



State of New Jersey

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State Treasurer

July 28, 2017

Mr. Frank Haines
Legislative Budget and Finance Officer
Office of Legislative Services
State House Annex, P.O. Box 068
Trenton, New Jersey

Dear Mr. Haines:

Pursuant to your letter dated May 19, 2017, it was requested that I provide a written response to the questions posed by Chairman Sarlo, Senator Greenstein, Senator Beck, Senator Ruiz, and Senator Oroho following the May 16, 2017 hearing of the Senate Budget & Appropriations Committee. The questions and their subsequent answers are as follows:

The Administration is proposing to offset the projected State revenue shortfall in FY 2017 and FY 2018 through a variety of spending adjustments. These adjustments include the proposed diversion of certain additional Clean Energy Fund monies that were not expected to be diverted in the current fiscal year at the time the Governor's FY 2018 Proposed Budget was presented to the Legislature in February. For FY 2017, the proposed additional diversions from the fund total \$50.0 million. For FY 2018, the proposed additional diversions total \$25.0 million. How or to what purposes will the proposed additional diversion be used in each of those years? Will the proposed additional diversions impact the operation or administration of the Clean Energy Program?

The BPU will have sufficient resources to fund all Clean Energy Program needs in FY17 and FY18, including growth for key programs and State energy initiatives. Available balances will be allocated for NJ Transit's energy initiatives and utility costs in FY17 and FY18. The BPU continues to work with State agencies such as State Police, Transportation and Corrections on various initiatives including investment grade energy efficiency audits and energy efficiency building modifications for their facilities to lower utility costs.

Chairman Sarlo and Senator Greenstein:

Please provide the committee with an update on the current price and supply of natural gas in New Jersey. How is the price and supply of natural gas in this State expected to change in the foreseeable future? What factors does the BPU anticipate may affect the expected future change?

Presently, natural gas average monthly residential prices in New Jersey continue to drop. Prices dropped from October 2016 to February 2017 from \$10.38 to \$8.23 per thousand cubic feet. There was only a slight upward adjustment to \$8.67 in March 2017. Natural gas production in Pennsylvania, where New

Jersey obtains much of its natural gas, increased from March 2016 to February 2017 from 14,600 to 15,151 million cubic feet per day.

Long-term projections regarding natural gas production and prices, based upon an EIA Case Study and NYMEX futures, indicate that while natural gas consumption will increase by 5%, U.S. production will increase by 40% by 2040. These projections are sensitive to resource and technology assumptions. Relatively low and stable natural gas prices are anticipated, with possible slight increases (keeping in mind seasonal fluctuations), which will support higher domestic consumptions as well as natural gas exports.

Chairman Sarlo and Senator Beck:

What is the potential for gaming operations at racetracks and at other venues outside of Atlantic City?

The issue of expanding gaming to venues outside of Atlantic City is a policy matter that is ultimately up to the voters of Jersey

Senator Beck:

Pursuant to P.L.2016, c.57, each fiscal year from 2018 through 2026 the State Treasurer is required to determine an adjusted tax rate to be imposed on highway fuel beginning each October 1 so that the revenue collected from the tax imposed on highway fuel does not exceed the highway fuel cap amount for any fiscal year. Please provide the committee with an analysis regarding the current outlook of the tax imposed on highway fuel and the highway fuel cap amount. Does the Treasurer expect to increase or decrease the tax rate imposed on highway fuel?

At this point it is too early to determine what the highway fuel revenue will look like for the current fiscal year. Upon the completion of the fiscal year and the collection of all applicable taxes by the State, the Treasurer, with the Legislative Budget and Finance Officer, will determine if the revenue was higher or lower than the intended target.

How will contributing the asset value of the State lottery reduce the State's actuarially determined contribution and the funded ratio? How was the \$13.535 billion asset value calculated?

The State's actuaries will include the value of the Lottery Enterprise as an asset of the Retirement Systems when computing the funded ratio. The Lottery Enterprise Contribution Act directs the actuaries to apply an annual Adjustment to reduce the Actuarial Determined Contribution (ADC). This Adjustment is a function of the value of the Lottery Enterprise. The asset value of \$13.535 billion was calculated by an Independent Valuation Service Provider. The Provider conducted a review and due diligence of the Lottery Enterprise, including its cashflows, operating history, legal structure and projections. The Provider reviewed several different valuation methodologies, and ultimately applied a Discounted Cashflow Value methodology, which is consistent with The Actuarial Standards of Practice No. 44 (ASOP 44).

Senator Ruiz:

Please explain the need for continued State appropriations for operational support of the New Jersey Sports and Exposition Authority. How is the State funding for operational support being spent?

The State appropriation is mainly used to cover legacy costs related to the Racing Commission, PILOT payments, capital maintenance, etc. The annual cash flow is monitored by OMB and NJSEA throughout the course of each fiscal year to determine any potential need for additional subsidy.

How is the Izod Center being utilized? Is the Izod Center going to be closed permanently or are there plans to repurpose it? Please provide information on the number of entertainment acts that are rehearsing at the arena and the revenue being generated from leasing the space for rehearsals.

The Meadowlands Arena (formerly known as the IZOD Center) has been temporarily closed pursuant to an agreement with the Prudential Center in effect until December 31, 2018. The Arena is still being maintained to comply with fire and safety codes. Offices in the Arena are being used by NJSEA staff including our medical unit; NJ State Police and the Department of Community Affairs permit officials overseeing the construction of the American Dream project. The NJSEA also has been utilizing the Arena for certain rehearsals that are not open to the general public. All costs associated with staging the rehearsals are borne by the promoters/acts. Please see the chart below which depicts revenue received by the NJSEA for leasing the Arena for this purpose.

	Days	Net
2016 Rehearsals - 4 rehearsals + a video shoot	31	\$ 240,816.13
2017 Rehearsals - 1 rehearsal	28	\$ 213,180.00

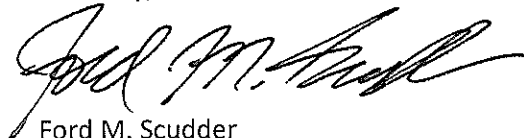
At the present time no decisions have been made about any future uses of the Arena.

Senator Oroho:

According to the Motor Vehicle Commission (MVC), a request for proposal (RFP) was advertised for the next enhanced inspection/maintenance (I/M) program since its contract with Parsons Environment & Infrastructure Group, Inc., was set to expire on May 5, 2016. In response to the RFP, four bidders submitted proposals; however, the State extended its contract with Parsons to address certain challenges that manifested during the bidding process and to avoid a situation where the State was without an inspection program. Please provide the committee with an update regarding the status of the RFP.

The Procurement process continues to move forward. The protest questions and corresponding responses are presently being analyzed, evaluated and composed by the Hearing Unit and are expected to be released shortly.

Sincerely,



Ford M. Scudder
State Treasurer