ANALYSIS OF THE NEW JERSEY

FISCAL YEAR 2002 - 2003 BUDGET

INTERDEPARTMENTAL ACCOUNTS

PREPARED BY

OFFICE OF LEGISLATIVE SERVICES

NEW JERSEY LEGISLATURE

MAY 2002

NEW JERSEY STATE LEGISLATURE

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INTERDEPARTMENTAL ACCOUNTS

Budget Pages....... C-20, D-511 to D-526

Fiscal Summary ($000)

	Expended FY 2001	Adjusted. Appropriation FY 2002	Recommended FY 2003	Percent Change 2002-03
State Budgeted	$1,903,015	$1,810,331	$2,092,627	15.6%
Federal Funds	0	0	0	—
Other	0	0	0	—
Grand Total	$1,903,015	$1,810,331	$2,092,627	15.6%

Personnel Summary - Positions By Funding Source

	Actual FY 2001	Revised FY 2002	Funded FY 2003	Percent Change 2002-03
State	0	0	0	—
Federal	0	0	0	—
Other	0	0	0	—
Total Positions	0	0	0	—

FY 2001 (as of December) and revised FY 2002 (as of September) personnel data reflect actual payroll counts. FY 2003 data reflect the number of positions funded.

Introduction

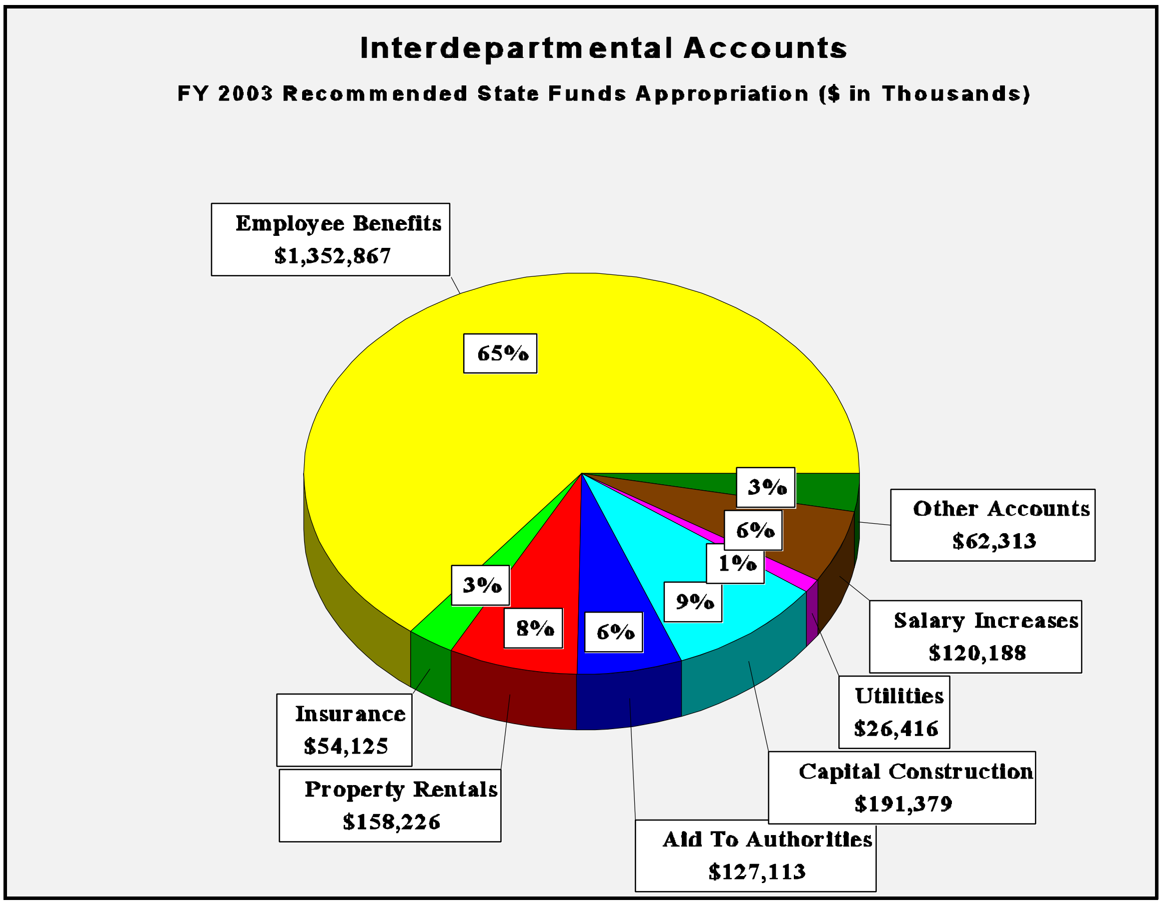
The Interdepartmental Accounts budget consists of those funds not appropriated to any single State department, but which instead are administered centrally — by the Department of the Treasury — on behalf of all State government agencies and some independent authorities. Interdepartmental Accounts are divided into eight budget categories: (1) Property Rentals; (2) Insurance and Other Services; (3) Employee Benefits, including funding for employee pensions and health care; (4) Other Interdepartmental Accounts; (5) Salary Increases and Other Benefits; (6) Utilities and Other Services; (7) Capital Construction Projects - Statewide; and (8) Aid to Independent Authorities.

In addition, pension-related funding is included in the Department of Treasury and the Department of Education.

Key Points

The Governor recommends a FY 2003 State appropriation totaling $2.093 billion for Interdepartmental Accounts, an increase of $282 million or 15.6 percent, from the FY 2002 adjusted appropriation of $1.810 billion.

The following chart summarizes the FY 2003 recommended appropriation by major purpose. The summary detail of changes is included in the Fiscal and Personnel section of this analysis.



Key Points (Cont'd)

Employee Benefits

- The recommended FY 2003 State appropriation for Employee Benefits is $1.353 billion, a $144.6 million or 12 percent increase over the FY 2002 adjusted appropriation of $1.208 billion. The recommended $906.3 million Direct State Services (DSS) appropriation is an increase of $121.2 million or 15.4 percent, over the FY 2002 adjusted appropriation of $785.1 million. Grants-In-Aid (GIA) for employee benefits are recommended at $446.6 million, up 5.5 percent over the FY 2002 adjusted appropriation of $423.2 million.

- The FY 2003 DSS funding recommendation is net of $61.5 million in reimbursements: $41.5 million from agency appropriations and $20 million from the Cash Management Fund Reserve Fund. These combined cost offsets are $62.2 million less than the FY 2002 adjusted amount. The first offset represents a fringe benefit reimbursement from federal Medicaid funds recovered by the University of Medicine and Dentistry consistent with FY 2001 and FY 2002. The second offset represents the direct substitution of local government assets, held by the Cash Management Fund as a reserve against investment losses, for State resources supporting GIA and State Aid payments.

- The FY 2003 Interdepartmental budget recommendation for employee retirements is $203.2 million, an increase of $1.5 million. This amount includes both DSS and GIA funding for post-retirement medical (PRM) benefits, the alternate benefits program, debt service on pension obligation bonds, and defined contribution plan costs. Additional funding of $275.8 million for retired teachers post-retirement medical benefits is included in the budget of the Department of Education. The Governor's budget recommends an appropriation of $95.7 million in FY 2003 for the Alternate Benefits program — a privately administered defined contribution plan for higher education employees — an increase of 6.7 percent over the FY 2002 adjusted appropriation. For FY 2003, the Governor recommends a new appropriation of $8.5 million for the State's share of employer pension contributions to the Judicial Retirement System. Surplus assets will offset normal contributions equal to $254.2 million for the remaining defined benefit retirement plans.

- Total FY 2003 appropriations of $312.5 million are recommended for PRM benefits for retired State employees from the Public Employees' Retirement System (PERS) and retired teachers from the Teachers' Pension and Annuity Fund (TPAF), a decrease of $15.3 million from the FY 2002 adjusted appropriation of $327.8 million. This contribution includes $36.7 million in Interdepartmental Accounts funding for PERS retirees plus $275.8 million for TPAF retirees, as part of the Department of Education's "Teacher's Pension and Annuity Fund" line item. It should be noted that all FY 2002 appropriations for PRM will lapse for deficit reduction, per P.L.2002, c.11.

- The Interdepartmental recommendation for debt service on State contract bonds issued pursuant to the *Pension Bond Financing Act of 1997* is $60.4 million, an increase of $33.3 million or 123 percent, over the FY 2002 adjusted appropriation of $27.1 million. The combined FY 2003 recommendation for Pension Obligation Bond debt service is $153.3 million, an increase of $42.1 million or 38 percent above FY 2002.

Key Points (Cont'd)

- A FY 2003 appropriation of $781 million, up $81.1 million or 11.6 percent, over the FY 2002 adjusted appropriation, is recommended to fund health benefits for active employees. Funding for the cost of providing health benefits for State employees increases by $59 million, to $568.7 million. The GIA appropriation for health benefits for higher education employees rises by $22.1 million, to $212.3 million. Recommended funding for prescription drug plans is increasing by 25 percent, to $202.1 million. Premiums and reimbursements for medical and dental benefits increase by 8 percent and 1.3 percent, respectively.

- The FY 2003 budget recommendation for employer payroll taxes totals $430.1 million, a decrease of $165,000 below the FY 2002 adjusted appropriation. The State's share of the Social Security tax will rise less than 1 percent, to $418.5 million. Funding for Temporary Disability Insurance is recommended at $8.5 million, an increase of 6.7 percent over FY 2002, while Unemployment Liability taxes are recommended at $3.2 million, a decline of 50 percent from FY 2002.

Salary Adjustments

- The Governor's recommended FY 2003 budget provides a net $120.2 million for employee salary increases and other benefits, consisting of $113.2 million in increments, bonuses and across-the-board raises per contracts for eligible employees and $7 million in unused accumulated sick leave payments to eligible employees at retirement. No funding is recommended for salary increases for higher education employees.

- The above recommendation is net of savings from Statewide employee attrition and savings initiatives of $17.3 million and $38.1 million, respectively. Categories of employees exempted from the attrition program include State Troopers, Correctional and Parole Officers, Human Services institutional staff, and staff of veterans' homes in the Department of Military and Veterans' Affairs. The projected savings from Statewide initiatives include those resulting from an early retirement incentive program and reduced use of temporary staffing services.

Statewide Capital Construction

- The Governor's budget recommends $191.4 million for capital construction projects, Statewide, an increase of 5.9 percent over the FY 2002 adjusted appropriation.

- Debt service payments on outstanding bonds issued by the New Jersey Building Authority are recommended to increase 42.2 percent to $77.0 million. Included in this amount is $6.8 million for the State Police's new $83 million Forensic Laboratory and multipurpose building in Hamilton Township and $1.9 million for a new $24 million Emergency Management Center at the State Police headquarters in Ewing Township, both termed as counter-terrorism projects.

- A new $5 million appropriation is recommended for an architectural and engineering study for a New Jersey Police Professional Training Center as well as a new headquarters building for the Division of State Police. The new training center will serve as a central site for training State troopers and municipal police officers. While this appears as a pay-as-you-go appropriation, an offsetting revenue is anticipated (Department of Treasury, p. C-19) that represents reimbursement from New Jersey Building Authority bond proceeds.

Key Points (Cont'd)

- The annual appropriation of $98 million from to the Garden State Preservation Trust Fund, as required by Article VIII, Section II, paragraph 6 of the New Jersey State Constitution, is recommended by the Governor. These funds are used for the acquisition and development of lands for recreation and conservation purposes, for the preservation of farmland, and for historic preservation.

Aid to Independent Authorities

- The FY 2003 recommended appropriation of aid to independent authorities is $127.1 million, an increase of $52.6 million or 70.6 percent, over the FY 2002 adjusted appropriation.

- A new $59.2 million appropriation is recommended for *Solid Waste Management — County Environmental Investment Debt Service Aid, EDA*, the estimated first year debt service payments on an assumed $750 million State contract bond issue by the New Jersey Economic Development Authority. The purpose of the bond issue would be to refinance the outstanding county and county authority solid waste debt. The recommended appropriation would be partially offset by anticipated revenue of $32.8 million, representing negotiated county contributions toward the refinanced debt structure. The net cost to the State of $26.4 million would replace the FY 2002 Treasury State Aid appropriation of $23 million for county solid waste subsidies. Thus, the State cost for debt service aid to counties for solid waste would increase $3.4 million or 14.7 percent.

- The Governor recommends FY 2003 aid to the New Jersey Sports and Exposition Authority at $5 million, a decrease of $6 million from the $11 million last provided by the State for the Authority's annual operating budget (approximately $40.7 million in CY 2002).

- State support for the Sports Authority's debt service on its sports complex and other facilities is recommended at $48 million, a decrease of $145,000 below FY 2002 funding.

Property Rentals, Utilities and Insurance

- The Governor recommends a FY 2003 appropriation of $158.2 million in the property rentals category, a decrease of $16.4 million or 9.4 percent, from the FY 2002 adjusted appropriation. Recommended funding reductions include approximately $8 million for debt service leases; $4 million for the one time costs of settling a lawsuit filed by Hudson County; and $4.5 million for Economic Development Authority debt service for the financing of a planned Essex County jail, which was not constructed.

- A $26.4 million appropriation is recommended in FY 2003 for utilities and other services, up 6 percent over the FY 2002 adjusted appropriation, due to a $1.5 million increase in fuel and utility costs.

- Funding for insurance and other services is recommended at $54.1 million, 6.2 percent below the FY 2002 adjusted appropriation of $57.7 million. Recommended funding for Property and Casualty Insurance increases by $1.5 million and $1.9 million, respectively, an increase of 174 percent. Decreases consist of the elimination of a $2 million supplemental appropriation for the Tort Claims Liability Fund and a $5 million projected supplemental appropriation for the Workers Compensation Fund.

Program Description and Overview

Other Interdepartmental Accounts

- The Governor recommends a 24.6 percent reduction in the Other Interdepartmental Accounts budget, to $62.3 million. The bulk of this $20.3 million decrease is $12 million is FY 2002 supplemental funding for domestic terrorism that is not recommended in FY 2003.

- A $37 million appropriation is recommended for interest on short-term notes and $3.2 million is recommended for interest on interfund borrowing, equal to the FY 2002 adjusted appropriation.

- Funding for the Statewide 911 Emergency Telephone System is recommended at $11.5 million, a decline of $3.9 million from the FY 2002 adjusted appropriation.

Background Papers

Program Description and Overview

Interdepartmental Accounts consist of those funds not appropriated to any single State department, but which are administered centrally on behalf of State government agencies and some quasi-governmental entities, such as independent authorities. Interdepartmental Accounts are categorized into the following budget areas: (1) Employee Benefits — includes funding for employee pensions and health benefits; (2) Salary Increases and Other Benefits; (3) Property Rentals and Leases; (4) Utilities and Other Services; (5) Insurance and Other Services; (6) Capital Projects - Statewide; (7) Aid to Independent Authorities; and (8) Other Interdepartmental Accounts.

(1) Employee Benefits: *Recommended Appropriation at $1.353 billion, or 65% of total*

(a) Pensions: Recommended Appropriation at $203.2 million

The Division of Pensions and Benefits in the Department of Treasury administers the State's seven major retirement systems, as well as employee health benefits. Most of the State's retirement systems, with the exception of the Alternate Benefit Program described below are defined benefit systems. This means that each member is entitled to certain, specified benefits, upon retirement, regardless of their contributions or the investment performance of system assets.

- The Public Employees' Retirement System (PERS) (N.J.S.A. 43:15A-1 et seq.) provides coverage to substantially all full-time employees of State and local governments who are not members of one of the other systems described below. State and local governments pay the employer contributions for this system for their respective employees. Required State contributions are reflected in the Interdepartmental Accounts budget.

- The Teachers' Pension and Annuity Fund (TPAF) (N.J.S.A. 18A:66-1 et seq.) provides coverage to all full-time school teachers in the State, including those in county vocational schools, as well as certain employees in the State Department of Education. The State pays the full employers' share of contributions (except for the cost of the early retirement incentive programs which are paid for by the participating districts) on behalf of local school districts. These payments are included in the State Aid portion of the recommended budget for the Department of Education.

- The Judicial Retirement System (JRS) (N.J.S.A. 43:6A-1 et seq.) provides pension coverage to members of the State judiciary. The State pays the employer contributions for this system as a part of the Interdepartmental Accounts budget.

- The Police and Firemen's Retirement System (PFRS) (N.J.S.A. 43:16A-1 et seq.) provides coverage to all full-time county and municipal and State police and firefighters. Employer obligations are paid by the local employers and the State (as an employer). Required State contributions are budgeted in Interdepartmental Accounts.

- The State Police Retirement System (SPRS) (N.J.S.A. 53:5A-1 et seq.) provides benefits to all uniformed officers and troopers of the Division of State Police in the Department of Law and Public Safety. The State pays the employer contributions for this system as a part of the Interdepartmental Accounts budget.

Program Description and Overview (Cont'd)

- The Prison Officers' Pension Fund (POPF) (N.J.S.A. 43:7-7 et seq.) provides coverage for certain employees of the Department of Corrections. Effective January 1, 1960, the system was closed to new employees. Although there are no remaining active members, there are approximately 300 retirees and beneficiaries. This system is entirely funded by current trust assets. State contributions may be necessary if the trust assets prove insufficient.

- The Consolidated Police & Firemen's Pension Fund (CP&FPF) (N.J.S.A. 43:16-1 et seq.) membership consists of policemen and firemen appointed prior to July 1, 1944. Although there are no remaining active members, there are approximately 1,500 retirees and beneficiaries. Local employers are billed for the cost of COLA adjustments.

- The Alternate Benefit Program (ABP) (N.J.S.A. 18A:66-167 et seq.) is for full-time faculty of public institutions of higher education. Participants have the option to provide for their pensions through the purchase of fixed or variable annuities underwritten by private vendors, the Teachers Insurance and Annuity Association (TIAA) or the College Retirement Equities Fund (CREF). The minimum contribution by employees is 5 percent of base salary. The employer (State and Institutions of Higher Education) contributes a flat rate of 8 percent of base salary; this contribution is included in the Interdepartmental Accounts and the Department of Treasury's recommended budgets.

The defined benefit retirement systems are currently funded on an "actuarial reserve" basis. A future liability for payment of retirement system obligations is determined, and a funding schedule to meet these obligations is established. Any legislative or other changes in retirement benefits add to system liabilities and to annual funding requirements.

State law requires that all current pension systems be subject to actuarial valuation every year to determine the necessary annual contributions required to adequately fund the system. In addition, the systems must have an actuarial investigation every three years. Actuarial investigation requires the actuary to examine the various assumptions used to calculate the assets and liabilities of the system and adopt new assumptions as necessary to ensure that additional costs (or savings) resulting from experience or legislative changes are recognized.

The enactment of major pension legislation in 1997 (P.L. 1997, c. 114) permitted the State to refinance its pension liabilities with bonds, which together with the use of additional assets recognized by a one-time change to full-market value of assets (P.L. 1997, c.115) was sufficient to fully fund the retirement systems' State liabilities (excluding the liability for employer-paid post-retirement medical benefits.) The debt service payments are structured to mirror the annual State unfunded accrued liability contributions required under prior law. The payment schedule has started out with low annual payments that cover interest on the bonds; however, the scheduled debt service costs rise steeply over time.

In addition, P.L. 1997, c.115 permits the Treasurer to use surplus pension fund assets to offset the annual employer (State and local government) contributions to fund the retirement systems, resulting in a significant reduction in requested appropriations for pension system contributions. In FY 2003, $254.2 million in surplus pension fund assets is used to offset State contributions.

Program Description and Overview (Cont'd)

In addition to the recommended appropriation of $203.2 million for pensions and post-retirement medical benefits in Interdepartmental Accounts, pension-related funding is included in other State budgetary accounts as follows:

Other State Appropriations for Pensions and Related Benefits (in thousands)	FY 2002	FY 2003
Department of Treasury: page D-461		
Employer Contributions — Alternate Benefit Program	$15,796	$15,908
Employer Contributions — Teachers' Pension and Annuity Fund	$197	$0
Debt Service on Pension Obligation Bonds	$72	$76
Additional Health Benefits	$4,285	$6,802
Department of Treasury: page D-491		
Debt Service on Pension Obligation Bonds	$11,382	$15,897
Consolidated Police and Firemen's Pension Fund	$0	$2,714
Police and Firemen's Retirement System, Health Benefits	$10,470	$12,739
Department of Education: page D-147		
Employer Contributions - Teacher's Pension and Annuity Fund	$244,464	$275,800
Debt Service on Pension Obligation Bonds	$72,665	$76,899
Additional Health Benefits	$36,027	$48,348
Minimum Pension for Pre-1955 Retirees	$2	$1
TOTAL, State Aid	$395,360	$455,184

Program Description and Overview (Cont'd)

(b) Health Benefits: Recommended Appropriation at $781 million.

The State Health Benefits Program (SHBP) provides health insurance for State employees who elect coverage. Local governments may also opt to participate in the program. The SHBP is a multiple option program offering: (1) a Traditional fee-for-service plan (Blue Cross/Blue Shield/Major Medical), (2) seven Health Maintenance Organizations (HMOs) and (3) a hybrid of the two, NJ Plus, also known as a Point-of-Service medical plan. Both the Traditional Plan and NJ Plus are self-insured, which means that the money paid out for benefits is billed directly to the State, participating local governments and employees. Though the Traditional Plan and NJ PLUS are self-insured, "premium rates" are established annually for the purpose of meeting the program's projected expenditures when they actually occur. Three of the HMO plans also have self-insured arrangements with the State.

The State's obligation to pay the premium or periodic charges for the SHBP coverage with respect to active employees and retirees who accrue 25 years of service is subject to collective bargaining. For FY 2002, employee premium sharing will be required for many State employees (those aligned with certain unions and non-aligned employees) in the Traditional and HMO plans; no employee premium sharing will be required for the NJ Plus plan. Current law requires <u>local</u> participating public employers to pay the cost of SHBP coverage for local employees and authorizes those employers to require an employee contribution toward some or all of the cost of dependent coverage. Many participating local employers, however, have assumed the cost of dependent coverage.

Separate prescription, dental and vision programs for State employees are also administered by the SHBP, and are funded in the Employee Benefits account.

(c) Other Fringe Benefits: Recommended Appropriation at $430.1 million

Employer Taxes, such as Social Security, Temporary Disability Insurance, and Unemployment Insurance are funded in the Employee Benefits Program of the Interdepartmental Accounts.

<u>(2) Salary and Other Benefits: *Recommended Appropriation at $120.2 million, or 6% of total*</u>

Salary increases for existing State positions are budgeted centrally in the Interdepartmental Accounts budget, then allocated to individual departments/agencies during the fiscal year. Increases for the majority of State employees are subject to collective bargaining. Contracts are in place for FY 2003 with the American Federation of State, County, and Municipal Employees (AFSCME); International Federation of Professional and Technical Engineers (IFPTE); Communications Workers of America (CWA); State Policemen's Benevolent Association (PBA); State Troopers Fraternal Association (STFA); and two unions that represent Judicial employees — CWA professional and the Judiciary Council of Affiliated Unions (JCAU).

These agreements include the following increases in FY 2003: AFSCME: 2.0 percent across-the-board (ATB) increases in July and 2.5 percent in January, plus a bonus; CWA: 2.0 percent ATB increases in July and 2.5 percent in January; IFPTE: 2.0 percent ATB increases in July and 2.5 percent in January, plus a bonus; PBA: 2.0 percent ATB increases in July and 2.5 percent in January; CWA Professional: 2.0 percent ATB increase in July and 2.0 percent in January; JCAU: 2.0 percent ATB increase in July and 2.0 percent in January; STFA: 4.0 percent in July.

Program Description and Overview (Cont'd)

(3) Property Rentals and Leases: *Recommended Appropriation at $158.2 million, or 8% of total*

Administered by the Department of Treasury, the Property Rentals Account provides funding for rent and leases of office space and other property for State departments and agencies.

(4) Utilities and Other Services: *Recommended Appropriation at $26.4 million, or 1% of total*

Utility expenditures for State facilities or other facilities leased by State departments or agencies are budgeted in this account.

(5) Insurance and Other Services: *Recommended Appropriation at $54.1 million, or 3% of total*

The State self-administers and is self -insured for Tort Claims, Workers' Compensation, and automobile (Vehicle Claims) liability risks. Claims are reported as expenditures in the year they are actually paid. The amounts recommended for the Tort Claims Liability Fund, Workers' Compensation Fund, and Vehicle Claims Liability Fund are estimates based on prior experience for the purpose of funding projected losses on an accrual basis. Property exposure is handled through the purchase of commercial insurance. The Department of Treasury administers these insurance accounts.

(6) Capital Projects - Statewide: *Recommended Appropriation at $191.4 million, or 9% of total*

This category funds various statewide capital projects administered by the Department of Treasury on behalf of State agencies. Current funded projects include security enhancements to State buildings, the removal of hazardous materials, building renovations related to compliance with the federal Americans with Disabilities Act (ADA), purchase of open space through the Garden State Preservation Trust Fund, and $5 million to fund a feasibility study, preliminary design and land acquisition costs for the proposed State Police Professional Training Center. Debt service for New Jersey Building Authority projects is also budgeted in this account.

(7) Aid Independent Authorities: *Recommended Appropriation at $127.1 million, or 6% of total*

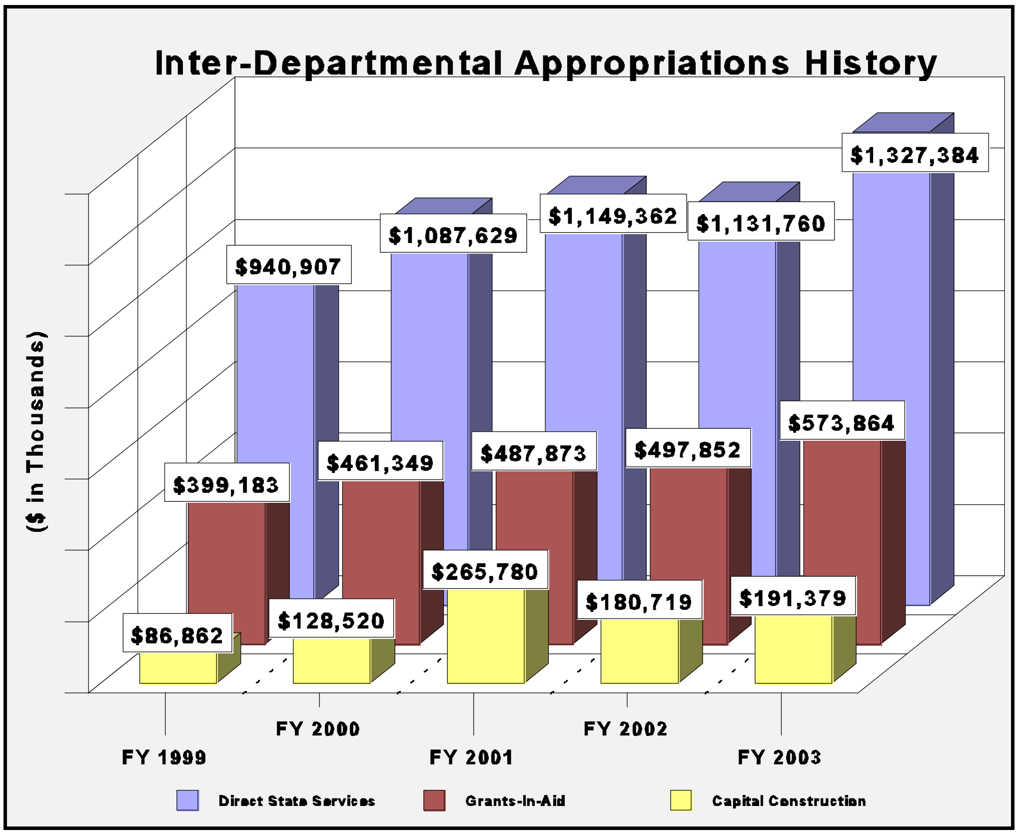
This category includes funds to Independent Authorities for operating expenses and construction costs for facilities. Recommended funding for Solid Waste Management - County Environmental Investment Debt Service Aid, EDA is recommended at $59.2 million. A $6 million reduction in funding, to $5 million, is recommended for the New Jersey Sports and Exposition Authority's operating budget.

Fiscal and Personnel Summary

AGENCY FUNDING BY SOURCE OF FUNDS ($000)

(8) Other Accounts: *Recommended Appropriation at $62.3 million, or 3% of total*

This category includes funding for interest on cash flow borrowing, emergencies and contingencies, and other Statewide initiatives (e.g., information technology) that do not fall under the categories described above. The largest appropriation in this category, interest on short-term notes, remains level at $37 million is FY 2003.



Introduction (Cont'd)

	Expended FY 2001	Adj. Approp. FY 2002	Recom. FY 2003	Percent Change 2001-03	Percent Change 2002-03
General Fund					
Direct State Services	$1,149,362	$1,131,760	$1,327,384	15.5%	17.3%
Grants-In-Aid	487,873	497,852	573,864	17.6%	15.3%
State Aid	0	0	0	0.0%	0.0%
Capital Construction	265,780	180,719	191,379	(28.0)%	5.9%
Debt Service	0	0	0	0.0%	0.0%
Sub-Total	$1,903,015	$1,810,331	$2,092,627	10.0%	15.6%
Property Tax Relief Fund					
Direct State Services	$0	$0	$0	0.0%	0.0%
Grants-In-Aid	0	0	0	0.0%	0.0%
State Aid	0	0	0	0.0%	0.0%
Sub-Total	$0	$0	$0	0.0%	0.0%
Casino Revenue Fund	$0	$0	$0	0.0%	0.0%
Casino Control Fund	$0	$0	$0	0.0%	0.0%
State Total	$1,903,015	$1,810,331	$2,092,627	10.0%	15.6%
Federal Funds	$0	$0	$0	0.0%	0.0%
Other Funds	$0	$0	$0	0.0%	0.0%
Grand Total	$1,903,015	$1,810,331	$2,092,627	10.0%	15.6%

PERSONNEL SUMMARY - POSITIONS BY FUNDING SOURCE

	Actual FY 2001	Revised FY 2002	Funded FY 2003	Percent Change 2001-03	Percent Change 2002-03
State	0	0	0	0.0%	0.0%
Federal	0	0	0	0.0%	0.0%
All Other	0	0	0	0.0%	0.0%
Total Positions	0	0	0	0.0%	0.0%

FY 2001 (as of December) and revised FY 2002 (as of September) personnel data reflect actual payroll counts. FY 2003 data reflect the number of positions funded.

AFFIRMATIVE ACTION DATA

Total Minority Percent	NA	NA	NA	----	----

Significant Changes/New Programs ($000)

Budget Item	Adj. Approp. FY 2002	Recomm. FY 2003	Dollar Change	Percent Change	Budget Page

PROPERTY RENTALS

Direct State Services

Budget Item	Adj. Approp. FY 2002	Recomm. FY 2003	Dollar Change	Percent Change	Budget Page
Economic Development Authority	$23,783	$19,283	($4,500)	(18.9)%	D-515

This recommended decrease eliminates funding for a planned Essex County jail, which was not constructed.

Budget Item	Adj. Approp. FY 2002	Recomm. FY 2003	Dollar Change	Percent Change	Budget Page
Other Debt Service Leases and Tax Payments	$33,553	$25,566	($7,987)	(23.8)%	D-515

This recommended decrease includes approximately $6 million for the debt service obligation on bonds to be issued for a new facility to house civilly committed sex offenders. The planning and construction of this estimated $66 million project has been deferred.

A $2 million reduction in maintenance costs for the North Princeton Developmental Center and Marlboro Psychiatric Hospital are also included in this recommended reduction.

INSURANCE AND OTHER SERVICES

Direct State Services

Budget Item	Adj. Approp. FY 2002	Recomm. FY 2003	Dollar Change	Percent Change	Budget Page
Property Insurance	$1,460	$3,000	$1,540	105.5%	D-515

This account is used to purchase insurance for property damage to State-owned real and personal property. Coverage includes standard protection for buildings and contents, marine vessels, catastrophic loss to vehicles parked in State locations and mainframe EDP coverage. Additional policies include: fine arts coverage, and high-value vans coverage

Commercial property and casualty insurance premium rates, which began rising prior to September 11, were exacerbated by the estimated $50 billion in claims from the terrorist attacks. Aggressive insurance premium reductions throughout the 1990s and poor investment yields by insurance companies have also contributed to the recent rise in insurance premium rates.

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

Budget Item	Adj. Approp. FY 2002	Recomm. FY 2003	Dollar Change	Percent Change	Budget Page
Casualty Insurance	$505	$2,380	$1,875	371.3%	D-515

The casualty insurance account is used to purchase automobile excess liability insurance, aircraft liability and hull physical damage insurance, workers' compensation for special classes of State employees supported by federal or non-State funds, and accidental health insurance to provide medical reimbursement, disability and death benefits to volunteers in State programs who do not qualify as State employees and would not be eligible for workers' compensation benefits.

This recommended increase reflects the growth in premiums to insure the State's four airports and aircraft.

Budget Item	Adj. Approp. FY 2002	Recomm. FY 2003	Dollar Change	Percent Change	Budget Page
Workers' Compensation Fund	$39,900	$34,900	($5,000)	(12.5)%	D-515

The State is self-insured for workers' compensation payments made to State employees. State expenditures for workers' compensation have been increasing in recent years and the program has required supplemental appropriations since FY 1997. In FY 2001, $39.9 million was expended; in FY 2002, a $5 million supplemental appropriation is projected, bringing the total appropriations to date in this account to $39.9 million. In FY 2003, only $34.9 million is budgeted.

UTILITIES AND OTHER SERVICES

Direct State Services

Budget Item	Adj. Approp. FY 2002	Recomm. FY 2003	Dollar Change	Percent Change	Budget Page
Fuel and Utilities	$19,013	$20,513	$1,500	7.9%	D-515

This account funds the projected FY 2003 cost of fuel and utilities for the Capital Complex. In FY 2002, the need for a $3.1 million supplemental appropriation is projected to meet expenses. The impact on utility costs of the recently announced contract for electricity from renewable energy sources, which the Administration plans to offset with revenue from the Petroleum Overcharge Reimbursement Fund, is not reflected in this increase.

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

Budget Item	Adj. Approp. FY 2002	Recomm. FY 2003	Dollar Change	Percent Change	Budget Page
AID TO INDEPENDENT AUTHORITIES					
Grants-In-Aid					
Sports and Exposition Authority Operations	$11,000	$5,000	($6,000)	(54.5)%	D-516

This recommended reduction decreases the State's subsidy to the New Jersey Sports and Exposition Authority's annual operating budget.

Budget Item	Adj. Approp. FY 2002	Recomm. FY 2003	Dollar Change	Percent Change	Budget Page
Liberty Science Center - EDA	$700	$0	($700)	(100.0)%	D-516

The FY 2002 appropriation for a study of the proposed expansion of the Liberty Science Center was placed in reserve and targeted for lapse as a deficit reduction action. Thus, the entire project has been deferred.

Budget Item	Adj. Approp. FY 2002	Recomm. FY 2003	Dollar Change	Percent Change	Budget Page
Solid Waste Management - County Environmental Investment Debt Service Aid, EDA	$0	$59,216	$59,216	—	D-516

With the approval of P.L.2001, c.401 on January 8, 2002, the New Jersey Economic Development Authority was authorized to refinance county solid waste facility bonds. This appropriation represents the estimated first year debt service payments on the State contract bonds. The purpose of the bond issue is to refinance the outstanding solid waste "stranded" debt of counties and county authorities. As of April 12, 2001, the total amount of solid waste facility debt among all counties and local authorities amounted to $1.09 billion. This recommended appropriation would be partially offset by anticipated revenue of $32.8 million, representing negotiated county contributions toward the refinanced debt structure. The net cost to the State of $26.4 million would replace the FY 2002 Department of Treasury State Aid appropriation of $23 million for county solid waste subsidies. Thus, the net State cost for debt service aid to counties for solid waste would increase $3.4 million, or 14.7 percent, over the FY 2002 adjusted appropriation.

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

Budget Item	Adj. Approp. FY 2002	Recomm. FY 2003	Dollar Change	Percent Change	Budget Page

STATEWIDE CAPITAL CONSTRUCTION

Capital Construction

Capital Improvements, Capitol Complex	$2,385	$0	($2,385)	(100.0)%	D-516

This FY 2002 appropriation funded various improvements to the State Capitol Complex. In FY 2002, $400,000 from this account was targeted for lapse as a deficit reduction action.

Life Safety and Emergency Projects — Statewide	$0	$200	$200	—	D-516

This recommendation would fund fire code compliance and life safety projects that emerge as the result of inspections.

Americans with Disabilities Act Compliance Projects – Statewide	$2,500	$2,000	($500)	(20.0)%	D-516

This recommended appropriation would provide partial funding for various Americans with Disabilities Act (ADA) projects to provide physical and programmatic compliance with State and federal laws and regulations in facilities. The Department of Treasury's Division of Property Management and Construction manages this centralized account which is used to provide support to various State agencies requesting funds for ADA compliance projects.

Statewide Security Projects	$0	$3,000	$3,000	—	D-517

As a result of the terrorist attacks and the continuing threat of additional acts of terrorism, State agencies, in conjunction with the Division of State Police, were instructed to review existing security systems and response plans. This recommended appropriation would fund special locks, video cameras, access systems, mail room operations guidelines and other security items. This new Statewide account would fund the implementation of security projects requested by the various State departments and required in accordance with the State Police recommendations.

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

Budget Item	Adj. Approp. FY 2002	Recomm. FY 2003	Dollar Change	Percent Change	Budget Page
Battleship U.S.S. New Jersey Refurbishment	$3,500	$0	($3,500)	(100.0)%	D-517

This FY 2002 supplemental appropriation was intended to provide funding for the capital project costs of the Battleship U.S.S. New Jersey refurbishment and Visitors Center. Recommended budget language would permit any unexpended balance in this Capital Construction line item to be reappropriated and transferred to a Grants-In-Aid account. This supplemental appropriation may be targeted to lapse for deficit reduction.

New Jersey Building Authority Debt Service

General State Projects

Budget Item	Adj. Approp. FY 2002	Recomm. FY 2003	Dollar Change	Percent Change	Budget Page
Other State Projects	$3,307	$20,321	$17,014	514.5%	D-517

In FY 2002, a balance of approximately $20 million from the Southwoods State Prison bond issue was applied to the New Jersey Building Authority Debt Service, resulting in a one-time decline in appropriations. The FY 2003 budget recommendation also anticipates that bonds will be issued for the State Police Emergency Operations Center and to complete the State Police Multi-purpose Building/Troop C headquarters. These bond issues will result in additional debt service.

Counter Terrorism Projects

Budget Item	Adj. Approp. FY 2002	Recomm. FY 2003	Dollar Change	Percent Change	Budget Page
State Police Multipurpose Building/Troop "C" Headquarters	$4,850	$6,798	$1,948	40.2%	D-517

Approximately $5.4 million of this recommended appropriation will finance payments for laboratory and communications equipment purchased for the Division of State Police's new $83 million State Police Technology Complex, where the Forensic Sciences Bureau and the Records and Identification Section will use state-of-the-art facilities such as the new forensics lab and employ new technology like the Automated Fingerprint Identification System. The new State Police Troop C headquarters and communication center will also be situated at the Hamilton Township location.

Budget Item	Adj. Approp. FY 2002	Recomm. FY 2003	Dollar Change	Percent Change	Budget Page
State Police Emergency Operations Center	$0	$1,906	$1,906	—	D-517

This recommended appropriation would fund first-year debt service for the new, $24 million, Emergency Management Center at the Division of State Police Headquarters in Ewing Township.

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

Budget Item	Adj. Approp. FY 2002	Recomm. FY 2003	Dollar Change	Percent Change	Budget Page

STATEWIDE CAPITAL CONSTRUCTION

Capital Construction

New Jersey Police Professional Training Center	$0	$5,000	$5,000	—	D-517

This recommended appropriation would provide up-front funding for the New Jersey Building Authority feasibility study, preliminary design, and land acquisition costs for the proposed State Police Professional Training Center as well as for a new headquarters building. The Legislature would have to approve this estimated $100 million project prior to the issuance of bonds by the Building Authority. At the time of the bond issue, the General Fund would be reimbursed for this expense.

Complex-wide Security System Design	$750	$0	($750)	(100.0)%	D-517

This FY 2002 appropriation funded the design and installation of new security equipment in the Museum, Planetarium, Auditorium, Health and Agriculture Building, Justice Complex, Department of Labor, Department of Environmental Protection and other State buildings.

Health and Agricultural Space Evaluation	$480	$0	($480)	(100.0)%	D-517

This FY 2002 appropriation would have funded the evaluation of the Health and Agriculture Building's systems, infrastructure and space configuration in order to determine "necessary renovations and replacements." This appropriation was targeted for lapse as a deficit reduction action.

Alternate Fuel Stations	$500	$0	($500)	(100.0)%	D-517

This FY 2002 appropriation would have funded the construction of Alternate Fuel Stations to allow wider use of compressed natural gas (CNG) as an alternative fuel source. Although the State has purchased a substantial number of costly vehicles which can utilize CNG, approximately 73 percent of those vehicles have never run on CNG due to lack of adequate fueling facilities. This appropriation was targeted for lapse as a deficit reduction action.

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

Budget Item	Adj. Approp. FY 2002	Recomm. FY 2003	Dollar Change	Percent Change	Budget Page
Van Sciver Renovation	$775	$0	($775)	(100.0)%	D-517

This FY 2002 appropriation would have funded the design phase of the Van Sciver renovation. However, this appropriation was targeted for lapse as a deficit reduction action.

Budget Item	Adj. Approp. FY 2002	Recomm. FY 2003	Dollar Change	Percent Change	Budget Page
Agriculture Building Retaining Wall	$2,000	$0	($2,000)	(100.0)%	D-517

This FY 2002 appropriation funded the repair of the Health and Agriculture Building loading dock concrete wall.

Budget Item	Adj. Approp. FY 2002	Recomm. FY 2003	Dollar Change	Percent Change	Budget Page
Repair State House Annex Roof Slab	$5,037	$0	($5,037)	(100.0)%	D-517

This FY 2002 appropriation funded the repair of the deteriorated roof slabs of the State House Annex West, Center, and East wings.

Budget Item	Adj. Approp. FY 2002	Recomm. FY 2003	Dollar Change	Percent Change	Budget Page
Walson Army Hospital Study	$200	$0	($200)	(100.0)%	D-517

This FY 2002 appropriation would have funded a study to demonstrate to the federal government the potential future uses of the Walson Army Hospital by the State. This appropriation was targeted for lapse as a deficit reduction action.

Budget Item	Adj. Approp. FY 2002	Recomm. FY 2003	Dollar Change	Percent Change	Budget Page
DEP Infrastructure Wiring	$1,200	$0	($1,200)	(100.0)%	D-517

This FY 2002 appropriation funded the infrastructure wiring of the Department of Environmental Protection's office building.

Budget Item	Adj. Approp. FY 2002	Recomm. FY 2003	Dollar Change	Percent Change	Budget Page
War Memorial Building Dehumidification	$0	$300	$300	—	D-517

This recommended appropriation would fund a dehumidification system for the newly installed heating, ventilation and air conditioning system at the War Memorial Building.

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

Budget Item	Adj. Approp. FY 2002	Recomm. FY 2003	Dollar Change	Percent Change	Budget Page
State House Security Modifications	$0	$1,180	$1,180	—	D-517

This recommended appropriation would fund an upgrade to the security and fire safety systems and replace obsolete equipment in the State House.

Budget Item	Adj. Approp. FY 2002	Recomm. FY 2003	Dollar Change	Percent Change	Budget Page
Enterprise Network Security	$3,600	$0	($3,600)	(100.0)%	D-517

This FY 2002 appropriation would have funded various information technology security measures. However, $2.7 million of the $3.6 million appropriated was targeted for lapse as a deficit reduction action and the remaining funds were reallocated to other purposes.

EMPLOYEE BENEFITS

Post Retirement Medical Benefits: Public Employees' Retirement System

Budget Item	Adj. Approp. FY 2002	Recomm. FY 2003	Dollar Change	Percent Change	Budget Page
Direct State Services	$70,559	$31,898	($38,661)	(54.8)%	D-521
Grants-In-Aid	$11,422	$4,809	($6,613)	(57.9)%	D-522

These accounts fund post retirement medical (PRM) benefits for State employees who retired as members of the Public Employees Retirement System (PERS). For FY 2003, the premiums for retirees' health care benefits are estimated at $108.1 million, $94 million for retired State employees plus $14.1 million for retired employees of State colleges and universities. These recommended appropriations would partially fund these estimated premiums. A drawdown of an estimated $71.4 million in reserve balances, $62.1 million for State retirees plus $9.3 million for State college and university retirees, in the PRM funds would pay the remaining premiums in FY 2003. In FY 2002, the total appropriations of $70.6 million in direct state services and $11.4 million in grants-in-aid were targeted for lapse as a deficit reduction action, pursuant to enactment of P.L.2002, c.11, which suspended reserve payments and allowed use of reserve balances to fund FY 2002 premiums.

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

Budget Item	Adj. Approp. FY 2002	Recomm. FY 2003	Dollar Change	Percent Change	Budget Page
Post Retirement Medical Benefits: Teachers' Pension & Annuity Fund					
Direct State Services	$786	$0	($786)	(100.0)%	D-521
Grants-In-Aid	$368	$0	($368)	(100.0)%	D-522

These accounts fund post retirement medical benefits (PRM) for State employees (DSS) and State college/university employees (GIA) who retired as members of the Teachers' Pension and Annuity Fund (TPAF). For FY 2003, the premiums for these accounts, estimated at $1.5 million, will be funded by a drawdown of this amount from PRM reserve balances. In FY 2002, these appropriations were targeted for lapse as a deficit reduction action, pursuant to P.L.2002, c.11.

Budget Item	Adj. Approp. FY 2002	Recomm. FY 2003	Dollar Change	Percent Change	Budget Page
Health Benefits					
Direct State Services					
State Employees' Health Benefits	$372,308	$402,239	$29,931	8.0%	D-521
State Employees' Prescription Drug Program	$115,939	$144,482	$28,543	24.6%	D-521
State Employees' Dental Program — Shared Cost	$20,433	$20,956	$523	2.6%	D-521
Grants-In-Aid					
State Employees' Health Benefits	$135,941	$146,734	$10,793	7.9%	D-522
State Employees' Prescription Drug Program	$46,157	$57,569	$11,412	24.7%	D-522
State Employees' Dental Program — Shared Cost	$8,125	$7,981	($144)	(1.8)%	D-522

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

Budget Item	Adj. Approp. FY 2002	Recomm. FY 2003	Dollar Change	Percent Change	Budget Page

These health care benefits recommendations are the estimated total costs to provide health insurance to State employees through the State Health Benefits Program (SHBP), Prescription Drug Program, and the Dental Care Program. Direct State Services appropriations fund the costs for active State employees, while Grants-In-Aid appropriations fund costs for State college and university employees.

The appropriations for health benefits for active State employees are recommended to increase by $59 million, or 11.6 percent in FY 2003. The prescription drug component increase of $28.5 million represents a 24.6 percent rise and also assumes an 18 percent increase effective January 1, 2003 and no membership growth. Premiums and reimbursements for the SHBP are recommended to increase $30 million, or 8 percent. This recommendation assumes increased rates as of January 1, 2003 ranging between 10-15 percent, and no growth in active membership. Dental benefits are recommended to increase $523,000, or 2.6 percent and assumes a rate increase on January 1, 2003 of 7 percent for the Indemnity Plan and 5 percent for the DOP , with no membership growth. Appropriations for the State's share of health benefits for college and university employees increase by $22.1 million based on the same assumptions stated above.

Employer Contributions Pension System
Direct State Services

Budget Item	Adj. Approp. FY 2002	Recomm. FY 2003	Dollar Change	Percent Change	Budget Page
Judicial Retirement System	$0	$8,468	$8,468	—	D-521

In FY 2002, employer contributions to this State-administered retirement system were entirely offset by excess valuation assets. However, negative investment returns have depleted excess valuation assets. The State is required to contribute at an actuarially determined rate. The annual employer contributions include funding for basic retirement allowances, cost-of-living adjustments and contributory death benefits.

Debt Service on Pension Obligation Bonds

Budget Item	Adj. Approp. FY 2002	Recomm. FY 2003	Dollar Change	Percent Change	Budget Page
Direct State Services	$24,001	$57,140	$33,139	138.1%	D-521
Grants-In-Aid	$3,116	$3,297	$181	5.8%	D-522

P.L.1997, c.114 authorized the Economic Development Authority (EDA) to issue $2.8 billion in bonds to finance a portion of the unfunded accrued liability of the State pension systems, which together with the use of additional assets recognized by the one-time change to full-market value of assets (P.L.1997, c.115) were sufficient to fully fund the retirement systems (State liability), excluding the post retirement medical liability. The recommended increase is due to the fact that a one time savings of $30.1 million from a "swaption" agreement was reflected in the FY 2002 appropriation. The "swaption" agreement provided an up-front payment from a third party for the right to exercise a future interest rate swap option under defined terms, that was used to pay a portion of FY 2001's debt service obligations, freeing up an equal amount of State dollars that were reappropriated in FY 2002.

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

Budget Item	Adj. Approp. FY 2002	Recomm. FY 2003	Dollar Change	Percent Change	Budget Page
Unemployment Insurance Liability					
Direct State Services	$4,844	$1,844	($3,000)	(61.9)%	D-521
Grants-In-Aid	$1,578	$1,332	($246)	(15.6)%	D-522

In contrast to private industry, the State does not contribute a matching percentage of compensation to fund the Unemployment Compensation Trust Fund. Instead, the State operates on a pay-as-you-go basis as an insurer of last resort. Employees contribute 0.1 percent of salary, up to the unemployment wage base of $23,500. When the employees' contribution is expended, the State, as an employer, contributes sufficient funds to keep the program solvent. The recommended appropriations are an estimate of the amount required to pay unemployment claims for former State employees if the employee payroll tax proves to be insufficient. Should additional funds be required during the course of FY 2003, recommended budget language (p. D-522) permits the Director of the Division of Budget and Accounting to appropriate additional funds to pay unemployment claims.

OTHER INTER-DEPARTMENTAL ACCOUNTS

Budget Item	Adj. Approp. FY 2002	Recomm. FY 2003	Dollar Change	Percent Change	Budget Page
Domestic Terrorism	$12,000	$0	($12,000)	(100.0)%	D-523

The Fiscal 2003 budget reflects a $12 million FY 2002 supplemental appropriation for Domestic Terrorism, which as of mid-May had not been formally approved. This projected appropriation is authorized by language in the FY 2002 Appropriations Act allowing supplemental appropriations to the Emergency Services Fund "...as are required to meet the costs of any emergency occasioned by aggression, civil disturbance, sabotage, disaster...as recommended by the Emergency Services Council and approved by the Governor..." According to the Administration, this funding would be used primarily for reimbursements to the Departments of Law and Public Safety, Military and Veterans' Affairs, and Corrections, for costs the state will not recover from sources such as the Federal Emergency Management Agency or the Port Authority of New York and New Jersey that were incurred during the initial response and subsequent actions taken regarding the terrorists attacks.

Budget Item	Adj. Approp. FY 2002	Recomm. FY 2003	Dollar Change	Percent Change	Budget Page
Statewide 911 Emergency Telephone System	$15,419	$11,470	($3,949)	(25.6)%	D-524

This recommended reduction reflects a decrease of approximately $3.8 million, from $11.9 million in FY 2002 to $8.1 million in FY 2003, related to debt service on bonds used to purchase the 911 Emergency Telephone System. Approximately $2.2 million of the FY 2003 recommended appropriation would fund telecommunications access charges. In 1992, the State issued bonds totaling $95 million for the purchase of this emergency telephone system.

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

Budget Item	Adj. Approp. FY 2002	Recomm. FY 2003	Dollar Change	Percent Change	Budget Page
Network Infrastructure	$2,640	$3,600	$960	36.4%	D-524
Garden State Network Infrastructure	$517	$705	$188	36.4%	D-524
Automated Document Factory	$166	$225	$59	35.5%	D-524
Automated Cartridge System Upgrade	$109	$150	$41	37.6%	D-524

These FY 2002 appropriations totaling $3.4 million were targeted for lapse as a deficit reduction action and the projects were deferred. The FY 2003 recommendations totaling $4.7 million comprise one semi-annual payment on line of credit financing totaling $24.6 million. Project components and their total estimated cost are: Network Infrastructure upgrade, $18.9 million, including $5 million for an agency infrastructure grant pool and $13.9 million in system - or site-specific projects; Garden State Network Infrastructure, $3.75 million; Automated Document Factory, $1.2 million; and Automated Cartridge System Upgrade, $800,000.

Budget Item	Adj. Approp. FY 2002	Recomm. FY 2003	Dollar Change	Percent Change	Budget Page
Geographic Information Systems (GIS) Integration	$1,000	$0	($1,000)	(100.0)%	D-524

This FY 2002 appropriation was transferred from this account to the Office of Information Technology and expended for non-recurring GIS purposes.

Budget Item	Adj. Approp. FY 2002	Recomm. FY 2003	Dollar Change	Percent Change	Budget Page
Information Technology On-Line State Portal	$1,850	$1,000	($850)	(45.9)%	D-524

The "On-Line State Portal" is an integral part of the effort to implement "E-Government," i.e., the ability to enable individuals, businesses and other governmental entities to conduct business with the State through the Internet. This appropriation is for operating expenses associated with the "On-Line State Portal" and includes software license payments.

Budget Item	Adj. Approp. FY 2002	Recomm. FY 2003	Dollar Change	Percent Change	Budget Page
Enterprise Contingency Planning and Disaster Recovery	$750	$38	($712)	(94.9)%	D-524

This FY 2003 recommended appropriation would fund software licensing agreements.

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

Budget Item	Adj. Approp. FY 2002	Recomm. FY 2003	Dollar Change	Percent Change	Budget Page
Enterprise License Agreements	$3,000	$0	($3,000)	(100.0)%	D-524

This FY 2002 appropriation funded costs associated with license agreements that were not included in the initial purchase of various computer software applications.

SALARY INCREASES AND OTHER BENEFITS

Budget Item	Adj. Approp. FY 2002	Recomm. FY 2003	Dollar Change	Percent Change	Budget Page
Salary Increases and Other Benefits	$0	$168,551	$168,551	—	D-525
Attrition Savings	$0	($17,304)	($17,304)	—	D-525
Statewide Savings Initiatives	$0	($38,059)	($38,059)	—	D-525
Total	$0	$113,188	$113,188	—	

This recommended appropriation covers FY 2003 employee increments, progressions, across-the-board raises for eligible employees, and bonuses according to contractual agreements along with any deferred costs for the same contracts.

These amount assume savings from normal attrition of $17.3 million. Employees exempted from the attrition program include State Troopers, Correctional and Parole Officers, Human Services institutional staff, and Veterans' nursing homes in the Department of Military and Veterans Affairs.

This recommendation also includes estimated savings of $38.1 million from an early retirement incentive program, reduction of temporary services, and other unspecified actions. These savings will be achieved in the agency budgets and will be reallocated to fund the costs of the existing salary contracts.

Language Provisions

2002 Appropriations Handbook	2003 Budget Recommendations
p. B-211 There are appropriated such sums that are necessary to make debt service payments for facilities related to the reconfiguration of Greystone Park Psychiatric Hospital, not to exceed $2,500,000, subject to the approval of the Director of the Division of Budget and Accounting. Additionally, amounts may be transferred from various Department of Human Services' institutional operating accounts for the same purpose, not to exceed $3,000,000, subject to the approval of the Director of the Division of Budget and Accounting.	No comparable language.

Explanation

This language authorized up to $2.5 million from Inter-Departmental accounts and up to $3 million from Department of Human Services' operating accounts to make debt service payments for facilities related to the reconfiguration of the Greystone Psychiatric Hospital. To date, no debt service costs for this purpose have been incurred. The language is discontinued because any FY 2003 costs related to Greystone reconfiguration or replacement will be funded by the Department of Human Services.

2002 Appropriations Handbook	2003 Budget Recommendations
p. B-213 Such sums as are necessary are appropriated to the Division of Property Management and Construction for the purpose of conducting a study of the benefits resulting from the proposed purchase by the New Jersey Economic Development Authority and lease back by the State of New Jersey of office space located at 50 West State Street, 28 West State Street, and 33 West State Street in the City of Trenton, subject to the approval of the Director of the Division of the Budget and Accounting.	No comparable language.

Explanation

The cost to perform the study of the proposed purchase of 50, 28, and 33 West State Street was very small. At present, the Treasurer's Office is reviewing the results of this study.

Language Provisions (Cont'd)

2002 Appropriations Handbook	2003 Budget Recommendations
	p. D-519
No comparable language	The unexpended balance as of June 30, 2002 in the Global Energy Statewide Account is appropriated for the same purpose.

Explanation

This language provides that any remaining balance in the Global Energy Statewide Account at the end of FY 2002 will be carried forward to FY 2003 and re-appropriated for the same purpose. This centralized account provides funds to pay utility bills for a variety of State agencies.

2002 Appropriations Handbook	2003 Budget Recommendations
	p. D-519
No comparable language.	There is appropriated from the Petroleum Overcharge Reimbursement Fund such sums as are necessary for the cost of purchasing energy from companies that utilize renewable "Green Power" sources, not to exceed $1,200,000.

Explanation

This language allows funds in the federally-funded Petroleum Overcharge Reimbursement Fund to be used to reimburse various State agencies for the additional cost generally associated with the purchase of "Green Power" energy, which generally costs approximately 15 percent more than conventional energy sources. Similar language funding contracts for this type of energy was enacted in FY 2001 to fund FY 2001 and FY 2002 costs.

2002 Appropriations Handbook	2003 Budget Recommendations
	p. D-519

Language Provisions (Cont'd)

2002 Appropriations Handbook	2003 Budget Recommendations
No comparable language.	Notwithstanding the provisions of any other law to the contrary, if county authority debt is restructured through the issuance of debt through the Economic Development Authority (EDA), pursuant to P.L.2001, c.401, then the amount hereinabove for Solid Waste Management-County Environmental Investment Debt Service may be made available to pay debt service on that debt, in accordance with any agreement between the State Treasurer and the EDA. Additionally, in the absence of a restructuring or if only a partial restructuring is initiated, then the amount hereinabove for Solid Waste Management-County Environmental Investment Debt Service may be made available to subsidize county and county authority debt service payments for environmental investments incurred as of June 30, 1997, pursuant to the "Solid Waste Management Act," P.L.1970, c.39 (C.13:1E-1 et seq.) and the "Solid Waste Utility Control Act," P.L.1970, c.40 (C.48:13A-1 et seq.) in accordance with the criteria and program guidelines established by the Commissioner of the Department of Environmental Protection and the State Treasurer, subject to the approval of the Director of the Division of Budget and Accounting.

Explanation

This language refers to a new $59.2 million appropriation (budget page D-516) for *Solid Waste Management - County Environmental Investment Debt Service Aid, EDA*. Under the provisions of P.L.2001, c.401, the Economic Development Authority is authorized to issue State contract bonds to refinance county solid waste facility debt. The recommended appropriation would be partially offset by anticipated revenue of $32.8 million, representing negotiated county contributions toward the refinanced debt structure. As of April 12, 2001, the total amount of solid waste facility debt among all counties and local authorities amounted to $1.09 billion. This language authorizes the use of State debt service aid to fund either debt service on EDA bonds or debt service on county solid waste debt yet to be restructured by EDA debt issuance.

Language Provisions (Cont'd)

2002 Appropriations Handbook	2003 Budget Recommendations
	p. D-519
No comparable language.	Of the amount hereinabove for the Battleship U.S.S. New Jersey Refurbishment, such sums as are necessary may be transferred to Grants-In-Aid for the Battleship U.S.S. New Jersey Refurbishment and Visitors Center subject to the approval of the Director of the Division of Budget and Accounting, and the unexpended balances are appropriated.

Explanation

This language allows the transfer of any funds remaining at year-end FY 2002 from a $3.5 million supplemental Capital Construction appropriation to be reappropriated and transferred to a Grants-In-Aid account for distribution to the non-profit Home Port Alliance. The entire supplemental appropriation is targeted to lapse for deficit reduction.

2002 Appropriations Handbook	2003 Budget Recommendations
	p. D-520
No comparable language.	Notwithstanding the provisions of any law to the contrary, of the amount hereinabove for the Garden State Preservation Trust Fund Account, up to $5,139,000 shall be transferred to the Department of Agriculture for expenditures related to previously approved farmland preservation projects, and is subject to the constitutional amendment on open space (Article VIII, Section II, paragraph 7), and the remainder is subject to the provisions of P.L.1999, c.152 (C.13:8C-1 et al.) and the constitutional amendment on open space (Article VIII, Section II, paragraph 7), provided, however, that the amount herein transferred to the Department of Agriculture shall be counted in the calculation of the Garden State Preservation Trust's allocation of funds to the State Treasurer for deposit into the Garden State Farmland Preservation Trust Fund, pursuant to C.13:8C-18 such that it does not affect the allocation of funds to the Garden State Green Acres Preservation Trust Fund.

Language Provisions (Cont'd)

Explanation

This language allows $5,139,000 of the funds appropriated in FY 2003 for the purchase of open space and farmland preservation to be transferred to the Department of Agriculture and used for previously approved farmland preservation projects. This transfer of funds, which facilitates the lapse of unexpended funds appropriated in previous years for FY 2002 deficit reduction, will not affect the $98 million recommendation for the Trust Fund.

2002 Appropriations Handbook	2003 Budget Recommendations
p. B-215	
To the extent that the costs of imaging projects are reduced, funds appropriated to individual departments for imaging related projects may be available for reallocation to a centralized function, as the Director of Division of Budget and Accounting shall determine.	No comparable language.

Explanation

The Document Storage and Retrieval imaging system was a three-part initiative to aid departments in bringing workflow and imaging technology into their departments. Part 1 developed a best practices methodology for all State departments. Part 2 established a central analytical group that worked with each department to plan and develop workflow and imaging projects. Part 3 established a central processing capability for scanning and indexing, document storage, and "hot site" recovery.

This language allowed departmental savings resulting from this initiative to be reallocated as the Director of the Division of Budget and Accounting determined to a "centralized function."

2002 Appropriations Handbook	2003 Budget Recommendations
p. B-216	
In addition to the amount hereinabove for Information Technology, there is appropriated an amount as determined by the Director of the Division of Budget and Accounting.	No comparable language.

Explanation

No appropriation is recommended in FY 2003 for Information Technology; therefore, this language is not necessary.

Language Provisions (Cont'd)

2002 Appropriations Handbook	2003 Budget Recommendations
	p. D-524
No comparable language	The unexpended balance as of June 30, 2002 in the Geographic Information System (GIS) account is appropriated for the same purpose, subject to the approval of the Director of the Division of Budget and Accounting.

Explanation

This language provides that any remaining balance in the Geographic Information System account at the end of FY 2002 will be carried forward to FY 2003 and re-appropriated for the same purpose.

2002 Appropriations Handbook	2003 Budget Recommendations
p. B-216	
The sums hereinabove shall be allotted to the various institutions of higher education for the cost of salaries, wages, or other benefits as determined by the Director of the Division of Budget and Accounting.	No comparable language.

Explanation

The Governor's budget does not recommended Grants-In-Aid funding for salary increases and other benefits for senior public institution budgets. Thus, this accompanying language is not necessary. The language provided for the transfer of $14.7 million of the $29.5 million in FY 2002 appropriations for salary increases and other benefits for higher education employees. The remaining $14.7 million appropriated was targeted to lapse for deficit reduction.

Language Provisions (Cont'd)

2002 Appropriations Handbook	2003 Budget Recommendations
p. B-218	
Notwithstanding the provisions of any other law to the contrary, the Department of Environmental Protection may enter into a memoranda of understanding with the New Jersey Economic Development Authority (EDA) and the Liberty Science Center that sets forth the terms and conditions for a lease of the real property and improvements thereon to be constructed by the EDA on behalf of the State for the Liberty Science Center, subject to the approval of the Director of the Division of Budget and Accounting.	No comparable language.

Explanation

The $700,000 appropriated for a study of the expansion of the Liberty Science Center was targeted for lapse as a deficit reduction action. Thus, the entire project has been deferred and the language is discontinued.

2002 Appropriations Handbook	2003 Budget Recommendations
p. B-218	
Unless otherwise indicated, the above amount for Enterprise Initiative: Enterprise Network Security may be allotted by the Director of the Division of Budget and Accounting to the various departments and agencies.	No comparable language.

Explanation

This language referred to various Enterprise Initiative funding from previous fiscal years for network infrastructure, on-line portal and network security. Specifically, the language was needed to transfer funds from the Network Infrastructure account to the various departments for upgrades to internal infrastructure needs such as wiring, cabling, and switches. In the absence of FY 2003 funding for this purpose, the language is discontinued.

Discussion Points

1. The FY 2003 Grants-in-Aid recommendation for Independent Authorities includes a new $59.2 million appropriation (p. D-516) intended to fund debt service payments on Economic Development Authority bonds that will refinance the outstanding solid waste "stranded" debt of counties and county authorities, which as of April 12, 2001 totaled $1.09 billion. This recommended appropriation would be partially offset by anticipated revenue of $32.8 million, representing negotiated county contributions toward the refinanced debt structure. The net cost to the State of $26.4 million exceeds the FY 2002 Treasury State Aid appropriation of $23 million for county solid waste subsidies by $3.4 million, or 14.7 percent. The EDA planned to issue $750 million in bonds in the Spring of 2002, but has postponed its bond sale. Related budget language (p. D-519) allows the recommended appropriation to continue to support county debt service if county debt is not refinanced by the EDA.

- *Question:* What is the anticipated date of EDA's issuance of these bonds? What adjustments to the FY 2003 recommended appropriation and anticipated county recoveries result from this revised timetable? What is the impact of postponing the bond sale on FY 2002 county debt service aid? Please provide the most recent available accounting of outstanding solid waste "stranded" debt, by issuer, including maturities schedules from 2002 through 2005. Please indicate which issuers' debt is to be restructured by EDA, and the amount of revenue recovery expected from each in FY 2003 and in succeeding fiscal years, if any.

2. P.L. 2002, c.11 suspends for FY 2002 and FY 2003 the requirement that the State pay an annual contribution into a reserve of the Teachers' Pension and Annuity Fund (TPAF) and the Public Employees' Retirement System (PERS), respectively, above the amount necessary to pay annual premiums/periodic charges for post-retirement medical (PRM) benefits for qualified retired teachers, retired State employees and their dependents. Beginning in fiscal year 2004, the annual contribution to the TPAF and PERS reserves will increase to 3/5 of 1 percent of the salary of the active members, 1/10 of a percentage point over the previously required 1/2 of 1 percent additional reserve contribution. In March 2001, the unfunded liability for future PRM benefits payable by the State was estimated to be $8.3 billion in FY 2002, growing to $9.1 billion in FY 2003.

P.L. 2002, c.11 also allowed a drawdown in FY 2002 of approximately $345.6 million in PRM reserve balances in the TPAF and PERS to pay current premiums and periodic charges. In FY 2003, the Governor's recommended budget would draw down an additional $48.6 million in TPAF and $71.4 million in PERS PRM reserve balances for payment of current premiums and periodic charges.

- *Question:* Please provide an update of the unfunded liability for future PRM benefits payable by the State for both the TPAF and PERS. How will the drawdown of fund balances in FY 2002 and FY 2003 impact this unfunded liability? Please provide the actual and projected amount and rate of growth in gross PRM benefit costs, by retirement system, attributable to growth in covered enrollment, medical cost inflation, increased benefits, and any other cost factor considered significant, for the period FY 2000-FY 2003. Please provide this information separately for state and local employees.

3. The Governor's FY 2003 budget recommends a new $5 million appropriation to fund a New Jersey Building Authority feasibility study for the proposed New Jersey Police Professional Training Center. The appropriation would also fund the preliminary design and land acquisition costs of the training center. The Legislature would have to approve this estimated $100 million project prior to the issuance of bonds by the Building Authority. At the time of the bond issue, the General Fund would be reimbursed for this expense.

Discussion Points (Cont'd)

- *Question:* When is the feasibility study for the proposed New Jersey Police Professional Training Center expected to be completed? When does the Administration project it will seek approval by the Legislature? If the anticipated bond sale has to occur in FY 2003 in order to recover costs, what is the latest practical date for legislative approval? If bonds are not sold in FY 2003, does the Building Authority have sufficient reserves to reimburse the State for $5 million in project expenditures? Please itemize the costs to be funded with this recommended appropriation. Why is it recommended that land acquisition costs are funded prior to this project receiving Legislative approval?

4. In FY 1994 the State transferred a combined $180.2 million from the Public Employees' Retirement System (PERS) and Police and Firemen's Retirement System (PFRS) to the State's General Fund. This transfer occurred pursuant to P.L.1994, c.62 which changed the State's method of pension funding and provided that the difference between the PERS and the PFRS local employer contributions required under the original March 31, 1992, actuarial valuation and the revised required contributions be deposited in the State's General Fund.

In July 2001, the New Jersey Department of Treasury, Office of Management and Budget issued a check to the U.S. Department of Health and Human Services for approximately $9.7 million. This payment followed a U.S. Department of Health and Human Services review by the Inspector General to determine if the Federal Government received its proportionate share of $180.2 million of pension funds withdrawn by the State in FY 1994.

The Inspector General's review found that, contrary to the requirements of OMB Circular A-87, the State did not credit the federal government for its share of the withdrawn pension funds. The audit determined that the federal government was due a refund of $6,641,596 for the pension expenses originally funded for its programs, grants, and contracts. Additionally, using the monthly interest rates earned by the State's General Fund from July 1994 to March 2001, the Inspector General computed interest due the federal government in the amount of $3,012,326. The Inspector General also required the implementation of procedures to ensure that any future withdrawals result in an immediate refund of the appropriate amount to the federal government.

- *Question:* From which account was the $9.7 million drawn to refund the federal government for its share of the fiscal year 1994 pension withdrawal? Was the Treasury Department aware of the requirements of OMB Circular A-87 in 1994 when this withdrawal took place? If so, what were the reasons that no refund was provided in accordance with those requirements? What policies and procedures were implemented in response to the Inspector General's requirement for ensuring appropriate federal refunds from future withdrawals?

5. On May 3, 2001, the Governor announced that the State agreed to a $4.5 million contract with Green Mountain Energy Co. to purchase 113 million kilowatt hours of energy during the next 15 months. This renewable energy source will provide 12 percent of the electricity needed to 85 State agencies and 111 public agencies. The cost to the State is 6 cents a kilowatt hour as compared with 5 cents the State otherwise pays utilities. Thus, the additional cost to the State is approximately $1,130,000 to purchase from this renewable energy source. Green Mountain Energy was the sole bidder. The Administration plans to recover the additional cost from the Petroleum Overcharge Reimbursement Fund (PORF).

- *Question:* Please explain the absence of additional bidders for this contract. How many other energy providers were invited to bid on this energy supply contract? Has approval for reimbursement from the PORF been formally requested? If not, what is the

Discussion Points (Cont'd)

proposed timetable for submitting this request? What is the current balance in the PORF? What other costs in the FY 2003 recommended budget are eligible to be funded from available PORF balances?

6. The Fiscal 2003 budget (p. D-523) reflects a $12 million FY 2002 supplemental appropriation for Domestic Terrorism, which as of mid-May had not been formally approved. This projected appropriation is authorized by language in the FY 2002 Appropriations Act allowing supplemental appropriations to the Emergency Services Fund "...as are required to meet the costs of any emergency occasioned by aggression, civil disturbance, sabotage, disaster...as recommended by the Emergency Services Council and approved by the Governor..." According to the Administration, this funding would be used primarily for reimbursements to the Departments of Law and Public Safety, Military and Veterans' Affairs, and Corrections, for costs the state will not recover from sources such as the Federal Emergency Management Agency or the Port Authority of New York and New Jersey that were incurred during the initial response and subsequent actions taken regarding the terrorists attacks.

The Emergency Services Fund supports a variety of emergency relief efforts, based upon recommendations by the Council and the Governor's approval, or as specifically directed by state law. A review of the current status of the fund shows an unreserved undesignated balance of $18.5 million, consisting in part of $5.7 million invested in the Cash Management Fund and $10 million due from the General Fund.

- *Question:* Will this supplemental appropriation still be necessary in FY 2002? If so, please provide an accounting of the spending that this appropriation supports. Please update the Legislature as to the status of reimbursements from FEMA and/or the Port Authority. Please explain what components of the current Emergency Services Fund balance of $18.5 million are unavailable to defray domestic terrorism expenses that the General Fund will pay through this supplemental appropriation, and provide specific reasons as to that unavailability.

7. The FY 2002 Appropriations Act included an offset of $65 million to the amount appropriated for Employee Benefits entitled "Credit for Cash Management Reserve Refund." General Provisions 69 and 70 of the FY 2002 Appropriations Act (Appropriations Handbook pages E-7 and E-8) authorize the Treasurer to substitute Cash Management Fund (CMF) Loss Reserves held on behalf of nonstate participants, e.g., municipalities, for grants in aid or state aid appropriations payable to them. The resulting unspent grants or state aid balances would then be returned to the Employee Benefits accounts to provide adequate resources for those costs (additional language, FY 2002 Appropriations Handbook p. B-214). The Treasurer is also authorized to purchase surety bond coverage to maintain loss protection for those nonstate CMF participants. The Governor's FY 2003 budget shows an adjusted the CMF credit to $52.2 million, thus reducing the FY 2002 estimated savings in state appropriations by $12.8 million. The FY 2003 budget reflects an additional CMF reserve refund credit of $20 million in FY 2003. Therefore, although the savings to the State General Fund would be spread over two years, total savings are projected to be $7.2 million greater than originally estimated.

On April 16, 2002, the Department of the Treasury, Division of Investment issued a notice regarding restructuring the CMF Loss Reserve Fund. The notice stated that cash of approximately $72 million will be released to the State's General Fund in FY 2002 and FY 2003 and that a surety bond in an equal amount will be credited to the CMF Loss Reserve Fund.

- *Question:* Please provide a list of each nonstate governmental unit and its State Aid

Discussion Points (Cont'd)

and Grants-in-Aid payment reduction, by program and by fiscal year, that correspond to the $72 million CMF loss reserve being released to the General Fund. What is the estimated cost of acquiring a surety bond to replace the release from the CMF Loss Reserve? Will the surety bond provide coverage equal the cash transferred? If not, why? After this restructuring, will nonstate participants whose state funding corresponds to the CMF Loss Reserve release have loss coverage equivalent to other nonstate CMF participants, or will one group have less coverage than the other? Will the Division of Investment continue to charge fees to nonstate participants for the Reserve Fund after the surety bond purchase? What impact on the CMF's rate of return to the State and to other nonstate participants would result if all nonstate participants affected by this redirection of their funds withdrew their investments from the CMF?

8. The FY 2003 recommended appropriation for Unemployment Insurance Liability is $1.8 million, a decrease of $3 million from the FY 2002 adjusted appropriation of $4.8 million (p. D-521). In FY 2001, $3.8 million was expended for this purpose, and expenditures thus far in FY 2002 total $3.1 million. Beginning on January 1, 2003, the percentage of employee contributions deposited in the State's UI Trust Account was to have increased from 0.1% to 0.3%, thus reducing the State's share between FY 2002 and FY 2003. However, P.L. 2002, c.13 continues the 0.1% rate throughout FY 2003. Recommended budget language (p. D-522) permits the Director of the Division of Budget and Accounting to appropriate additional funds to pay unemployment claims should additional funds be required to meet expenses.

- *Question:* Based on the provisions of P.L.2002, c.13, will the FY 2003 recommended appropriation for Unemployment Insurance Liability have to be adjusted upward? If so, by what amount? For FY 2002 and FY 2003, what is the estimated reserved UI revenues, number of layoffs, and the amount of benefits per laid off employee?

9. The Administration projects that 2,200 State employees will take advantage of the early retirement incentive (ERI) and leave state service by June 30, 2002. Retiring employees are entitled to a maximum payment of $15,000 for accumulated unused sick leave. These costs are paid from an interdepartmental account, funded in FY 2002 at $7 million. As of mid-May, prior to most retirements resulting from the ERI taking effect, $5.2 million had been expended from this account, leaving a balance of $1.8 million.

- *Question:* What is the estimated cost of accumulated unused sick leave payments to employees projected to take advantage of ERI? How much of that estimated cost will be funded in FY 2002 and FY 2003, respectively? What specific sources of funding has the Administration identified to fund FY 2002 costs that exceed the available balance in the account discussed above?

10. The FY 2003 recommendation for Salary Increases and Other Benefits reflects two offsets, one for attrition savings of $17.3 million, and the other totaling $38.1 million in statewide savings initiatives, including the early retirement incentive (ERI), reduction of temporary services and other actions. These savings will result in unspent balances in agency appropriations that will be reallocated to provide the necessary level of funding for salary increases. More recently, the Administration has estimated that the FY 2003 State salary and social security savings from the ERI at $50.2 million.

- *Question:* How many State-funded positions must be vacated over the course of FY 2003 to achieve the attrition savings target of $17.3 million? What were the total

Discussion Points (Cont'd)

expenditures in FY 2000 and FY 2001, and what is the projected total expenditure in FY 2002, by state agencies for temporary services? Please provide this information by department and by funding source, i.e., state, federal, all other. For the attrition savings and ERI component of the statewide savings initiative reflected in the FY 2003 budget, please provide the breakdown between salary savings and fringe benefit cost savings. Does the Administration plan to reallocate savings that occur in fee-supported programs from attrition, early retirements and other initiatives to fund contractual salary increases?

11. P.L.1994, c.62 made changes in the funding methodology for several of the State-administered retirement systems. Among other items, this act changed the funding methodology from entry-age normal method to the projected unit credit method. The funding method is one of the most critical aspects of pension funding policy, greatly influencing the year to year trend in employer contributions to fund the retirement systems. The entry-age method provides contribution requirements that tend to be level as a percentage of compensation, meaning the employer's costs are more stable over time. The projected unit credit method usually implies lower initial employer contributions costs that increase over time as a percentage of compensation. This method funds only the year to year increase in liability. Prior to the 1994 law change, the State Pension System had used the entry age normal system since inception.

- *Question:* Please describe how changing the funding method from entry-age normal to projected unit credit has impacted the actuarial basis for determining the appropriation payable by the State since 1994. Please provide any specific comparisons of what the State's employer contribution costs would have been since 1994 under the former entry age normal method to its costs under the present method. Has the Division of Pensions and Benefits examined and compared other alternative actuarial computation methods that might be appropriate for the New Jersey State retirement systems? If so, please provide the results of any such study. If not, does the division plan to undertake this research, and on what timetable? In what fiscal year are higher future employer contributions caused by depletion of excess valuation assets expected to impact the appropriation payable by the State to fund the pensions?

Background Paper: Pension Fund Investment Performance

> Through the first half of fiscal year 2002 (ending December 31, 2001), pension fund return was negative 2.2 percent, with a 9.4 percent decline in the first quarter (ended September 30, 2001) partially offset with a 7.2 percent investment return gain in the second quarter.

Investment Return

Pension fund returns were negative in fiscal year 2001 (ending June 30, 2001), led by declines in both domestic and international markets. Although bonds and fixed income securities had positive returns, the total return of the pension funds, which includes changes in market values of the securities held by the funds and dividend and interest income over the year, was negative 10.4 percent. This compares with a positive 11.9 percent return in fiscal year 2000. This decline was precipitated, in large part, by slowing economic and corporate profit growth in both the domestic and international stock markets, the State Investment Council said in its annual report. For actuarial purposes, investment earnings are assumed to grow at an annual rate, called the “interest rate assumption” of 8.75 percent.

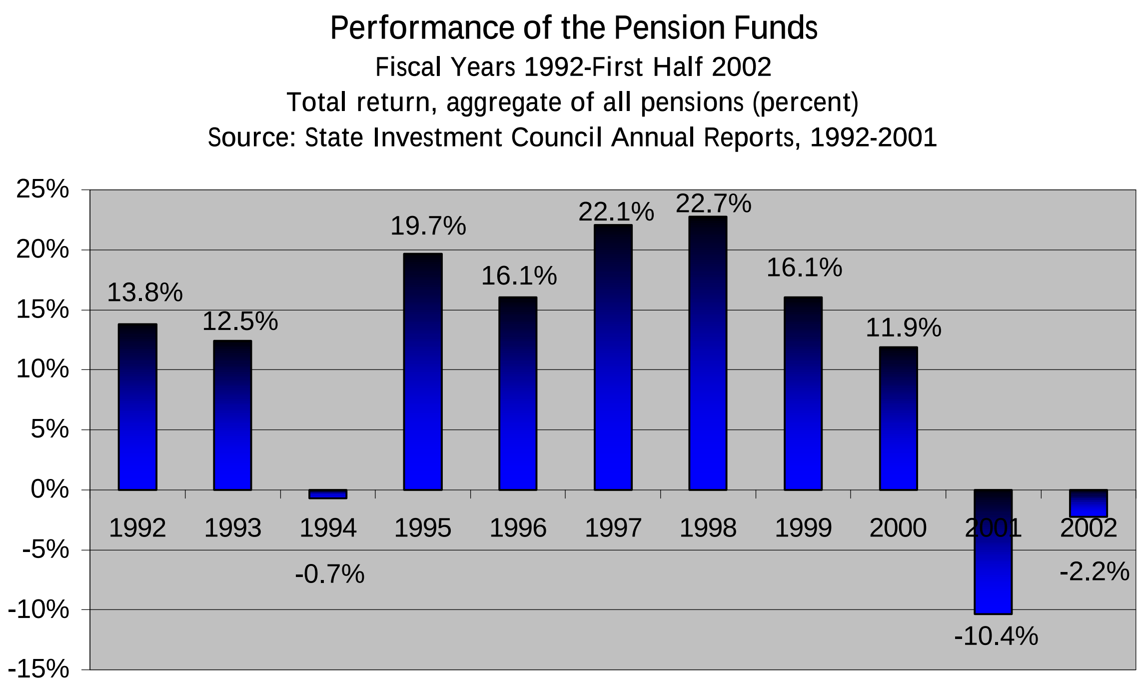
Investment return turned positive in the second quarter of fiscal year 2002, following a negative 9.4 percent return in the first quarter. First quarter results were negatively impacted by the terrorist attacks of September 11, 2001. These attacks were unprecedented in terms of a market event, adding political uncertainty to the issues buffeting the economy. The market subsequently hit new lows. Due largely to a decrease in air travel and the ripple effects in a large number of industries, companies announced a huge number of employee layoffs in the weeks following the attacks. Pension fund investments rebounded from this market volatility, however, recording a positive 7.2 percent return in the second quarter of fiscal year 2002. Overall first half fiscal year 2002 investment return was negative 2.2 percent.

Chart 1 on the following page displays the annual aggregate investment performance of the seven pension funds for fiscal years 1992 through 2001 and for the first six months of fiscal year 2002.

Due to market fluctuations, the five-year average for the rate of return is perhaps more illustrative of long-term rates of return. The average annual rate of return for the five years ending June 30, 2001 for all pension funds was 11.8 percent, as displayed in Chart 2. Despite the recent equity market declines, the five-year average rate of return remains above the interest rate assumption of 8.75 percent.

Background Paper: Pension Fund Investment Performance (Cont'd)

Chart 1



Investment Guidelines

Pension fund assets come from employee and employer contributions into the seven State-administered retirements systems, and from investment earnings on these contributions. The employee contribution is based on percentages of employees' annual compensation. The State and local government employer's contribution is based upon annual actuarial calculations expressed as percentages of total compensation of all active members.

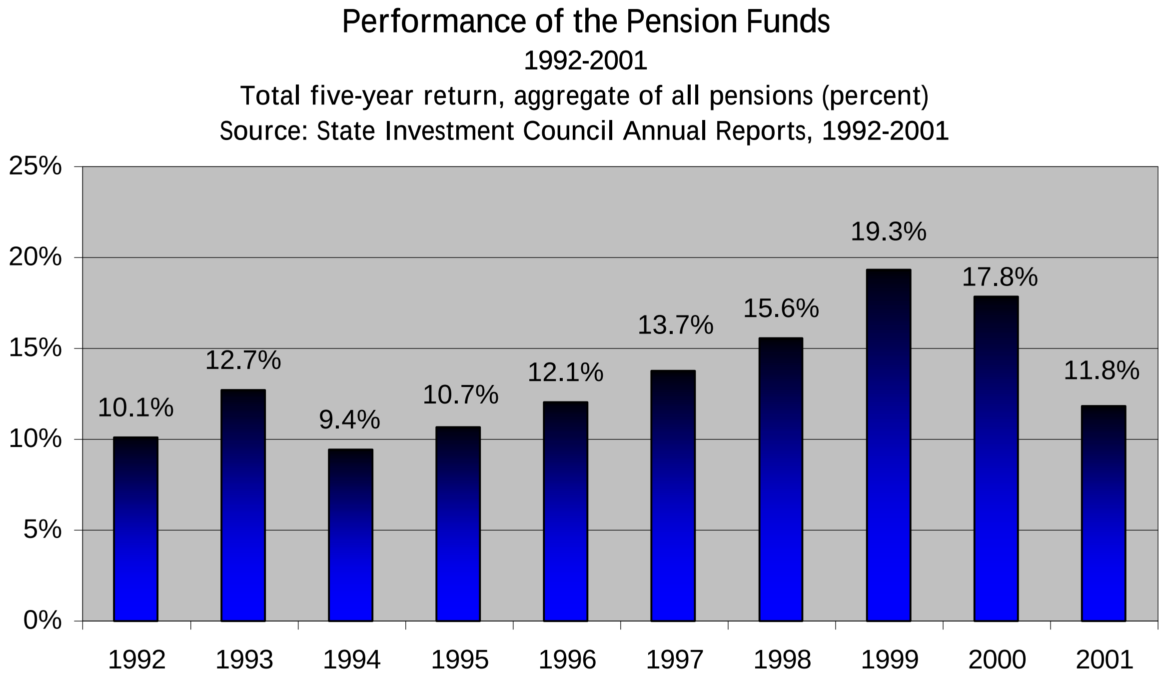
As discussed previously, the "interest rate assumption" of the pension funds is set at 8.75 percent. This rate is a long-range assumption as to what funds already invested, or yet to be invested in the future, will earn. The interest rate assumption, therefore, is not intended to represent actual current earnings.

All investments under the supervision of the State Investment Council must conform to standards of prudency set by State law and to specific investment policies established by regulation. The State Investment Council may invest funds in approximately 1,100 stocks that are included on a pre-approved list. The actual stock trades are handled by a team of 30 traders, researchers and investors in the Division of Investment. In fiscal year 2001, the transactions of the division generated total commissions, both actual and implied, of $39.7 million, including $20.8 million in domestic stock commissions. Of this amount, $4.0 million was directed to pay for fixed-fee charges for performance measurement and access to various economic and financial databases.

Chart 2

Background Paper: Pension Fund Investment Performance (Cont'd)

Market Value



The fair market value of the seven pension funds at the end of the fiscal year 2001 (ended June 30, 2001) was $72.2 billion, down $10.4 billion or 12.6 percent, from the $82.6 billion recorded at the end of fiscal year 2000 (June 30, 2000). This decline was due to both negative investment returns in fiscal year 2001 and withdrawals from the pension funds exceeding contributions.

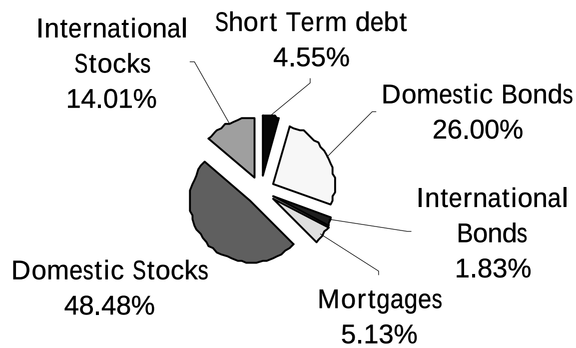
	$ Millions	Percent
Short-term debt	3,299	4.57%
Domestic bonds	18,835	26.10%
International bonds	1,325	1.83%
Mortgages	3,716	5.15%
Domestic stocks	35,113	48.66%
International stocks	10,145	14.05%
Accounting Adjustments	(267)	(0.36%)
TOTAL	$72,166	100%

Portfolio Concentration as of June 30, 2001

Background Paper: Pension Fund Investment Performance (Cont'd)

Largest Domestic Stock Holdings as of February 28, 2002

Allocation of Pension Funds
(excluding accounting adjustments)



Microsoft Corp. 3.6%
Computer software and systems company

General Electric Co. 3.4%
Electricity products, finance, broadcasting

Pfizer, Inc. 2.8%
Pharmaceutical products company

Wal-Mart Stores, Inc. 2.6%
General merchandise retailer

Exxon-Mobil Corp. 2.6%
Petroleum, petrochemicals, oil and gas

Citigroup, Inc. 2.5%
Diversified financial services company

Merck & Co., Inc. 2.1%
Pharmaceutical products company

American International Group, Inc. 2.1%
Insurance, financial services holding company

American Home Products (Wyeth) 1.7%
Pharmaceutical products company

Eli Lilly & Co. 1.6%
Pharmaceutical products company

Background Paper: The Role Of Prescription Drugs In Health Care Costs

Prescription drugs are the fastest growing part of health care spending. The recommended budget amount for State employees' prescription drug benefits for fiscal year 2003 is $202 million, which represents a 24.6% increase over the adjusted appropriation for fiscal year 2002. The $202 million is 25.9% of the State's recommended budget for employee health benefits, compared to the fiscal year 2002 proportion of 23.2% of total employee health benefit expenses, and the fiscal year 2001 proportion of 22.8%. This increasing impact of the cost of prescription drugs is a reflection of what is happening on the national level. Earlier this year, reported spending on prescription drugs doubled from 1995 to 2000, tripled from 1990 to 2000, and accounted for 45% of the $83.9 billion increase in national health spending in 2000.

Research and media reports attribute the increasing prominence of prescription drugs in health care spending to three major factors: an increase in the number of prescriptions written by doctors (higher utilization); a shift toward greater use of new, higher-price drugs (nearly half of prescription spending is on drugs introduced since 1992); and increased costs per prescription (cost inflation per drug). A federal government report allocated the increase in prescription drug spending in 2000 to an increase in the number of prescriptions written by doctors (42%), a shift toward the use of more expensive drugs (36%) and price increases (22%). Other influential factors include prescription drug advertising, wider availability of insurance to cover drug costs (making consumers less sensitive to drug prices), new drugs for old conditions, and the use of drugs to reduce other health spending like hospital care and surgery. In summary, more people are using more drugs, often the newest and most expensive brands.

Looking at these increases from another perspective, a December 2000 newspaper article reported that spending on health care was approaching 14% of the gross domestic product, up from 7.1% in 1970, 8.9% in 1980 and 12.2% in 1990. In the same article, however, Uwe Reinhardt, an economist at Princeton University, pointed out that Americans, on a per capita basis, spend more on admissions to entertainment events than for prescription drugs. More recently, in May 2002, the prominent role of prescription drugs in health care costs was highlighted in a reported estimate that prescription drugs account for 40% to 60% of what private sector employers spend on heath care for retirees who are covered by Medicare (their primary insurer).

Chart 1 on the following page displays Direct State Services and Grants-in-Aid health care benefits funding for State employees and employees of State higher education institutions, respectively. As indicated in the preceding paragraphs, the prescription drug component of health benefit expenditures is increasing at a faster rate then medical care and dental benefits.

Background Paper: The Role Of Prescription Drugs In Health Care Costs (Cont'd)

Chart 1

EMPLOYEE HEALTH BENEFITS				
		Expended FY 2001	**Adjusted Appropriation FY 2002**	**Recommended FY 2003**
Health Benefits		$ 347,441	$ 372,308	$ 402,239
Prescription Drugs		$ 104,764	$ 115,939	$ 144,482
Dental Care		$ 19,404	$ 20,433	$ 20,956
Total Direct State Services		**$ 471,609**	**$ 508,680**	**$ 567,677**
Health Benefits		$ 123,340	$ 135,941	$ 146,734
Prescription Drugs		$ 42,403	$ 46,157	$ 57,569
Dental		$ 7,381	$ 8,125	$ 7,981
Total Grants-In-Aid		**$ 173,124**	**$ 190,223**	**$ 212,284**
Totals				
Health Benefits		$ 470,781	$ 508,249	$ 548,973
Prescription Drugs		$ 147,167	$ 162,096	$ 202,051
Dental Care		$ 26,785	$ 28,558	$ 28,937
GRAND TOTAL		**$ 644,733**	**$ 698,903**	**$ 779,961**
Prescription Drugs as Percent of Total		**22.8%**	**23.2%**	**25.9%**

OFFICE OF LEGISLATIVE SERVICES

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

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

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

Individuals wishing information and committee schedules on the FY 2003 budget are encouraged to contact:

Legislative Budget and Finance Office
State House Annex
Room 140 PO Box 068
Trenton, NJ 08625

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