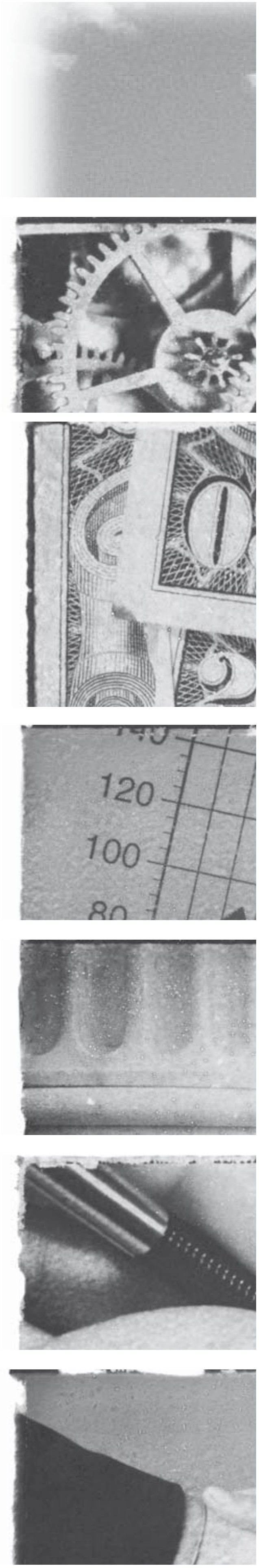

ANALYSIS OF THE NEW JERSEY BUDGET

INTERDEPARTMENTAL ACCOUNTS

FISCAL YEAR 2017-2018

PREPARED BY OFFICE OF LEGISLATIVE SERVICES
NEW JERSEY LEGISLATURE • MAY 2017

NEW JERSEY STATE LEGISLATURE

SENATE BUDGET AND APPROPRIATIONS COMMITTEE

Paul A. Sarlo (D), 36th District (Parts of Bergen and Passaic), *Chair*
Brian P. Stack (D), 33rd District (Part of Hudson), *Vice-Chair*
Jennifer Beck (R), 11th District (Part of Monmouth)
Anthony R. Bucco (R), 25th District (Parts of Morris and Somerset)
Nilsa Cruz-Perez (D), 5th District (Parts of Camden and Gloucester)
Sandra B. Cunningham (D), 31st District (Part of Hudson)
Patrick J. Diegnan Jr. (D), 18th District (Part of Middlesex)
Linda R. Greenstein (D), 14th District (Parts of Mercer and Middlesex)
Steven V. Oroho (R), 24th District (All of Sussex, and parts of Morris and Warren)
Kevin J. O'Toole (R), 40th District (Parts of Bergen, Essex, Morris and Passaic)
M. Teresa Ruiz (D), 29th District (Part of Essex)
Samuel D. Thompson (R), 12th District (Parts of Burlington, Middlesex, Monmouth and Ocean)
Jeff Van Drew (D), 1st District (All of Cape May, and parts of Atlantic and Cumberland)

GENERAL ASSEMBLY BUDGET COMMITTEE

Gary S. Schaer (D), 36th District (Parts of Bergen and Passaic), *Chair*
John J. Burzichelli (D), 3rd District (All of Salem, parts of Cumberland and Gloucester), *Vice-Chair*
Anthony M. Bucco (R), 25th District (Parts of Morris and Somerset)
John DiMaio (R), 23rd District (Parts of Hunterdon, Somerset and Warren)
Gordon M. Johnson (D), 37th District (Part of Bergen)
John F. McKeon (D), 27th District (Parts of Essex and Morris)
Raj Mukherji (D), 33rd District (Part of Hudson)
Elizabeth Maher Muoio (D), 15th District (Parts of Hunterdon and Mercer)
Declan J. O'Scanlon, Jr. (R), 13th District (Part of Monmouth)
Eliana Pintor Marin (D), 29th District (Part of Essex)
Maria Rodriguez-Gregg (R), 8th District (Parts of Atlantic, Burlington and Camden)
Troy Singleton (D), 7th District (Part of Burlington)
Benjie E. Wimberly (D), 35th District (Parts of Bergen and Passaic)

OFFICE OF LEGISLATIVE SERVICES

Frank W. Haines III, *Legislative Budget and Finance Officer*
Thomas Koenig, *Assistant Legislative Budget and Finance Officer*

Marvin W. Jiggetts, *Director, Central Staff*
Aggie Szilagyi, *Section Chief, State Government Section*

This report was prepared by the State Government Section of the Office of Legislative Services under the direction of the Legislative Budget and Finance Officer. The primary author was Kimberly McCord Clemmensen.

Questions or comments may be directed to the OLS State Government Section (Tel: 609-847-3890) or the Legislative Budget and Finance Office (Tel: 609-847-3105).

INTERDEPARTMENTAL ACCOUNTS

Budget Pages....... C-7, C-15, C-25, C-26, D-424 to D-442

Fiscal Summary ($000)

	Expended FY 2016	Adjusted Appropriation FY 2017	Recommended FY 2018	Percent Change 2017-18
State Budgeted	$4,135,848	$4,319,680	$4,549,365	5.3%
Federal Funds	$0	$0	$0	—
Other	$35,805	$53,313	$53,313	—
Grand Total	$4,171,653	$4,372,993	$4,602,678	5.3%

Personnel Summary - Positions By Funding Source

	Actual FY 2016	Revised FY 2017	Funded FY 2018	Percent Change 2017-18
State	0	0	0	—
Federal	0	0	0	—
Other	0	0	0	—
Total Positions	0	0	0	—

FY 2016 (as of December) and revised FY 2017 (as of January) personnel data reflect actual payroll counts. FY 2018 data reflect the number of positions funded.

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

Highlights

Property Rentals, Insurance, and Utilities

- The FY 2018 Governor's Budget recommends a reduction of $23.419 million in Property Rentals, Insurance, and Utilities. Property Rental appropriations decrease by $4.6 million, primarily due to reductions in State costs for rent payments, taxes, janitorial and utility costs, other lease services costs, and an increase in direct rent reimbursements.

- Insurance and Other Services appropriations decline by $18.789 million, primarily due to the discontinuation of a supplemental FY 2017 appropriation of $17.4 million for the Tort Claims Liability Fund; a $1 million reduction in Workers' Compensation, reflecting contraction of the size of the State workforce; and a $389,000 reduction in property, casualty, and special insurance policy premium payments.

- There are no changes in utility costs for the Public Health, Environmental and Agricultural Laboratory nor are there any changes in other services for household, trash removal, and security costs. State utility costs for approximately 45 State facilities continue to be funded in part by a $52.5 million transfer from the Clean Energy Fund.

Property Rentals, Insurance, and Utilities ($000)				
Program Area	**FY 2017**	**FY 2018**	**$ Change**	**% Change**
Property Rentals (Net)	$ 150,841	$ 146,211	$ (4,630)	-3.07%
Insurance and Other Services	$ 146,167	$ 127,378	$ (18,789)	-12.85%
Utilities and Other Services	$ 14,093	$ 14,093	$ -	0.00%
Total	$ 311,101	$ 287,682	$ (23,419)	-7.53%

Aid to Independent Authorities

- The FY 2018 Governor's Budget recommends a reduction of $6.191 million in appropriations to fund debt service on bonds issued by independent authorities as well as operating support in certain cases. The changes are reflected in reductions to operating support for the New Jersey Sports and Exposition Authority ($1 million) and the Liberty Science Center ($3.56 million).

Pensions

- The FY 2018 Governor's Budget provides total combined appropriations in FY 2018 of $2.5 billion in employer contributions to the defined benefit retirement systems. According to the Executive, this is 5/10ths of the FY 2018 annual actuarially determined contribution (ADC) of approximately $5.018 billion, continuing the modified phase-in plan proposed by the Governor. The modified phase-in plan calculates the annual contribution on a schedule starting at 3/10ths of the actuarial determined contribution beginning in FY 2016 and increasing each year in 1/10th increments, to full funding in FY 2023. As the third annual payment under the modified phase-in plan, this pension payment is 34.8 percent higher than the FY 2017 contribution.

Highlights (Cont'd)

Total Defined Benefit Pension Contributions to State-administered Retirement Systems ($000)				
	FY 2016 @ 3/10	FY 2017 @ 4/10	FY 2018 @ 5/10	FY 2018 ADC
PERS	$ 354,612	$ 507,178	$ 662,157	$ 1,324,314
PFRS	$ 138,324	$ 195,221	$ 251,458	$ 502,918
SPRS	$ 35,580	$ 51,038	$ 72,104	$ 144,209
JRS	$ 13,951	$ 19,677	$ 23,266	$ 46,532
TPAF	$ 764,489	$ 1,087,919	$ 1,499,790	$ 2,999,578
CPFPF*	$ 148	$ 575	$ 325	$ 325
Total State Contribution	$ 1,307,104	$ 1,861,608	$ 2,509,100	$ 5,017,875
Total ADC	$ 4,357,013	$ 4,654,015	$ 5,017,875	$ 5,017,875
State Contrib./ADC	30%	40%	50%	100%
*This system is being funded at 100 percent.				
Source: Division of Pensions and Benefits				

- Approximately $903.8 million of the proposed FY 2018 appropriations are budgeted in Interdepartmental Accounts and those appropriations increase by 30.7 percent, or $212.5 million. The remaining portion of the employer contribution is included in the budgets for the Department of Education ($1.496 billion) and the Department of the Treasury ($109.3 million).

Total Defined Benefit Pension State Contributions by Department ($000)				
	FY 2016 actual	FY 2017	FY 2018	FY17-FY18 $ Change
Interdepartmental DSS & GIA	$ 484,227	$ 691,275	$ 903,804	$ 212,529
Education	$ 761,169	$ 1,083,157	$ 1,495,975	$ 412,818
Treasury	$ 61,708	$ 87,176	$ 109,321	$ 22,145
Total State Contribution	$ 1,307,104	$ 1,861,608	$ 2,509,100	$ 647,492

Health Care Benefits

Summary of Total State Active and Retired Health Care Benefits

- The FY 2018 Governor's budget recommends total appropriations for combined active and retired health care benefits in the budgets of Interdepartmental Accounts, the Department of Education, and the Department of Treasury of $3.274 billion in FY 2018. This represents an increase of 1 percent, or $32.344 million. Total growth in medical and prescription drug costs for active employees and retirees of $177.6 million is offset by increased employee contributions of $20.2 million and savings from prospective plan design changes totaling $125 million.

Highlights (Cont'd)

Summary of Active and Retired State Health Care Benefits ($000)					
Active Health Benefits and Retiree Post-Retirement Medical	**FY 2017 Adjusted Appropriation**	**Gross Increase**	**Employee Contribution Offset**	**Prospective Plan Design Changes/Other**	**FY 2018 Recommendation**
IDA Active DSS and GIA	$ 1,314,612	$ 99,598	$ (20,215)	$ (36,461)	$ 1,357,534
IDA Retired DSS and GIA	$ 717,495	$ (55,943)		$ (24,839)	$ 636,713
Subtotal IDA Active and Retired	$ 2,032,107	$ 43,655	$ (20,215)	$ (61,300)	$ 1,994,247
Education*	$ 1,125,061	$ 134,166		$ (63,700)	$ 1,195,527
Treasury*	$ 84,097	$ (262)			$ 83,835
Total	$ 3,241,265	$ 177,559	$ (20,215)	$ (125,000)	$ 3,273,609
* Gross Increase and Prospective Plan Design amounts are OLS estimates.					

State Employees' Health Benefits (Active) Interdepartmental Accounts

- The FY 2018 Governor's Budget recommends total appropriations of $1.357 billion to fully fund health care benefits for active State employees and employees of institutions of higher education in FY 2018. This represents an increase of $42.922 million, or 3.3 percent, for medical, prescription drug, dental, and vision coverage, which is consistent with the recommended overall increase for active employees projected by Aon in the Plan Year 2017 Rate Renewal Recommendation Report for the State Employee Group.

Health Care Benefits for Active State Employees DSS/GIA ($000)				
Program Area	**FY 2017**	**FY 2018**	**$ Change**	**% Change**
Health Benefits	$ 982,962	$ 1,044,161	$ 61,199	6.23%
Prescription Drug	$ 298,548	$ 279,029	$ (19,519)	-6.54%
Dental	$ 32,602	$ 33,844	$ 1,242	3.81%
Vision	500	500	$ -	0.00%
Total	**$ 1,314,612**	**$ 1,357,534**	**$ 42,922**	**3.26%**

- This $42.9 million net increase in FY 2018 reflects a combination of gross increases in the projection for medical, prescription drug, dental, and vision costs of $99.598 million offset by $20.215 million in contributions from members and $36.461 million from prospective FY 2018 State Health Benefits Program (SHBP) plan design changes following statutory Out-of-Network (OON) cost reform.

- Savings from the September 2016 plan design changes are not fully specified; however, according to the Office of Management and Budget, the budget assumes $40 million in FY 2018 savings from Pharmacy Benefits Manager (PBM) reform pursuant to P.L.2017, c.67 and $8 million in savings from the tiered network pilot program.

Post-Retirement Medical Benefits

- The FY 2018 Governor's Budget proposes total appropriations from Interdepartmental Accounts, the Department of Education, and the Department of Treasury of $1.916 billion for Post-Retirement Medical Benefits (PRM) in FY 2018, a net reduction of $10.578 million, or 0.55 percent below FY 2017 adjusted appropriations.

Highlights (Cont'd)

Post-Retirement Medical ($000)				
Program Area	**FY 2017**	**FY 2018**	**$ Change**	**% Change**
Interdepartmental	**$ 717,495**	**$ 636,713**	**$ (80,782)**	**-11.26%**
Education	$ 1,125,061	$ 1,195,527	$ 70,466	6.26%
Treasury	$ 84,097	$ 83,835	$ (262)	-0.31%
Total	$ 1,926,653	$ 1,916,075	$ (10,578)	-0.55%

- Within the Interdepartmental Accounts budget, PRM appropriations decrease by $80.782 million, from $717.495 million to about $636.713 million. According to OMB, this reduction is a combination of lower internal projections for post-retirement medical costs ($55.943 million, including $20.1 million in savings from the shift of Medicare enrolled members to Medicare Advantage plans) as well as savings from anticipated plan design changes following statutory Out-of-Network (OON) cost reform ($24.839 million).

Salary Increases and Other Benefits

- The FY 2018 Governor's Budget recommends $96.6 million for Salary Increases and Other Benefits. The budget recommendation of $74.7 million for Executive Branch employees includes funding for step-increments and a 1.75 percent Cost-of-Living-Adjustment (COLA), which is consistent with recently settled contracts; however, only about half of the Executive Branch union contracts have settled, so the COLA increase may change. The Judiciary recommendation of $10.8 million funds progression increases for most Judicial Branch employees. The total also includes $11 million for unused sick leave payments.

Background Papers

Key Events in the Executive Statehouse Renovation Project p. 43

State Health Benefits Program: Plan Design Changes, FY 2017- FY 2018 p. 51

Fiscal and Personnel Summary

AGENCY FUNDING BY SOURCE OF FUNDS ($000)

	Expended FY 2016	Adj. Approp. FY 2017	Recom. FY 2018	Percent Change 2016-18	Percent Change 2017-18
General Fund					
Direct State Services	$2,792,222	$2,996,843	$3,190,935	14.3%	6.5%
Grants-In-Aid	1,128,395	1,127,858	1,163,591	3.1%	3.2%
State Aid	0	0	0	0.0%	0.0%
Capital Construction	215,231	194,979	194,839	(9.5%)	(0.1%)
Debt Service	0	0	0	0.0%	0.0%
Sub-Total	**$4,135,848**	**$4,319,680**	**$4,549,365**	**10.0%**	**5.3%**
Property Tax Relief Fund					
Direct State Services	$0	$0	$0	0.0%	0.0%
Grants-In-Aid	0	0	0	0.0%	0.0%
State Aid	0	0	0	0.0%	0.0%
Sub-Total	**$0**	**$0**	**$0**	**0.0%**	**0.0%**
Casino Revenue Fund	$0	$0	$0	0.0%	0.0%
Casino Control Fund	$0	$0	$0	0.0%	0.0%
State Total	**$4,135,848**	**$4,319,680**	**$4,549,365**	**10.0%**	**5.3%**
Federal Funds	$0	$0	$0	0.0%	0.0%
Other Funds	$35,805	$53,313	$53,313	48.9%	0.0%
Grand Total	**$4,171,653**	**$4,372,993**	**$4,602,678**	**10.3%**	**5.3%**

PERSONNEL SUMMARY - POSITIONS BY FUNDING SOURCE

	Actual FY 2016	Revised FY 2017	Funded FY 2018	Percent Change 2016-18	Percent Change 2017-18
State	0	0	0	0.0%	0.0%
Federal	0	0	0	0.0%	0.0%
All Other	0	0	0	0.0%	0.0%
Total Positions	**0**	**0**	**0**	**0.0%**	**0.0%**

FY 2016 (as of December) and revised FY 2017 (as of January) personnel data reflect actual payroll counts. FY 2018 data reflect the number of positions funded.

AFFIRMATIVE ACTION DATA

Total Minority Percent	N/A	N/A	N/A	----	----

Significant Changes/New Programs ($000)

Budget Item	Adj. Approp. FY 2017	Recomm. FY 2018	Dollar Change	Percent Change	Budget Page

GENERAL GOVERNMENT SERVICES

Direct State Services

Property Rentals

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

Property Rentals	**$237,516**	**$235,435**	**($2,081)**	**(.9%)**	**D-430**

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

Existing and Anticipated Leases	**$193,279**	**$190,681**	**($2,598)**	**(1.3%)**	**D-430**

The Existing and Anticipated Leases appropriation comprises the gross cost for office space and other property rentals for State agencies and includes (but is not limited to) rent payments, taxes, janitorial services, utilities, snow removal, advertising, moving, and security costs. The proposed reduction of $2.598 million results primarily from reductions in rent, taxes, janitorial, utility, and other lease services costs totaling $19.008 million, offset by increases in operating escalations (increases in payments from automatic escalation clauses in multi-year leases), an increase in approved new space, and increases in other miscellaneous costs totaling $16.410 million.

Table 1	Existing and Anticipated Leases ($000)		
Existing and Anticipated Leases	**FY 2017 Adjusted Appropriation**	**FY 2018 Recommendation**	**Change**
Rent	$ 136,245	$ 126,047	$ (10,198)
Taxes	$ 2,119	$ 939	$ (1,180)
Janitorial	$ 3,637	$ 3,289	$ (348)
Utilities	$ 11,992	$ 9,495	$ (2,497)
Operating Escalations	$ 27,548	$ 41,974	$ 14,426
Other Lease Services	$ 9,207	$ 4,422	$ (4,785)
Approved New Space	$ 1,795	$ 3,765	$ 1,970
Other	$ 736	$ 750	$ 14
Total	$ 193,279	$ 190,681	$ (2,598)
Source: Office of Management and Budget, Department of the Treasury.			

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

Budget Item	Adj. Approp. FY 2017	Recomm. FY 2018	Dollar Change	Percent Change	Budget Page
Economic Development Authority	**$6,248**	**$6,238**	**($ 10)**	**(.2%)**	**D-430**

The State has capital lease agreements with the New Jersey Economic Development Authority (EDA) for various facilities and facility improvements that the EDA has financed around the State. As lessee, the State is required to make rental payments sufficient to cover the debt service and other amounts payable to the EDA. The line item above represents the debt service on bonds issued for the acquisition, renovation, and construction of certain land, office buildings and improvements in Asbury Park, Camden, Capitol Place One (Trenton), Cherry Hill, and five State Police barracks properties, as well as improvements related to parking, infrastructure, landscaping, passenger shuttles, and open space elements at Liberty State Park. This proposed FY 2018 reduction for the EDA consists primarily of minor changes in debt service on the State's capital lease agreements and a reduction of $14,000 in debt service for Liberty State Park projects. The reduction in debt service for the Liberty State Park projects is due to the refunding of all outstanding EDA bonds not only for Liberty State Park projects, but also for Liberty Science Center projects (State Lease Revenue Bonds) on November 24, 2015.

The FY 2018 Governor's budget shifts the $14,000 payment for the debt service for the refunded EDA bonds for the Liberty State Park projects from the Economic Development Authority appropriation in the Property Rentals budget to the Grants-In-Aid, Aid to Independent Authorities budget and combines it with the appropriation for the debt service payment for Liberty Science Center projects in the Liberty Science Center appropriation (Page D-431). The remaining debt service payment for the State Office Buildings totaling $5.271 million and the $967,000 debt service payment for the State Police Barracks are consistent with the maturity schedules on these bonds in the FY 2016 Debt Report (Office of Public Finance). The proposed changes in debt service with the EDA are shown below:

Table 2

Economic Development Authority ($000)			
Economic Development Authority	**FY 2017 Adjusted Appropriation**	**FY 2018 Recommendation**	**Change**
Asbury Park	$ 1,027	$ 1,028	$ 1
Camden	$ 1,416	$ 1,418	$ 2
Capital Place One	$ 2,084	$ 2,087	$ 3
Cherry Hill	$ 737	$ 738	$ 1
Liberty State Park	$ 14	$ 0	$ (14)
State Police Barracks	$ 970	$ 967	$ (3)
Total	$ 6,248	$ 6,238	$ (10)
Source: Office of Management and Budget, Department of the Treasury.			

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

Budget Item	Adj. Approp. FY 2017	Recomm. FY 2018	Dollar Change	Percent Change	Budget Page
Other Debt Service Leases and Tax Payments	**$37,989**	**$38,516**	**$ 527**	**1.4%**	**D-430**

The Other Debt Service Leases and Tax Payments appropriation consists primarily of debt service costs, taxes, and payments in lieu of taxes (PILOTs) for facilities financed by independent public entities and occupied by State agencies, including costs other than debt service of the EDA facilities noted above. The proposed FY 2018 increase in this category is comprised of increases in various fees and taxes totaling $555,000. These increases include increased operating expenses for Bridgeton ($246,000), increased tax payments for Capitol One Place ($116,000), administration fees for Asbury Park ($92,000), taxes for the Justice Complex ($93,000), and PILOT payments for Asbury Park and Cherry Hill ($8,000). These increases are offset by $28,000 in minor reductions in the other accounts. The annual debt service of $21.483 million on bonds issued by the Health Care Facilities Financing Authority for Greystone Psychiatric Hospital (Morris County) and Marlboro Psychiatric Hospital (Monmouth County) is consistent with the FY 2018 debt service schedule published in the Fiscal Year 2016 Debt Report.

Table 3 Other Debt Service Leases and Tax Payments ($000)

Other Debt Service Leases and Tax Payments	FY 2017 Adjusted Appropriation	FY 2018 Recommendation	Change
Asbury Park Administration Fee	$ 20	$ 112	$ 92
Asbury Park PILOT	$ 80	$ 83	$ 3
Bridgeton Debt Service	$ 1,489	$ 1,469	$ (20)
Bridgeton Operating Expenses	$ 465	$ 711	$ 246
Camden 101 Haddon Ave. PILOT	$ 412	$ 407	$ (5)
Camden 101 Haddon Ave. Administration Fees	$ 20	$ 20	$ 0
Capitol One Taxes	$ 2,349	$ 2,465	$ 116
Capital One-EDA Administration Fees	$ 20	$ 20	$ 0
DOT Cherry Hill PILOT	$ 115	$ 120	$ 5
DOT Cherry Hill EDA Administration Fee	$ 20	$ 20	$ 0
Greystone	$ 17,594	$ 17,594	$ 0
Marlboro	$ 3,889	$ 3,889	$ 0
Justice Complex Taxes	$ 9,511	$ 9,604	$ 93
Taxation Building Debt Service	$ 691	$ 691	$ 0
Taxation Building Insurance	$ 20	$ 20	$ 0
Taxation Building Property Taxes	$ 1,222	$ 1,222	$ 0

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

Budget Item	Adj. Approp. FY 2017	Recomm. FY 2018	Dollar Change	Percent Change	Budget Page

Taxation Building TDA Taxes	$ 52	$ 49	$ (3)
State Police Locations Administrative Fees EDA	$ 20	$ 20	$ 0
Total	$ 37,989	$ 38,516	$ 527
Source: Office of Management and Budget, Department of the Treasury.			

Budget Item	Adj. Approp. FY 2017	Recomm. FY 2018	Dollar Change	Percent Change	Budget Page
Less: Total Deductions	**$86,675**	**$89,224**	**$ 2,549**	**2.9%**	**D-430**

This line item represents "direct rent" reimbursements to State agencies from federal and other dedicated funds to defray facilities occupancy costs, based upon the use of those facilities in delivering programs and services supported by those resources. To the extent that these reimbursements increase, State appropriations needed to fully fund rental and other costs decrease.

Budget Item	Adj. Approp. FY 2017	Recomm. FY 2018	Dollar Change	Percent Change	Budget Page
Net Property Rentals	**$150,841**	**$146,211**	**($4,630)**	**(3.1%)**	**D-430**

The "central rent" requirement for FY 2018 is the net result of the increases and decreases in the Property Rental items noted above.

Insurance and Other Services

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

Budget Item	Adj. Approp. FY 2017	Recomm. FY 2018	Dollar Change	Percent Change	Budget Page
Tort Claims Liability Fund	**$15,000 $17,400 S**	**$15,000**	**($17,400)**	**(53.7%)**	**D-431**

The Tort Claims Liability Fund provides funding for the payment of claims arising from wrongful actions or omissions (not based on contractual obligations), indemnification of pool attorneys engaged by the Public Defender for the defense of indigents, indemnification of a designated pathologist engaged by the State Medical Examiner, and direct costs of legal, administrative, and medical services related to the investigation, mitigation, and litigation of tort claims against public entities under N.J.S.A. 59:1-1 et seq., the "New Jersey Tort Claims Act." Budget language provides that additional funds may be appropriated for the purpose of paying tort claims under N.J.S.A. 59:12-1 as recommended by the Attorney General and as determined by the Director of the Division of Budget and Accounting.

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

Budget Item	Adj. Approp. FY 2017	Recomm. FY 2018	Dollar Change	Percent Change	Budget Page

Table 4

Tort Claims Liability Fund FY 2011 to FY 2018 ($ Millions)								
Tort Payments	**FY 2011**	**FY 2012**	**FY 2013**	**FY 2014**	**FY 2015**	**FY 2016**	**FY 2017**	**FY 2018**
Base Appropriation	$ 15.00	$ 15.00	$ 15.00	$ 15.00	$ 15.00	$ 15.00	$ 15.00	$ 15.00
Supplemental	$ 19.43	$ 7.15	$ 17.35	$ 4.66	$ 26.75	$ 0.00	$ 17.40	$ -
Transfers/ Re-appropriations	$ -	$ 0.49	$ -	$ 2.20	$ 0.54	$ 12.68	$ -	$ -
Total Tort Funding	**$ 34.43**	**$ 22.64**	**$ 32.35**	**$ 21.86**	**$ 42.29**	**$ 27.68**	**$ 32.40**	**TBD**
Expended	**$ 33.94**	**$ 22.06**	**$ 32.35**	**$ 21.32**	**$ 29.60**	**$ 16.15**	**TBD**	**TBD**
Source: Office of Management and Budget, Department of the Treasury.								

As the chart above shows, the Tort Claims Liability Fund has required supplemental funding in five of six years from FY 2011 through FY 2016, above a base appropriation of $15 million each year, totaling $75.34 million, and funding from transfers and re-appropriations of $15.9 million. The FY 2018 Governor's Budget indicates the need for a supplemental appropriation of $17.4 million in FY 2017 to bring total funding to $32.4 million, and recommends a FY 2018 appropriation of $15 million. Since FY 2010, the baseline appropriation for the Tort Claims Liability Fund has not been increased to meet the level of funding needed to pay claims. As a result, supplemental appropriations have been required to fulfill the State's Tort Claim obligations. According to the Office of Management and Budget, as of March 24, 2017, 12 claims greater than $100,000 and 99 claims for less than $100,000 had been settled.

In the response to an FY 2017 OLS Discussion Point, the division provided actual claims and expenditures information for FY 2015: 560 small claims (less than $100,000) with a total value of $2.6 million and 28 large claims (greater than $100,000) with a total value of $24.2 million. To address the ongoing need for supplemental funding in the Tort Claims Liability Fund, the division indicated that it "has revamped the State Accident Review Board and has disseminated the Board's first official policy to all Human Resource Managers and State Vehicle Coordinators Statewide." Furthermore, the division stated that the "DRM [Division of Risk Management] negotiated a favorable contract with a vendor for an on-line defensive driving course which is currently being loaded on the State's LMS [Learning Management System] for employees statewide."

The division also indicated that the "State Tort Claims Liability Fund funds claims made against most State colleges and universities, including Rowan University, except medical malpractice claims. For medical malpractice claims, Rowan University pays any awards from a Self-Insured Retention Fund "SRF" and through a number of excess commercial insurance policies pursuant to a Memorandum of Agreement." However, the Tort Claims Liability Fund does pay for medical malpractice claims for students of the Cooper Medical School of Rowan University (CMSRU), as differentiated from the Rowan University School of Osteopathic Medicine. To date, there have not been any claims or settlements paid with regard to medical students of CMSRU.

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

Budget Item	Adj. Approp. FY 2017	Recomm. FY 2018	Dollar Change	Percent Change	Budget Page
Workers' Compensation Self-Insurance Fund	**$94,500**	**$93,500**	**($1,000)**	**(1.1%)**	**D-431**

The FY 2018 Governor's budget recommends a reduction of 1.1 percent, or $1 million. According to the Office of Management and Budget, the replacement of Sick Leave Injury benefits with Workers' Compensation benefits and the reduction of the overall size of the State workforce are containing costs.

Budget Item	Adj. Approp. FY 2017	Recomm. FY 2018	Dollar Change	Percent Change	Budget Page
Property Insurance Premium Payments	**$2,915**	**$2,833**	**($ 82)**	**(2.8%)**	**D-431**

The Property Insurance Premium Payments appropriation is used to purchase insurance coverage for property damage to State-owned real and personal property. Coverage includes standard protection for buildings and contents, marine vessels, catastrophic loss to vehicles parked in State locations, and mainframe computer equipment coverage. Additional policies include fine arts coverage and high-value van coverage. According to the Office of Management and Budget, there are no significant changes in policies or premiums from FY 2017 to FY 2018. Changes in the account are shown below in Table 5.

Table 5

Property Insurance Premium Payments ($000)				
Policy	**Type of Coverage**	**FY 2017**	**FY 2018**	**Percent Change**
Affiliated FM	Property Insurance	$ 2,609	$ 2,563	(1.8%)
Travelers	Fine Arts Floater – Museum	$ 26	$ 3	(88.5%)
Travelers	Fine Arts Floater – DEP	$ 105	$ 92	(12.4%)
Marsh USA	Brokers Services Fees	$ 175	$ 175	0.0%
Total		$ 2,915	$ 2,833	(2.8%)
Source: Office of Management and Budget, Department of the Treasury.				

Budget Item	Adj. Approp. FY 2017	Recomm. FY 2018	Dollar Change	Percent Change	Budget Page
Casualty Insurance Premium Payments	**$544**	**$419**	**($ 125)**	**(23.0%)**	**D-431**

The Casualty Insurance Premium Payments appropriation is used to purchase automobile excess liability insurance; aircraft liability and physical hull damage insurance; workers' compensation for special classes of State employees supported by federal or non-State funds; and accidental health insurance to provide medical reimbursement, disability and death benefits to volunteers in State programs who do not qualify as State employees and would not be eligible for workers' compensation benefits. Casualty premiums include the New Jersey State Police marine fleet as well as Aircraft Hull and Liability Insurance. Changes in the account are shown below in Table 6.

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

Budget Item	Adj. Approp. FY 2017	Recomm. FY 2018	Dollar Change	Percent Change	Budget Page

Table 6

Casualty Insurance Premium Payments ($000)				
Policy	**Type of Coverage**	**FY 2017**	**FY 2018**	**Percent Change**
Global Aerospace	Aviation Liability & Hull	$ 372	$ 281	(24.5 %)
Zurich	Marine (watercraft) Hull-NJSP Marine Fleet	$ 94	$ 73	(22.3%)
Essex Insurance	Submerged Vessel	$ 21	$ 0	(100.0%)
Zurich	Marine (watercraft) Hull-DEP Marine Fleet	$ 57	$ 49	(14.0%)
Hartford	Special Vehicle Policy	$ 0	$ 16	100%
Total		$ 544	$ 419	(23.0%)
Source: Office of Management and Budget, Department of the Treasury.				

Special Insurance Policy Premium Payment	**$683**	**$501**	**($ 182)**	**(26.6%)**	**D-431**

The Special Insurance Policy Premium Payment appropriation is used to purchase special insurance policies such as: the New Jersey Network Public Broadcasters Liability (required by the Public Broadcasting Service); the Treasurer's Bond (the State Treasurer is bonded for the handling of various funds); and Blanket Position Bond insurance, which guarantees payment to the State for losses caused through employees' fraudulent or dishonest acts. In addition, special accident and health insurance is purchased to provide for medical expense reimbursement and disability and death benefits to students and volunteers who otherwise do not qualify as State employees and are precluded from collecting workers' compensation benefits. Changes in the account are shown below in Table 7.

Table 7

Special Insurance Policy Premium Payment ($000)				
Policy	**Type of Coverage**	**FY 2017**	**FY 2018**	**Percent Change**
Chartis	Special Contingency Coverage	$ 11	$ 0	(100%)
Chartis	Primary Crime Insurance	$ 98	$ 96	(2.0%)
Federal Insurance	Blanket Accident Policy-Superior Court	$ 49	$ 47	(4.0%)
Peoples Benefit Life	Student Accident Policy - Katzenbach	$ 11	$ 1	(91.0%)
Twin City & Hartford	Capital City (GL, AL, Umbrella)	$ 4	$ 7	75.0%
Axis Insurance Company	Broadcasters Liability	$ 10	$ 11	10.0%
Cyber	Cyber Liability	$ 500	$ 339	(32.2%)
Total		$ 683	$ 501	(26.6%)
Source: Office of Management and Budget, Department of the Treasury.				

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

Budget Item	Adj. Approp. FY 2017	Recomm. FY 2018	Dollar Change	Percent Change	Budget Page
Grants-In-Aid					
Aid to Independent Authorities					
New Jersey Sports and Exposition Authority-Debt Service	**$65,064**	**$64,193**	**($ 871)**	**(1.3%)**	**D-431**

P.L.1971, c.137 created the New Jersey Sports and Exposition Authority (NJSEA). The law provided for the acquisition, ownership, and operation of football stadiums, arenas, entertainment facilities, convention centers, and racetracks, including the Meadowlands Sports Complex, the Monmouth Park Racetrack, the Atlantic City Boardwalk Hall, the Atlantic City Convention Center, Rutgers University stadium, and the Wildwood Convention Center. The NJSEA bonds originally issued were secured by the revenues the NJSEA received from operating the facilities; however, as the original issue bonds were refinanced, the bonds became secured, in part, by State appropriations. Debt service on the bonds is payable pursuant to a contract between the State Treasurer and the NJSEA, subject to appropriation by the Legislature.

According to the Fiscal Year 2016 Debt Report, the total amount of State Contract Bonds outstanding (Page 48) is $349.175 million with a final maturity date of March 1, 2026. The recommended appropriation is consistent with the maturity schedule on outstanding bonds as published in the debt report.

Budget Item	Adj. Approp. FY 2017	Recomm. FY 2018	Dollar Change	Percent Change	Budget Page
Liberty Science Center	**$13,300**	**$9,739**	**($3,561)**	**(26.8%)**	**D-431**

Under P.L.1974, c.80, the Economic Development Authority is authorized to issue bonds for the design, construction, renovation, expansion, and acquisition of science exhibits for the Liberty Science Center (LSC) begun in 2003. The Liberty Science Center is located in Liberty State Park. Liberty State Park is a 1,200-acre park covering land and marshes in the Meadowlands. It has two restaurants, a marina, the historic Central Railroad Terminal of New Jersey, and the Liberty Science Center (LSC). In FY 2002 and FY 2005, the Economic Development Authority (EDA) issued a total of $95 million in bonds in three separate issuances for the design, construction, renovation, expansion, and acquisition of exhibits for the Liberty Science Center. The projects included the renovation of the building, the construction of a new addition to the center, the renovation and improvement of the Science Center's parking lot, and the improvement of the Central Railroad of New Jersey Terminal.

On November 24, 2015, the EDA issued $79.6 million in refunding bonds which refunded all prior debt issued for Liberty Science Center projects and Liberty State Park projects (EDA). According to the FY 2016 debt report, debt service for Liberty State Park refunding bonds is $9.723 million in FY 2018. The Liberty State Park projects (previously budgeted in Property Rentals under the Economic Development Authority) and the Liberty Science Center projects

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

Budget Item	Adj. Approp. FY 2017	Recomm. FY 2018	Dollar Change	Percent Change	Budget Page

have been combined and are now budgeted in this appropriation. The recommended FY 2018 appropriation of $9.739 million is consistent with the maturity schedule on outstanding bonds in the FY 2016 Debt Report.

Since FY 2012, budget language provided the authority for the LSC appropriation to be used not only for debt service, but also for operational costs of the LSC. The amount of the operational support for the LSC is to be determined by the State Treasurer pursuant to an agreement between the State Treasurer and the LSC. The difference between the total appropriation in a fiscal year and debt service has determined the funding for operational support. From FY 2012 through FY 2017, funding for operational support has averaged approximately $3.626 million. The FY 2018 Governor's Budget recommendation proposes sufficient funding for debt service, but not operational support in FY 2018. Other funding for the Liberty Science Center is budgeted in the Department of Education totaling $1.3 million for Educational Services.

Table 8 illustrates the total funding (excluding funding from the Department of Education) for the Liberty Science Center from FY 2012 through FY 2018 and the debt service and operational support components.

Table 8

Liberty Science Center
History of Appropriations
FY 2012 to FY 2018

	EDA Debt Service	Operational Support	Total
FY 2012	$ 7,426,000	$ 3,600,000	$ 11,026,000
FY 2013	$ 7,390,000	$ 3,600,000	$ 10,990,000
FY 2014	$ 7,350,000	$ 3,600,000	$ 10,950,000
FY 2015	$ 7,300,000	$ 3,645,000	$ 10,945,000
FY 2016	$ 2,400,000	$ 3,700,000	$ 6,100,000
FY 2017 (adjusted)	$ 9,684,000	$ 3,616,000	$ 13,300,000
FY 2018 (recommended)	$ 9,739,000	$ 0	$ 9,739,000

Source: Responses to Discussion Points: Liberty Science Center; Office of Legislative Services, Analyses of the New Jersey Budget, Interdepartmental Accounts.

Biomedical Research Bonds, EDA	**$4,239**	**$3,483**	**($ 756)**	**(17.8%)**	**D-431**

P.L.2006, c.102 authorized the New Jersey Economic Development Authority (EDA) to issue up to $270 million in bonds to finance capital construction projects for stem cell research, life sciences, and biomedical research facilities. The law allocated $50 million "to fund capital costs of biomedical research facilities," subject to an agreement between the NJEDA and the State Treasurer for the payment of the debt service on such bonds, which will be paid from the State's General Fund, subject to annual appropriations by the State Legislature.

On December 18, 2015, the Joint Budget Oversight Committee granted approval of EDA bond resolutions for the issuance of bonds to fund $50 million for biomedical research facilities

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

Budget Item	Adj. Approp. FY 2017	Recomm. FY 2018	Dollar Change	Percent Change	Budget Page

project costs, per P.L.2006, c.102. Bond proceeds would finance the acquisition of land and the construction of a Health Sciences Center in the city of Camden, owned by Rutgers University and operated by a consortium consisting of Rutgers and the Coriell Institute for Medical Research.

About $4.239 million was appropriated for the payment of debt service in anticipation of the issuance of Biomedical Research Facility bonds. However, the bond sale did not occur until September 2016. Because no debt service payments are required in FY 2017, the Executive plans to lapse $4.209 million of the FY 2017 appropriation.

According to the Official Statement dated September 8, 2016, the Economic Development Authority issued $46.850 million in Biomedical Research Facilities Bonds, Series 2016A. Debt service on those bonds, as set forth in the Official Statement, is $3.468 million in FY 2018. The FY 2018 recommended appropriation is consistent with the maturity schedule in the Official Statement.

The Biomedical Research Facilities project consists of the acquisition of approximately 1.125 acres of land in the city of Camden by the Rowan University-Rutgers Camden Board of Governors (created pursuant to P.L.2012, c.45), which would be ground leased to Rutgers, and the construction on that land of a Health Sciences Center of approximately 65,000 square feet. The center would include instructional and clinical space, research offices and laboratories.

New Jersey Sports and Exposition Authority – Operations	**$15,000 $ 1,000 S**	**$15,000**	**($1,000)**	**(6.3%)**	**D-431**

State appropriations for NJSEA operations have been incurred annually since commencing in FY 2011 at about $4 million, reaching $34.3 million in FY 2014 and $33 million in FY 2015. Total expenditures in FY 2016 were $15 million. These subsidies have decreased significantly since the NJSEA restructured after closing the IZOD arena and its consolidation with the New Jersey Meadowlands Commission pursuant to P.L.2015, c.19. The Executive has not explained the reason for $1 million in FY 2017 supplemental funding for the NJSEA, nor why that funding can be eliminated in FY 2018.

EMPLOYEE BENEFITS

There are five main categories of appropriations within the Employee Benefits accounts: Pensions, Health Benefits, Post-Retirement Medical Benefits, employer taxes, and pension bond debt service. Most State employees including those of State higher education institutions, and most employees of counties, municipalities, and school districts, are members of one of the seven State-administered retirement systems: the Alternate Benefits Program (ABP), the Defined Contribution Retirement Program (DCRP), the Public Employees' Retirement System (PERS), the Teachers' Pension and Annuity Fund (TPAF), the Police and Firemen's Retirement System (PFRS), the State Police Retirement System (SPRS), and the Judicial Retirement System (JRS). The first two plans are defined contribution plans and the other five are defined benefit plans.

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

Budget Item	Adj. Approp. FY 2017	Recomm. FY 2018	Dollar Change	Percent Change	Budget Page

In addition, there are two closed systems, the Consolidated Police and Firemen's Pension Fund (CPFPF) and the Prison Officer's Pension Fund (POPF) that enroll no new members. Under current law, all defined benefit pension plans are subject to actuarial valuation every year and actuarial experience studies every three years. Appropriations for employee benefits are included in the budgets for Interdepartmental Accounts, the Department of Education and the Department of the Treasury.

Table 9

FY 2018 Selected Employee Benefits by Department ($000)			
	Defined Benefit Pensions	Health Benefits Active	Post-Retirement Medical
Interdepartmental DSS and GIA	**$ 903,804**	**$ 1,357,034**	**$ 636,713**
Education	$ 1,495,975	$ 0	$ 1,195,527
Treasury	$ 109,321	$ 0	$ 83,835
Total	$ 2,509,100	$ 1,357,034	$ 1,916,075

Source: FY 2018 Governor's Budget.
Notes: The State employer contribution for the defined benefit pensions is 5/10th of the actuarially determined contributions in all pension funds except the Consolidated Police and Firemen's Pension Fund (CPFPF). The table does not include non-contributory insurance. The Department of Treasury amount includes the Consolidated Police and Firemen's Pension Fund amount.

Table 10 summarizes the recommended changes in the appropriations that are included in Direct State Services (DSS) and Grants-In-Aid (GIA) Interdepartmental Accounts sections of the FY 2018 Governor's budget and includes pensions, non-contributory insurance, health care benefits for active employees, post-retirement medical, employer taxes, pension bonds, and Affordable Care Act fees.

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

Budget Item	Adj. Approp. FY 2017	Recomm. FY 2018	Dollar Change	Percent Change	Budget Page
Employee Benefits	**$3,661,061**	**$3,851,195**	**$190,134**	**5.2%**	**D-439**

Table 10

INTERDEPARTMENTAL ACCOUNTS EMPLOYEE BENEFITS State and Higher Education Employees Changes in Appropriations by Program; Adjusted FY 2017 to Recommended FY 2018 ($000)			
	Change in Direct State Services (State Employees)	**Change in Grants-In- Aid (Higher Education)**	**Total Change in DSS and GIA**
Total Pensions*	$ 183,577	$ 29,105	$ 212,682
Pensions–Non-Contributory Insurance	$ (1,389)	$ 2,225	$ 836
Volunteer Emergency Survivor Benefit	$ 0	$ 0	$ 0
Total Health Benefits Active	$ 17,671	$ 25,251	$ 42,922
Post-Retirement Medical Benefits	$ (66,015)	$ (14,767)	$ (80,782)
Affordable Care Act Fees	$ (4,876)	$ (2,161)	$ (7,037)
Employer Taxes	$ 7,740	$ 1,608	$ 9,348
Pension Bonds	$ 11,502	$ 663	$ 12,165
Total	$ 148,210	$ 41,924	$ **190,134**
Note: * The Total Pension amount also includes the Alternate Benefit Program, the Defined Contribution Program, the Pension Adjustment Act, and the Veterans Act. Employer Taxes includes Social Security, Temporary Disability Insurance, and Unemployment Insurance.			

The FY 2018 Governor's budget recommends an appropriation of about $3.851 billion to provide funding for benefits for State employees and retirees (DSS) and employees and retirees of State higher educational institutions (GIA). This is $190.134 million, or 5.2 percent, higher than the FY 2017 adjusted appropriation of $3.661 billion. This proposed change is due to increases of: (1) $212.682 million in pension appropriations; (2) $836,000 in Non-Contributory Insurance; (3) $42.922 million in health care benefits for active employees; (4) $9.348 million in Employer Taxes; and (5) $12.165 million in debt service on Pension Obligation Bonds. These increases are offset by reductions of (1) $80.782 million in Post-Retirement Medical Benefits; and (2) $7.037 million in Affordable Care Act fees. Details of the Direct State Services and Grants-In-Aid sections of the Employee Benefits budget are discussed in order below.

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

Budget Item	Adj. Approp. FY 2017	Recomm. FY 2018	Dollar Change	Percent Change	Budget Page
Direct State Services					
Employee Benefits	**$2,645,950**	**$2,794,160**	**$148,210**	**5.6%**	**D-437**

As displayed in the Direct State Services column in Table 10 above, the proposed increase in funding for employee benefits for active and retired State employees is due primarily to a $183.577 million increase in total employers' contributions; a $17.671 million increase in health care benefit costs for active employees; a $7.740 million increase in employer taxes; and an $11.502 million increase in debt service payments for pension bonds. These increases are offset by a mainly $66.015 million reduction in post-retirement medical costs, a $1.389 million reduction in Non-Contributory Insurance, and a $4.876 million reduction in Affordable Care Act fees. The increase in the employers' contribution for the defined benefit pension plans represents the difference between appropriating 40 percent of the full statutory contribution in FY 2017 and 50 percent of the full statutory contribution in FY 2018. The full statutory contribution in FY 2018, pursuant to the P.L.2010, c.1 phase-in schedule, is 100 percent (7/7) or approximately $5 billion.

Budget Item	Adj. Approp. FY 2017	Recomm. FY 2018	Dollar Change	Percent Change	Budget Page
Pensions					
Public Employees' Retirement System	**$441,206**	**$569,956**	**$128,750**	**29.2%**	**D-437**
Police and Firemen's Retirement System	**$98,893**	**$129,256**	**$30,363**	**30.7%**	**D-437**
Police and Firemen's Retirement System (P.L.1979, c.109)	**$2,396**	**$2,874**	**$ 478**	**19.9%**	**D-437**
State Police Retirement System	**$51,038**	**$72,104**	**$21,066**	**41.3%**	**D-437**
Judicial Retirement System	**$19,677**	**$23,266**	**$ 3,589**	**18.2%**	**D-437**
Teachers' Pension and Annuity Fund	**$3,716**	**$3,087**	**($ 629)**	**(16.9%)**	**D-437**
Total Defined Benefit Retirement System	**$616,926**	**$800,543**	**$183,617**	**29.8%**	**__**

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

Budget Item	Adj. Approp. FY 2017	Recomm. FY 2018	Dollar Change	Percent Change	Budget Page

The State-administered Retirement System

The Governor took action in FY 2014 to reduce the FY 2014 3/7ths required employer contribution to the pension fund under P.L.2010, c.1 from $1.582 billion to $695.7 million. The FY 2015 Appropriations Act, after the Governor's line item veto, reduced the FY 2015 4/7 required employer contribution to the pension fund under P.L.2010, c.1 from $2.249 billion to $680.6 million. Both the FY 2014 expenditures and FY 2015 original appropriations represented only the normal contribution, and omitted payment of the unfunded actuarially accrued liability. Near the close of FY 2015, the Legislature and the Governor approved supplemental appropriations of $212 million to increase FY 2015 employer contributions to 22.7 percent of the full required contribution.

The Governor took action again, on June 26, 2015 through line-item veto of Senate Bill No. 2016 of 2015, to reduce the FY 2016 5/7ths required employer contribution to the pension fund under P.L.2010, c.1 from $3.112 billion to $1.307 billion. In his veto message, the Governor stated that the reduction in each retirement system was to reflect the adjustments necessary to implement the funding schedule described in the Governor's budget recommendations for FY 2016. The Governor's budget recommendations proposed a schedule of annual contributions that would increase in 1/10th increments and the FY 2016 contribution would serve as the first of future annual contributions beginning at 3/10ths of full funding. The Governor further asserted that a regular schedule starting at 3/10ths and increasing annually would result in a return to full funding of the actuarial determined contribution and would ensure the long term solvency, health, and stability of the pension systems.

The Governor's FY 2017 Budget continued this policy by making an employer contribution of $1.862 billion, or 4/10ths of the actuarially determined contribution (ADC)[1] ($4.654 billion) based on projection models reflecting the July 1, 2015 valuations results. This payment is due on June 30, 2017. According to the Office of Management and Budget, under P.L.2010, c.1, the State would have been required to contribute $3.998 billion in FY 2017, equivalent to 6/7ths of the ARC.
The Governor's FY 2018 Budget recommends continuing this policy again, by making an employer contribution of $2.509 billion or 5/10ths of the actuarially determined contribution ($5.018 billion) based on projection models reflecting the July 1, 2016 valuation results. Under P.L.2010, c.1, the State would have been required to contribute the full statutory contribution of $5.018 billion in FY 2018.

The significant changes table above shows the differences between the FY 2017 employer cost contributions and the proposed FY 2018 employer cost contributions per line item for each State-administered defined benefit retirement system in the DSS Interdepartmental Accounts budget under the 1/10th increment schedule.

[1]The General Accounting Standards Board (GASB) changed the terminology referring to the employer's full actuarial contribution from actuarially required contribution (ARC) to actuarially determined contribution (ADC) at the time of the adoption of GASB Rule 67 in 2013 and Rule 68 in 2014.

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

Budget Item	Adj. Approp. FY 2017	Recomm. FY 2018	Dollar Change	Percent Change	Budget Page

Table 11 below shows the recommended State contribution for each of the State-administered defined benefit retirement systems and the percentage of the ADC that the State contribution represents. Table 12 shows the breakout of the pension contributions by department.

Table 11

Total Defined Benefit Pension Contributions ($000)				
	FY 2016 @ 3/10	FY 2017 @ 4/10	FY 2018 @ 5/10	FY 2018 ADC
PERS	$ 354,612	$ 507,178	$ 662,157	$ 1,324,314
PFRS	$ 138,324	$ 195,221	$ 251,458	$ 502,918
SPRS	$ 35,580	$ 51,038	$ 72,104	$ 144,209
JRS	$ 13,951	$ 19,677	$ 23,266	$ 46,532
TPAF	$ 764,489	$ 1,087,919	$ 1,499,790	$ 2,999,577
CPFPF*	$ 148	$ 575	$ 325	$ 325
Total State Contribution	**$ 1,307,104**	**$ 1,861,608**	**$ 2,509,100**	**$ 5,017,875**
Total ADC	$ 4,357,013	$ 4,653,148	$ 5,017,875	$ 5,017,875
State Contrib/ADC	30%	40%	50%	100%

* This system is being funded at 100 percent.

Source: Division of Pensions and Benefits, Department of the Treasury.

Table 12

Total Defined Benefit Contributions by Department ($000)				
	FY 2016	FY 2017	FY 2018	FY17 to FY18 $ Change
Interdepartmental DSS&GIA	$ 484,227	$ 691,275	$ 903,804	$ 212,529
Education	$ 761,169	$ 1,083,157	$ 1,495,975	$ 412,818
Treasury	$ 61,708	$ 87,176	$ 109,321	$ 22,145
Total State Contribution	**$ 1,307,104**	**$ 1,861,608**	**$ 2,509,100**	$ 647,492

Alternate Benefit Program – Employer Contributions	**$1,327**	**$1,209**	**($ 118)**	**(8.9%)**	**D-437**

The Alternate Benefit Program (ABP) (N.J.S.A. 18A:66-167 et seq.) is principally for full-time faculty of public institutions of higher education, but also includes certain State professional administrative staff. Participants have the option to provide for their retirement through the purchase of fixed or variable annuities underwritten by private vendors, the Teachers Insurance and Annuity Association (TIAA), or the College Retirement Equities Fund (CREF). The minimum contribution by employees is 5 percent of base salary. The employers (State and institutions of higher education) contribute a flat rate of 8 percent of base salary. This contribution is included in the Interdepartmental Accounts and the Department of the Treasury's recommended budgets (the latter for county college faculty).

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

Budget Item	Adj. Approp. FY 2017	Recomm. FY 2018	Dollar Change	Percent Change	Budget Page

The FY 2018 Governor's Budget recommends an appropriation of $1.209 million for active State professional administrative staff at public institutions of higher education. This amount is based on membership and wage trends and is consistent with the Division of Pensions and Benefits assumption of a 2 percent reduction in salary costs below a revised wage base.

Defined Contribution Retirement Program	**$1,252**	**$1,416**	**$ 164**	**13.1%**	**D-437**

P.L.2007, c.92 established a Defined Contribution Retirement Program (DCRP) for elected and certain appointed officials and for certain other public employees. State and local government employers contribute 3 percent of the employee's base salary; group life insurance and the option for disability benefits coverage are provided to participants. Participants contribute 5.5 percent of their salary. Participants in the DCRP include new public employees and teachers who do not meet the required number of work hours necessary to participate in PERS and TPAF, and public employees whose salary exceeds the annual maximum wage contribution base for Social Security, which is $127,200 for calendar year 2017.

The FY 2018 Governor's Budget recommends an appropriation of $1.416 million to provide full funding of the calculated State contribution. The Division of Pensions and Benefits does not include a forecast of total base salaries on which the appropriation is based. Evaluation data on page D-436 projects growth in State active members from 3,808 in FY 2017 to 4,385 in FY 2018, a percentage increase of 15 percent.

Pension Adjustment Program	**$613**	**$527**	**($ 86)**	**(14.0%)**	**D-438**

The Pension Adjustment Program appropriation provides funding for cost-of-living adjustments (COLAs) in the benefits paid to retirees of the three closed State-administered defined benefit retirement systems: the Consolidated Police and Firemen's Pension Fund (CPFPF), the Prison Officers' Pension Fund (POPF), and the Central Pension Fund. The remaining State-administered defined benefit retirement systems' COLAs are paid as part of the liability of each system. Under the Pension Adjustment Fund, there is a fixed adjustment for those individuals who retired prior to January 1, 1955, and, for retirees after that date, the adjustment is 60 percent of the change in the consumer price index. Retirees become eligible for the adjustment 24 months after retirement. This program is funded on a pay-as-you-go basis through annual employer contributions. COLA increases were suspended in FY 2011 pursuant to P.L.2011, c.78. The FY 2018 recommended amount reflects a downward revision to the appropriation to adjust for a lower projected FY 2017 need and declining costs in FY 2018 resulting from fewer living retirees and the suspension of the COLA.

Total Pensions	**$620,118**	**$803,695**	**$183,577**	**29.6%**	**---**

This total includes the proposed appropriations for the PERS, PFRS, SPRS, JRS, TPAF, the ABP, the DCRP, and the Pension Adjustment Act Program. It does not include Veterans' Act Pensions ($63,000) or the Volunteer Emergency Survivor Benefit Program ($173,000) because there were no recommended changes to these two appropriations in FY 2018. Currently, there

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

Budget Item	Adj. Approp. FY 2017	Recomm. FY 2018	Dollar Change	Percent Change	Budget Page

are two individuals receiving Veterans' Act pensions. The Division of Pensions and Benefits assumes that the count will remain the same in FY 2018. There are currently 10 individuals receiving Volunteer Emergency Survivor benefits. The Division of Pensions and Benefits assumes that the count will remain the same in FY 2018.

Non-Contributory Insurance

Non-Contributory Insurance (NCI) appropriations fund the group life insurance plan for enrolled members, also known as the death benefit. NCI comprises part of the State's annual required contributions, but is paid in full each year. NCI is a group insurance plan in which the insured members pay no portion of the premium for their insurance. The group policyholder pays the entire premium. The enrollment of group members is automatic and all eligible members are covered. The State funds NCI for State employees budgeted in Direct State Services and for employees of public State institutions of higher of education budgeted in Grants-In-Aid. Total State NCI appropriations for both Direct State Services and Grants-In-Aid are displayed in Table 13 below.

Table 13

Total Non-Contributory Insurance – Interdepartmental Accounts ($000)				
	FY 2017	FY2018	$ Change	% Change
Total NCI in IDA-DSS	**$43,623**	**$42,234**	**($1,389)**	**(3.2%)**
Total NCI in IDA-GIA	$25,529	$27,754	$2,225	8.7%
Total NCI	$69,152	$69,988	$ 836	1.2%

The recommended Non-Contributory Insurance appropriations for each account in the Direct State Services budget are listed below.

Public Employees' Retirement System	**$30,871**	**$30,487**	**($ 384)**	**(1.2%)**	**D-437**
Police and Firemen's Retirement System	**$9,468**	**$8,500**	**($ 968)**	**(10.2%)**	**D-437**
Alternate Benefit Program	**$211**	**$193**	**($ 18)**	**(8.5%)**	**D-437**
Defined Contribution Retirement Program	**$581**	**$612**	**$ 31**	**5.3%**	**D-437**
State Police Retirement System	**$1,803**	**$1,719**	**($ 84)**	**(4.7%)**	**D-437**
Judicial Retirement System	**$633**	**$676**	**$ 43**	**6.8%**	**D-437**

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

Budget Item	Adj. Approp. FY 2017	Recomm. FY 2018	Dollar Change	Percent Change	Budget Page
Teachers' Pension and Annuity Fund	**$56**	**$47**	**($ 9)**	**(16.1%)**	**D-437**
Total Non-Contributory Insurance	**$43,623**	**$42,234**	**($1,389)**	**(3.2%)**	**---**

The proposed FY 2018 changes in each account reflect the pay-as-you go cost to fund NCI claims in FY 2018. According to the Division of Pensions and Benefits, total non-contributory insurance costs reflect anticipated pay-as-you-go insurance costs and include a total of $5.6 million for long-term disability (LTD) benefits on behalf of PERS and TPAF members for both Direct State Services and Grants-In-Aid. A breakout between the DSS and GIA accounts of the $5.6 million in LTD benefits was not available.

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

Pension Obligation Bonds

Budget Item	Adj. Approp. FY 2017	Recomm. FY 2018	Dollar Change	Percent Change	Budget Page
Debt Service on Pension Obligation Bonds	**$156,719**	**$168,221**	**$11,502**	**7.3%**	**D-438**

P.L.1997, c.114 authorized the Economic Development Authority to issue bonds to finance a portion of the unfunded accrued liability of the State pension system. According to the FY 2016 debt report (Page 35), total bonds outstanding as of June 30, 2016 are $2.206 billion with a final maturity date of February 15, 2029. This appropriation represents continued State debt service payments on these bonds. Total pension obligation bond debt service is recommended at $426.673 million in FY 2018, consistent with the schedule of debt service payments in the debt report. Funding for debt service on these bonds is appropriated in three sections of the budget: Interdepartmental Accounts, the Department of Education, and the Department of the Treasury. The Interdepartmental Accounts budget includes appropriations totaling $177.926 million: $168.221 million in DSS (State employees) and $9.705 million in GIA (higher education employees). The budget for the Department of Education includes an appropriation for debt service on pension obligation bonds of $226.217 million and the remaining $22.533 million is budgeted in the Department of the Treasury. Table 14 displays the recommended appropriations for Debt Service on Pension Obligations Bonds budgeted in Interdepartmental Accounts, the Department of Education, and the Department of the Treasury.

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

Budget Item	Adj. Approp. FY 2017	Recomm. FY 2018	Dollar Change	Percent Change	Budget Page

Table 14

Debt Service on Pension Obligation Bonds ($ Millions)			
Department	FY 2017 Adjusted Appropriation	FY 2018 Recommended Appropriation	FY17 to FY 18 $ Change
Interdepartmental Accounts-DSS	**$ 156.719**	**$ 168.221**	**$ 11.502**
Interdepartmental Accounts-GIA	$ 9.042	$ 9.705	$ 663
Sub-Total Interdepartmental Accounts	$ 165.761	$ 177.926	$ 12.165
Dept. of Education-State Aid	$ 210.750	$ 226.217	$ 15.467
Treasury-State Aid	$ 20.993	$ 22.533	$ 1.540
Total Debt Service on Pension Obligation Bonds	$ 397.504	$ 426.676	$ 29.172

Health Benefits

The appropriations for State employees' health benefits in the Interdepartmental Accounts budget include State Health Benefit Program (SHBP) medical, prescription drug, dental, and vision coverage and pertain to active State employees and retirees. For plan year 2017, January 1, 2017 – December 31, 2017 overall premium rate increases for active employees recommended by the actuary are 3.4 percent for medical and prescription drug coverage (PPO and HMO combined); 6.9 percent for early retirees; and 3.2 percent for Medicare retirees. Table 15 shows the State Health Benefits Program expenditure detail the dollar and percentage change in the accounts from FY 2017 to FY 2018 for active State employees in the DSS accounts (State operations), for active employees of public institutions of higher education in the GIA accounts, and in total.

Table 15

FY 2018 GOVERNOR'S BUDGET FY 2018 ACTIVE STATE HEALTH BENEFITS DETAIL					
FY 2018 ACTIVE STATE HEALTH BENEFITS DETAIL	**FY 2016**	**FY 2017**	**FY 2018**	**$ Change**	**% Change**
Direct State Services					
Health Benefits Active Members	$ 727,892	$ 646,799	$ 686,942	$ 40,143	6.2%
Prescription Drugs Active Members	$ 200,696	$ 197,609	$ 174,386	$ (23,223)	-11.8%
Dental Benefits Active Members	$ 21,319	$ 21,672	$ 22,423	$ 751	3.5%
Vision Benefits Active Members	$ 145	$ 500	$ 500	$ -	0.0%
Total Direct State Services	$ 950,052	$ 866,580	$ 884,251	$ 17,671	2.0%
FY 2018 ACTIVE STATE HEALTH BENEFITS DETAIL	**FY 2016**	**FY 2017**	**FY 2018**	**$ Change**	**% Change**
Grants-In-Aid					
Health Benefits Active Members	$ 368,907	$ 336,163	$ 357,219	$ 21,056	6.3%
Prescription Drugs Active Members	$ 106,330	$ 100,939	$ 104,643	$ 3,704	3.7%
Dental Benefits Active Members	$ 11,233	$ 10,930	$ 11,421	$ 491	4.5%
Total Grants-In-Aid	$ 486,470	$ 448,032	$ 473,283	$ 25,251	5.6%
FY 2018 ACTIVE DSS and GIA ACTIVE STATE HEALTH BENEFITS	**FY 2016**	**FY 2017**	**FY 2018**	**$ Change**	**% Change**
DSS and GIA					
Health Benefits Active Members	$ 1,096,799	$ 982,962	$ 1,044,161	$ 61,199	6.2%
Prescription Drugs Active Members	$ 307,026	$ 298,548	$ 279,029	$ (19,519)	-6.5%
Dental Benefits Active Members	$ 32,552	$ 32,602	$ 33,844	$ 1,242	3.8%
Vision Benefits Active Members	$ 145	$ 500	$ 500	0	0.0%
Total Direct State Services and Grants-In-Aid	**$ 1,436,522**	**$ 1,314,612**	**$ 1,357,534**	**$ 42,922**	**3.3%**

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

Budget Item	Adj. Approp. FY 2017	Recomm. FY 2018	Dollar Change	Percent Change	Budget Page

Prospective Plan Design Changes Assumed for Active and Retired State Health Benefits in FY 2018

The FY 2018 Governor's Budget Summary anticipates total State savings to be achieved from prospective plan design changes of $125 million: $81.4 million from plan design changes following statutory Out-of-Network (OON) cost reform, with $61.3 million accruing to the SHBP and $20.1 million to the SEHBP; and $43.6 million in SEHBP plan design changes conforming to those already adopted and implemented by the SHBP.

According to the Office of Management and Budget in the Department of the Treasury, the budget recommendations for active employee health benefits and retiree post-retirement medical benefits budgeted in the Interdepartmental Accounts budget include: $61.3 million of the $81.4 million savings from anticipated prospective plan design changes following statutory out-of-network (OON) reforms. Also reflected in the recommended appropriations are savings from already implemented measures: $40 million in savings from the Procurement of an auditing firm for all pharmacy benefits manager (PBM) invoices and the procurement of a PBM through reverse auction; $20 million from shifting Medicare enrollees to Medicare Advantage plans: and $8 million in savings from a pilot program granting financial incentives to encourage subscribers to select a tiered network medical plan.

Prospective: OON Reforms - $61.3 million:
- $24 million in Direct State Services
- $12.5 million in Grants-In-Aid
- $20.5 million in Direct State Services in State post-retirement medical
- $4.3 million in Grants-In-Aid in Higher Education post-retirement medical

Adopted: (SHBP) Auditing Firm and Reverse Auction Reforms - $40 million:
- $37.7 million in Direct State Services
- $2.3 million in Grants-In-Aid

Adopted: (SHBP) Medicare Advantage Savings - $20 million:

- $16.2 million in Direct State Services
- $3.8 million in Grants-In-Aid

Adopted: (SHBP) Tiered Network Medical Plan Pilot Program - $8 million:

- $5.3 million in Direct State Services
- $2.7 million in Grants-In-Aid

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

Budget Item	Adj. Approp. FY 2017	Recomm. FY 2018	Dollar Change	Percent Change	Budget Page

Direct State Services

The FY 2018 Governor's budget recommends a total of $884.251 million for DSS for active State employees' medical, prescription drug, dental, and vision coverage to fund health care benefits. This represents an increase of 2 percent, or $17.671 million in FY 2018 resulting from gross increases in health care costs offset by employee contributions and savings from plan design changes. The funding for State employees' health benefits is itemized in the following appropriations in DSS.

Budget Item	Adj. Approp. FY 2017	Recomm. FY 2018	Dollar Change	Percent Change	Budget Page
State Employees' Health Benefits	**$646,799**	**$686,942**	**$40,143**	**6.2%**	**D-438**
State Employees' Prescription Drugs-	**$197,609**	**$174,386**	**($23,223)**	**(11.8%)**	**D-438**
State Employees' Dental Program-Shared Cost	**$21,672**	**$22,423**	**$ 751**	**3.5%**	**D-438**
State Employees' Vision Care Program	**$500**	**$500**	**$0**	**—**	**D-438**
Total State Health Benefits (Active State Employees)	**$866,580**	**$884,251**	**$17,671**	**2.0%**	**---**

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

Budget Item	Adj. Approp. FY 2017	Recomm. FY 2018	Dollar Change	Percent Change	Budget Page

The components of change in each individual account are shown in Table 16 below.

Table 16

Summary of Changes State Health Benefits – Direct State Services ($000)					
	FY 2017 Adjusted Appropriation	**Gross Increase**	**Employee Contribution Offset**	**Prospective Plan Design Changes/Other**	**FY 2018 Recommendation**
State Employees	$ 646,799	$ 70,076	$ (5,946)	$ (23,987)	$ 686,942
State Employees' Prescription Drug	$ 197,609	$ (20,161)	$ (3,062)		$ 174,386
State Employees' Dental	$ 21,672	$ 751			$ 22,423
State Employees' Vision	$ 500				$ 500
Total	$ 866,580	$ 50,666	$ (9,008)	**$ (23,987)**	$ 884,251

Source: Office of Management and Budget, Department of the Treasury.
Note: The prospective plan design changes reflect savings from OON reform. Savings from PBM audit firm and reverse auction reform and Tiered Network reform are assumed and implicit in the Gross Increase column, but were not specified in the components of change in the accounts.

Post-Retirement Medical Benefits

The Post-Retirement Medical accounts fund benefits for State employees who retire after 25 years of service as members of various retirement systems. Employees who accrue 25 years of service receive health benefits coverage on a cost sharing basis in accordance with law and reimbursement of the prevailing cost of Medicare Part B, according to the terms specified in the union contract applicable to them at the time they attain 25 years of service credit or retire on disability. Post-Retirement Medical Benefits (PRM) are funded on a pay-as-you-go basis. Because the renewal rates are based on a calendar year, for budgeting purposes the Administration blends rates from two plan years. The OLS notes that because the State is self-insured for the provision of health care benefits for its employees and retirees as well as those of certain local governments, the budgeted appropriations are estimates of the claims costs that the State will incur in a given fiscal year. While the appropriations provide the source of funds to pay for claims costs, the actual expenditures are paid out of the State Health Benefit Funds. Balances carried in the funds from one fiscal year to the next are not reflected in the budget.

Post-retirement medical benefits are budgeted in DSS and GIA in the Interdepartmental Accounts budget, State Aid in Treasury and State Aid in the Department of Education as shown in Table 17.

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

Budget Item	Adj. Approp. FY 2017	Recomm. FY 2018	Dollar Change	Percent Change	Budget Page

Table 17

State-Funded Post-Retirement Medical Benefits ($000)				
Department	**FY 2016**	**FY 2017**	**FY 2018**	**$ Change FY17 to FY18**
Interdepartmental DSS	**$ 493,659**	**$ 593,380**	**$ 527,365**	**$ (66,015)**
Interdepartmental GIA	$ 107,819	$ 124,115	$ 109,348	$ (14,767)
Interdepartmental Total DSS/GIA	$ 601,478	$ 717,495	$ 636,713	$ (80,782)
Education State Aid	$ 1,150,262	$ 1,125,061	$ 1,195,527	$ 70,466
Treasury State Aid	$ 74,240	$ 84,097	$ 83,835	$ (262)
Total PRM	$ 1,825,980	$ 1,926,653	$ 1,916,075	$ (10,578)
Source: FY 2018 Governor's Budget.				

For post-retirement medical benefits in DSS, the FY 2018 Governor's Budget recommends a total of $527.365 million for State retirees' medical and prescription drug coverage. This is $66.015 million less than FY 2017 appropriations.

Public Employees' Retirement System-Post Retirement Medical	**$419,256**	**$363,928**	**($55,328)**	**(13.2%)**	**D-437**
Teachers' Pension and Annuity Fund-Post Retirement Medical-State	**$3,479**	**$3,002**	**($ 477)**	**(13.7%)**	**D-437**

The appropriation above funds a small subset of the Teachers' Pension and Annuity Fund (TPAF) retiree health benefit costs-those attributable to members that retired from State service.

Other Pension Systems-Post Retirement-Medical	**$170,645**	**$160,435**	**($10,210)**	**(6.0%)**	**D-438**

The appropriation presented above funds medical and prescription drug coverage for retired State employees in PFRS, SPRS, JRS, and the ABP.

Total Post-Retirement Medical-DSS	**$593,380**	**$527,365**	**($66,015)**	**(11.1%)**	**---**

The components of change in each individual account are shown in Table 18.

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

Budget Item	Adj. Approp. FY 2017	Recomm. FY 2018	Dollar Change	Percent Change	Budget Page

Table 18

Summary of Post-Retirement Medical Accounts Direct State Services ($000)				
Health Benefit Account	**FY 2017 Adjusted Appropriation**	**Gross Change**	**Prospective Plan Design Changes/Other**	**FY 2018 Recommendation**
PERS PRM	$ 419,256	$ (41,106)	$ (14,222)	$ 363,928
TPAF PRM	$ 3,479	$ (359)	$ (118)	$ 3,002
Other PRM	$ 170,645	$ (4,032)	$ (6,178)	$ 160,435
Total	$ 593,380	$ (45,497)	**$ (20,518)**	$ 527,365

Source: Office of Management and Budget, Department of the Treasury.
Note: The prospective plan design changes reflect savings from OON reform. Savings from PBM audit firm and reverse auction reform, Tiered Network reform, and Medicare Advantage plans are assumed and implicit in the Gross Increase column, but were not specified in the components of change in the accounts.

Affordable Care Act Fees

Budget Item	Adj. Approp. FY 2017	Recomm. FY 2018	Dollar Change	Percent Change	Budget Page
Affordable Care Act Fees	**$6,192**	**$1,316**	**($4,876)**	**(78.7%)**	**D-438**

The FY 2018 Governor's budget recommends a reduction of 78.7 percent, or $4.876 million for the Direct State Services cost of the Affordable Care Act (ACA) fees. The primary reason for the reduction in ACA fees is the expiration of the Transitional Reinsurance Fee. The Transitional Reinsurance Fee was a three-year fee effective January 1, 2014 affecting the State budget in FY 2015, FY 2016, and FY 2017. The FY 2018 amount of $1.316 million is recommended to pay for the research costs associated with the Patient-Centered Outcomes Research Institute (PCORI). The budgeted amount for the fee was determined by applying the plan year 2017 $2.26 fee to the number of projected covered lives in the SHBP plans, and projected early retiree/Medicare retiree covered lives in the SEHBP plans. The allocation of costs was based on plan enrollment and coverage level distributions.

Under the Patient Protection and Affordable Care Act (ACA), the State, as a self-funded non-federal sponsor of a group health plan was required to pay the Transitional Reinsurance Fee and the PCORI fee. The Transitional Reinsurance Fee was a three-year fee that began in calendar year 2014, to stabilize the cost of individual and small group insurance offered through health care insurance exchanges. Employer group health plans were assessed the fee to help mitigate anticipated losses due to adverse selection in the exchanges. There will be no Transitional Reinsurance Fee in FY 2018. The ACA imposed the PCORI fee to help fund medical outcomes research through the PCORI. The PCORI was authorized by the U.S. Congress to provide evidence-based research that is intended to help people make informed health care decisions. For plan year 2017, the PCORI fee is $2.26 per member, or 4 percent higher than the fee in plan year 2016.

ACA fees are allocated among three departments: Interdepartmental Accounts, Department of Education, and the Department of the Treasury. The FY 2018 Governor's budget recommends

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

Budget Item	Adj. Approp. FY 2017	Recomm. FY 2018	Dollar Change	Percent Change	Budget Page

appropriations totaling $2.686 million in these three budgets to pay for the State costs related to the remaining ACA PCORI fee. This is $7.939 million, or 74.7 percent, less than the FY 2017 fees. Table 19 displays the FY 2017 and FY 2018 State appropriations for the PCORI fee.

Table 19

Affordable Care Act Fees ($ Millions)			
Allocation of Fees by Department	**FY 2017**	**FY 2018**	**FY17–FY 18 $ Change**
Interdepartmental Accounts-DSS	**$ 6.192**	**$ 1.316**	**$ (4.876)**
Interdepartmental Accounts-GIA	$ 2.732	$ 0.571	$ (2.161)
Education-State Aid	$ 1.662	$ 0.784	$ (878)
Treasury-State Aid	$ 0.039	$ 0.015	$ (24)
Total ACA Fees	$ 10.625	$ 2.686	$ (7.939)
State Costs by ACA Fee			
Total Transitional Reinsurance Fee	$ 9.453	$ 0	$ (9.453)
Total PCORI FEE	$ 1.172	$ 2.686	$ 1.514
Total ACA Fees	$ 10.625	$ 2.686	$ (7.939)

Employer Taxes

Social Security Tax-State	**$343,780**	**$353,733**	**$ 9,953**	**2.9%**	**D-438**

The Social Security Tax-State appropriation in Direct State Services provides funding for the employer's share of Social Security contributions for State employees, not including employees of institutions of higher education. The recommended appropriation is an estimate of the funding required to meet the State's liability as an employer to pay Federal Insurance Contributions Act (FICA), Old Age, Survivors, and Disability Insurance (OASDI), and Medicare taxes. The current employer rate for Social Security is 6.2 percent of taxable wages and the rate for Medicare is 1.45 percent. There is no Medicare wage base, so Medicare taxes are paid on total compensation. The taxable wage base for Social Security for calendar year 2017 is $127,200, $8,700 or 7.3 percent more than the taxable wage base for Social Security in calendar year 2016.

The FY 2018 Governor's budget recommends an appropriation of $353.733 million in FY 2018, approximately 2.9 percent higher than in FY 2017. Taxable wages are assumed to decrease by 1 percent in FY 2018 for Direct State Services. The federal taxable wage base for Social Security increased by 7.3 percent for calendar 2017, translating into a 2.9 percent increase in Direct State Services costs for Social Security taxes in FY 2018.

Temporary Disability Insurance Liability	**$10,893**	**$10,449**	**($ 444)**	**(4.1%)**	**D-438**

All eligible State employees are included in the State Temporary Disability Insurance (TDI) plan. The plan is a shared-cost plan which provides payments to employees who are unable to work as the result of non-work connected illness or injury and who have exhausted their sick leave and are ineligible for any unemployment compensation or workers' compensation.

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

Budget Item	Adj. Approp. FY 2017	Recomm. FY 2018	Dollar Change	Percent Change	Budget Page

Employees and employers contribute 0.5 percent of compensation up to the State taxable wage base. The State taxable wage base in fiscal year 2018 is $34,500. The Division of Pension and Benefits assumes that the TDI employer rate is expected to remain at 0.5 percent of taxable wages through FY 2018, and taxable wages for Direct State Services are assumed to decrease by 1 percent.

The FY 2018 Governor's budget recommends an appropriation of $10.449 million, a reduction of 4.1 percent, or $444,000 less that the FY 2017 adjusted appropriation. The FY 2018 recommended appropriation is consistent with the assumption of a 1 percent reduction in taxable wages below a revised wage base.

Unemployment Insurance Liability	**$4,429**	**$2,660**	**($1,769)**	**(39.9%)**	**D-438**

The recommended appropriation for Unemployment Insurance Liability is the estimated amount the State is required to pay in unemployment claims for former State employees if the revenue from employee contributions proves to be insufficient. Unlike private industry, the State does not contribute a matching percentage of compensation to the Unemployment Compensation Trust Fund. Instead, the State operates on a pay-as-you-go basis. Employees contribute 0.425 percent of salary, up to the unemployment wage base of $34,500, in fiscal year 2018. After the employees' contribution is disbursed, the State, as an employer, contributes sufficient funds to ensure the program meets its obligations. Taxable wages for Direct State Services for Unemployment Insurance are assumed to decrease by 1 percent in FY 2018.

The FY 2018 Governor's budget recommends an appropriation of $2.660 million, a reduction of 39.9 percent, or $1.769 million less than the FY 2017 adjusted appropriation. The Executive plans to lapse $2 million of the combined DSS and GIA FY 2017 appropriation. The FY 2018 recommended appropriation of $2.660 million reflects the excess amount budgeted in FY 2017 and is consistent with the assumption of a 1 percent reduction in the taxable wage base.

Total Employer Taxes	**$359,102**	**$366,842**	**$ 7,740**	**2.2%**	

Grants-In-Aid

Employee Benefits

Employee Benefits Total Grants-In-Aid	**$1,015,111**	**$1,057,035**	**$41,924**	**4.1%**	**D-438**

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

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

Budget Item	Adj. Approp. FY 2017	Recomm. FY 2018	Dollar Change	Percent Change	Budget Page
Pensions					
Public Employees' Retirement System	**$65,972**	**$92,201**	**$26,229**	**39.8%**	**D-438**
Police and Firemen's Retirement System	**$7,465**	**$10,471**	**$ 3,006**	**40.3%**	**D-438**
Teachers' Pension and Annuity Fund	**$912**	**$589**	**($ 323)**	**(35.4%)**	**D-438**
Total State-Administered Defined Benefit Retirement System-GIA	**$74,349**	**$103,261**	**$28,912**	**38.9%**	**----**

The Governor's FY 2018 Budget recommends making an employer contribution of $103.261 billion or 5/10ths of the actuarially determined contribution for each of the State-administered retirement system accounts in the GIA budget for employees of State higher educational institutions. These recommendations are based on projection models reflecting the July 1, 2016 valuation results. Under P.L.2010, c.1, the State would have been required to contribute the full actuarially determined contribution in FY 2018.

Budget Item	Adj. Approp. FY 2017	Recomm. FY 2018	Dollar Change	Percent Change	Budget Page
Alternate Benefit Program Employer Contributions	**$44,937** **$ 5,468 S**	**$150,598**	**$ 193**	**.1%**	**D-438**

The Alternate Benefit Program (ABP) (N.J.S.A. 18A:66-167 et seq.) is principally for full-time faculty of public institutions of higher education, but also includes certain State professional administrative staff.

The FY 2018 Governor's budget recommends an appropriation of $150.598 million in FY 2018 for active employees of institutions of higher education. This amount is based on membership and wage trends. Mid-year review of the account indicated that the current year wage base increased by about 2 percent more than originally anticipated resulting in the need for a supplemental appropriation of $5.468 million in FY 2017. According to the Division of Pensions and Benefits, salaries are assumed to remain level for State Higher Education employees between FY 2017 and FY 2018. The FY 2018 recommendation is consistent with the Division of Pensions and Benefits assumption of level growth in costs over a revised base that is higher than originally assumed.

Budget Item	Adj. Approp. FY 2017	Recomm. FY 2018	Dollar Change	Percent Change	Budget Page
Total Pensions-GIA	**$224,754**	**$253,859**	**$29,105**	**12.9%**	**---**

Please refer to page 20 in the Direct State Services Pensions section for a detailed discussion of the funding of the State-administered retirement system.

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

Budget Item	Adj. Approp. FY 2017	Recomm. FY 2018	Dollar Change	Percent Change	Budget Page
Non-Contributory Insurance					

Non-Contributory Insurance (NCI) appropriations fund the group life insurance plan for enrolled members, also known as the death benefit.

Budget Item	Adj. Approp. FY 2017	Recomm. FY 2018	Dollar Change	Percent Change	Budget Page
Public Employees' Retirement System-Non-Contributory Insurance	**$4,735**	**$5,334**	**$ 599**	**12.7%**	**D-438**
Police and Firemen's Retirement System-Non-Contributory Insurance	**$418**	**$339**	**($ 79)**	**(18.9%)**	**D-438**
Alternate Benefit Program-Non-Contributory Insurance	**$20,373**	**$22,077**	**$1,704**	**8.4%**	**D-438**
Teachers' Pension and Annuity Fund-Non-Contributory Insurance	**$3**	**$4**	**$ 1**	**33.3%**	**D-438**
Total Non-Contributory Insurance-GIA	**$25,529**	**$27,754**	**$2,225**	**8.7%**	**---**

The proposed FY 2018 changes in each account reflect the pay-as-you go cost to fund NCI claims in FY 2018. According to the Division of Pensions and Benefits, total non-contributory insurance costs reflect anticipated pay-as-you-go insurance costs and include a total of $5.6 million for long-term disability (LTD) benefits on behalf of PERS and TPAF members for both Direct State Services and Grants-In-Aid. A breakout between the DSS and GIA accounts of the $5.6 million in LTD benefits was not available.

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

Please refer to page 24 in the Direct State Services section for a detailed discussion of Non-Contributory Insurance.

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

Budget Item	Adj. Approp. FY 2017	Recomm. FY 2018	Dollar Change	Percent Change	Budget Page
Pension Obligation Bonds					
Debt Service on Pension Obligation Bonds	**$9,042**	**$9,705**	**$ 663**	**7.3%**	**D-438**

P.L.1997, c.114 authorized the Economic Development Authority to issue bonds to finance a portion of the unfunded accrued liability of the State pension system. According to the FY 2016 Debt Report, total bonds outstanding as of June 30, 2016 are $2.206 billion with a final maturity date of February 15, 2029. This appropriation represents continued State debt service payments on these bonds.

Table 23

Debt Service on Pension Obligation Bonds ($ Millions)			
Department	**FY 2017 Adjusted Appropriation**	**FY 2018 Recommended Appropriation**	**FY17 to FY 18 $ Change**
Interdepartmental Accounts-DSS	$ 156.719	$ 168.221	$ 11.502
Interdepartmental Accounts-GIA	**$ 9.042**	**$ 9.705**	**$ 663**
Sub-Total Interdepartmental Accounts	$ 165.761	$ 177.926	$ 12.165
Dept. of Education-State Aid	$ 210.750	$ 226.217	$ 15.467
Treasury-State Aid	$ 20.993	$ 22.533	$ 1.540
Total Debt Service on Pension Obligation Bonds	$ 397.504	$ 426.676	$ 29.172

Please refer to page 24 in the Direct State Services section for a detailed discussion of the Pension Obligation Bonds.

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

Budget Item	Adj. Approp. FY 2017	Recomm. FY 2018	Dollar Change	Percent Change	Budget Page

Health Benefits

The appropriations for State employees' health benefits in Interdepartmental Accounts include State Health Benefit Program (SHBP) medical, prescription drug, dental, and vision coverage and pertain to active State employees and retirees of State institutions of higher education. For plan year 2017, January 1, 2017 – December 31, 2017 overall premium rate increases for active employees recommended by the actuary are 3.4 percent for medical and prescription drug coverage (PPO and HMO combined); 6.9 percent for early retirees; and 3.2 percent for Medicare retirees.

Prospective Plan Design Changes Assumed for Active and Retired State Health Benefits in FY 2018

The FY 2018 Governor's budget recommends a total of $473.283 million in FY 2018 for State employees of State institutions of higher education medical, prescription drug, and dental coverage to fund health care benefits. This represents an increase of 5.6 percent, or $25.251 million in FY 2018 resulting from gross increases in health care costs offset by employee contributions and savings from prospective plan design changes. The funding for employees of State institutions of higher education health benefits is itemized in the following appropriations in Grants-In-Aid.

Budget Item	Adj. Approp. FY 2017	Recomm. FY 2018	Dollar Change	Percent Change	Budget Page
State Employees' Health Benefits	**$336,163**	**$357,219**	**$21,056**	**6.3%**	**D-438**
State Employees' Prescription Drugs	**$100,939**	**$104,643**	**$ 3,704**	**3.7%**	**D-439**
State Employees' Dental Program-Shared Cost	**$10,930**	**$11,421**	**$ 491**	**4.5%**	**D-439**
Total State Health Benefits-(Active Higher Education Employees)	**$448,032**	**$473,283**	**$25,251**	**5.6%**	**---**

The components of change in each individual account are shown in Table 24.

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

Budget Item	Adj. Approp. FY 2017	Recomm. FY 2018	Dollar Change	Percent Change	Budget Page

Table 24

FY 2018 Summary of Changes State Health Benefits – Grants-In-Aid ($000)					
	FY 2017 Adjusted Appropriation	Gross Increase	Employee Contribution Offset	Prospective Plan Design Changes/ Other	FY 2018 Recommendation
Higher Education Employees	$ 336,163	$ 42,934	$ (9,404)	$ (12,474)	$ 357,219
Higher Education Employees' Prescription Drug	$ 100,939	$ 5,507	$ (1,803)		$ 104,643
Higher Education Employees' Dental	$ 10,930	$ 491			$ 11,421
Total	$ 448,032	$ 48,932	$ (11,207)	**$ (12,474)**	$ 473,283

Source: Office of Management and Budget, Department of the Treasury.
Note: The prospective plan design changes reflect savings from OON reform. Savings from PBM audit firm and reverse auction reform and Tiered Network reform are assumed and implicit in the Gross Increase column, but were not specified in the components of change in the accounts.

Please refer to pages 25 and 26 in the Direct State Services section for a detailed discussion of State Health Benefits for Active Employees.

Post- Retirement Medical Benefits

The FY 2018 Governor's budget recommends a total of $109.348 million for State retirees of State institutions of higher education post-retirement medical and prescription drug coverage. This is a reduction of 11.9 percent, or $14.767 million, less than the amount appropriated in FY 2017.

Public Employees' Retirement System-Post Retirement Medical	**$64,327**	**$55,111**	**($9,216)**	**(14.3%)**	**D-438**
Teachers' Pension and Annuity Fund-Post Retirement Medical-State	**$5,145**	**$4,477**	**($ 668)**	**(13.0%)**	**D-438**

The appropriation presented above funds a small subset of the Teachers' Pension and Annuity Fund (TPAF) retiree health benefit costs, those attributable to members that retired from State service at public institutions of higher education.

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

Budget Item	Adj. Approp. FY 2017	Recomm. FY 2018	Dollar Change	Percent Change	Budget Page
Other Pension Systems-Post Retirement Medical	**$54,643**	**$49,760**	**($4,883)**	**(8.9%)**	**D-438**

The appropriation presented above funds medical and prescription drug coverage for retired higher education employees in PFRS and the ABP.

Please refer to pages 26 and 28-29 in the Direct State Services section for a detailed discussion of Post-Retirement Medical Benefits.

Budget Item	Adj. Approp. FY 2017	Recomm. FY 2018	Dollar Change	Percent Change	Budget Page
Total Post-Retirement Medical-GIA	**$124,115**	**$109,348**	**($14,767)**	**(11.9%)**	**---**

The components of change are shown in Table 25 below.

Table 25

FY 2018 Summary of Post-Retirement Medical Accounts Grants-In-Aid ($000)				
Health Benefit Account	FY 17 Adjusted Appropriation	Gross Change	Prospective Plan Design Changes/Other	FY 2018 Recommendation
PERS PRM	$64,327	($7,033)	($2,183)	$55,111
TPAF PRM	$5,145	($494)	($174)	$4,477
Other PRM	$54,643	($2,919)	($1,964)	$49,760
Total	$124,115	($10,446)	**($4,321)**	$109,348

Source: Office of Management and Budget, Department of the Treasury.
Note: The prospective plan design changes reflect savings from OON reform. Savings from PBM audit firm and reverse auction reform, Tiered Network reform, and use of Medicare Advantage plans are assumed and are implicit in the Gross Change column, but were not specified in the components of change in the accounts.

Affordable Care Act Fees

Budget Item	Adj. Approp. FY 2017	Recomm. FY 2018	Dollar Change	Percent Change	Budget Page
Affordable Care Act Fees	**$2,732**	**$571**	**($2,161)**	**(79.1%)**	**D-439**

The FY 2018 Governor's budget recommends a reduction of 79.1 percent, or $2.161 million for the Grants-In-Aid cost of the Affordable Care Act (ACA) fees.

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

Budget Item	Adj. Approp. FY 2017	Recomm. FY 2018	Dollar Change	Percent Change	Budget Page

Table 26

Affordable Care Act Fees ($ Millions)			
Allocation of Fees by Department	**FY 2017**	**FY 2018**	**FY17–FY 18 $ Change**
Interdepartmental Accounts-DSS	$ 6.192	$ 1.316	$ (4.876)
Interdepartmental Accounts-GIA	**$ 2.732**	**$ 0.571**	**$ (2.161)**
Education-State Aid	$ 1.662	$ 0.784	$ (878)
Treasury-State Aid	$ 0.039	$ 0.015	$ (24)
Total ACA Fees	$ 10.625	$ 2.686	$ (7.939)
State Costs by ACA Fee			
Total Transitional Reinsurance Fee	$ 9.453	$ 0	$ (9.453)
Total PCORI FEE	$ 1.172	$ 2.686	$ 1.514
Total ACA Fees	$ 10.625	$ 2.686	$ (7.939)

Please refer to pages 30—31 in the Direct State Services section for a detailed discussion of Affordable Care Act fees.

Employer Taxes

Social Security Tax-State	**$170,680**	**$173,579**	**$ 2,899**	**1.7%**	**D-439**

The FY 2018 Governor's budget recommends an appropriation of $173.579 million in FY 2018, for Social Security for Grants-In-Aid, approximately 1.7 percent higher than in FY 2017. According to the Division of Pensions and Benefits, taxable wages are assumed to increase by 2 percent in FY 2018 for employees of State public institutions of higher education.

Temporary Disability Insurance Liability	**$7,165**	**$7,213**	**$ 48**	**.7%**	**D-439**

The Division of Pensions and Benefits assumes that the TDI employer rate is expected to remain at 0.5 percent of taxable wages through FY 2018, and taxable wages for Grants-In-Aid are assumed to increase by 2 percent.

The FY 2018 Governor's budget recommends an appropriation of $7.213 million for TDI for employees of State public institutions of higher education, an increase of 0.7 percent, or $48,000 more than the FY 2017 adjusted appropriation. The FY 2018 recommended appropriation is consistent with the assumption of a 2 percent increase in taxable wages above a revised wage base.

Please refer to pages 31-32 in the Direct State Services section for a detailed discussion of Temporary Disability Insurance Liability.

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

Budget Item	Adj. Approp. FY 2017	Recomm. FY 2018	Dollar Change	Percent Change	Budget Page
Unemployment Insurance Liability	**$3,062**	**$1,723**	**($1,339)**	**(43.7%)**	**D-439**

The Division of Pensions and Benefits assumes that taxable wages for Unemployment Insurance (Grants-In-Aid) will increase by 2 percent in FY 2018.

The FY 2018 Governor's budget recommends an appropriation of $1.723 million, a reduction of 43.7 percent, or $1.339 million less than the FY 2017 adjusted appropriation. The Executive plans to lapse $2 million of the combined DSS and GIA FY 2017 appropriation. The FY 2018 recommended appropriation of $1.723 million reflects the excess amount budgeted in FY 2017 and is consistent with the assumption of a 2 percent increase in the taxable wage base.

Please refer to page 32 in the Direct State Services section for a detailed discussion of Unemployment Insurance Liability.

Total Employer Taxes	**$180,907**	**$182,515**	**$ 1,608**	**.9%**	

OTHER INTERDEPARTMENTAL ACCOUNTS

Direct State Services

Interest on Short Term Notes	**$6,000 $7,102 S**	**6,000**	**($7,102)**	**(54.2%)**	**D-440**

The State uses cash flow borrowing, in the form of lines of credit and tax and revenue anticipation notes (TRANS), to meet its cash flow needs in the early part of the fiscal year, when cash spending outpaces cash collection. This situation largely results from the need to expend significant sums on local aid in the first two fiscal quarters of the year, before major tax collections are received in the last two quarters of the year. It is exacerbated by low surpluses as a percentage of total appropriations. In FY 2018, cash outlays will be shifted forward in the fiscal year due to making pension contributions quarterly rather than all in June.

On July 1, 2016, the State authorized the issuance of $1.9 billion in TRANS for fiscal year 2017. The State Treasurer entered into a Note Purchase Contract with Wells Fargo Bank, National Association ("Wells Fargo") under which Wells Fargo agreed to purchase TRANS in one or more series in the maximum amount of $1,900,000,000. The State issued its first Series Fiscal 2017A TRANS to Wells Fargo on July 6, 2016 in the amount of $1.5 billion. The State then issued its second series on September 15, 2016 in the amount of $250 million. The notes were issued at a rate equal to 70 percent of one month LIBOR (London Interbank Offered Rate) plus a spread of 0.375 percent per annum, adjusting monthly. The notes and accrued interest are payable June 29, 2017.

The FY 2018 Governor's budget proposes an appropriation of $6 million for Interest on Short Term Notes and indicates that the borrowing costs of the 2017 TRANS are estimated to be

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

Budget Item	Adj. Approp. FY 2017	Recomm. FY 2018	Dollar Change	Percent Change	Budget Page

about $13.1 million. Expenditures for interest on FY 2016 short term borrowing of $1.9 billion totaled $13.490 million, $7.490 million above the original appropriation of $6 million. The OLS notes that cash flow patterns are changing due to tax revisions pursuant to P.L.2016, c.57 and the requirement for quarterly pension payments under P.L.2016, c.83. Market conditions will also affect borrowing costs in FY 2018. The Executive's assumptions for cash flow borrowing are not yet known.

SALARY INCREASES AND OTHER BENEFITS

Budget Item	Adj. Approp. FY 2017	Recomm. FY 2018	Dollar Change	Percent Change	Budget Page
Salary Increases and Other Benefits	**$20,165**	**$96,568**	**$76,403**	**378.9%**	**D-441**

In FY 2018, the Governor's budget (page H-14) projects a State-funded workforce of: Executive Branch 35,108, Judicial Branch 7,331, and Legislative Branch 489. The FY 2018 Governor's budget recommends $85.6 million for compensation increases that accrue in FY 2018 for the portion of the State workforce considered "State funded," i.e., not funded by federal or dedicated revenues. Factors influencing this recommended funding level include cost-of-living adjustments (COLAs) negotiated with some unions representing State employees, bonuses paid according to contractual agreements, and step increments. Recommended funding levels may assume the availability of unexpended prior year balances.

Salary increases for existing State positions are budgeted centrally in the Interdepartmental Accounts budget, and then allocated to individual departments/agencies during the fiscal year. According to the Office of Management and Budget, the FY 2018 Governor's budget recommends funding of $74.8 million for step increments and a 1.75 percent COLA increase for Executive Branch employees, which is consistent with other recently settled contracts; however, only about half of the Executive Branch union contracts have settled, so the COLA increase may change. The Judiciary recommendation of $10.8 million funds progression increases for most employees. There are no increases recommended for Legislative branch employees. The need for unexpended prior year balances to supplement the recommended appropriation is undetermined at this time. The original FY 2017 appropriations for salary program, excluding amounts budgeted for one-time salary adjustments, about $42.5 million, were transferred to agency budgets and are no longer included in the FY 2017 adjusted appropriation reported above. The Executive plans to lapse $25.652 million of the amount available from the FY 2017 appropriation and prior year balances.

The total for Salary Increases and Other Benefits also includes funding for unused accumulated sick leave payments, in the amount of $11 million in both FY 2017 and FY 2018. The Executive plans to lapse $1 million of the FY 2017 appropriation signaling a downward trend in payments in FY 2017. According to OMB, the recommendations for unused sick leave payments are based on payment trends and not based on the number of retirements assumed for each year because employees have up to one year to request payment for any unused accumulated sick time. Based on historical trends, the FY 2017 adjusted appropriation and FY 2018 recommendation amount of $11 million will support approximately 1,300 payments. In FY 2017, approximately 30 percent of the actual payments were paid at the maximum payout amount.

Significant Language Changes

Statewide Capital Construction, Renovation and Replacement Projects

Amendment	2017 Handbook: p. B-204 2018 Budget: p. D-435

Notwithstanding the provisions of any law or regulation to the contrary, in order to provide flexibility in administering the amounts provided for Statewide Fire, Life Safety and Renovations Projects; Life Safety, Emergency and IT Projects-Statewide; Roof Repairs-Statewide; Americans with Disabilities Act Compliance Projects-Statewide; Fuel Distribution Systems/Underground Storage Tank Replacements-Statewide; Hazardous Materials Removal Projects-Statewide; Statewide Security Projects; and Energy Efficiency-Statewide Projects; such amounts as may be necessary may be transferred to individual project line items within various departments, subject to the approval of the Director of the Division of Budget and Accounting.

Explanation

Appropriations for Capital Projects-Statewide provide funding for programs and capital projects administered by the Department of Treasury on behalf of State agencies. Statewide programs address needs in the following areas: removal of underground storage tanks and hazardous material, roof repairs and replacements, life safety and fire safety repairs, statewide energy efficiency, and Americans with Disabilities Act compliance.

The FY 2018 Governor's budget recommends amending the language in the budget for Capital Construction authorizing the Director of the Division of Budget and Accounting to transfer funds as may be necessary to individual project line items within various departments to include: Life Safety; Emergency and IT Projects-Statewide; and Fuel Distribution Systems/Underground Storage Tank Replacements-Statewide. This language change provides flexibility in administering funding made available from prior year appropriations and allocations for indirect cost recoveries.

EXPLANATION: FY 2017 language not recommended for FY 2018 denoted by strikethrough.
Recommended FY 2018 language that did not appear in FY 2017 denoted by underlining.

Background Paper: Key Events in the Executive State House Renovation Project

On November 29, 2016, Governor Christie announced plans to renovate the State House. His plan includes a comprehensive exterior and interior renovation of the executive area of the State House that is expected to take four years to complete and is estimated to cost $300 million. According to the website of the New Jersey Office of the Governor, Governor Christie's plan seeks to address fire and life safety issues; Americans with Disabilities Act (ADA) compliance requirements; internal and external structural problems such as chimneys, windows, and cornices; and broken heating and air conditioning systems.

These plans represent an expansion of a project already underway to repair some portions of the Executive State House. The original scope of the State House renovation began to take shape at the May 10, 2012 at the New Jersey Building Authority (NJBA) board meeting. At that time, the Division of Property Management and Construction (DPMC) submitted to the NJBA board a study of the Executive State House and presented its findings regarding the structural condition of the State House. The DPMC recommended that a renovation and restoration of the exterior of the Executive State House be undertaken. Specifically, according to the NJBA Project Report entitled "Exterior Envelope Restoration & Repairs for the New Jersey Executive State House," the renovation would include:

- Restoration and replacement of all metal roof areas, built-up roofs, skylights, and appurtenances;
- Restoration and repair of all metal roof edge cornices, gutters, and parapets;
- Restoration and repair of all windows and exterior doors;
- Restoration and repair of all limestone, brownstone, and stucco facades;
- Restoration of all fire escapes;
- Replacement of HVAC systems and window air conditioning units to improve roofing and facades conditions, reduce water infiltration opportunities, improve efficiency, reduce electrical demand and consumption, and improve indoor water quality; performance of interior repair, restoration, and modification work as necessitated by the exterior and HVAC work; and
- Remediation of hazardous materials.

At the time, it was estimated that the project would include a six-month architectural and engineering phase, a 12-month design phase, and a 28-month construction phase with an estimated cost of approximately $37.9 million. It was assumed that the cost of the project and related financing fees would be amortized through annual lease payments. Total project costs included "construction costs and contingencies; construction of all site related work; remediation, removal and abatement of asbestos, lead materials or any other hazardous materials; and professional fees (architectural, engineering, construction management, environmental consultants, etc.)" In addition to the costs of the project, the NJBA project report noted that the scope of the project was accepted by the State Historic Preservation Office (SHO) and that "due to the historic nature of the Executive State House, preparation and submission of all detailed plans and specifications is required for further in-depth review by SHO as this work moves to implementation."

Background Paper: Key Events in the Executive State House Renovation Project (Cont'd)

At the May 10, 2012 NJBA board meeting, the board adopted the "Resolution of the New Jersey Building Authority approving the Project Report for the Exterior Envelope Restoration & Repairs for the New Jersey Executive State House Project" (Exterior Envelope Project) and then submitted it to the New Jersey Commission on Capital Budgeting and Planning where it was approved at the May 29, 2012 commission meeting. In accordance with the procedure provided by the "New Jersey Building Authority Act," P.L.1981, c.120 (C.52:18A-78.1) the Legislature approved Senate Concurrent Resolution (SCR) 119 on June 26, 2012. SCR 119 approved the NJBA projects concerning the exterior envelope restoration to the Executive State House and another project, the relocation of the mechanical and electrical equipment in the State House garage. The original financing plan was to fund the project through NJBA financing or potential grant funding from the Federal Emergency Management Agency. SCR 119 stated:

> The Legislature hereby approves the New Jersey Building Authority's project reports entitled "Exterior Envelope Restoration and Repairs for the New Jersey Executive State House" and "Relocation of the Mechanical and Electrical Equipment Room in the New Jersey State House Garage." Approval of the reports shall constitute approval of the respective projects described therein for the purposes of subsection b. of section 8 of P.L.1981, c.120 (C.52:18A-78.8). This approval shall be deemed to include changes or modifications to the projects as to architectural or engineering designs, or changes in the needs of the executive agencies, which such agencies indicate are necessary; provided that such changes or modifications do not materially change the scope or use of the projects or materially increase the costs as described in the project reports after adjustments for the effects of inflation in the construction industry.
>
> It is the sense of the Legislature that the New Jersey Building Authority's projects should be funded by authority project funds and, if eligible therefore, federal funds, and managed directly by the authority, with delegation to other State agencies of managerial responsibility only where the authority deems it necessary, but with full control over project management retained by the authority.

According to the NJBA project report, the State House renovation project consisted of projects to preserve the structural viability of the Executive State House, repair the water filtration problems, permanently fix the windows, doors, and other temporary repairs, perform deferred maintenance, and restore the exterior envelope of the Executive State House. In addition, SCR 119 approved measures to relocate the electrical and mechanical equipment in the New Jersey State house garage to an area within the State House complex that is above the 100-year floodplain level.

The Fiscal Estimate for SCR 119 by the Office of Legislative Services reported that the Division of Property Management and Construction estimated that capital expenditures for the "Exterior Envelope Restoration and Repairs for the New Jersey Executive State House"

Background Paper: Key Events in the Executive State House Renovation Project (Cont'd)

project would approximate $44.3 million and the "Relocation of the Mechanical and Electrical Equipment Room in the New Jersey State House Garage" project would approximate $6.3 million. The division cautioned that depending on the results of the contract bidding process, the cost could be up to 15 percent higher.

In 2013, during the architectural design and engineering phase, the architect/engineers with whom the State contracted, (H2L2/PDP), discovered extensive exterior and interior damage to the State House beyond the scope of the original project and due to the extent of the additional damage, costs were estimated to be approximately $25 million higher than originally anticipated. Because of this, the NJBA board decided to task the design consultant with analyzing the costs and benefits of either proceeding with the renovation and restoration of the State House under the original plan pursuant to SCR 119 or to proceed with an expanded plan to undertake a comprehensive renovation of both the interior and the exterior of the entire State House.

From December 2013 through December 2016 the Executive State House project was suspended pending a final decision by the Administration to approve, or not to approve, a comprehensive renovation. On November 29, 2016 the Governor announced the State's support to go forward with a comprehensive $300 million interior renovation of the State Capitol building. According to the NJBA at its December 2016 board meeting,

> Approximately four (4) years ago the NJBA along with the DPMC partnered and finalized a Consultant contract to provide design services to renovate the exterior of the State Capitol building. Early in the design phase, the Consultant identified site conditions much worse than anticipated and with observations of major interior systems deficiencies, including life-safety concerns, the project was revisited to possibly include a comprehensive interior renovation of the State Capitol. Currently, an emergent project such as a temporary exterior emergency access stair is in progress at the east elevation of the State Capitol.
>
> The adding of a comprehensive interior renovation scope at the State Capitol building to NJBA's current project has been in discussion and as of the week ending December 2, 2016, the Governor announced the State's support to go forward with a comprehensive interior renovation at the State Capitol building. The Governor also announced the New Jersey Economic Development Authority (EDA) will participate in obtaining additional financing for comprehensive interior renovation of the State Capitol building; additional financing is anticipated to be completed in late 2017. It is also anticipated the NJBA will assume the lead role on this project in partnership with DPMC.
>
> The NJBA, DPMC and the Consultant have advanced discussions on a relocation strategy of both executive and non-executive offices for completion of relocation from the State Capitol building no later than July 2017. The NJBA, DPMC and the Consultant have commenced a plan to prioritize the start of comprehensive interior renovation work immediately following relocation.

Background Paper: Key Events in the Executive State House Renovation Project (Cont'd)

The State Capitol Joint Management Commission (JMC) was created pursuant to the State Capitol Joint Management Commission Act, P.L.1992, c. 67. Pursuant to the law, it is the JMC's duty to maintain, monitor, and preserve the historical, architectural, cultural, and artistic integrity of the State Capitol as well as to maintain it in a state of modern repair so as to ensure the safe, efficient, and effective conduct of official business and public functions (Section 2 of the Act, N.J.S.A. 52:31-35). To provide the reasoning supporting the comprehensive restoration, on January 31, 2017, the JMC adopted the "Resolution of the State Capitol Joint Management Commission Concerning the Executive Branch Facility" citing life-safety issues as the primary reason for recommending the comprehensive approach to the renovation. Specifically, under the resolution, the JMC found that: (1) addressing the life-safety issues of the Executive Branch Facility while maintaining the historic, architectural, cultural, and artistic value of the State House Complex generally and the Executive Branch Facility specifically will require a full renovation and not just minimalist and ad-hoc renovation; (2) delaying the full renovation of the Executive Branch Facility is no longer an option because the Executive Branch facility is in a critical state of disrepair that threatens the structural integrity and, thereby, its historic, architectural, cultural, and artistic significance; and (3) the Executive Branch Facility is no longer in a state of modern repair so as to ensure the safe, efficient, and effective conduct of official business and public finance.

Nearly three months later, on April 25, 2017, JMC approved a resolution authorizing the renovation of the Executive State House, "Resolution of the State Capitol Joint Management Commission." Under the resolution, the costs of the project are limited to $300 million, unless approved by the JMC. To finance the renovation, the administration has charged the EDA with the responsibility of issuing bonds to pay for the costs of the project, the refunding of the NJBA bonds, and the costs of issuance. To effectuate the project, the JMC will lease the State Capitol to the EDA and then the EDA will sublease the State Capitol Complex to the JMC. Debt Service on the bonds will be payable from Rent by the JMC. The Division of Property Management and Construction will undertake the construction of the project. The table below itemizes the key events of the State House Renovation Project.

Key Events of the State House Renovation Project	
Date/Entity/Action	**Discussion**
May 10,2012 NJBA Board Meeting First mention of Executive State House renovation	Presentation to the NJBA board by the Division of Property Construction and Management (DPMC) of a study of the condition of the Executive State House. Recommendation by DPMC to approve exterior Envelope Project. Board approves and adopts "Resolution of the New Jersey Building Authority approving the Project Report for the Exterior Envelope Restoration & Repairs for the New Jersey Executive State House Project."
May 29, 2012 New Jersey Commission on Capital Budget and Planning	Approves all of State House Exterior Envelope Project and Mechanical and Electrical Room State House Garage Project.

Background Paper: Key Events in the Executive State House Renovation Project (Cont'd)

June 26, 2012 Legislature approves SCR 119	Approval of SCR 119; Approves New Jersey Building Authority (NJBA) projects concerning exterior envelope restoration to Executive State House and relocation of mechanical and electrical equipment room.
September 18, 2012 NJBA Board Meeting Architectural and engineering firms identified	DPMC to work with NJBA. DPMC performs all design and construction procurement services for NJBA. Six architectural/engineering (A/E) firms identified to submit proposals. A/E procurement completion expected by the end of January 2013.
November 7, 2012 NJBA Board Meeting Authorization of bond resolution	Board approved the Twenty-Second Supplemental State Building Revenue Bond Resolution for the 2012 Series Additional Project. The 2012 Series Additional Project consists of two components: Exterior Envelope Restoration and Repairs for the New Jersey Executive State House and the relocation of the Mechanical and Equipment Room in the New Jersey State House Garage. Award for A/E expected January 2013 and award for construction contract expected January 2014.
December 3, 2012 NJBA issued $20 million State Building Revenue Bond Anticipation Notes, 2013 Series	The 2013 Series Notes were issued to (a) finance a portion of the 2012 Series Additional Project, (b) pay, at maturity, the principal of the 2012 Series Notes, and (c) pay the costs of issuance of the 2013 Series notes.
June 11, 2013 NJBA Board Meeting A/E consultant's report identifies more extensive damage than anticipated	H2L2/PDP, hired as A/E firm for the State House Exterior Envelope project, presents consultant report of examination from the top of the dome to the foundation below, which identified extensive deterioration of the State House. The board minutes state, "We did not know exactly the conditions and did not anticipate the level of deterioration discovered by the consultants." Recommendations were made "to incorporate all the work necessary to properly restore the envelope and address the HVAC systems…consider authorization of additional bond funding to properly complete the entire project."
August 20, 2013 NJBA Board Meeting Board considers expanded project scope	Board discussed project status and indicated that "decisions are to be made to proceed as originally proposed or an expanded project."

Background Paper: Key Events in the Executive State House Renovation Project (Cont'd)

October 16, 2013 NJBA Board Meeting Authorization of bond resolution	NJBA adopted Twenty-Third Supplemental State Building Revenue Bond Resolution authorizing up to $49,630,000 in Bond Anticipation Notes of which $40 million was planned for the State House Exterior Envelope Project. Consultant's comprehensive project scope report due November 2013. Potential funding gap of $25 million identified for exterior envelope project.
June 10, 2014 NJBA Board Meeting Additional State House renovation work identified	Design consultant's work identified additional work needing to be performed, but not currently funded. Design consultant advised the NJBA with two options: "proceed to complete the scope that is approved by the NJBA Board, signed by the Legislature and approved by the Governor, or conduct both an interior and exterior renovation of the State House."
October 15, 2014 NJBA Board Meeting Financial issues	Chairman of the NJBA indicated that "there are financial and governmental issues that have not been resolved, but that the project is expected to move forward."
November 18, 2014 NJBA Board Meeting Financial and legislative matters	Chairman advised that there are financial and legislative matters to be finalized, but that the project is anticipated to resume in 2015.
February 10, 2015 NJBA Board Meeting Executive Session	Executive session to discuss pending contractual matters regarding the Executive State House Envelope Repair Project.
June 9, 2015 NJBA Board Meeting	Chairman provided brief remarks on the Executive State House Exterior envelope project's schedule and stated that the project still has State government support.

Background Paper: Key Events in the Executive State House Renovation Project (Cont'd)

November 24, 2015 NJBA Board Meeting Process to approve comprehensive State House renovation	Design consultant submitted early design phase comments with cost information supporting a comprehensive renovation of both the interior and the exterior of the State House. Explanation of required protocols to expand scope of project: • Submit project report to NJBA for resolution approval; • Submit project report and board resolution to the Commission on Capital Budgeting and Planning for approval of the resolution; • Pass concurrent resolution approving the project by both houses of the Legislature; • Secure additional bond financing with the NJBA board involving bond counsel and NJ Office of Public Finance; and • Procure by NJBA/DPMC additional services and construction contracts.
February 9, 2016 NJBA Board Meeting	State House Renovation Options: • Prosecute the work consistent with the project report utilizing in-place funding ($30 million) knowing that all planned work items will not be addressed due to $25 million shortfall in funding; • Seek additional funding to complete the exterior envelope renovation and repair project adding interior renovations. NJBA/DPMC to proceed with emergent projects addressing life safety issues such as temporary egress stairs, structural improvements, façade repairs, and chimney repairs.
May 11, 2016 NJBA Board Meeting	Emergent projects. First phase: fire escape stairs, stucco repairs, façade elevations. Second phase: window stabilization, chimney repairs. Design consultant received a contract amendment for new concept and programming plan. Amendment involved laser survey services of existing interior construction, its systems and technology, and existing administration services, resulting in a new detailed plan for comprehensive renovation of the State House requiring moving State House staff. DPMC evaluating relocation plan for State House staff. Design consultant's recommendations due by October 16, 2016 to allow the project team to evaluate and present all concepts to the Administration before the end of 2016.
June 14, 2016 NJBA Board Meeting	Chairman indicates that the project "continues to have support of the Governor's office and the Legislature."

Background Paper: Key Events in the Executive State House Renovation Project (Cont'd)

October 11, 2016	Design consultant nearing the completion of the revised concept planning of adding interior renovations of the State Capitol to the project. At a minimum the NJBA will proceed with the available bonds funds to complete the original exterior renovation and repair project.
December 6, 2016 NJBA Board Meeting Announcement that Governor approved comprehensive plan for State House renovation	Governor announced "the State's support to go forward with a comprehensive interior renovation at the State Capitol building and that the New Jersey Economic Development Authority (EDA) will participate in obtaining additional funding for the renovation and that the additional financing is anticipated to be completed in late 2017." NJBA will assume the lead role in partnership with DPMC. Estimated project cost $300 million. Estimated project duration, four years.
January 31, 2017 JMC Adopts resolution providing the reason for supporting the comprehensive renovation	The JMC adopted the "Resolution of the State Capitol Joint Management Commission Concerning the Executive Branch Facility" citing life-safety issues as the primary reason for recommending the comprehensive approach to the renovation.
April 25, 2017 JMC Adopts resolution authorizing comprehensive renovation of the State Capitol	JMC approved a resolution authorizing the renovation of the Executive State House, "Resolution of the State Capitol Joint Management Commission." Costs of the project are limited to $300 million. EDA will finance the renovation through the issuance of bonds. JMC will lease the State Capitol to the EDA and then the EDA will sublease the State Capitol Complex to the JMC. JMC rent payments will be source of repayment of EDA bonds. The Division of Property Management and Construction will undertake the construction of the project.

Background Paper: State Health Benefits Program: Plan Design Changes, FY 2017-FY 2018

Introduction

P.L.2011, c.78 created two new committees, one for the State Health Benefits Program (SHBP) and the other for the School Employees' Health Benefits Program (SEHBP). The law conferred on the committees the responsibility of plan design. The law also requires the plan design committees to set levels of benefits for the SHBP and the SEHBP. This paper provides an overview of the State Health Benefit Program (SHBP) plan design changes approved and adopted by the SHBP Commission and SHBP plan design committees that resulted in estimated State health benefit savings of $197.2 million and $250 million in FY 2017.

FY 2016 SHBP and SEHBP Plan Design Changes

The FY 2017 Governor's Budget Summary (GBS) projected that State health benefit costs, without reform, would grow from $3.271 billion in FY 2016 to $3.758 billion in FY 2017, representing an increase of $487 million, or 14.9 percent in one year. Measures had been taken early in FY 2016 to address the upward trend in health benefit costs. On July 6, 2015 the SHBP committee adopted five resolutions approving plan design changes in an effort to control costs. Later, in early 2016, the SEHBP committee adopted two of those same resolutions for additional savings in that program.

The FY 2017 Governor's Budget estimated that these plan design changes would offset $197.2 million of the $487 million projected growth. The plan design committees also implemented other changes such as a Patient Centered Medical Home (PCMH) pilot program. The PCMH pilot program was not expected to result in any FY 2017 budget savings. Table 1 below contains the approved plan design changes adopted in FY 2016 resulting in estimate savings of $197.2 million FY 2017.

Table 1

Estimated FY 2017 Health Benefit Budget Savings from Plan Design Changes 2015-2016 ($ Millions)	
SHBP Compound Drug Restrictions	$112.940
SHBP Hepatitis C Preferred Drug Treatment	$ 7.460
SHBP Revisions to Emergency Room Co-Pay	$ 2.900
SHBP Limited Reimbursement for Out of Network (OON) Chiropractic and Acupuncture	$ 2.900
SHBP Tiered Network	$ 9.040
SEHBP implementation of Compound Drug Restrictions and Hepatitis C Treatment	$ 62.000
Total Estimated Savings	**$197.240**

Source: Treasurer's Response, Senate Budget & Appropriations Hearing, April 5, 2016.

The FY 2017 Governor's Budget also assumed that subsequent plan design changes would be adopted to provide an additional $250 million in SHBP/SEHBP savings in FY 2017. During the Legislature's preparation of the FY 2017 appropriations bill, the Executive Branch requested that the Legislature include language authorizing the State Treasurer to implement plan design changes to achieve these savings if the committees did not act. The Legislature did not include this language in the Appropriations Act. In response, the Governor issued Executive Order 209 of 2016 urging the committees to approve cost saving measures that would achieve the target. The executive order instructed the Director of the Office of Management and Budget to place appropriations in reserve in an amount sufficient to ensure that the budget remain in balance. Reserved appropriations were to include all legislative

Background Paper: State Health Benefits Program: Plan Design Changes, FY 2017-FY 2018 (Cont'd)

additions to the budget recommended by the Governor and half of the $107.35 million appropriation for Transitional Aid to Localities. The order further directed the State Treasurer to monitor the meetings of the plan design committees, and immediately notify the Governor as savings were achieved by their actions. Upon notification from the Treasurer that savings had been achieved, the OMB Director would release reserved funds for expenditure. The funds were subsequently released once the plan design committees and the State Health Benefits Commission approved cost saving plan design changes as described below.

FY 2017 SHBP Plan Design Changes

On September 7, 2016, the State Health Benefit Program (SHBP) Plan Design Committee (PDC) approved seven resolutions expected to result in health care cost savings in Plan Year 2017 in an effort to achieve $250 million in budget savings. The seven resolutions that were adopted were:

- **Modify existing health care benefit contracts to implement Medicare Advantage plans for Medicare retirees**. According to the Plan Year 2017 Rate Renewal Reports, "all Medicare-eligible members currently enrolled in the PPO 10 or PPO 15 plans through Horizon will now be enrolled in a Medicare Advantage plan in Plan Year 2017. The Medicare Advantage plans are insured rather than the current self-insured Medicare supplement plans offered by Horizon in Plan Year 2016. All Aetna Medicare-eligible members were already previously enrolled in Medicare Advantage plans. Medicare-eligible members currently enrolled in Horizon's PPO 1525, and PPO 2030 or HMO plans will continue to be covered under Horizon's self-insured, traditional Medicare Supplemental plans. This Medicare Advantage replacement change will result in an 11 percent reduction in Medicare retiree medical cost." According to the FY 2018 Governor's Budget Summary, "State costs were reduced by $20 million through retiree enrollment in Medicare Advantage plans."
- **Adopt Generic Substitution Preference offered by State Pharmacy Benefits Manager.** According to the Plan Year 2017 Rate Renewal Reports, "for all multi-source drugs (brand drugs with generic equivalents available), the SHBP plan will pay for the cost of the generic equivalent. Members who choose to fill the prescription for the brand name drug will be responsible for the difference in cost. This applies to Active and Early Retiree prescription drug plans only. This change is estimated to reduce projected Plan Year 2017 prescription drug costs by about 3.6%, based on input from Express Scripts."
- **Adopt Open Formulary Management offered by State Pharmacy Benefits Manager.** According to the Aon Plan Year 2017 Rate Renewal Report, "all Active and Early Retiree prescription drug plans will move to Express Scripts National Preferred Formulary, which directs prescriptions to more cost-effective, clinically–equivalent medications. Express Scripts evaluates clinically identical drugs and places the most cost-effective medications on the formulary. This change is estimated to reduce projected Plan Year 2017 prescription drug costs by 4.3%, based on input from Express Scripts."
- **Adopt Preferred Drug Therapy Offered by State Pharmacy Benefits Manager.** According to the Aon Plan Year 2017 Rate Renewal Report, "this change involves expanding Step Therapy for Plan Year 2017 to current State employees who are not enrolled in the program. Step Therapy requires members to try a more cost-effective, clinically-equivalent drug before certain drugs will be covered. This change is

Background Paper: State Health Benefits Program: Plan Design Changes, FY 2017-FY 2018 (Cont'd)

estimated to reduce projected Active Plan Year 2017 prescription drug costs by about 0.5%, based on input from Express Scripts."

- **Restructure Out-Of-Network Reimbursement Rates for Physical Therapy to Incentivize In-Network Utilization and Grow Provider Network.** According to the Aon Plan Year 2017 Rate Renewal Reports, "all PPO plans will now limit plan payments for out-of-network physical therapy services to the average of the in-network rate for physical therapy services. This change applies to both Active and Early Retirees. This change is estimated to result in a 1.7% reduction in projected Plan Year 2017 medical costs, based on input from Horizon." According to the FY 2018 Governor's Budget Summary, "containment of out-of-network charges for physical therapy, acupuncture, and chiropractic services saves the budget $29.5 million."
- **Authorize Procurement of PBM through Reverse Auction and Procurement of an Auditing Firm for all PBM Invoices.** P.L.2016, c.67 authorized the State (1) to procure, in an expedited manner, bids for professional services contracts for the procurement of a Pharmacy Benefits Manager (PBM) for the State Health Benefits Program or the School Employees' Health Benefits Program using online automated reverse auction services and (2) to procure an auditing firm using an automated claims adjudication technology, i.e., real-time, electronic, line-by-line, claim-by-claim review of invoiced PBM pharmacy claims that allows for online comparison of PBM invoices and auditing of other aspects of the services provided by the PBM. The law authorizes the Division of Purchase and Property in the Department of the Treasury, to the extent necessary, to waive or modify any other law or regulation that may interfere with the procurement of these services. It is anticipated that the assistance of these professional services vendors and this method of awarding a pharmacy benefits manager contract will save substantial amounts of public funds. One vendor's presentation estimated that "the SHBP and SEHBP could save $200 million off the current $2 billion per plan year cost of the PBM. Roughly 30%, or $60 million, is attributable to the State budget; the remaining 70% of savings is shared between the local employers, like municipalities and school districts, and employees."
- **Authorize Pilot Program Granting Financial Incentives to Encourage Subscribers to Select a Tiered Network Medical Plan**. According to the Aon Plan Year 2017 Rate Renewal Reports, the State will provide an incentive in the form of a gift card per Active employee who enrolls in the Tiered Network plan for Plan Year 2017 with a two-year commitment. The incentive will vary by tier as follows: $1,000 for single coverage, $1,250 for Employee (EE)+ Spouse and EE+ Child(ren) coverage, and $2,000 for Family coverage. This change is estimated to result in a reduction of 0.6% in projected Plan Year 2017 costs.

Three of these resolutions also needed approval by the State Health Benefits Commission and were subsequently adopted on September 14, 2016. They were:

- Modify existing health care benefit contracts to implement Medicare Advantage plans for Medicare retirees.
- Authorize Procurement of an Auditing Firm of all PBM Invoices; Authorize Procurement of PBM through Reverse Auction. (P.L.2016, c.67)
- Authorize Pilot Program Granting Financial Incentives to Encourage Subscribers to Select a Tiered Network Medical Plan.

Background Paper: State Health Benefits Program: Plan Design Changes, FY 2017-FY 2018 (Cont'd)

Prospective Plan Design Changes Assumed for Active and Retired State Health Benefits in FY 2018

The FY 2018 Governor's Budget Summary anticipates total State savings to be achieved from prospective plan design changes of $125 million: $81.4 million in Out-of-Network (OON) SHBP ($61.3 million) and SEHBP ($20.1 million) plan design changes and $43.6 million in SEHBP (Department of Education) plan design changes conforming to the plan design changes already adopted and implemented by the SHBP. According to the Executive, achievement of OON savings requires enactment of legislation, the specifics of which have not yet been provided.

According to the Office of Management and Budget in the Department of the Treasury, the budget recommendations for active employee health benefits and retiree post-retirement medical benefits budgeted in the Interdepartmental Accounts budget include: $61.3 million of the $81.4 million savings from anticipated prospective plan design changes from out-of-network (OON) reforms. Also reflected in the recommended appropriations are savings from already implemented measures: $40 million in savings from the Procurement of an auditing firm for all pharmacy benefits manager (PBM) invoices and the procurement of a PBM through reverse auction; $8 million in savings from a pilot program granting financial incentives to encourage subscribers to select a tiered network medical plan; and $20 million in savings from shifting to Medicare Advantage Plans.

Prospective FY 2018 OON Reforms - $61.3 million:

- $24 million in Direct State Services
- $12.5 million in Grants-In-Aid
- $20.5 million in Direct State Services in State post-retirement medical
- $4.3 million in Grants-In-Aid in Higher Education post-retirement medical

Adopted FY 2017 (SHBP) Auditing Firm and Reverse Auction Reforms - $40 million:

- $37.7 million in Direct State Services
- $2.3 million in Grants-In-Aid

Adopted FY 2017 (SHBP) Tiered Network Medical Plan Pilot Program - $8 million:

- $5.3 million in Direct State Services
- $2.7 million in Grants-In-Aid

Adopted FY 2017 (SHBP) Medicare Advantage Savings - $20 million:

- $16.2 million in Direct State Services
- $3.8 million in Grants-In-Aid

OFFICE OF LEGISLATIVE SERVICES

The Office of Legislative Services provides nonpartisan assistance to the State Legislature in the areas of legal, fiscal, research, bill drafting, committee staffing and administrative services. It operates under the jurisdiction of the Legislative Services Commission, a bipartisan body consisting of eight members of each House. The Executive Director supervises and directs the Office of Legislative Services.

The Legislative Budget and Finance Officer is the chief fiscal officer for the Legislature. The Legislative Budget and Finance Officer collects and presents fiscal information for the Legislature; serves as Secretary to the Joint Budget Oversight Committee; attends upon the Appropriations Committees during review of the Governor's Budget recommendations; reports on such matters as the committees or Legislature may direct; administers the fiscal note process and has statutory responsibilities for the review of appropriations transfers and other State fiscal transactions.

The Office of Legislative Services Central Staff provides a variety of legal, fiscal, research and administrative services to individual legislators, legislative officers, legislative committees and commissions, and partisan staff. The central staff is organized under the Central Management Unit into ten subject area sections. Each section, under a section chief, includes legal, fiscal, and research staff for the standing reference committees of the Legislature and, upon request, to special commissions created by the Legislature. The central staff assists the Legislative Budget and Finance Officer in providing services to the Appropriations Committees during the budget review process.

Individuals wishing information and committee schedules on the FY 2018 budget are encouraged to contact:

Legislative Budget and Finance Office
State House Annex
Room 140 PO Box 068
Trenton, NJ 08625
(609) 847-3105 • Fax (609) 777-2442