commercial interests in particular?

  **Answer:** Treasury received 1,126 OPRA requests in total, of which 535 were from commercial interests.

- **Questions:** Was there a noteworthy change in the volume or nature of requests received for specific types of records?

  **Answer:** There were 128 more requests this year, despite putting many categories of records previously requested onto public websites.

- **Questions:** How many OPRA requests did the Treasury deny in FY 2015? 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 2015?

  **Answer:** The Treasury Department denied 84 OPRA Requests in FY 2015. The number of denials appealed to the Government Records Council in FY 2015 was five. The
Discussion Points (Cont’d)

council rulings on these five requests were: Two in favor of Treasury; one settled in mediation; one sent for adjudication (pending); and one pending review by the GRC. The department was not penalized for OPRA noncompliance in FY 2015 by the GRC. However, Treasury reimbursed attorney fees for two FY 2015 settlement agreements in the amount of $1,246 and $2,500 for OAL OPRA cases.

•  Questions  Please indicate the department’s expenditures and employee hours devoted to OPRA requests in FY 2015. How many OPRA requestors were subject to “ordinary copying charges” and “extraordinary request charges?” What were the Treasury’s total FY 2015 collections from OPRA requestors? Has the department increased OPRA charges, as permissible, in order to cover the cost of OPRA compliance and deter broad or frivolous requests?

Answer: The Treasury Government Records Access Unit administers all Treasury OPRA requests and functions with three full-time positions. The unit had $244,238 in FY 2015 salary expenses, excluding fringe benefits. In addition, there are 10 Treasury divisions/agencies with one or two custodians on-site to answer records inquiries, scan, redact, retrieve, store, program, perform electronic searches, and research the existence of records and e-mails within their division responsive to OPRA requests. The approximate cost to the department for the division custodian’s time is $464,256. The employee hours calculated for OPRA services performed by the department in FY 2015 is 15,995 hours. However, the full cost of OPRA compliance to the department is unknown, as Treasury frequently requires assistance from the Division of Law in the Department of Law and Public Safety. Additionally, while regular custodian’s time and costs have been quantified above, we know that many other staff members in the divisions assist with gathering and reviewing records, such as programmers and staff who handle specific areas of records with expertise regarding those records.

In FY 2015, the department did not assess any copy charges, as all requests were satisfied with electronic records and no copying effort was expended.

The department did not levy any charges for requests that require “an extraordinary expenditure of time and effort” in FY 2015, but did quote $15,557.45 for programming services required to fulfill requests. Only two requesters opted to pay the fees quoted, and $167.71 was collected.

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
Discussion Points (Cont’d)

Broadcasting. Including proceeds from the sale of NJPBA surplus equipment, the fund has received balances totaling $2.1 million. Of that amount, the NJPBA had committed approximately $1.9 million to six capital projects, with $237,000 in uncommitted trust fund balances. Additionally, the department stated that NJPBA staff were developing a capital project for roof replacement at the four major transmitter sites.

In FY 2016, the “Trust Fund for the Support of Public Broadcasting” began to receive additional moneys from a “concurrent operations and interference avoidance agreement” the NJPBA had entered into with T-Mobile USA, Inc. in accordance with a May 28, 2015 NJPBA resolution. Specifically, T-Mobile was to make a $5 million upfront payment to the NJPBA in addition to an annual $5 million fee payment for the duration of the three-year contract period (renewable once for an additional three-year period). The agreement also called for a $2 million one-time incentive payment upon the execution and deliverance of the agreement to T-Mobile by June 3, 2015. The State accounting system shows that $10.8 million was deposited into the trust fund in FY 2016.

Questions: Has the NJPBA received the $2.0 million one-time incentive payment the “concurrent operations and interference avoidance agreement” with T-Mobile USA included in the event that the NJPBA delivered the agreement to T-Mobile by June 3, 2015?

Answer: Yes.

Questions: If not, why has the NJPBA not received the $2 million?

Answer: N/A

Questions: How does the NJPBA intend to spend the $20 million, or $22 million if the one-time incentive payment is included, the “Trust Fund for the Support of Public Broadcasting” is to receive from FY 2016 through FY 2018 in accordance with the “concurrent operations and interference avoidance agreement?”

Answer: For FY 2016 the NJPBA has received or anticipates receiving a total of $12 million from the T-Mobile agreement. This includes the initial payment of $5 million, an incentive payment of $2 million, and monthly payments of $416,666. All payments have been received on schedule thus far.

The total amount that will accrue to the NJPBA as a result of this agreement is uncertain. The ongoing monthly payments are keyed to the continued broadcast operations of the NJPBA’s Channel 51 transmitter in Montclair. That channel position will be reassigned or eliminated as a result of the FCC’s Channel Reassignment Public Notice that will be issued at the conclusion of the Spectrum Auction.

See budget attached below for details on NJPBA spending from the Trust Fund.

Questions: If any amount thereof is intended to be used for general State purposes, please explain the reasons for not using all of the revenue from the agreement for the support of public broadcasting.
Discussion Points (Cont’d)

**Answer:** The FY 2016 revenue from the T-Mobile agreement exceeded the current and near-term capital needs of the NJPBA. The excess amount is anticipated to be transferred to the General Fund.

- **Question:** Please provide an accounting of the “Trust Fund for the Support of Public Broadcasting.”

**Answer:** See below.

<table>
<thead>
<tr>
<th>Revenue Source</th>
<th>Total for Source</th>
</tr>
</thead>
<tbody>
<tr>
<td>Radio sale &amp; lease</td>
<td>1,905,684</td>
</tr>
<tr>
<td>T-Mobile interference agreement</td>
<td>9,083,335</td>
</tr>
<tr>
<td>NJN asset auction</td>
<td>227,131</td>
</tr>
<tr>
<td>Scrap metal recycling</td>
<td>5,452</td>
</tr>
<tr>
<td><strong>Total revenue</strong></td>
<td><strong>$ 11,221,603</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Completed Capital Projects</th>
<th>Total for project</th>
</tr>
</thead>
<tbody>
<tr>
<td>Statehouse Studio</td>
<td>161,346</td>
</tr>
<tr>
<td>Transport Stream Monitor</td>
<td>174,946</td>
</tr>
<tr>
<td>Montclair tower lighting system replace</td>
<td>376,919</td>
</tr>
<tr>
<td>Tower painting, all towers</td>
<td>982,434</td>
</tr>
<tr>
<td><strong>Total completed projects</strong></td>
<td><strong>$ (1,695,645)</strong></td>
</tr>
</tbody>
</table>

| Transfer to PMNJ                      | $ (100,000)       |

| Capital Fund Balance, 12/8/15         | $ 9,425,958       |

<table>
<thead>
<tr>
<th>Approved Capital Projects</th>
<th>Estimated Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Archive project</td>
<td>250,000</td>
</tr>
<tr>
<td>Transmitter Building Roof Replacement, all sites</td>
<td>1,097,000</td>
</tr>
<tr>
<td>Signal Monitoring, Logging, Compliance Reporting</td>
<td>284,000</td>
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<tr>
<td>Transmitter HVAC Replacement, all sites</td>
<td>320,000</td>
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<tr>
<td>Vehicle Replacement</td>
<td>24,000</td>
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<tr>
<td>Battery Backup Power Replacement, all sites</td>
<td>350,000</td>
</tr>
<tr>
<td>Active Management System Phase II</td>
<td>315,000</td>
</tr>
<tr>
<td>Microwave System Replacement</td>
<td>240,000</td>
</tr>
<tr>
<td>Tower Electrical Wiring &amp; Conduit Replacement, Lawrence &amp; Waterford</td>
<td>170,000</td>
</tr>
<tr>
<td><strong>Total proposed projects</strong></td>
<td><strong>-3,050,000</strong></td>
</tr>
</tbody>
</table>

| Additional T-Mobile Payments in FY ’16 | 2,916,665 |

| Estimated capital fund balance after proposed projects completion | $ 9,292,623 |
Discussion Points (Cont’d)

• Questions: Other than receipts from the “concurrent operations and interference avoidance agreement” with T-Mobile USA, has the trust fund received additional amounts in FY 2016 or does the Treasury expect additional deposits into the fund in FY 2016 and FY 2017?

   Answer: Small amounts from surplus equipment sales and scrap metal sales.

• Questions: Please delineate the amounts expended from the fund, specifying the purposes for which they were used.

   Answer: See chart above.

• Questions: Please provide a status report on the roof replacement project at the four major transmitter sites.

   Answer: The Request For Proposal for this project is anticipated to be released this summer through the Division of Property Management and Construction.

• Questions: How does the Treasury intend to use any remaining fund balances?

   Answer: Additional amounts, if any, will be applied to the future capital needs of the NJPBA.

4. b. 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. In its reply to OLS Discussion Point #4. b. in the FY 2015-2016 Department of the Treasury Budget Analysis, the Treasury noted that the agreement with Public Media NJ would automatically renew for an additional period of five years starting on July 1, 2016, unless the State gave notice by December 31, 2015 of its intention to terminate the agreement.

The State financially supports Public Media NJ by turning over to the corporation annual collections from certain NJPBA revenue streams. The Governor’s FY 2017 Budget pegs the estimated FY 2017 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, the same amounts as FY 2016.

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 2017 Budget recommends a $2.2 million FY 2017 appropriation for that purpose, the same amount as in FY 2016. The budget proposal also includes a language provision on page F-10 allowing for supplemental appropriations of unspecified amounts for the NJPBA’s operation without additional legislative approval.
Further, on January 12, 2016, the Department of the Treasury announced that the NJ PBA had filed an application to participate in the Federal Communications Commission Spectrum Auction, which commenced on March 29, 2016. The auction itself, which was established to reorganize the broadcast spectrum that is currently being used by cellphone, television, and radio providers, is comprised of two separate but interdependent auctions: a reverse auction, which determines the price at which broadcasters, such as the NJ PBA, will relinquish their spectrums; and a forward auction, which will determine the price companies are willing to pay for flexible use wireless license. Analysts estimate the initial maximum value for all of the broadcast spectrums controlled by the State at $2.3 billion.

• **Questions**: Has the State given notice to Public Media NJ of its intention to terminate the agreement by December 31, 2015?

  **Answer**: Public Media NJ was not given notice of intent to terminate the contract.

• **Questions**: If not, do any of the contract terms change for the five-year renewal period starting on July 1, 2016?

  **Answer**: The contract terms are unchanged for the renewal period.

• **Questions**: If applicable, why has the Treasury decided not to rebid the contract?

  **Answer**: Treasury’s intent in 2011 was to create a long-term solution through a new model for Public Media in NJ and would have only sought to terminate the agreement if the terms of the agreement were not being met, or if the new model was otherwise unsustainable in some way. There is no known “better solution” that might have become available to the State through rebidding the contract.

• **Questions**: Please provide an update on the NJPBA’s application to participate in the Federal Communications Commission Spectrum Auction. Is the NJPBA allowed to participate and will it participate?

  **Answer**: On November 9, 2015, the New Jersey Public Broadcasting Authority’s Board voted to allow the Executive Director to review the potential impact of the upcoming FCC reverse spectrum auction and to apply to participate if appropriate. The Executive Director and NJPBA staff completed that review and have taken steps to participate.

The auction process is ongoing. However, FCC regulations prohibit auction participants from disclosing information pertaining to the bidding process until its conclusion.

• **Questions**: If so, by what date will the NJPBA: a) know the results of the action; and b) make them public?
Department of the Treasury

FY 2016-2017

Discussion Points (Cont’d)

Answer: The FCC has estimated that the results of the Spectrum Auction will become known in the 3rd Quarter of 2016.

Questions: What would be the earliest fiscal year in which auction proceeds would accrue to the State?

Answer: FY 2017, though FY 2018 appears more likely.

Questions: Would any proceeds be deposited in the “Trust Fund for the Support of Public Broadcasting?”

Answer: Yes.

Questions: Does the Treasury agree with analysts that the State could realize a maximum of $2.3 billion in the auction? If so, what is the probability of the State realizing that amount?

Answer: FCC anti-collusion rules prohibit the discussion among auction participants of auction estimate proceeds.

Questions: How does the auction affect the contract with Public Media NJ and any other contract going forward?

Answer: The contract includes language that provides a cash payment of $125,000 to Public Media NJ for any station bandwidth that is removed from service as a result of the Spectrum Auction. The NJPBA doesn’t anticipate any other contracts being impacted by the Spectrum Auction.

4. c. Approximately three years ago, 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 OLS Discussion Point #4b in the FY 2014-2015 Department of the Treasury Budget Analysis, 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. The majority of construction work was scheduled to be completed in April 2015.

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


**Discussion Points (Cont’d)**

facility? Are all the moves into the facility complete and is the entire office space occupied?

**Answer:** The roof and mechanical equipment project is complete. Interior office renovations have been completed with respect to the 2nd and 4th floors. Those floors are currently occupied by the Department of Health. The first floor of N.JN is used for conference space. The third floor is effectively unusable for office applications due to the configuration of the building and the existence of multi-floor studios and mechanical equipment. The next phase of the project involves renovations to the 5th floor which will be occupied by the New Jersey Election Law Enforcement Commission. The final revisions to the construction drawings have been authorized and DPMC anticipates submitting for final permits by mid-May so the project can be advertised and bid in June. It is anticipated that the Election Law Enforcement Commission will relocate before the end of the calendar year, at which point the project will be completed.

5. Effective on November 1, 2016 and in accordance with P.L.2015, c.185, the Department of the Treasury and the Department of Human Services are to establish the “New Jersey Achieving a Better Life Experience (ABLE) Program” pursuant to the federal ABLE Act, 26 U.S.C. s.529A. Under the program, individuals with certain disabilities are permitted to establish ABLE accounts which may be used to pay certain disability-related expenses. ABLE accounts are exempt from state income taxation and are not to be included as an asset or income when determining the individual’s eligibility for State assistance programs.

The Departments of Human Services and Treasury are permitted to contract with a third party provider to administer and operate the program, including for program services such as promoting the program to communities likely to benefit from access to ABLE accounts, processing applications for ABLE accounts, and processing claims from ABLE account holders to institutions assigned to administer their ABLE accounts. The Department of the Treasury’s specific role in this process is to ensure that participants can readily deposit and withdraw funds from ABLE accounts. Further, both departments are required to take all actions necessary to ensure the program meets the requirements under federal law to be treated as a qualified State ABLE Program.

- **Questions**  
  Has the department begun the implementation process for P.L.2015, c.185? If so, when does the department anticipate the full implementation of the New Jersey ABLE Program? Does the department foresee any issues with implementing the New Jersey ABLE Program? What impact does the department anticipate the New Jersey ABLE Program to have on State revenues?

  **Answer:** Discussions between Treasury and the Department of Human Services are ongoing. It is anticipated that the process will be in place by the November 2016 effective date.

**OFFICE OF MANAGEMENT AND BUDGET**

6. On August 14, 2015, the Governmental Accounting Standards Board (GASB) issued Statement No. 77, *Tax Abatement Disclosures*, which requires state and local governments for
the first time 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.

The disclosure requirements found in GASB Statement No. 77 are split into two categories, a government’s own tax abatement agreements and tax abatements that are entered into by other governments and reduce the reporting government’s tax revenues. In regard to a government’s own tax abatement agreements, the new disclosure requirements are as follows: the purpose of the tax abatement program; the tax being abated; the dollar amount of taxes abated; provisions for recapturing abated taxes; the types of commitments made by tax abatement recipients; and other commitments made by a government in tax abatement agreements, such as to build infrastructure assets. The new disclosures regarding tax abatements that are entered into by other governments and reduce the reporting government’s tax revenues include: the name of the government entering into the abatement agreement; the tax being abated; and the dollar amount of the reporting government’s taxes abated.

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. In response to a discussion point question, the Office of Management and Budget (OMB) stated last year that it anticipated a minimal financial and operational impact from implementing GASB Statement No. 77, Tax Abatement Disclosures.

• **Questions:** Does the department still anticipate a minimal financial and operational impact from implementing GASB Statement No. 77, Tax Abatement Disclosures? Does the department anticipate any compliance issues, and if so, what are those issues?

  **Answer:** There are no compliance issues anticipated at this time related to GASB Statement No. 77 and the department anticipates a minimal financial and operational impact.

7. In 2008, 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
Discussion Points (Cont’d)

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. Last year, the OMB relayed that its post-audit reviews had 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.

Effective August 17, 2015, the OMB, Division of Purchase and Property, and Office of Information Technology further revised aspects of the moratorium’s administration (see Office of Management and Budget, Division of Purchase and Property, and Office of Information Technology Circular Letter 16-05-OMB/DPP/OIT, Procurements of Information Technology (IT) Hardware, Software, Subscription-Based Solutions and Related Services and Non-IT Equipment). The circular letter increased the threshold above which a non-IT purchase requires OMB pre-approval from $36,000 to $40,000. If a department seeks to make a non-IT procurement valued at $40,000 or less, it can 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 $5,000 (which was increased from the previous $2,500 amount).

• **Questions:** For FY 2015, please state the number and dollar value of non-information technology (IT) purchase requests OMB a) reviewed and b) rejected. In FY 2015, 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? In FY 2015, did State agencies and departments fully comply 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 $5,000 because of circular letter violations?

• **Please comment on the ways, if any, in which OMB, Division of Purchase and Property, and Office of Information Technology Circular Letter 16-05-OMB/DPP/OIT has affected OMB’s workload and operations.**

**Answer:** In FY 2015, OMB reviewed 151 non-information technology (IT) requests above $36,000 (valued at a total of $31.8 million) and rejected six (valued at a total of $731,650). The post-audit review of these purchases is not yet complete, however, audits of FY 2013 and FY 2014 purchases identified no instances of non-compliance. To date, no State agency or department has been subject to OMB pre-approval of non-IT procurement requests due to non-compliance.
Circular Letter 16-05-OMB/DPP/OIT has not had a significant impact on OMB’s workload or operations.

NEW JERSEY LOTTERY

8. On October 1, 2013, Northstar New Jersey Lottery Group, LLC ("Northstar New Jersey") assumed full control over the New Jersey State Lottery’s sales and marketing operations. Despite higher gross lottery sales during Northstar New Jersey’s tenure, lottery net income stagnated in FY 2014 and receded in FY 2015, causing the vendor to miss its net income targets and to incur performance penalty payment obligations for both years. In response to the State Lottery’s underperformance, the State agreed in December 2015 to amend the lottery contract, guaranteeing a $960 million FY 2016 lottery net income payment by Northstar New Jersey to the State and lowering future vendor net income targets as well as the range of future incentive compensation payments to the vendor.

Northstar New Jersey’s annual compensation has two components under the State contract: the reimbursement of the vendor’s administrative expenses and a performance-based incentive payment or penalty. The arrangement’s pay-for-performance component shifts a portion of the Lottery performance risk to the vendor and has the following three elements:

**Accelerated Guarantee Payment:** Northstar New Jersey made a one-time $120 million Accelerated Guarantee Payment to the State in FY 2013. The vendor may use up to $20 million thereof to offset any future “Contribution Shortfall Payment obligations,” as explained in greater detail below. Northstar New Jersey used $14.1 million of the $20 million credit in FY 2014 and the remaining $5.9 million in FY 2015.

**Contribution Shortfall Payments:** Northstar New Jersey must make Contribution Shortfall Payments to the State 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, except for FY 2017 and FY 2018 when they are capped at 3.0 percent. The payments represent a partial shift of the risk of Lottery net income shortfalls to the contractor. 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.

Initially, the contract specified an annualized 0.9 percent increase in base net income levels, or the annual rate of growth Treasury estimated the State Lottery would achieve were it managed by Division of State Lottery staff, and an annualized 1.5 percent increase in net income targets, as bid by Northstar New Jersey. These base net income levels and net income targets were lowered in December 2015, resulting in an annualized growth rate of approximately 0.9 percent for base net income levels and 1.2 percent for net income targets.

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1 Base net income levels and net income targets were reduced following FY 2015. These reductions occurred following the settlement of the second adverse action which will be discussed in the next section.
Discussion Points (Cont’d)

Incentive Compensation: Initially capped at 5.0 percent of annual lottery net income, but reduced to 3.0 percent in December 2015, Incentive Compensation payments by the State to Northstar New Jersey 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 3 is $814.0 million, which rises to $914.1 million in contract year 16. 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 20 percent depending on the size of the excess over the base and middle net income levels, as defined in the contract. The range was lowered from 5 percent to 30 percent in December 2015. 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.

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Base Net Income Level</th>
<th>Net Income Target</th>
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</thead>
<tbody>
<tr>
<td>2014 (Nine-Month Period)</td>
<td>$717,279,452</td>
<td>$760,897,061</td>
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<tr>
<td>2015</td>
<td>$967,000,000</td>
<td>$1,047,000,000</td>
</tr>
<tr>
<td>2016</td>
<td>$813,984,000</td>
<td>$963,478,103</td>
</tr>
<tr>
<td>2017</td>
<td>$821,490,000</td>
<td>$990,513,343</td>
</tr>
<tr>
<td>2018</td>
<td>$828,996,000</td>
<td>$1,009,871,643</td>
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Source: State Contract No. T-2884, as revised by Amendment No. 2

The FY 2015 transfer of State Lottery income into the State General Fund equaled $960.0 million, some $76.9 million less than the $1.04 billion the FY 2015 Appropriations Act had anticipated. In all, the Lottery generated $3.00 billion in FY 2015 operating revenues, some $300.0 million less than the $3.30 billion originally anticipated, according to the State Lottery’s FY 2015 “Financial Statements and Supplementary Information.”

In addition, the vendor was liable for an $18.8 million Contribution Shortfall Payment to the State, as the Lottery net income net of any vendor penalty payment to the State ($940.0 million) fell below the net income target ($1,047.0 million). The State did not make any offsetting Incentive Compensation payment to the vendor, as the Lottery net income also fell below the base net income level ($967.0 million). Instead of making the full $18.8 million payment, Northstar New Jersey applied the remaining amount of its original $20 million credit, approximately $5.9 million, resulting in a net Shortfall Payment of $12.9 million.

On December 31, 2015, the State announced that the Lottery had amended its contract with Northstar New Jersey to settle an “adverse action” resulting from the State’s denial of Northstar New Jersey’s plan to install monitor games at retailers throughout the State and a national trend of declining lottery revenues from multi-state draw games. As a result of the settlement, Northstar New Jersey now guarantees a $960 million FY 2016 net income payment to the State. In addition, the amendment lowered future vendor net income targets as well as the range of future incentive compensation payments to the vendor.
The FY 2016 Appropriations Act anticipated $1.0 billion in State Lottery net income for FY 2016. However, on February 16, 2016, the Governor’s Budget Message reduced the estimate to $965 million. The revised FY 2016 estimate represents a 3.5 percent decline ($35 million) from the certification and reflects a slightly higher amount than Northstar New Jersey’s FY 2016 guaranteed payment of $960.0 million and its net income target of $963.5 million.

• Questions: Please assess Northstar’s performance as the manager of the State Lottery’s sales and marketing operations. Has the Lottery identified any structural changes in consumer behavior that shift the demand curve for lottery products downwards?

Answer: As Northstar completes its second full year under the Services Agreement, the overall impact on operations, the public and retailers has been positive. The Lottery believes that Northstar has fulfilled, and is continuing to fulfill, all of the operational requirements of the Services Agreement. Sales are the highest that they have ever been, topping the $3 billion threshold for the first time in Fiscal 2015 and expected to exceed $3.2 billion in Fiscal 2016. The number of participating retailers is 13% higher since the inception of the Services Agreement. This increase in retailers includes the addition of chains such as Wawa and Rite Aid.

Northstar has heavily invested in expanding the Lottery’s instant ticket vending machine (ITVM) network and by introducing full-service vending machines (Geminis). The Geminis enable customers to purchase tickets for lottery draw and instant games without the assistance of a sales clerk. These machines, located at retailers throughout the State, are a huge convenience to both retailers and customers. Introduction of the Geminis allowed for the addition of the aforementioned retail chains to the retailer network.

Retailer satisfaction is very high. Specifically, retailers are pleased with the point of sale materials that Northstar has distributed. Additionally, at the behest of retailers, a new instant game that is totally redeemable “in the field” has been launched. With all prizes less than $599.99, players are not required to submit a form to the Lottery for payment. More importantly, for retailers, they are able to pay winners immediately upon redemption.

The increase in sales above the $3 billion threshold has indicated that there continues to be a significant demand for lottery products. The Lottery and Northstar are always reviewing the portfolio of games to ensure that there is a proper mix of games that appeal to all segments of the lottery playing public.

• Questions: In reference to the December 2015 contract amendment, does the State Lottery agree that its refusal to grant Northstar permission to install monitor games at retailers throughout the State was an adverse action on its part that justified Northstar’s request for relief? Under current law, does the State Lottery have the legal authority to permit the installation of monitor games at retailers? Does the State Lottery agree that the national trend of declining lottery revenues constitutes an adverse action on its part that justified Northstar’s request for relief?
Answer: The Lottery agrees that the refusal to grant Northstar permission to install monitor games was an adverse action that justified the request for relief.

An opinion received from the Division of Law in 1993 stated that a game similar to the monitor game that Northstar proposed would have been lawful for the Lottery to operate. That opinion has not been updated at this time. Northstar believed that the monitor game that it proposed was not in violation of the statutory limitation on games played or operated on video machines.

The Lottery agrees that the decline in the national sales beginning in 2013 for the Powerball and Mega Millions games was unforeseen, especially given the history of both of these games since their inception.

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 2015 “Financial Statements and Supplementary Information,” the contractor charged the State Lottery $42.4 million in administrative expenses in FY 2015: a) $23.3 million in advertising and marketing expenses, b) $14.2 million in manager expenses, and c) a $4.9 million management fee. As the table below shows, combining the administrative expenses of the Division of Lottery and Northstar, FY 2015 experienced the highest administrative expenses since at least FY 2008 at $52.4 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 1.72 percent in FY 2015, exceeding the 0.68 percent to 0.89 percent range between FY 2008 and FY 2011, the 1.32 percent in FY 2012, the 1.22 percent in FY 2013, and the 1.53 percent in FY 2014.

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<tbody>
<tr>
<td>Northstar Fees and Expenses</td>
<td></td>
<td></td>
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<tr>
<td>Total Administrative Expenses</td>
<td>$22,000,000.00</td>
<td>$18,000,000.00</td>
<td>$22,000,000.00</td>
<td>$37,000,000.00</td>
<td>$35,000,000.00</td>
<td>$16,000,000.00</td>
<td>$10,000,000.00</td>
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<tr>
<td>Total Operating Revenues</td>
<td>$2,538,000,000.00</td>
<td>$2,648,000,000.00</td>
<td>$2,677,000,000.00</td>
<td>$2,798,000,000.00</td>
<td>$2,861,000,000.00</td>
<td>$2,942,000,000.00</td>
<td>$3,050,000,000.00</td>
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<tr>
<td>Admin. Expenses As Share of Operating Revenues</td>
<td>0.87%</td>
<td>0.69%</td>
<td>0.82%</td>
<td>1.32%</td>
<td>1.22%</td>
<td>1.53%</td>
<td>1.72%</td>
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</table>

In part, the higher administrative expenses reflect an increased position count. The division replied to OLS Discussion Point #9 in the FY 2015-2016 Department of the Treasury Budget Analysis that Northstar had 115 employees devoted to sales and the marketing of lottery products, plus 15 staff in executive and administrative positions. By comparison, the State Lottery only had 64 staff devoted to sales and marketing.
Discussion Points (Cont’d)

- **Questions:** What are the projected FY 2016 administrative expenses of the Division of Lottery and Northstar? Does the division expect future administrative expenses to stabilize at the FY 2016 level? What is Northstar’s current position count? What services give rise to the Northstar management fee payment? Does the fee payment obligation accrue on a cost-reimbursement basis?

  **Answer:** The FY 2016 projected administrative expenses for Northstar are:

  - $14.5 million – management and administrative expenses
  - $4.9 million - management fee
  - $24.9 - marketing/advertising expenses

  The Lottery’s projected expenses are $11.2 million.

  At this juncture, the Lottery believes that the overall administrative expenses have stabilized at the Fiscal 2016 level. Any increases in administrative expenses will be consistent with the contractual growth for such expenses delineated in the Services Agreement.

  Presently the Northstar position count is 132. These positions consist of:

  - 94 Sales Staff
  - 20 Marketing Staff
  - 18 Management and Support Staff

  In accordance with the Services Agreement with Northstar, the management fee is for expenses incurred by Northstar with respect to its provision of services under the agreement. Specifically, it is for corporate services provided to the Lottery by personnel of Northstar’s corporate partners rather than by Northstar personnel domiciled in New Jersey. Such expenses include costs related to the application of best international business practices, national retail chain business development, retail best practices (including data analytics, retailer design and merchandising), player loyalty management, responsible gaming program support, legal and compliance support, finance and tax support (i.e. tax filings, SEC filings etc.) and governance duties performed by the Northstar Board of Directors. The management fee is a fixed rate per the contract.

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
Discussion Points (Cont’d)

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. Further, the division stated in response to OLS Discussion Point #10 in the FY 2015-2016 Department of the Treasury Budget Analysis that if the Lottery was to perform a look-up by Social Security number in every instance, it would require obtaining the necessary legal authority to do so. The division was working with the Office of the Attorney General, at the time, to obtain the necessary authority.

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 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: Has the Division of Lottery obtained the necessary legal authority to allow for a social security number-based SOIL system match of prize claimants for State debt collection purposes? If so, please specify the date by which the division plans to begin conducting the matches.

Answer: At this juncture, the Division is doing everything that state and federal law permits us to do. Federal law governs the Division’s use of social security numbers.
Discussion Points (Cont’d)

The Division cannot perform automated social security number matches for all other State agencies because it is not presently authorized to use a claimant’s social security number to collect debt for all agencies participating in SOIL. Nevertheless, the Division recognized its statutory obligation to complete an offset of winnings for debt owed to the State, and is now performing matches on winnings greater than $600.00 for those agencies in the SOIL program for which it is authorized to conduct such matches.

The Division of Lottery has been working with the Division of Law and, to the extent possible, the other State agencies that participate in SOIL for which it is not authorized to match to ensure that all proper regulations are in place for the recovery of funds owed to the State that would otherwise pass to claimants of lottery prizes.

Each state agency that participates in the SOIL program has its own regulations with regard to garnishments. Lottery has no control over these garnishment regulations.

• Questions: 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?

Answer: The Division presently reviews all winning tickets with a prize value of $600 or more against the State’s SOIL and other lien files for which it is authorized. Additionally, the Division agrees with the underlying objective of this recommendation by OLS to reduce potential fraud by winning ticket holders should they attempt to avoid the repayment of State debt on their winnings by providing false information to the Division.

Presently, all claimants of prizes greater than $599.99 are required to provide (1) a tax identification number or social security number and (2) proof of identity such as a valid driver’s license or passport number when claiming their prize. Both the social security or tax identification number and the passport or driver’s license number must be stated on the Winner Claim Form that all claimants of prizes exceeding $599.99 are required to complete and submit. The Winner Claim Form requires the claimant to certify that all information provided is true and accurate, with the acknowledgment that any claimant who knowingly provides false information is subject to punishment. In appropriate cases, the Division refers incidents of suspected fraud to the Division of State Police for investigation.

The Division has been consulting with State agencies that have a fiduciary responsibility to verify the social security numbers provided by constituents, such as the Division of Pensions and Benefits and the Department of Labor and Workforce Development. Labor uses an outside vendor, Veris, for social security number verification purposes. Before the Lottery can utilize an outside vendor’s services, its systems and or software must be made compatible with the Lottery’s new Claim and Payment system (CAP).
Discussion Points (Cont’d)

Since CAP is used to finalize actual payment amounts to claimants, it is imperative that there is a “clean” interface between the two systems. Presently, the Lottery is working with IGT, its gaming system provider, and the developer of the CAP system to assist in drafting the procurement documents for the services to be provided by Veris.

- Questions: Please update whether the division has its backup Business Continuity Site fully operational. 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.

  Answer: The Division’s back-up facility is fully operational. Drills are on-going.

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 2015, some 32.0 percent of gross lottery sales were used for that purpose and the Administration anticipates that some 31.3 percent of gross lottery sales would be used in that manner in FY 2016 and some 31.5 percent in FY 2017, as displayed in the evaluation data in the Governor’s FY 2017 Budget (page D-384).

The State Lottery 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 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. Please list all states that participate in Cash4Life. What impact have these additional states had on prize pools?

  Answer: The CASH4LIFE game is performing at expected levels. There are now a total of six states selling the CASH4LIFE game with two more joining before the end of calendar year 2016 and an additional state expressing interest. As these additional states join the game, the prize pools benefit from financial support emanating from the
resulting increase in sales. This is still a very young game and performance is best measured after a period of time with the full participation of these additional states. At this juncture, both Pennsylvania and Virginia have participated in the game for about one year and Maryland and Tennessee have only participated for two months and five months respectively.

Any determination regarding the prize payout to sales ratio falling below the 55% target is dependent upon the starting point for measuring a twelve month period. For the entirety of Fiscal 2015 prize payout to sales ratio was 61%, for Fiscal 2016 year-to-date, the ratio is 65% and for calendar 2015 the sales ratio was 53%.

CASH4LIFE was launched late in FY 2014 with the first draw taking place on June 16, 2014. From inception through April 25, 2016, sales were $114.6 million and the prizes were $73.5. Please note for Fiscal 2016, prizes (and the prize payout to sales ratio) have not been adjusted downward to reflect the crediting of forfeited prizes. This adjustment will not be performed until the conclusion of the audited results of the fiscal year ending June 30, 2016.

The impact of the additional States on the game is being closely monitored and evaluated. There are no plans to modify the game at this juncture.

The six states that currently participate in the multi-state CASH4LIFE games are Maryland, New Jersey, New York, Pennsylvania, Tennessee and Virginia. The addition of sales from all the additional states has helped to fund the top prizes at a faster pace, thereby mitigating potential prize pool shortfalls.

Questions: How many fixed-prize payout games does the State Lottery currently operate? Does the State Lottery intend to increase their number?

Answer: The Lottery’s other major draw games; Jersey Cash 5, Pick 6, Mega-Million and Powerball all have some level of fixed prize payouts—particularly at the lower prize tiers. All but Jersey Cash 5 have a minimum jackpot amount, however as the jackpot rolls, the jackpot prize is predicated on sales. Mega Millions and Powerball do have significant 2nd tier fixed prize payouts of $1 million each. CASH4LIFE is the only draw game the Lottery operates where both the top two prize tiers are always fixed prize payouts.

All of the Lottery’s instant games have fixed prizes. With Instant Games there are a fixed number of tickets that are sold. These games are designed in such a manner that there is a correlation between the fixed number of tickets, the price of the tickets and the fixed prize payout for each prize tier including top-tiers.

5 Card Cash, a new draw game scheduled to launch on May 16, 2016 will be a fixed prize game. It is expected to have a prize expense of 56%. Per the approved game rules, in the event of more than two top tier winners, the prize shall become pari-mutual. This provision will help to limit the Lottery’s exposure in the event of multiple top tier winners.
Discussion Points (Cont’d)

The Lottery is always reviewing its portfolio of games to ensure that there is a proper mix of games that appeal to all segments of the lottery playing public.

In accordance with N.J.S.A. 5:9-7, the Services Agreement with Northstar requires that at least 30% of gross sales are dedicated to the support of State institutions and education. Northstar must make up any shortfall.

DIVISION OF TAXATION

12. In March 2014, the Division of Taxation released a Request for Information (RFI) for the State of New Jersey Tax Systems Modernization Project, which 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 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’s Project Team had readied an RFP whose release was expected at some point in FY 2015. Subsequently, the department stated that an RFP was in the formal review process and was anticipated to be released in calendar year 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. 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
Discusssion Points (Cont'd)

vendor’s compensation. If the State has abandoned the modernization initiative, please detail the reason(s) for doing so.

Answer: The RFP is still under review and being prepared for release. To reduce the total projected cost of the project, a traditional funding model based on time and materials is being proposed.

13. a. The Division of Taxation operates two permanent amnesty-like programs: the voluntary disclosure agreement program and the closing agreement program. Voluntary disclosure agreements 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 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.
Discussion Points (Cont’d)

<table>
<thead>
<tr>
<th>Year</th>
<th>Closing Agreements</th>
<th>Closing Agreement Collections</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY 2010</td>
<td>25</td>
<td>$46,330,172</td>
</tr>
<tr>
<td>FY 2011</td>
<td>52</td>
<td>$11,696,567</td>
</tr>
<tr>
<td>FY 2012</td>
<td>84</td>
<td>$11,176,959</td>
</tr>
<tr>
<td>FY 2013</td>
<td>261</td>
<td>$8,977,314</td>
</tr>
<tr>
<td>FY 2014</td>
<td></td>
<td></td>
</tr>
<tr>
<td>FY 2015</td>
<td></td>
<td></td>
</tr>
<tr>
<td>FY 2016</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

- **Questions:** For FY 2014, FY 2015 and FY 2016 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 2015 that included prospective tax exemptions that were contingent upon the generation of economic activity in New Jersey. Please provide this information by filling in the above table.

**Answer:** For July 1, 2013 to June 30, 2014:
The Division of Taxation executed 182 closing agreements. 163 were to settle amounts of tax owed and disputed by the taxpayer. 19 were to settle amounts of refunds requested by the taxpayer.

<table>
<thead>
<tr>
<th>Assessments</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Agreements Completed</td>
<td>163</td>
</tr>
<tr>
<td>Amount of Tax Disputed</td>
<td>$30,898,900</td>
</tr>
<tr>
<td>Amount of Penalty Disputed</td>
<td>$4,216,083</td>
</tr>
<tr>
<td>Amount of Interest Disputed</td>
<td>$19,266,448</td>
</tr>
<tr>
<td>Amount of Revenue Collected</td>
<td>$21,232,985</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Refunds</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Agreements Completed</td>
<td>19</td>
</tr>
<tr>
<td>Amount of Refunds Requested</td>
<td>$27,794,343</td>
</tr>
<tr>
<td>Amount Refunded</td>
<td>$14,078,808</td>
</tr>
</tbody>
</table>

For July 1, 2014 to June 30, 2015:
The division executed 88 closing agreements. 80 were to settle amounts of tax owed and disputed by the taxpayer. 8 were to settle amounts of refunds requested by the taxpayer.
As of 4/28/16 the division has executed 34 closing agreements. 30 were to settle amounts of tax owed and disputed by the taxpayer. 4 were to settle amounts of refunds requested by the taxpayer.

For FY 2016 to date, a total of 17 additional closing agreements have been executed by the audit branch for $9,228,407.

13. 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 years past, the division has provided data regarding voluntary disclosure agreements in tables similar to the one below.
Discussion Points (Cont’d)

<table>
<thead>
<tr>
<th></th>
<th>Voluntary Disclosure Agreement Requests</th>
<th>Voluntary Disclosure Agreements Concluded</th>
<th>Voluntary Disclosure Collections</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY 2010</td>
<td>273</td>
<td>203</td>
<td>$106,869,988</td>
</tr>
<tr>
<td>FY 2011</td>
<td>357</td>
<td>286</td>
<td>$36,503,763</td>
</tr>
<tr>
<td>FY 2012</td>
<td>454</td>
<td>339</td>
<td>$91,177,294</td>
</tr>
<tr>
<td>FY 2013</td>
<td>321</td>
<td>144</td>
<td>$57,770,457</td>
</tr>
<tr>
<td>FY 2014</td>
<td>370</td>
<td>334</td>
<td>$64,641,711</td>
</tr>
<tr>
<td>FY 2015 (As of Discussion Point Response)</td>
<td>220</td>
<td>121</td>
<td>$46,707,366</td>
</tr>
</tbody>
</table>

• **Questions:** For FY 2015 and FY 2016 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.

  **Answer:** The updated numbers for FY 2015 and FY 2016 are:

<p>| | | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>FY 2015</td>
<td>305</td>
<td>311</td>
<td>$65,151,352</td>
</tr>
<tr>
<td>FY 2016</td>
<td>223</td>
<td>261</td>
<td>$43,368,660</td>
</tr>
</tbody>
</table>

Penalties waived-The Division does not maintain waived penalties amounts.

14. 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.2015, c.73 (C.54A:4-6 et seq.), the State EITC provides a refundable credit under the State gross income tax, currently equal to 30 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 NJEITC 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. The division reported that it sent notices to 122,265 Tax Year 2012 EITC claimants, or 22 percent of all claimants. Roughly 36,680 respondents provided sufficient information for the division to approve or adjust the EITC payment.

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 2013, for instance, some 594,766 tax filers claimed EITC benefits, but only 511,550 received credits as of the division’s discussion point reply, while the claims of the
Discussion Points (Cont'd)

other 83,216 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.

<table>
<thead>
<tr>
<th>Tax Year</th>
<th>BTC Claims Filed</th>
<th>BTC Claims Paid</th>
<th>BTC Claims Rejected or Pending</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>490,268</td>
<td>462,241</td>
<td>28,027</td>
</tr>
<tr>
<td>2008</td>
<td>500,627</td>
<td>470,368</td>
<td>30,259</td>
</tr>
<tr>
<td>2009</td>
<td>544,181</td>
<td>509,420</td>
<td>34,761</td>
</tr>
<tr>
<td>2010</td>
<td>546,869</td>
<td>493,555</td>
<td>53,314</td>
</tr>
<tr>
<td>2011</td>
<td>581,422</td>
<td>497,821</td>
<td>106,882</td>
</tr>
<tr>
<td>2012</td>
<td>579,637</td>
<td>481,287</td>
<td>98,350</td>
</tr>
<tr>
<td>2013</td>
<td>594,766</td>
<td>511,550</td>
<td>83,216</td>
</tr>
<tr>
<td>2014</td>
<td>552,911</td>
<td>429,613</td>
<td>123,298</td>
</tr>
</tbody>
</table>

New Jersey is not alone in pursuing enforcement efforts within its BTC 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 BTC 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 BTC 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 BTC fraud prevention efforts. Has the number of claims converting from “pending” to “paid” been in line with division expectations for TY 2013 and TY 2014? Of the number of pending claims outstanding for TY 2012, TY 2013, and TY 2014 what amount, in accordance with GAAP principals, was accrued in FY 2014 and FY 2015 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 2016, what number and percentage of BTC 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?

Answer: The number of claims converted from pending to paid or denied for the TY 2013 and 2014 are in line with the Division’s plan and expectations based on developed resolution criteria.

The Division annually evaluates and refines the selection process when determining what accounts are issued notices requesting additional information to support their claim. The goal of this endeavor is to decrease the number of eligible accounts selected for notification, while improving the identification of potentially ineligible or fraudulent accounts claims.
Discussion Points (Cont’d)

<table>
<thead>
<tr>
<th>Tax Year</th>
<th>Notices Sent*</th>
<th>% of all claims filed issued a notice**</th>
<th>Amount adjusted and approved of all responses</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>147,788</td>
<td>26%</td>
<td>35%</td>
</tr>
<tr>
<td>2012</td>
<td>122,929</td>
<td>22%</td>
<td>31%</td>
</tr>
<tr>
<td>2013</td>
<td>96,437</td>
<td>16%</td>
<td>25%</td>
</tr>
<tr>
<td>2014</td>
<td>92,286</td>
<td>16%</td>
<td>24%</td>
</tr>
<tr>
<td>2015</td>
<td>82,030*</td>
<td>15%</td>
<td>3%+</td>
</tr>
<tr>
<td></td>
<td>* as of 4/26/16</td>
<td>** notices continue to be issued</td>
<td>+ responses continue to be received</td>
</tr>
</tbody>
</table>

**Questions**: Of the number of pending claims outstanding for TY 2012, TY 2013, and TY 2014 what amount, in accordance with GAAP principals, was accrued in FY 2014 and FY 2015 to account for refund claims? When and on what basis will such accruals be reversed?

**Answer**: The accrual estimate is based on lump sums for the number of and dollar amounts of refund requests; pending EITC claims are not lined-out as a separate accrual estimate.

**Questions**: Please provide a separate table which details EITC claims filed by month. Has the division noticed any patterns in regard to when EITC claimants file? When do EITC claimants receive their refund checks?

**Answer**: A table for the number of EITC claims filed each month for the last three tax years is being developed, but will take some time to prepare. (Ninety one percent of all EITC claims are submitted during the first four months of the processing season. Claimants that do not require a manual review (are not issued a notice) generally receive their refunds in the same timeframe as non-EITC filers. For the 2015 Tax Year, the Division issues refunds within four weeks of return receipt.)
Questions: For all years since Tax Year 2007, please update the number of EITC claims: a) filed, b) paid, and c) rejected or pending.

Answer: Please see the table below.

<table>
<thead>
<tr>
<th>Tax Year</th>
<th>EITC Claims Filed</th>
<th>EITC Claims Paid</th>
<th>EITC Claims Rejected or Pending</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>490,268</td>
<td>462,241</td>
<td>28,027</td>
</tr>
<tr>
<td>2008</td>
<td>500,628</td>
<td>470,366</td>
<td>30,262</td>
</tr>
<tr>
<td>2009</td>
<td>544,182</td>
<td>509,417</td>
<td>34,765</td>
</tr>
<tr>
<td>2010</td>
<td>546,871</td>
<td>493,551</td>
<td>53,320</td>
</tr>
<tr>
<td>2011</td>
<td>583,330</td>
<td>475,927</td>
<td>107,403</td>
</tr>
<tr>
<td>2012</td>
<td>583,760</td>
<td>485,032</td>
<td>98,728</td>
</tr>
<tr>
<td>2013</td>
<td>603,262</td>
<td>520,105</td>
<td>83,157</td>
</tr>
<tr>
<td>2014</td>
<td>610,183</td>
<td>530,247</td>
<td>79,936</td>
</tr>
<tr>
<td>2015</td>
<td>570,539</td>
<td>479,212</td>
<td>91,327</td>
</tr>
</tbody>
</table>

15. In preparation for a July 2015 launch of its proposed Arm’s-Length Adjustment Service program, the Multistate Tax Commission (MTC) requested that states commit to their program participation for an initial four-year period by April 30, 2015. According to the division, 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 provide a status update regarding the Division of Taxation’s participation in the proposed Multistate Tax Commission’s Arm’s-Length Adjustment Service program. Has the MTC generated cost estimates for each state?

Answer: The Arm’s-Length Adjustment Service (ALAS) Committee still exists with New Jersey being represented by a manager from Audit Activity. The MTC has not received a sufficient number of states to adopt the program and the MTC has not generated cost estimates for each state as of this date.

16. 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 the time that the new requirement would result in an additional $40 million in FY 2015 State tax collections.

Questions: 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? Did the new filing requirement increase FY 2015 State tax collections by $40 million, as initially projected?

Answer: The return and payment processing for the 2015 tax year is not complete as many returns will only be filed by the extended due date of October 15, 2016. At that point, the Division could make a comparison between the FY 2014 and FY 2015 data regarding the number of returns filed and State tax collections. To date, there has not been a change in the workload of Audit Activity.

17. 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
Discussion Points (Cont’d)

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. The Division of Taxation had noted 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. The Division of Taxation developed the proof of concept; however, the proof of concept required modifications.

• 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 finalized? 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 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.

Answer: At this time, the plans for the tracking system have been sidelined due to other Division priorities.

18. 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 received requests for assistance from 672 taxpayers in FY 2014 and FY 2015 through March, of which 603 requests met the office’s case acceptance guidelines. At the time of the response only three of the cases remained still open and the office had closed another ten without a resolution. In all, since July 1, 2013 through the date of the discussion point reply, about 59 percent of all cases involved the gross income tax, 15 percent the corporation business tax, and 12 percent the sales and use tax with all other taxes combining for the remaining 14 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) deferred payment plans and “good faith
Discussion Points (Cont’d)

payments”; 2) erroneous property tax deduction adjustments; 3) acceptance of incomplete electronically filed personal income tax returns; and 4) the development of a new Statement of Accounts template for use by the division.

• Questions Please describe the Office of the Taxpayer Advocate’s (OTA) activities in FY 2015 and FY 2016 to date.

Answer: During FY 2015 and FY 2016 the Office of the Taxpayer Advocate (OTA) has continued to provide independent review of taxpayers’ requests for assistance and to identify and help facilitate appropriate resolutions. In addition, during the past year, OTA has assisted in drafting and/or revising webpages and publications so that they provide helpful and useful information for taxpayers and are easily understood.

• Questions How many taxpayers have contacted the OTA in FY 2015 and FY 2016 to date? How many cases has the OTA accepted for assistance in FY 2015 and FY 2016 to date and how many cases has the office closed?

Answer: During FY 2015 and FY 2016 (through 4/27/2016), OTA received 824 requests for assistance from taxpayers. All requests have been met with some manner of assistance. Only 4 of the cases remain open.

• Questions What taxes have produced the most requests for OTA assistance in FY 2015 and FY 2016 to date?

Answer: Of the cases received during FY 2015 and FY 2016 to date, 64% involved gross income tax, 7% involved corporation business tax, and 8% involved sales tax. The remaining 21% involved numerous topics including property tax relief programs, inheritance tax, estate tax, bulk sales, and billings for taxes resulting from internet cigarette sales.

• Questions 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 been made subsequent to OTA recommendations.

Answer:
OTA has identified the following:
1. Better clarification of abatement decisions.
2. More consistent processing and imaging of extension requests.

• Questions What are the OTA’s budget and position count for FY 2016? Are any budgetary or staffing changes anticipated in FY 2017?
Discussion Points (Cont’d)

**Answer:** For the past year, OTA has been staffed with two TS R1s. The Assistant Director of Counsel Services remains responsible for OTA, but less than 15% of the AD’s time is spent on OTA matters. The annual salary expenditure for FY 2016 will be approximately $180k. No changes are anticipated for FY 2017.

• **Questions:** Is a case backlog developing? What is the average response time in replying to taxpayer requests for assistance?

**Answer:** No case backlog is developing. All inquiries are acknowledged by OTA within 2 business days of receipt. While some cases are resolved in a few days or even hours, other cases take several weeks or even months depending on the complexity of the issues and the amount of time it takes the taxpayer or other Division employees to provide requested information, records, and/or documentation.

19. a. The contours of the Governor’s proposed FY 2017 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 largely unchanged from FY 2016. Overall, the Executive estimates that 652,800 homeowners would collect an average $478 benefit in FY 2017, after 694,400 homeowners collected an average $473 rebate in FY 2016. Although the program’s eligibility criteria have not changed since FY 2010, the number of claimants fell by 297,600, or 30.0 percent, from 992,000 in FY 2010 to 694,400 in FY 2016. Some 72,100 fewer seniors, or 14.0 percent, participated in the program in FY 2016 (441,900 participants) than in FY 2010 (514,000 participants). But the more significant decline transpired among non-seniors whose participation dropped by 225,500 claims, or 47.2 percent, from 478,000 claimants in FY 2010 to 252,500 in FY 2016. For all claimants combined, the Administration projects a further 6.0 percent contraction in FY 2017 to 652,800 participants. The department has conveyed that its own analysis suggests that bracket creep is 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 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 2017 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.
Discussion Points (Cont’d)

Relative to statutory provisions, the Governor’s FY 2017 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 2015 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: For FY 2016 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.

Answer: Please see the attached tables (Attachment Q19.a. 1, 2 and 3) for responses to this question.

19. b. In its December 2015 audit report on the Homestead Benefit Program, the Office of the State Auditor recommended the Division of Taxation utilize property sales data to identify applicants who should receive homestead benefit rebate checks in lieu of property tax credits, utilize information available from federally approved data to identify deceased individuals, and require applicants to enter their social security number to verify their identity when applying over the phone.

First, the State Auditor found that homeowners who sold their homes after their homestead benefit applications were submitted and did not indicate so on their applications likely did not receive their homestead benefits. While evaluating the program in comparison to property sales data for the period from October 2012 through February 2015, the State Auditor found 19,000 homestead benefits, totaling $10 million, which were credited to the property tax bills of current owners who were not the benefit applicant. Additionally, the State Auditor expects that in FY 2016 approximately $2 million will not be paid to the proper applicants because home sales may not be indicated on applications. The division uses property data to update mailing addresses for homestead benefit applications; however, according to the State Auditor, the division does not utilize the sales data again prior to releasing homestead benefit payments to municipalities. The State Auditor recommended the division utilize property sales data to identify applicants who should receive homestead benefit rebate checks in lieu of property tax credits. In the division’s audit response, the division stated that going forward it would do so.

Second, the State Auditor noted that the division did not have access to accurate mortality data when the 2012 homestead benefits were approved for payment. As a result, the State Auditor
Discussion Points (Cont'd)

found 4,853 benefits paid to primary applicants with a date of death prior to October 1, 2012, totaling approximately $2.6 million. Of the 4,853 benefits issued, 127 applicants died more than 20 years ago and 16 would be at least 110 years old. The State Auditor recommended that the division utilize information available from federally approved data to identify deceased individuals and request additional information where needed. In the division’s audit response, the division noted that it had gained access to the information beginning in 2015.

Third, when applicants choose to file their applications over the telephone, they are not prompted to input their social security number for identity verification purposes. As a result, a risk exists for potential applicants, who have since sold their homes and have not updated their addresses with the division, to have an application filed on their behalf if the new homeowner is to receive an application in subsequent years. The State Auditor recommended the division to require applicants to submit their social security number to verify their identity and reduce the risk of fraud during the application process. In the division’s audit reply, the division stated that it would explore the feasibility of doing so.

• **Questions:** Please provide the number of complaints received or cases handled by the division that have involved the crediting of an applicant’s homestead benefit to a residence the applicant no longer resides at. Is the division currently using sales data prior to the release of these benefits? What further actions can the division take to limit benefits from being wrongly distributed to homeowners other than those who applied for the benefits and have since moved? What recourse can an applicant take to recover his or her benefit after the benefit has been applied to the property tax bill of his former residence?

**Answer:** Although the division does not keep separate statistics on the number of complaints received or cases handled involving the credit of a benefit on a previous residence, we make every effort to resolve those issues as they arise. Beginning with the 2013 Homestead Benefit, the division implemented the use of sales data prior to the credits being issued to the municipality. When sales data indicates that an applicant has sold their property or moved, the benefit is then issued in a check instead of a credit on the property tax bill. The division concludes that with consistent timing of the application and benefit, coupled with the implementation of sales data validation prior to the credit being issued, the number of applicants who may not receive their benefit will be virtually eliminated. If an applicant fails to inform the division of a change in ownership but the division has matching sales data information, a check would be issued and not a credit. In the event that a sale closes after the credit file is issued, the applicant can reach out to the division and, on a case-by-case basis, a benefit check can be issued.

• **Questions:** Has the division identified any additional cases where benefits were paid to deceased applicants? If so, how many deceased applicants received the benefit and how much did the State pay out? Has the division recovered any ineligible payments?

**Answer:** No additional cases have been identified. A reevaluation of the data indicated that most payments were issued to the estate of the deceased taxpayer who was eligible at the time of the application.
Discussion Points (Cont’d)

• **Questions**: Has the division implemented the recommendation that it require homestead benefit applicants who apply over the phone to provide their social security number? If not, does the division plan to implement this recommendation? If so, when does the division plan to have social security identity verification as part of the phone application process?

  **Answer**: The division currently requires the primary social security number on all new applicants and the telefile system uses multi-stage validation on existing filers. The division is evaluating the feasibility of requiring social security validation for the 2014 application year.

20. On November 14, 2007, the United States Government Accountability Office (GAO) released a report on **tax evasion by Medicaid providers** (Medicaid: Thousands of Medicaid Providers Abuse the Federal Tax System, 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.

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. In 2013, the initiative was still ongoing and 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. Two year later, the division reported no progress on the project.

• **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?

  **Answer**: To enable the data match, DMAHS would have to provide the Division of Taxation with the relevant identifying information of the medical providers. DMAHS may be better positioned to provide a status of this initiative.
21. 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 Points, the division did, however, provide information on tax year 2013 CBT filings, including an indication that 90.4 percent of CBT filers paid only the statutory minimum tax amounts (98,819 out of 120,401 C corporation filers, or 82.1 percent, and 106,234 out of 106,476 S corporation filers, or 99.8 percent, paid statutory minimum amounts).

Questions: For tax year 2014, please indicate: a) the number of corporation business tax (CBT) return filers, segregated into at least five net income brackets; b) the total net income that taxpayers in each bracket declared; c) the total tax base; d) the total amount of tax they were charged; and e) 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.

Answer: We are working on a chart responding to this question, but it requires additional time to prepare.

22. The Realty Transfer Fee (RTF) has four components: the basic fee, the additional fee, the general purpose fee, and the supplemental fee. Each component of the RTF imposes a fee of a specified amount per $500, or fractional part thereof, of the property’s selling price. Both the basic fee and the additional fee impose a flat fee consistently per each $500 increment of the entire amount of the property’s selling price to which the fee applies. In contrast, the general purpose fee and the supplemental fee have graduated structures in which the applicable rate imposed per $500 segment increases as the selling price increases at certain thresholds. Moreover, not all of the fees are imposed on every sale or on every “dollar” of the selling price: the additional fee is imposed only on that portion of the selling price, if any, that exceeds $150,000, while the general purpose fee is only imposed if the selling price of the property exceeds $350,000. Further, P.L.2004, c.66 and P.L.2006, c.33 established and expanded a separate one-percent assessment on certain properties selling for more than $1 million.

Revenues from the RTF fund both county and State government purposes, with some of the revenues specifically dedicated for certain uses. The State and the 21 counties share RTF basic fee proceeds, with the county in which the deed is recorded retaining two-sevenths of the rate imposed for its use, and the balance being directed to the State for deposit in the General Fund or one of its subaccounts. Of annual State basic fee collections, the first $25 million is credited to the Shore Protection Fund, following which $5 million is credited to the Highlands Protection Fund as provided by law.

Questions: Please provide a table which displays the total amount of properties sold with a total consideration below $350,000, between $350,000 and $1,000,000, and $1,000,000 and above for FY 2014, FY 2015, and year-to-date FY 2016. In each of those years, how many individuals received partial exemptions due to age or disability?
Discussion Points (Cont’d)

Answer:

<table>
<thead>
<tr>
<th>Fiscal Year 2014</th>
<th>Number of Sales</th>
<th>Number of Sales</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales under $350,000</td>
<td>129,410 Senior Exemptions Count</td>
<td>12,857</td>
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<tr>
<td>Sales between $350,000 and $1,000,000</td>
<td>37,773 Disabled Exemptions Count</td>
<td>600</td>
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<td>Sales over $1,000,000</td>
<td>4,930</td>
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<tr>
<td>Total:</td>
<td>172,113 Total:</td>
<td>13,457</td>
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<table>
<thead>
<tr>
<th>Fiscal Year 2015</th>
<th>Number of Sales</th>
<th>Number of Sales</th>
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</thead>
<tbody>
<tr>
<td>Sales under $350,000</td>
<td>135,010 Senior Exemptions Count</td>
<td>11,969</td>
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<tr>
<td>Sales between $350,000 and $1,000,000</td>
<td>39,684 Disabled Exemptions Count</td>
<td>577</td>
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<tr>
<td>Sales over $1,000,000</td>
<td>5,354</td>
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<td>Total:</td>
<td>180,048 Total:</td>
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<table>
<thead>
<tr>
<th>Fiscal Year 2016 YTD</th>
<th>Number of Sales</th>
<th>Number of Sales</th>
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<tbody>
<tr>
<td>Sales under $350,000</td>
<td>107,451 Senior Exemptions Count</td>
<td>9,597</td>
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<td>Sales between $350,000 and $1,000,000</td>
<td>32,593 Disabled Exemptions Count</td>
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<td>Sales over $1,000,000</td>
<td>4,210</td>
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<tr>
<td>Total:</td>
<td>144,254 Total:</td>
<td>10,086</td>
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</tbody>
</table>

* Number of sales reported from 2014 and 2015 SR-1A Data (Sale Records). Fiscal 2016 is YTD through 4/29/2016.

Questions For FY 2014, FY 2015, and year-to-date FY 2016, please provide the amount of revenue generated by the residential portion of the one-percent assessment on properties over $1 million and a separate accounting for the commercial segment. For both the residential and commercial segments, how many buyers were subject to the one-percent assessment for those years?

Answer:

<table>
<thead>
<tr>
<th>Actual RTF Revenue Fiscal Year 2014</th>
<th>Estimate Number of Buyers FY14</th>
<th>Actual RTF Revenue Fiscal Year 2015</th>
<th>Estimate Number of Buyers FY15</th>
<th>Actual RTF Revenue Current Fiscal Year through February 2016</th>
<th>Estimate Number of Buyers FY16</th>
</tr>
</thead>
<tbody>
<tr>
<td>$91,569,456.01</td>
<td>3,804</td>
<td>$104,713,886.00</td>
<td>4,205</td>
<td>$84,176,776.30</td>
<td>3,304</td>
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<tr>
<td>55% Residential</td>
<td>3,033</td>
<td>52% Residential</td>
<td>3,274</td>
<td>51% Residential</td>
<td>2,625</td>
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<tr>
<td>45% Commercial</td>
<td>771</td>
<td>48% Commercial</td>
<td>931</td>
<td>49% Commercial</td>
<td>679</td>
</tr>
</tbody>
</table>

* Please note: a breakdown of actual revenue totals by residential and commercial sales is not available.
23. 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. Under the initial contracts, PRWT Services Inc. of Philadelphia, PA pre-processed 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.

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, however, PRWT Services Inc. did not bid on the new contract. Instead, the division initiated a competitive bidding process for the latter contract in December 2013 and awarded it to SourceCorp BPS Inc. of Dallas, TX, now known as SourceHov, effective on January 1, 2015 (State Contract T-2774 for “Front End Mail Receipt & Pre-Processing Services - DORES”). Early indications by the division suggest that the transition to SourceHov was smooth and the vendor was exceeding expectations.

- **Questions:** Is SourceHov continuing to meet expectations in the FY 2016 tax return processing season? How much does the division save per processed mail item with the new vendor relative to performing the function in-house? Is the Data Entry Company still performing data entry and verification services? What payment amounts did the mail processing and data entry contractors receive in FY 2015 and are each expected to receive in FY 2016 and FY 2017?

- **Answer:** Yes. SourceHOV is meeting expectations.

The Division is now using a more inclusive metric for the in-house rate for mail processing, which is based on detailed cost accounting supplied by the Department’s Administrative Division. The rate per in-house processed mail item stands at $1.84. In contrast, the average rate for vendor processing, across all five line items in the current contract, is $.559.

Yes. The data entry contractor is performing data entry and verification services.

Following is the requested payment information:

<table>
<thead>
<tr>
<th></th>
<th>TDEC</th>
<th>SourceCorp</th>
<th>PRWT</th>
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</thead>
<tbody>
<tr>
<td>FY15 act</td>
<td>1,632K</td>
<td>1,588K</td>
<td>823K</td>
</tr>
<tr>
<td>FY16 est</td>
<td>1,700K</td>
<td>3,000K</td>
<td>0</td>
</tr>
<tr>
<td>FY17 est</td>
<td>1,700K</td>
<td>3,000K</td>
<td>0</td>
</tr>
</tbody>
</table>
Discussion Points (Cont’d)

24. 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 the bureau for relying 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 estimated $25 to $60 cost?

The Division of Revenue and Enterprise Service’s noted in its response to an OLS discussion point last year that the division had written to the Division of Law requesting legal advice regarding criminal background checks for Notary Public Applicants. Additionally, the division provided the OLS with a list of potential issues, which the division included in its audit reply, that affect the division’s ability to conduct these criminal background checks including: 1) the authority under existing law to conduct background checks; 2) having to charge fees for the background checks; and 3) having to collect Social Security numbers.

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 had not been verifying 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; however, the division noted last year in response to the OLS discussion point that it was awaiting the vendor’s response with respect to development and implementation of time frames.

• **Questions:** Has the division determined whether or not it has the legal authority to perform criminal background checks? If so, who would bear the background checks’ cost? Has the division determined whether it can require notary applicants to submit their Social Security Numbers for the purpose of a criminal background check? If applicable, by what date does the division expect to implement a criminal background check program for notary public applicants?
Discussion Points (Cont’d)

Answer: We are awaiting guidance from our legal advisors regarding the State’s legal authority to conduct background checks.

Questions: Has the division automated the business registration check for Small Business Enterprise designation applicants? If not, please indicate any issues the division is currently having with implementing the automated business registration check, including any issues with the vendor, and the date by which the division anticipates the system will be operational.

Answer: The Division has not automated the check as of this time, but has submitted a request to the vendor with a low priority ranking. The ranking is due to the fact that while desirable, the Division believes that automation of the check will not yield value sufficient to displace other projects on the vendor’s project list. In this connection, the Division does not see any procedural or operational issues of a material nature associated with this matter. The volume of transactions is negligible, and the manual check, though clearly less efficient than a fully automated solution, is sufficient for the Division’s purposes until such time as the process is automated.

DIVISION OF INVESTMENT

25. 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 2015 and FY 2016 target allocations, as well as the actual allocation on December 31, 2015, according to the New Jersey Division of Investment, December 2015 “Investment Reporting Package.” As of December 31, 2015, the State retirement funds had an aggregate value of $71.7 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; on December 31, 2014, some 28.4 percent, or $21.8 billion, and on December 31, 2015, some 31.2 percent, or $22.3 billion. 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. According to a recent report in the Wall Street Journal titled “Investors Pull Cash from Hedge Funds as Returns Lag Market,” pension funds, insurers, universities, and other big investors are pulling back from hedge funds as of the fourth quarter of 2015, as results falter.

<table>
<thead>
<tr>
<th>Asset Allocation and Targets for Pension Funds (December 31, 2015)</th>
</tr>
</thead>
</table>
Discussion Points (Cont’d)

<table>
<thead>
<tr>
<th>Asset Class</th>
<th>Target Allocation FY 2015</th>
<th>Target Allocation FY 2016</th>
<th>Actual Allocation (%)</th>
<th>Actual Allocation ($ Million)</th>
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</thead>
<tbody>
<tr>
<td>Fixed Income</td>
<td>18.75%</td>
<td>18.00%</td>
<td>17.78%</td>
<td>$12,747.5</td>
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<td>Alternative Assets:</td>
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</tr>
<tr>
<td>Hedge Funds</td>
<td>12.00%</td>
<td>16.75%</td>
<td>12.61%</td>
<td>$9,042.0</td>
</tr>
<tr>
<td>Private Equity</td>
<td>9.25%</td>
<td>4.75%</td>
<td>10.29%</td>
<td>$7,385.3</td>
</tr>
<tr>
<td>Real Estate</td>
<td>5.25%</td>
<td>6.05%</td>
<td>5.59%</td>
<td>$4,005.2</td>
</tr>
<tr>
<td>Commodities</td>
<td>3.00%</td>
<td>2.50%</td>
<td>2.68%</td>
<td>$1,919.8</td>
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<tr>
<td>Domestic Equity</td>
<td>27.25%</td>
<td>26.00%</td>
<td>28.19%</td>
<td>$20,215.0</td>
</tr>
<tr>
<td>International Equity</td>
<td>18.40%</td>
<td>19.75%</td>
<td>17.70%</td>
<td>$12,693.2</td>
</tr>
<tr>
<td>Cash</td>
<td>5.00%</td>
<td>5.00%</td>
<td>3.86%</td>
<td>$2,765.4</td>
</tr>
<tr>
<td>Police &amp; Fire Mortgages</td>
<td>1.10%</td>
<td>1.20%</td>
<td>1.29%</td>
<td>$924.7</td>
</tr>
<tr>
<td>TOTAL</td>
<td>100.00%</td>
<td>100.00%</td>
<td>100.00%</td>
<td>$71,698.1</td>
</tr>
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</table>

In January 2005, the SC 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 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, 2015, the division had placed $22.3 billion in the AIP. In all, it paid $701.4 million in management and performance fees for the AIP in FY 2015, $518 million in FY 2014, $321 million in FY 2013, $192 million in FY 2012, $174 million in FY 2011, and $127 million in FY 2010. The division indicated that through December 2014, the AIP’s private equity program had a 10.34 percent internal rate of return since inception in July 2005 net of fees, the hedge fund program a 6.00 percent annualized rate of return since inception in April 2006 net of fees, and the real estate program a 4.30 percent internal rate of return since inception in December 2005 net of fees. From April 2006 through December 2014, the annualized rate of return of the domestic equity portfolio was 8.68 percent, of the fixed income portfolio 7.82 percent, and the international equity portfolio 2.11 percent.

Questions: Does the Division of Investment intend to revise the asset allocation plan for the remainder of FY 2016 or FY 2017? If so, please highlight any changes from the current plan and explain the rationale for the changes. Does the division anticipate changing its hedge fund investment strategy in light of recent performance?

Answer: (Please note that some of the data in the table above is not correct). The Division, in conjunction with the Investment Policy Committee (IPC) of the State Investment Council (SIC), typically develops a proposed asset allocation plan on an annual basis. The proposed asset allocation plan is presented to, and approved by, the SIC prior to the start of each fiscal year.

The Division is currently in discussion with the IPC on the Fiscal Year 2017 asset allocation plan and will continue to work with the IPC with the objective of presenting the Fiscal Year 2017 asset allocation plan to the SIC for approval in May 2016.
Discussion Points (Cont'd)

Asset allocation is the most important decision an investor makes. The Division reviews the Pension Fund’s actual allocations in relation to the asset allocation plan on a daily basis. The asset allocation plan includes lower and upper limits approved by the IPC and SIC at the asset class level. The Division operates within these ranges.

Investment decisions, including allocations to various strategies, are greatly informed by the asset allocation plan, but also by the Division’s view of the current market opportunities and risks. The Division typically does not make significant changes to the portfolio’s allocation on a short-term basis; rather, short term tactical adjustments tend to be modest. As discussed above, the Fiscal Year 2017 asset allocation plan is currently being developed. While the target allocation to hedge fund strategies may change based on current and forward looking market conditions, the Division continues to believe hedge fund strategies play an important role in constructing a well-diversified portfolio designed to produce better downside protection and an attractive level of risk-adjusted returns over the long-term.

- 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?

Answer: Returns for Alternative Investment Program asset classes are tracked on a net-of-fees basis. The net-of-fee returns since the inception of each portfolio, as calculated by outside consultants/performance providers are:

Hedge Funds: 5.33% (Annualized Time-Weighted rate of Return (TWR) from inception of April 2006 through December 2015)

Private Equity: 10.80% (Internal Rate of Return (IRR) from inception in July 2005 through December 2015)

Real Estate: 4.55% (Annualized Time-Weighted rate of Return (TWR) from inception in December 2005 through December 2015)

The returns noted above are based on the most recent market values available for FY 2016, are unaudited, and are subject to change. The annualized returns for the public equity and fixed income portfolios from April 2006 through December 2015 are as follows: Domestic Equity: 7.70%, International Equity: 1.18%, Fixed Income: 7.01%. It should be noted that Private Equity returns are reported on an IRR basis, whereas hedge fund, real estate, public equity, and fixed income returns are reported on a TWR basis.

26. In exercising its fiduciary duties, the Division of Investment makes use of its investor right to cast votes by proxy in corporate meetings. According to the “Fiscal Year 2014 Summary Proxy Voting Report,” in FY 2014, the division voted 1,950 proxies and went against 1,336 individual proposals recommended by corporate management that were included in 860
Discussion Points (Cont'd)

of the 1,950 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 and FY 2013 iterations, the above ranking of the most common FY 2014 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, FY 2013, and FY 2014, though, division opposition to management on “say on pay” and “say on frequency” proposals became relatively rare. 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 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 2015. How many proxies did the division vote in FY 2015, how many management proposals did it vote against, and what areas did rejections of management proposals most commonly concern? Relative to FY 2012, FY 2013, and FY 2014, did the division revive in FY 2015 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 of proxy voting rights since the beginning of calendar year 2015? Please indicate any changes the division has made since the beginning of calendar year 2015 to the “State of New Jersey Division of Investment Proxy Guidelines.” Please submit a copy of the “Fiscal Year 2015 Summary Proxy Voting Report.”

Answer: Please see the attached Fiscal Year 2015 Proxy Voting Report (Attachment Q26) for a detailed discussion of the proxies voted by the Division. The Proxy Voting Guidelines are attached to the Report; there were no policy changes since the beginning of calendar year 2015.

The advent of “say on pay” continues to contribute to a significant decline in shareholder opposition to compensation committee members at U.S. firms.
Additionally, companies that engaged successfully with shareholders managed to greatly improve their voting outcomes compared with the previous year. For the fifth consecutive year, the number of directors who failed to receive majority support continued to decline. At Russell 3000 companies, support for board nominees averaged slightly over 96.3%, the highest level of support in the last ten years. According to ISS data, a total of just 39 board nominees at 23 companies failed to receive majority votes in 2015.

We withheld votes for 63 individual directors at 18 companies (Akamai Technologies, Cogent Communications, Costco Wholesale, Cynosure, Darden Restaurants, E.I. duPont deNemours, Freescale Semiconductor, Google, IMS Health, Live Nation Entertainment, Myers Industries, Nabors Industries, Netflix, PPL, Rovi, Vornado Realty Trust, Wheeler Real Estate, and Whitestone). Our drivers of opposition to directors included failure to respond to majority-supported shareholder proposals, persistent executive compensation issues, and poor performance combined with problematic governance structure.

According to ISS, the compensation plans at 50 companies failed to gain majority support from investors in 2015, while average support for management “say on pay” proposals at Russell 3000 companies was 91.7% for the 2015 proxy season, virtually unchanged from the support level in the 2014 proxy season. In fiscal 2015, we supported management compensation at 768 companies, and voted against executive pay at 95 companies.

DIVISION OF PURCHASE AND PROPERTY

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. The vendor portal was implemented and has been functional since October 2014; however, last year the department noted that the implementation of the multi-function procurement module had been delayed due to integration challenges and was expected to be phased in during the spring and summer of 2015. Additionally, the department had indicated that approximately 5,200 vendors had successfully registered in the NJSTART system through mid-April 2015.

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 allows vendors to set up profiles and upload documents, which eliminates 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 allows vendors to access training manuals and reference guides.
Discussion Points (Cont’d)

• Questions: Please comment on the division’s experience with the new eProcurement system. How many vendors have registered through the NJSTART electronic procurement 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? 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, if any, and what amount would have to be expended to correct the problems? What has been the feedback from the vendor community?

Answer:

• As of April 2016, over 10,500 vendors (nearly 7,000 New Jersey businesses) have successfully registered.

• Total implementation cost for the NJSTART solution is approximately $3.7 million, with ongoing maintenance of approximately $850,000 annually for nine years.

• Regarding productivity and efficiency, the Division launched a Pilot Procurement Program of new solicitations to introduce NJSTART in the summer of 2015. A total of ten solicitations have been released through NJSTART to date.

The lessons learned from the pilot confirm that NJSTART provides an effective and consolidated process for State agencies to conduct business, improves efficiency, enhances communication, and modernizes the way that goods and services are procured. Notably, NJSTART provides an online repository which eliminates the need to prepare duplicate forms every time vendors bid on a new solicitation.

The system’s public search engine increases transparency and allows agencies and other government entities to access more vendors, thereby encouraging more competition and decreasing contract prices.

Our partner on the NJSTART program, the Office of Management & Budget, re-engineered its W-9 and address change processes to align with this new platform. The State designed and implemented NJSTART to replace numerous interfaces for address changes with one centralized common front-end solution for vendors.

• $225,000 in annualized savings have been achieved by ending a contract with a previous supplier and instead utilizing NJSTART’s more robust reporting functionality.

In addition, the State will be retiring three of its legacy systems (eBid, eCatalog, and eRFP Notification) over the next several months, resulting in savings of more than $100,000 annually.
The integration of the State’s financial, procurement, and tax/revenue systems allows for the submission of electronic W-9s, eliminating the need for paper copies and reducing processing time by Treasury staff. It also expands the quantity of EFT/ACH payments, eliminating paper checks and expediting the payment process for suppliers.

- The main NJSTART procurement modules are operational and highly productive. The successful completion and implementation of the overall solution could not occur until the NJSTART-NJCFS interface was fully tested and ready to conduct business. We are pleased that this interface is now operational.

In retrospect, it is clear that the full scope and complexity of interfacing with various aging systems (including a 25 year-old legacy system) was not fully known during the technical requirements phase of the project.

The NJSTART project team (which includes key staff from OMB and OIT) continues to review and address all project-related outstanding items to ensure that the core functionality of the system remains up to standard.

- The overall response from the vendor community has been extremely positive. To date, our State vendor administrators have supported more than half of the 10,500 registered vendors through the NJSTART support help line and email box to assist them with various issues from registration to maintenance of their NJSTART profiles.

A few major successes which have received positive feedback include:
  - All bids, solicitations, and awarded contracts are available for review online;
  - Direct notifications about new bidding opportunities are emailed to vendors based on the commodity codes they selected during registration;
  - An online repository for vendor forms is available, eliminating the need to prepare forms repeatedly;
  - Vendors can view their remittance addresses to ensure their accuracy and also select their preferred form of payment;
  - Vendors can see a snapshot of the certifications required to do business with the State along with their status.

**Questions**: Was the multi-function procurement module of the NJSTART electronic procurement system implemented during the spring and summer of 2015? If not, please share the reasons for the implementation delay and indicate the date by which the division expects to have the system running.

**Answer**: The pilot procurement program was launched in the summer of 2015.

In October 2015, the NJSTART vendor registration interfaces to NJCFS and Business...
Discussion Points (Cont’d)

Registration were successfully implemented. The NJSTART-NJCFS interface integrates the State’s financial, procurement, and tax/revenue systems with vendor data in real time.

The business transactional interface is also operational. State Departments are successfully conducting contract shopping through punch-outs. We have also completed NJSTART full life-cycle pilot solicitations, from initial RFP development to contract award with agency purchase orders.

28. 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 $1.9 billion the State spent on procurements in FY 2014, 16.9 percent, or $330 million, was expended under the DPA and RWA programs ($227 million, or 11.6 percent, for RWAs and $103 million, or 5.3 percent, for DPAs).

The DPA program covers State agency purchases valued at no more than $40,000, which threshold the Division of Purchase and Property increased from $36,000 effective July 6, 2015 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 16-02-DPP, Delegated Purchasing Authority (DPA)). To bypass the advertised competitive bidding process for a procurement whose price exceeds $40,000 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 that the average processing time for an RWA was approximately 40 days (it was 75 days in FY 2009). The division also noted that it declined 17 RWA requests in FY 2014 and that there were 13 known instances in FY 2014 in which State agencies engaged vendors prior to division approval of the RWA requests.

<table>
<thead>
<tr>
<th>Purchase Value</th>
<th>Solicitation Requirements</th>
</tr>
</thead>
<tbody>
<tr>
<td>Up to $1,000</td>
<td>One Price Quotation</td>
</tr>
<tr>
<td>$1,000 to $17,500</td>
<td>Three Price Quotations</td>
</tr>
<tr>
<td>$17,500 to $40,000</td>
<td>Three Sealed Written Bids</td>
</tr>
<tr>
<td>Emergency</td>
<td>One Price Quotation</td>
</tr>
</tbody>
</table>

*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 2015? 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 2015 and 2016, how many RWAs did the Division of Purchase and Property decline? In how many instances did State agencies engage vendors prior to division approval of the RWA in FY 2015?

**Answer:** Procurements for FY 2015 are summarized in the table below:

<table>
<thead>
<tr>
<th>Purchase Type</th>
<th>Number</th>
<th>Total Dollar Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>DPAs</td>
<td>74,650</td>
<td>$92,140,942</td>
</tr>
<tr>
<td>RWAs</td>
<td>1,732</td>
<td>$197,225,002</td>
</tr>
<tr>
<td>Competitively Bid</td>
<td>69,435</td>
<td>$1,323,641,980</td>
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</tbody>
</table>

The current standard processing time for an RWA is 37 days. In FY 2015, the Division of Purchase and Property declined 21 RWAs. To date in FY 2016, the Division of Purchase and Property has declined 25 RWAs. In FY 2015, there were eight instances where State agencies engaged vendors prior to division approval of the RWA.

**Questions:** Please comment on the impact the raising of the DPA threshold from $36,000 to $40,000 has had on the workload of the Division of Purchase and Property. To what extent has the raising of the threshold reduced the number of procurements subject to the formal, competitive bidding process? Given that the threshold is statutorily mandated, does the division favor a revision to N.J.S.A. 52:34-7 to raise the threshold beyond the current level? If so, please explain what the impact of a higher threshold would be on division operations and the efficiency of the State procurement process.

**Answer:** Raising the DPA threshold from $36,000 to $40,000 has had a nominal impact on the Division’s workload, as the majority of the goods and services procured by the Division are valued above the DPA threshold and are subject to the formal competitive bidding process.

The Division is not opposed to a revision to N.J.S.A. 52:34-7 to raise the threshold beyond its current level. During Superstorm Sandy, the Division raised the DPA threshold to $50,000 to allow for the purchase of essential emergency supplies in the aftermath of the storm. The process has been codified in Treasury Circular 16-02-DPP *Delegated Purchasing Authority (DPA)*, which states in relevant part that “in the event the Governor declares an emergency through Executive Order, the DPA threshold will increase to $50,000 for necessary supplies and services purchased during the declared emergency period.” Unless the DPA threshold was raised significantly, there would not be an appreciable effect on Division operations. However, if raised, the Division would assess the impact and implement measures to promote the integrity of that State procurement process.

29. 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
Discussion Points (Cont’d)

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. 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. As of last year, the division was still seeking reimbursement from Maximus for the 3.5 percent commission the vendor was paid on the disallowed SEMI claims and would pursue any and all legal options that were considered prudent and cost-effective in terms of recouping losses. The Treasury stated further that, Maximus no longer served as the State’s SEMI billing agent but still held three contracts with the State for other services, including arbitration and mediation services, support and quality assurance services in connection with the Department of Human Services, and the development of a Health Care Profile System for the Division of Consumer Affairs.

• 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. Has the division pursued any additional legal action to secure the reimbursement? Please detail the contracts, if any, under which Maximus is currently performing services for the State.

Answer: The Division of Purchase and Property and the Division of Law continue to investigate, and to pursue a claim seeking reimbursement of commissions paid on disallowed amounts. The Division intends to pursue any and all legal options that are considered prudent and cost-effective in terms of recouping commissions that are attributed to unsatisfactory performance by the vendor related to disallowed Federal Medicare claims. The State is no longer engaged in any active SEMI claiming contracts with Maximus.

Maximus presently holds three State contracts for other services, including arbitration and mediation services, development of a Health Care Profile System for the Division of...
Consumer Affairs, and quality assurance services for the Department of Human Services.

30. 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 Division of Property Management and Construction replaced its legacy information technology system for tracking the State's real estate leases with a new system that went into service in May 2014, supplanting the antiquated Lease Management Information System and the associated Subsidiary Account Management System. The Office of Information Technology (OIT) pointed out that it had assisted the division in procuring and installing the new, “proven,” off-the-shelf, industry-standard, integrated system for managing the State’s real estate portfolio.

The previous lease management system was over 25 years old and, according to the division, was replaced because it: 1) ran on unsupported software; 2) ran on unsupported and antiquated hardware; 3) only traced leases for the Division of Property Management and Construction and was not an integrated Real Estate Management System; and 4) did not meet industry best practices. The new system is a robust real estate management system that can track and process real estate contract management, space request and planning, facility management, strategic facility planning, side-by-side facility comparison, preventive maintenance, reactive maintenance, AutoCAD integration, capital project management, capital project procurement, energy management, reporting, and workplace metrics. The division anticipated unspecified ongoing costs for maintenance and purchases of additional modules for maintenance. Additionally, last year, the division had pinpointed the current cost of the system at approximately $2.1 million.

Despite being unable to quantify the cost savings the new system had brought to the division, the capabilities of the new system were determined to be far superior of the old system and had positively impacted the efficiency and effectiveness of the division’s operations.

**Questions:** Does the new lease management information technology system continue to improve the efficiency and effectiveness of the division’s operations? Please provide an update regarding the total cost incurred for the operation and maintenance of the new system. Has the division been able to attribute any cost savings to the new system? What problems has the division encountered with the new technology, if any, and what amount would have to be expended to correct the problems?

**Answer:** Yes, the system continues to improve the efficiency and effectiveness of the division’s operations. The total cost incurred up to this point is $2.1 million. This application suite is not associated with revenue generation. While there are no direct budgetary savings associated with the new system, it provides for a number of important
operational benefits and efficiencies such as reduced maintenance effort and reduced time for report generation. Moreover, State savings will be realized by retiring old, antiquated systems that can no longer be practically maintained.
<table>
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<th>RETIREMENT</th>
<th>RESIGNATION</th>
<th>TRANSFER</th>
<th>TERMINATION</th>
<th>DEATH</th>
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## 2013 Homestead Homeowner Rebates by Income (Seniors) as of 04/27/16

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<th>REBATE AMOUNT</th>
<th>0.01-200.00</th>
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<th># REBATES &amp; AMTS BY INCOME LEVEL</th>
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<tr>
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160427 2013 HR HOMEOWNER EXE by income X-1
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<th>Income Range</th>
<th>Total Number</th>
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<th>(All Incomes)</th>
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### 2013 Homestead Homeowner Rebates by Income (Non-seniors) as of 04/27/16

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<td>4,671</td>
<td>12,588</td>
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<td>160427 2013 HR HOMEOWNER NONEXE by income X-2</td>
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### C Corporations

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<th>100k - 1M</th>
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<th>10M - 100M</th>
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<th>Total</th>
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<td>9.4%</td>
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<td><strong>2014</strong></td>
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<td>8.7%</td>
<td>9.5%</td>
<td>9.4%</td>
<td>9.3%</td>
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### S Corporations

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MEMORANDUM TO: The State Investment Council

FROM: Christopher McDonough
Director

SUBJECT: Fiscal Year 2015 Summary Proxy Voting Report

I. DOMESTIC PROXY VOTING SUMMARY

In fiscal year 2015, the Division of Investment (“Division”) voted 1,070 proxies of U.S. companies, compared with 1,064 proxies in fiscal year 2014, and 1,096 proxies in fiscal year 2013.

With 587 proxies, we did not oppose management on any issues. On the remaining 483 company proxies, we voted against management on 723 individual proposals. Exhibit II contains a categorized summary of the Division’s proxy votes where we voted against the recommendation of management.

Exhibit I outlines the Division's current guidelines for addressing key proxy issues. As previously discussed with the State Investment Council (the “Council”), the Division does not interpret these guidelines as rules that must be followed in every instance. We attempt to review each noteworthy and/or contentious proxy item individually and apply our business judgment to determine the position that is most advantageous to the funds as shareholder.

During the 2015 proxy season, the most prevalent governance-related shareholder proposals were those calling for the adoption of proxy access, an independent Chairman of the Board and the right to act by written consent. The number of compensation-related shareholder proposals continued to decline this year, with pro-rata vesting of equity awards being the most prevalent topic.
In the last year, the Securities and Exchange Commission (SEC) has taken action on three compensation-related requirements mandated under the Dodd-Frank Act.

On April 29, 2015, the SEC proposed a rule that will require companies to disclose the relationship between compensation actually paid (“CAP”) to named executives and the financial performance of the company. A company would be required to disclose executive compensation actually paid to its principal executive officer (“PEO”) (typically the CEO) and the average for all other named executive officers (excluding the PEO) along with total shareholder returns of the company and peer group for the same period. Under the proposed rule, all companies would be required to disclose the information for each of the last five fiscal years. The comment period ended in July 2015, but the SEC has not yet issued the final rule.

On August 5, 2015, the SEC issued a final rule requiring most U.S. companies to report the “CEO-to-median-employee pay ratio”. This disclosure will be required after the first full fiscal year following January 1, 2017, so the first pay ratios under the new rule will not be seen until the 2018 proxy season. The requirement will not apply to emerging companies under the JOBS (Jumpstart Our Business Startups) act, multijurisdictional filers, smaller reporting companies, or foreign private issuers.

On July 1, 2015, the SEC proposed a change to stock exchange rules that would require listed companies to adopt policies for “recovery of erroneously awarded compensation.” Under the proposed rule, listed companies would be required to develop and enforce policies that, in the event of an accounting restatement, recover or “claw back” from current and former executive officers any incentive-based compensation they would not have received, based on the restatement. The comment period closed in September 2015, so the rule is not expected to take effect in time for the 2016 proxy season.

The following discussion is a summary of the major proposals where we voted against the recommendation of management:

Adoption of Proxy Access

Under the SEC’s proxy solicitation rules, only the company’s director nominees are included in the company’s proxy statement and proxy card. If shareholders want to nominate their own candidates in a proxy contest, then, in addition to complying with applicable state corporation law and the company’s charter and bylaws, a nominating shareholder must prepare its own proxy statement and proxy card and conduct its own proxy solicitation for the director candidates, typically at substantial cost. The term “proxy access” refers to an alternative approach whereby director nominees from qualifying shareholders must be included in the company’s proxy statement and on the Company’s proxy card. The SEC proposed a proxy access rule in 2010 which was stayed due to litigation challenging those rules. Absent the ability to directly propose nominees, shareholder proxy access proposals request that the company consider amending governing documents to facilitate director nominations by shareholders.
Proxy access proposals represented the top governance-related shareholder proposal this season. The Division reviews proposals calling for the adoption of proxy access on a case-by-case basis. The number of proxy access proposals voted by the Division surged to 59 proposals in 2015 from 8 proposals in 2014. The majority of proxy access proposals were modeled after the SEC’s 2010 proxy access rule and featured a “3 percent for 3 years” ownership requirement. We generally support proxy access proposals that call for a minimum ownership threshold of two to three percent held for two to three years.

We supported 56 domestic shareholder proposals in support of the adoption of proxy access (53 that management recommended voting against, 3 that were management-supported). The proposals that we voted this fiscal year averaged 55% support, and drew majority support at 39 companies.

In October 2015, the SEC codified a position taken during the 2015 proxy season through the issuance of a staff bulletin which will make it more difficult for companies to exclude shareholder proxy access proposals that may differ from a management proxy access proposal (e.g. proposals that differ in the required ownership percentage or holding period). The bulletin states that a shareholder proposal will not be viewed as directly conflicting with a management proposal if the two proposals do not present shareholders with conflicting decisions such that a reasonable shareholder could not logically vote in favor of both proposals. As a result, the Board of Directors might have to consider the effects of two different proposals if both are approved by shareholders. Proxy access is expected to continue as a top governance-related topic for the 2016 proxy season.

Right of Shareholders to Act by Written Consent

The Division supports proposals calling for the right of shareholders to act by written consent. The total number of shareholder proposals for written consent increased slightly to 32 in 2015 (compared to 26 in 2014), while support for these proposals continues to steadily decline (54% in 2010 vs. 39% in 2015). Institutional Shareholder Services (“ISS”) states that the low average support for the written consent proposals may be partly explained by the fact that most of the companies targeted with written consent proposals already permit shareholders to call special meetings.

We supported all 32 domestic shareholder proposals in support of shareholder action by written consent. The proposals that we supported this fiscal year averaged 39% support. Proposals at Dover Corporation and Edwards Lifesciences won majority support.

Pro-rata Vesting of Equity Awards

The Division supports shareholder proposals for pro-rata vesting of equity awards. These proposals request that the company adopt a policy that prohibits accelerated vesting of any equity award granted to any senior executive in the event of a change in control. A change-in-control event should not provide an immediate automatic economic windfall, especially one that could
incentivize executives to pursue transactions that are not in the best long-term interest of shareholders.

We supported all 29 domestic shareholder proposals in support of pro-rata vesting of equity awards. The proposals that we supported this fiscal year averaged 31% support, and drew more than majority support at Precision Castparts (69%).

**Independent Chairman/Separation of Chairman & CEO**

The Division supports proposals calling for an independent Chairman or separation of the Chairman and CEO positions absent a compelling corporate case (such as a strong lead Director). The SEC and the Dodd-Frank Act require public companies to disclose in the annual proxy the reasons why it has chosen either the same person or different individuals to serve as Chairman of the Board and CEO.

Although outpaced by proxy access proposals this year, calls for independent Board leadership remained a top shareholder proposal. Average support for these proposals has retreated slightly from 31% in 2014 to 29% in 2015, which is a five-year low. In 2015, 47% of the S&P 500 companies have appointed a separate Board Chairman to serve alongside the CEO on the Board, up from 37% in 2009.

We supported 9 of the 56 proposals presented for an independent chairman. We supported management at the remaining 47 companies where there was an established independent lead director with clearly delineated and comprehensive duties, elected by and from among the independent board members. Of the 9 proposals we supported, the following received majority support: Omnicom Group (54%) and Vornado Realty (55%).

**Election of Directors**

The advent of “say on pay” continues to contribute to a significant decline in shareholder opposition to compensation committee members at U.S. firms. Additionally, companies that engaged successfully with shareholders managed to greatly improve their voting outcomes compared with the previous year. For the fifth consecutive year, the number of directors who failed to receive majority support continued to decline. At Russell 3000 companies, support for board nominees averaged slightly over 96.3%, the highest level of support in the last ten years. According to ISS data, a total of just 39 board nominees at 23 companies failed to receive majority votes in 2015.

We withheld votes for 63 individual directors at 18 companies (Akamai Technologies, Cogent Communications, Costco Wholesale, Cynosure, Darden Restaurants, E.I. duPont deNemours, Freescale Semiconductor, Google, IMS Health, Live Nation Entertainment, Myers Industries, Nabors Industries, Netflix, PPL, Rovi, Vornado Realty Trust, Wheeler Real Estate, and Whitestone). Our drivers of opposition to directors included failure to respond to majority-supported shareholder proposals, persistent executive compensation issues, and poor performance combined with problematic governance structure.
Shareholder dissent was evident at companies that continued to resist taking any action on the prior year’s majority-supported votes. Four directors at Nabors failed to receive majority support in 2015 after the board re-nominated two directors who failed to receive majority support in 2014. For the fifth consecutive year, nominees at Vornado Realty received majority opposition. The company failed to implement majority-supported shareholder proposals to adopt a majority voting standard, declassify the board, and adopt a policy requiring an independent board chairman.

**Stock Options**

We voted against 260 management proposals involving stock options, incentive or restricted stock plans. We continue to withhold support for the majority of option plans based on our policy guidelines which include voting against plans with greater than 5% dilution of outstanding shares, plans offering stock at a discount, plans that extend eligibility beyond employees and non-employee directors, and plans with accelerated vesting provisions. We do vote in favor of a portion of such plans that we believe are consistent with shareholder interest.

**Advisory Vote on Executive Compensation and Vote Frequency**

The Dodd Frank Act imposed a requirement for public companies to provide a non-binding shareholder advisory vote on executive compensation. Shareholder meetings on or after January 21, 2011 were required to hold votes on the compensation of executive officers (“say on pay”) and whether the “say on pay” vote should be held every one, two or three years (“say on frequency”). We only support proposals for an annual shareholder advisory vote on compensation.

According to ISS, the compensation plans at 50 companies failed to gain majority support from investors in 2015, while average support for management “say on pay” proposals at Russell 3000 companies was 91.7% for the 2015 proxy season, virtually unchanged from the support level in the 2014 proxy season.

Pay-for-performance issues remained the principal driver of shareholder opposition to pay programs in 2015. The most common concerns involved granting only time-based equity, outsized equity grants not based on performance, the use of non-rigorous performance hurdles, awarding problematic retention/discretionary awards (particularly during periods of poor financial performance), and failing to disclose performance hurdles.

Several companies received low investor support for continuing to provide outsized pay to CEOs during periods of negative total shareholder return or sustained underperformance and poor communication and responsiveness to shareholder concerns.

In fiscal 2015, we supported management compensation at 768 companies, and voted against executive pay at 95 companies.
II. INTERNATIONAL PROXY VOTING SUMMARY

In fiscal year 2015, the Division received proxies for 842 international meetings, the types of which include, but are not limited to, annual/ordinary meetings, extraordinary/special meetings and consent (to board action) meetings. The Division received 886 proxies in fiscal year 2014 and 934 proxies in fiscal 2013.

On occasion, the ballot is received the morning of or after the cutoff date for the vote. In addition, the level of securities regulation and disclosure requirements regarding voting items varies among countries. In some countries, items on the agenda are only disclosed at the meeting itself. We utilize ISS proxy research for clarification of issues. However, information is sometimes limited, as write-ups are not always available for every meeting. In some cases, we were unable to vote and therefore elected to abstain from voting.

Our strategy in voting international proxies is to attempt to apply the Division’s voting policies on a global basis. With 506 proxies, we did not oppose management on any issues. On the remaining 336 company proxies, we voted against management on 73 individual proposals. Exhibit II contains a categorized summary of the Division’s proxy votes where we voted against the recommendation of management.

Beginning in fiscal year 2015, Swiss public companies were required to have all remuneration paid to the board of directors and executive managers approved by shareholders through binding pay votes on meeting agendas. In accordance with “The Swiss Ordinance against Excessive Remuneration”, shareholders are given the responsibility of approving the amount of remuneration that may be paid to members of the companies’ governing bodies while not requiring shareholders to approve the underlying remuneration system. A total of 46 such proposals were voted on, with the Division voting against the recommendation of management on 2 of them.

The following is a brief discussion of the proposals where we did not support management:

Capitalization

We voted against 281 management proposals regarding capitalization, which includes issuance of shares, cancellation of shares, stock splits, share buybacks, capital increases, bonds, warrants, and spin-offs. Our policy is to vote against pre-emptive rights issues (unless the issue states “with or without pre-emptive rights” and does not give the option to vote for “without pre-emptive rights”), issuance of excessive shares, and plans which give directors complete control of unissued shares.

Non-Salary Compensation

We voted against management on 232 proposals on non-salary compensation. Most of those involved stock option and/or restricted stock plans. It is our policy to vote against plans with a high dilution and immediate (or excessively short) vesting periods or those that can be
accelerated in an anti-takeover situation. Some proposals also include severance payments, compensation ceilings, and bonuses.

Routine Business

The Division voted against the recommendation of management regarding the routine business on 128 proposals. Most of these votes were against amending articles, bylaws, and declarations.

III. PROXY VOTING PROCEDURES

Using ISS ProxyExchange, we receive and vote all proxies electronically. Our position on proxy proposals reflects the Council's longstanding policy that the Division examines each proxy issue on its own merits and votes consistent with the best financial interests of the fund’s beneficiaries. While we utilize a set of proxy voting guidelines (Exhibit I), high profile issues are reviewed with the Director. The Director may contact the Chairman of the Council and/or individual Council Members for their views and guidance.

The Division does not retain the legal right to vote the proxies of shares on loan under our securities lending program. When we are aware of significant issues (e.g. pending mergers, etc.), we evaluate the cost/benefit of having the shares out on loan, and in some cases, restrict the shares from being loaned or seek to recall shares that were previously put out on loan.

The following pages include:

    EXHIBIT I  Division of Investment Proxy Guidelines  Page 8
    EXHIBIT II  Domestic Proxy Voting Record -- Fiscal Year 2015  Page 17
    EXHIBIT III  International Proxy Voting Record -- Fiscal Year 2015  Page 18
STATE OF NEW JERSEY
DIVISION OF INVESTMENT PROXY GUIDELINES

Board of Director Issues

ELECTION OF DIRECTORS - INDEPENDENCE

We favor diversity of experience on the Board and believe that corporate management should not dominate the Board. Votes should be cast in favor of shareholder proposals asking that boards be comprised of a majority of independent directors.

Votes should be cast in favor of shareholder proposals asking that board audit, compensation and nominating committees be comprised exclusively of independent directors.

In assessing whether a proposed outside director may be viewed as independent, with respect to building long-term shareholder value, the Division employs, as a guideline, extracts from the Council of Institutional Investors' "Definition of Independent Director".

Council of Institutional Investors—Guideline Extracts from Definition of Independent Director:

An independent director is someone whose only nontrivial connection to the corporation is that person's directorship.

A director will not generally be considered independent if he or she:

a) has been employed by the corporation or an affiliate in an executive capacity;

b) is an employee or owner of a firm that is one of the corporation's or its affiliate's paid advisors or consultants;

c) is employed by a significant customer or supplier;

d) has a personal services contract with the corporation or one of its affiliates;

e) is employed by a foundation or university that receives significant grants or endowments from the corporation or one of its affiliates;

f) is a relative of an executive of the corporation or one of its affiliates;

g) part of an interlocking directorate in which the CEO or other executive officer of the corporation serves on the board of another corporation that employs the director.
ELECTION OF DIRECTORS IN A PROXY CONTEST

In instances where two slates of directors are proposed, one by the corporation and the second by an independent group, we evaluate the competing groups and make a decision that best suits the financial interests of fund beneficiaries, as is required by State prudency law. Competing groups have equal access to the Division, including, where appropriate, a meeting between the top management of each group and the staff of the Division. In his discretion, the Director may consult with the Chair of the Council, who in turn may poll the other Council members.

ANNUAL DIRECTOR ELECTION/CLASSIFIED BOARDS

We vote in favor of the annual election of directors and support shareholder proposals to eliminate a classified (staggered) board.

MAJORITY VOTE TO ELECT DIRECTORS

We vote in favor of shareholder proposals requiring a majority affirmative vote for the election of directors. We favor the amendment of a company’s governance documents (certificate of incorporation or bylaws) to provide that director nominees shall be elected by the affirmative vote of the majority of votes cast at an annual meeting of shareholders.

INDEPENDENT CHAIRMAN/SEPARATE CHAIRMAN/CEO

We support shareholder proposals calling for an independent chairman or separation of the chairman and CEO positions absent a compelling corporate case, such as a strong lead director, elected by and from the independent board members, with clearly delineated and comprehensive duties.

PROXY ACCESS

The Division reviews proxy access proposals on a case-by-case basis. We generally support proposals that call for a minimum ownership threshold of two to three percent held for two to three years with the ability to nominate up to 25% of the board.

CUMULATIVE VOTING

Cumulative voting gives shareholders the option to cast all of their votes for a single board nominee or to apportion those votes among a selection of nominees in any combination desired, thereby maximizing the shareholders’ voting power. Historically, the Division has not supported
proposals to create cumulative voting in the election of corporate directors on the theory that such voting would enable dissident directors to be more easily elected to corporate boards.

**CONSTITUENCY REPRESENTATION ON BOARD**

We oppose shareholder proposals requesting an employee or union representative on the Board.

**DIRECTORS' LIABILITY AND INDEMNITY**

The Division supports management proposals to limit director liability and provide indemnification in the event of successful lawsuits, except for fraud on the part of a director, to help ensure the availability of a pool of able directors.

**STOCK OWNERSHIP REQUIREMENTS**

The Division votes against shareholder proposals for stock ownership requirements for directors.

**STOCK RETENTION**

We support shareholder proposals requiring that executive officers retain a certain level of shares acquired through compensation plans for a specified period of time after leaving the company.

**DIRECTOR TERM LIMITS**

The Division routinely votes against shareholder proposals to limit directors' term of office.

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**Corporate Governance Issues**

**SELECTION OF AUDITORS**

In considering the selection of auditors, the Division staff reviews the experience of the auditors, the possibility of conflict with the company and whether the auditors are subject to periodic rotation to insure independence.
**NO CONSULTING BY AUDITORS**

The Division supports shareholder proposals requesting that boards adopt policy that independent auditors provide only audit services to a company and not provide any other services.

**REINCORPORATION OUTSIDE THE U.S.**

The Division reviews proposals to reincorporate outside the U.S. on a case-by-case basis taking into consideration the rationale for reincorporation (including economic/financial factors), the economic costs and benefits of the reincorporation, and the extent to which corporate governance, shareholder rights, and transparency are impacted.

**ANTI-TAKEOVER MEASURES**

The Division reviews these proposals on a case-by-case basis. Historically, we have measured the proposals against four main principles. First, that all shares should have equal voting rights, namely, one vote per share; second, all shareholders should be treated equally, which would prohibit "greenmail" and exclusionary tender offers; third, shareholders should be able to vote on issues which would have a material financial effect upon a corporation; and, fourth, executive compensation and the choice of outside auditors should be the responsibility of independent directors on the company's board.

Historically, we have generally supported the elimination of staggered boards of directors, a rescission of "poison pills," and the elimination of super majority voting requirements. We also support shareholder proposals intended to reverse shark repellents where consistent with the positions discussed herein.

**SHAREHOLDERS' RIGHT TO CALL SPECIAL MEETING**

We support a shareholder’s right to call a special meeting.

**SHAREHOLDER ACTION BY WRITTEN CONSENT**

We support shareholder action by written consent.

**ADJOURN MEETING TO SOLICIT VOTES**

We vote against management proposals to adjourn meetings to solicit additional votes.
SHAREHOLDER RIGHTS PLAN

We support shareholder proposals to submit Shareholder Rights Plans to shareholders for a vote.

CONFIDENTIAL PROXY VOTING/INDEPENDENT VOTE TABULATION

We support shareholder proposals for the confidential voting and independent tabulation of proxies.

Capital Structure

INCREASE IN SHARES OUTSTANDING

We generally support increases in authorized shares of common stock by corporations, unless the number appears to be unduly excessive or the increased shares would further acquisitions or a financial recapitalization that we would prefer be referred to shareholders. We generally oppose the authorization of shares of preferred stock whose terms can be set at the discretion of the company's board of directors or management. This preferred stock is sometimes referred to as "blank check" preferred stock, and can be used as a shark repellent or to create special voting rights for favored shareholder groups.

PREEMPTIVE RIGHTS

From time to time shareholders propose that a corporation adopt the principle of preemptive rights, which requires that a company offer its existing shareholders new shares of publicly-offered stock so they may maintain their pro rata ownership in the company. This is a costly procedure that we generally oppose if there is a liquid market through which we may maintain our proportional position in most company stocks. On occasion, we may support preemptive rights proposals in the case of companies whose shares are very lightly traded and cannot be readily acquired in the marketplace.

MERGER/ACQUISITION

We review all proposed mergers/acquisitions on a case-by-case basis.
Executive Compensation

STOCK OPTION AND RESTRICTED STOCK PLANS

Stock option and restricted stock plans are reviewed on a case-by-case basis, applying general guidelines concerning acceptable terms and conditions of the plans.

Expensing Options: We support the expensing of all equity based grants.

Price: One hundred percent of fair market value on date of grant.

Dilution: Generally, five percent dilution of outstanding shares will be acceptable for most companies. Higher thresholds will be considered for less mature companies where stock ownership may constitute the major attraction to the recruitment of capable managers.

Eligibility: Employees and non-employee Directors

Vesting: Preferable over a minimum of five years. We do not vote against plans with a shorter vesting period, except in the case of immediate vesting. We vote against plans that would accelerate vesting in a take-over situation.

Option Repricing (Underwater Options): As a rule, plans that permit a reduction in the exercise price of existing options or the replacement of those options with new options or other equity awards should be opposed, in the absence of unique circumstances.

Discretion: Plans that are not specific in their terms should be generally opposed.

We generally favor restricted stock programs over stock option incentive plans. We review the proposals on a case-by-case basis and if the plan does not result in excessive compensation and has a reasonable vesting period, we support the proposal.

PAY FOR PERFORMANCE

We review these proposals on a case-by-case basis to evaluate the selected financial performance criteria, prescribed benchmarks and minimum bonus payment criteria.

EMPLOYEE STOCK PURCHASE PLANS

We generally support plans with 15% discount open to all employees.
**FREQUENCY OF SAY-ON-PAY VOTES**

We support proposals for annual shareowner advisory votes on executive compensation.

**ADVISORY VOTE ON EXECUTIVE COMPENSATION**

We review management proposals to ratify executive compensation on a case-by-case basis evaluating whether the company has clear, comprehensive compensation disclosures; maintains an independent and effective compensation committee; avoids arrangements that risk “pay for failure”; and maintains appropriate pay-for-performance alignment, with emphasis on long-term shareholder value. The portfolio analyst and Director review instances where we intend to vote against management.

**GOLDEN PARACHUTES**

"Golden Parachutes" (severance packages usually triggered by a change in control of the company) are normally not subject to shareholder approval, but must be disclosed in the proxy material, and often become the subject of shareholder proposals calling for their rescission.

These are reviewed on a case-by-case basis, and where viewed as excessive, rescission is supported. In general, we would view anything more than three years’ compensation as being excessive.

**GOLDEN COFFINS**

We generally support shareholder proposals prohibiting “Golden Coffins” (compensation to executives' beneficiaries based upon salary and bonuses that have not been earned prior to death, accelerating the vesting on equity grants, and egregious life insurance policies).

**Other**

**MISCELLANEOUS SOCIAL ISSUES**

On proposals related to various social issues, which can only be loosely connected with corporate governance and which normally bear little relation to the companies' long-term economic viability, we believe that, under present fiduciary law, our primary responsibility should be to vote solely in the financial interest of the beneficiaries of the pension funds. The establishment of standards for social behavior is appropriately the province of the law and is not the province of the staff of the Division. The Division tends to support management's position when it is consistent with existing law, including rulings of the U.S. Supreme Court. However, the
Division has recognized that social issues may have significant financial impact, and, in the past, has supported certain proxy issues on the grounds that these issues could have material financial effects on the company and on shareholders.

ENVIRONMENTAL CONCERNS

Generally, we favor the spirit of environmental concern and support corporate practices that reflect sensitivity to furthering an ecologically sound environment. Environmental issues can impact a corporation’s long-term financial performance and its image as a responsible corporate citizen. In this connection, the Division's selection of investment opportunities reflects the Council's stated policy..."the Council believes that good corporate citizenship enhances the value of a company, and, conversely, that poor corporate citizenship detracts from a company's value." Environmental policies are well established by law and regulation at the Federal, State, and local levels, and each corporation must comply with these strictures or face the appropriate penalties. We believe that the law is the proper determinant of corporate responsibility, and that pledges which mandate that corporations go beyond the requirement of the law should be avoided. We do not support measures such as the establishment of specific target goals or the compilation of detailed scientific reports which can impose additional expenses and duplicate existing regulations.

CORPORATE ACTIVITY IN NORTHERN IRELAND

P.L. 1987, c. 177, requires the Director of the Division of Investment to initiate and support shareholder petitions or initiatives requiring adherence by corporations to standards set forth in the Act (i.e., the MacBride Principles), where appropriate, and consistent with prudent standards for fiduciary practice.

CORPORATE ACTIVITY IN SUDAN

P.L. 2005, c.162 requires the Director of the Division of Investment to divest of any foreign company that has an “equity tie” (as defined by the law) to the country of Sudan. We support shareholder proposals requiring a company to cease operations in Sudan or disclose any activities related to Sudan. We also support proposals requesting a human rights committee of the board when Sudan-related.

SMOKING-RELATED PROPOSALS

Generally, we do not support using the proxy voting process to proscribe the business of any corporation, if that business is permitted under existing law, given our fiduciary obligation to vote solely in the financial interests of the pension fund beneficiaries.
With respect to the smoking-related concerns, we believe the appropriate venues to assess and remedy these concerns exist with the State and Federal legislative bodies, the designated regulatory agencies, and judicial forums.

We normally support shareholder proposals barring advertising to youth.

**REPORT ON CONTRIBUTIONS TO POLITICAL ACTION COMMITTEES**

Generally, we vote against such proposals, as the information is a matter of public record. Existing law requires that PACs, political parties and candidates file reports with the FEC.
EXHIBIT II

DOMESTIC PROXY VOTING RECORD

Of the 1,070 proxies voted in fiscal year 2015, the Division voted against the recommendation of management on 723 proposals at 483 company meetings. These 723 votes are summarized below.

1) **DIVISION VOTED “FOR” SHAREHOLDER PROPOSALS INVOLVING:**

53 Adopt proxy access
32 Right of shareholders to act by written consent
29 Pro-rata vesting of equity awards
17 Shareholder right to call a meeting
17 Anti-takeover measures (voting rights, rights plan, etc.)
13 End supermajority voting
12 Retention period for stock awards
11 Clawback of payments under restatement
9 Independent Chairman
8 Majority voting in election of Directors
6 Routine environmental report
5 Annual election of directors
2 Performance-based awards

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2) **DIVISION VOTED “AGAINST” MANAGEMENT PROPOSALS INVOLVING:**

260 Stock option, incentive or restricted stock plans
95 Ratification of executive compensation by advisory vote
63 Directors (withheld or voted opposition slates)
56 Adjourn meeting to solicit votes
15 Anti-takeover measures (supermajority vote, rights plan, etc.)
8 Stock issuance
4 Advisory vote on severance plans (golden parachutes)
4 New class of preferred stock
2 Executive compensation advisory vote frequency
1 Reincorporation to Ireland
1 Merger agreement (Integrated Silicon)

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INTERNATIONAL PROXY VOTING RECORD

Of the 842 proxies voted in fiscal year 2015, the Division voted against the recommendation of management on 733 proposals at 336 company meetings. These 733 votes are summarized below.

281 Capitalization
232 Non-Salary Compensation
128 Routine Business*
  46 Director-Related (e.g., election of directors, remuneration, fix number)*
  20 Merger/Reorganization
  21 Anti-takeover
   3 Compensation
   1 Corporate Governance
   _1 Other
  733 Total

*Please note that these categories included two shareholder proposals which are generally infrequent in international proxies.