

NJ SENATE BUDGET AND APPROPRIATIONS COMMITTEE

May 14, 2019

State Treasurer Elizabeth Maher Muoio
Department of the Treasury Highlights

If I had to point to one issue that has defined our work in Treasury for the past year, it is the dogged pursuit of savings, particularly when it comes to the delivery of public employee health benefits. This has been a priority since we took office 16 months ago.

As a result, of the \$1.1 billion in savings that the FY20 budget is built upon, \$800 million was achieved in the delivery of employee health benefits, something Treasury has played a leading role in identifying and securing.

We have almost 3,000 employees carrying out the mission of our department, whether it's saving costs, making processes more efficient, fostering transparency, promoting diversity, or improving the experience of the New Jersey taxpayer. I just want to briefly touch upon the highlights that have resulted from their hard work from the past year.

HIGHLIGHTS BY DIVISION

Lottery:

- Lottery's total sales and the contribution to the state were both the highest in history:
 - Sales were \$3.299 billion, an increase of \$113 million (3%) over FY17.
 - The Lottery transferred a total of \$1.030 billion to the state in FY18, an increase of \$36.2 million (3%) over FY17.
- Treasury and Northstar entered into an amended Service Agreement on May 3, 2019 that raises Northstar's performance targets and, as a result, is anticipated to save the state \$52 million in incentive payments over the next five years and potentially up to \$100 million in total over the remaining life of the contract, which expires in 2029. Scaling back payments for manager's expenses, and eliminating management bonuses, is expected to yield additional savings over the remaining life of the contract.

Office of Diversity and Inclusion:

- This office has made a great deal of progress since its establishment in the Division of Purchase and Property last year, including identifying and securing funding for the procurement of a statewide technology system that will enable the Chief Diversity Office (CDO) and state departments and agencies to track procurement spending in real time for Small, Minority, Women and Service-disabled Veteran-owned businesses, which will assist in developing a more robust and diverse contracting supply chain.
- The CDO also assembled a working group comprised of state, county, and municipal representatives and film executives to launch the first state Diversity in Film Forum, which

promoted recent Film Tax Credit legislation that provides additional bonus tax credit for the inclusion of diverse crew and talent in productions filmed in New Jersey.

Public Finance:

- The Treasurer's Office and the Office of Public Finance have moved forward with Public Private Partnership (P3) implementation by working with stakeholders, sister agencies, and other states to develop regulations, which have recently been finalized and will be released soon. In addition, a pool of P3 advisors has been established.
- A website with these and other updates is ready to view at www.nj/treasury/publicfinance.

Unclaimed Property Administration:

- As part of the Department of the Treasury's ongoing efforts to reconnect state-held assets to their rightful owners, our Unclaimed Property Administration (UPA) conducts extensive outreach through a variety of means, including special, targeted outreach projects and, as most of you are aware, an annual collaboration with all 40 legislative districts. As a result of these efforts:
 - UPA connected with over 205,000 unclaimed property owners this past year and returned a near record amount of \$143 million to rightful owners or heirs last fiscal year.
 - UPA even conducted a special Veterans Outreach Project which identified nearly 3,000 veterans, widows, or heirs who may have unclaimed property in their name, resulting in 351 claims totaling just over \$600,000 that have been paid thus far.

Property Management and Construction:

- The State Office Building Development Project continues to progress on budget. This project is a partnership between the NJ Department of Treasury, Division of Property Management and Construction (DPMC) and the New Jersey Economic Development Authority (NJEDA) to construct new Division of Taxation and Department of Health buildings in downtown Trenton.
 - Ground breaking for the new Health and Taxation buildings occurred in early December 2019 and late March 2019, respectively. Both projects will take two years to complete.
- These projects are about more than improved facilities for state employees: not only do they allow us to work collaboratively with the city to ensure the best possible outcome for both the state and local stakeholders, they also provide a unique opportunity to highlight inclusivity and diversity in state contracting.
 - We worked with the City of Trenton, its Planning Board, the Capital City Redevelopment Corporation, the Department of Community Affairs, local advocacy groups and Trenton residents, which resulted in a variety of their recommendations being incorporated into the buildings' designs.

- DPMC's outreach efforts continue on a daily basis through a website for construction-related updates, which provides alerts to state employees, residents, the Mayor's office, and other local stakeholders for road closures and related disruptions.
- Treasury, DPMC, and EDA hosted not one, but two diversity forums to attract Small, Minority, Women or Veteran-owned subcontractors to the new state office building projects. To date, over half of the subcontractors and service providers on the projects are Small, Minority, Women or Veteran-owned businesses.
- For those of you who haven't had a chance to tour the Statehouse recently, the renovation project remains on-time and within budget. The General Contractor procurement is ongoing, which we expect will be awarded in August 2019, with a completion date set for 2022.

Investments:

- The last fiscal year turned out to be a successful one for the pension fund - for the fiscal year ended June 30, 2018, the Pension Fund returned 9.06%, net of all fees
 - Over the past 25 years ending June 30, 2018, the Pension Fund returned 7.99% (annualized) with returns exceeding the actuarial rate of return, which is currently 7.5%
- The total FY18 costs for alternative investment management fees and expenses decreased by \$24 million while net profits increased by \$226 million.
- The State Investment Council established an Environmental, Social and Governance (ESG) subcommittee and adopted a formal ESG policy to address these issues in connection with Division investments.
 - As part of those efforts, our Division of Investment has incorporated ESG into its due diligence procedure for investments and is in the process of procuring consultants to assist in other aspects of the ESG policy.

Purchase and Property:

- The Division of Purchase and Property (DPP) is responsible for procurements valued in excess of \$1.8 billion annually.
- An internal review was conducted to determine how we could improve the operations and efficiency of the Division in order to better serve state agencies and yield greater savings from our procurement.
- Based upon that review, on April 8, 2019, the Division advertised a bid solicitation on the federal General Services Administration (GSA) website for a contractor to provide a strategic and operational assessment of the Division.

- The selected contractor will perform a review of the Division, including procurement processes and staffing, statutory and regulatory requirements that impact cost-effective and efficient procurement, organizational structure, personnel, hiring and retention, and the use of technology in procurement.
- Bidder proposals are due May 31, 2019, and the Division expects a contract award in June 2019.

Pensions and Benefits:

- Our proposed \$3.8 billion payment for the upcoming fiscal year is the largest percentage of the required contribution in nearly a quarter of a century, and keeps us on track to meet the full Actuarially Required Contribution (ARC) by 2023.
- The School Employees' Health Benefits Program (SEHBP) Plan Design Committee (PDC) voted to approve the transition of Medicare eligible retirees in the PPO 10 and 15 plans to Medicare Advantage plans effective January 1, 2019. It is estimated that the SHBP/SEHBP will save \$502 million over the next two years due to this change and the award of the Medicare Advantage RFP.
- The Division is currently managing, either internally or through a qualified vendor, multiple audits involving SHBP/SEHBP benefits and eligibility.
- For the first time, an actuary performed stress test analyses for the pension funds. The results were expected based upon the required positive and negative scenarios, and clearly illustrate the risk to the systems in terms of increased contributions and long recovery periods if negative returns occur.
 - The key point from the stress testing is that regardless of budget or revenue situations, it is imperative that the required pension contributions be met and not reduced, otherwise the negative scenarios could produce much worse results.
- The Division of Pensions and Benefits, using actual feedback from members and employers, launched a number of improvements to its online services, including beneficiary designation applications, retirement certifications, and electronic document submissions.
 - The Division also implemented new web applications that allow members and retirees to electronically elect new Board of Trustees members and use eChecks and credit cards to submit payments for their health benefits premiums.
 - The Division continually strives to eliminate paper-based transactions and information requests for all of the state's benefit programs. Their efforts have been successful: Internet-based and Interactive Voice Response forms comprised approximately 80% of all forms processed by the Division in the last 12 months.

Revenue and Enterprise Services:

- Our Division of Revenue and Enterprise Services (DORES) is working to deliver new services that help streamline interactions between state government and the business community, thereby making it easier to conduct business in the state.
 - These efforts include Mobile Business Information Services to help businesses track registration dates, avoid compliance issues, and detect fraud, all from their computers or mobile devices.
 - DORES also has a Uniform Certification Application in the works that will allow Small, Minority, Women, Veteran/Disabled Veteran-Owned businesses to apply for their respective certifications through one simple online portal. This streamlined and cost-effective process will help encourage increased participation in goal-based and set-aside procurement initiatives.
- DORES also launched a simple and free online Resident Gross Income Tax portal for Tax Year 2018, which was used by over 9,000 residents.
- DORES worked with the Division of Taxation to implement a new Tax Credit Certificate Tracking System. Called NJ eCERTS, this online system enables qualified businesses to record tax credit transfers to other businesses in a streamlined fashion. In turn, Taxation staff can track tax credit distributions, sales and use. Collectively, these features will help foster consistency and transparency with the tax credit program, foster more accurate accounting of credit usage, and improve estimates of their impacts on the state budget.

Taxation:

- The Division ran a successful Amnesty campaign from mid-November to mid-January, resulting in over \$280 million in recovery, which exceeded the \$200 million target, all while launching a number of significant tax changes across several tax types.
- The Division of Taxation is constantly working to make compliance easier to achieve and understand for all New Jersey taxpayers.
 - The Tax Education and Media Branch (TEAM) improves voluntary tax compliance and enhances revenues by directly educating the public and Taxation personnel, using plain language to provide clear direction in notices, publications and web pages, and using social media to resonate important messaging and reminders to taxpayers. During FY19, these efforts delivered timely and simplified tax obligation information to over 500,000 New Jerseyans.
 - Taxation University, the education arm of TEAM Branch, personally instructed over 6,000 tax professionals about tax law changes so their clients could comply with new laws and we could protect the revenues expected from them.

Risk Management:

- In light of enhanced claims processing costs, the Division of Risk Management began internally handling much of the claims management for approximately 1/3 of cases, resulting in savings of over \$345,000 per month.
- The Division continues to proactively benchmark vendor performance against performance standards, resulting in 10% hold back of fees due to vendor performance.

Thank you for allowing me to outline the excellent work being carried out by the hard-working people of the Department of the Treasury.

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Changes in FY2020 Appropriations

(In Millions)

Appropriations as of FY2020 Governor's Budget Message	\$	38,606
Property Tax Relief Program		250
Psychiatric Hospitals Growth		15
Transitional Aid		10
Trenton Capital City Aid		10
Business Marketing Initiative		3
DOT Professional & Technical Training Program		1
Prevailing Wage Act Enforcement		1
Other		4
Appropriations as of May Update	\$	38,900