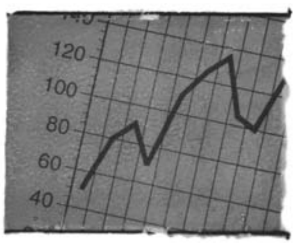

ANALYSIS OF THE NEW JERSEY BUDGET

INTERDEPARTMENTAL ACCOUNTS

FISCAL YEAR 2005 - 2006

PREPARED BY OFFICE OF LEGISLATIVE SERVICES
NEW JERSEY LEGISLATURE • MAY 2005

NEW JERSEY STATE LEGISLATURE

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INTERDEPARTMENTAL ACCOUNTS

Budget Pages....... C-13, C-21; D-441 to D-457

Fiscal Summary ($000)

	Expended FY 2004	Adjusted Appropriation FY 2005	Recommended FY 2006	Percent Change 2005-06
State Budgeted	$2,341,425	$2,689,120	$2,870,963	6.8%
Federal Funds	0	0	0	—
Other	0	3,000	0	(100.0)%
Grand Total	$2,341,425	$2,692,120	$2,870,963	6.6%

Personnel Summary - Positions By Funding Source

	Actual FY 2004	Revised FY 2005	Funded FY 2006	Percent Change 2005-06
State	0	0	0	—
Federal	0	0	0	—
Other	0	0	0	—
Total Positions	0	0	0	—

FY 2004 (as of December) and revised FY 2005 (as of September) personnel data reflect actual payroll counts. FY 2006 data reflect the number of positions funded.

Introduction

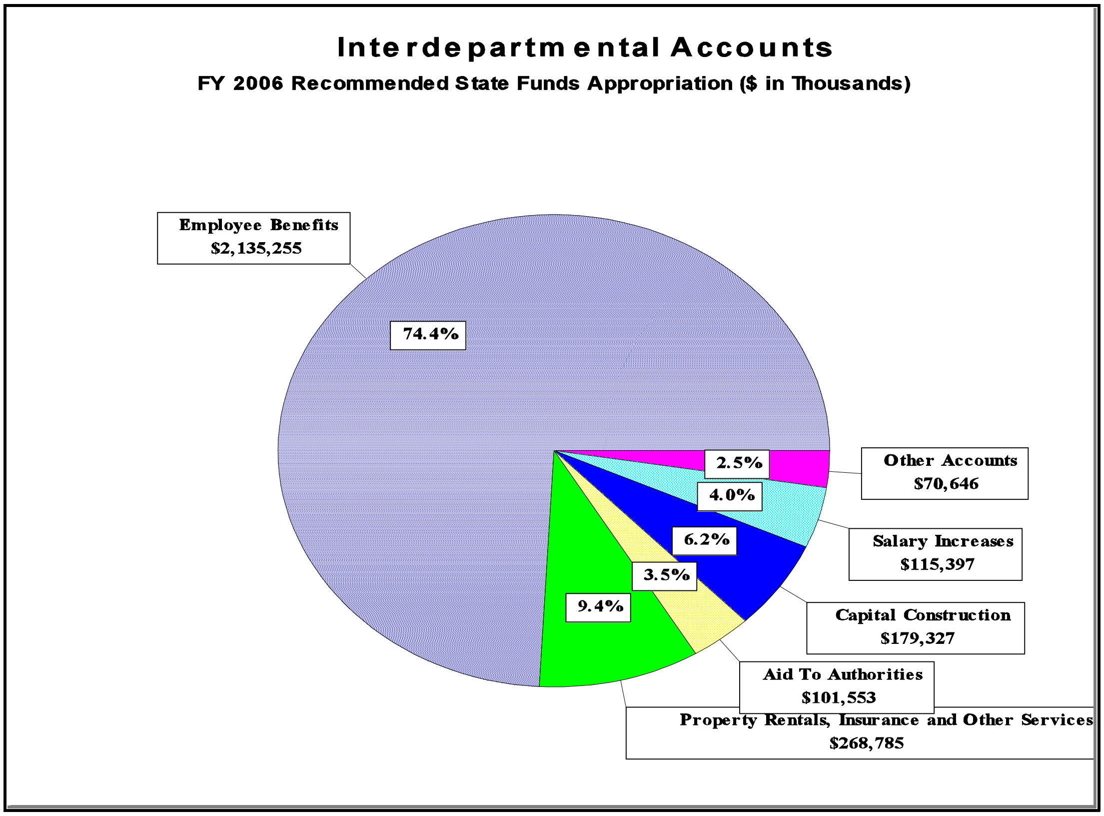
The Interdepartmental Accounts provide funds for the cost of certain services that are administered centrally — by the Department of the Treasury — on behalf of all agencies of State government and some independent authorities. Interdepartmental Accounts are divided into six budget categories: (1) Property Rentals, Insurance and Other Services; (2) Employee Benefits, including funding for employee pensions and health care; (3) Other Interdepartmental Accounts; (4) Salary Increases and Other Benefits; (5) Capital Construction Projects; and (6) Aid to Independent Authorities.

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

Key Points

The Governor recommends a FY 2006 State General Fund appropriation totaling $2.871 billion for Interdepartmental Accounts, up $182 million or 6.8 percent over the FY 2005 adjusted appropriation of $2.689 billion.

The following chart summarizes the FY 2006 recommended appropriation by major purpose. The summary detail of changes is included in the Fiscal and Personnel section of this analysis.



EMPLOYEE BENEFITS

! The Governor recommends FY 2006 State appropriation at $2.135 billion, up $161.1 million or 8.2 percent, over the FY 2005 adjusted appropriation of $1.974 billion to fund employee benefits. The recommended $1.473 billion Direct State Services (DSS) appropriation represents an increase of $117.8 million or 8.7 percent over the FY 2005 adjusted appropriation of $1.356 billion. Grants-In-Aid (GIA) for higher education employee benefits are recommended at $661.8 million, up 7 percent over the FY 2005 adjusted appropriation of $618.5 million.

Key Points (Cont'd)

Retirement Plans

! A FY 2006 State contribution totaling $1.595 billion was certified by the actuaries to fund both the normal cost and accrued liability for the pension plans and also to fund the Alternate Benefit Program. This reflects an increase of $346.6 million or 27.8 percent over the $1.248 million certified to fund the pension plans and the Alternate Benefit Program in FY 2005.

! This certification notwithstanding, a General Fund contribution of $336.7 million is recommended in FY 2006 to fund the pension plans and the Alternate Benefit Program. Approximately $872.9 million in payments are deferred to future fiscal years through a phase-in of pension contributions and $385.3 million will be funded from reserves in the Benefit Enhancement Funds within the Public Employees Retirement System (PERS) and the Teachers' Pension and Annuity Fund (TPAF).

! Interdepartmental Accounts DSS funding for retirement systems is recommended at $58.4 million. This amount includes $34 million for the Police and Firemen's Retirement System (PFRS), $12.9 million for the State Police Retirement System (SPRS), and $8.0 million for the Judicial Retirement System (JRS), among other items. GIA funding to State colleges and universities is recommended at $122.0 million, including $119.5 million to fund the employer contribution to the Alternate Benefit Program.

! The balance of retirement plan funding is budgeted within the Department of Education, $94.5 million for the TPAF and within the Department of the Treasury, $61.8 million for public safety pension system costs and county college Alternate Benefit Program and TPAF costs.

Post Retirement Medical Benefits

! Total FY 2006 appropriations of $1.015 billion are recommended to fund post retirement medical (PRM) benefits for State employees retired from the Public Employees' Retirement System (PERS), retired teachers from local school boards in the Teachers' Pension and Annuity Fund (TPAF), and other retirees eligible for PRM benefits. This is an increase of almost $104 million or 11.5 percent from the FY 2005 adjusted appropriation of $911.2 million. Almost $600 million, or 59.5 percent of total PRM benefits funding, would finance health care benefits for TPAF retirees. $295.3 million for PRM benefits is budgeted within Interdepartmental Accounts, an increase of $22.3 million over the FY 2005 adjusted appropriation.

Active Employee Health Benefits

! A FY 2006 appropriation totaling $1.091 billion is recommended to fund health benefits for active employees. This represents an increase of $117.9 million or 12.1 percent over the FY 2005 adjusted appropriation of $973 million. Funding for the cost of providing health benefits for State employees increases by $83.9 million, to $768.3 million; for higher education employees costs rise by almost $34 million, to $322.7 million.

Key Points (Cont'd)

Payroll Taxes

! The FY 2006 Interdepartmental Accounts budget recommendation for employer payroll taxes totals $512.2 million, down $2.6 million from the FY 2005 adjusted appropriation. The State's share of Social Security taxes will rise 1.1 percent, to $492.9 million and includes $337.3 million for State employees and $155.6 million in Grants-In-Aid funding to institutions of higher education.

! The recommended appropriation for State employee Social Security taxes is reduced by a "credit" of $12 million, to be transferred from unspecified State Aid or Grants-In-Aid appropriations. Balances would be available for transfer after a refund of Cash Management Fund reserves are substituted for aid or grants payments.

! In addition, a State Aid payment of $655.8 million is budgeted in the Department of Education for the employer (local school district) share of Social Security taxes.

AID TO INDEPENDENT AUTHORITIES

! The FY 2006 recommended appropriation of aid to independent authorities is $101.6 million, up $15 million or 17.3 percent, over the FY 2005 adjusted appropriation.

! Pursuant to P.L.2003, c.166, a $14 million increase in funding is recommended for debt service on bonds issued by the Economic Development Authority (EDA) to fund Business Employment Incentive Program grants and to fund Designated Industries Economic Growth and Development projects. Debt service financing for these two programs is projected to total $36.3 million in FY 2006.

! A $3.1 million funding increase is recommended for debt service on bonds issued by the New Jersey Sports and Exposition Authority for the Wildwood Convention Center.

STATEWIDE CAPITAL CONSTRUCTION

! The Governor's budget recommends $179.3 million in State funding for capital construction projects. New funding of $700,000, $3 million and $5.4 million is recommended to fund improvements at the State capitol complex, various security projects throughout the State, and the Office of Information Technology enterprise initiatives, respectively.

! The State's share of debt service payments on outstanding bonds issued by the New Jersey Building Authority is recommended at $66.3 million, a decline of $12.6 million or 15.9 percent from the FY 2005 adjusted appropriation. This decrease reflects the impact of debt service refinancing.

Key Points (Cont'd)

SALARY ADJUSTMENTS

! The Governor's FY 2006 budget provides $115.4 million for employee salary increases and other benefits. This amount is net of $50 million for Statewide employee savings, expected to result from attrition and funding reductions to commissioners' offices.

! Funding for higher education employee cost-of-living adjustment (COLA) increases is recommended at $17.8 million.

OTHER INTERDEPARTMENTAL ACCOUNTS

! The elimination of $88 million in GIA funding to the Property Tax Assistance and Community Developments Grants account is recommended in FY 2006.

PROPERTY RENTALS, INSURANCE AND OTHER SERVICES

! Property rentals are recommended to increase to $222.7 million, or 11.4 percent above FY 2005 costs. However, an increase of $35.8 million in charges to non-state fund sources and agency accounts, from approximately $50 million in FY 2005 to over $85 million in FY 2006, results in a net decrease in Property Rental appropriations of $12.9 million.

Background Paper

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-government entities, such as independent authorities. Interdepartmental Accounts are categorized into the following budget areas: (1) Employee Benefits — funding for employee pensions and health benefits; (2) Salary Increases and Other Benefits — funds allotted to various departments for the cost of general and special salary increases; (3) Property Rentals, Insurance and Utilities — rents for office space and other premises for State agencies, the State's tort liability and certain insurance claims; (4) Capital Projects — Statewide; (5) Aid to Independent Authorities; and (6) Other Interdepartmental Accounts — expenses related to certain up-front and fixed borrowing costs and high technology upgrades, as well as the Governor's contingency fund.

(1) Employee Benefits

There are three main categories within the Employee Benefits accounts and these include (a) Pensions and Post Retirement Medical Benefits, (b) Health Benefits, and (c) Other Fringe Benefits.

(a) Pensions and Post-Retirement Medical Benefits

The Division of Pensions and Benefits in the Department of the Treasury administers the State's seven major retirement systems, as well as employee health benefits. The State's retirement systems are defined benefit plans, with the exception of the Alternate Benefit Program. 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.

! 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, municipal and State police and firefighters. Employer contributions are paid by the local employers and the State (as an employer).

! 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, approximately 186 retirees and beneficiaries receive annual pensions. This system is entirely funded by current trust assets.

! 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, local employers are billed for the cost-of-living adjustments (COLA).

! **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) contribute a flat rate of 8 percent of base salary. This contribution is included in the Interdepartmental Accounts and the Department of the Treasury's recommended budgets (the latter for county college faculty).

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 2001 (P.L.2001, c.133 and P.L.2001, c.353) increased the retirement benefits under the Teachers' Pension and Annuity Fund (TPAF) and the Public Employees' Retirement System (PERS) for service, deferred and early retirement by changing the formula from 1/60 to 1/55 of final compensation for each year of service. These laws also provided a 9.09 percent increase in the retirement allowances for existing retirees and beneficiaries.

To fund the additional accrued liability for these benefit enhancements, the law provided that the actuarial value of assets for both TPAF and PERS, for the valuation period ending June 30, 1999, be marked up to full market value of the assets as of that date. To fund the annual employer normal (current) contribution for the increased benefits, the law established a benefit enhancement fund (BEF), funded by excess valuation assets, if available.

In addition to pension and post retirement medical funding budgeted in the Interdepartmental Accounts, State Aid payments for pension-related and other fringe benefit funding are included in other areas of the budget as follows:

Program Description and Overview (Cont'd)

Other State Appropriations for Pensions and Related Benefits (in thousands)		
	FY 2005	**FY 2006**
Department of Education: pages D-96 to D-97		
Teacher's Pension & Annuity Fund — Post Retirement Medical	524,979	589,118
Teachers' Pension & Annuity Fund	0	94,516
Social Security Tax	624,750	655,750
Minimum Pension for Pre-1955 Retirees	1	1
Other than TPAF — Post Retirement Medical	82,012	96,317
Debt Service on Pension Obligation Bonds	79,779	86,940
Department of the Treasury: page D-396 (Aid to County Colleges)		
Alternate Benefit Program — Employer Contributions	17,230	18,311
Teachers' Pension & Annuity Fund — Employer Contribution	0	37
Teachers' Pension & Annuity Fund — Post Retirement Medical	1,195	1,117
Other than TPAF — Post Retirement Medical	10,560	12,461
Teachers' Pension & Annuity Fund — FICA Contributions	450	450
Debt Service on Pension Obligation Bonds	78	85
Department of the Treasury: page D-427		
Consolidated Police and Firemen's Pension Fund (PFRS)	7,046	6,397
Debt Service on Pension Obligation Bonds	7,869	8,575
Police and Firemen's Retirement System — Post Retirement Medical	19,420	20,889
Police and Firemen's Retirement System — Employer Contribution	19,864	23,700
Police and Firemen's Retirement System (P.L.1979, c.109)	14,515	13,317
TOTAL, State Aid	**1,409,748**	**1,627,981**

Program Description and Overview (Cont'd)

(b) Health Benefits

The State Health Benefits Program (SHBP) was established in 1961 under N.J.S.A. 52:14-17.25 et. seq. to provide health benefits to State employees and their dependents. The SHBP was extended to employees and their dependents of participating local public employers in 1964. The State has a multiple option program offering: (1) the Traditional Plan, a fee-for-service plan (Blue Cross/Blue Shield/Major Medical), (2) five Health Maintenance Organizations (HMOs) and (3) a hybrid of the two, NJ Plus, also known as a Point-of-Service 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. Although 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. Two 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 accrued 25 years of service is subject to collective bargaining. Current law requires local 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 category.

(c) Other Fringe Benefits

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

(2) Salary Increases and Other Benefits

Salary increases for existing State positions are budgeted centrally in the Interdepartmental Accounts budget, then allocated to individual departments/agencies during the fiscal year. These increases include employee increments, cost-of-living adjustments (COLAs), and bonuses according to contractual agreements. Increases for the majority of State employees are subject to collective bargaining.

As of February 2005 unions represented 70,500 full-time State employees, approximately 90 percent of the total.

In the final days of former Governor James E. McGreevey's administration, contracts with eight unions representing State troopers and corrections officers were approved that will cost the State approximately $25 million more for salaries in FY 2005.

Contracts have been settled with the unions representing 74 percent of the State employees, including CWA (Communications Workers of America), AFSCME (American Federation of State, County, and Municipal Employees, IFPTE (International Federation of Professional and Technical Engineers), and FOP (Fraternal Order of Police), which are effective July 1, 2003 to June 30, 2007. All of the above unions have negotiated a cost-of-living (COLA) increase of 2.0 percent on July 1, 2005 and another 2.0 percent on January 1, 2006.

Program Description and Overview (Cont'd)

(3) Property Rentals, Insurance and Utilities

Administered by the Department of the Treasury, appropriations to the Property Rentals account funds existing and anticipated leases of offices and other facilities used by State agencies, payments for debt service leases and payments in lieu of property taxes on facilities occupied by State agencies, and debt service payments for various fire sprinkler systems and office furnishings. This account also includes funding for payments associated with the State's lease-purchase of facilities acquired or built by the Economic Development Authority.

The Insurance and Other Services accounts include funding for insurance premiums for property, casualty and special insurance policies for coverage against loss to State-owned real property, machinery and fine art objects owned by the State. The State self-administers and is self-funded for Tort Claims, Workers' Compensation, and automobile (Vehicle Claims) liability risks and claims arising from the Foster Parents Program and the UMDNJ Self-Insurance Reserve Fund. The Department of the Treasury administers these insurance accounts.

The Utilities and Other Services account provides funding for the heating, electrical, janitorial and trash removal needs for various State-owned buildings, primarily in the Capital Complex, that house the State workforce. The State has received federal government approval to reimburse the cost premium for the approximately 12 percent of the total electrical load that will be procured from renewable, or "green power" sources from the Petroleum Overcharge Reimbursement Fund.

(4) Capital Construction Projects

This category funds various Statewide capital projects administered by the Department of the Treasury on behalf of State agencies. Funding of $98 million is also included in this account for Open Space Preservation.

(5) Aid To Independent Authorities

This Grant-In-Aid (GIA) budget supports the New Jersey Sports and Exposition Authority, the New Jersey Performing Arts Center in Newark, debt service for Municipal Rehabilitation and Economic Recovery bonds, bonds for the Business Employment Incentive Program and related economic development programs, and other entities.

(6) Other Interdepartmental Accounts

This category includes funding for interest on short-term notes and funding for the Statewide Emergency 911 telephone system, several smaller programs, and information technology upgrades.

Fiscal and Personnel Summary

AGENCY FUNDING BY SOURCE OF FUNDS ($000)

	Expended FY 2004	Adj. Approp. FY 2005	Recom. FY 2006	Percent Change 2004-06	Percent Change 2005-06
General Fund					
Direct State Services	$1,549,786	$1,696,541	$1,895,613	22.3%	11.7%
Grants-In-Aid	610,580	808,030	796,023	30.4%	(1.5)%
State Aid	0	0	0	0.0%	0.0%
Capital Construction	181,059	184,549	179,327	(1.0)%	(2.8)%
Debt Service	0	0	0	0.0%	0.0%
Sub-Total	**$2,341,425**	**$2,689,120**	**$2,870,963**	**22.6%**	**6.8%**
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	**$2,341,425**	**$2,689,120**	**$2,870,963**	**22.6%**	**6.8%**
Federal Funds	$0	$0	$0	0.0%	0.0%
Other Funds	$0	$3,000	$0	0.0%	(100.0)%
Grand Total	**$2,341,425**	**$2,692,120**	**$2,870,963**	**22.6%**	**6.6%**

PERSONNEL SUMMARY - POSITIONS BY FUNDING SOURCE

	Actual FY 2004	Revised FY 2005	Funded FY 2006	Percent Change 2004-06	Percent Change 2005-06
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 2004 (as of December) and revised FY 2005 (as of September) personnel data reflect actual payroll counts. FY 2006 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 2005	Recomm. FY 2006	Dollar Change	Percent Change	Budget Page
GENERAL GOVERNMENT SERVICES					
Direct State Services					
Property Rentals Existing and Anticipated Leases	$165,742	$188,687	$22,945	13.8%	D-445
Less: Direct Charges and Charges to Non-State Fund Sources	($49,677)	($85,435)	($35,758)	72.0%	D-445
Economic Development Authority	$17,491	$16,183	($1,308)	(7.5)%	D-445
Other Debt Service Leases and Tax Payments	$16,586	$17,822	$1,236	7.5%	D-445
Additions, Improvements and Equipment	$3,790	$4,663	$873	23.0%	D-445
NET	$153,932	$141,920	($12,012)	(7.8)%	D-445

The Property Rentals account funds existing and anticipated leases of offices and other facilities used by State agencies, payments for leases and payments in lieu of property taxes on facilities occupied by State agencies and debt service payments for various fire sprinkler systems and office furnishings. This account also includes $16.2 million for debt service payments associated with the State's lease-purchase of facilities acquired or built by the Economic Development Authority. Existing lease costs are projected to increase by $22.9 million, from $165.7 million in FY 2005 to $188.7 million in FY 2006 due to regular lease adjustment and approved space planning requests in certain areas.

Approved space requests include projected rent charges totaling $9.7 million for multiple programs in several different agencies, including the Departments of Labor, Community Affairs, Human Services, and Environmental Protection. Of this increase, approximately $7.5 million will be reimbursed in direct charges. Additional approved space requests include $15.1 million for the Division of Youth and Family Services, $500,000 for the Motor Vehicle Commission, and $700,000 for the Public Defender. This $16.3 million total will be fully reimbursed through direct rental charges to these agencies. DYFS and the Public Defender will be funded from the Child Welfare Reform initiative. Approved space requests for the MVC, as well as a direct payment of $9.4 million for the MVC's headquarters building that was formerly centrally-funded in the Interdepartmental account, will be supported from the dedicated funds now available to the MVC.

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

Budget Item	Adj. Approp. FY 2005	Recomm. FY 2006	Dollar Change	Percent Change	Budget Page
Tort Claims Liability Fund	**$16,000**	**$11,000**	**($5,000)**	**(31.3)%**	**D-445**

The funds appropriated to this account are available for the payment of direct costs of legal, administrative and medical services related to the investigation, mitigation and litigation of tort claims against public entities under N.J.S.A.59:12-1, "The New Jersey Tort Claims Act." Historically, supplemental funding is required to support the expenses incurred in this account during the fiscal year, so the apparent decrease in FY 2006 may not materialize.

Budget Item	Adj. Approp. FY 2005	Recomm. FY 2006	Dollar Change	Percent Change	Budget Page
Workers' Compensation Self-Insurance Fund	**$49,900**	**$55,500**	**$5,600**	**11.2%**	**D-445**

The State is self-insured for workers' compensation payments made to State employees. State expenditures for workers' compensation have been rising in recent years and supplemental funding is often required. With this recommended increase in funding for FY 2006, it is possible that supplemental funding will not be necessary in FY 2006.

Budget Item	Adj. Approp. FY 2005	Recomm. FY 2006	Dollar Change	Percent Change	Budget Page
Fuel and Utilities	**$23,382**	**$26,795**	**$3,413**	**14.6%**	**D-445**

The recommended increase in funding for fuel and utilities at the State Capitol Complex is the result of rising energy costs and an increase in the amount of leased space.

Budget Item	Adj. Approp. FY 2005	Recomm. FY 2006	Dollar Change	Percent Change	Budget Page
Household and Security	**$5,703**	**$6,059**	**$356**	**6.2%**	**D-445**

This account funds trash collection and cleaning services at various facilities occupied by the State, principally those in the Capitol Complex.

Aid to Independent Authorities: Grants-In-Aid

Budget Item	Adj. Approp. FY 2005	Recomm. FY 2006	Dollar Change	Percent Change	Budget Page
Sports Complex	**$26,060**	**$25,724**	**($336)**	**(1.3)%**	**D-446**
Atlantic City Projects	**$15,025**	**$15,440**	**$415**	**2.8%**	**D-446**
Higher Education and Other Projects	**$3,417**	**$2,818**	**($599)**	**(17.5)%**	**D-446**
Wildwood Convention Center	**$1,668**	**$4,795**	**$3,127**	**187.5%**	**D-446**
Total, SEA	**$46,170**	**$48,777**	**$2,607**	**5.6%**	**D-446**

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

Budget Item	Adj. Approp. FY 2005	Recomm. FY 2006	Dollar Change	Percent Change	Budget Page

The FY 2006 budget recommends $48.8 million for the New Jersey Sports and Exposition Authority. The Wildwood Convention Center appropriation is increasing substantially because a construction fund balance was used to reduce debt service payments over the past two fiscal years. However, this fund balance has been expended.

Camden Aquarium Management Agreement	**$1,500**	**$0**	**($1,500)**	**(100.0)%**	**D-446**

The Camden Aquarium, having been closed and renovated to provide for greater capacity and variety of exhibits, is re-opening under a new operator. The financial support provided to the aquarium through this account is no longer necessary under the new operating agreement.

New Jersey Performing Arts Center, EDA	**$5,555**	**$5,559**	**$4**	**0.1%**	**D-446**
Business Employment Incentive Program, EDA - Debt Service	**$16,413**	**$28,694**	**$12,281**	**74.8%**	**D-446**
Liberty Science Center - EDA	**$718**	**$598**	**($120)**	**(16.7)%**	**D-446**
Designated Industries Economic Growth & Development - EDA	**$5,885**	**$7,596**	**$1,711**	**29.1%**	**D-446**
Total, EDA	**$28,571**	**$42,447**	**$13,876**	**48.6%**	**D-446**

The FY 2006 budget recommends $42.4 million in Economic Development Authority debt service payments. This $13.9 million increase over the FY 2005 adjusted appropriation is primarily due to a $12.3 million increase in funding for the Business Employment Incentive Program. The FY 2006 recommended appropriation includes debt service payments for $158 million of previously issued debt and a projected debt issuance of $78.2 million in FY 2006. The recommended appropriation for Liberty Science Center debt service may not be necessary in light of a recent bond issue that included interest for FY 2006 in the proceeds of sale.

Capital Construction

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

Budget Item	Adj. Approp. FY 2005	Recomm. FY 2006	Dollar Change	Percent Change	Budget Page
Capital Improvements, Capitol Complex	**$0**	**$700**	**$700**	**—**	**D-446**

Much of the infrastructure within the State House Complex has exceed its useful life. This recommended appropriation would provide funding to repair and replace mechanical and other buildings systems such as HVAC, roofs, plumbing, and to install moisture detection equipment in State-owned buildings in the State House Complex. The department estimates that the full cost for these repairs is approximately $4.4 million.

Budget Item	Adj. Approp. FY 2005	Recomm. FY 2006	Dollar Change	Percent Change	Budget Page
Hazardous Materials Removal Projects - Statewide	**$1,000**	**$2,000**	**$1,000**	**100.0%**	**D-446**

This account provides funds to continue the removal of hazardous materials from various sites around the State. The funds are used for testing, evaluation, design and remediation of such hazardous materials. This includes the removal of asbestos PCBs, lead, contaminated soil and improvements to indoor air quality. This program does not address soil contamination caused by leaking underground storage tanks, which is funded through a separate program. From its inception in FY 1997, approximately $22.5 million has been appropriated for the Hazardous Material Removal program.

Budget Item	Adj. Approp. FY 2005	Recomm. FY 2006	Dollar Change	Percent Change	Budget Page
Statewide Security Projects	**$0**	**$3,000**	**$3,000**	**—**	**D-446**

This increase reflects a shift in funding for Capitol Complex security projects from dedicated "off-budget" sources in FY 2005 (the $2 per day vehicle rental fee) to a "on-budget" appropriation from general resources. The funding level is unchanged. This account funds security upgrades such as facility cameras, access systems and special locking devices.

New Jersey Building Authority Debt Service

Budget Item	Adj. Approp. FY 2005	Recomm. FY 2006	Dollar Change	Percent Change	Budget Page
Southwoods State Prison	**$24,289**	**$20,414**	**($3,875)**	**(16.0)%**	**D-447**
State House Renovations	**$15,860**	**$13,326**	**($2,534)**	**(16.0)%**	**D-447**
Hughes Justice Complex	**$8,880**	**$7,461**	**($1,419)**	**(16.0)%**	**D-447**
Other State Projects	**$21,586**	**$18,135**	**($3,451)**	**(16.0)%**	**D-447**
9/11 Memorial	**$1,000**	**$864**	**($136)**	**(13.6)%**	**D-447**

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

Budget Item	Adj. Approp. FY 2005	Recomm. FY 2006	Dollar Change	Percent Change	Budget Page
State Police Multipurpose Building/Troop "C" Headquarters	**$6,097**	**$5,122**	**($975)**	**(16.0)%**	**D-447**
State Police Emergency Operations Center	**$1,137**	**$955**	**($182)**	**(16.0)%**	**D-447**
Total, New Jersey Building Authority	**$78,849**	**$66,277**	**($12,572)**	**(15.9)%**	**D-447**

Through lease agreements, the State pays the debt service on bonds issued by the New Jersey Building Authority to construct or improve State facilities. For FY 2006, $66.3 million is recommended to fund Building Authority debt service payments. This recommended decrease reflects the impact of debt refinancing.

Budget Item	Adj. Approp. FY 2005	Recomm. FY 2006	Dollar Change	Percent Change	Budget Page
Renovation Projects, Existing and Anticipated Leases	**$2,700**	**$2,000**	**($700)**	**(25.9)%**	**D-447**

This account funds a variety of renovation projects associated with leased premises. The account has substantial unexpended balances, so this reduction should have no impact.

Budget Item	Adj. Approp. FY 2005	Recomm. FY 2006	Dollar Change	Percent Change	Budget Page
Enterprise Initiatives					
Network Infrastructure	**$0**	**$3,950**	**$3,950**	**—**	**D-447**

This FY 2006 recommended appropriation will finance the Office of Information Technology's replacement of power supply and HVAC systems at its center in Riverview Plaza and other locations. The Office of Information Technology's existing air conditioning systems are beyond their useful life, while the replacement of power supply systems is also required. The new equipment will be more energy efficient than the current systems, some of which date back to the mid-1980s.

Budget Item	Adj. Approp. FY 2005	Recomm. FY 2006	Dollar Change	Percent Change	Budget Page
Enterprise Upgrades - Garden State Network	**$2,000**	**$0**	**($2,000)**	**(100.0)%**	**D-447**

This FY 2005 appropriation funded services provided by the Office of Information Technology to maintain and upgrade the State's computer network. This funding is not recommended in FY 2006 as investment in computer upgrades awaits the results of a comprehensive plan to be prepared by the Office of Information Technology (OIT) concerning data storage. In the interim, OIT may elect to use remaining fund balances from prior master lease financing programs.

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

Budget Item	Adj. Approp. FY 2005	Recomm. FY 2006	Dollar Change	Percent Change	Budget Page
Office of Information Technology - Availability and Recovery Site (OARS)	**$0**	**$1,400**	**$1,400**	**—**	**D-447**

This FY 2006 recommended appropriation would fund equipment purchases by the Office of Information Technology (OIT). FY 2005 funding for the OARS project totaling $7.2 million was funded in the Department of the Treasury budget from the proceeds of the $2 per day vehicle rental fee.

All Other Funds

Budget Item	Adj. Approp. FY 2005	Recomm. FY 2006	Dollar Change	Percent Change	Budget Page
Capital Projects - Statewide	**$3,000**	**$0**	**($3,000)**	**(100.0)%**	**D-447**

This decrease reflects a shift in funding for Capitol Complex security projects from dedicated "off-budget" sources in FY 2005 (the $2 per day vehicle rental fee) to a "on-budget" appropriation from general resources. The funding level is unchanged. This account funded security upgrades such as facility cameras, access systems and special locking devices.

EMPLOYEE BENEFITS

Direct State Services

Budget Item	Adj. Approp. FY 2005	Recomm. FY 2006	Dollar Change	Percent Change	Budget Page
Public Employees' Retirement System - Post Retirement Medical	**$167,602**	**$183,596**	**$15,994**	**9.5%**	**D-451**

This account funds post retirement medical (PRM) benefits for State employees who retire after 25 years as members of the Public Employees' Retirement System (PERS).

Budget Item	Adj. Approp. FY 2005	Recomm. FY 2006	Dollar Change	Percent Change	Budget Page
Police and Firemen's Retirement System	**$26,708**	**$31,710**	**$5,002**	**18.7%**	**D-451**

For FY 2006, the amount certified by the actuaries to fund both the normal cost and accrued State liability for the Police and Firemen's Pension System is $183.9 million. The FY 2006 recommended appropriation would fund 40 percent of the actuarially calculated State contribution to fund this retirement system, or approximately $73.5 million. The balance of this liability would be deferred. State funding for the PFRS is provided in five separate line-items. Two are in Interdepartmental Accounts - DSS, one in Interdepartmental Accounts - GIA and two in the Department of the Treasury as State Aid. The DSS recommended appropriation includes $31.7 million for State employees employed in Law Enforcement Officer positions and certain State employees who were permitted to transfer from the Public Employees' Retirement System to the Police and Firemen's Retirement

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

Budget Item	Adj. Approp. FY 2005	Recomm. FY 2006	Dollar Change	Percent Change	Budget Page

System (PFRS) under the provisions of P.L.1973, c.156.

Budget Item	Adj. Approp. FY 2005	Recomm. FY 2006	Dollar Change	Percent Change	Budget Page
Police and Firemen's Retirement System (P.L.1979, c.109)	**$2,180**	**$2,328**	**$148**	**6.8%**	**D-451**

The FY 2006 recommended funding for the Police and Firemen's Retirement System (PFRS) includes this $2.3 million, as part of the total $34.0 million in DSS funding, pursuant to the provisions of P.L.1979, c.109. This law provides enhanced benefits to members of the PFRS who retire after 25 years of service, granting a retirement allowance of 65 percent of final compensation. The State is liable for the increase in the normal contribution to fund this enhanced benefit, requiring extra State contributions of 1.1 percent of covered salary.

Budget Item	Adj. Approp. FY 2005	Recomm. FY 2006	Dollar Change	Percent Change	Budget Page
Alternate Benefits Program - Employer Contributions	**$1,241**	**$1,232**	**($9)**	**(0.7)%**	**D-451**

The Alternate Benefit Program is a defined contribution retirement program for higher education faculty and administrators and certain State employees. This account funds the required employer contribution for State employees at the rate of 8 percent of the members' base pay.

Budget Item	Adj. Approp. FY 2005	Recomm. FY 2006	Dollar Change	Percent Change	Budget Page
State Police Retirement System	**$188**	**$12,941**	**$12,753**	**6783.5%**	**D-451**

For FY 2006, the amount certified by the actuaries to fund both the normal contribution and accrued liability of the State Police Retirement System (SPRS) is $43.1 million. The FY 2006 recommended appropriation would fund 30 percent of the actuarially calculated State contribution to fund this retirement system, or approximately $12.9 million as referenced above. The balance of this liability would be deferred. In FY 2005, $36.5 million in excess valuation assets was used to reduce the State contribution to only $188,000.

Budget Item	Adj. Approp. FY 2005	Recomm. FY 2006	Dollar Change	Percent Change	Budget Page
Judicial Retirement System	**$6,120**	**$7,972**	**$1,852**	**30.3%**	**D-451**

For FY 2006, the amount certified by the actuaries to fund both the normal contribution and accrued liability of the Judicial Retirement System is $19.9 million. The FY 2006 recommended appropriation would fund 40 percent of the actuarially calculated State contribution to fund this retirement system. The balance of this liability would be deferred.

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

Budget Item	Adj. Approp. FY 2005	Recomm. FY 2006	Dollar Change	Percent Change	Budget Page
Teachers' Pension and Annuity Fund	**$0**	**$311**	**$311**	**—**	**D-451**

For FY 2006, the amount certified by the actuaries to fund both the normal cost and accrued liability of the Teachers' Pension and Annuity Fund (TPAF) is $946.6 million. The FY 2006 recommended appropriation would fund approximately 10 percent of the actuarially calculated State contribution to fund this retirement system, or $94.9 million. Another $283.7 million, or 30 percent of the total, would be funded with Benefit Enhancement Fund assets. The balance of this liability, about $568 million, would be deferred. The above recommended appropriation of $311,000 comprises funding for members of the TPAF who retired from State service. Other State funding for the TPAF is included in Interdepartmental Accounts - GIA and in the Department of Education.

Budget Item	Adj. Approp. FY 2005	Recomm. FY 2006	Dollar Change	Percent Change	Budget Page
Teachers' Pension and Annuity Fund - Post Retirement Medical (State)	**$3,292**	**$3,148**	**($144)**	**(4.4)%**	**D-451**

This recommended appropriation would fund post retirement medical (PRM) benefits made by the State on behalf of those members of the Teachers' Pension and Annuity Fund (TPAF) who retired from State service. The current year appropriation is over-funded by approximately $250,000, so this decrease does not reflect true cost trends.

Budget Item	Adj. Approp. FY 2005	Recomm. FY 2006	Dollar Change	Percent Change	Budget Page
Debt Service on Pension Obligations Bonds	**$59,324**	**$64,651**	**$5,327**	**9.0%**	**D-451**

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 actuarial accrued liability (UAAL) of the State pension system. This line-item represents that portion of the continued State debt service payments on these bonds which corresponds to the pension obligation funded in this section of the budget. Total pension bond debt service is approximately $164 million. Funding for debt service on these bonds are budgeted in Interdepartmental Accounts, Department of Education, and the Department of the Treasury.

Budget Item	Adj. Approp. FY 2005	Recomm. FY 2006	Dollar Change	Percent Change	Budget Page
Volunteer Emergency Survivor Benefit	**$105**	**$135**	**$30**	**28.6%**	**D-451**

This recommended appropriation funds costs incurred pursuant to the provisions of P.L.2002, c.134. This statute provides a State-paid $15,000 per year benefit to eligible survivors of volunteer firefighters, first aid workers, rescue squad workers and emergency medical technicians who die in the course of volunteer service.

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

Budget Item	Adj. Approp. FY 2005	Recomm. FY 2006	Dollar Change	Percent Change	Budget Page
Other Pension Systems - Post Retirement Medical	**$55,524**	**$57,367**	**$1,843**	**3.3%**	**D-451**

This account funds PRM benefits for State employees who retired from retirement systems other than the PERS or TPAF. Beneficiaries include retirees from the State Police, Judicial, Prison Officers, Alternate Benefit Program and other consolidated retirement systems.

Budget Item	Adj. Approp. FY 2005	Recomm. FY 2006	Dollar Change	Percent Change	Budget Page
State Employees' Health Benefits	**$504,445**	**$552,126**	**$47,681**	**9.5%**	**D-451**
State Employees' Prescription Drug Program	**$162,810**	**$189,721**	**$26,911**	**16.5%**	**D-451**
State Employees' Dental Program - Shared Cost	**$16,111**	**$25,423**	**$9,312**	**57.8%**	**D-451**
Total	**$683,366**	**$767,270**	**$83,904**	**12.3%**	**D-451**

These three health care benefit recommendations provide health care coverage, prescription drug benefits and the dental program for active State employees. The FY 2006 recommended appropriation for the combined total of these three line-items is up $83.9 million, or 12.3 percent, over the FY 2005 adjusted appropriation.

Budget Item	Adj. Approp. FY 2005	Recomm. FY 2006	Dollar Change	Percent Change	Budget Page
Social Security Tax - State	**$332,355**	**$337,295**	**$4,940**	**1.5%**	**D-451**

The FY 2006 recommended appropriation is to fund the employer's share of Social Security contributions for State employees, other than higher education employees. The taxable wage base for Social Security increased from $87,900 in calendar year 2004 to $90,000 in calendar year 2005 and will increase again on January 1, 2006. The recommended appropriation is an estimate of the funding required to meet the State's liability as an employer to pay FICA (Old Age, Survivors, and Disability Insurance) and Medicare taxes for FY 2006. The rate for Social Security (FICA) remains at 6.20 percent and the tax rate for Medicare remains at 1.45 percent. Unlike FICA, Medicare taxes are paid on all earnings.

Budget Item	Adj. Approp. FY 2005	Recomm. FY 2006	Dollar Change	Percent Change	Budget Page
Temporary Disability Insurance Liability	**$8,367**	**$9,968**	**$1,601**	**19.1%**	**D-451**

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

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

Budget Item	Adj. Approp. FY 2005	Recomm. FY 2006	Dollar Change	Percent Change	Budget Page
Unemployment Insurance Liability	**$6,440**	**$2,786**	**($3,654)**	**(56.7)%**	**D-451**

The FY 2006 recommended appropriation is an estimate of the amount required to pay unemployment claims for former State employees if the employee payroll tax proves to be insufficient. Unlike private industry, the State does not contribute a matching percentage of compensation to fund the Unemployment Compensation Trust Fund. The State operates on a pay-as-you-go basis as an insurer of last resort.

The reason for the recommended decline of nearly $3.7 million in FY 2006 is due to an increase in the employee contribution to the fund during FY 2005, from .01 percent to .03 percent. Thus the amount needed for the employer share was lower than projected when the FY 2005 budget was adopted. It is anticipated that approximately $4.1 million will lapse. FY 2005 expenditures are projected at $2.4 million. The FY 2006 recommendation assumes that the rates will remain the same.

Credit for Cash Management Reserve Refund	**$0**	**($12,000)**	**($12,000)**	**—**	**D-452**

The FY 2006 budget includes an offset of $12 million to the amount appropriated for Employee Benefits. Proposed budget language (page D-453) would authorize the Treasurer to substitute Cash Management Fund (CMF) loss reserves held on behalf of nonstate participants, e.g., municipalities, for State Aid or Grants-In-Aid appropriations payable to them. The funds appropriated for these State Aid and Grants-In-Aid payments would then be transferred to the appropriations made for employee benefits.

Grants-In-Aid

Public Employees' Retirement System - Post Retirement Medical	**$24,393**	**$26,767**	**$2,374**	**9.7%**	**D-452**

This account funds post retirement medical (PRM) benefits for State college or university employees who retire after 25 years as members of the Public Employees' Retirement System (PERS).

Police and Firemen's Retirement System	**$2,251**	**$2,486**	**$235**	**10.4%**	**D-452**

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

Budget Item	Adj. Approp. FY 2005	Recomm. FY 2006	Dollar Change	Percent Change	Budget Page

Funds appropriated to this account cover the State higher education portion of the required contribution to the retirement system. For FY 2006, the amount certified by the actuaries to fund both the normal cost and accrued liability of the Police and Firemen's Pension System is $183.9 million. The FY 2006 recommended appropriation would fund 40 percent of the actuarially calculated State contribution to fund this retirement system, or approximately $73.5 million. State funding for the PFRS is provided in five separate line-items. Two are in Interdepartmental Accounts - DSS, one in Interdepartmental Accounts - GIA and two in the Department of the Treasury as State Aid. The total GIA recommended appropriation includes the above $2.5 million for higher education employees employed in Law Enforcement Officer positions.

Alternate Benefits Program - Employer Contributions	**$114,890**	**$119,482**	**$4,592**	**4.0%**	**D-452**

The State pays the employer contribution to the Alternate Benefit Program for State colleges and universities at a rate of 8 percent of the members' base salary. The State also provides life insurance coverage and long-term disability coverage to plan members employed by various State higher education institutions.

Teachers' Pension and Annuity Fund	**$0**	**$66**	**$66**	**—**	**D-452**

For FY 2006, the amount certified by the actuaries to fund both the normal cost and accrued liability of the Teachers' Pension and Annuity Fund (TPAF) is $946.6 million. The FY 2006 recommended appropriation would fund approximately 10 percent of the actuarially calculated State contribution to fund this retirement system, or $94.9 million. Another $283.7 million, or 30 percent of the total, would be funded with Benefit Enhancement Fund assets. The balance of this liability, about $568 million, would be deferred. The above recommended appropriation of $66,000 comprises funding for members of the TPAF who retired from service with State colleges and universities. Other State funding for the TPAF is included in Interdepartmental Accounts - DSS and in the Department of Education.

Teachers' Pension and Annuity Fund - PRM (State)	**$6,553**	**$6,576**	**$23**	**0.4%**	**D-452**

This account funds post retirement medical (PRM) benefits for State college or university employees who retire after 25 years as members of the Teachers' Pension and Annuity Fund (TPAF). The current year appropriation is over-funded by about $500,000, so this increase understates true cost trends.

Debt Service on Pension Obligation Bonds	**$3,423**	**$3,730**	**$307**	**9.0%**	**D-452**

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

Budget Item	Adj. Approp. FY 2005	Recomm. FY 2006	Dollar Change	Percent Change	Budget Page

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 system. This line-item represents continued State debt service payments on these bonds. Total pension bond debt service is approximately $164 million. Funding for debt service on these bonds are budgeted in Interdepartmental Accounts, Department of Education, and the Department of the Treasury.

Other Pension Systems - Post Retirement Medical	**$15,661**	**$17,837**	**$2,176**	**13.9%**	**D-452**

This account funds PRM benefits for employees of higher educational institutions who retired from retirement systems other than the PERS or TPAF. Beneficiaries include retirees from the Alternate Benefit Program and other retirement systems.

State Employees' Health Benefits	**$215,992**	**$233,266**	**$17,274**	**8.0%**	**D-452**
State Employees' Prescription Drug Program	**$66,460**	**$78,989**	**$12,529**	**18.9%**	**D-452**
State Employees' Dental Program - Shared Cost	**$6,229**	**$10,339**	**$4,110**	**66.0%**	**D-452**
Total	**$288,681**	**$322,594**	**$33,913**	**11.7%**	**D-452**

These three health care benefit recommendations provide health care coverage, prescription drug benefits and the dental program for employees at State colleges and universities.

Social Security Tax - State	**$155,272**	**$155,622**	**$350**	**0.2%**	**D-452**

This FY 2006 recommended appropriation is to fund the employer's share of Social Security contributions for employees of State institutions of higher education. The taxable wage base for Social Security increased from $87,900 in calendar year 2004 to $90,000 in calendar year 2005 and will increase again on January 1, 2006. The recommended appropriation is an estimate of the funding required to meet the State's liability as an employer to pay FICA (Old Age, Survivors, and Disability Insurance) and Medicare taxes for FY 2006. The rate for Social Security (FICA) remains at 6.20 percent and the tax rate for Medicare remains at 1.45 percent. Unlike FICA, Medicare taxes are paid on all earnings.

Temporary Disability Insurance Liability	**$3,796**	**$4,540**	**$744**	**19.6%**	**D-452**

The recommended appropriation of $4.5 million is to fund Temporary Disability Insurance Plan

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

Budget Item	Adj. Approp. FY 2005	Recomm. FY 2006	Dollar Change	Percent Change	Budget Page

(TDI) contributions for employees at State institutions of higher education. All eligible employees are included in the TDI Plan. The Plan is a shared-cost plan which provides payments to employees who are unable to work as the result of a non-work connected illness or injury and who have exhausted their sick leave and are ineligible for any unemployment compensation or workers' compensation. New Jersey is one of only five State that provides compulsory temporary disability insurance for workers.

Unemployment Insurance Liability	**$3,615**	**$2,012**	**($1,603)**	**(44.3)%**	**D-452**

The FY 2006 recommended appropriation is an estimate of the amount required to pay unemployment claims for former employees of State institutions of higher education if the employee payroll tax proves to be insufficient. Unlike private industry, the State does not contribute a matching percentage of compensation to fund the Unemployment Compensation Trust Fund. The State operates on a pay-as-you-go basis as an insurer of last resort.

The reason for the recommended decline of nearly $1.6 million in FY 2006 is due to an increase in the employee contribution to the fund during FY 2005, from .01 percent to .03 percent. Thus the amount needed for the employer share was lower than projected when the FY 2005 budget was adopted. It is anticipated that approximately $1.5 million will lapse. FY 2005 expenditures are projected at $2.1 million. The FY 2006 recommendation assumes that the rates will remain the same.

OTHER INTERDEPARTMENTAL ACCOUNTS

Direct State Services

Catastrophic Illness in Children Relief Fund - Employer Contributions	**$125**	**$672**	**$547**	**437.6%**	**D-455**

This account funds the annual employer assessment of $1.00 per employee payable to the Catastrophic Illness in Children Relief Fund. The reason for the recommended increase is unclear.

Interest on Interfund Borrowing	**$1,000**	**$0**	**($1,000)**	**(100.0)%**	**D-455**

As of early May, no FY 2005 funds have been expended from this account and this account does not appear to be needed in FY 2006. This account was intended to fund interest costs on cash flow loans among the various State trust funds, some of which are entitled to retain investment income and thus can lend only at interest.

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

Budget Item	Adj. Approp. FY 2005	Recomm. FY 2006	Dollar Change	Percent Change	Budget Page
Statewide 911 Emergency Telephone System	**$18,362**	**$17,567**	**($795)**	**(4.3)%**	**D-455**

This account funds the Statewide Emergency Telephone System. Expenses include debt service payments on the current 911 systems, provider charges, provider maintenance charges, access fees, and GIS wireless telephone mapping.

Network Infrastructure	**$6,800**	**$7,200**	**$400**	**5.9%**	**D-455**

This account funds line-of-credit financing for network infrastructure upgrades, maintenance and programming charges. The recommended increases reflects increases in amortization costs on previously acquired equipment.

Accelerated Registration	**$400**	**$0**	**($400)**	**(100.0)%**	**D-455**

Costs for programming resources at the Office of Information Technology incurred by the acceleration of the Motor Vehicles Commissions new drivers registration project were funded by this line-item. These costs are non-recurring, so no additional funding is needed in FY 2006.

<u>Grants-In-Aid</u>

Property Tax Assistance and Community Development Grants	**$88,000**	**$0**	**($88,000)**	**(100.0)%**	**D-455**

Funding from this account was awarded to local units of government or non-government entities for various discretionary projects and purposes. The funding was awarded by the State Treasurer, contingent on Joint Budget Oversight Committee review and approval, in amounts up to $5 million per recipient. This appropriation is not recommended to continue in FY 2006.

Cost of Living Increase for Community Care Providers	**$11,273**	**$0**	**($11,273)**	**(100.0)%**	**D-455**

This FY 2005 appropriation, added by the Legislature, funded an additional one-half percent cost-of-living adjustment (COLA) for certain community care providers under contract with a State agency. These funds were allocated to those agencies for inclusion in provider contract payments. The amount displayed for FY 2005 is the original appropriation; the adjusted appropriation is zero, reflecting the allocation of the funding to various agency accounts as intended. This appropriation is not recommended in FY 2006.

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

Budget Item	Adj. Approp. FY 2005	Recomm. FY 2006	Dollar Change	Percent Change	Budget Page
		SALARY INCREASES AND OTHER BENEFITS			
Direct State Services					
Salary Increases and Other Benefits	**$129,780**	**$140,124**	**$10,344**	**8.0%**	**D-456**

This recommendation would fund estimated cost of cost-of-living adjustments (COLA) and increments under settled contracts. Communications Workers of America (CWA), American Federation of State, County, and Municipal Employees (AFSCME), International Federation of Professional and Technical Engineers (IFPTE), and Fraternal Order of Police (FOP) have negotiated a COLA increase of 2.0 percent effective July 1, 2005 and another 2.0 percent effective January 1, 2006. The unions that represent Judicial employees - CWA, Judiciary Council of Affiliated Unions (JCAU), and Probation Association of New Jersey (PANJ), will receive a 0.9 percent increase with a 4.15 percent salary progression on July 1, 2005. The State Police will receive a 4.0 percent increase on July 1, 2005. The amount displayed for FY 2005 is the original appropriation; the adjusted appropriation is zero, reflecting the allocation of the funding to various agency accounts as intended.

Employee Actions	**$0**	**($50,000)**	**($50,000)**	**—**	**D-456**

The Governor's budget includes $50 million in savings from employee actions. These may include a 10 percent reduction in each commissioner's office and other administrative accounts and the attrition of 500 State employees. The details on the anticipated actions have not been provided as yet.

Grants-In-Aid

Salary Increases and Other Benefits	**$31,158**	**$17,773**	**($13,385)**	**(43.0)%**	**D-456**

This appropriation funds cost-of-living adjustments (COLA) for employees of State colleges and universities. The FY 2005 amount funded approximately 80 percent of the full estimated cost of the COLA. The recommended FY 2006 amount funds about 40 percent of the full estimated COLA. The amount displayed for FY 2005 is the original appropriation; the adjusted appropriation is zero, reflecting the allocation of the funding to various college and university accounts as intended.

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

Budget Item	Adj. Approp. FY 2005	Recomm. FY 2006	Dollar Change	Percent Change	Budget Page

Language Provisions

GENERAL GOVERNMENT SERVICES

2005 Appropriations Handbook	2006 Budget Recommendations
p. B-201	
Notwithstanding the provisions of any other law to the contrary, such additional sums as may be required to pay for State's share of the Enhanced 911 surcharge, as the Director of the Division of Budget and Accounting shall determine, are appropriated to the Emergency Preparedness and 911 System Trust Fund account.	No comparable language.

Explanation

This language originated in FY 2005 to authorize additional appropriations as necessary to meet the State's costs, as a consumer of telecommunications services, of the enhanced 9-1-1 surcharge imposed pursuant to P.L.2004, c.48. A supplemental FY 2005 appropriation of $1.5 million is projected to fund these additional costs. The language is discontinued because funding of $1.5 million is recommended in FY 2006.

Capital Construction

2005 Appropriations Handbook	2006 Budget Recommendations
	p. D-449
No comparable language.	In addition to the amounts appropriated under P.L.2004, c.71, donations for the 9/11 Memorial Design Costs from public and private sources, including those collected from the Port Authority of New York and New Jersey, for the purpose of planning, designing, maintaining and constructing a memorial to the victims of the terrorist attacks of September 11, 2001, on the World Trade Center in New York City, the Pentagon in Washington, D. C., and United Airlines Flight 93 in Somerset, Pennsylvania, shall be deposited by the State Treasurer in a dedicated account established for this purpose and are appropriated for the purposes set forth under P.L.2004, c.71.

Language Provisions (Cont'd)

Explanation

This FY 2006 recommended budget language appropriates both public and private donations made to the State for 9/11 Memorial Design Costs, including donations collected from the Port Authority of New York and New Jersey, to a dedicated account. The recommended budget language appropriates these donations for the design and construction of a 9/11 memorial, pursuant to the provisions of the FY 2005 Appropriations Act (P.L.2004, c.71).

2005 Appropriations Handbook	2006 Budget Recommendations
p. B-208	
The amount hereinabove appropriated for the Camden Aquarium L.L.C. shall be subject to the execution of an agreement between the State Treasurer and the operator of the Camden Aquarium to effectuate the development and expansion of the Aquarium. In addition to the amounts appropriated hereinabove for the Camden Aquarium L.L.C there are appropriated such additional sums as may be necessary, subject to the approval of the Director of the Division of Budget and Accounting.	No comparable language.

Explanation

The $1.5 million Grants-In-Aid appropriation for the Camden Aquarium Management Agreement is not recommended in FY 2006. Therefore, the FY 2005 budget language is not needed in FY 2006.

Language Provisions (Cont'd)

EMPLOYEE BENEFITS

Direct State Services

2005 Appropriations Handbook

p. B-203

Notwithstanding the provisions of any other law to the contrary, amounts hereinabove appropriated for the State Health Benefits Program are subject to the condition that: (i) increases in co-payments for the prescription drug plan, the co-payment for office visits in the managed care plans, and the deductible for the Traditional Plan agreed to by bargaining units representing State employees and employees of State authorities, State commissions, State colleges and State universities shall ~~be~~ implemented by the State Health Benefits Commission ~~as expeditiously as is administratively feasible;~~ and (ii) the following co-payments shall ~~be implemented by the State Health Benefits Commission as expeditiously as is administratively feasible~~ for (a) employees paid through the State centralized payroll for whom there is no majority representative for collective negotiations purposes; and (b) employees of State authorities, State commissions, State colleges, and State Universities for whom there is no majority representative for collective negotiations purposes who receive health benefits through the State Health Benefits Program and such health benefits are funded in whole or in part by State appropriations: a $10 co-payment for NJ Plus and HMO primary care physician and specialist office visits; co-payments for the Employee Prescription Drug: Retail Pharmacy-$3 generic and $10 brand name for up to a 30-day supply, and mail Order Pharmacy - $5 generic and $15 brand name for up to a 90 day supply; and a Traditional Plan deductible of $250.

2006 Budget Recommendations

p. D-453

Notwithstanding the provisions of any other law to the contrary, amounts hereinabove appropriated for the State Health Benefits Program are subject to the condition that: (i) increases in co-payments for the prescription drug plan, the co-payment for office visits in the managed care plans, and the deductible for the Traditional Plan agreed to by bargaining units representing State employees and employees of State authorities, State commissions, State colleges and State universities for **Fiscal Year 2005** shall **continue at the same levels for this fiscal year; and (ii) the following increases** implemented by the State Health Benefits Commission for **Fiscal Year 2005** shall **continue in this fiscal year** for (a) employees paid through the State centralized payroll for whom there in no majority representative for collective negotiations purposes; and (b) employees of State authorities, State commissions. State colleges and State universities for whom there is no majority representative for collective negotiations purposes who receive health benefits through the State Health Benefits Program and such health benefits are funded in whole or in part by State appropriations: a $10 co-payment for NJ PLUS and HMO primary care physician and specialist office visits; co-payments for the Employee Prescription Drug: Retail Pharmacy-$3 generic and $10 brand name for up to a 30-day supply, and Mail Order Pharmacy-$5 generic and $15 brand name for up to a 90 day supply; and a Traditional Plan deductible of $250.

Explanation

The recommended FY 2006 budget language makes technical changes to FY 2005 language so that rates for co-payments and deductibles, as previously negotiated by collective bargaining units, and applicable as well to employees not represented by bargaining units, remain in effect in FY 2006.

Language Provisions (Cont'd)

2005 Appropriations Handbook	2006 Budget Recommendations
p. B-203	
The Director of the Division of Budget and Accounting shall transfer from departmental operating appropriations Statewide that are available for payments for services provided by the Office of Information Technology amounts not to exceed $4,000,000 which are appropriated for the Employee Benefits program classification.	No comparable language.

Explanation

The FY 2005 Appropriations Act included a $9.3 million deduction from Employee Benefits appropriations, of which $4 million was to be reallocated from agency appropriations for Office of Information Technology services pursuant to the above language. No similar deduction is recommended for FY 2006, so this language is discontinued.

2005 Appropriations Handbook	2006 Budget Recommendations
p. B-203	
Notwithstanding the provisions of N.J.S.18A:66-18 amounts hereinabove appropriated for the Employee Benefits program classification are subject to the condition that the rate for member contributions of State employees in the Teachers' Pension and Annuity Fund shall be 3% for the period of July 1, 2004 through December 31, 2004.	No comparable language.

Explanation

This FY 2005 budget language reduced the employee contribution rate for State employees who are members of the Teachers' Pension and Annuity Fund from 5 percent to 3 percent for a six month period, in order to provide equal contribution rates among State employees. Contribution rates after December 31, 2004 are equal, therefore, this language is no longer necessary.

Language Provisions (Cont'd)

2005 Appropriations Handbook	2006 Budget Recommendations
	p. D-453
No comparable language	Notwithstanding the provisions of any other law to the contrary, the amounts herein appropriated for State Employees' Health Benefits are subject to the condition that: as expeditiously as is administratively feasible to elect health care coverage by the affected groups, as determined by the State Health Benefits Commission, no such amounts shall be used to pay the State share of the cost of the Traditional Plan coverage as agreed to by bargaining units listed below representing employees in the following bargaining units and employees in such units who retire after July 1, 2005: 1. New Jersey State Corrections Association Inc. (NJSCA), affiliated with Fraternal Order of Police Lodge 200; 2. New Jersey Law Enforcement Supervisors Association Inc. (NJLESA), affiliated with Fraternal Order of Police Lodge 185; 3. New Jersey Superior Officers Law Enforcement Association, Inc. (NJOLEA), affiliated with Fraternal Order of Police Lodge 183; 4. New Jersey Superior Officers Association, Captains, Inc. (NJSOA), affiliated with Fraternal Order of Police Lodge 187; 5. New Jersey Investigators Association Inc. (NJIA), affiliated with Fraternal Order of Police Lodge 174; 6. State Troopers Fraternal Association of New Jersey (STFA); 7. State Troopers Non-Commissioned Officers Association of New Jersey (STNCOA) (Trooper Sergeants); and 8. State Troopers Superior Officers Association of New Jersey (STSOA).

Explanation

Effective July 1, 2005, the Traditional Plan will no longer be available to active members of the bargaining units noted above or to any members retiring after that date. Effective immediately upon implementation, no new hires will be permitted to enroll in the Traditional Plan. The recommended FY 2006 budget language authorizes the State Health Benefits Commission to ensure that no appropriated State funds for employee health care benefits are expended by the State to fund the cost of Traditional Plan coverage for these bargaining units.

Language Provisions (Cont'd)

2005 Appropriations Handbook	2006 Budget Recommendations
	p. D-453
No comparable language	From the amounts appropriated in this act that are designated as State Aid or Grants-In-Aid to be distributed by the State to governmental units that participate in the State of New Jersey Cash Management Fund reserve fund, there shall be a corresponding reduction in such payments from those appropriations amounts, as the Director of the Division of Budget and Accounting shall determine, up to the amount of the funds returned from the reserve fund to those participating governmental units. The Director of the Division of Budget and Accounting shall provide notice of the payment reductions to the Legislative Budget and Finance Officer on the effective date of any payment reductions. An amount up to the total reduced payments shall be transferred by the Director of the Division of Budget and Accounting from such appropriations to the appropriations made in the Employee Benefits program classification accounts in the Interdepartmental accounts for the purposes of those accounts, which transferred amounts shall be deemed a "Base Year Appropriation" for the purposes of the "State Appropriations Limitation Act," P.L.1990, c.94 (C.52:9H-24 et. seq.).

Explanation

The recommended appropriation for State employee Social Security taxes is reduced by a "credit" of $12 million, to be transferred from unspecified State Aid or Grants-In-Aid appropriations. This language authorizes the substitution of certain reserves in the Cash Management Fund for State appropriations when paying State Aid or Grants-In-Aid to governmental units whose funds comprise those reserves. As a result, balances will then be available for transfer to the Social Security Tax account. This language also stipulates that this "credit" will not unduly reduce allowable State appropriations in FY 2007 under the State "cap" law.

Language Provisions (Cont'd)

EMPLOYEE BENEFITS

Grants-In-Aid

2005 Appropriations Handbook

p. B-204

Notwithstanding the provisions of any other law to the contrary, amounts hereinabove appropriated for the State Health Benefits Program are subject to the condition that: (i) increases in co-payments for the prescription drug plan, the co-payment for office visits in the managed care plans, and the deductible for the Traditional Plan agreed to by bargaining units representing State employees and employees of State authorities, State commissions, State colleges and State universities shall ~~**be**~~ implemented by the State Health Benefits Commission ~~**as expeditiously as is administratively feasible;**~~ and (ii) the following co-payments shall ~~**be implemented by the State Health Benefits Commission as expeditiously as is administratively feasible**~~ for (a) employees paid through the State centralized payroll for whom there is no majority representative for collective negotiations purposes; and (b) employees of State authorities, State commissions, State colleges, and State Universities for whom there is no majority representative for collective negotiations purposes who receive health benefits through the State Health Benefits Program and such health benefits are funded in whole or in part by State appropriations: a $10 co-payment for NJ Plus and HMO primary care physician and specialist office visits; co-payments for the Employee Prescription Drug: Retail Pharmacy-$3 generic and $10 brand name for up to a 30-day supply, and mail Order Pharmacy - $5 generic and $15 brand name for up to a 90 day supply; and a Traditional Plan deductible of $250.

2006 Budget Recommendations

p. D-454

Notwithstanding the provisions of any other law to the contrary, amounts hereinabove appropriated for the State Health Benefits Program are subject to the condition that: (i) increases in co-payments for the prescription drug plan, the co-payment for office visits in the managed care plans, and the deductible for the Traditional Plan agreed to by bargaining units representing State employees and employees of State authorities, State commissions, State colleges and State universities for **Fiscal Year 2005** shall **continue at the same levels for this fiscal year; and (ii) the following increases** implemented by the State Health Benefits Commission for **Fiscal Year 2005** shall **continue in this fiscal year** for (a) employees paid through the State centralized payroll for whom there in no majority representative for collective negotiations purposes; and (b) employees of State authorities, State commissions. State colleges and State universities for whom there is no majority representative for collective negotiations purposes who receive health benefits through the State Health Benefits Program and such health benefits are funded in whole or in part by State appropriations: a $10 co-payment for NJ PLUS and HMO primary care physician and specialist office visits; co-payments for the Employee Prescription Drug: Retail Pharmacy-$3 generic and $10 brand name for up to a 30-day supply, and Mail Order Pharmacy-$5 generic and $15 brand name for up to a 90 day supply; and a Traditional Plan deductible of $250.

Language Provisions (Cont'd)

Explanation

The recommended FY 2006 budget language makes technical changes to FY 2005 language so that rates for co-payments and deductibles, as previously negotiated by collective bargaining units, and applicable as well to employees not represented by bargaining units, remain in effect in FY 2006.

2005 Appropriations Handbook	2006 Budget Recommendations
p. B-204	
Notwithstanding the provisions of N.J.S.18A:66-18 amounts hereinabove appropriated for the Employee Benefits program classification are subject to the condition that the rate for member contributions of State employees in the Teachers' Pension and Annuity Fund shall be 3% for the period of July 1, 2004 through December 31, 2004.	No comparable language.

Explanation

This FY 2005 budget language reduced the employee contribution rate for State employees who are members of the Teachers' Pension and Annuity Fund from 5 percent to 3 percent for a six month period, in order to provide equal contribution rates among State employees. Contribution rates after December 31, 2004 are equal, therefore, this language is no longer necessary.

Language Provisions (Cont'd)

OTHER INTERDEPARTMENTAL ACCOUNTS

2005 Appropriations Handbook	2006 Budget Recommendations
p. B-205	
Of the amount appropriated hereinabove for the Statewide 911 Emergency Telephone System, $9,428,000 is chargeable to receipts derived from the 9-1-1 System and Emergency Response Assessment pursuant to P.L.2004, c.48.	No comparable language.

Explanation

This FY 2005 budget language anticipated the enactment of a fee on telephone exchange service and mobile telecommunications to provide funds for emergency services. The language identified certain appropriations that would be supported by the revenue from that fee. The assessment is projected to generate a total of $115 million in FY 2005 and $119 million in FY 2006 for enhanced 911 Emergency Telephone System service as well as the ongoing costs for security and counter-terrorism. Because the revenue is dedicated by law, this language is unnecessary in FY 2006. A schedule showing the potential allocation of this revenue appears on page H-65 of the budget.

2005 Appropriations Handbook	2006 Budget Recommendations
p. B-205	**p. D-456**
~~The amount appropriated hereinabove for the Enhanced 911 County Grants is chargeable to receipts derived from the 9-1-1 System and Emergency Response Assessment pursuant to P.L.2004, c.48.~~ Grant awards and expenditures supported by the appropriation for Enhanced 911 County Grants shall be determined in accordance with grant criteria to be jointly developed by the 911 Commission and the Department of Treasury, Community Affairs, and the Attorney General's office, the purpose of which will be to create incentives for the regional consolidation of 911 call services and public safety answering points.	Grant awards and expenditures supported by the appropriation for Enhanced E-911 County Grants shall be determined in accordance with grant criteria to be jointly developed by the 911 Commission and the Departments of Treasury, Community Affairs, and the Attorney General's Office, the purpose of which will be to create incentives for the regional consolidation of 911 call services and public safety answering points.

Explanation

This FY 2005 budget language anticipated the enactment of a fee on telephone exchange service and mobile telecommunications to provide funds for emergency services. The language identified certain appropriations that would be supported by the revenue from that fee. The assessment is projected

Language Provisions (Cont'd)

to generate a total of $115 million in FY 2005 and $119 million in FY 2006 for enhanced 911 Emergency Telephone System service as well as the ongoing costs for security and counter-terrorism. Because the revenue is dedicated by law, this language is unnecessary in FY 2006. A schedule showing the potential allocation of this revenue appears on page H-65 of the budget.

2005 Appropriations Handbook	**2006 Budget Recommendations**
p. B-205	
From the amount appropriated hereinabove for Property Tax Assistance and Community Development Grants, the State Treasurer shall provide State assistance to municipalities, school districts and counties for their local purposes as the State Treasurer shall determine, and for the payment of Grants-In-Aid awards to non-governmental entities for health, welfare, educational, or other purposes as the State Treasurer shall determine, subject to the approval of the Director of the Division of Budget and Accounting and review and approval by the Joint Budget and Oversight Committee. The committee shall be provided periodically with a list of grantees approved by the director to review and shall approve the list or disapprove the list as provided within 10 working days or the list of grantees shall be deemed approved by the committee. No receipt of State assistance or a grant shall receive more that $5,000,000 from this appropriation. The amount distributed to a municipality, school district or county from this appropriation may be expended by the recipient notwithstanding any law to the contrary.	No comparable language.

Explanation

In FY 2005, $88 million was appropriated for "Property Tax Assistance and Community Development Grants." Funding was awarded by the State Treasurer, contingent on Joint Budget Oversight Committee review and approval, in amounts up to $5 million per recipient. In FY 2006, an appropriation is not recommended to this account. Therefore, this budget language is not needed.

Language Provisions (Cont'd)

2005 Appropriations Handbook	2006 Budget Recommendations
p. B-205	
From the amount appropriated hereinabove for Cost of Living Increase for Community Care Providers, there shall be allocated to those departments with line-item appropriations made within those departments for such Cost of Living Increases, such amounts as shall be in proportion to those departmental appropriations, as shall be determined by the Director of the Division of Budget and Accounting.	No comparable language.

Explanation

This FY 2005 budget language allocated the $11.3 million (one-half of one percent) cost-of-living adjustment appropriation for community care providers to various departments, as appropriate. An appropriation for community care workers cost-of-living adjustment is not recommended in FY 2006, therefore this budget language is not needed.

2005 Appropriations Handbook	2006 Budget Recommendations
p. B-207	
Receipts derived from the agency surcharge on vehicle rentals pursuant to 54 of P.L.2002, c.34 (C.App.A:9-78), not to exceed $3,000,000 for Statewide Security Projects related to Statewide security services, are appropriated for those purposes and shall be deposited into a dedicated account, the expenditure of which shall be subject to the approval of the Division of Budget and Accounting.	No comparable language.

Explanation

The FY 2005 budget language funded State House security projects from receipts derived from the surcharge on vehicle rentals. For FY 2006, a $3 million Capital construction line-item appropriation is recommended to fund such security costs.

Language Provisions (Cont'd)

2005 Appropriations Handbook	2006 Budget Recommendations
p. B-207	
Prior to the unexpended balance as of June 30, 2004 in the Network Infrastructure Account intended for the development of the server farm initiative being expended, any participating department shall enter into a Memorandum of Understanding with the Chief Information Officer that no enterprise, data warehousing, application or database servers will be purchased by these departments but that they will participate in the implementation of the server farm.	No comparable language.

Explanation

This FY 2005 budget language required certain State departments to enter into an agreement with the Chief Information Officer concerning the implementation of a State computer server farm prior to any expenditures of balances from FY 2004. A server farm is collection of computer servers that act as a single system. A server is a computer that provides service for other computers connected to it via a network. Since the unexpended balances to which this language pertained are expected to be spent or lapsed by the close of FY 2005, and any new FY 2006 Network Infrastructure funding is not relevant to server farm development, this language is discontinued.

2005 Appropriations Handbook	2006 Budget Recommendations
p. B-207	
In addition to the amount appropriated hereinabove for Enterprise Upgrades-Garden State Network, $175,000 from administrative savings from the Office of Information Technology (OIT) shall be allocated for this purpose. Spending of all funds shall be subject to the approval of the OIT oversight board and subject to the approval of Director of Division of Budget and Accounting.	No comparable language.

Explanation

This FY 2005 language provided that $175,000 from resources allocated to the Office of Information Technology be redirected to fund upgrades to the Garden State Network, in addition to a $2 million capital appropriation. Since no additional funding is recommended in FY 2006 for this purpose, the language is discontinued.

Language Provisions (Cont'd)

<u>**2005 Appropriations Handbook**</u>	<u>**2006 Budget Recommendations**</u>
	p. D-455
No comparable language.	The amount hereinabove appropriated for the Office of Emergency Telecommunication Services is subject to the approval of a spending plan to be submitted to the Director of Budget and Accounting.

<u>**Explanation**</u>

The recommended FY 2006 appropriation of $1.5 million for the Office of Emergency Telecommunication Services continues FY 2005 projected supplemental funding for the costs to the State, as a consumer of telecommunications services, of the enhanced 9-1-1 surcharge imposed pursuant to P.L.2004, c.48. This budget language makes the expenditure of these funds contingent upon the approval of a spending plan by the Director of the Division of Budget and Accounting.

Language Provisions (Cont'd)

SALARY INCREASES AND OTHER BENEFITS

2005 Appropriations Handbook	2006 Budget Recommendations
p. B-206	**p. D-456**
Notwithstanding the provisions of any other law, including R.S.34:15-49 and section 1 of P.L.1981, c.353 (C.34:15-49.1), the State Treasurer, the Commissioner of Personnel, and the Director of the Division of Budget and Accounting shall establish directives governing salary ranges and rates of pay~~**, and salary increases including a 3.9% cost of living adjustment for public sector managers**~~. The implementation of such directives shall be made effective at the first full pay period of Fiscal Year ~~**2005**~~ as determined by such directives, with timely notification of such directives to the Joint Budget and Oversight Committee or its successor. Such directives shall not be considered an "administrative rule" or "rule" within the meaning of subsection (e) of section 2 of P.L.1968, c.410 (C.52:14B-2), but shall be considered exempt under paragraphs (1) and (2) of subsection (e) of section 2 of P.L.1968, c.410 (C.52:14B-2), and shall not be subject to the "Administrative Procedure Act," P.L.1968, c.410 (C.52:14B-1 et seq,). Nothing herein shall be construed as applicable to the Presidents of the State Colleges, Rutgers, The State University, the University of Medicine and Dentistry of New Jersey and the New Jersey Institute of Technology.	Notwithstanding the provisions of any other law, including R.S.34:15-49 and section 1 of P.L.1981, c.353 (C.34:15-49.1), the State Treasurer, the Commissioner of Personnel, and the Director of the Division of Budget and Accounting shall establish directives governing salary ranges and rates of pay, **including salary increases**. The implementation of such directives shall be made effective at the first full pay period of Fiscal Year **2006** as determined by such directives, with timely notification of such directives to the Joint Budget and Oversight Committee or its successor. Such directives shall not be considered an "administrative rule" or "rule" within the meaning of subsection (e) of section 2 of P.L.1968, c.410 (C.52:14B-2), but shall be considered exempt under paragraphs (1) and (2) of subsection (e) of section 2 of P.L.1968, 410 (C.52:14-2), and shall not be subject to the "Administrative Procedure Act," P.L.1968, c.410 (C.52:14B-1 et seq.). Nothing herein shall be construed as applicable to the Presidents of the State Colleges, Rutgers, The State University, the University of Medicine and Dentistry of New Jersey and the Institute of Technology.

Explanation

The recommended FY 2006 budget language omits the provision that provided public sector managers with a 3.9 percent cost-of-living-adjustment (COLA) in FY 2005. The COLA was an across-the-board increase and, as such, applied equally to all managers in the Executive Branch.

Discussion Points

Medicare Prescription Drug Benefit

1. The *Medicare Prescription Drug, Improvement and Modernization Act of 2003* (MMA, P.L. 108-391) establishes a voluntary prescription drug benefit under Medicare Part D, effective January 1, 2006. Employers — including states — will save from the MMA retiree drug subsidy provided to encourage them to retain their current benefits. The Center for Medicare and Medicaid Services (CMS) reports that a series of options are available to states in structuring these benefits.

Final regulations for the MMA were released in the January 28, 2005 issue of the Federal Register. Subpart R of the regulations implements section 1860D-22 of the Act, which provides for subsidy payments to sponsors of qualified retiree prescription drug plans.

Generally, employers who offer drug benefits to their retirees (and their dependents) who are eligible for Medicare Part D can choose to:

a. Continue to provide prescription drug coverage through employment-based retiree health coverage. If such coverage is at least actuarially equivalent to the standard prescription drug coverage under Part D, the sponsor is eligible for a special federal subsidy for each individual enrolled in the sponsor's plan who is eligible for Part D but elects not to enroll in Part D;
b. Contract with a prescription drug plan or Medicare Advantage-prescription drug plan to offer prescription drug benefits to retirees who are eligible for Medicare. Alternatively, the retiree plan sponsor itself could apply to be a Part D plan for its retirees. Such a plan may consist of "enhanced alternative coverage," offering drug coverage that is more generous than the standard prescription drug coverage under Part D; or
c. Provide separate prescription drug coverage that supplements, or "wraps around," the coverage offered under Part D plans in which the retirees (and their Medicare eligible dependents) enroll.

! ***Question:*** **Please detail how retiree prescription drug benefits will be integrated with the new federal prescription drug coverage under Medicare Part D. How much money will the State Health Benefits Program retiree prescription drug plan save in FY 2006 under the option chosen by the State? What will be the annual savings? Please specify savings by SHBP enrollment group.**

Traditional Plan Coverage

2. Recently concluded contract negotiations with all eight law enforcement units closed the Traditional Plan. Effective July 1, 2005, the Traditional Plan will no longer be available to members of these bargaining units. A special open enrollment will allow employees to chose alternate coverage. In addition, the Traditional Plan will no longer be available to all prospective retirees retiring after that date. Effective immediately upon implementation, no new hires will be permitted to enroll in the Traditional Plan. The Traditional Plan has been closed to other new State hires since July 1, 2003. Since 1997, State retirees pay 25 percent of the premium for Traditional Plan coverage.

! ***Question:*** **What is the amount of actual savings per fiscal year from closing Traditional Plan enrollment to State new hires? What is the projected reduction in the rate of growth of health benefit costs over the next five fiscal years by closing the Traditional Plan?**

Post Retirement Medical Benefit Costs

Discussion Points (Cont'd)

3. A total FY 2006 appropriation of $1.009 billion is recommended to fund post retirement medical (PRM) benefits for State employees retired from the Public Employees' Retirement System (PERS), retired employees of local school boards in the Teachers' Pension and Annuity Fund (TPAF), and other retirees eligible for PRM benefits. This is an increase of almost $104 million or 11.5 percent from the FY 2005 adjusted appropriation of $904.6 million.

Of the total recommended to fund PRM benefits, almost $600 million or 59.5 percent, would finance health care benefits for TPAF retirees. At $589.1 million, PRM benefit funding for TPAF retirees is budgeted primarily in the Department of Education. Over 80 percent, or 47,896 local school district retirees are enrolled in the Traditional Plan. Traditional Plan coverage costs the State approximately $22,000 for family coverage for each non-Medicare eligible retiree (retirees between 55 and 65 years of age).

! *Question:* **a. Does the demographic profile of the State workforce and New Jersey teachers reflect a "baby boom" bulge such that the State can anticipate increasing PRM State Health Benefit Program costs due not just to "continued cost escalation in the health care industry" but also due to significant numbers of new retirees?**

! *Question:* **b. Since a significant portion of the State cost of Teachers' Pension and Annuity Plan PRM coverage is attributable to Traditional Plan coverage, has the State considered phasing-out Traditional Plan coverage for retirees? Of the top 10 private sector employers in the State, how many offer their retirees free Traditional Plan coverage? What is the estimated amount the State would save in FY 2006 if there were no Traditional Plan coverage for retirees, assuming each retiree currently enrolled in the Traditional Plan was instead enrolled in NJ PLUS?**

School District Remittance of Employee Pension Contributions

4. The Lakewood school district reportedly owes the State-administered pension fund $774,000 in missed employee pension payments over the past two years. Last year, the school district had to pay $166,000 in penalties to the Internal Revenue Service for late federal tax payments. The missed payments to the Division of Pensions and Benefits were uncovered by an auditing firm hired to help the Lakewood school board prepare its 2005-2006 budget.

! *Question:* **How does the Division of Pensions and Benefits track employee pension remittances by local government employers? Did the division notify the Lakewood school board that it had not remitted employee pension contributions and what, if any actions did the division take to rectify this situation? What is the estimated amount of unremitted employee pension contributions among all local government employers? Does the division impose a penalty or interest for late remittances?**

Workers Compensation Fund

Discussion Points (Cont'd)

5. The State is self-insured for workers' compensation payments made to State employees. The Budget in Brief (page 36) indicates that Workers Compensation claims have risen precipitously in recent years, resulting in significant cost increases. The FY 2006 Budget recommends $55.5 million in DSS funding for this program. From FY 2000 through FY 2004, annual claims increased by nearly 1,400 or 20 percent, and related costs increased by $13.6 million or 35 percent. Much of this increase was concentrated in large departments such as Human Services and Corrections which have extensive institutional operations. To help arrest this growth, the Department of the Treasury's Bureau of Risk Management plans to secure the services of an experienced risk management advisor. This firm will: (1) critically assess the functions of the bureau; (2) recommend program improvements to the State Treasurer; and (3) prepare an implementation plan and schedule.

The goal is to reduce claims, improve early intervention and communication between the bureau and the departments, streamline review and the processing of claims, improve the State's Back to Work program, and upgrade management reporting. The bureau plans to take action on the recommendations of the study during FY 2006.

FY 2005 budget language provided a "gainsharing" incentive to which the Departments of Human Services, Corrections, Law and Public Safety and Transportation, collectively account for approximately 75 percent of all claims, to retain savings realized in FY 2005 when compared to base costs in FY 2004. In addition, the Risk Management Bureau works in conjunction with the Department of Personnel to review the dates that employees are on sick leave injury, and has implemented new procedures to attempt to better control costs. The bureau also monitors fraud claims. However, as of late FY 2004, no claims had been deemed fraudulent.

A December 2004 Office of Legislative Services State Auditor report found that the coordination of Sick Leave Injury benefits, administered by the Department of Personnel and the Workers' Compensation program, administered by the Bureau of Risk Management, needs to be improved. The State Auditor sampled 111 employees where an overlap in Sick Leave Injury and Workers' Compensation benefit payments appeared likely and recommended that the Sick Leave Injury and Workers' Compensation programs be managed by one agency which would reduce or eliminate overlapping benefit occurrences.

! ***Question:*** **Please identify the main reasons workers compensation claims related to State operations have been rising steadily in recent years. When does the Bureau of Risk Management anticipate the awarding of a contract for a risk management advisor? Please define the term "experienced management advisor". Of the more than 8,000 claims made each year, has the bureau identified any claims that may be fraudulent? How much has the State recovered in fraudulently obtained workers' compensation payments this fiscal year? Please provide an overview of the State's Back to Work Program. How will this program be improved in FY 2006? Has the Bureau of Risk Management implemented an improved coordination of the administration of the Sick Leave Injury program and the Workers' Compensation program to ensure the proper processing of payments to employees and reduce or eliminate overlapping and duplicate payments? Please identify how the bureau is working more closely with the Department of Personnel, which administers the Sick Leave Injury program.**

Tort Claims Liability Fund

6. The State is self-insured against damages or settlements arising from tort claims alleging

Discussion Points (Cont'd)

liability on behalf of a State agency or its employees. The State makes annual appropriations into a Tort Claims Liability Fund in an amount estimated to be sufficient to cover claims payments that might come due. The FY 2006 recommended appropriation for Tort Claims Liability Fund is $11 million, a decrease of $5 million from the FY 2005 adjusted appropriation of $16 million (budget page D-445). In FY 2004, $14.5 million was expended for this purpose.

! *Question:* **Given the expenditure history of this account, is the FY 2006 budget recommendation of $11 million for tort claims still believed to be sufficient? Please provide a breakdown of settlements comprising the anticipated expenses in FY 2005. What factors or circumstances explain the recommended decrease for FY 2006?**

Pension Contributions

Pension Fund Contributions —Seven Pension Systems ($000)

	Expended Amount			Appropriated	Projected
	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
Normal Contribution	$654,304	$732,646	$796,203	$826,733	$918,336
Accrued Liability	507	2,714	40,569	286,292	535,634
Alternate Benefit Program	113,521	115,272	116,013	135,299	140,934
SUBTOTAL	**$768,332**	**$850,632**	**$952,785**	**$1,248,324**	**$1,594,904**
Lapse	-	-	-	16,161	-
Excess Assets	(654,304)	(724,179)	(79,210)	(36,497)	-
BEF Offset[1]	-	-	(125,551)	(265,086)	(385,331)
Pension/ABP Approp.	114,028	126,453	143,536	214,171	336,715
Amount of Underfunding	**-**	**-**	**($604,488)**	**($748,731)**	**($872,858)**

7. The table above displays information on the liability and funding of the seven pension systems and the alternate benefit program since FY 2002. For FY 2006, $336.7 million is recommended by the Governor in total State pension and alternate benefit program contributions. This recommendation uses $385.3 million of reserves in the Benefit Enhancement Funds within the Public Employees' Retirement System (PERS) and the Teachers' Pension and Annuity Fund (TPAF) to reduce the pension contribution requirements of the State to the retirement systems. Approximately $872.9 million in pension contributions would be deferred.

[1]BEF = Benefit Enhancement Fund established pursuant to N.J.S.A.18A:66-16 and N.J.S.A. 43:15A-22 to provide for the enhanced benefits of TPAF and PERS retirees, now being used to offset required State TPAF and PERS contributions.

Discussion Points (Cont'd)

From FY 2005 to FY 2006, the unfunded actuarial accrued liability (UAAL) increased by $249.3 million or 87 percent, from $286.3 million to $535.6 million. At the same time, the normal contribution rose by $91.6 million or 11.1 percent, to $918.3 million. Over 59 percent, or $946.6 million, of the total $1.59 billion liability accrues to the TPAF. Several states are reviewing different strategies to address public pension funding shortfalls. Rhode Island has proposed a minimum retirement age of 60; Illinois would reduce the annual cost-of-living adjustment; New Mexico raised the employee contribution rate; and California is considering a defined contribution plan.

! *Question:* **a. For each State-administered retirement system, please provide the schedule of funding progress as certified by the actuaries as of June 30, 2004. What is the difference between the actuarial and market value of assets in these systems? What are the implications of a divergence in the actuarial value and the market value of assets in terms of State contributions in future fiscal years?**

! *Question:* **b. What types of pension reforms, if any, are being considered by the Administration at this time?**

! *Question:* **c. If legislation were enacted to provide early retirement incentives similar to those granted under the provisions of P.L.2002, c.23, with a retirement deadline of June 30, 2005, how many State employees would be eligible for the program and what is the estimated total liability by retirement system?**

Giants Stadium Agreement

8. On April 22, 2005, the New Jersey Sports and Exposition Authority's Board of Directors approved an agreement with the National Football League franchise New York Giants to build a new Giants Stadium. Under the reported terms of the deal, the State will be responsible for $124 million in debt that remains on the existing stadium. The chairman of the sports authority, Carl J. Goldberg, said the agency's lawyers believed that $72 million of that amount would have to be retired immediately when the existing stadium is demolished. Mr. Goldberg said the authority already has the cash to pay that off. Whether the authority pays off more than that, refinances the remaining debt or both has not been determined. For FY 2006, the State is projected to pay $25.7 million in debt service payments on the sports complex.

! *Question:* **How will the $124 million in existing debt on the stadium be paid off? What is the anticipated schedule of payment for this debt? What adjustments to the FY 2006 recommended appropriation for the Sports and Exposition Authority Operations - Debt Service result from this agreement? How will this agreement affect State budget revenues and expenditures in future years?**

Enhanced 911 County Grants

9. The Governor's Budget recommends continued funding of $14.9 million in grants to counties to enhance their 911 Emergency Telephone Systems. Budget language stipulates that

Discussion Points (Cont'd)

grants would be determined using criteria to be developed by the 9-1-1 Commission and the Departments of the Treasury and Community Affairs and the Attorney's General Office. The purpose is to create incentives for the regional consolidation of 911 call services and public safety answering points. The commission oversees the Office of Information Technology in the planning, design, and implementation of the Statewide emergency enhanced 9-1-1 telephone system. As of April 25, 2005, no county grants had been disbursed.

! *Question:* **Have grant criteria been determined by the 9-1-1 Commission and the departments referenced above? If not, when and how will they be determined? What are the reasons for the apparent delay in the disbursement of grant funds? Does the department plan to disburse the FY 2005 grants? If so, please provide a list showing the amount of grant awarded by county and documentation that each country receiving a grant meet the criteria established by the 9-1-1 Commission. What is the basis for a two-year funding total of almost $30 million for county grants? How much additional funding will be required for this purpose?**

Employee Actions

10. The State is anticipating a $50 million savings from employee actions (page D-456). These may include a 10 percent cut in the commissioners' offices and other administrative accounts and the attrition of 500 State employees.

! *Question:* **Please itemize where these projected savings will accrue and provide some detail as to how these savings will be achieved. What was the projected number of full time State employees used to calculate the amounts recommended for employee benefits? Do the recommended funding levels for active State employee benefits incorporate savings from the attrition of 500 State employees?**

Children Relief Fund

11. The Governor's budget proposes a $547,000 increase in funding for Catastrophic Illness in Children Relief Fund - Employer Contribution (page D-455), to a recommended $672,000. Eligibility for payments from the "Catastrophic Illness in Children Relief Fund" (N.J.S.A.26:2-148 et seq.), was expanded under the provisions of P.L. 2003, c.260, which raised the limit on a child's eligibility for payment or reimbursement from the Fund from 18 to 21. This law also permitted the Commission to retain consultants on a contract basis.

The purpose of the Fund is to provide assistance to children and their families whose medical expenses due to a child's "catastrophic illness" extend beyond the families' available resources. Revenue is derived from a $1 annual surcharge per employee for all employers who are subject to the New Jersey Unemployment Compensation Law. At the close of FY 2004, the Fund's unexpended balance totaled $3.8 million. However, the Governor's FY 2006 recommended budget estimates virtually no unexpended balance (budget page H-4).

! *Question:* **Please provide an update on the status of this program and the reasons for the depletion in the Fund's unexpended balance. Since enactment of P.L.2003, c.370, has the Commission hired consultants on a contract basis? If so, what is the**

Discussion Points (Cont'd)

projected amount that will be expended for this purpose in FY 2005? Please itemize the program expenditures that will be funded with this recommended appropriation in FY 2006.

Cash Management Reserve Fund

12. The FY 2006 budget includes an offset of $12 million to the amount appropriated for Employee Benefits entitled "Credit for Cash Management Reserve Refund" (page D-452). Recommended budget language (page D-453) would authorize the Treasurer to provide a corresponding reduction in appropriated State Aid and Grants-In-Aid to be distributed by the State to government units that participate in the State's Cash Management Fund reserve fund, up to the amount of the funds returned from the reserve fund to those participating governmental units.

In 2002, the Division of Investment issued a $72 million surety bond, an amount equal to the cash released to the State's General Fund in FY 2002 and FY 2003, to be credited to the CMF Loss Reserve Fund.

! *Question:* **Please provide a list of each nonstate governmental unit and is projected State Aid and Grants-In-Aid payment reduction, by program, that correspond to the $12 million CMF loss reserve being transferred to the General Fund. Is the surety bond still available to provide coverage against loss to these nonstate governmental entities? Will nonstate participants whose State funding corresponds to the CMF Loss Reserve reduction have loss coverage equivalent to other nonstate CMF participants, or will one group have less coverage than the other?**

Salary Increases

13. FY 2005 Appropriations Act budget language directed the State Treasurer to establish directives governing salary ranges and rates of pay and salary increases, including a 3.9 percent cost-of-living adjustment (COLA) for pubic sector managers.

! *Question:* **Have public sector managers received this 3.9 percent COLA as required by the FY 2005 Appropriations Act? If not, why? What was the effective date of this COLA?**

Liberty Science Center

Discussion Points (Cont'd)

14. The FY 2006 budget recommends an appropriation of $589,000 for debt service on New Jersey Economic Development authority (EDA) bonds issued for the Liberty Science Center. In April 2005 the EDA issued $43.8 million in bonds (2005 Series B) to finance the Liberty State Park project (of which the Liberty Science Center is a component), which resulted in total FY 2006 debt service costs of approximately $2.4 million. However, about $3.8 million in proceeds from this bond sale were deposited to a capitalized interest fund, which appears adequate to fund debt service requirements for both FY 2006 and FY 2007.

! ***Question:*** **Given the results of the 2005 Liberty State Park Project Series B bond issuance, is it necessary to appropriate any State funds in FY 2006 or FY 2007 for EDA debt service for the Liberty Science Center? If so, please explain why.**

Background Paper: Health Benefit Cost Trends

Budget Pages.... D-96, D-97, D-396, D-451, D-452

Summary	
	! The FY 2006 recommended appropriation for active State and higher education employee health benefits and for Post Retirement Medical (PRM) benefits for State and local retirees totals $2.1 billion.
	! The cost to fund these health benefits has increased 110.6 percent over the past five fiscal years, from $1.0 billion in FY 2001.
	! Should this growth rate continue — approximately 16.1 percent annually — by FY 2010 costs to fund these health benefit would approach $3.82 billion.
	! Since FY 2001, PRM costs rose an average 23.4 percent per year due to significant premium rate increases for retirees and increases in the number of eligible PRM beneficiaries. Active health benefits costs rose an average of 11.1 percent per year.
	! As of the July 1, 2003 actuarial valuation, the present value of the future PRM benefits payable was $12.2 billion for TPAF and $4.6 billion for PERS.

Costs associated with providing health care benefits for active employees and post-retirement medical (PRM) benefits represent a significant funding issue for public sector employers. This paper examines cost trends to provide State-funded health care benefits for active State employees, active employees at State colleges and universities and eligible retired State employees, school district employees and other local employees.

Table A below displays the number of State members enrolled in the SHBP and the amounts expended or appropriated to fund health care benefits for active employees by health insurance program. The Direct State Services (DSS) category reflects funding for active State employees, and the Grants-In-Aid (GIA) category reflects funding for active higher education employees.

The amount to fund health benefits for active State and higher education employees is projected to rise 12.1 percent, from $973.0 million in Fiscal Year 2005 to $1.090 billion in Fiscal Year 2006. The growth in active State employee costs projects to 12.3 percent, from $684.4 million to $768.3 million. For higher education employees (GIA), the rate of increase is 11.8 percent, from $288.7 million to $322.7 million.

The two main factors propelling the increase in cost to provide State-covered active members with health benefits are increasing enrollment and increases in premium rates. SHBP enrollment is projected to rise to 147,717 members in FY 2006.

Background Paper: Health Benefit Cost Trends (Cont'd)

TABLE A - Active Employee Health Benefit Costs

SHBP	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
Enrollment	133,234	135,011	138,671	142,342	144,907	147,717
DSS						
Health Benefit	$347,441	$374,861	$426,614	$486,702	$504,445	$552,126
Rx Program	104,764	115,939	134,245	156,467	162,810	189,721
Dental	19,404	20,289	18,753	21,129	16,111	25,423
Vision	810	877	732	706	1,000	1,000
Subtotal	**$472,419**	**$511,966**	**$580,344**	**$665,004**	**$684,366**	**$768,270**
GIA						
Health Benefit	$123,340	$135,941	$157,123	$178,309	$215,992	$233,266
Rx Program	42,403	46,157	55,636	64,835	66,460	78,989
Dental	7,381	8,125	7,617	9,138	6,229	10,399
Subtotal	**$173,124**	**$190,223**	**$220,376**	**$252,282**	**$288,681**	**$322,654**
TOTAL	**$645,543**	**$702,189**	**$800,720**	**$917,286**	**$973,047**	**$1,090,924**

(thousands of dollars)
Fiscal Year 2001 - Fiscal Year 2004: Expended; Fiscal Year 2005: Adjusted Appropriation; Fiscal Year 2006: Recommended Appropriation.

TABLE B - Post Retirement Medical Benefits Costs

	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
TPAF	$209,247	$252,929	$342,180	$424,751	$536,019	$599,959
PERS	$73,392	$86,038	$136,393	$168,663	$191,995	$210,363
Other	$72,037	$87,369	$117,201	$141,762	$183,177	$204,871
TOTAL	**$354,676**	**$426,336**	**$595,774**	**$735,176**	**$911,191**	**$1,015,193**

(thousands of dollars)
Fiscal Year 2001 - Fiscal Year 2004: Expended; Fiscal Year 2005: Adjusted Appropriation; Fiscal Year 2006: Recommended Appropriation.

Table B above displays the cost to fund Post Retirement Medical (PRM) benefits for State and local government retirees and their dependents. The amount to fund these health benefits for retired

Background Paper: Health Benefit Cost Trends (Cont'd)

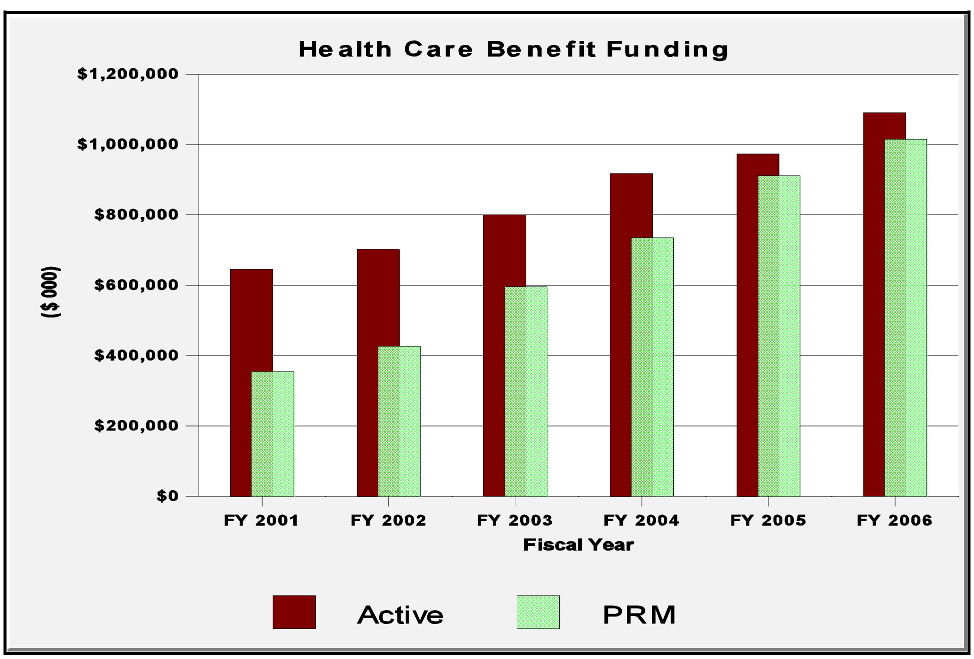
State, higher education , school district and other local employees is projected to rise 11.4 percent, from $911.2 million in Fiscal Year 2005 to $1.015 billion in Fiscal Year 2006. As of FY 2005, an estimated 80,831 retirees were eligible for State-funded PRM benefits. This total included 20,420 State retirees and 60,411 local retirees.

Of the total $1.015 billion FY 2006 recommendation, approximately 59.1 percent — or nearly $600 million — would fund health care for TPAF retirees, most of whom were local school district employees. Another $210.4 million — 20.7 percent — is recommended for retirees of PERS. The remainder of the recommended appropriation would fund retirees who are not members of the TPAF or PERS.

Because PRM benefits are funded on a current, as opposed to actuarial or reserve basis, the State is not at present required by generally accepted accounting principles to record a liability for the value of future PRM obligations. Nevertheless, a future liability undeniably exists, and is substantial. For example, the present value of the future PRM benefits payable as of the July 1, 2003 actuarial valuation totaled $16.8 billion.

Chart A displays the amount to fund health benefit costs for eligible active and retired government employees. In FY 2006, at $1.015 billion, the amount necessary to finance costs associated with retiree health benefits is projected to be nearly 50 percent of total health benefit funding of $2.106 billion. In FY 2001, PRM benefits amounted to only 35.5 percent of total costs.

CHART A



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Individuals wishing information and committee schedules on the FY 2006 budget are encouraged to contact:

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