Discussion Points

PROPERTY RENTALS

State House Comprehensive Renovation

1. According to the New Jersey Building Authority (NJBA), at the December 6, 2016 board meeting, four 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 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 of 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 Consultant have commenced a plan to prioritize the start of comprehensive interior renovation work immediately following relocation.

- ***Question:*** **Please describe the condition of the interior of the New Jersey Executive State House and the renovations that need to be undertaken to restore the building. Please itemize the major categories of projects that need to be undertaken and quantify the cost of the project categories. What is the current expected time frame for the construction and the completion of the renovation? Please describe the NJBA, Division of Property Management and Construction (DPMC) and the consultant's plan to prioritize the start of the comprehensive interior renovation. Please provide the architectural and engineering findings report regarding the interior condition of the State house and the NJBA interior renovation or comprehensive project report that was submitted by DPMC to the board.**

Discussion Points (Cont'd)

Answer: The condition of the interior of the Executive State House is described in the attached Executive Statehouse Summary Letter (Interdepartmental DP 1 Attachment). The project is anticipated to take 4-5 years to complete.

- ***Question:*** **Please explain the rationale for having the EDA obtain additional financing for the comprehensive renovation of the State Capitol building and under which EDA program will the EDA finance the project. How much is the EDA planning to finance in additional funding for the comprehensive renovation by the end of 2017? Will the entire project be debt-financed, or is the State providing a pay-as-you-go funding share?**

Answer: The Governor has committed to the redevelopment and revitalization of Trenton and has tasked the EDA with leading this important effort. As the centerpiece of the Capital City, the State House project is part and parcel of that commitment. A renovated State House with more public access will play a key part in having citizens take pride in our State's Capital City, visit, and invest in Trenton. EDA is integrally involved in Trenton's redevelopment, and they have the legal authority and the real estate and public finance expertise on staff to carry this project forward. The State House renovation and restoration project, estimated at $287 million, is an incredibly important project that is appropriately placed within EDA's core mission.

- ***Question:*** **Will the exterior envelope project renovation continue to be financed by the NJBA and will the NJBA finance the $25 million shortfall in funding for the exterior envelope project or will the EDA raise the remaining funds? Have any bonds been issued for the exterior envelope project?**

Answer: The initial bonding for the Exterior Renovation of the Executive State House project occurred in 2012 through the NJBA. The exterior envelope project will continue to be financed by the NJBA until funding is available for the full renovation and restoration through EDA.

EDA will provide the financing to complete the Full Renovation and Restoration of the Executive State House, that will include interior and exterior work, as well as Infrastructure Improvements and Upgrade of the Legislative State House.

- ***Question:*** **Please identify any portions of the exterior envelope projects that have been completed thus far and the total cost. Please identify any components of exterior envelope project that are in progress and the estimated cost.**

Discussion Points (Cont'd)

Answer: As of April 2017, work related to the exterior that is completed or underway includes:

- Removal of exterior fire escape Stair Towers 1 and 2 and replacement with a temporary stair structure as well as work to secure portions of the foundation, walkway lighting, repair of underground sprinkler main, and the structural shoring of exterior fire escape Stairs 3 & 4 at a cost of $1,725,625.66.

- Provide shoring of the area-way at the front of the Executive State House, as well as deconstruction and removal of ten (10) chimneys and urns at a cost of $740,162.00.

- ***Question:*** **Please identify the locations to which staff currently occupying the Executive State House will be shifted during the renovation. What moving, additional rental and other costs will result?**

  Answer: Executive State House employees will be relocated to 225 West State Street on floors 1, 3, 4, and 5 - previously occupied by the Department of State. State Archives will remain on the 2nd floor of 225 West State Street. The balance of the Department of State employees were relocated to available space at 33 West State Street.

Reducing the State Footprint

2. According to the FY 2018 Governor's Budget Summary, over an unspecified time period, the Department of Treasury has reduced the State's inventory of leases from 311 to 265. These efforts have resulted in a net reduction of over half a million square feet of rental space and $15 million in annual rent savings. In addition, the State has vacated an additional 1.5 million square feet of State-owned properties. Total property rental appropriations for FY 2018 are $235.4 million.

- ***Question:*** **Over what time period has the lease and square footage reduction taken place? Please identify which State-owned properties the State has vacated to reduce the State footprint by 1.5 million square feet and please quantify the savings associated with vacating these properties. Will the State re-occupy any of these buildings as a result of the Executive State House project?**

  Answer: The lease and square footage reduction has taken place since 2010/2011.

  Since 2011, the Division of Property Management and Construction (DPMC) has closed over 1.5 million square feet of State-owned Buildings. Some of these buildings include closed developmental centers in Glen Gardner (Hagedorn), Totowa (North Jersey Developmental Center), Woodbridge (Woodbridge Developmental Center), and

Discussion Points (Cont'd)

Vineland (Vineland West Developmental Center). All of these buildings are either being marketed for private use, or are currently part of redevelopment initiatives in their prospective municipalities, which will bring jobs and a tax ratable to the areas. The disposal of these sites is anticipated to bring over $10 million in sale proceeds to the State.

In addition to these buildings, the State has sold, or is in the process of selling, the following buildings:

Plainfield Armory -This former armory contained two buildings with a combined total of approximately 23,000 square feet. The buildings were sold for $926,000 to be used for a childcare and educational facility.

Milburn Regional Day School – This facility was formerly utilized by Morris County as a school for special needs patients. The County no longer had a need for the facility and Treasury and the NJ Department of Education are in the process of selling the building to the Millburn Board of Education for $3,550,000.

Burlington Armory- This former armory was vacated by DMAVA and was sold to a non-profit organization for $225,000. The organization plans on using the building for after-school programs and a community center.

Mill Hill Processing Center- Also called the "Van Sciver Building," this Trenton landmark has been vacated by the City of Trenton and recent discussions have been made to sell the building to a private developer for mixed-use purposes. The Department of Treasury plans to hold an internet auction on the building in early 2017 with a starting minimum bid price of $800,000.

Also, the Governor recently announced the future closing of the Health/Agriculture and Taxation Buildings, which have a combined square footage of approximately 480,000 square feet.

The State is not planning on re-occupying any of these buildings as a result of the Executive State House Project.

- ***Question:*** **What is the estimated market value of vacated State-owned properties? How many are being actively marketed to potential buyers?**

Answer: The estimated market value of vacated State-owned properties, ready for sale is more than $10,000,000.

Both Totowa and Woodbridge are being actively marketed to potential buyers.

Discussion Points (Cont'd)

INSURANCE AND OTHER SERVICES

Tort Claims Liability Fund

3. The Tort Claims Liability Fund Expenditures have exceeded original appropriations by an average of $10.7 million for the past seven completed fiscal years. The FY 2018 Governor's Budget projects supplemental funding for FY 2017 of $17.4 million above the original FY 2017 appropriation of $15 million.

Tort Claims Liability Fund FY 2010 to FY 2017 ($ Millions)								
	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
($ Millions)								
Base Appropriation	$ 15.00	$ 15.00	$15.00	$ 15.00	$ 15.00	$ 15.00	$ 15.00	$ 15.00
Supplemental	**$ 5.75**	**$ 19.43**	**$ 7.15**	**$ 17.35**	**$ 4.66**	**$ 26.75**	**$ 0**	**$17.40**
Transfers/Other	$ 4.00	$ -	$ 0.49	$ -	$ 2.20	$ 0.54	$ 12.69	
Total Tort Funding	$ 24.75	$ 34.43	$ 22.64	$ 32.35	$ 21.86	$ 42.29	$ 27.69	$ 32.40
Total Expenditures	$ 24.75	$ 33.94	$ 22.07	$ 32.35	$ 21.32	$ 29.60	$ 16.15	-----

Source: Office of Management and Budget, Governor's Detailed Budgets

- ***Question:*** **What are the principal causes of tort claims that require payments by the State? What percent are negotiated settlements and what percentage are un-negotiated judgements?**

  Answer: The principal causes of tort claims are: liability for negligence of State employees; dangerous conditions on State property and indemnification of State employees. Approximately 99% of the settlements paid by the Tort Fund are negotiated settlements. The remaining 1% result from jury verdicts and/or judgments for the plaintiffs.

Workers' Compensation

4. The State is self-insured for workers' compensation payments made to State employees for work-related injuries. Under current law, the Workers' Compensation Self-Insurance Fund provides funding for the payment of direct costs of legal, investigative, administrative, and medical services related to claims against the fund. Cost components are medical expenses, expenses to adjudicate claims including petitioner attorney fees, the cost of temporary wage replacement benefits, and the cost of court awards for permanency of the injury. Factors that contribute to changes in workers' compensation costs include changes in the number of claims, medical costs, and disability rates.

Discussion Points (Cont'd)

- ***Question:*** **Please provide a list by department or agency for FY 2016 showing the number of claims reported broken out by the number of temporary, permanent partial, and permanent disability claims reported in each year; total medical cost; total expense cost; temporary cost, i.e., the wage replacement cost; partial permanent disability cost; permanent disability cost; and total costs. Please provide an updated Performance Indicators Chart. What were the average wage replacement and the average duration, respectively, of temporary disability cases for FY 2016? What was the average court award for permanent injury for FY 2016?**

  Answer: The 2016 claims list is below.

AGENCIES		Claims Reported	Medical Cost	Expense Cost	Temp Cost	Perm Cost	Total Cost
AGRICULTURE	AGR	12	$14,087.46	$5,805.00	$3,297.86	$16,418.33	$39,608.65
AUTHORITIES	AUT	48	$786,106.37	$130,136.68	$123,550.30	$569,387.17	$1,609,180.52
BANKING	BNK	3	$21,919.57	$11,831.32	$9,679.72	$54,603.84	$98,034.45
CORRECTIONS	COR	552	$7,461,974.74	$1,131,832.14	$3,748,810.96	$4,612,121.53	$16,954,739.37
COMMUNITY AFFAIRS	DCA	26	$483,704.73	$17,960.40	$87,964.71	$176,501.89	$766,131.73
CHILDERN AND FAMILIES	DCF	287	$2,382,568.97	$596,017.26	$920,290.89	$1,937,697.71	$5,836,574.83
ENVIRONMENTAL PROTECTION	DEP	113	$990,729.90	$34,538.96	$84,003.04	$314,131.36	$1,423,403.26
HUMAN SERVICES	DHS	1915	$15,398,223.86	$2,775,257.54	$7,993,467.11	$10,595,627.81	$36,762,576.32
HEALTH	DOH	47	$177,912.50	$14,596.40	$45,297.11	$82,755.15	$320,561.16
CIVIL SERVICE	DOP	6	$43,858.11	$4,633.00	$27,848.57	$18,948.40	$95,288.08
TRANSPORTATION	DOT	185	$3,612,177.10	$463,258.62	$652,627.71	$1,683,479.47	$6,411,542.90
EDUCATION	EDU	23	$169,855.17	$15,741.56	$33,693.30	$88,198.98	$307,489.01
HIGHER EDUCATION	HED	308	$1,914,377.95	$244,693.00	$488,084.98	$1,129,300.84	$3,776,456.77
INSURANCE	INS	1	$5,009.39				$5,009.39
JUDICIARY	JUD	179	$1,185,216.15	$286,984.60	$408,207.84	$1,228,237.43	$3,108,646.02
LABOR	LBR	56	$430,843.62	$90,397.08	$21,793.41	$344,026.75	$887,060.86
LEGISLATURE	LEG	4	$12,339.99	$590.00		$16,768.07	$29,698.06
LAW AND PUBLIC SAFETY	LPS	430	$5,657,700.71	$597,315.03	$1,206,855.82	$2,506,680.76	$9,968,552.32
MOTOR VEHICLE COMMISSION	MVC	47	$609,539.48	$78,303.07	$161,919.21	$492,324.69	$1,342,086.45
PUBLIC ADVOCATE	PAD	12	$47,906.30	$19,839.03	$11,237.14	$78,609.97	$157,592.44
STATE	STA	2	$21,314.89				$21,314.89
TREASURY	TRS	61	$624,849.33	$132,775.46	$181,539.41	$447,221.13	$1,386,385.33
MILITARY AND VETERANS AFFAIRS	VAD	131	$1,146,527.34	$305,386.89	$631,364.78	$918,408.04	$3,001,687.05
TOTALS		**4,448**	**$43,198,743.63**	**$6,957,893.04**	**$16,841,533.87**	**$27,311,449.32**	**$94,309,619.86**

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Performance Indicators for the Division of Risk Management are:

Department of the Treasury Performance Indicators - March 2017 RISK MANAGEMENT	Freq	Desired Trend	March 2016	Prior Month	Current Month	% Change	Last 12 Month	Target
Revenue Generation (including Cost Management)								
Total Workers Compensation Cost, including medical expenses and wage replacement, per 1000, across State Government (FTE=76,435)								
Medical	m	decrease	$ 28,663	$ 51,924	$ 31,567	-39.21%	$ 522,446	$ 638,127
Expense	m	decrease	$ 4,887	$ 9,416	$ 10,870	15.44%	$ 99,904	$ 96,300
Indemnity	m	decrease	$ 37,545	$ 48,004	$ 67,117	39.82%	$ 620,457	$ 469,200
Total	m	decrease	$ 71,096	$ 109,345	$ 109,555	0.19%	$ 1,242,808	$ 1,203,627
Cost Recovery:								
Subrogation/Property	m	increase	$341,502	$ 210,859	$ 86,041	26.28%	$ 2,960,603	$ 3,000,000
Third Party Recovery/WorkComp	m	increase	$ 76,690	$ 401,477	$ 28,622	-1302.66%	$ 2,315,527	$ 2,000,000
Statewide Support Service								
Number of outstanding Workers Compensation claims:								
Frequency:								
New Claims Reported	m	reduce	364	355	368	3.66%	345	446
Injury Rate/Employee	m	reduce	5.64%	5.52%	5.76%	4.35%	5.18%	6.00%
Total Open	m	reduce	10,136	7,344	7,721	5.13%	8,635	10,000

The average wage replacement was $9,326 and the average duration was 14 weeks. The average court award for permanency was $23,916.

Question: **What trend in total claims, medical costs, and permanent costs from FY 2016 actual data does the department use as the basis of its FY 2018 recommended appropriation? What is the current injury rate, return to work rate, utilization rate trend for in-network medical care and in-network medical rate discounts, and change in population covered by the Workers' Compensation Fund? To what other factors does the division attribute the trend in workers' compensation costs? What is the division's projection for temporary costs? Are**

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temporary costs expected to remain at or above FY 2017 levels? If they are expected to remain at or above FY 2017 levels, please explain why and what factors will contribute to the trend. Please provide an updated historical chart of worker's compensation costs from accident year 1981 through 2016 that includes the accident year, medical costs, other expense costs, temporary costs, permanent partial costs, permanent total costs, compensation total, and total costs.

Answer: The trend in claims used to recommend the FY 2018 appropriation include the accident frequency rate, medical inflationary costs, and historical costs. The FY 2016 injury rate was 5.06%. For employees that returned to work in FY 2016, the return to work rate was 99 work days. The network penetration rate is at 91%. The in-network medical rate discounts are 64%. There has been no material change in the population covered by the Workers' Compensation Fund.

Other trend factors impacting workers' compensation costs include an annual average increase of 3.90% in indemnity costs (temporary and permanent) for the last 4 years (FY 2013 through FY 2016), offset by anticipated reductions in claim frequency.

Temporary costs are expected to be above 2016 levels primarily due to increasing benefit rates and the fact that workers' compensation claims can continue for many years, the tail of which impacts current year costs.

The historical chart of workers' compensation costs for FY 2016 follows:

Accident	Claim			Compensation					
Year	Count	Medical	Expense	Temporary	Permanent Partial	Permanent Total	Other	**Compensation Total**	**Total**
2016	2976	10,739,926	55,652	7,367,306.20	1,852.00		2,800.00	7,371,958	18,167,536
2015	2372	10,739,926	55,652	5,469,398.91	1,213,833.23	15,636.57	238,714.93	6,937,584	17,733,162
2014	1161	10,478,628	606,258	1,785,835.70	4,780,481.07	102,588.18	499,632.91	7,168,538	18,253,424
2013	642	3,903,574	1,615,894	631,053.36	4,439,120.60	207,522.07	473,154.52	5,750,851	11,270,319
2012	406	1,301,953	1,253,349	421,031.58	2,397,146.56	134,118.43	217,809.13	3,170,106	5,725,408
2011	407	1,908,862	953,051	454,431.91	2,124,711.78	174,064.63	274,894.21	3,028,103	5,890,016
2010	319	1,598,140	526,107	177,283.49	1,633,794.95	154,969.75	408,910.46	2,374,959	4,499,206
2009	240	1,048,469	661,999	169,089.67	1,248,841.35	230,204.09	230,284.24	1,878,419	3,588,887
2008	206	763,626	314,720	153,540.64	1,005,536.33	351,922.55	158,451.14	1,669,451	2,747,797
2007	131	848,928	281,672	116,902.29	337,802.76	117,438.01	245,925.34	818,068	1,948,668
2006	113	1,465,900	561,118	36,574.43	280,641.62	330,575.34	103,614.46	751,406	2,778,424
2005	91	538,814	206,185	8,474.73	386,326.82	211,841.45	239,640.36	846,283	1,591,282
2004	63	682,112	123,040	30,511.50	113,271.30	215,069.50	51,088.19	409,940	1,215,092

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2003	53	267,632	195,043			181,410.19	74,710.37	90,881.83	347,002		809,677
2002	48	98,646	16,015			178,633.89	38,289.84	107,041.51	323,965		438,626
2001	43	208,475	59,749		159.69	118,731.76	158,103.16	24,920.21	301,915		570,139
2000	33	191,415	65,548		1,292.04	39,724.10	65,946.36	141,594.10	248,557		505,520
1999	24	356,856	60,612			3,067.04	25,560.26	15,722.43	44,350		461,818
1998	31	168,378	39,353			750.00	51,958.85	67,983.85	120,693		328,424
1997	19	47,126	7,185			8,151.45	52,683.32	22,997.63	83,832		138,143
1996	16	57,590	7,478		18,647.74	9,240.00		29,321.09	57,209		122,277
1995	10	77,707	0				47,425.56	24,895.47	72,321		150,028
1994	18	165,718	0				67,959.84	14,774.31	82,734		248,452
1993	11	228,533	6,564				76,925.93		76,926		312,023
1982-1992	94	598,073.12	14,214.00			47,360.84	282,720.30	323,097.06	653,178		1,265,465
Total	9,527	48,485,007	7,686,458		16,841,534	20,550,430	3,188,234	4,008,149	44,588,347		100,759,812

AID TO INDEPENDENT AUTHORITIES

New Jersey Sports and Exposition Authority (NJSEA)

5a. In July 2016, the Superior Court in Hudson County, New Jersey ruled that the NJSEA could acquire by eminent domain the Keegan Landfill, located in Kearney, New Jersey, but that it would be responsible for the "post-closure obligations, leachate collection, and monitoring for large landfills in the Meadowlands, and the revenue from the Keegan Landfill is used to cover those expenses." According to the NJSEA "the authority has received more than $150 million in revenue from the landfill since 2010. In other words more than sufficient funds have already been generated for post-closure costs." The Township of Kearney estimated the post-closure costs of the landfill to be $1 million per year for 30 years. The Keegan Landfill was leased by the Township of Kearny to the New Jersey Meadowlands Commission, now merged with the NJSEA. The township intended to close and develop the landfill at the expiration of the lease, but the NJSEA believes the landfill should continue to operate.

- ***Question:*** **What impact has the acquisition of Keegan Landfill had on the fiscal position of the NJSEA? Is an escrow fund being maintained to hold and accumulate additional resources for post –closure costs? How did the acquisition of the landfill benefit the Meadowlands District?**

  Answer: The acquisition of the Keegan Landfill by the NJSEA will ensure that post-closure obligations will be performed and that the surrounding properties, including the Kearny Freshwater Marsh, will continue to be protected. The NJSEA, as the

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successor to the New Jersey Meadowlands Commission (NJMC), and the Town of Kearny are currently in litigation regarding responsibility for post-closure activities. The court decision referenced in the narrative has been appealed by the Town of Kearny.

Net revenue from the landfill is used to fund the required NJDEP post-closure escrow, landfill operations, mandated host community benefits to the Town of Kearny, and other NJSEA functions.

- ***Question:*** **Is the recommended FY 2017 supplemental appropriation requested to pay for costs associated with the acquisition of the landfill? If the revenues from the landfill are sufficient to cover the post-closure costs of the landfill, what is the purpose of the supplemental appropriation?**

  Answer: The supplemental appropriation relates to both Sports Complex operations and revenue decreases at the landfill caused by the loss of key contracts. The supplemental appropriation is not related to landfill acquisition costs.

5b. The "New Jersey Meadowlands Tax Relief Act" (C. 5:10A-82 through 85) was enacted in 2015 to revise funding of Meadowlands district inter-municipal tax sharing system. The act imposed a Meadowlands regional hotel use assessment at a rate of 3% on the rent for occupancy of every room in every hotel located in the Meadowlands district. This revenue is used for meadowlands adjustment payments to municipalities in the Meadowlands district that by statutory formula are entitled to receive payments. However, the revenue has not been sufficient to fully fund payments on a current basis. In FY 2016, the State, with the approval of the Joint Budget Oversight Committee, reallocated $4.5 million of the NJSEA's operating subsidy to make up the shortfall between assessment revenue and calendar year 2015 tax sharing payments. A supplemental appropriation then replaced the reallocated funding. At the close of calendar year 2016 assessment revenues were again short of total tax sharing payments due. It is not the legal responsibility of the NJSEA to use its own revenues to make payments; it is merely the administering agency, receiving revenues from the assessment and distributing them to the proper recipients.

- ***Question:*** **At December 31, 2016 what was the shortfall between assessment revenues received from the State and 2016 intermunicipal payments due to municipalities? Have assessment revenues received during 2017 been paid to municipalities who were not fully compensated in 2016? What is the balance due for 2016 payments? What is the total of tax sharing payments for calendar year 2017?**

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Answer: On December 31, 2016, the difference between assessment revenues collected and inter-municipal payments to municipalities totaled $3,422,877. The total of tax sharing payments for calendar year 2017 has been calculated to be $7,833,328. It should also be noted that the methodology for calculating the tax sharing payments is the subject of ongoing appeals, the outcome of which could change these values. We note that, pursuant to statute, the first installment for 2017 is not due until May 15, 2017.

- *Question:* **Since the Keegan landfill is a facility that presumably provides a regional benefit under the NJSEA's ownership, would it be appropriate for the NJSEA to use any excess landfill revenues to fill the gap between assessment revenue and tax sharing payments, on either an interim or permanent basis?**

Answer: By an act of the Legislature over a decade ago, a significant portion of the former NJMC's post-closure funds were re-appropriated. Landfill revenue is used to fund the required NJDEP post-closure escrow, landfill operations, mandated host-community benefits to the Town of Kearney, and other NJSEA functions. Currently post-closure liabilities for NJSEA landfills, in addition to operating costs, exceed landfill revenue.

6. The NJSEA approved resolutions in 2016 to issue bonds of about $1.15 billon to assist the American Dream Meadowlands project being developed on land controlled by the NJSEA. The bonds would be repaid by state and local appropriations of incremental state and local tax revenue generated by the project. The NJSEA intended to issue its bonds directly to one buyer, the Public Finance Authority of Wisconsin, which in turn would issue bonds to other investors. The NJSEA would use bond proceeds to provide financial resources to the developer to proceed with project construction.

- *Question:* **Please provide an update on the issuance of NJSEA bonds to assist the American Dream Meadowlands project. Is the Public Finance Authority of Wisconsin still in the role of the sole buyer of NJSEA bonds? Does the NJSEA believe the project can be completed without the bond sale being completed? Is the NJSEA still confident that if the bonds are sold as planned the developer will complete the project?**

Answer: The Wisconsin Public Finance Authority (WPFA) is still in the role of purchaser of NJSEA bonds. Assuming Triple Five secures its private construction financing component for the project, the NJSEA remains confident that the project will be completed.

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- ***Question:*** **What are the consequences to the NJSEA if the American Dream Meadowlands project is never completed? Does the NJSEA become responsible for any facilities constructed on the site if the developer abandons the project? What recourse does the NJSEA have if that were to happen? What resources does the NJSEA have to maintain or demolish structures if necessary to ensure public safety?**

  Answer: If the project is never completed, the site will remain part of the Sports Complex with an abandoned construction site. The NJSEA would be responsible for the site as property owner.

Liberty Science Center (LSC)

7. 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 recommended FY 2018 appropriation of $9.739 million is consistent with the maturity schedule on outstanding bonds in the FY 2016 debt report.

More recently, the LSC is planning to build a $276 million project in cooperation with the Jersey City Redevelopment Agency. The project, referred to as "SciTech Scity," is to feature a science and technology campus hosting business, research, educational, and residential uses. In March 2017, Jersey City voted to transfer 12 acres of city land to the Jersey City Redevelopment Agency which intends to sell the parcel of land to SciTech Scity, which is affiliated with the Liberty Science Center for $10. According to the Liberty Science Center, "the museum has been in the black" since 2011. Tax documents that show LSC operating with a deficit are misleading, because they include the value of depreciation on the building itself and do not include donations for capital projects like its planetarium."

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 total funding in a fiscal year and debt service has determined the funding available for operational support. From FY 2012 through FY 2017, funding for operational support has averaged approximately $3.626 million.

Discussion Points (Cont'd)

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 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.

In Responses to an OLS FY 2017 Discussion Point, the Executive indicated that the $3.6 million in operational support funds general operations, not the SciTech Scity redevelopment project.

Question: **What is the reason for the elimination of operational support for the Liberty Science Center? Has the Department of the Treasury reviewed in detail the operations and financial condition of the Liberty Science Center to determine the impact of discontinuing State operating support?**

Answer: The FY 2018 budget continues to provide financial support to Liberty Science Center through a $9.7 million appropriation to support debt service costs and $1.35 million to support educational programs for at-risk children. A recent financial report submitted by Liberty Science Center shows an improved financial condition.

PENSIONS

Pension Payments

Discussion Points (Cont'd)

8. According to the FY 2018 Governor's Budget Summary, the Governor's FY 2018 budget includes a defined benefit pension payment of $2.5 billion, 5/10ths of the actuarially determined contribution ("ADC"), more recently referred to as the "actuarially determined contribution." This proposed FY 2018 payment, like the estimated $1.9 billion FY 2017 payment that is anticipated to be made in June 2017, and the $1.3 billion made in June 2016, abandons the schedule of phased-in pension payments enacted under P.L.2010, c.1 and adopts an alternative schedule of phased-in pensions payments increasing in one-tenth increments until FY 2023 when the alternative phase-in reaches 10/10 or the full actuarially determined contribution. At this point the ADC is estimated to be $5.948 billion, according to the May 2016 30-Year Fund projection. In statute, the State was required to make a pension payment of at least one-seventh of the actuarially determined contribution beginning in FY 2012 and an additional one-seventh each subsequent year for a total of seven years, until FY 2018, when the full actuarially determined contribution is required to be paid.

- ***Question:*** **Assuming that the State makes each of its payments in accordance with the 10 percent phase-in schedule, by how much would State appropriations have to grow each year between FY 2018 and FY 2023 in order to make a full payment in FY 2023? What is the estimated impact on the ADC each of those years by making a payment consistent with the one-tenth phase-in schedule, rather than the full ADC?**

  Answer: Please see the chart below.

Projected Annual Growth in State Pension Contribution Assuming a 50% Phased-In Contribution in FY 2018 With 10% Increments Thereafter

Fiscal Year	Annual Increase
2018	$647,330,261
2019	$659,207,007
2020	$687,895,372
2021	$729,582,892
2022	$744,964,539
2023	$765,280,619

Plan Solvency

Discussion Points (Cont'd)

9. According to the 2016 actuarial valuations, the Treasurer recommended changes in the economic assumptions for the actuarial valuations for the each of the State-administered retirement systems. These changes include: a reduction in the annual investment rate of return from 7.90 percent to 7.65 percent and a reduction in the assumed future salary increases of 0.5 percent through fiscal year 2025.

• ***Question:*** **What was the rationale for revising the investment rate of return and the future salary assumption? How did the change in the investment rate of return and the future salary assumption affect each system's target funded ratio? What was the impact on each system's funded ratio and the impact on when the target funded ratio for each system will be achieved, compared to when it would be achieved absent the change? Was any plan at risk of insolvency absent these changes? If so, which plans? Please quantify and explain the impact of the revised economic assumptions on the accrued liability, the gross normal cost, and the State's actuarially determined contribution to the systems combined. By how much will the changes in the economic assumptions change the State's actuarially determined contribution over the next five years?**

> **Answer:** For defined benefit pension plans, the adoption of assumptions that are expected to reflect actual future experience is vital in the actuarial process in order to develop a fair pension funding strategy. In consultation with the actuaries for the State-administered pension plans, the investment rate of return and future salary increase assumptions were revised in conjunction with the compilation of the 2016 actuarial reports to better meet the long-term funding requirements of the pension plans.
>
> See the attachment (Attachment IDA Discussion Point 9 Response) for the impact of the assumption changes on the statutory funded levels in comparison to the target funded ratio and other requested data.
>
> The risk of insolvency has more to do with the level of revenues (including investment returns) meeting or exceeding benefit payments. Consequently, the adoption of revised assumptions alone would have little impact on risks of plan insolvency, except that accurate assumptions are necessary to ensure proper levels of employee contributions.

10. According to the responses to the FY 2017 Discussion Points, the Division of Pensions and Benefits stated that the greatest risk to the plans' solvency under the current funding plan is the cost of benefits increasing at a faster rate than incoming revenues.

Discussion Points (Cont'd)

- ***Question:*** **Please provide a chart comparing the benefit payments being paid out of the pension fund over the past ten years to the revenues coming into the fund over the past ten years. Please provide the annual rate of benefits being paid out and the annual rate of revenues coming into the fund. Which systems are at the greatest risk of insolvency?**

Answer: Please see the chart below.

	TPAF	PERS*	PFRS*	JRS	SPRS
Fiscal Year 2007					
Total Revenue (Employee and Employer Contributions)	$ 1,155,003,758	$ 1,218,893,152	$ 1,098,407,900	$ 14,797,782	$ 46,854,338
Total Benefit Payments (Including Pension, COLA, Withdrawals and Admin. Expenses)	$ 2,444,398,044	$ 1,913,393,983	$ 1,233,447,539	$ 32,954,889	$ 111,322,133
Fiscal Year 2008					
Total Revenue (Employee and Employer Contributions)	$ 1,218,978,166	$ 1,405,170,424	$ 1,154,930,022	$ 13,782,822	$ 53,287,526
Total Benefit Payments (Including Pension, COLA, Withdrawals and Admin. Expenses)	$ 2,660,738,416	$ 2,139,118,508	$ 1,336,148,681	$ 34,868,634	$ 120,644,223
Fiscal Year 2009					
Total Revenue (Employee and Employer Contributions)	$ 648,649,300	$ 1,354,613,286	$ 1,195,266,852	$ 4,189,993	$ 22,099,248
Total Benefit Payments (Including Pension, COLA, Withdrawals and Admin. Expenses)	$ 2,858,987,907	$ 2,323,364,869	$ 1,444,726,316	$ 37,327,059	$ 130,488,565
Fiscal Year 2010					
Total Revenue (Employee and Employer Contributions)	$ 585,761,188	$ 1,520,478,264	$ 1,286,990,358	$ 4,330,879	$ 19,042,511
Total Benefit Payments (Including Pension, COLA, Withdrawals and Admin. Expenses)	$ 3,005,515,837	$ 2,460,314,517	$ 1,553,260,592	$ 40,566,716	$ 138,241,179
Fiscal Year 2011					
Total Revenue (Employee and Employer Contributions)	$ 560,304,053	$ 1,517,306,505	$ 113,546,914	$ 3,617,012	$ 18,171,574
Total Benefit Payments (Including Pension, COLA, Withdrawals and Admin. Expenses)	$ 3,334,259,136	$ 2,691,549,566	$ 1,698,486,214	$ 42,795,097	$ 147,188,117
Fiscal Year 2012					
Total Revenue (Employee and Employer Contributions)	$ 938,819,707	$ 1,661,172,035	$ 1,179,975,800	$ 8,047,445	$ 36,075,929
Total Benefit Payments (Including Pension, COLA, Withdrawals and Admin. Expenses)	$ 3,522,543,956	$ 2,922,876,792	$ 1,839,996,835	$ 45,670,362	$ 162,759,566
Fiscal Year 2013					
Total Revenue (Employee and Employer Contributions)	$ 1,309,018,804	$ 1,925,432,763	$ 1,253,059,907	$ 15,045,999	$ 47,462,080
Total Benefit Payments (Including Pension, COLA, Withdrawals and Admin. Expenses)	$ 3,658,248,330	$ 3,057,338,232	$ 1,980,709,896	$ 47,182,873	$ 180,570,385
Fiscal Year 2014					
Total Revenue (Employee and Employer Contributions)	$ 1,109,603,971	$ 1,634,084,647	$ 1,198,029,256	$ 20,430,753	$ 59,323,146
Total Benefit Payments (Including Pension, COLA, Withdrawals and Admin. Expenses)	$ 3,815,204,031	$ 3,210,595,404	$ 2,067,400,279	$ 49,225,771	$ 197,103,431
Fiscal Year 2015					
Total Revenue (Employee and Employer Contributions)	$ 1,249,092,305	$ 1,828,198,556	$ 1,329,975,332	$ 24,897,775	$ 59,899,924
Total Benefit Payments (Including Pension, COLA, Withdrawals and Admin. Expenses)	$ 3,993,020,084	$ 3,392,606,838	$ 2,174,891,112	$ 52,073,880	$ 205,665,720
Fiscal Year 2016					
Total Revenue (Employee and Employer Contributions)	$ 1,528,167,877	$ 2,031,524,610	$ 1,313,700,016	$ 23,949,337	$ 58,456,214
Total Benefit Payments (Including Pension, COLA, Withdrawals and Admin. Expenses)	$ 4,147,004,537	$ 3,577,021,131	$ 2,290,687,959	$ 54,010,939	$ 211,929,711

*Includes State and Local

Discussion Points (Cont'd)

11. P.L.2016, c.83 requires the State to make its contribution to the State-administered defined benefit retirement systems each fiscal year on a quarterly basis beginning July 1, 2017 (FY 2018) on the following schedule: at least 25 percent by September 30; at least 50 percent by December 31; at least 75 percent by March 31; and at least 100 percent by June 30. The amount of the contribution will be net of the amount of any increase in the interest paid on any State-issued tax and revenue anticipation notes attributable solely to the need to borrow an increased amount in order to make the quarterly payments. In his remarks to the budget committees in April 2016, the Acting State Treasurer projected that if the State were required to expend its full contribution on a quarterly schedule; there could be ultimately an increase in interest costs of short-term borrowing of more than $100 million annually. In his response to the FY 2017 discussion point about the interest costs of short term borrowing, the Acting State Treasurer responded that the $100 million figure represented the current best estimate of the increase in interest expense due to the guaranteeing of quarterly pension payments, but that it could quite easily surpass $100 million annually.

    Despite the Treasurer's concerns about the impact of quarterly payments on short-term borrowing, the budget recommends an FY 2018 appropriation for interest on short-term notes of $6 million, compared to an estimated FY 2017 need of $13.1 million.

- ***Question:*** **Please quantify the fiscal effects of making quarterly payments in terms of pension fund investment earnings, and plan solvency and stability. What is the impact on FY 2018 cash flow borrowing interest costs attributable solely to the need to make the quarterly pension payments? Do amounts budgeted for the pension ADC reflect a deduction for the impact of quarterly payments on cash flow borrowing?**

  Answer: The State's transition from making employer pension contributions on an annual basis to quarterly payments should have a net positive fiscal impact on the plans and employer pension contributions. Quarterly contributions, as opposed to one annual contribution which typically occurs on the last day of the State's fiscal year, allows the contributed funds to be invested sooner, producing a higher annual investment yield on plan assets. See attachment (Attachment IDA Discussion Point 11 Response) for a projection of the impact of changing the State's pension contribution requirement from an annual to a quarterly basis. Projections indicate that by FY2048, the fair market value of aggregate plan assets will increase by $4.8 billion (from $119.2 billion to $124.0 billion). The unfunded liability is projected to decrease by $5.4 billion (from $32.8 billion to $27.4 billion), while the funded ratio is projected to improve to 82.0% from 78.4%. Quarterly payments are projected to save the State $3.8 billion in aggregate employer pension contributions over the entire projection period.

Discussion Points (Cont'd)

The FY 2018 cash flow borrowing interest costs attributable to the need to make the quarterly pension payments is not known and are not considered in the projection displayed in Table 2.

The amounts included in the FY2018 budget for the State's contributions to the pension plans have not been reduced for the anticipated cost of short term borrowing to meet the State's quarterly contribution requirement. It should be noted, that the cost of the borrowing would have been far higher if the constitutional amendment had passed in order to cover the additional risk associated with the ability of the State to make the full repayment.

Assumed Investment Rate of Return

12. Demographic assumptions about employees and retirees used in actuarial valuations include length of service, retirement age and death rates. Financial assumptions include the expected long term rate of return on investment. Current law authorizes the State Treasurer to adjust the actuarial assumption regarding the rate of return on investment. The actuarial assumption regarding the investment rate of return for the State-administered retirement systems was reduced to 7.65 percent from 7.9 percent on February 27, 2017.

Pension Plan Assumed Rate of Return Compared to the Actual Rate of Return		
Fiscal Year	**Assumed Rate**	**Actual Rate**
2017	7.65 %	**? estimated**
2016	7.90%	**?**
2015	7.90%	4.16%
2014	7.90%	16.9%
2013	7.90%	11.78%
2012	7.95%	2.52%
2011	8.25%	18.03%
2010	8.25%	13.35%
2009	8.25%	- 15.48%
2008	8.25%	- 2.61%
2007	8.25%	17.15%
2006	8.25%	9.79%
2005	8.25%	8.77%
2004	8.75%	14.16%
2003	8.75%	3.31%
2002	8.75%	-8.61%
2001	8.75%	- 9.80%
2000	8.75%	11.86%

Discussion Points (Cont'd)

1999	8.75%	16.27%
1998	8.75%	22.70%
1997	8.75%	22.09%
1996	8.75%	16.13%
1995	8.75%	19.69%
1994	8.75%	- 0.74%
1993	8.75%	12.39%
1992	8.75%	13.88%
1991	8.75%	9.26%
1990	7.00%	13.08%
Average 1990 - 2015	8.44%	9.25%

Source: Division of Pensions and Benefits

- ***Question:*** **Please provide the actual FY 2016 investment rate of return and the estimated FY 2017 investment rate of return. Given the long term average rate of return of 9.25 percent, what factors compelled the Treasurer to revise the rate of return downward? To what extent was the decision influenced by assumptions about the future investment environment as opposed to observation of past results?**

  Answer: The reported FY 2016 investment rate of return on pension plan assets was -0.93 percent. The FY 2017 investment rate of return as of March, 2017 is 9.43 percent.

  It is important to note that the table above incorrectly uses an arithmetic average to calculate the average return for the period. For calculating an average annual return over a period of time, it is appropriate to utilize a geometric average. A geometric average is necessary because individual year investment returns are not independent of each other.

  Using the correct calculation, the annualized return for the period of 1990 to 2015 is 8.75%, not 9.25% as shown in the table. Including the FY 2016 return, the annualized return is 8.37% since FY 1990

  Pursuant to pension statutes defining regular interest, the State Treasurer has the sole authority to determine the discount rate used to value the liabilities of the pension plans. Adopted in the 2016 actuarial reports, after consulting with the Directors of the Divisions of Investment and Pensions, and the plan's actuary, and accepted by each plan's Board of Trustees, the discount rate assumption was lowered from 7.90 percent to 7.65 percent to more accurately reflect projected long-term expectations of investment returns in the future.

Discussion Points (Cont'd)

The reduction in the return assumption is primarily driven by expectations of lower investment returns on a forward looking basis for most asset classes. The reduction in the assumed rate of return is consistent with expectation of most market participants. It is also consistent with a trend among public pension funds.

Governor's Initiative to Allocate State Lottery Funds to Eligible Pensions Plans

13. In the FY 2018 Governor's State Budget address, the Governor proposed contributing the revenues from the Lottery to eligible pension plans. The Governor stated that "the contribution would have the immediate effect of reducing the unfunded liability of the pension system by approximately $13 billion, and would increase the funded ratio of the pension system by almost 15 percentage points in one fell swoop, from 49% to 64%. This would also significantly reduce the amount we have to pay into the pension system every year out of the General Fund."

- ***Question:*** **What are the legal aspects and ramifications of allocating State Lottery funds to eligible pension plans? Would a constitutional amendment need to be passed by the voters to approve such an allocation? If not, how would the funds be allocated and which pension funds would be eligible for the allocation? Please describe any barriers to implementing a plan to contribute the revenues from the Lottery to eligible pension plans, and the actions that would have to be taken to removes those barriers.**

  Answer: Any transaction will be structured in a way that is compatible with the State Constitution and with federal laws and rules. It is likely that State legislation will be required before the transaction can be completed.

  Currently, the entirety of the Teacher's Pension and Annuity Fund (TPAF) is eligible for allocation since it falls under the umbrella of State Aid to Education. In addition, contributions/benefits for certain members of the Public Employees Retirement System (PERS) and the Police and Fire Retirement System (PFRS) are eligible because they are made on behalf of State employees working in non-correctional State institutions.

  As noted above, legislation is required to implement the plan. No other action is needed.

- ***Question:*** **Please provide any extant analysis of this proposal confirming the Governor's conclusion that it would reduce unfunded liabilities by $13 million and improve funded ratios to 64 percent. Please also provide a 30-Year Fund**

Discussion Points (Cont'd)

projection that reflects the implementation of the Governor's proposal effective July 1, 2018.

Answer: The estimated value of a 30-year contribution of the Lottery Enterprise is $13 billion.

Treasury cannot provide 30-Year Fund Projections at this time. Final negotiations with the unions will have to occur before that is possible.

Twenty Year Pension Fund Summary

14. The link to the attached file contains a spreadsheet of essential pension fund statistics.

FY 2018 Pension Statistics HI...

- ***Question:*** **Please provide the requested historical pension fund statistics.**

  Answer: The Division of Pensions and Benefits is looking for data to provide the requested historical statistics. The information will be provided when research is completed.

Employee Contributions

15. Every three years, adjustments are made to update the actuarial assumptions in recognition of the actual experience of each system. To determine the State's annual payment (contribution), the actuaries calculate an actuarially determined amount necessary to be paid to the pension funds so that, with investment returns, the accumulation of funds over 30 years is sufficient to pay the obligations of the fund. Once that annual amount is determined, employee contributions are deducted from the amount and the remainder is the amount of the employer contribution.

Public employees are required to contribute to their defined benefit retirement plans through payroll deductions. In New Jersey, these contribution rates are set in statute and vary by retirement system. P.L.2011, c. 78 increased employee contribution rates for: (1) the Public Employees' Retirement System (PERS) and the Teachers' Pension and Annuity Fund (TPAF) from 5.5 percent to 6.5 percent plus an additional one percent phased in over seven years

Discussion Points (Cont'd)

beginning June 29, 2012[1]; (2) the Judicial Retirement System (JRS) from three percent to 12 percent phased in over seven years; (3) the Police and Firemen's Retirement System (PFRS) (and for members of the PERS Prosecutors Part) from 8.5 percent to 10 percent; and (4) the State Police Retirement System (SPRS) from 7.5 percent to 9 percent. The current contribution rates are set forth in the table below.

CONTRIBUTION RATES						
	PERS	PERS-PROSEC (1)	TPAF	PFRS	SPRS	JRS
2007 (2)	5.50%	7.50%	5.50%	7.50%	7.50%	3.00%
2008	5.50%	8.50%	5.50%	8.50%	7.50%	3.00%
2011	6.50%	10.00%	6.50%	10.00%	9.00%	4.28%
2012	6.64%	10.00%	6.64%	10.00%	9.00%	5.56%
2013	6.78%	10.00%	6.78%	10.00%	9.00%	6.84%
2014	6.92%	10.00%	6.92%	10.00%	9.00%	8.12%
2015	7.06%	10.00%	7.06%	10.00%	9.00%	9.40%
2016	7.20%	10.00%	7.20%	10.00%	9.00%	10.68%
2017	7.34%	10.00%	7.34%	10.00%	9.00%	12.00%
2018	7.50%	10.00%	7.50%	10.00%	9.00%	12.00%

1. P.L.2001, c.366 increased the contribution rate for members eligible to retire under the Prosecutors Part of PERS from 7.50% to 8.50% beginning July 1, 2008.

2. P.L.2007, c.103 increased the contribution rate from 5.0% to 5.5% for members eligible to retire under PERS and TPAF.

- ***Question:*** **What additional amounts are anticipated to be collected from the increased employee contributions for each of the defined benefit systems and in total for FY 2018? Please provide the rate and the amount of the employee contributions at the current rates and the rate, the amount, and the increase of the employee contributions at the former rates. For reference, please see the Increased Employee Pension Contributions Table in the FY 2017 Responses to the Discussion Points.**

  Answer: Please see the charts below.

[1] The employee contribution rate will increase each July first for seven years until the full 7.5 percent contribution is reached in 2018 (6.64 percent in July 2012, 6.78 percent in July 2013, 6.92 percent in July 2014, 7.06 percent in July 2015, 7.20 percent in July 2016, 7.34 percent in July 2017, 7.50 percent in July 2018).

Discussion Points (Cont'd)

	FY2016 Employee Contributions at Current Rates		FY2016 Employee Contributions at Former Rates		
System	Rate	Amount	Rate	Amount	Increase
PERS-State	7.06%	$ 315,115,497	5.50%	$ 243,721,885	$ 71,393,612
TPAF	7.06%	$ 751,384,303	5.50%	$ 587,805,915	$ 163,578,388
PFRS-State	10.00%	$ 50,118,297	8.50%	$ 43,206,637	$ 6,911,660
SPRS	9.00%	$ 22,474,634	7.50%	$ 18,876,805	$ 3,597,829
JRS	9.40%	$ 6,676,397	3.00%	$ 2,006,352	$ 4,670,045
Subtotal		**$ 1,145,769,128**		**$ 895,617,594**	**$ 250,151,534**
PERS-Local	7.06%	$ 500,876,009	5.50%	$ 388,345,698	$ 112,530,311
PFRS_Local	10.00%	$ 335,932,782	8.50%	$ 285,736,796	$ 50,195,986
Subtotal		**$ 836,808,791**		**$ 674,082,495**	**$ 162,726,296**
Total		**$ 1,982,577,919**		**$ 1,569,700,089**	**$ 412,877,830**

	Estimated FY2017 Employee Contributions at Current Rates		Estimated FY2017 Employee Contributions at Former Rates		
System	Rate	Amount	Rate	Amount	Increase
PERS-State	7.20%	$ 312,874,712	5.50%	$ 239,001,516	$ 73,873,196
TPAF	7.20%	$ 779,820,984	5.50%	$ 595,696,585	$ 184,124,399
PFRS-State	10.00%	$ 49,739,904	8.50%	$ 42,278,918	$ 7,460,986
SPRS	9.00%	$ 23,306,575	7.50%	$ 19,422,146	$ 3,884,429
JRS	10.68%	$ 7,251,799	3.00%	$ 2,037,022	$ 5,214,777
Subtotal		**$ 1,172,993,973**		**$ 898,436,187**	**$ 274,557,786**
PERS-Local	7.20%	$ 509,462,745	5.50%	$ 389,172,930	$ 120,289,815
PFRS_Local	10.00%	$ 339,620,072	8.50%	$ 288,677,061	$ 50,943,011
Subtotal		**$ 849,082,817**		**$ 677,849,992**	**$ 171,232,826**
Total		**$ 2,022,076,791**		**$ 1,576,286,179**	**$ 445,790,612**

Discussion Points (Cont'd)

	Estimated FY2018 Employee Contributions at Current Rates		Estimated FY2018 Employee Contributions at Former Rates		
System	**Rate**	**Amount**	**Rate**	**Amount**	**Increase**
PERS-State	7.34%	$ 312,780,849	5.50%	$ 234,372,571	$ 78,408,278
TPAF	7.34%	$ 805,655,988	5.50%	$ 603,693,179	$ 201,962,809
PFRS-State	10.00%	$ 48,671,904	8.50%	$ 41,371,118	$ 7,300,786
SPRS	9.00%	$ 23,979,890	7.50%	$ 19,983,241	$ 3,996,648
JRS	12.00%	$ 8,272,646	3.00%	$ 2,068,161	$ 6,204,484
Subtotal		**$ 1,199,361,276**		**$ 901,488,271**	**$ 297,873,005**
PERS-Local	7.34%	$ 520,475,296	5.50%	$ 390,001,925	$ 130,473,371
PFRS_Local	10.00%	$ 343,114,802	8.50%	$ 291,647,582	$ 51,467,220
Subtotal		**$ 863,590,098**		**$ 681,649,506**	**$ 181,940,591**
Total		**$ 2,062,951,374**		**$ 1,583,137,777**	**$ 479,813,597**

Actuarial Valuations

16. Every July, the actuaries submit actuarial valuations of each State-administered defined benefit retirement system to the Board of Trustees of each system for approval. Government Accounting Standards Board (GASB) Statements 67 and 68 provide financial reporting requirements for governmental employers who provide their employees with pension benefits. The GASB Rules relate only to accounting and financial reporting and do not prescribe how governments are to fund their pension plans. Actual employer contributions are developed and calculated in accordance with State law.

- ***Question:*** **Please provide a GASB 67 Disclosure Table of the Net Pension Liability/Plan Fiduciary Net Position based on the Actuarial Valuations as of July 1, 2016 and, for comparison, please provide the Statutory Funding Status Pension Fund Actuarial Liabilities and Assets based on the Actuarial Valuations as of July 1, 2016. Please include the estimated depletion date on each chart. For reference, please see charts submitted to Discussion Point #14 the FY 2017 Responses to Discussion Points. How did the estimated depletion date for each system change compared to the last valuation? Are depletion dates calculated under GASB 67 and 68 accelerated by not assuming that the current phase-in plan will be adhered to, and if so, by what degree?**

  Answer: Please see the charts below.

Discussion Points (Cont'd)

GASB 67 Disclosure
Net Pension Liability/Plan Fiduciary Net Position (1)
Based on Actuarial Valuations as of July 1, 2016
(In Millions)

Pension Plan	Plan Fiduciary Net Position	Total Pension Liability	Plan Net Pension Liability	Plan Fiduciary Net Position as a % of TPL	Depletion Date
PERS (2)	$26,762.0	$85,769.8	$59,007.8	31.20%	6/30/2034
TPAF	22,717.9	101,746.8	79,028.9	22.33%	6/30/2029
PFRS (3)	23,984.7	49,402.2	25,417.5	48.55%	6/30/2050
CP&FPF	1.9	9.9	8.0	19.15%	(4)
SPRS	1,695.0	5,673.7	3,978.7	29.87%	6/30/2033
JRS	180.0	980.7	800.7	18.35%	6/30/2022
POPF	6.1	7.5	1.4	81.42%	(4)
Total	$75,347.6	$243,590.6	$168,243.0	30.93%	

(1) Based on Market Value
(2) Of the total Net Pension Liability of $59,007.8 million for PERS, $29,390.7 million is the estimated State portion and $29,617.1 million is the estimated Local portion.
(3) Of the total Net Pension Liabilitity of $25,417.5 million for PFRS, $4,710.7 million is the estimated State portion and $20,706.8 million is the estimate Local portion.
(4) The Plan's fiduciary net position was projected to be sufficient to make all projected future benefit payments of current Plan members.

Discussion Points (Cont'd)

STATUTORY FUNDING STATUS
PENSION FUND ACTUARIAL LIABILITIES AND ASSETS
Actuarial Valuations as of July 1, 2016
(In Millions)

Pension Plan	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability	Funded Ratio	Market Value of Assets
State					
PERS	$8,466.9	$22,411.7	$13,944.8	37.8%	$7,370.9
TPAF	27,169.8	57,866.0	30,696.2	47.0%	23,732.6
PFRS	1,928.4	4,676.6	2,748.2	41.2%	1,646.2
CP&FPF	3.0	3.3	0.3	90.4%	2.2
SPRS	1,931.1	3,209.4	1,278.3	60.2%	1,744.5
JRS	226.3	629.8	403.5	35.9%	196.4
POPF	6.1	3.5	(2.6)	176.6%	6.1
Subtotal	39,731.6	88,800.3	49,068.7	44.7%	34,698.9
Local					
PERS	21,900.4	30,673.9	8,773.5	71.4%	19,756.3
PFRS	24,420.1	32,793.4	8,373.3	74.5%	22,469.7
Subtotal	46,320.5	63,467.3	17,146.8	73.0%	42,226.0
Total	$86,052.1	$152,267.6	$66,215.5	56.5%	$76,924.9

Source: New Jersey Department of the Treasury, Division of Pensions and Benefits. Information was derived from the actuarial valuation reports as of July 1, 2016.

Discussion Points (Cont'd)

EMPLOYEE HEALTH BENEFITS

2017 Plan Design Changes

17. 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. On September 14, 2016, the State Health Benefits Commission approved and adopted three of the seven that required the Commission's approval. The Plan Year 2017 Aon Rate Renewal Reports for the State Employee Group, the Local Employee Group, and the School Employee Group provide a savings percentage that each of these plan design changes is expected to save in terms of plan costs.

- ***Question:*** **For each of the seven plan design changes approved and adopted by the SHBP plan design committee and the State Health Benefits Commission please quantify for FY 2017 and FY 2018 (1) the total plan savings and (2) the budget savings to the State, local governments other than the school districts, and the school districts.**

  Answer: State and local non-teacher plans have obtained significant savings by enacting various plan changes. It is difficult to precisely quantify the impact of these changes on the behavior of plan members. However, through a combination of the actions that have been taken we are seeing a decrease in trends that will help us achieve the savings target.

Discussion Points (Cont'd)

- ***Question:*** **In each fiscal year, what was the impact on employee cost share by employment group, in total and for each change?**

  Answer: In Plan Year 2017, the premium increases were approximately 50% less than they would have been had the plan changes not been implemented.

Additional Plan Design Changes Anticipated in FY 2018

18. The FY 2018 Governor's Budget Summary states that "the fiscal 2018 budget assumes that a combination of reasonable new reforms will save $125 million in public employee and retiree health care costs to offset anticipated growth. These reforms would additionally save local governments, school districts – and the property tax payers who pay them – approximately $127 million. These reforms would also provide cost controls as the State moves into plan year 2018 that would contain increases in State and local employee premium sharing." The Budget Summary also states that assumed changes are re-adoption of 2016 plan design changes by the SHBP Plan Design Committee; adoption of those same changes by the SEHBP; and containment of out-of-network costs. The cost savings from the SEHBP adopting then same plan design changes as the SHBP adopted for 2016 are estimated at $43.6 million, and out-of-network cost containment would save $81.4 million. The Executive has also indicated that enabling legislation is required to achieve the out-of-network savings, and that it may also seek changes in law to ensure the approval of plan design changes for the SEHBP.

- ***Question:*** **Please provide the information or analysis that is the basis for assuming $43.6 million savings from the SEHBP Plan Design Committee approving the same changes as the SHBP plan design committee approved for 2016. What specific changes in current law does the Executive propose to ensure that these plan design changes are implemented for the SEHBP?**

  Answer: The Governor's FY 2018 budget recommends the enactment of health benefit reforms to achieve benefit changes for the School Employees' Health Benefits Program (SEHBP) that will be consistent with the changes approved for State and local employees. In this regard, budget savings can be achieved through a combination of modifications to the following:

  - Medicare Advantage - $22.5 million
  - Emergency Room Co-Pay Increase - $500,000

Discussion Points (Cont'd)

- Limit Reimbursement for Out-of-Network Chiropractor/Acupuncture - $500,000
- Limit Reimbursement for Out-of-Network Physical Therapy - $13.5 million
- Mandatory Generic Prescription Drugs- $2.9 million
- Prescription Drug Formulary Management - $2.9 million

In the event the SEHBP Plan Design Committee does not approve these reforms, the Legislature can enact the proposed plan design changes listed above via legislation.

• ***Question:*** **Please describe the changes to current law that the Executive recommends in order to generate $81.4 million in savings from out-of-network cost containment. When would these changes need to take effect in order to achieve the savings target? Is there a bill currently pending before the Legislature that would result on some or all of these savings?**

Answer: The Governor's FY 2018 budget recommends the enactment of reforms that increase transparency in billing with respect to out-of-network medical charges. The recommended reforms include advanced notice of non-covered costs by out-of-network providers to patients in order to provide protection from unauthorized balanced billing. If these protections are in place, the Legislature could institute changes in out-of-network rates or the Plan Design Committees could adopt changes in out-of-network reimbursements for the SHBP and SEHBP. These changes would need to go into effect by January 1, 2018 to achieve the savings target.

P.L.2016, c.67 - Pharmacy Benefit Manager (PBM)

19. P.L.2016, c.67 provides for State procurement on an expedited basis the following services:

-technical assistance to the State to evaluate the qualifications of bidders on a PBM procurement and to provide online automated reverse auction services to support the Department of the Treasury in comparing the pricing for the PBM procurement (a reverse auction is an automated bidding process conducted online that starts with an opening price and allows qualified bidders to counter offer a lower price, for as many rounds of bidding as determined by the division).

-real-time, electronic, line-by-line, claim-by-claim review of invoiced PBM pharmacy claims using an automated claims adjudication technology platform that allows for online comparison of PBM invoices and auditing of other aspects of the services provided by the PBM.

-a PBM and related services.

Discussion Points (Cont'd)

- *Question:* **Has the department selected vendors to provide each of the services cited in P.L.2016, c.67? If so, please identify the vendors and the duration of each of their contracts or agreements to provide services. Has the procurement process advanced sufficiently to achieve cost savings in FY 2017? Do the savings exceed the cost of the services? What savings are projected ion FY 2018, and what will cost of these services be in FY 2018?**

  Answer: The bid for the online reverse auction services RFP was awarded on April 27, 2017. Additional RFPs are being developed. There are no expected cost savings in FY 2017. Savings for plan year 2018 cannot be determined at this time.

Plan Design Changes since FY 2012

20. The FY 2018 Governor's Budget Summary reports that under the prescription drug plan, "design changes, drug formulary changes, mandatory generic utilization, maximization of Medicare Benefits, and elimination of high cost drugs, including compounds, resulted in cumulative budget savings of $1.6 billion since FY 2012, with a minimal impact on plan beneficiaries."

- *Question:* **Please identify each of the prescription plan design changes that have been implemented since FY 2012 and quantify the State, local and school district budget savings that have accrued each fiscal year since FY 2012 totaling $1.6 billion. By how much have these plan design changes offset increases in employee premiums since FY 2012, i.e., what would the premiums have been without the plan design changes compared to what they are? For every dollar saved in plan design changes what is the commensurate savings in employee premiums thus far?**

  Answer: The most significant savings were derived as a result of the impact of changing the method of prescription drug Medicare integration from the Retiree Drug Subsidy (RDS) to an Employer Group Waiver Program (EGWP). Under the RDS Program, the SHBP/SEHBP managed their own prescription drug plan and received periodic reimbursements from the federal government for a portion of Medicare eligible retiree prescription drug costs. Under EGWP, the SHBP and SEHBP arranged with Express Scripts to become an official Medicare Prescription Drug Plan, and receive monthly capitation payments, as well as reimbursement for a portion of the catastrophic prescription drug claims. Since FY 2012, the impact of these changes resulted in cumulative federal reimbursements of approximately $1.4 billion, which helped to offset increases in employee premiums. Other common sense design changes including prescription drug formulary changes, mandatory generic utilization, and the

Discussion Points (Cont'd)

elimination of high cost drugs, including compounds, have been critical to containing premium increases. For example, the enactment of these reforms contributed towards an aggregate increase in 2017 premiums of 3.4% for State active members and 0% for local government active members enrolled in the SHBP. Conversely, active premiums for SEHBP members increased by 8.4% because no changes were enacted. The Governor's FY 2018 budget recommends the continuation of these reforms for the SHBP and the enactment of the same reforms for the SEHBP to help contain the rising costs in benefits for employees, employers and the taxpayers that fund these benefits.

Telehealth and Telemedicine

21. Senate Committee Substitute for Senate Bill Nos. 291, 652, and 1954 of 2016 would authorize health care providers in the State to engage in telehealth and telemedicine.

• ***Question:*** **Has the Division of Pensions and Benefits or its actuaries reviewed the provisions of Senate Bill Nos. 291, 652, and 1954 of 2016 and reached any conclusions as to their impact on State and local employer SHBP and SEHBP costs, and on member costs and health outcomes? If so, please discuss these conclusions.**

Answer: Telemedicine can reduce plan costs, since telemedicine vendors will provide service at a significantly lower cost than in-person visits. If implemented properly, coverage for telemedicine can produce savings for the State plans. Telemedicine benefits include a possible reduction in usage of emergency room and urgent care services, both of which cost significantly more than telemedicine or PCP consultations. A concern is the possible duplication of services in a situation where a diagnosis cannot be rendered via telemedicine and the patient is advised to complete an in-person consultation/examination (i.e. two visits instead of one). Additionally, S291 would guarantee that reimbursement to telemedicine providers be the same as cost for in-person visits when, in fact, telemedicine vendors will provide services at a significantly lower cost than in-person visits.

Substance Use Disorders and Regulation of Opioids and Schedule II Controlled Substances
P.L.2017, c.28

22. P.L.2017, c.28 requires health insurance coverage for substance use disorders and regulates opioids and certain other prescription drugs. The law requires insurers to provide unlimited benefits for inpatient and outpatient treatment of substance use disorders at in-network facilities. The law also places certain restrictions on how opioids and other Schedule

Discussion Points (Cont'd)

II controlled substances may be prescribed. In cases of acute pain, the law provides that a practitioner cannot issue an initial prescription for an opioid drug in a quantity exceeding a five-day supply and in cases of acute or chronic pain a practitioner must document the patient's medical history, develop a treatment plan, conform with a monitoring requirement, limit the supply of opioid drug prescriptions, and comply with State and federal laws.

- ***Question:*** **What is the fiscal impact to the SHBP and the SEHBP to provide unlimited benefits for inpatient and outpatient treatment of substance use disorders at in-network facility rates? What is the current cost of utilization management services for the SHBP and the SEHBP? For every dollar spent on utilization management services what is the commensurate offsetting savings in plan costs? What is the fiscal effect to the SHBP and SEHBP of restricting opioids and other Schedule II controlled substances under P.L.2017, c. 28?**

  Answer: The fiscal impact of P.L. 2017, c. 28 is being analyzed as the provisions become operational. It is anticipated that benefits for inpatient and outpatient treatments at in-network facilities will incur additional costs that will be offset, in-part, by the impact of providing prompt services, thereby reducing relapses and the need for additional services.

  The current cost of utilization management services for substance use disorders is approximately $2M per year with savings of approximately $49M.

Savings from P.L.2011, c.78

23. P.L.2011, c.78 made various changes to public employees health benefits including increased employee contributions and plan design changes for the State Health Benefits Program (SHBP) and the School Employees' Health Benefits Program (SEHBP). Specifically, the law required all public employees and certain public retirees to contribute toward the cost of health care benefits coverage a percentage of the cost of coverage, referred to as the "premium," based on the type of coverage selected. Each year, the Rate Renewal Reports include aggregate cost data that provide the actual total cost of employee and retiree health care in a Plan Year (calendar year) and the total premium (employee and employer contributions) collected to pay for health care coverage. According to the Division of Pensions and Benefits, the projected savings from P.L.2011, c78 since its inception is $3.1 billion over 10 years. Projected member contributions to the SHBP in FY 2016 were $420 million including contributions from active and retired members and members on COBRA. Employer contributions for FY 2016 were projected to be $2.045 billion.

Discussion Points (Cont'd)

State Health Benefits Fund – State
Actual/Projected Contributions, Benefit Costs, Fund Balance

	Projected 2016	
Member Contributions	$	420,292,321
Employer Contributions	$	2,045,312,323
Net Investment Income	$	187,729
Benefit Costs	$	(2,487,447,234)
Net Increase (Decrease)	$	(21,654,861)
Fund Balance Beginning of Year	$	(121,617,607)
Fund Balance End of Year	$	(143,272,469)

Notes: Includes contributions from active and retired members and members on COBRA.
Source: Division of Pensions and Benefits.

- ***Question:*** **For the SHBP (State and local) and for the SEHBP, please provide the dollar amount of member contributions, employer contributions, use of surplus in the health benefit fund, and total costs estimated for FY 2016 (actual), FY 2017 (projected) and proposed for FY 2018. Please provide updated estimates of the total projected savings from P.L.2011, c.78 contributions for State, local education, and local government to the SHBP and the SEHBP that were achieved in FY 2016, are projected for FY 2017, and are anticipated to be achieved in FY 2018.**

  Answer: Please see the charts below.

Health Benefits Program Fund - State
Actual / Projected Contributions, Benefit Costs and Fund Balance

	Projected FY 2017
Member Contributions *	431,211,968
Employer Contributions	2,007,119,760
Net Investment Income	469,939
Benefit Costs	(2,398,632,705)
Net Increase (Decrease)	40,168,962
Fund Balance, Beginning of Year	(244,611,401)
Fund Balance, End of Year	(204,442,440)

* Includes contributions for active and retired members and members on COBRA

Discussion Points (Cont'd)

Health Benefits Program Fund - Local Education
Actual / Projected Contributions, Benefit Costs and Fund Balance

	Projected FY 2017
Member Contributions *	59,163,626
Employer Contributions	2,847,998,235
Net Investment Income	1,517,743
Benefit Costs	(2,839,310,083)
Net Increase (Decrease)	69,369,521
Fund Balance, Beginning of Year	72,834,903
Fund Balance, End of Year	142,204,424

* Includes contributions for active and retired members and members on COBRA

24. The Division of Pensions and Benefits estimated that the total savings from migration to lower cost plans resulting from P.L.2011, c.78 saved $19.1 million in FY 2016 and estimated that migration to lower cost plans in FY 2017 would save $26.2 million.

SHBP and SEHBP	Estimated Migration Savings ($ Millions)	
	FY 2016	FY 2017
State	$ 8.5	$ 12.3
Local Education	$ 4.9	$ 6.0
Local Government	$ 5.7	$ 7.9
Total	$ 19.1	$ 26.2

Source: Division of Pensions and Benefits.

- ***Question:*** **Please provide updated estimates of the projected savings from migration to lower cost plans for the State, local boards of education, and local governments for FY 2018 and please provide updated estimates (if there were any changes) for FY 2016 and FY 2017. What percent of members have migrated to lower cost plans? How closely does this result match expectations?**

Discussion Points (Cont'd)

Answer: The table below shows the updated Fiscal Years 2016, 2017 and 2018 savings associated with member migration to the lower cost plans. Overall savings have increased for 2016 and 2017 by approximately $1 million and $5.5 million respectively. The savings for the State group has increased due to the introduction of the Tiered Network plan incentive, whereas the savings for the Local Education and the Local Government groups have increased due to migration from PPO 10 plans to lower cost PPO 15 plans.

	Estimated Migration Savings (in $ Millions)		
	FY2016	FY2017	FY2018
State	$ 9.3	$ 14.8	$ 21.1
Local Education	$ 5.3	$ 8.1	$ 11.0
Local Government	$ 6.0	$ 8.9	$ 12.6
Total	$ 20.6	$ 31.8	$ 44.7

From Plan Year 2011 to Plan Year 2017, approximately 6% of active members and approximately 1% of retiree members have migrated to lower cost health plans.

The actual migration of plan members per annum to the lower cost plans is consistent with the SHBP/SEHBP healthcare consultant's expectation that approximately 0.5% of plan members will shift to lower cost plans each year.

25. The Division of Pensions and Benefits provided estimates of the projected enrollment for FY 2016 and FY 2017 for State, Local Government and Local Education employees and retirees.

Projected Enrollment for the SHBP State and Local and the SEHBP		
	FY 2016	**FY 2017**
State		
Active	228,640	224,089
Early Retirees	38,028	36,162
Medicare Retirees	48,202	49,063
Total	314,870	309,314
Local Government		
Active	112,711	103,202
Early Retirees	28,039	26,743
Medicare Retirees	24,466	26,533
Total	165,216	156,478
Local Education		
Active	219,333	209,250

Discussion Points (Cont'd)

Early Retirees	40,293	39,960
Medicare Retirees	122,062	121,979
Total	381,688	371,189

Source: Division of Pensions and Benefits.

- ***Question:*** **Please provide updated data on projected enrollment for FY 2016 (actual) and FY 2017 (adjusted) and FY 2018 in SHBP and SEHBP. How are these trends affecting employer costs?**

  Answer: The chart below shows the actual Fiscal Year 2016 enrollment and the Fiscal Years 2017 and 2018 projected enrollment.

  In recent years, Local Education and Local Government employers that have enrollment with better claims experience are leaving the SHBP/SEHBP. This increases the costs for the overall plan. An additional anti-selection load has been added to the base active trend recommendation to account for this additional risk. This additional anti-selection trend load increases costs for the plan. In addition, as enrollment slowly shifts toward the lower cost plans, overall per capita costs will tend to drop from what they would have been if the shift did not occur.

Discussion Points (Cont'd)

Projected Enrollment for the SHBP & SEHBP

	FY 2016	FY 2017	FY 2018
State			
Actives	223,925	225,199	224,934
Early Retirees	37,261	37,376	36,601
Medicare Retirees	45,965	48,465	50,230
Total	307,151	311,040	311,765
Local Government			
Actives	111,626	112,187	114,213
Early Retirees	26,741	27,110	27,358
Medicare Retirees	24,197	24,886	25,812
Total	162,564	164,183	167,383
SHBP Subtotal			
Actives	335,551	337,386	339,147
Early Retirees	64,002	64,486	63,959
Medicare Retirees	70,162	73,351	76,042
Total	469,715	475,223	479,148
Local Education			
Actives	213,214	201,334	190,308
Early Retirees	41,415	40,596	39,450
Medicare Retirees	117,598	123,677	126,700
Total	372,227	365,607	356,458

Actuarial Value of the State Health Benefits Program

26. According to the Division of Pensions and Benefits, in response to FY 2017 OLS discussion points, "The actuarial value of a health plan is a measure of the percentage of health care costs paid by the plan and not the premium differential between the employer and the employee. Due to the low member out-of-pocket costs (i.e. copays, coinsurance, deductibles, etc.) the actuarial value of the majority of SHBP/SEHBP plans are above 90 percent with the most popular plan having an actuarial value of 96 percent. Since member out-of-pocket costs are not indexed for inflation, the actuarial value will only increase as medical costs escalate."

- ***Question:*** **What is the current actuarial value of each of the plans in the SHBP and the SEHBP? What is the current medical cost inflation rate? What are the primary drivers for medical cost premium inflation? By how much have premiums increased on average since FY 2011? Does the division have or know of any data that correlate the actuarial value of a health plan to the health condition,**

Discussion Points (Cont'd)

productivity, or longevity of its members? Are the State's health plans consistent with any such correlations?

Answer: The charts below show the combined medical and prescription drug actuarial values for each of the active and retiree plans offered by the SHBP and SEHBP. These values are shown separately for Actives and Retirees and by State, Local Government and Local Education.

Medical cost inflation rate (or the medical trend) is based on increases in the costs for medical services, member utilization, anti-selection loads, marketplace trends and the Plan's historical experience. Medical trends are currently projected to be between 5.0% to 7.0% for Actives and Early Retirees from Plan Year 2017 to Plan Year 2018. The trends vary by State, Local Government and Local Education groups. Medicare Retiree medical trend is projected to be between 3.5% and 4.5% from Plan Year 2017 to Plan Year 2018.

The primary drivers for the medical cost premium inflation or trend are the medical cost inflation rate (or medical trend), as described above and the historical experience within each group. For example, if the actual experience is more favorable than expected, future premium increases will be reduced to reflect the historical gain.

Actuarial Values (AV) measure the expected value of the plan. Based on the employee contribution arrangements in place for the State plans, it is likely that individuals with poorer than average health gravitate toward the plans with the higher AVs.

Actuarial Values
Active Plan Designs

	State (SHBP)	Local Government (SHBP)	Local Education (SEHBP)
NJ Direct10	N/A	97.8%	98.1%
NJ Direct15	97.2%	97.2%	97.3%
Legacy HMO	97.3%	97.8%	98.0%
1525 PPO	95.9%	95.9%	95.6%
1525 HMO	N/A	N/A	95.8%
2030 PPO	95.4%	95.4%	95.0%
2030 HMO	N/A	N/A	95.6%
2035 PPO	85.3%	85.3%	85.4%
2035 HMO	N/A	N/A	86.1%
HD 4000	72.9%	72.9%	N/A
HD 1500	84.1%	84.1%	84.1%
OMNIA/Liberty	85.5%	85.5%	N/A

Discussion Points (Cont'd)

Actuarial Values
Retiree Plan Designs

	State (SHBP)	Local Government (SHBP)	Local Education (SEHBP)
NJ Direct10	96.5%	96.5%	96.6%
NJ Direct15	96.0%	96.0%	96.1%
Legacy HMO	97.4%	97.4%	97.4%
1525 PPO	96.0%	96.0%	96.1%
1525 HMO	96.0%	96.0%	96.1%
2030 PPO	95.6%	95.6%	95.5%
2030 HMO	96.0%	96.0%	95.9%
HD 4000	80.5%	80.5%	80.5%

Retiree actuarial values do not include any adjustments for benefits provided by Medicare.

State and Local Government Active premiums have increased on average by approximately 7.1% and 8.6%, respectively since Fiscal Year 2011. Local Education Active premiums have increased annually by approximately 10.0%. On average Early Retiree premiums have increased by approximately 9.0% for all groups and Medicare Retiree premium increases have been on average between 4.0% and 5.0%.

The Fiscal Year annual premium increases by State, Local Government and Local Education for all three employee groups (Actives, Early Retirees and Medicare Retirees) are shown in the chart below. The premium increases are consistent with the combined medical and prescription drug premium increases shown in the Plan Year premium renewal reports.

Historical Premium Rate Increases
Fiscal Years 2011 – 2017

	FY11	FY12	FY13	FY14	FY15	FY16	FY17	Average
State								
Actives	7.9%	7.7%	8.2%	7.8%	8.0%	6.2%	3.9%	7.1%
Early Retirees	9.9%	7.2%	8.6%	12.6%	9.1%	9.2%	8.8%	9.3%
Medicare Retirees	4.3%	2.3%	3.7%	5.6%	5.3%	7.5%	5.6%	4.9%
Local Government								
Actives	14.3%	10.9%	9.3%	8.1%	7.9%	7.0%	2.9%	8.6%
Early Retirees	11.9%	12.4%	12.6%	10.0%	5.4%	5.4%	7.0%	9.2%
Medicare Retirees	3.5%	3.2%	4.8%	4.6%	3.8%	5.4%	4.7%	4.3%
Local Education								
Actives	15.2%	9.3%	11.7%	9.3%	7.8%	8.9%	8.0%	10.0%
Early Retirees	6.3%	4.7%	13.8%	14.9%	8.9%	10.5%	5.7%	9.2%
Medicare Retirees	-1.4%	0.0%	5.3%	7.2%	5.3%	10.2%	3.7%	4.3%

Discussion Points (Cont'd)

OTHER INTERDEPARTMENTAL ACCOUNTS

Tax and Revenue Anticipation Notes

27. 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 quarters of the year, before major tax collections are received in the last two fiscal quarters of the year. It is exacerbated by low surpluses as a percentage of total appropriations.

The FY 2018 Governor's Budget proposes an appropriation of $6 million for Interest on Short Term Notes. Thus far in FY 2017, the State has issued $1.75 billion in tax and revenue anticipation notes under a maximum $1.9 billion Note Purchase Contract with Wells Fargo Bank. The FY 2018 Governor's budget indicates that the borrowing costs of the 2017A TRANS are estimated to be about $13.1 million, $7.102 above the original appropriation. Expenditures for interest on short term borrowing in FY 2016 totaled $13.490 million, $7.490 million above the original appropriation of $6 million.

- ***Question:*** **Please provide the financial details of the Note Purchase Contract with Wells Fargo Bank. Please report the estimated FY 2017 costs of cash flow borrowing, distinguishing between interest and fees. What projections of line of credit use and tax and revenue anticipation note issuance (par amount and date of sale), total and net interest costs, nominal interest rate and effective interest rate, were assumed when determining to recommend an appropriation of $6 million in FY 2018?**

  Answer: For FY 2017, there were two draws, with costs as follows:

  July 6 Draw:

Aggregate Proceeds	$1,500,000,000
Less bank counsel fee	(50,000)
Net Proceeds	$1,499,950 000

  Estimated interest payable as of 3/30: $12,795,763.59

  September 15 Draw:

Aggregate Proceeds	$250,000,000

  Estimated interest payable as of 3/30: $1,781,434.88

Discussion Points (Cont'd)

Total estimated interest (both draws): $14,577,198.47
Net Cash Flow: (14,627,198.47)

Regarding FY 2018, the amount of borrowing is yet to be determined.

- ***Question:*** **Please discuss the difference in cash flow projections between FY 2017 and FY 2018 and the need to borrow for cash flow purposes. What are the most significant changes in terms of the impact on the need to borrow for cash flow purposes?**

  Answer: The differences in cash flow projections is based primarily on quarterly pension payments, which shift expenditures earlier into the fiscal year.

SALARY INCREASES AND OTHER BENEFITS

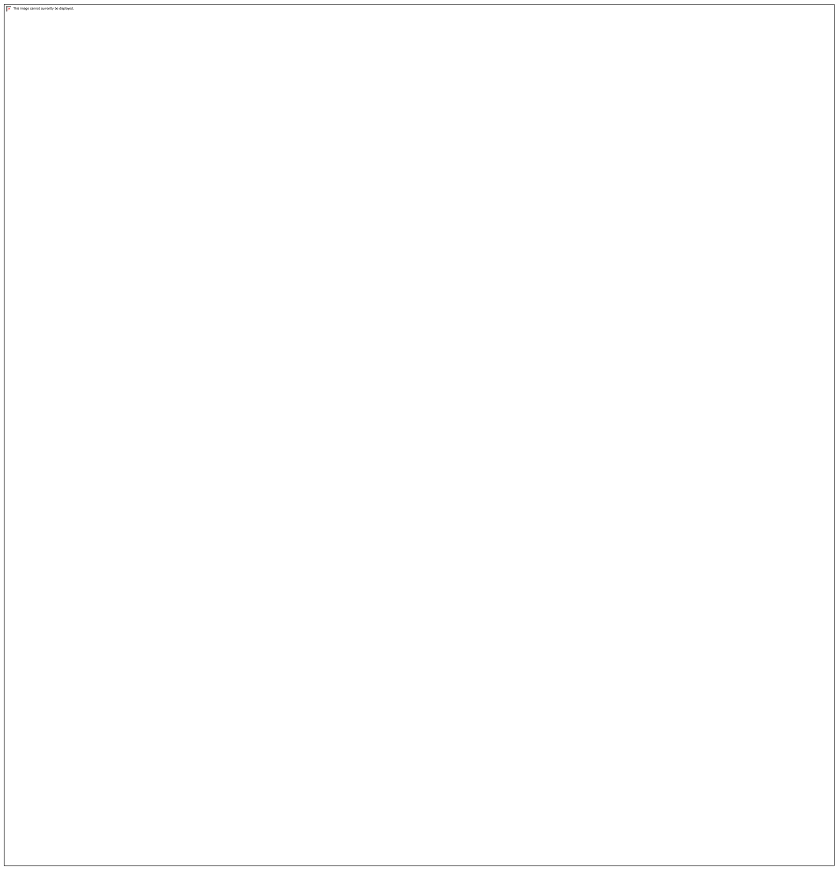
New Jersey Employer-Employee Relations Act

28. The State, as a public employer, and certain employees of the State , are covered by the "New Jersey Employer-Employee Relations Act", P.L.1968, c.303 (N.J.S.A. 34:13A-1 et seq).

- ***Question:*** **Please provide a chart showing State employee union affiliation information including the name of the union, the number of State employees affiliated with the union, and the percent of union represented employees, as shown in the chart below.**

  Answer: Please note that FTE levels are as of PP16, and the six unions not included in the table represent the remaining 12.41% of union represented FTE. There are no employees represented by the Service Employees International Union.

Discussion Points (Cont'd)



- ***Question:*** **Please provide a chart summarizing, under the most recently negotiated contracts, salary increases for managers and represented employees, including the name of the union, the status of contract negotiations, and a brief summary of the salary and compensation changes negotiated in the contract. Separately, are there any projected cost savings resulting from contract negotiations? Also, please update the following chart.**

  Answer: There are no projected cost savings. The attached table, "Contract Status Chart" provides a summary of salary and compensation changes negotiated in the contract.

Discussion Points (Cont'd)

- ***Question:*** **Please update the following chart for FY 2009 through FY 2017.**

  Answer: Please refer to attached table, labeled "Salary Increases History."

State Civil Service Salary Increases and Other Benefits			
		Consumer Price Indices	
Fiscal Year	Salary Increases	United States	New Jersey
1997-1998	2%	1.7%	1.6%
1998-1999	1.25%	2.1%	2.1%
1999-2000	2.5%	3.7%	3.2%
2000-2001	2%	2.7%	2.7%
2001-2002	6/01 2% 12/01 2%	1.5%	2.2%
2002-2003	2%	2.1%	3.0%
2003-2004	none	3.0%	3.9%
2004-2005	2.9%	3.2%	3.4%
2005-2006	6/05 2% 12/05 2%	4.1%	5.0%
2006-2007	6/06 2.25% 12/06 2.35% a 10th step was added	2.1.	n.a.
2007-2008	3.0% proposed	2.2	n.a.

- ***Question:*** **Please provide a ten-year history FY 2007–FY 2016 of the annual State payroll, measured by salaries and wages, showing overtime and one-time bonuses separate from regular compensation. What is the average annual compensation per full-time equivalent for each year of this time period?**

  Answer: Please refer to attached table, labeled "Compensation History."