State of New Jersey
Office of the State Treasurer
PO Box 002
Trenton, NJ 08625-0002

Chris Christie
Governor

Kim Guadagno
Lt. Governor

Ford M. Scudder
Acting State Treasurer

April 29, 2016

Mr. Frank Haines
Legislative Budget and Finance Officer
Office of Legislative Services
State House Annex, P.O. Box 068
Trenton, NJ 08625-0068

Dear Mr. Haines:

Pursuant to your letter dated April 7, 2016, it was requested that I provide a written response to the questions posed by Chairman Sarlo following the April 5, 2016 hearing of the Senate Budget & Appropriations Committee. The questions and their subsequent answers are as follows:

In the Governor's FY 2017 Budget Summary (on page 32), the Executive states that the Corporation Business Tax (CBT) revenue estimate for FY 2017 assumes anticipated growth in business tax credits. Please provide details regarding the Executive's assumptions of tax credit growth and its CBT forecast. Please include how much CBT revenue is anticipated before tax credits are applied and the amount in business tax credits anticipated.

We have forecast net CBT revenues of $2,336 million in both SFY 2016 and SFY2017. Our revenue forecast for 2017 would have assumed growth of approximately 8%, but for the impact of a conversion of BEIP grants to credits, which we expect to have an approximately $160 million impact on base revenues in 2017.

EDA's estimate (reflected in Treasury's tax expenditure report) of CBT tax expenditure growth for 2017 is $385.9 million. However, this growth in tax expenditures is overwhelmingly attributable to tax credits awarded by EDA to businesses that would not otherwise have moved to, or remained in, New Jersey. In the case of a business that would not have come here in the first place, the credit is revenue neutral with respect to the CBT, and the project may actually increase other tax revenues. In the case of a credit awarded to prevent a departure, the credit represents a slowing of natural CBT taxpayer attrition. For these reasons, Treasury disagrees with OLS's assumption that tax expenditure growth equates to lost revenue in this particular analysis.

Additionally, EDA'S estimates as reflected in the tax expenditure report are based on a liberal anticipation of credit usage. For the anticipated growth in credits to actually come to fruition, projects approved by EDA would almost all need to come to fruition, consistent with project timelines estimated at the time of credit award and with businesses meeting all of their requirements for credit use. However, history has shown that this is not the case. Instead, the use of credits is typically less than anticipated in the annual tax expenditure report. For example, last year, EDA estimated that CBT tax expenditures for 2016 would total $352.462 million, but the actual amount turned out to be $201.914, or 57.3% of the original estimate.

For these reasons, Treasury generally views the increase of tax expenditures as being neutral with respect to CBT.

In the Governor's FY 2017 Budget Summary (on page 11), the Executive assumes that a combination of new public employee health care reforms would offset $250 million in anticipated growth of public employee and retiree health care costs. However, the Executive does not provide details regarding these reforms. Additionally, there has been approximately $200 million in savings from items already approved by plan design committees. Please provide a list of specific changes already approved and the annual value of savings, by calendar and fiscal year, of each change. Please provide information regarding the reforms mentioned on page 11 of the FY 2017 Budget Summary and how the Executive arrived at $250 million in savings.

In CY2015, the State Health Benefits Plan, Plan Design Committee (SHBP PDC) adopted the following changes to plan design that are expected to result in FY2017 budget savings as identified:

Compound Drug Restrictions	$112,940,000
Hepatitis C Preferred Drug Treatment	7,460,000
Emergency Room Co-Pay Decrease	2,900,000
Limit Reimbursement for Out of Network (OON) For Chiropractors & Acupuncture	2,900,000
Tiered Network	9,040,000
	$135,240,000

Early in CY2016, the School Employees Health Benefit Plan, Plan Design Committee (SEHBP PDC) implemented changes, to Compound Drugs and Hepatitis C that are expected to provide an additional $62,000,000 in FY2017 budget savings.

The projected total budget savings resulting from actions by both PDCs is $197,240,000.

It should be noted that the PDCs also implemented other changes, most notably a Patient Centered Medical Home (PCMH) pilot program, that are not expected to produce budget savings in FY2017.

The $250,000,000 in FY2017 anticipated savings is a reasonable figure considering many of the other ideas discussed by the PDCs over the last several months, as well as being a small fraction of the savings identified by the bipartisan Pension and Health Benefits Study Commission. It also approximates, but is less than, the estimated growth in public employee and retiree health care costs otherwise anticipated for FY2017:

Gross anticipated Budget Increase Required for FY2017	$487,263,000
FY16 PDC adopted saving Impact on FY2017 budget	(197,240,000)
Net growth to FY2017 budget	290,023,000
Savings required	(250,000,000)
Net Budget increase	$40,023,000

Sincerely,

Ford M. Scudder

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