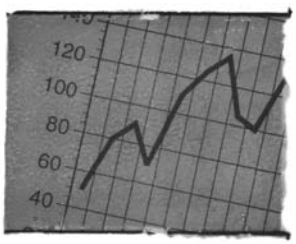

ANALYSIS OF THE NEW JERSEY BUDGET

DEPARTMENT OF THE TREASURY

FISCAL YEAR 2005 - 2006

PREPARED BY OFFICE OF LEGISLATIVE SERVICES
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NEW JERSEY STATE LEGISLATURE

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DEPARTMENT OF THE TREASURY

Budget Pages....... C-13; C-21; C-30; C-33; D-389 to D-426; E-11 to E-13; G-4 to G-11.

Fiscal Summary ($000)

	Expended FY 2004	Adjusted Appropriation FY 2005	Recommended FY 2006	Percent Change 2005-06
State Budgeted	$2,248,378	$3,285,076	$1,840,032	(44.0)%
Federal Funds	3,786	5,638	6,070	7.7%
Other	1,026,784	1,089,534	1,084,269	(0.5)%
Grand Total	$3,278,948	$4,380,248	$2,930,371	(33.1)%

Personnel Summary - Positions By Funding Source

	Actual FY 2004	Revised FY 2005	Funded FY 2006	Percent Change 2005-06
State	4,599	4,704	5,051	7.4%
Federal	17	7	19	171.4%
Other	1,697	1,698	1,772	4.4%
Total Positions	6,313	6,409	6,842	6.8%

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 Department of the Treasury is the central management agency of State government. It has major responsibilities in guiding the direction of State operations through its planning, management and budget components; in securing the State's financial interests through the collection of taxes and other revenues and the investment of State assets; and in the distribution of significant amounts of State aid and grants to individuals, local governments and universities. In addition, the department provides statewide support services to other agencies in the form of computer services, employee benefits management, purchasing goods and services, maintaining and leasing facilities, operating a State vehicle fleet, and providing mail and printing services.

Introduction (Cont'd)

The FY 2006 budget includes a number of agencies considered "in but not of" the Department of the Treasury. Three of these agencies, the **Board of Public Utilities**, the **Casino Control Commission** and the **Office of Information Technology**, have been associated with the department for a number of years. Other organizations such as the **Ratepayer Advocate**, the **Higher Education Student Assistance Authority** (HESAA, formerly the Higher Education Assistance Authority), and the **Educational Facilities Authority** (EFA) were reassigned to the department several years ago when the Department of the Public Advocate and the Department of Higher Education were eliminated. A number of agencies were reassigned to the department in FY 1999. These organizations include the **New Jersey Commerce, Economic Growth and Tourism Commission**, the **N.J. Commission on Science and Technology**, the **N.J. Economic Development Authority**, the **Office of Administrative Law**, the **Office of the Public Defender** and the **Office of Legal Services.**

The Department of the Treasury's FY 2006 budget includes new funding for the **Public Advocate** in anticipation of the reestablishment of that agency as an Executive department through separate legislation, and for the **Office of the Inspector General**, established pursuant to Executive Order No. 7 of 2004.

In order to be consistent with the data as it is displayed in the Governor's budget, the funding and position data in the Department of the Treasury for Higher Educational Services, the N.J. Commerce and Economic Growth, and Tourism Commission, the Economic Planning and Development Statewide program and the N.J. Commission on Science and Technology are included in the above tables as well as in the overview section below. Other explanatory data for the above agencies are not included in this analysis but are contained in two separate analyses that are related to the above programs: "Higher Educational Services" and the "New Jersey Commerce, Economic Growth and Tourism Commission and Related Economic Development Programs."

Key Points

- The Governor has recommended $2.9 billion in total resources that the Department of the Treasury will either use for its own operations or distribute to individuals, colleges or municipalities in FY 2006. This amount represents a decrease in resources of 33 percent from the current year.

- The Governor has recommended $1.8 billion in State budgeted resources (General Fund, Property Tax Relief Fund and Casino Control Fund) for the Department of the Treasury in FY 2006, a decrease of 44 percent from the FY 2005 adjusted appropriation.

- The Governor has recommended $6.1 million in Federal Funds for the Department of the Treasury for FY 2006, a 7.7 percent increase from FY2005. These funds are for programs administered by the Board of Public Utilities, the Office of the Public Defender, and Legal Services of New Jersey.

- The Governor has recommended $1.1 billion in Other Funds for FY 2006 which is essentially unchanged from FY 2005. Other Funds represent non-budgeted or "off-budget" revenues such as taxes collected at the State level and distributed to local governments, special revenue funds and revolving funds. Included in the recommended amounts are proposed distributions of $788.5 million in energy tax receipts and $100.4 million in

Key Points (Cont'd)

revolving and other funds for the Office of Information Technology (OIT).

- The recommended General Fund appropriation for the Department of the Treasury is $1.1 billion, a net decrease of 19.7 percent. The Governor's Budget includes decreases in all categories of General Fund appropriations. These reduction, in order of their relative magnitude include: Debt Service (reduced by $222 million or 59 percent), Direct State Services (reduced by $22.2 million or 5.5 percent), Grants-in-Aid (reduced by $15.4 million or 6.3 percent), and State Aid (reduced by $2.5 million or about 1.0 percent). For the second consecutive year, the Governor's FY 2006 Budget does not recommend any funding for Capital Construction projects.

- Although the Governor's Budget has recommended a decrease in funding for General Fund supported Direct State Services, from $402 million in the current year to $380 million in FY 2006, the Governor's Budget has historically included language authorizing the department to appropriate additional (supplemental) funds for a number of programs without further legislative action. In FY 2005, these supplemental appropriations are projected to total about $33 million. This language is recommended to continue in FY2006.

ECONOMIC REGULATION

- The Governor's Budget recommends a Direct State Services appropriation of $29.6 million for the Economic Regulation Program, which is unchanged from the current adjusted appropriation. This program class includes the **Board of Public Utilities (BPU)**, budgeted at $23.6 million, and the **Ratepayer Advocacy** Program, budgeted at just under $6.0 million; both are funded by assessments levied on various utilities conducting business within the State.

- Grants-in-Aid funding for the "**Lifeline Credit Program,**" and the **Tenants' Lifeline Assistance Program** is recommended to remain unchanged at $70.8 million for FY 2006. These two statutorily established programs provide energy assistance grants to senior citizens and the disabled and are funded through an assessment on energy bills. Although the BPU provides funding for these programs through the Universal Service Fund (into which assessment revenues are deposited), the Department of Health and Senior Services is responsible for administration of these grants.

GOVERNMENTAL REVIEW AND OVERSIGHT

- The Governor's Budget recommends an appropriation of $19.7 million for the Governmental Review and Oversight program, of which $19.1 million is appropriated to the **Office of Management and Budget** (OMB) and $605,000 is appropriated for **Employee Relations and Collective Negotiations**. While the amount for the latter is unchanged from the current adjusted appropriation, OMB's recommended appropriation includes a minor reduction of $389,000 (2 percent) from FY2005. This decrease comprises a $661,000 reduction in salary funding, mostly attributable to the elimination of funded vacant positions, offset by an increase of $272,000 for support services provided by OIT and other purchased services.

Key Points (Cont'd)

OFFICE OF THE INSPECTOR GENERAL

- The Governor's Budget Recommendation includes a $2.5 million appropriation for the establishment of the **Office of Inspector General**. Created pursuant to Executive Order No. 7, this office is authorized to investigate the performance of governmental officers, employees, appointees, functions and programs in order to promote efficiency, identify cost savings, and to detect and prevent misconduct within State funded agencies. Proposed budget language would provide the office with additional (supplemental) funds as may be necessary for its operations without further Legislative involvement.

FINANCIAL ADMINISTRATION

- The amount recommended in FY 2006 for Taxation Services and Administration (**Division of Taxation**) from State funds is $94.5 million, $18.9 million (17 percent) less than the FY 2005 adjusted appropriation. This net decrease reflects the elimination of $19.1 million in supplemental funding for various initiatives, including: $12 million for debt collection services contracts, $5.1 million for an electronic tax auditing system and $1.6 million for a new phone system for the division's call center. Savings of $300,000 in anticipation of reduced filing of paper forms and returns are also recommended.

- A sum of $28.8 million in State funding is recommended for the Administration of State Revenues (**Division of Revenue**), a net reduction of $1.6 million (5.3 percent) from FY 2005. This decrease primarily reflects the elimination of FY 2005 supplemental appropriations totaling $1.7 million for collection services ($675,000) and the purchase of scanning equipment ($1.1 million), offset by an recommended increase in funding for OIT support services ($84,000).

- As in past years, broad language is included in the FY 2006 Budget Recommendation to permit the appropriation of additional resources for both the Division of Taxation and the Division of Revenue without further legislative action.

- The Governor's Budget recommends an appropriation of $22.4 million for the **Administration of State Lottery**, a decrease of $8.0 million (26 percent) from the current adjusted appropriation. This decrease reflects the elimination of supplemental funding used to enhance the Lottery's advertising program. Pursuant to budget language, all administrative expenditures related to the operation of the State Lottery are reimbursed to the General Fund from the net proceeds of lottery sales and commissions.

- The recommended appropriation for the Management of State Investments (**Division of Investments**) is decreased by $400,000 (5.6 percent) to $6.9 million to reflect the elimination of funding for the services of a real estate investment consultant.

GENERAL GOVERNMENT SERVICES

- The Governor's Budget recommends continuation funding of $468,000 for administration of the **Garden State Preservation Trust**. Established pursuant to P.L.1999, c.152, the GSPT is the entity responsible for overseeing the State's progress towards achieving the goal of preserving open space and farmland and for providing funding for this purpose to the Office of Green Acres within the DEP, the State Agriculture Development Committee in

Key Points (Cont'd)

(but not of) the Department of Agriculture, and the New Jersey Historic Trust in the Department of State. As in the current year, an additional $98 million is appropriated for open space preservation in the Interdepartmental Accounts (budget page D-447).

- The Governor's Budget recommends $500,000 for costs associated with gubernatorial transition, divided equally between the incumbent Governor and the Governor-elect. In addition, $100,000 is recommended for the expenses of the Gubernatorial Inaugural Commission.

OFFICE OF ADMINISTRATIVE LAW

- The Governor's budget recommends an appropriation of $9.1 million for the Adjudication of Administrative Appeals program (**Office of Administrative Law**), an increase of $522,000 (6 percent) from the current year. The increase is recommended to provide for the OAL's additional responsibilities under the "Smart Growth" legislation, P.L.2004, c.89 (C.52:27D-10.2 et seq.) which requires the OAL to establish a "Smart Growth Unit" having appropriate judicial expertise to expedite the appeal of any contested permit action related to this enactment. Of the $9.1 million recommended for OAL, $4.9 million is appropriated from the General Fund, a decrease of $539,000 below the FY 2005 adjusted appropriation, and $4.3 million is appropriated "off-budget" from other funds. These other fund sources include judicial hearing receipts as well as new fees authorized under the Smart Growth statute.

STATE SUBSIDIES AND FINANCIAL AID: GRANTS-IN-AID

- The Governor's FY 2006 Budget recommends $577 million in Grants-in-Aid from the Property Tax Relief Fund to provide direct property tax relief under the Homestead Property Tax Rebate program and the Senior and Disabled Citizens' Property Tax Freeze program. This amount represents a $1.2 billion (67 percent) reduction from FY 2005.

- The Governor's Budget seeks to limit FY 2006 spending on the **Homestead Property Tax Rebate** program to $478.5 million, a $1.21 billion (71.7 percent) decline from its FY 2005 appropriation. This reduction will be realized through restrictions on program participation and rebate amounts. The program issues rebate checks to certain residents based upon the amount by which their property taxes paid exceed five percent of their income.

- The Governor's Budget recommends increased funding for the **Senior and Disabled Citizens' Property Tax Freeze** program by $25 million (34.1 percent) to $98.4 million in FY 2006. The program reimburses certain low-income senior and disabled residents for increases in property taxes paid on their homes. The nature of the program as well as rising property tax liabilities and program participation account for the expenditure growth. As noted in the Governor's FY 2006 Budget, 170,000 program participants are expected in FY 2006, about 20,000 more than in FY 2005.

STATE SUBSIDIES AND FINANCIAL AID: STATE AID

- The Governor's FY 2006 Budget recommends an allocation of $1.051 billion in State Aid to municipalities and other local government entities. That amount represents a $3.52 million, or 0.34 percent, increase over the FY 2005 appropriation.

Key Points (Cont'd)

- The Governor's Budget recommends that municipalities receive $835 million from the Energy Tax Receipts Property Tax Relief Fund in FY 2006, a $28.1 million, or 3.5 percent, increase over FY 2005. This appropriation is comprised of two funding sources: $788.5 million from the **Energy Tax Receipts Property Tax Relief Fund** proper and a $46.2 million transfer from the Consolidated Municipal Property Tax Relief Aid account to the fund. The State's taxation of certain regulated utilities and telecommunications companies provides most of the resources that are distributed from this fund. Aid amounts are indexed for inflation.

- The Governor's Budget recommends continuation funding of $109 million in FY 2006 for the **Reimbursement for Veterans' Tax Deductions** and the **Reimbursement for Senior and Disabled Citizens' Tax Deductions**. Under the programs, the State compensates municipalities for the revenue they lose because of the $250 property tax deduction granted to veterans and senior and disabled citizens.

- The Governor's Budget proposes a $57.9 million appropriation to fund the State Aid portion of the Police and Firemen's Retirement System (PFRS), which provides retirement benefits to certain retired local government employees. The appropriation is $4.1 million (7.6 percent) more than the FY 2005 appropriation, and includes the following line-items: **Police & Firemen's Retirement System** to pay for basic pension benefits, **Police & Firemen's Retirement System (P.L.1979, c.109)** to pay for enhanced pension benefits, and **Police & Firemen's Retirement System - Post Retirement Medical** to pay for retiree health care benefits. A higher contribution rate and growing retiree health care cost account for the increase.

- The Governor recommends an unchanged $57.3 million appropriation to the **Solid Waste Management - County Environmental Investment Debt Service Aid** account. The program assists counties in meeting debt service obligations for solid waste treatment investments.

MANAGEMENT AND ADMINISTRATION

- The Governor recommends a Direct State Services appropriation of $11.3 million for the **Treasurer's Office** for FY 2006 which reflects a $498,000 decrease (4.2 percent) in general operating expenses from the current adjusted appropriation. The recommended reduction is partially attributable to the elimination of a supplemental appropriation of $250,000 for the Property Tax Convention Tax Force (P.L.2004, c.85) with the balance due to anticipated efficiencies.

- Two Grants-in-Aid appropriations initiated in FY 2005 – $4 million for Cultural Projects and $3 million for a NJ Competitiveness Fund – are not recommended for FY 2006.

PROTECTION OF CITIZENS' RIGHTS

- The Governor's Budget recommends $90.7 million for the **Office of the Public Defender (OPD)**, an increase of $3.4 million (4 percent) from the FY2005 appropriation. This increase is attributable to increased rates for pool (outside) attorneys and to the addition of $838,000 for the Parental Representation Unit for its responsibilities under Child Welfare reform. The OPD provides trial and appellate legal services to: criminal defendants; juveniles charged with delinquency offenses; individuals making application to the

Key Points (Cont'd)

Intensive Supervision Program of the Administrative Office of the Courts; individuals involuntarily committed to mental hospitals; abused and neglected children; and civilly committed sexual offenders.

- The Governor's Budget would continue language providing for the transfer of up to $15.8 million from the Division of Youth and Family Services in the Department of Human Services to the OPD and the Department of Law and Public Safety for their roles in implementation of the Child Welfare Reform plan. This funding will add additional Law Guardians and support staff which will reduce attorney caseloads and court backlogs with respect to both child abuse and neglect proceedings.

- The Governor's Budget recommends a Grants-in-Aid appropriation of $16.4 million for **Legal Services of New Jersey**, which is unchanged from the current adjusted appropriation. Legal Services, a private, not-for-profit agency that provides legal assistance and representation to low-income individuals in civil matters is primarily supported by State and interest income from lawyers' trust accounts, with additional support coming from the federal government and either county or private sources.

PUBLIC ADVOCATE

- Subject to the enactment of enabling legislation, the Governor's Budget appropriates $2.0 million for the re-establishment of the **Public Advocate**. Pending legislation (see S-541/A-1424 of 2004) would re-constitute the Public Advocate, which was abolished in 1994, as an Executive department of State government, and transfer certain existing State functions to the new office. The Public Advocate's mandate will be to provide investigative and advocacy services to children, the elderly and mentally ill, and ratepayers, and to consolidate various existing ombudsman offices.

DEBT SERVICE

- The Governor's Budget for the department includes $156.4 million for **Debt Service** on general obligation bonds. This represents an decrease of $221.8 million (58.6 percent) from the FY 2005 adjusted appropriation for debt service under the department. Savings are the result of the refinancing (or "refunding") of bonds. In accordance with a refunding plan approved in December, 2004 by the Joint Budget Oversight Committee, the department refinanced certain existing general obligation bonds, in order to achieve "upfront" cash savings in both FY2005 and FY2006.

REVOLVING AND OTHER FUNDS

- The Budget Recommendation includes the following appropriations from other revolving funds in the Department of the Treasury, all of which are unchanged from the current level of appropriation: $99 million to support the data processing centers of the **Office of Information Technology** (OIT); $55.9 million for the **Distribution Center**; $19.6 million for the State **Central Motor Pool**; $6.7 million for the Division of **Property Management and Construction**; $2.3 million for the **Print Shop**; $1.6 million for the **Capitol Post Office**; and $1.3 million for the **Office of Public Communication**. These intra-governmental operations are provided on a "fee for service" basis, the receipts of which are utilized for the continuing operation of the respective service.

Key Points (Cont'd)

PERSONNEL

- The position data displayed in the Governor's Budget indicate that the FY 2006 budget would fund a total of 6,842 positions, an increase of 433 positions (6.8 percent) from the current total of 6,409 filled positions. The largest increases are reflected in Taxation Services and Administration (Division of Taxation), 156 positions; Citizens Rights (Public Defender), 129 positions; and the newly established Office of Inspector General, 18 positions.

Analysis of the Higher Educational Services portion of the Department of the Treasury budget (pages D-394 to D-397) is contained in a separate booklet: "Higher Educational Services."

Analysis of the New Jersey Commerce, Economic Growth and Tourism Commission, the Economic Planning and Development Statewide program, and the New Jersey Commission on Science and Technology portions of the Department of the Treasury budget (pages D-397 to D-403) are contained in a separate booklet: "New Jersey Commerce, Economic Growth and Tourism Commission and Related Economic Development Programs."

Background Paper:

Program Description and Overview

The Department of the Treasury is the central management agency of State government. The department is the third largest department in terms of resources, surpassed only by the Departments of Human Services and Education. It has major responsibilities in guiding the direction of State operations through its planning, management and budget components; in securing the State's financial interests through the collection of taxes and other revenues and the investment of State assets; and in the distribution of significant amounts of State aid to individuals, universities, and local governments.

In addition to the above responsibilities, certain regulatory, legal, economic development and business reporting functions fall within the Department of the Treasury organization.

The core components of the Department of the Treasury are as follows:

- Treasurer's Office
- Office of Management and Budget
- Office of Public Finance
- Division of Pensions and Benefits
- Division of Taxation
- Division of Revenue
- Division of Investments
- Division of State Lottery
- Division of Contract Compliance and Equal Employment Opportunity in Public Contracting
- Division of Purchase and Property
- Division of Property Management and Construction

A number of agencies are allocated "in but not of" the Department of the Treasury. Each of the sixteen programs listed below is organizationally within the department but autonomous in its operation. The New Jersey Commerce, Economic Growth and Tourism Commission, the New Jersey Commission on Science and Technology, and the New Jersey Economic Development Authority are discussed in a separate OLS analysis, as are higher education grants administered through the Department of the Treasury. Allocated "in but not of" the Department of the Treasury are the following:

- Garden State Preservation Trust
- Casino Control Commission
- Board of Public Utilities
- Ratepayer Advocate
- Office of Administrative Law
- Office of the Public Defender
- Office of Legal Services
- Office of Information Technology (OIT)
- New Jersey Commerce, Economic Growth and Tourism Commission
- New Jersey Commission on Science and Technology
- New Jersey Economic Development Authority
- New Jersey Building Authority
- Higher Education Student Assistance Authority
- State Capital Joint Management Commission
- Office of Inspector General ** (New in FY 2006)
- Public Advocate ** (New in FY 2006)

Program Description and Overview (Cont'd)

Core Programs

The following describes the units within the department in terms of their duties and responsibilities and provides an overview of the resources available to each unit.

The **Treasurer's Office** provides fiscal, personnel, and other services related to the overall management of the department. The Treasurer's Office develops and exercises general policy and administrative control over operations and often has been the locus of projects and programs of special interest to the Governor. Over the years such projects and programs have included the Camden aquarium and the New Jersey Performing Arts Center (NJPAC).

The Treasurer's Office has responsibility for public finance activities associated with debt issuance and management through the **Office of Public Finance.** In addition, the Treasurer's Office has responsibility for the Federal Liaison Office, which represents the Governor and assists State agencies in negotiations with federal agencies to maximize the State's share of federal grant monies and entitlements, and the **Division of Contract Compliance and Equal Employment Opportunity in Public Contracts** (formerly called the Public Contracts Affirmative Action Office), which is responsible for ensuring that any firm contracting with a public agency in the State provides equal opportunity in employment.

For FY 2006, the Governor has proposed a Direct State Services appropriation of $13.1 million for all components of the department's Management and Administration functions, which reflects a $498,000 decrease (3.7 percent) from the current adjusted appropriation. This reduction is allocated to the **Treasurer's Office** which is recommended to receive $11.3 million in FY2005, a 4.2 percent reduction from the current $11.8 million adjusted appropriation. The recommended reduction is partially attributable to the elimination of a supplemental appropriation of $250,000 for the Property Tax Convention Tax Force (P.L.2004, c.85) with the balance due to anticipated efficiencies. State funding for the Division of Contract Compliance is flat at $1.8 million for FY 2006, although this amount is supplemented with fee revenues appropriated through budget language. Similarly, the Office of Public Finance is largely supported by "off budget" appropriations of revenue from service fees charged to State agencies, fees realized through the cost of bond issuance and from investment earnings.

The **Office of Management and Budget (OMB)** plans, prepares and administers the State budget. It manages and monitors the day-to-day operation of the State's financial systems, including the publication of the State's annual financial statements and processing payments to vendors. It provides planning, review and oversight for federal policies which relate to State interests and for capital construction projects. In addition, it provides organizational, technical and productivity analyses and evaluates all requests for data processing and telecommunications services and equipment in State government in conjunction with the Office of Information Technology (OIT).

The Governor's FY 2006 Budget recommends an appropriation of $19.1 million for the Office of Management and Budget (OMB), a reduction of $389,000 (2 percent) from FY2005. This decrease comprises a $661,000 reduction in salary funding reflecting the elimination of funded vacant positions, offset by an increase of $272,000 for support services provided by OIT and other purchased services. As in prior years, a special purpose appropriation of $1.1 million, plus language providing supplemental budget authority, is provided for Independent Audits. The Budget indicates that 183 OMB positions are funded in FY 2006, an increase of 3 positions.

Program Description and Overview (Cont'd)

The **General Government Services** (GGS) helps State agencies meet their needs by purchasing and maintaining assets and by providing products, services and facilities. GGS includes the Purchasing and Inventory Management program (the Division of Purchase and Property) and the Property Management and Construction - Property Management Services (Division of Property Management and Construction) program as well as other programs which manage real estate, Statewide purchasing, rental properties, insurance, employee housing, the State Post Office, and State vehicles.

Many of GSS's programs operate as revolving funds, which receive all or most of their revenue from direct charges to user agencies. For many other GGS programs, language in the appropriations act often permits these programs to draw on resources from either revolving funds or special revenue resources. In some, but not all cases, the amount of non-General Fund resources available to a program is capped at a certain level.

The Governor's Budget recommends a Direct State Services appropriation for GSS (which for this purpose includes appropriations for all GSS programs except the Garden State Preservation Trust and the Division of Pensions and Benefits) of $26.1 million in FY 2006, which is unchanged from the current adjusted appropriation. However, while the overall budget for this program classification is apparently unchanged, the recommended appropriation for the Division of Purchase and Property contains three special purpose line items totaling $600,000 for Gubernatorial transition costs (which is unchange from the FY2002 total appropriation for this purpose). This increase is almost entirely offset by the elimination of another special purpose line item (of $560,000) in the division's budget for line of credit costs associated with the Fleet Renewal Management program.

The **Division of Pensions and Benefits** manages State and public employee benefit programs, including the State Health Benefits Program and seven public retirement systems for State and local employees in New Jersey.

The entire budget of the Division of Pensions and Benefits is charged back to the various pension funds and employee benefit programs. In FY 2006, the division's budget is $32.0 million, up $200,000 from FY 2005. This amount will support 357 positions, 16 more positions than the FY 2005 level.

Since FY 1995, the division's budget has been augmented by additional funds appropriated pursuant to budget language. Such language is continued in the Governor's FY 2006 Budget. In addition, in FY2000 the division began studying and implementing a significant project to "re-engineer" the State's pension and health benefits computer system, which was also funded off-budget through language. This initiative, which calls for a complete replacement of all Pension and Benefits application software, is expected to cost a total of approximately $51.4 million which will be reimbursed to the General Fund by the pension system.

The Governor's Budget recommends continuation funding of $468,000 for administration of the **Garden State Preservation Trust** (GSPT). Established pursuant to P.L.1999, c.152, the GSPT is the entity responsible for overseeing the State's progress towards achieving the goal of preserving open space and farmland and for providing funding for this purpose to the Office of Green Acres within the DEP, the State Agriculture Development Committee in (but not of) the Department of Agriculture, and the New Jersey Historic Trust in the Department of State. The GSPT reviews all

Program Description and Overview (Cont'd)

funding proposal packages and then recommends them to the Legislature for passage, with the Governor retaining final approval over all packages. As in the current year, an additional $98 million is appropriated for open space preservation in the Interdepartmental Accounts (budget page D-447). These funds are available for acquisition and preservation projects through the GSTP.

The **Division of Taxation (Taxation Services and Administration)** administers the tax laws of the State, performs office and field audits of tax returns and taxpaying entities, prepares tax refunds, investigates tax matters having civil or criminal potential, determines certain state aid distributions and provides other tax-related services.

The amount recommended in FY 2006 is $94.5 million, $18.9 million (16.7 percent) less than the FY 2005 adjusted appropriation. This Governor's Budget reflects the elimination of FY 2005 supplemental appropriations for the Division of Taxation, including $12 million for third party collections services; $5.1 million for an electronic tax auditing system; and $1.6 million for a new phone center for the division's call center. A reduction of $300,000 in savings from reduced filing of paper forms and returns is also included. The recommended budget is expected to fund 1,562 positions, an increase of 156 positions over the current year.

In FY 1992, the Division of Taxation was given broad authority through language in the appropriations act to offset administrative costs against revenue collections. The FY 2006 budget includes a number of such language provisions. These provisions permit the division, with the approval of the Director of the Division of Budget and Accounting (OMB), to do the following: to use receipts from the sale of confiscated equipment, materials and supplies under the "Cigarette Tax Act"; to appropriate such sums as are necessary for the administration of the homestead property tax reimbursement established pursuant to P.L. 1997, c.348; to appropriate receipts from the Solid Waste Services Tax Fund; to appropriate funds to offset administrative costs of the New Jersey Urban Enterprise Zone Act and the Tourism Improvement and Development District Act; to appropriate revenues from escheated property; to appropriate additional sums for the costs associated with enhanced compliance programs; and to appropriate the unexpended balances in the Revenue Management account. In recent budgets, this authority has provided the Division of Taxation with resources beyond those available through a direct appropriation.

Since the late 1980's with the first Tax Amnesty program, the Division has focused more resources on programs to improve compliance among New Jersey taxpayers. Section 34 of P.L. 1991, c.185 created the Interagency Cost Recovery Task Force, otherwise known as the Cheater Beater program. Language provided broad authority to the Division of Taxation in the Department of the Treasury, the Division of Law in the Department of Law and Public Safety and "...any other unit of State government to fund the costs of auditors, attorneys, and other staff and other costs..." from "...delinquent tax judgments, delinquent student loans, administrative fines and penalties, unclaimed property, escheats, overpayments of state entitlements and any other debts owing to the State or its agencies."

Although the Cheater Beater program is no longer a separate program, the Division has continued many of its audit and compliance initiatives. Since FY 1992 the number of auditors has grown from 256 to 437 (71 percent) in the current year. During the same period, the number of collectors has grown from 167 to 307 (84 percent). The Division estimates that it will maintain effectively the same number of positions for both functions in FY 2006. In addition, the Division has continued to utilize the services of a private contractor to collect back taxes due to the State.

Program Description and Overview (Cont'd)

In addition to these initiatives, from time to time the division has also collected back taxes through various tax amnesty programs. The most recent initiative, in 2002, established pursuant to P.L. 2002, c.6, provided for a 60-day period of amnesty to end no later than June 10, 2002, for the payment of any outstanding State tax liabilities arising from tax filings due on and after January 1, 1996 and prior to January 1, 2002. According to the Division of Taxation, the program resulted in the collection of an estimated $276 million in back taxes.

The Governor's Budget also appropriates a flat $6.4 million in "off budget" revenues for the Unclaimed Property (Escheats) program in the Division of Taxation. This program attempts to locate owners of unclaimed property, such as bank accounts, wage checks, certificates of deposit, bonds and stocks. When no individual claims the property or no individual is legally qualified to inherit the property, the property reverts to the State. The escheats program was expanded in FY 2003 pursuant to P.L.2002, c.35 (C.46:30B-7.2 et. seq). which clarified and broadened the categories of property which may escheat to the State and reduced the time required for unclaimed property to escheat to the State. Language in the budget permits the administration of this program to be paid out of the revenues derived from escheated property.

The **Division of Revenue** was created pursuant to Executive Reorganization Plan 97-001 to provide one central location for revenue management and collections. In FY 1999, certain wage reporting functions from the Division of Wage and Reporting (Reorganization Plan 003-1998) and various business reporting procedures administered by the Office of Commercial Recording (Reorganization Plan 004-1998) were consolidated into the Division of Revenue. Included in this initial transfer were revenue management responsibilities for the following programs: Unemployment Insurance Tax, State Disability Benefits Tax, the Second Injury Fund, Temporary Disability Insurance Assessments, CAARS (Catastrophic Illness in Children, Worker and Community Right to Know, Pollution Prevention Control) Assessments, Health Care Subsidy and Workforce Development Partnership. These functions include responsibilities for revenue management such as receiving reports, billings and correspondence; remittance processing; data entry; imaging; and providing services to the public and legal communities, including filing and processing information.

For FY 2006, the Governor has recommended an appropriation of $28.8 million for the division, a net reduction of $1.6 million (5.3 percent) from FY2005. This decrease primarily reflects the elimination of FY 2005 supplemental appropriations totaling $1.7 million for collection services ($675,000) and the purchase of scanning equipment ($1.1 million), offset by an recommended increase in funding for OIT support services ($84,000). As in prior years, the budget includes recommended language which would permit the appropriation of additional funds as needed in FY 2006. The recommended budget is expected to fund 483 positions, an increase of 12 positions from the current year.

The **Division of Investments (Management of State Investments)** currently manages an investment portfolio of approximately $79.4 billion (including the various State pension funds, the State Disability Benefits Fund, the General Investment Fund, and the State of New Jersey Cash Management Fund), controls the principal proceeds and interest receipts, and provides investment services to other State agencies, public authorities and local governments. It publishes detailed monthly reports of operations and presents an annual report to the Governor and Legislature.

Following a two year decline, from June 2000 to June 2002, in the value of the assets of the State's pension funds, the Governor initiated a review of the State's investment strategy and

Program Description and Overview (Cont'd)

portfolio management operations. During the Fall of 2002, the Governor appointed a committee, whose membership includes two former governors of the State, to assess the status of the State's investment portfolio and provide recommendations for changes to the State's investment management strategy. In addition, the department hired a consultant, Independent Fiduciary Services (IFS), to assess the performance of the State's funds. In September 2003, IFS delivered its final report in which it offered some 79 recommendations designed to enhance the operations and performance of the division, the most controversial of which proposed the hiring of external money managers to make nontraditional investment decisions.

Subsequently, in December 2003, the State Investment Council voted to commit at least $4 billion to alternative investment classes. In addition, in January, 2005 the State Investment Council adopted policies and procedures governing the "Alternative Investment Program" (AIP) which called for the establishment of a new common trust fund to be known as "Common Pension Fund E." However, to the knowledge of the OLS, these directives, which are the subject of current litigation brought by various public employee organizations, have not yet been implemented.

For FY 2006, the Governor has recommended a continuation appropriation of $6.9 million in Direct State Services appropriations for the Division of Investments, a reduction of $400,000 (5.5 percent) from the current year. This reduction is attributable to the elimination of non-recurring consulting services. The division's budget is expected to support 68 positions in FY 2006 which is increased by 7 positions from FY2005. The administrative costs of this program are charged back to the investment portfolio. Language permitting the appropriation of additional resources in FY 2006 for expenses from the investment earnings of the various pension and health benefits funds administered by the Division is also recommended for continuation.

The **Division of the State Lottery** sponsors lottery games, raising State revenue through the sale of lottery tickets. By law, a minimum of 30 percent of gross lottery revenues is dedicated to State Aid for education and institutions. In FY 2006, the State Lottery is expected to transfer $970 million to the General Fund for these purposes, an increase of $170 million from the amount anticipated in the current budget. The State Lottery Fund Schedule on page H-61 of the Governor's FY 2006 budget shows the programs which are in part supported by these funds. Included are institutions and programs in the Departments of Agriculture, Education, Human Services, Military and Veterans' Affairs, and Higher Educational Services.

The Division's operations first came on budget in FY 1987. Since that time, the Division has been given broad authority to augment its appropriations through language. The FY 2006 budget continues four such language provisions. These provisions permit the Division to do the following: to use whatever sums are necessary in order to pay commissions, prizes, and expenses for developing games; to use State Lottery Fund receipts in excess of anticipated contributions to education and state institutions for administrative costs (this language would permit the Division to use amounts in excess of the $970 million anticipated as budgeted revenues in FY 2006); to appropriate out of receipts from communications fees any sums necessary for communications costs; and to earn and use revenues from the sale of advertising.

The Governor's FY 2006 budget projects net sales of $2.3 billion to be generated by 6,000 agents and 2,028 drawings. (This compares to net lottery net sales a decade ago of $1.4 billion generated by 5,150 agents and 885 drawings.) The steady growth in Lottery revenues available for General Fund purposes is partly attributable to the State's participation, since May 1999, in the "Big Game," the popular, multi-state, mega-jackpot game, which, in the most recently audited year,

Program Description and Overview (Cont'd)

FY2003, contributed almost $300 million in lottery revenue. On May 15, 2002, New Jersey joined eight other states in launching the first drawing of "Mega Millions," an enhanced version of the Big Game. In addition, New Jersey recently became the first State to introduce an online lottery game, "CyberSlingo."

"In But Not Of" Programs

The **Casino Control Commission** is funded from receipts of the Casino Control Fund, which receives fees primarily from the issuance and renewal of casino licenses and work permits in Atlantic City. The Commission is responsible for the regulation of legalized casino gaming in New Jersey and for the collection of all license fees and taxes imposed by the New Jersey Casino Control Act. The Commission regulates the operation of 12 casino hotel complexes (although a 13th casino, The Borgata, opened in Summer 2003, a merger of the Claridge casino with Bally's Park Place in FY 2003 eliminated one casino license) and licenses all employees and ancillary companies conducting business with the casino industry.

The Governor's budget recommends continuation funding of $28.7 million in FY 2006 for the Commission. Position data in the FY 2006 budget indicate that the recommended budget will support 364 positions, an increase of 27 over the current year.

In FY 1999, the **Office of Administrative Law (OAL)** was transferred from the Department of State to the Department of the Treasury pursuant to Reorganization Plan 004-1998. The Office of Administrative Law is charged with the development and administration of a fair, comprehensive and uniform system of administrative practice and procedures in the Executive Branch of State government. It is intended to be a facilitator between the public and State agencies in the development and implementation of and accessibility to the regulatory process which includes the impartial and expeditious resolution of disputes and the public's guarantee to notice and opportunity to comment on agency rulemaking.

The OAL conducts hearings for most State agencies and supervises rulemaking activities for all State agencies. The OAL staff reviews agency rulemaking to determine compliance with the Administrative Procedure Act and the OAL procedures manual. The OAL oversees the publication of the New Jersey Administrative Code and the New Jersey Register.

The Governor's budget recommends an appropriation of $9.1 million OAL, an increase of $522,000 (6 percent) from the current year. The increase is recommended to provide for the OAL's additional responsibilities under the "Smart Growth" legislation, P.L.2004, c.89 (C.52:27D-10.2 et seq.) which requires the OAL to establish a "Smart Growth Unit" having appropriate judicial expertise to expedite the appeal of any contested permit action related to this enactment. Of the $9.1 million recommended for OAL, $4.9 million is appropriated from the General Fund, a decrease of $539,000 below the FY 2005 adjusted appropriation, and $4.3 million is appropriated "off-budget" from Other funds. These other fund sources include judicial hearing receipts as well as new fees authorized under the Smart Growth statute. Position data in the FY2006 budget indicate that the recommended budget will support 123 positions, an increase of 11 from the current year.

The **Office of Information Technology (OIT)** was established in but not of the Department

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of the Treasury pursuant to Executive Order No. 87, dated September 4, 1998. Under the direction of the Chief Information Officer and with oversight by a public/private board of directors, OIT assumed all of the responsibilities of the former Office of Telecommunications and Information Systems which, since October 1984, had been responsible for consolidating and coordinating information processing activities of the Executive Branch.

OIT has operational responsibility for the State data centers and the Garden State Network, a Statewide integrated communications network capable of carrying data and voice transmissions. It is also responsible for evaluating all requests for data processing and telecommunications services and equipment in State government. This evaluation process includes system analysis and design activities, consulting services and general management and planning for data processing and telecommunications systems, including the Emergency 9-1-1 system, in the State.

OIT operates as a revolving fund, supported by charges against user agencies. Its recommended authorized spending level in FY 2006 is $99 million, which is effectively unchanged from the current year. This appropriation is expected to support 954 positions next year.

The **Board of Public Utilities** is currently organized "in but not of" the Department of the Treasury, where it has resided since 1994. The Reorganization Plan (No. 001-94) redesignated the Board of Regulatory Commissioners (BRC) as the Board of Public Utilities (BPU) and reconstituted the BPU in the Department of the Treasury. In addition, that reorganization eliminated the Department of the Public Advocate and transferred a residual Division of Ratepayer Advocate to the oversight of the BPU.

The BPU is a cabinet level regulatory authority with a statutory mandate (R.S.48:2-1 et. seq.) to ensure safe, adequate, and proper public utility services at reasonable rates for customers in New Jersey. Accordingly, the BPU regulates critical services such as natural gas, electricity, water, sewer, and telecommunications including cable television. The Board addresses issues of consumer protection, energy tax reform, deregulation of energy and telecommunications services, and the restructuring of utility rates to encourage energy conservation and competitive pricing in the industry. To accomplish its mandate, the Board regulates rates for such utilities by conducting comprehensive reviews to determine the fairness and reasonableness of rates. The Board also has general supervisory responsibility for monitoring utility service, responding to utility consumer complaints, and investigating utility accidents. In 1999, legislation establishing the framework and the necessary time schedules for the deregulation and restructuring of the electric and natural gas utilities in this State was enacted. The Electric Discount and Energy Competition Act ("EDECA," P.L. 1999, c.23) is responsible for significantly increasing the responsibilities assigned to the BPU.

The Governor's Budget recommends a Direct State Services appropriation of $29.6 million for the Economic Regulation Program, which is unchanged from the current adjusted appropriation. This program class includes BPU, budgeted at $23.6 million, and the Ratepayer Advocacy Program, budgeted at just under $6.0 million; both are funded by assessments levied on various utilities conducting business within the State.

Grants-in-Aid funding for "Lifeline Credit Program," established pursuant to P.L.1979, c.197 (C.48:2-29.15 et seq.) and the Tenants' Lifeline Assistance Program, established pursuant to P.L. 1981, c.210 (C.48:2-29.31 et seq.) is recommended to remain unchanged at $70.8 million for FY 2006. These two statutorily established programs, which were budgetarily reallocated to the BPU from the Department of Health and Senior Services by the FY 2004 appropriations act, provide

Program Description and Overview (Cont'd)

energy assistance grants to senior citizens and the disabled and are funded through an assessment on energy bills. (Broad authority for the BPU to establish and administer such an assessment was previously established pursuant to the energy deregulation law, "EDECA.") Although the BPU administers funding of these programs through the Universal Service Fund (into which assessment revenues are deposited), the Department of Health and Senior Services, under a Memorandum of Understanding agreement with the BPU, remains responsible for administration of the grants.

In FY 2006, the BPU will regulate 4 investor owned electric utilities and one municipally owned electric utility, 4 gas companies, 130 telephone and telegraph companies, 61 water and sewer companies, 10 municipal water companies, and 36 cable services.

The **Office of the Public Defender** (OPD) was created pursuant to P.L. 1967, c.43 "in but not of" the Department of Institutions and Agencies to provide representation for indigent defendants in criminal cases. (Prior to 1967, legal representation for indigent defendants, as guaranteed by the U.S. Constitution, was handled in New Jersey on a case-by-case basis.) In 1974, when the Department of the Public Advocate was created (P.L. 1974, c.27), the Office of the Public Defender became part of that department. Pursuant to the Public Advocate Restructuring Act (P.L. 1994, c.58), the Department of the Public Advocate was abolished and the Office of the Public Defender was placed in but not of the Department of the State. Subsequently, in 1998, under Reorganization Plan No. 004-1998, the Office of the Public Defender was transferred from the Department of State to the Department of the Treasury.

Funding for the Protection of Citizens Rights program includes both the Office of the Public Defender and the **Legal Services program**, both of which provide legal services to indigent clients. The OPD assists low income residents in criminal matters; the Office of Legal Services assists them in civil matters. The OPD is a State office staffed by State employees. Its primary source of funds is the State General Fund. Legal Services of New Jersey is a private non-profit corporation staffed by private attorneys. Its funding is primarily from three sources: a State grant, Interest On Lawyers Trust Account (IOLTA) fees, and to a lesser extent, federal funding.

Approximately 84 percent of the OPD's funding, or $75.9 million, is appropriated to the 22 regional offices and programs of the Trial Services to Indigents and Special Programs budgetary unit. Through this program, the Public Defender represents indigent criminal defendants; indigent defendants in Megan's Law notification hearings; and individuals who are either applying to the Intensive Supervision program or who are in the program and have violated probation. Through its Law Guardian program, the Public Defender also represents abused and neglected children in Family Court proceedings. The driving factor for expenditures within the Law Guardian unit is the number of clients assigned to it by the courts.

In September 1998, the Law Guardian (Child Abuse or "Title 9") program was expanded to respond to the increased caseload associated with the implementation of the federal "Adoption and Safe Families Act of 1997," Pub.L.105-89, the purpose of which was to speed-up the adoption of children placed in foster care. As a result of the act, the Office began representing both children and indigent parents in so-called "Title 30" cases in which the parental rights of biological parents are sought to be terminated in certain cases. In mid-1999, pursuant to P.L. 1999, c.53 (N.J.S.A.9:3-45.7 et seq.), the Office created the Parental Representation Unit (PRU) within the Law Guardian program to provide attorneys for indigent parents in some 1,200 termination of parental rights proceedings annually.

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The OPD's Law Guardian unit was expanded in the current fiscal year in association with implementation of the State's Child Welfare Reform plan. In accordance with the plan's goal to reduce caseloads within the Division of Youth and Family Services, the FY 2006 Budget continues language added in FY2005 to permit the transfer of up to $15.8 million to the OPD and the Department of Law and Public Safety for the addition of some 220 positions to "speed children's cases to court." This funding is being utilized to provide for additional Law Guardians and support staff in order to reduce attorney caseloads and court backlogs with respect to both Title 9 and Title 30 proceedings.

The Legal Services Program was transferred from the Department of Community Affairs to the Department of the Treasury in FY 1999 pursuant to Reorganization Plan No. 002-1998. Legal Services programs are the primary means by which society provides free legal assistance in civil matters to people who cannot afford the cost of legal representation. Although the types of cases handled vary from county to county, Legal Services of New Jersey provides support to indigents primarily in four areas: Housing - primarily tenancy and eviction matters; Family Matters - divorce, separation, domestic violence, child support and termination of parental rights; Income Maintenance - Social Security, Work First New Jersey, Food Stamps and other such programs; and Consumer Matters - bankruptcy, collections, warranties, unfair sales practices and public utilities. To a lesser extent, other cases concern education, health, employment and juvenile matters.

Effective December 30, 2002, the Legal Service program was re-organized from a network of seventeen local offices to a network of six regional offices, which provide legal services to clients in all 21 counties, and Legal Services of New Jersey, the Statewide coordinating office in Edison. The Legal Services staff is approximately 430 Statewide, including 210 attorneys who represent, to varying degrees, some 50,000 clients annually. Each program is a not-for-profit corporation governed by a board of trustees which includes members of the local bar association as well as representatives of the eligible client population.

The Governor's FY 2006 Budget recommends a Grants-in-Aid appropriation of $16.4 million for Legal Services of New Jersey, which is unchanged from the current adjusted appropriation.

Two new additional "in, but not of" agencies have been added to the department's budget in FY 2006: **Office of Inspector General** and the **Public Advocate**. Created pursuant to Executive Order No. 7, the Inspector General is authorized to investigate the performance of governmental officers, employees, appointees, functions and programs in order to promote efficiency, identify cost savings, and to detect and prevent misconduct within State funded agencies. The Governor's Budget includes a $2.5 million appropriation for this office to support 18 funded positions, and includes proposed budget language authorizing additional (supplemental) funds for its operations as may be necessary.

Lastly, subject to the enactment of enabling legislation, the Governor's Budget would also appropriate $2.0 million for the re-establishment of the Public Advocate. Pending legislation (see S-541/A-1424 of 2004) would re-constitute the Public Advocate, which was abolished in 1994, as an Executive department of State government, and transfer certain existing State functions to the new office. The Public Advocate's mandate will be to provide investigative and advocacy services to children, the elderly and mentally ill, and ratepayers, and to consolidate various existing ombudsman offices.

Program Description and Overview (Cont'd)

FY 2006 Budget Overview

Total resources recommended for the Department of the Treasury and its affiliated agencies and programs in FY 2006 are $2.9 billion, a decrease of $1.45 billion (33 percent) below the FY 2005 adjusted appropriation. Included in this total is $1.8 billion in State budgeted appropriations (which include appropriations from the General Fund, the Property Tax Relief Fund (PTRF), and the Casino Control Fund) and $1.1 billion in Other Funds. Federal Funds constitute a minimal portion of the Department of the Treasury's resources.

The Governor has recommended relatively level funding or minor reductions for many of the department's State budgeted funding categories, with the exception of Grants-in-Aid paid out of the Property Tax Relief Fund, for which a major reduction has been recommended. Most notably:

- Grants-In-Aid paid out of the Property Tax Relief Fund are recommended to be decreased by about $1.2 billion (67.3 percent) in FY2005. The Governor's budget includes language provisions restricting program participation and rebate amounts under the State's Homestead Rebate programs for Homeowners and Tenants.

- The FY 2006 budget recommends $379.5 million for General Fund - Direct State Services appropriations, a decrease of about 5.5 percent from the FY 2005 adjusted appropriation. The FY 2006 budget continues language for a number of programs which permit the appropriation of additional off-budget resources.

- Debt Service paid out of the General Fund is recommended to decrease by $221.9 million (58.6 percent) from the FY 2005 adjusted appropriation of $378 million due to the refinancing or "refunding" of certain general obligation bonds.

Off-Budget Items

The Department of the Treasury either collects and distributes, or has available to it for its own use, significant amounts of non-budgeted or off-budget revenue. According to the Governor's Budget, in FY 2006 these "other" funds are expected to total slightly more than $1.0 billion. "Other funds" include four types of non-budgeted resources: other distributed taxes, dedicated funds, revolving funds and miscellaneous funds.

The largest portion of this revenue, other distributed taxes, is appropriated by language and consists of taxes collected at the State level and distributed to local governments. In prior years, these taxes included the public utilities franchise and gross receipts taxes; under utility tax reform legislation enacted in 1997, this revenue is now drawn from taxes on the income and sales of various regulated utility companies. The FY 2006 budget proposes to distribute a total of $788.5 million collected from these energy replacement taxes. The Energy Tax Receipts are discussed in more detail in the State aid section which follows.

Other off-budget revenues fund programs from dedicated or special revenue funds, such as the Governor's Council on Alcoholism and Drug Abuse. The Governor's Council on Alcoholism and Drug Abuse is expected to generate $13.6 million in revenue in FY 2006. This amount will fully fund the initiatives of the council as well as programs within the Department of Health.

The final portion includes the various Treasury components that operate as revolving funds,

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with charges made directly against State agencies using their services. Among these units are OIT (which has been discussed earlier), the State Central Motor Pool, the Capital Post Office, the Print Shop and the Distribution Center. In FY 2006, a total of $187.4 million is recommended for the various revolving funds. This total represents a less than one percent increase ($832,000) over the FY 2005 adjusted appropriation.

State Subsidies and Financial Aid

Financial assistance to local governments and disabled and senior property taxpayers is the largest Department of the Treasury expenditure in the Governor's FY 2006 Budget. The Governor proposes to allocate $1.63 billion, or 55.6 percent, of the Treasury's recommended $2.93 billion appropriation to these purposes. Local government entities would receive $1.05 billion in State Aid and disabled and senior property taxpayers $577 million in Grants-in-Aid. Of the suggested $1.45 billion decrease in the FY 2006 Treasury appropriation, reductions in Homestead Property Tax Rebates to homeowners and tenants, a Grants-in-Aid expenditure, account for $1.21 billion.

Grants-in-Aid

The Department of the Treasury administers two property tax relief programs under which it provides direct pecuniary benefits to certain property taxpayers out of the Property Tax Relief Fund: the Homestead Property Tax Rebate program and the Senior and Disabled Citizens' Property Tax Freeze program (also known as the Homestead Property Tax Reimbursement program).

The Governor's FY 2006 Budget proposes to allocate $577 million to the two direct property tax relief programs. That amount represents a $1.19 billion, or 67 percent, reduction from its FY 2005 appropriation. While the Executive recommends a $25 million expansion in funding for the Senior and Disabled Citizens' Property Tax Freeze program over FY 2005, it proposes a $1.21 billion decrease in the appropriation for the Homestead Property Tax Rebate program. **Table 1** shows the levels at which the direct property tax relief programs were funded in FY 2004 and FY 2005 and are proposed to be funded in FY 2006.

Table 1
Department of the Treasury
Grants-In-Aid To Individual Property Taxpayers
FY 2004 - FY 2006
($000)

GRANTS-IN-AID	Expended FY 2004	Adj App FY 2005	Recom FY 2006
Homestead Property Tax Rebates for Homeowners and Tenants	$513,839	$1,689,311	$478,488
A) Rebates for Homeowners	—	1,501,311	414,988
B) Rebates for Tenants	—	188,000	63,500
NJ SAVER	297,314	folded into rebates as of FY 2005	
Senior and Disabled Citizens' and Property Tax Freeze	17,658	73,400	98,400
Total, Grants-In-Aid	**$828,811**	**$1,762,711**	**$576,888**

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The Governor's Budget seeks to limit FY 2006 spending on the **Homestead Property Tax Rebate** program (P.L. 1990, c.61) to $478.5 million, a $1.21 billion, or 71.7 percent, decline from its FY 2005 appropriation. Restrictions on program participation and rebate amounts are intended to produce the savings for the State. In FY 2005, every homeowner whose gross income did not exceed $200,000 in tax year 2003 and every tenant whose gross income did not exceed $100,000 could claim a homestead rebate. In FY 2006, only residents at least 65 years of age or disabled or both with a tax year 2004 gross income of $100,000 or less would be eligible. Consequently, the Executive Budget anticipates processing about 600,000 rebate checks in FY 2006. In FY 2005, it issued almost 2.5 million such checks, according to the most recent data provided by the Division of Taxation. In addition, the Governor's Budget recommends lowering maximal rebate amounts. Disabled and senior homeowners would receive no more than $800 in FY 2006 (down from $1,200 in FY 2005) and disabled and senior tenants no more than $775 (down from $825). **Table 2** depicts the impact the proposed adjustments would have on various categories of individuals.

Table 2
Department of the Treasury
Homestead Property Tax Rebate Amounts
FY 2005 - FY 2006

Homeowner or Tenant	Status	Gross Income	Rebate Amounts FY 2005	Rebate Amounts Recom FY 2006
Homeowner	Senior or Disabled	Not over $70,000	$1,000 - $1,200	$800
		$70,001 to $100,000	$600 - $800	$350
		$100,001 to $125,000	$600 - $800	$0
		$125,001 to $200,000	$500	$0
	Under Age 65 and not Disabled	Not over $125,000	$600 - $800	$0
		$125,001 to $200,000	$500	$0
Tenant	Senior or Disabled, Married	Not over $70,000	$150 - $825	$150 - $775
		$70,001 to $100,000	$150	$150
	Senior or Disabled, Single	Not over $35,000	$150 - $825	$150 - $775
		$35,001 to $100,000	$150	$150
	Under Age 65 and not Disabled	Not over $100,000	$150	$0

A resident's statutory rebate amount is based on the amount by which property taxes (or the rental equivalent) exceed five percent of the taxpayer's income, the taxpayer's gross income, whether the taxpayer is a homeowner or a tenant, and whether the taxpayer is 65 years of age or older or disabled or both.

The "2004 Homestead Property Tax Rebate Act" (P.L.2004, c.40 et seq.) recast the rebate program as of FY 2005. The act integrated the NJ SAVER rebate program into the homestead rebate program and raised rebate amounts. To finance the higher benefits, taxpayers with a gross income exceeding $500,000 saw the marginal tax rate on their income above $500,000 increase from 6.37 percent to 8.97 percent. Accordingly, the rebates' FY 2005 allotment surpassed its FY 2004 level

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by $878.2 million.

The Governor's Budget recommends increasing the appropriation for the **Senior and Disabled Citizens' Property Tax Freeze** program (P.L.1997, c.348) by $25 million, or 34.1 percent, to $98.4 million in FY 2006. As noted in the Governor's Budget in Brief, the Executive expects 170,000 program participants in FY 2006, about 20,000 more than in FY 2005, when the average benefit was $481. Either appropriation significantly exceeds the $17.7 million expenditure under the FY 2004 Appropriations Act (P.L.2003, c.122) that capped the benefit amount and restricted program eligibility to achieve budget savings.

Funded out of the Property Tax Relief Fund, the program reimburses qualified homeowners for the difference between the amount of property taxes they paid on their principal residence in tax year 2004 and the amount they paid in their base year. Qualified homeowners in FY 2006 must be at least 65 years of age or disabled or both and they must have an annual income not to exceed $40,869 if they are single or $50,113 if they are married. In addition, they must have paid property taxes directly, or indirectly by means of rental payments, on any homestead or rental unit used as a principal residence in New Jersey for at least ten consecutive years, at least the last three of which were as owners of the homesteads for which the reimbursement is sought.

Individual freeze benefits increase rapidly. The Background Paper "Direct Property Tax Relief in New Jersey" on page 50 of this booklet features an illustration of these dynamics. It demonstrates how an individual with a property tax burden of $3,000 in 2001, the base year, and ten percent annual tax increases thereafter will experience a 264.1 percent increase in benefits from 2002 to 2005, to offset a 33.1 percent increase in property tax liabilities.

State Aid

The Governor's FY 2006 Budget recommends allocating $1.051 billion in State Aid to municipalities and other local government entities. That amount represents a $3.52 million, or 0.34 percent, increase over the FY 2005 appropriation. Table 3 lists the State Aid programs in the Department of the Treasury and shows their FY 2004 and 2005 funding levels as well as their proposed FY 2006 allocations.

The Governor's Budget recommends that municipalities receive $788.5 million out of the **Energy Tax Receipts Property Tax Relief Fund** (C.52:27D-439) in FY 2006, a $753,000, or 0.1 percent, increase over FY 2005. Budget language authorizes payments under this off-budget program, which distributes aid to municipalities from the State's taxation of certain regulated utilities and telecommunications companies. Set at $755 million for FY 2002, the aid amount in any subsequent year is adjusted by the rate of increase in the federally computed Implicit Price Deflator for State and Local Government Purchases. Failure in a given fiscal year to appropriate moneys in the prescribed amount would void taxpayers' corporation business tax liability for that tax year. In recent years, the energy tax revenues allocated to the fund have failed to meet the statutorily mandated funding level: FY 2003 funding was at the 2002 level, FY 2004 funding increased roughly one percent, FY 2005 funding rose by 0.8 percent, and the FY 2006 Budget calls for a 0.1 percent increase. To respect the statutorily mandated funding level, a language provision transfers $46.2 million from the Consolidated Municipal Property Tax Relief Aid account to the Energy Tax Receipts Property Tax Relief Fund whose total recommended FY 2006 disbursement thus increases to $835 million, which is $28.1 million, or 3.5 percent, above FY 2005. Overall, the proposed FY 2006 Budget increases aid to New Jersey's 566 municipalities by 0.1 percent. The total recommended aid of $1.6 billion reflects the $753,000 increase in Energy Tax Receipts

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Property Tax Relief and level funding for Consolidated Municipal Property Tax Relief Aid.

The Governor proposes to maintain the $86 million appropriation for the **Reimbursement for Veterans' Tax Deductions** (C.54:4-8.17). Under the program, veterans can claim a $250 deduction from their property tax bills. The State reimburses municipalities for 102 percent of the revenue lost because of the deduction.

The Governor's Budget recommends allocating an unchanged $57.3 million to the **Solid Waste Management - County Environmental Investment Debt Service Aid** account. The program assists counties in meeting debt service obligations for solid waste treatment investments.

For FY 2006, an appropriation totaling $73.5 million is recommended to fund the Police and Firemen's Retirement System (PFRS). This amount represents 40 percent of the $183.9 million certified by the actuaries to fund both the normal FY 2006 contribution and the accrued liabilities of the PFRS. State PFRS payments spread over three accounts: (1) Direct State Services under Interdepartmental Accounts, (2) Grants-in-Aid to State colleges and universities for campus police officers, and (3) State Aid to local governmental entities within the Department of the Treasury. Under State Aid, the Governor's Budget proposes to appropriate $23.7 million to the **Police and Firemen's Retirement System** to pay for 40 percent of the State's actuarially calculated basic pension contribution, an increase of $3.8 million, or 19.3 percent over the FY 2005 adjusted appropriation. The Budget also recommends to allot $13.3 million to the **Police and Firemen's Retirement System (P.L. 1979, c.109)** to pay for 40 percent of the State's actuarially calculated pension contribution pursuant to the provisions of P.L.1979, c.109. This amount represents a $1.2 million, or 8.3 percent, decrease from FY 2005. The law provides enhanced benefits to PFRS members who retire after 25 years of service, granting a retirement allowance of 65 percent of final compensation. The State is liable for this enhanced benefit at a cost of 1.1 percent of covered salary.

A $20.9 million appropriation is recommended to the **Police & Firemen's Retirement System - Post Retirement Medical** account in FY 2006, an increase of $1.5 million, or 7.6 percent, over FY 2005. The amount would cover the State's obligation to pay 80 percent of the health care premiums for PFRS members who retired on disability or with at least 25 years of creditable service (C.52:14-17.32i). The increase in the requested appropriation is largely due to (1) the depletion of post retirement medical reserves; (2) significant premium rate increases for retirees; and (3) an increase in the number of retirees. The appropriation does not include funding to replenish the depleted post-retirement medical reserve fund.

The Governor proposes to maintain the $23 million appropriation for the **Reimbursement for Senior and Disabled Citizens' Tax Deductions** (C.54:4-8.41). Under the program, property taxpayers 65 years of age or older or disabled or both can claim a $250 deduction from their property tax bills, if their annual income exclusive of Social Security benefits does not exceed $10,000. The State reimburses municipalities for 102 percent of the revenue lost due to the deduction.

The Executive recommends $8.6 million in FY 2006 for that portion of the **Debt Service on Pension Obligation Bonds** that the State incurred to finance its unfunded accrued liability for local and county employees under the PFRS and the Consolidated Police and Firemen's Pension Fund. This allocation exceeds the FY 2005 level by $706,000, or 9.0 percent.

The proposed FY 2006 Budget includes a $6.4 million appropriation for the **State**

Program Description and Overview (Cont'd)

Contribution to the Consolidated Police and Firemen's Pension Fund (CPFPF). This amount falls $649,000, or 9.2 percent, below the FY 2005 level. The CPFPF is a closed system without contributing members that provides pension coverage to municipal police and firemen who were appointed prior to July 1, 1944. As of June 30, 2004, it had 941 beneficiaries, according to the CFPF's FY 2004 Annual Report. Following the failure of fund assets to achieve its assumed 8.75 percent rate of return, the actuary has lowered the rate to two percent as of FY 2005.

The Governor's Budget proposes to continue in FY 2006 the $4.2 million allotment to the **South Jersey Port Corporation - Debt Service Reserve Fund** included in the FY 2005 Appropriations Act. The account ensures that the Corporation, located in Camden's harbor, maintains the maximum debt service requirement for its debt obligations.

The Governor's Budget allocates $2.5 million to the **South Jersey Port Corporation - Property Tax Reserve Fund**, an amount that is $98,000, or 4.0 percent, above the FY 2005 level. Camden City and County receive payments-in-lieu-of taxes from this account as compensation for any revenue loss they incur because of property acquisitions by the Corporation.

In FY 2006, the Executive seeks to renew the $12 million FY 2005 appropriation for the **Highlands Protection Fund.** The fund was created in 2004 as part of the Highlands Water Protection and Planning Act (P.L.2004, c.120), which intends to protect the water and other natural resources of the New Jersey Highlands. Through FY 2014, the act dedicates $12 million of State realty transfer fee receipts annually to the Highlands Protection Fund. As of FY 2014, the amount will decrease to $5 million per year. Five programs are proposed to receive unaltered disbursements from the fund in FY 2006: a) **Highlands Property Tax Stabilization Aid** (C.54:1-85 b.) $3.6 million, b) **Pinelands Property Tax Stabilization Aid** (C.54:1-84) $1.8 million, c) **Incentive Planning Aid** program (C.13:20-13) that provides grants to municipalities in the Highlands planning area that want to accept growth $2.65 million, d) **Watershed Moratorium Offset Aid** program (C.58:29-8) $2.2 million, and e) **Regional Master Plan Compliance Aid** program that provides grants to municipalities in the Highlands preservation area so that they can bring their plans into compliance with the Highlands Regional Master Plan (C.13:20-18) $1.75 million.

The Governor's FY 2006 Budget suggests maintaining the FY 2005 allocation of $3.4 million in **Other Distributed Taxes.** Under the program, the State distributes a portion of certain insurance tax proceeds to counties hosting domestic insurance companies' principal offices.

Funding for the **County Boards of Taxation** (R.S.54:3-1) in FY 2006 is recommended at $1.5 million, unchanged from its FY 2005 level. Under the program, the State reimburses counties for the salaries of county tax board members. The boards hear taxpayer appeals of local tax assessments, determine local tax rates, promulgate equalization tables, supervise the activities of assessors, and do related work in the enforcement of local property tax laws. This funding levels appears to be inadequate to meet the full cost of board member salaries, in light of the addition of two members to each board under P.L.2005, c.44.

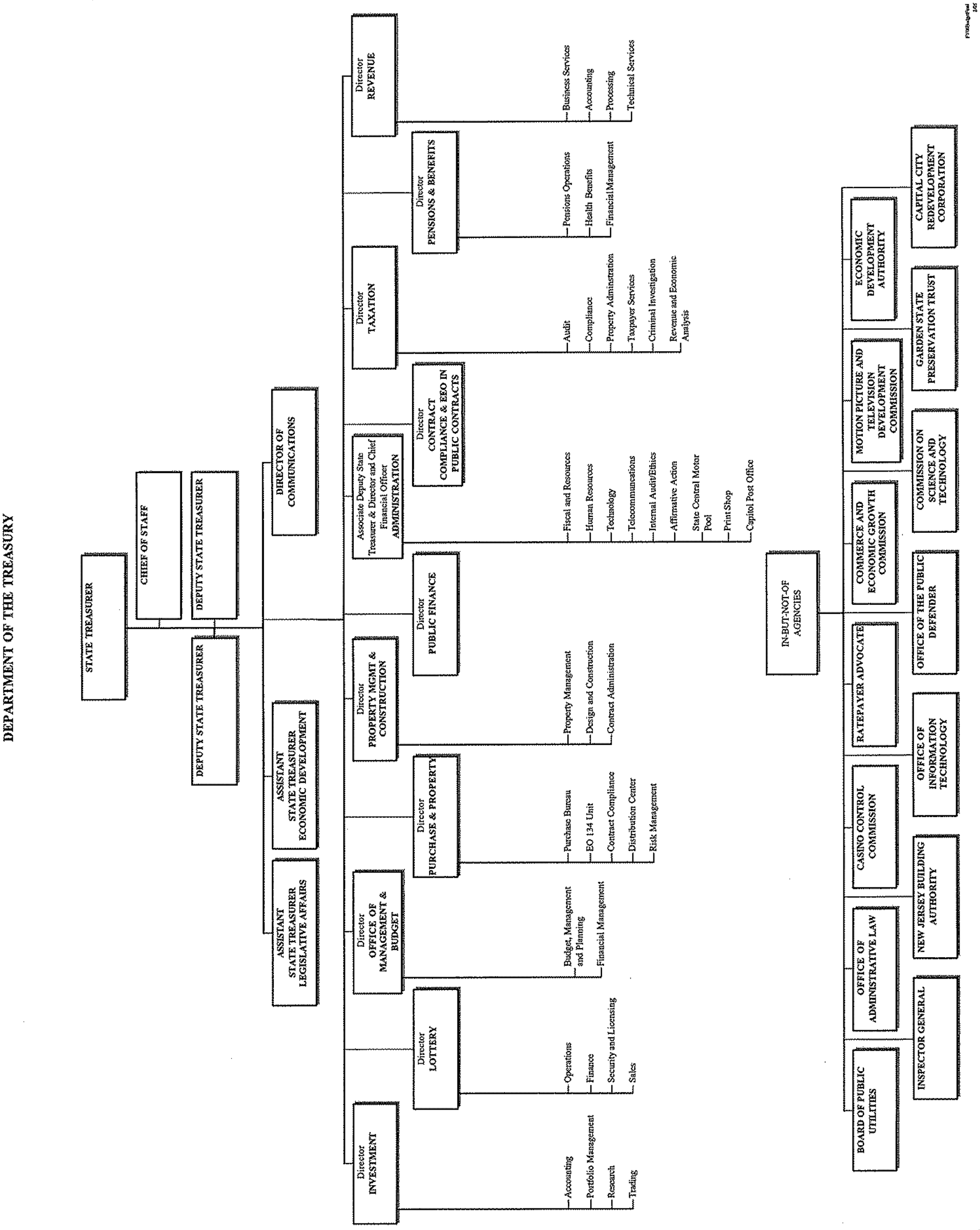
The Executive recommends eliminating in FY 2006 the $1.5 million allotment to the **Camden Economic Recovery** that a supplemental appropriation added in FY 2005. Notwithstanding this discontinuance, a language provision reauthorizes this funding in FY2006. In FY 2004, the same level of funding was authorized, of which $422,000 was used to pay the Walter Rand Institute for the Camden City Capacity Building Project and $235,000 to conduct a management study and to publish the 2003 Annual Report for the City of Camden.

Program Description and Overview (Cont'd)

Table 3
Department of the Treasury
State Aid To Local Government Entities
FY 2004 - FY 2006

STATE AID	Expended FY 2004	Adj App FY 2005	Recom FY 2006
Energy Tax Receipts	$781,445	$787,739	$788,492
Municipal Reimbursement for Veterans' Tax Deductions	81,016	86,000	86,000
Solid Waste Management - Debt Service Aid	52,732	57,328	57,328
Police & Firemen's Retirement System	4,792	19,864	23,700
Police & Firemen's Retirement System - Post Retirement Medical	16,068	19,420	20,889
Police & Firemen's Retirement System (P.L. 1979, c.109)	5,629	14,515	13,317
Municipal Reimbursement for Senior and Disabled Citizens' Tax Deductions	25,086	23,000	23,000
Debt Service - Pension Obligation Bonds	8,237	7,869	8,575
Consolidated Police & Firemen's Pension Fund	1,950	7,046	6,397
South Jersey Port Corporation - Debt Service Reserve Fund	6,190	4,200	4,200
South Jersey Port Corporation - Property Tax Reserve Fund	0	2,442	2,540
Highlands Protection Fund - Highlands Property Tax Stabilization Aid	0	3,600	3,600
Highlands Protection Fund - Incentive Planning Aid	0	2,650	2,650
Highlands Protection Fund - Watershed Moratorium Offset Aid	0	2,200	2,200
Highlands Protection Fund - Pinelands Property Tax Stabilization Aid	0	1,800	1,800
Highlands Protection Fund - Regional Master Plan Compliance Aid	0	1,750	1,750
Other Distributed Taxes	3,363	3,363	3,363
County Boards of Taxation	1,397	1,481	1,481
Camden Economic Recovery	656	1,500	0
Total State Aid	**$988,561**	**$1,047,767**	**$1,051,282**
Grand Total: Grants-in-Aid and State Aid	**$1,817,372**	**$2,810,478**	**$1,628,170**

Organization Chart



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	$401,550	$401,740	$379,522	(5.5)%	(5.5)%
Grants-In-Aid	197,477	244,861	229,497	16.2%	(6.3)%
State Aid	260,084	304,451	301,986	16.1%	(0.8)%
Capital Construction	3,047	0	0	(100.0)%	0.0%
Debt Service	374,886	378,293	156,433	(58.3)%	(58.6)%
Sub-Total	**$1,237,044**	**$1,329,345**	**$1,067,438**	**(13.7)%**	**(19.7)%**
Property Tax Relief Fund					
Direct State Services	$0	$0	$0	0.0%	0.0%
Grants-In-Aid	828,811	1,762,711	576,888	(30.4)%	(67.3)%
State Aid	154,449	164,334	167,020	8.1%	1.6%
Sub-Total	**$983,260**	**$1,927,045**	**$743,908**	**(24.3)%**	**(61.4)%**
Casino Revenue Fund	$0	$0	$0	0.0%	0.0%
Casino Control Fund	$28,074	$28,686	$28,686	2.2%	0.0%
State Total	**$2,248,378**	**$3,285,076**	**$1,840,032**	**(18.2)%**	**(44.0)%**
Federal Funds	$3,786	$5,638	$6,070	60.3%	7.7%
Other Funds	$1,026,784	$1,089,534	$1,084,269	5.6%	(0.5)%
Grand Total	**$3,278,948**	**$4,380,248**	**$2,930,371**	**(10.6)%**	**(33.1)%**

PERSONNEL SUMMARY - POSITIONS BY FUNDING SOURCE

	Actual FY 2004	Revised FY 2005	Funded FY 2006	Percent Change 2004-06	Percent Change 2005-06
State	4,599	4,704	5,051	9.8%	7.4%
Federal	17	7	19	11.8%	171.4%
All Other	1,697	1,698	1,772	4.4%	4.4%
Total Positions	**6,313**	**6,409**	**6,842**	**8.4%**	**6.8%**

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	23.3%	23.7%	22.2%	—	—

Significant Changes/New Programs ($000)

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

ECONOMIC REGULATION

BOARD OF PUBLIC UTILITIES (BPU) AND THE RATEPAYER ADVOCATE

Federal Funds, Energy Resource Management	**$3,587**	**$4,019**	**$432**	**12.0%**	**D-406**

Two existing federal grants allocated to BPU are expected to increase in FY2006:

- *State Energy Conservation*, an increase of $332,000, from $2.25 million in FY2005 to $2.6 million in FY2006: The BPU's Bureau of Conservation and Renewable Energy utilizes these monies to encourage conservation through various residential and commercial energy programs, such as its ride sharing, lighting efficiency and improved construction standards programs.
- *Diamond Shamrock*, an increase of $100,000, from $617,000 in FY2005 to $717,000 in FY2006: These funds are provided from the Petroleum Overcharge Reimbursement Fund (PORF) representing settlements from the petroleum industry for pricing overcharges to consumers during the oil embargo in the 1970's, and are utilized by the BPU's Division of Energy for the support of administrative functions related to PORF compliance.

Other Funds, Administration and Support Services	**$3,000**	**$0**	**($3,000)**	**(100.0)%**	**D-406**

In FY2005, the BPU augmented its budget utilizing appropriated receipts from fines, penalties and settlements imposed upon or agreed to by utilities for various violations. Authorization to appropriate these revenues was contained in budget language which effectively allowed the BPU to operate without increasing its industry assessment. While this language is not recommended to be continued in FY2006, it is anticipated, based on information provided by the Office of Management and Budget, that the BPU will be able to meet both its on-going and one-time budgetary needs in FY 2006 through a combination of utility assessments, federal grants, and carryforward. The BPU will have access to an anticipated $2.7 million in carryforward dollars next fiscal year which will again allow the Board's industry assessment to remain unchanged.

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

Budget Item	Adj. Approp. FY 2005	Recomm. FY 2006	Dollar Change	Percent Change	Budget Page
GOVERNMENTAL REVIEW AND OVERSIGHT					
OFFICE OF INSPECTOR GENERAL					
General Fund, DSS Salary and Wages	$0	$1,420	$1,420	—	D-410
General Fund, DSS Materials and Supplies	$0	$100	$100	—	D-410
General Fund, DSS Services Other than Personal	$0	$750	$750	—	D-410
General Fund, DSS Maintenance and Fixed Charges	$0	$155	$155	—	D-410
General Fund, DSS Additions, Improvements and Equipment	$0	$75	$75	—	D-410
TOTAL	$0	$2,500	$2,500		

The Governor's Budget Recommendation includes a $2.5 million appropriation for the Office of Inspector General which became operational in January 2005. In addition, proposed budget language would provide the office with additional (supplemental) funds as may be necessary with further Legislative involvement. This office was created pursuant to Executive Order No. 7 and is authorized to investigate the performance of governmental officers, employees, appointees, functions and programs in order to promote efficiency, identify cost savings, and detect and prevent misconduct within State funded agencies. According to evaluation data in the Governor's Budget (page D-410), 18 funded positions are associated with this function. Legislation to confer statutory authority on the office is currently pending (see A3576 and SCS (1R) for S2195/345).

Budget Item	Adj. Approp. FY 2005	Recomm. FY 2006	Dollar Change	Percent Change	Budget Page
FINANCIAL ADMINISTRATION					
DIVISION OF TAXATION					
General Fund, DSS Taxation Services and Administration	$113,429	$94,501	($18,928)	(16.7)%	D-414

This Governor's Budget reflects the elimination of FY 2005 supplemental appropriations for the Division of Taxation, including $12 million for third party collections services; $5.1 million for an electronic tax auditing system; and $1.6 million for a new phone center for the division's call center. A reduction of $300,000 in savings from reduced filing of paper forms and returns is also included. As in past years, broad language is included in the FY 2006 Budget to permit the

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

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

appropriation of additional resources for the division without subsequent legislative involvement.

STATE LOTTERY

General Fund, DSS Administration of State Lottery	**$30,400**	**$22,400**	**($8,000)**	**(26.3)%**	**D-414**

This decrease reflects the elimination of supplemental funding used to enhance the Lottery's advertising programs. According to the State Lottery, this expenditure on game promotion ($1.6 million on Pick 3/Pick 4 Instant Match; $1.2 million on Jersey Cash 5; $2.9 million on instant games; $2.0 million on Mega Millions; and $300,000 on "Where the Money Goes") is expected to generate approximately $30 million in additional net revenue. Pursuant to on-going budget language, all administrative expenditures related to the Lottery, including the $8 million supplemental for advertising in the current year, are reimbursed to the General Fund through the State Lottery Fund.

GENERAL GOVERNMENT SERVICES

General Fund, DSS Special Purpose: Gubernatorial Transition – Governor	**$0**	**$250**	**$250**	**—**	**D-420**
General Fund, DSS Special Purpose: Gubernatorial Transition – Governor - Elect	**$0**	**$250**	**$250**	**—**	**D-420**
General Fund, DSS Special Purpose: Gubernatorial Inaugural Commission	**$0**	**$100**	**$100**	**—**	**D-420**

A total of $600,000 is recommended for Gubernatorial transition costs. This amount is unchanged from the total amount budgeted for this purpose in FY2002, of which approximately $551,000 was expended.

While not reflected in the FY 2005 adjusted appropriation, a Gubernatorial transition account was established in FY 2005 to cover expenses related to the resignation of Governor McGreevey. Approximately $497,000 was transferred into this account from the Governor's Contingency Fund, of which $164,000 has been expended to date.

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

Budget Item	Adj. Approp. FY 2005	Recomm. FY 2006	Dollar Change	Percent Change	Budget Page
General Fund, DSS Special Purpose: Fleet Renewal Management Program	**$560**	**$0**	**($560)**	**(100.0)%**	**D-420**

The recommended decrease in funding for the Fleet Renewal Management program within the Division of Purchasing and Inventory Management reflects reduced line of credit costs associated with this program, with no additional vehicle purchases planned for FY2006. Since FY1999, almost $50 million has been appropriated to this account as part of an initiative to replace aged vehicles in the State's fleet. During this time the average vehicle age has been reduced from approximately eight years to roughly three years.

OFFICE OF ADMINISTRATIVE LAW

Budget Item	Adj. Approp. FY 2005	Recomm. FY 2006	Dollar Change	Percent Change	Budget Page
General Fund, DSS Adjudication of Administrative Appeals	**$5,394**	**$4,855**	**($539)**	**(10.0)%**	**D-423**
Other Funds, DSS Adjudication of Administrative Appeals	**$3,232**	**$4,293**	**$1,061**	**32.8%**	**D-423**
TOTAL, OAL	**$8,626**	**$9,148**	**$522**	**6.1%**	**D-423**

The Governor's Budget reflects a shift in the OAL's funding sources towards a greater reliance on fee revenues from "Other Funds." These other fund resources include judicial hearing receipts as well as new fees authorized under the recently enacted "Smart Growth" legislation, P.L.2004, c.89 (C.52:27D-10.2 et seq.) This enactment requires the OAL to establish a "Smart Growth Unit" having appropriate judicial expertise to expedite the appeal of any contested permit actions related to the enactment.

STATE SUBSIDIES AND FINANCIAL AID

Budget Item	Adj. Approp. FY 2005	Recomm. FY 2006	Dollar Change	Percent Change	Budget Page
PTRF, Grants-in-Aid: Homestead Property Tax Rebates for Homeowners	**$1,501,311**	**$414,988**	**($1,086,323)**	**(72.4)%**	**D-426**

Pursuant to proposed budget language restricting program participation and rebate amounts, the Governor's Budget recommends a reduction of $1.09 billion in the Homestead Property Tax Rebates for Homeowners program in FY 2006. In FY 2005, every homeowner whose gross income did not exceed $200,000 in tax year 2003 could claim a homestead rebate. In FY 2006, only residents at least 65 years of age or disabled or both with a tax year 2004 gross income of $100,000 or less would be eligible. Moreover, the Governor recommends lowering the maximum rebate amounts. Disabled and senior homeowners would receive no more than $800 in FY 2006, instead of the $1,200 received in FY 2005.

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

Budget Item	Adj. Approp. FY 2005	Recomm. FY 2006	Dollar Change	Percent Change	Budget Page
PTRF, Grants-in-Aid: Homestead Property Tax Rebates for Tenants	**$188,000**	**$63,500**	**($124,500)**	**(66.2)%**	**D-426**

Through proposed budget language limiting program participation and rebate amounts, the Governor's Budget incorporates a $124.5 million savings in the Homestead Property Tax Rebates for Tenants program in FY 2006. In FY 2005, every tenant whose gross income did not exceed $100,000 in tax year 2003 could claim a homestead rebate. In FY 2006, only residents at least 65 years of age or disabled or both with a tax year 2004 gross income of $100,000 or less would be eligible. In addition, the Governor recommends lowering maximum rebate amounts. Disabled and senior tenants would receive no more than $775 in FY 2006, instead of the $825 received in FY 2005.

Budget Item	Adj. Approp. FY 2005	Recomm. FY 2006	Dollar Change	Percent Change	Budget Page
PTRF, Grants-in-Aid: Senior and Disabled Citizens' Property Tax Freeze	**$73,400**	**$98,400**	**$25,000**	**34.1%**	**D-426**

The Governor recommends a $25 million expansion in funding for the Senior and Disabled Citizens' Property Tax Freeze program in FY 2006. The structure of the program, rising property tax liabilities, and increasing program participation are the factors driving the expenditure growth, which is expected to continue annually. The Governor's FY 2006 Budget notes that the Executive expects 170,000 program participants in FY 2006, about 20,000 more than in FY 2005.

For additional information on this and other property tax relief programs, see the Background Paper "Direct Property Tax Relief in New Jersey" beginning on page 50 of this analysis.

Budget Item	Adj. Approp. FY 2005	Recomm. FY 2006	Dollar Change	Percent Change	Budget Page
General Fund, State Aid: Police and Firemen's Retirement System	**$19,864**	**$23,700**	**$3,836**	**19.3%**	**D-427**

The resources allotted to the State Aid portion of the Police and Firemen's Retirement System (PFRS) represent the State's contribution for the provision of basic pension benefits to certain local government employees. The Governor's Budget proposes an appropriation of $23.7 million for this purpose in FY 2006, which exceeds the FY 2005 appropriation by $3.8 million, or 19.3 percent. A higher contribution rate accounts mainly for the increase. The Governor recommends an additional $13.3 million for the State Aid portion that pays for the PFRS benefit enhancement established under P.L.1979, c.109.

Legislation enacted in 1997 defined certain PFRS assets as "excess valuation assets" and authorized their use to offset the liability of PFRS employers for their actuarially required contribution to the

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

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

system. The State proceeded to offset its PFRS State Aid obligation with those assets until they had been depleted in FY 2004. According to a five-year phase-in schedule designed to increase the annual State contribution rate to 100 percent of the actuarially prescribed level in the fifth year, the State's contribution in FY 2004 was 20 percent of the prescribed level. In FY 2005, the level rose again, but not to the 40 percent envisioned by the phase-in schedule. For FY 2006, the Executive is now proposing to contribute 40 percent of the State's normal contributions and accrued liability.

General Fund, State Aid: Camden Economic Recovery	**$1,500**	**$0**	**($1,500)**	**(100)%**	**D-427**

In FY 2004 and FY2005, the department's budget included language, which was exercised in both years, authorizing the appropriation of up to $1.5 million for expenses related to municipal economic recovery efforts as determined by the chair of the Economic Recovery Board for Camden. In response to a discussion point in the FY 2005 OLS Department of the Treasury Analysis, the department noted that the language for this purpose was continued in the FY 2005 Budget as a contingency. It further stated that, in FY 2004, $422,000 of the allocation was used to pay the Walter Rand Institute for the Camden City Capacity Building Project and $235,000 was used to conduct a management study and to publish the 2003 Annual Report for the City of Camden. The language authorizing these annual appropriations for the ERB is recommended to be continued in FY2006.

MANAGEMENT AND ADMINISTRATION

OFFICE OF THE STATE TREASURER

General Fund, DSS: Property Tax Convention Task Force	**$250**	**$0**	**($250)**	**(100.0)%**	**D-430**

The FY2005 amount represents a one-time supplemental appropriation provided under P.L.2004, c.85 to support the work of the Property Tax Convention Tax Force. Enacted in June, 2004, P.L. 2004, c.85 established the task force with the purpose of identifying and developing recommendations regarding the issue of property tax relief, and with considering the merits of a constitutional convention. As required, the task force issued its final report on December 31, 2004 (see: http://www.state.nj.us/convention/finalreport.html), expending $45,000 to date.

General Fund, Grants-in-Aid: Cultural Projects	**$4,000**	**$0**	**($4,000)**	**(100.0)%**	**D-431**

The recommended reduction represents the elimination of funds that were added to the FY2005 appropriations act by the Legislature to provided grants to various arts, history and humanities organizations throughout the State. To date, $2.4 million has been expended from this account.

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

Budget Item	Adj. Approp. FY 2005	Recomm. FY 2006	Dollar Change	Percent Change	Budget Page
General Fund, Grants-in-Aid: NJ Competitiveness Fund	**$3,000**	**$0**	**($3,000)**	**(100.0)%**	**D-431**

This line item was an Executive initiative which was new to the budget in FY2005. Although intended to provide unspecified economic development grants, to date, no funds have been expended from this account. While the OLS anticipates that this amount will lapse at the end of the current fiscal year (as no carryforward language has been proposed, and no funds have been committed or encumbered according to the State accounting system), this account is not currently included on the Executive's list of anticipated lapses.

Budget Item	Adj. Approp. FY 2005	Recomm. FY 2006	Dollar Change	Percent Change	Budget Page
General Fund, Debt Service	**$378,293**	**$156,433**	**($221,860)**	**(58.6)%**	**D-431 & E-11 - E-13**

This decrease is the result of savings from the refinancing (or "refunding") of bonds. In accordance with a refunding plan approved in December, 2004 by the Joint Budget Oversight Committee, the department refinanced certain existing general obligation bonds in order to achieve "upfront" cash savings in both FY2005 and FY2006.

PROTECTION OF CITIZENS' RIGHTS

OFFICE OF THE PUBLIC DEFENDER

Budget Item	Adj. Approp. FY 2005	Recomm. FY 2006	Dollar Change	Percent Change	Budget Page
General Fund - DSS Services Other Than Personal	**$20,932**	**$23,532**	**$2,600**	**12.4%**	**D-434**

The Governor's Budget recommends an increase of $2.6 million for the Trial Services to Indigents and Special Programs unit of the Office of Public Defender (OPD) to cover the cost of annualizing the FY2005 rate increase for pool (outside) attorneys. Through the Trial Services unit, the OPD provides legal representation to indigent adults charged with indictable offenses and juveniles charged with delinquency, as well as statutorily mandated representation to children who are the subject of civil child abuse and neglect complaints and to the parents of children charged with such complaints.

Budget Item	Adj. Approp. FY 2005	Recomm. FY 2006	Dollar Change	Percent Change	Budget Page
General Fund - DSS Special Purpose: Parental Representation Unit – Child Welfare Reform	**$0**	**$838**	**$838**	**—**	**D-434**

The Governor's Budget recommends a special purpose appropriation of $838,000 to cover the increase in rates for pool (outside) attorneys assigned to assist the Office of Public Defender with

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

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

its responsibilities under the Child Welfare Reform Plan. The use of pool attorneys is necessary to effectuate mandated reductions in caseloads.

PUBLIC ADVOCATE

General Fund - DSS					
Public Advocate	**$0**	**$2,000**	**$2,000**	**—**	**D-436**

Subject to the enactment of enabling legislation, the Governor's Budget recommends $2.0 million for the re-establishment of the Public Advocate. Pending legislation (see S-541/A-1424 of 2004) would re-constitute the Public Advocate, which was abolished in 1994, as an Executive department of State government, and transfer certain existing State functions to the new office. The Public Advocate's mandate will be to provide investigative and advocacy services to children, the elderly and mentally ill, and ratepayers, and to consolidate various existing ombudsman offices.

Language Provisions

2005 Appropriations Handbook	2006 Budget Recommendations
p. B-181	
Receipts derived from fines, penalties and settlements, not to exceed $3,000,000 are appropriated to supplement operating expenses of the Board of Public Utilities, subject to the approval of the Director of Budget and Accounting.	No comparable language.

Explanation

The FY 2005 language permitted the Board of Public Utilities (BPU) to supplement its on-budget appropriation of $22.9 million by up to $3 million from revenues derived from fines, penalties and settlements imposed upon utilities for various violations. This language allowed the BPU, which is fully supported by an assessment on the industries it regulates, to operate without increasing that assessment. According to information provided by the Office of Management and Budget, it is anticipated that in the absence of this language in FY2006, the BPU will be able to meet both its on-going and one-time budgetary needs through the utilization of carryforward funds. The BPU is expected to reappropriate approximately $2.7 million which will allow its industry assessment to remain unchanged. Moreover, discontinuation of the FY2005 language will allow revenue from fines, etc. to accrue to the General Fund.

2005 Appropriations Handbook	2006 Budget Recommendations
p. B-181	**p. D-407**
The amounts appropriated hereinabove, not to exceed <u>$1,591,000</u>, for the Energy Assistance Program account may be transferred to the Department of Health and Senior Services, Lifeline account to fund the costs associated with administering the Lifeline Credits and Tenants' Assistance Rebates Program and shall be applied in accordance with a Memorandum of Understanding between the President of the Board of Public Utilities and the Commissioner of the Department of Health and Senior Services, subject to the approval of the Director of the Division of Budget and Accounting.	The amounts appropriated hereinabove, not to exceed <u>$1,628,000</u>, for the Energy Assistance Program account may be transferred to the Department of Health and Senior Services, Lifeline account to fund the costs associated with administering the Lifeline Credits and Tenants' Assistance Rebates Program and shall be applied in accordance with a Memorandum of Understanding between the President of the Board of Public Utilities and the Commissioner of the Department of Health and Senior Services, subject to the approval of the Director of the Division of Budget and Accounting.

Language Provisions (Cont'd)

Explanation

Beginning in FY2004, the "Lifeline Credit Program" and the "Tenants' Lifeline Assistance Program" were budgetarily reallocated from the Department of Health and Senior Services (DHSS) to the Board of Public Utilities (BPU). However, as detailed in a "Memorandum of Understanding" agreement between the BPU and DHSS, while the 2004 Appropriations Act transferred responsibility for funding Lifeline energy assistance grants to the BPU, administration of these grants for purposes of "efficiency" has remained with DHSS staff. Given this arrangement, it is necessary, as reflected in the proposed language, to transfer funds from the BPU to DHSS so that it can disburse grant payments to eligible recipients. Funding for the Lifeline programs is provided through an assessment on energy bills. The authority of the BPU to impose such an assessment was previously granted under the energy deregulation law, the "Electric Discount and Energy Competition Act", P.L.1999, c.23.

2005 Appropriations Handbook	2006 Budget Recommendations
	p. D-410
No comparable language.	In addition to the amounts appropriated hereinabove, such sums as may be necessary are appropriated to fund the operations of the Office of Inspector General, subject to the approval of the Director of the Division of Budget and Accounting.

Explanation

The Governor's Budget Recommendation includes a $2.5 million appropriation for the the Office of Inspector General which became operational in January 2005. Proposed budget language would provide the office with additional (supplemental) funds as may be necessary without further Legislative involvement. This office was created pursuant to Executive Order No. 7 and is authorized to investigate the performance of governmental officers, employees, appointees, functions and programs in order to promote efficiency, identify cost savings, and detect and prevent misconduct within State funded agencies. According to evaluation data in the Governor's Budget (page D-410), 18 funded positions are associated with this function.

Language Provisions (Cont'd)

2005 Appropriations Handbook	2006 Budget Recommendations
p. B-189	
Receipts derived from the agency surcharge on vehicle rentals pursuant to section 54 of P.L.2002, c.34 (C.App.A:9–78), not to exceed $7,182,000 for the Office of Information Technology Availability and Recovery Site (OARS), are appropriated and shall be deposited into a dedicated account, the expenditure of which shall be subject to the approval of the Director of the Division of Budget and Accounting.	No comparable language.

Explanation

The 2005 language dedicated up to $7.2 million in car rental surcharge receipts to the Office of Information Technology (OIT) Availability and Recovery Site, or OARS project, a component of the State's security preparedness program. Begun in 2003, and intended to provide disaster recovery capability for all of OIT's processing services and data and telecommunications functions, OARS is a multi-year funding project expected to cost a total of $13 million. To date, approximately $11 million has been committed or expended on the OARS project, including $1.7 million in Capital Construction funds expended in FY 2003; $1.1 million of reappropriated (carryforward) funds expended in FY2004; and $8.2 million committed in the current year (including revenue from the rental car surcharge as well as reappropriated resources). The current language is not recommended to be continued in FY2006, as the Governor's Budget proposes that cost of OARS be borne by the General Fund via a Capital Construction appropriation through the Interdepartmental Accounts portion of the budget.

Language Provisions (Cont'd)

2005 Appropriations Handbook

No comparable language.

2006 Budget Recommendations

p. D-427

Notwithstanding the provisions of P.L. 1990, c.61 (C.54:4–8.59 et seq.) as amended by P.L.2004, c.40, to the contrary, the amount hereinabove appropriated for the Homestead Property Tax Rebates for Homeowners program and the Homestead Property Tax Rebates for Tenants program shall only be available to seniors with incomes less than $100,000, and no rebate issued for the tax year 2004 shall exceed $800 for senior homeowners with incomes less than $70,000 or $350 for senior homeowners with incomes in excess of $70,000 but less than $100,000, and $775 for senior tenants.

Explanation

The Executive seeks to limit FY 2006 spending on the Homestead Property Tax Rebate program, P.L.1990, c.61, to $478.5 million, a $1.21 billion (or 71.7 percent) decline from the FY 2005 appropriation, through restrictions on program eligibility and rebate amounts. In FY 2005, every homeowner whose gross income did not exceed $200,000 in tax year 2003 and every tenant whose gross income did not exceed $100,000 could claim a homestead rebate. In FY 2006, only residents at least 65 years of age or disabled, or both, with a tax year 2004 gross income of $100,000 or less would be able to do so. In addition, the Executive recommends lowering the maximum rebate amounts. Disabled and senior homeowners would receive no more than $800 in FY 2006 (down from $1,200 in FY 2005) and disabled and senior tenants no more than $775 (down from $825).

2005 Appropriations Handbook

p. B-191

In addition to the amount hereinabove, there are appropriated from the Property Tax Relief Fund such additional sums as may be required for payments to homeowners and tenants qualifying for homestead property tax rebates.

2006 Budget Recommendations

p. D-428

<u>Notwithstanding the provisions of P.L. 2004, c.40, or any other law to the contrary, the appropriation for Homestead Property Tax Rebates for Homeowners and Tenants is limited to the amount hereinabove appropriated, provided however, that in the event such amounts are not sufficient</u>, there are appropriated from the Property Tax Relief Fund such additional sums as may be required for payment of such rebates, <u>subject to the approval of the Director of the Division of Budget and Accounting.</u>

Language Provisions (Cont'd)

Explanation

As explained above, the FY 2006 Homestead Rebate program, funded at $478.5 million, will only provide property tax relief to certain senior or disabled homeowners and tenants with taxable incomes of $100,000 or less. In the event that the funds allocated are insufficient to meet all legitimate claims, the recommended language provides for the appropriation of additional sums from the Property Tax Relief Fund to cover such claims, subject to the approval of the Director of the Division of Budget and Accounting.

2005 Appropriations Handbook

p. B-191

There is appropriated from the Energy Tax Receipts Property Tax Relief Fund the sum of $787,739,000 and an amount not to exceed $18,808,000 which is transferred from the Consolidated Municipal Property Tax Relief Aid (PTRF) account to the fund and shall be allocated to municipalities in accordance with the provisions of subsection b. of section 2 of P.L. 1997, c.167 (C.52:27D–439). Each municipality that receives an allocation from the amount so transferred shall have its allocation from the Consolidated Municipal Property Tax Relief Aid program reduced by the same amount. Of the amount herein appropriated from the Energy Tax Receipts Property Tax Relief Fund, an amount equal to $25,000,000 shall be allocated to municipalities proportionately based on population, except that Newark and Jersey City shall each receive $390,000 of the $25,000,000 and Paterson shall receive $375,000 of the $25,000,000.

2006 Budget Recommendations

p. D-428

There is appropriated from the Energy Tax Receipts Property Tax Relief Fund the sum of $788,492,000 and an amount not to exceed $46,185,000 which is transferred from the Consolidated Municipal Property Tax Relief Aid (PTRF) account to the fund and shall be allocated to municipalities in accordance with the provisions of subsection b. of section 2 of P.L. 1997, c.167 (C.52:27D–439). Each municipality that receives an allocation from the amount so transferred shall have its allocation from the Consolidated Municipal Property Tax Relief Aid program reduced by the same amount. Of the amount herein appropriated from the Energy Tax Receipts Property Tax Relief Fund, an amount equal to $25,000,000 shall be allocated to municipalities proportionately based on population, except that Newark and Jersey City shall each receive $390,000 of the $25,000,000 and Paterson shall receive $375,000 of the $25,000,000.

Language Provisions (Cont'd)

Explanation

The Energy Tax Receipts Property Tax Relief Fund (ETR Fund) was established under a 1997 law as an account through which receipts from certain "energy replacement taxes" under the energy tax reform program would be distributed to municipalities in lieu of payments out of collections under the old public utility gross receipts and franchise tax. The legislation directed that in each fiscal year, a prescribed sum from the replacement taxes should be credited to the ETR Fund for such distribution; failure in a given fiscal year to appropriate moneys in the prescribed amount would void taxpayers' corporation business tax liability for that tax year. Amendatory legislation enacted in 1999 specified that the funding requirement for the ETR Fund in FY 2002 would be $755 million and that in any year thereafter, the amount would be adjusted for inflation.

The proposed FY2006 Budget increases aid to New Jersey's 566 municipalities by 0.1 percent. The total aid of $1.6 billion reflects a $753,000 increase in Energy Tax Receipts Property Tax Relief and level funding of Consolidated Muncipal Property Tax Relief (CMPTR) Aid. The revision to the above language also mandates the transfer of an additional $27.4 million from the CMPTR Aid account which, together with the $753,000 increase, will meet the inflation adjustment requirement of 3.5 percent and avoid a decrease in taxpayer liability.

2005 Appropriations Handbook	2006 Budget Recommendations
	p. D-436
No comparable language.	Of the amounts hereinabove appropriated for the operations of the Public Advocate, such sums as are required for employee benefits, including fringe and indirect costs, shall be transferred to the Interdepartmental account for costs attributable to the staff and operations of the Public Advocate, subject to the approval of the Director of the Division of Budget and Accounting.

Explanation

Subject to the enactment of enabling legislation, the department's budget includes a line-item appropriation of $2.0 million for the re-establishment of the Public Advocate. The proposed budget language authorizes a transfer to the Interdepartmental accounts from the budgeted amount such sums as are necessary to provide for the fringe benefits and indirect costs associated with this function.

Proposed legislation (see S-541/A-1424 of 2004) would re-constitute the Public Advocate, which was abolished in 1994, as an Executive department of State government, and transfer certain existing State functions to the new office. The Public Advocate's mandate would be to provide investigative and advocacy services to children, the elderly and mentally ill, and ratepayers, and to consolidate various existing ombudsman offices.

Discussion Points

1a. Included in the Schedule I revenues anticipated in the Governor's Budget Recommendation is $500 million to be realized from the **sale of State assets**. According to the Recommendation, "the State will examine all of its assets to determine which are still useful and productive and which assets could be sold. The State currently has $19.4 billion in assets, including buildings, infrastructure and land."

In testimony before the Assembly Budget committee (March 31) regarding State revenues, the Treasurer indicated that since the release of the Governor's Budget detail, the department had become aware of various limitations (such as deed, Constitutional or other restrictions) which might inhibit its ability to sell certain assets previously thought to be disposable.

- ***Questions:* Please provide a list, by municipality, of all real assets *under consideration* for actual sale or transfer in relation to this revenue item.**

  Given that the department has still not realized the $30 million in revenue anticipated in the FY2004 budget from the sale of certain assets (specifically, the Marlboro Psychiatric Hospital in Marlboro and the former North Princeton Developmental Center in Montgomery), is it realistic to anticipate that asset sales of the magnitude contemplated in the FY2006 budget can be reasonably accomplished within the upcoming fiscal year?

  Given additional information that has come to the attention of the department since the Governor's Budget Recommendation was introduced, does the department anticipate this revenue item will need to be revised?

1b. As outlined in the Background Paper beginning on page xx of this report, the procedures for selling State assets are governed by statute, specifically N.J.S.A.53:31-1.1 et seq. Current statute requires that with the exception of property valued at $100,000 or less, a legislative act is necessary to authorize the sale of real State property, and moreover, that the property shall be sold "upon such terms and conditions as the State House Commission shall determine to be in the best interests of the State."

- **Questions: Will the planned sale of State assets anticipated in the FY2006 budget be accomplished in accordance with current statutes, or does the Executive anticipate seeking relief from the current statutory procedures? Please be specific regarding what relief, if any, might be requested.**

2. Subject to the enactment of enabling legislation, the department's budget includes a line-item appropriation of $2.0 million for the re-establishment of the **Public Advocate**. Proposed legislation (see S-541/A-1424 of 2004) would transfer certain existing State functions to the new office, including investigative and advocacy services for children, the elderly and mentally ill, and ratepayers, and consolidate various existing ombudsman offices. Executive and Legislative fiscal notes corresponding to this legislation project the total cost of reestablishing and operating the Public Advocate at $10 million annually.

- ***Question:* Please provide a fiscal summary and organizational plan for the operations of the proposed Public Advocate function indicating the total budget and position complement anticipated. Please identify any existing positions and funding, by agency or department, that are expected to be transferred for the support of the Public Advocate. What specific problems or issues are not being addressed, or are being**

Discussion Points (Cont'd)

inadequately addressed, that justify the need to re-establish this department? What is the reason(s) these problems or issues cannot be adequately addressed within the existing organizational structure(s)?

3. The Governor's Budget Recommendation includes a $2.5 million appropriation for the establishment of the **Office of Inspector General.** This office was created pursuant to Executive Order No. 7 and is authorized to investigate the performance of governmental officers, employees, appointees, functions and programs in order to promote efficiency, identify cost savings, and to detect and prevent misconduct with State funded agencies. Proposed budget language would provide the office with additional (supplemental) funds as may be necessary for its operations without further Legislative involvement. A total of 18 positions are budgeted for FY2006.

- ***Questions:* Please specify how the recommended appropriation will be allocated. How many of the 18 positions anticipated have been filled to date, and what are the titles and salaries associated with each of these positions? Including supplemental budget authority, what is the anticipated total annual cost of this office?**

4. As a result of amendments in FY 2004 to Article VIII, section 11, paragraph 6 of the State Constitution, 4% of annual Corporate Business Tax (CBT) revenues are dedicated for specific environmental purposes, including hazardous substance remediation; underground storage tank remediation, and water resource monitoring and planning. This constitutional dedication prohibits the use of these dedicated funds for other purposes; however, funds may be taken from an allocation category via special legislation or budget transfer if used for similar or related purposes.

Subsequently, the FY 2005 appropriations act included budget language authorizing the reallocation of dedicated CBT revenues to the **Brownfield Site Reimbursement Fund** in the Department of the Treasury for developer grants. In addition, proposed FY 2006 language (see page D-399) would allow that in addition to any reallocation of CBT resources from DEP, other General Fund revenues may be appropriated to the Brownfield Site Reimbursement Fund to meet its obligations. When statutorily established in 1997, it was contemplated that the Brownfield Site Reimbursement Fund would be funded with revenues from certain new (incremental) tax revenues from redevelopment projects pursuant to N.J.S.A.58:10B-30.

- **Questions: Please provide a list of all redevelopment agreements entered into with developers pursuant to 58:10B-26 et seq, citing for *each* agreement the name of the grantee, the location of the redevelopment project, a brief description, the date of the agreement, the total remediation cost, the total approved grant, and the grant payments, by fiscal year, for the duration of the grant. Based on the findings required by law that additional tax revenues generated by the redevelopment project equal or exceed the grant, approximately what percentage of total additional tax revenue is being expended on each grant annually and in total over the life of the grant? Are any grantees also receiving Business Employment Incentive Program grants or Business Retention and Relocation Assistance grants? If so, do either of these grants reduce the amount the grantee is otherwise eligible to receive from the Brownfield Site Reimbursement Fund?**

  Given the use of CBT revenues for brownfield redevelopment, please comment on the adequacy of funding available and allocated for other environmental projects in the area of hazardous substance remediation, underground storage tank remediation, and water resource monitoring and planning.

Discussion Points (Cont'd)

5. On January 20, 2005, the State Investment Council adopted policies and procedures governing the "**Alternative Investment Program**" (AIP) which called for the establishment of a new common trust fund to be known as "Common Pension Fund E." The policy adopted provides that the following funds may invest in Common Pension Fund E: Police and Firemen's Retirement System, Public Employees' Retirement System; State Police Retirement System; Teachers' Pension and Annuity Fund; and Judicial Retirement System of New Jersey. The alternative investments specified in the AIP will be made by the Division of Investment with the assistance of investment consultants, including the "general consultant" engaged by the division to provide advice concerning the overall AIP. The adopted guidelines further indicate the division shall: 1) actively negotiate investment management agreements on behalf of the Common Pension Fund E which "should include a competitive fee structure"; 2) utilize external managers for the AIP; and 3) retain service providers to perform a variety of management and monitoring functions. Moreover, the procedures specified that opportunities for the AIP shall first be evaluated by the division's internal "Head of Alternative Investments" and its alternative investments staff.

- **Questions: Given the actions of the council, please provide an update regarding the implementation of the AIP, including when the division anticipates the first alternative investments will actually be made. Has the Common Pension Fund E been established and if so, please specify the amount from each pension system that has been invested in this new fund?**

  Please itemize the positions which comprise the division's alternative investment staff with responsibility for overseeing the AIP, including number of positions, titles, and average current salary by title. What qualifies the individuals in these positions to oversee the AIP, but not to actively manage an alternative investment portfolio?

  Please identify all contracts, outside vendors or entities engaged for AIP purposes to date, including the "General Consultant," and specify the amount paid or expected to be paid for the services of each and the terms of each contract.

  Have the lawsuits brought against the State (by certain public employee organizations) as a result of this initiative affected the Division's ability to implement the AIP? Is there a risk that they might? When does the division anticipate a resolution to the court proceedings?

6. As in prior fiscal years, the Budget Recommendation proposes a reduction in funding for certain department activities that are labeled as "non-recurring." However, in practice certain of these costs are restored to the department's budget through supplemental appropriations, authorized by language, only to be eliminated from the subsequent budget recommendation, whereupon the pattern repeats. Foremost among these activities are tax collection and enforcement services through third parties under contract with the department. The FY 2006 Budget Recommendation discontinues about $12 million in FY 2005 funding added to the department's budget via supplemental appropriation for such purposes. Not only does the budget again recommend language by which this funding can be restored through supplemental appropriation, but evaluation data (page D-412) projects third party collection of deficient and delinquent taxes of $100 million in FY 2006, the same level as in FY2005.

- **Question: If these "non-recurring" (or similar) expenses are likely to recur again in FY2006, should the needed amounts be included in the line item appropriation? Please**

Discussion Points (Cont'd)

explain. Alternatively, given the State's current fiscal situation, would the department support the inclusion of a cap on its supplemental budget authority beginning in FY 2006?

7. N.J.S.A. 5:9-17 requires that **Lottery** prizes not claimed within one year from the date of drawing be forfeited and included in other revenues during the period forfeited. Effective November 21, 1991, the Commission authorized that 70% of forfeited prizes be maintained in a reserve for prize awards. Such funds are available to augment future prize awards or, at the discretion of the State Lottery Director, to augment the Lottery's contribution for aid to education and State institutions. The remaining 30% is unrestricted. According to the most recent (2003) annual report of the commission, for the years ended June 30, 2003 and 2002, unclaimed prizes were $38.5 million and $28.8 million respectively. In addition, according to the most recent audit report, as of June 30, 2004, the amount of unclaimed prizes totaled approximately $43 million.

- **Questions: For the three most recent fiscal years (2002 - 2004) and estimated for FY 2005, please detail how the Lottery allocated or will allocate both the restricted (70%) and unrestricted (30%) portions of unclaimed prize revenue. Please identify the maximum amount of total forfeited prize monies that *could* be transferred to the General Fund for the support of State programs in FY2005, and indicate the amount that has or will be transferred.**

8a. The budget recommendation indicates a transfer of $194 million from the **Unclaimed Personal Property Trust Fund** to the General Fund as State revenue, which is unchanged from the current FY2005 estimated level.

Pursuant to N.J.S.A.46:30B-74, 75% of all funds received as unclaimed property presumed abandoned and deposited into the Unclaimed Personal Property Trust Fund are to be transferred to the General Fund, unless the fund administrator deems it prudent and advisable to do otherwise. The remaining portion, retained in the trust fund and administered and invested by the State Treasurer, is used to pay duly presented claims.

- ***Question:* For FY 2005 and projected for FY 2006, please provide a current schedule of revenues, expenditures, transfers and fund balances for the Unclaimed Personal Property Trust Fund. Please project for FY 2005 and FY2006, the percentage that the funds transferred to the General Fund as State revenue represent of the funds presumed abandoned and deposited into the trust fund. Has the State ever had to transfer funds *from* the General Fund *to* the Unclaimed Personal Property Trust Fund, or transfer less than anticipated *from* the Unclaimed Personal Property Trust Fund *to* the General Fund in order to cover duly presented claims? If so, please identify the fiscal year and the amount returned or not transferred.**

8b. P.L.2002, c.35 (C.46:30B-7.2 et. al) clarified and expanded the categories of property which may escheat to the State and reduced the time required for unclaimed property to escheat to the State. At the time of enactment, the department estimated an additional $209 million in escheat revenue attributable to the 2002 legislation.

- **Question: Please discuss how changes to escheat laws enacted under P.L.2002, c.35 have affected the income, outflows and balances of the Unclaimed Personal Property Trust Fund.**

Discussion Points (Cont'd)

9. The Executive seeks to limit FY 2006 spending on the **Homestead Property Tax Rebate** program to $478.5 million, a $1.21 billion (71.7 percent) decline from the FY 2005 appropriation, through restrictions on program eligibility and rebate amounts. In FY 2005, every homeowner whose gross income did not exceed $200,000 in tax year 2003 and every tenant whose gross income did not exceed $100,000 could claim a homestead rebate. In FY 2006, only residents at least 65 years of age or disabled, or both, with a tax year 2004 gross income of $100,000 or less would be able to do so. Consequently, as stated in the Governor's FY 2006 Budget, the Executive anticipates processing about 600,000 rebate checks in FY 2006. In FY 2005, it issued almost 2.5 million such checks, according to the most recent data provided by the Division of Taxation. In addition, the Executive recommends lowering the maximum rebate amounts. Disabled and senior homeowners would receive no more than $800 in FY 2006 (down from $1,200 in FY 2005) and disabled and senior tenants no more than $775 (down from $825).

- **Questions: For FY 2005 "FAIR" rebate distributions please provide the following data for the senior and non-senior and the homeowner and tenant populations: 1) distribution of rebates by income brackets; and 2) distribution of rebates by rebate amounts.**

  Since homestead rebate amounts and income tax property tax deduction amounts are a function, in part, of real estate values, please provide a statewide distribution of the number and the value of residential property by no fewer than eight distinct brackets, broken up in increments of at least $100,000. Please provide the distributional data for Tax Years 2003 and 2004.

  Assuming the proposed homestead rebate limitations go into effect, the Department of the Treasury would have to process and mail out fewer rebate checks. What are the anticipated administrative savings associated with the proposal? Where in the Treasury's budget can this cost savings be found?

10. The "2004 Homestead Property Tax Rebate Act" recast the homestead rebate program as of FY 2005. The Act integrated the NJ SAVER rebate program into the homestead rebate program and raised rebate amounts. Under the "**Municipal Rehabilitation and Economic Recovery Act,**" P.L.2002, c.43, eligible residents of Camden were to receive New Jersey Saver rebates equal to 150 percent of the amount otherwise owed during the period of rehabilitation and economic recovery, or over the next ten years.

- **Questions: Please discuss how changes to the NJ SAVER Rebate program have impacted the rebate amount paid to eligible Camden residents in FY2005. How many rebates have been issued annually to Camden residents since FY 2002 and what was the average rebate amount paid? What impact will the proposed changes to the Homestead Rebate program in FY2006 have on the amounts paid to eligible Camden residents?**

11. The Governor's FY 2006 Budget proposes a State Aid appropriation of $23.7 million to the **Police and Firemen's Retirement System** (PRFS) to pay for 40 percent of the State's actuarially calculated basic pension contribution for certain local government employees, an increase of $3.8 million (19.3 percent) over the FY 2005 adjusted appropriation. The Budget also recommends a $13.3 million appropriation to the **Police and Firemen's Retirement System (P.L.1979, c.109)** to pay for 40 percent of the State's actuarially calculated pension contribution pursuant to the provisions of P.L.1979, c.109. This amount represents a $1.2 million (or 8.3 percent) decrease

Discussion Points (Cont'd)

from FY 2005. The law provides enhanced benefits to PFRS members who retire after 25 years of service, granting a retirement allowance of 65 percent of final compensation. The State is liable for this enhanced benefit at a cost of 1.1 percent of covered salary.

- **Questions: Please explain the dynamics or rationale which cause an increase in the appropriation for basic pension benefits but a decrease in the appropriation for enhanced benefits. If the State intends to increase its contribution to 40 percent of its actuarially determined normal contribution and accrued liabilities in FY 2006, what factors make the enhanced benefit appropriation decline over FY 2005? Why is that decline only limited to the enhanced benefits appropriation under State Aid, given that the enhanced benefit PFRS appropriation under Direct State Services in the Interdepartmental Accounts is rising by $148,000 (or 6.8 percent) to $2.3 million? What aspects make the enhanced benefits State Aid portion differ from the enhanced benefits Interdepartmental Accounts portion?**

12. The Governor's FY 2006 Budget recommends maintaining the current State Aid allocation of $3.4 million in **Other Distributed Taxes**. Under the program, the State distributes a portion of certain insurance tax proceeds to counties hosting domestic insurance companies' principal offices.

- **Question: For each of the last five fiscal years, please provide information on the counties that have received or will receive disbursements from this account and indicate the amounts distributed per county per year.**

13. Since FY 2004, the department's budget has included language, which has been exercised annually, authorizing the appropriation of up to $1.5 million for expenses related to municipal economic recovery efforts as determined by the chair of the **Economic Recovery Board for Camden**. (The State Treasurer currently serves as the chair of the ERB.) In response to a discussion point in the FY 2005 OLS Department of the Treasury Analysis, the department noted that the language for this purpose was continued in the FY 2005 Budget as a contingency. It further stated that, in FY 2004, $422,000 of the allocation was used to pay the Walter Rand Institute for the Camden City Capacity Building Project and $235,000 was used to conduct a management study and to publish the 2003 Annual Report for the City of Camden.

- **Questions: Please list all of the expenditures that have been made under this account since its inception in FY 2004. What, if any, carryforward will be available in this account as of June 20, 2005? For which specific projects has the Economic Recovery Board requested the $1.5 million appropriation in FY 2006? Is this language expected to be on-going, and if so, for how many years beyond FY 2006?**

14. In March, 2005, the United States Bureau of Alcohol, Tobacco, Firearms, and Explosives; state attorneys general; and major credit card companies reached an agreement under which the credit card companies will no longer accept charges for illegal **sales of cigarettes and tobacco** products, which include most sales **over the Internet** in the United States. New Jersey smokers can still buy cigarettes over the Internet, but they would have to use checks, money orders or some other form of payment.

- **Question: Please discuss the ways in which the moratorium on the use of credit cards in Internet cigarette and tobacco products sales is expected to affect State cigarette tax collections. Does the FY 2006 budget reflect an expectation of additional cigarette tax revenue from this agreement, and if so, how much? What impact does this policy have**

Discussion Points (Cont'd)

on tax enforcement activities?

15. According to Federal Funds Information for the States (FFIS), based on 2003 data, New Jersey ranks last among all states in the so-called "balance of payments" between the State and federal government, or the amount of **federal tax** dollars sent to Washington by New Jersey taxpayers compared to the federal dollars returned to the State, receiving just 0.57 cents for every tax dollar paid compared to a national average of $1.00.

In addition to the independent efforts of the each of the departments and agencies of State government, in recent years the State, through the Office of the Treasurer, has contracted with several vendors (Maximus, Public Consulting Group, UMass and Deloitte Touche) in an effort to maximize federal revenues.

- **Questions: Please list all contracts entered into by the State over the last six fiscal years which were intended to identify and increase opportunities for additional federal dollars. For each contract, provide the vendor name, the cost of the contract to the State, the terms of the contract, and the amount of additional federal dollars realized by the State as a direct result of the contract.**

  What current efforts are underway under the auspices of the Treasurer's Office to maximize federal revenues?

16. The Budget in Brief (BIB) proposes a savings of $50 million to the General Fund from a revision to one of the incentives offered to eligible businesses under the **Urban Enterprise Zone** (UEZ) program. Specifically, the Executive proposal would reduce the current sales tax exemption afforded businesses for business purchases from the full 6% rate of tax to a 3% rate, and require businesses to pay the full 6% tax up-front and apply for a 3% rebate. Elsewhere in the BIB, it is also suggested that some current exempt business purchases might be "inappropriate." (See pages 6 and 41 of the BIB).

For at least the two last Legislative sessions whenever a fiscal note has been requested of the Executive in response to legislation establishing a new UEZ, the Divisions of Revenue and/or Taxation have generally estimated the cost to the General Fund from foregone revenues attributable to the various benefits extended to qualifying zone businesses under the UEZ program as matching or even exceeding, the amount of revenue foregone to the State (under the program) from the reduced retail sales tax rate. These additional benefits to eligible zone business include a corporation business tax credit for the hiring of certain new employees and the sales tax exemption for certain purchases by qualifying zone businesses referred to in the BIB.

- **Questions: For *each* business incentive offered under the UEZ program, please provide the cost to the State's General Fund by fiscal year for the last five fiscal years, by zone. Please estimate the cost of the abuses or "inappropriate" uses of current business incentives as referenced in the BIB. Since tax preferences offered to businesses in UEZ's are credited with job creation and other economic benefits, what diminution in these benefits should be expected due to the proposed decrease in tax benefits?**

17. Under the **State's Earned Income Credit** (EIC) program, P.L.2000, c.80 (C.54A:4-6 et seq.), New Jersey families with gross incomes of $20,000 or less who receive a federal Earned Income Tax Credit are eligible for a refundable New Jersey EIC equal to 20% percent of a family's federal

Discussion Points (Cont'd)

Earned Income Tax Credit. Presumably, some residents currently eligible for the State EIC will be lifted above the program's income eligibility threshold as a result of the recently enacted increase in the State's minimum wage rate pursuant to P.L.2005, c.70 (C.34:11-56a4). This newly enacted law raises the minimum wage to $6.15 per hour on October 1, 2005, and on October 1, 2006 increases the minimum wage again to $7.15 per hour.

- **Questions: For the three most recent tax years, please provide distributional income data, in increments of $5,000 (or less if possible), for households receiving the State EIC as well as the average credit per income strata.**

  Based on income data available to the Division of Taxation, how many current EIC recipients will be affected as a result of the recently enacted increase in the State's minimum wage rate, and to what extent will they be impacted?

18. Approvals for a number of large mergers are currently pending before the **Board of Public Utilities**, including, in the telecommunications industry, the merger of AT&T with SBC Communications, and of Verizon with MCI, and in the gas/electric industry of PSE&G with Exelon BSC. Recently, in response to a recent NJPIRG filing regarding the proposed merger of Exelon PSE&G, the BPU released the following statement: "The Board will render a decision after a careful and thorough review of the evidence and information placed before it by the companies, its staff and other concerned parties. This review, analysis and evaluation of the filing will involve the commitment of a large amount of time and resources by the Board and its staff ....."

- **Question: Given that these mergers could take several years to complete, and that current FY 2005 staff levels for both the BPU and the Rate Payer Advocate are effectively unchanged from FY2003, please discuss the adequacy of staff at both agencies (BPU and Ratepayer Advocate) to handle the current large volume of proposed mergers.**

Background Paper: Direct Property Tax Relief in New Jersey

Budget Pages.... D-425 to D-427

OVERVIEW: TOTAL DIRECT PROPERTY TAX RELIEF

The Governor's FY 2006 Budget recommends funding direct property tax relief at $686 million. This recommended amount represents a $1.186 billion, or 63.4 percent, decline from the FY 2005 adjusted appropriation of $1.872 billion.

For the purposes of this background paper, direct property tax relief means the Homestead Property Tax Rebate program, the NJ SAVER program (which was absorbed into the Homestead Rebate program in FY 2005), the Homestead Property Tax Reimbursement program, as well as the property tax deductions for veterans and senior and disabled residents, but not the property tax deduction and credit under the gross income tax, as they do not require an appropriation.

Figure 1 displays the annual budgetary impact of the direct property tax relief programs for fiscal years 2000 through 2006. The total expenditures for these programs have fluctuated widely from $527.5 million in FY 2000 to $1.872 billion in FY 2005. Modifications to the Homestead Property Tax Rebate and the NJ SAVER programs, accomplished through both statutory revisions and budget language provisions, have largely driven these variations.

Figure 1

Annual State Cost of Direct Property Tax Relief Programs*
$ Millions

Program	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
Homestead Rebate	$330.7	$333.4	$494.6	$505.6	$513.8	$1,689.3	$478.5
NJ SAVER	$144.3	$297.0	$724.4	$630.8	$297.3	$0.0	$0.0
Veterans Property Tax Reimburse.	$17.0	$35.0	$50.2	$65.9	$81.0	$86.0	$86.0
Senior and Disabled Property Tax Reimburse.	$31.6	$28.3	$27.2	$25.9	$25.1	$23.0	$23.0
Senior and Disabled Property Tax Freeze	$3.9	$6.4	$8.3	$22.1	$17.7	$73.4	$98.4
Total	**$527.5**	**$700.1**	**$1,304.7**	**$1,250.3**	**$934.9**	**$1,871.7**	**$685.9**

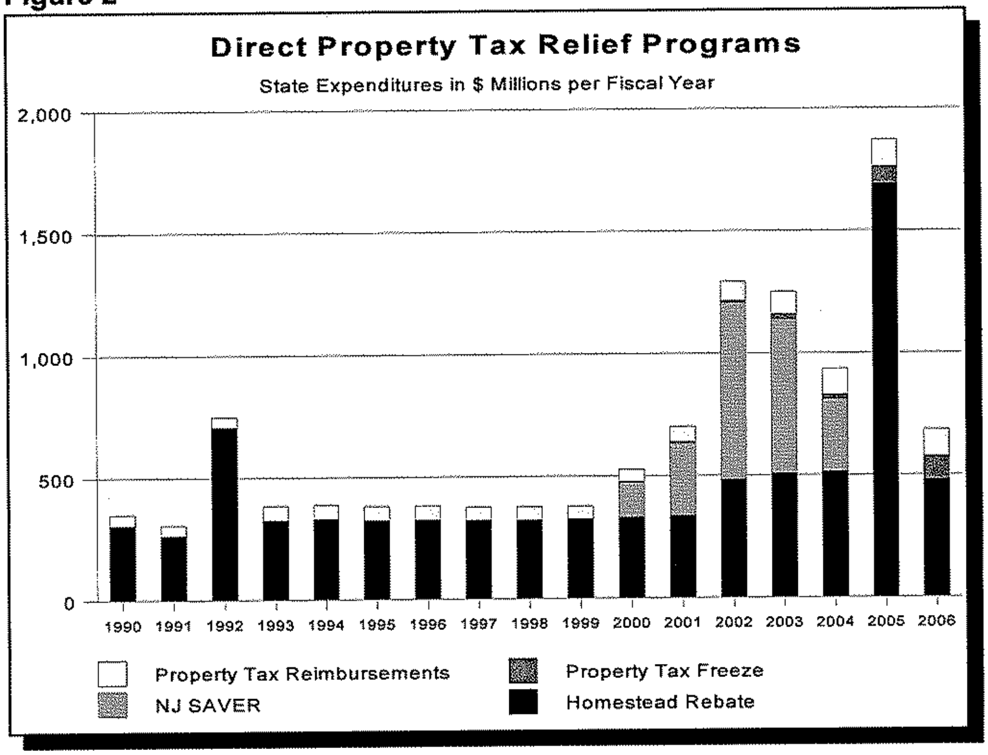
* FY 2005 and FY 2006 amounts are estimated, while FY 2000 to FY 2004 amounts represent actual expenditures.

Background Paper: Direct Property Tax Relief in New Jersey (Cont'd)

Figure 2 illustrates graphically the fluctuations in total direct property tax relief expenditures between FY 1990 and FY 2006. Following revisions to the Homestead Property Tax Rebate program that increased rebate amounts, the aggregate outlay rose from $306 million in FY 1991 to $749 million in FY 1992. During much of the 1990's, expenditures declined to less than $400 million under language provisions in the appropriations acts that limited program eligibility and certain rebate amounts.

In FY 2000, the outlay increased to $527.5 million following the creation of the NJ SAVER rebate program, which provided direct property tax relief to taxpayers who were ineligible for homestead rebates. The NJ SAVER was to be phased in over five years. In FY 2002, total property tax relief cost the State $1.305 billion, following an increase in the maximum homestead rebate

Figure 2



amount from $500 to $750 and the acceleration of the NJ SAVER phase-in. In FY 2003, expenses declined slightly to $1.25 billion, as budgetary pressures led to a language provision in the FY 2003 Appropriations Act (P.L.2002, c.38) suspending the next step of the NJ SAVER phase-in and excluding taxpayers with gross incomes over $200,000 from the program.

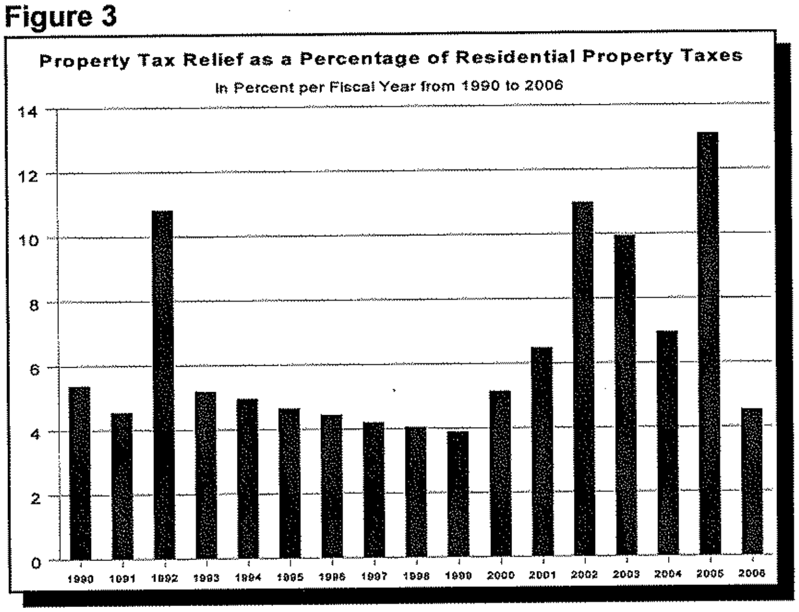
In FY 2004, direct property tax relief spending dropped markedly to $935 million, as a language provision in the FY 2004 Appropriations Act (P.L.2003, c.122) cut NJ SAVER rebate amounts by 50 percent from the FY 2003 level in light of continued budgetary pressures. In FY 2005, direct property tax relief spending is expected to peak at $1.872 billion, following statutory changes folding the NJ SAVER program into the homestead rebate program and increasing homestead rebate benefits. Lastly, faced with a sizable budget deficit, the Governor's FY 2006 Budget calls for $686 million in direct property tax relief spending. The proposed savings would

Background Paper: Direct Property Tax Relief in New Jersey (Cont'd)

be accomplished through budget language reducing homestead rebate program eligibility and maximum rebate amounts.

Figure 3 places the direct property tax relief included in Figure 2 in the context of total residential property taxes paid over the same period of time.[1] These two sets of data are not entirely comparable because some of the direct property tax relief money is paid to people whose property tax payments are not included in the residential property tax totals, e.g., tenants; and

Figure 3



because the residential property tax totals include second homes. These imperfections in the data, however, have only a marginal impact on the statistical relationship depicted in Figure 3.

Direct property tax relief equaled about five percent of total residential property taxes in 1990 and 1991, before reaching almost 11 percent in FY 1992. Budgetary constraints that held direct property tax relief spending virtually unchanged led to a continuous decline of direct property tax relief spending to less than four percent of total residential property taxes in FY 1999. From FY 2000 through FY 2006, its annual share varies from 4.5 percent under the Governor's FY 2006 Budget to an historical peak of 13.1 percent in FY 2005. Changes in property tax relief spending account for most of this fluctuation.

The following sections elaborate in greater detail on the various property tax relief programs and their development over time. None of these programs has been immune to amendatory action. In addition, the Homestead Property Tax Rebate program, the NJ SAVER program, and the Homestead Property Tax Reimbursement program have been subject to restrictions imposed by language provisions in various appropriations acts.

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[1] Total residential property tax figures through 2004 are OLS estimates based on Division of Taxation figures from the Line Items and Ratables report and the County Abstracts of Ratables. Figures for 2005 and 2006 are OLS projections based on an assumption of six percent annual growth. Residential property tax amounts include residential property with four or less units.

Background Paper: Direct Property Tax Relief in New Jersey (Cont'd)

THE HOMESTEAD PROPERTY TAX REBATE PROGRAM

The Homestead Property Tax Rebate program has undergone numerous revisions since its inception in FY 1977. Originally, all homeowners could claim a rebate according to a formula that considered only equalized property values and effective municipal tax rates, with senior, blind, and disabled homeowners able to claim an additional $50 (P.L.1976, c.72). Between FY 1982 and FY 1990, the program cost around $300 million per year with 1.5 million taxpayers receiving rebates averaging about $195.

The "Homestead Property Tax Rebate Act of 1990" (P.L.1990, c.61) redesigned the program; introducing a taxpayer's tax filing status, income, and property taxes paid as factors in determining rebate amounts; and establishing a homestead rebate program for tenants. Homeowners and tenants filing jointly with incomes in excess of $100,000 became ineligible. Homeowners filing jointly with incomes in excess of $70,000 and no more than $100,000 received a $100 rebate, while similarly situated tenants received $35. Homeowners filing jointly whose income was up to $70,000 received between $150 and $500, depending on the extent to which property taxes paid exceeded five percent of income, and similarly situated tenants received between $65 and $500, depending on the extent to which rent constituting property taxes (18 percent of rent paid) exceeded five percent of income. The income requirements for single filers were 50 percent of those for joint filers. In FY 1992, the cost of the program rose to $707 million, as 2.5 million claimants received rebates averaging $290.

Budgetary constraints led to language provisions in the appropriations acts that restricted program eligibility and certain rebate amounts from FY 1993 through FY 1999. Only senior, blind, and disabled residents with incomes of up to $70,000 were allowed to receive full statutory rebates. Among other residents previously eligible, only those with incomes of up to $40,000 remained eligible, qualifying only for reduced rebates at fixed amounts: $90 for homeowners and $30 for tenants. Throughout these years, the annual outlay for the program was around $325 million, as the State issued about 1.5 million rebates averaging approximately $225 each year.

In 1999, the "New Jersey School Assessment Valuation Exemption Relief and Homestead Property Tax Rebate Act (the NJ SAVER and Homestead Rebate Act)" (P.L.1999, c.63) placed the budget language restrictions into the statutes but introduced the NJ SAVER, which extended property tax relief to the residents who had become ineligible for homestead rebates. In addition, the Act gradually increased homestead rebate amounts for tenants with incomes not exceeding $100,000 from $30 in FY 2000 to $100 in FY 2004. Residents could not receive both a homestead and a NJ SAVER rebate.

A 2001 amendment increased the maximum rebate amount from $500 to $750 for homeowners and from $60 to $100 for tenants effective FY 2002 and indexed the maximum to inflation thereafter (P.L.2001, c.159). Consequently, the average rebate grew from $219 in FY 2001 to $319 in FY 2003, and the total outlay rose from $333 million in FY 2001 to $506 million in FY 2003. FY 2004 budget language suspended the cost-of-living adjustment for one year and thus maintained the $775 FY 2003 maximum, which otherwise would have risen to $790.

The "2004 Homestead Property Tax Rebate Act" (P.L.2004, c.40 et seq.) folded the NJ SAVER rebate program into the homestead rebate program and raised rebate amounts to $1,200 for certain taxpayers as of FY 2005. To finance the higher benefits, the marginal tax rate on incomes above $500,000 increased from 6.37 percent to 8.97 percent. Accordingly, the program's

Background Paper: Direct Property Tax Relief in New Jersey (Cont'd)

FY 2005 appropriation of $1.69 billion surpassed its FY 2004 level by $1.18 billion. A resident's rebate amount now is the amount by which property taxes paid exceed five percent of income with maximum and minimum payment linked to the taxpayer's income, property taxes paid, filing status, whether the taxpayer is a homeowner or tenant, and whether the taxpayer is 65 years of age or older or disabled or both. **Figure 4** illustrates the statutory benefits according to the 2004 law.

The Governor's FY 2006 Budget recommends limiting FY 2006 homestead rebate spending to $478.5 million, a $1.21 billion, or 71.7 percent, decline from its FY 2005 appropriation. Restrictions on program participation and rebate amounts are intended to achieve the reduction. In FY 2005, every homeowner whose gross income did not exceed $200,000 in tax year 2003 and every tenant whose gross income did not exceed $100,000 could claim a homestead rebate. In FY 2006, only residents at least 65 years of age or disabled with a tax year 2004 gross income of $100,000 or less would be eligible. Consequently, the Executive anticipates processing about 600,000 rebate checks in FY 2006, after issuing almost 2.5 million in FY 2005. In addition, the Executive recommends lowering maximum rebate amounts. Disabled and senior homeowners would receive no more than $800 in FY 2006 (down from $1,200 in FY 2005) and disabled and senior tenants no more than $775 (down from $825). **Figure 4** depicts the impact the proposed adjustments would have on individuals based on income, age, and filing status.

Figure 4

Homestead Property Tax Rebate Amounts
FY 2005 - FY 2006

Homeowner or Tenant	Status	Gross Income	Rebate Amounts FY 2005	Rebate Amounts Recom FY 2006
Homeowner	Senior or Disabled	Not over $70,000	$1,000 - $1,200	$800
		$70,001 to $100,000	$600 - $800	$350
		$100,001 to $125,000	$600 - $800	$0
		$125,001 to $200,000	$500	$0
	Under Age 65 and not Disabled	Not over $125,000	$600 - $800	$0
		$125,001 to $200,000	$500	$0
Tenant	Senior or Disabled, Married	Not over $70,000	$150 - $825	$150 - $775
		$70,001 to $100,000	$150	$150
	Senior or Disabled, Single	Not over $35,000	$150 - $825	$150 - $775
		$35,001 to $100,000	$150	$150
	Under Age 65 and not Disabled	Not over $100,000	$150	$0

Background Paper: Direct Property Tax Relief in New Jersey (Cont'd)

THE NJ SAVER PROGRAM

From FY 2000 through FY 2004, the NJ SAVER program provided direct property tax relief to taxpayers who did not qualify for homestead rebates. In 1999, the "New Jersey School Assessment Valuation Exemption Relief and Homestead Property Tax Rebate Act" (the NJ SAVER and Homestead Rebate Act) (P.L.1999, c.63) created the NJ SAVER program, which the "2004 Homestead Property Tax Rebate Act" (P.L.2004, c.40 et seq.) consolidated into the Homestead Property Tax Rebate program as of FY 2005.

The NJ SAVER provided all New Jersey homeowners with school property tax relief in the form of a rebate check equal to the 1997 equalized school tax rate applied against the first $45,000 of equalized assessed value of eligible owner-occupied, primary residences. Under a five-year phase-in provision, homeowners were to receive 20 percent of the full rebate amount in FY 2000, 40 percent in FY 2001, 60 percent in FY 2002, 80 percent in FY 2003, and 100 percent as of FY 2004. In 2001, an amendment accelerated the phase-in to 83.3 percent in FY 2002 and to 100 percent as of FY 2003, a year earlier than under the initial schedule (P.L.2001, c.106).

Full NJ SAVER rebate amounts were never paid, as budgetary pressures prompted the State to curtail the scope of the program through budget language restrictions. The FY 2003 Appropriations Act limited eligibility to homeowners with incomes not in excess of $200,000 and suspended the phase-in schedule, so that rebates remained at 83.3 percent of the full statutory amount. The FY 2004 Appropriations Act reduced the FY 2003 amount by 50 percent and maintained the income eligibility requirement. In FY 2005, the NJ SAVER was folded into the homestead rebate program.

Apart from FY 2002, when the program had 1.45 million beneficiaries, about 1.25 million homeowners participated in every fiscal year. Subject to the statutory phase-in schedule, the average rebate amount was $115 in FY 2000, $236 in FY 2001, and $500 in FY 2002. The FY 2003 restrictions resulted in an average amount of $505, which the FY 2004 limitations reduced to $256. Program cost mirrored the average rebate trend: in FY 2000, it was $144.3 million; in FY 2001, $297 million; in FY 2002, $724.4 million; in FY 2003, $630.8 million; and in FY 2004, $297.3 million.

HOMESTEAD PROPERTY TAX REIMBURSEMENT PROGRAM

Enacted in 1997, the Homestead Property Tax Reimbursement program (P.L.1997, c.348), also known as the Senior and Disabled Citizens' Property Tax Freeze program, reimburses qualified homeowners for the difference between the amount of property taxes they paid on their principal residence in the most recent tax year, i.e. tax year 2004 for FY 2006 reimbursements, and the amount they paid in their base year. Qualified homeowners in FY 2006 must be at least 65 years of age or disabled or both and they must have an annual income not to exceed $40,869 if single or $50,113 if married. In addition, they must have paid property taxes directly, or indirectly by means of rental payments, on any homestead or rental unit used as a principal residence in New Jersey for at least ten consecutive years, at least the last three of which were as owners of the homesteads for which the reimbursement is sought.

As enacted, in tax year 1998 (paid in FY 2000), eligible claimants under the program could not have an annual income in excess of $17,918 if single or $22,256 if married. The law provided

Background Paper: Direct Property Tax Relief in New Jersey (Cont'd)

for an annual inflation adjustment to the income ceilings. A 2001 amendment (P.L.2001, c.251) raised the income threshold to $37,174 for single claimants and $45,582 for married claimants in tax year 2000 (paid in FY 2002) and retained the inflation adjustment.

Budgetary pressures prompted the State to limit the scope of the program by means of language restrictions in the FY 2004 Appropriations Act. It barred new applicants from joining the program and limited recipients to the amount they had received in the prior year, thereby not covering the tax year 2002 property tax changes. The FY 2005 Appropriation Act lifted the restrictions.

In FY 2000, the first year of program benefits, the State issued 36,000 checks averaging $111 at a total cost of $4 million. One year later, it disbursed $6.4 million to 35,000 citizens receiving $182, on average. In FY 2002, $8.3 million were spent on 34,000 checks averaging $250. After raising the income ceilings in 2001, the State sent out 108,000 checks averaging $209 for a total of $22.1 million in FY 2003. In FY 2004, budget language restrictions resulted in the issuance of 84,000 checks averaging $210 at a total cost of $17.7 million. In FY 2005, with the restrictions lifted, the State disbursed $70.4 million to 146,000 citizens receiving $481 on average. The FY 2006 Executive Budget recommends increasing funding by $25 million, or 25.4 percent, to $98.4 million to accommodate 170,000 expected program participants.

As these numbers illustrate, the cost of the program has grown rapidly. Its nature as well as rising property tax liabilities and program participation drive the expenditure growth that is likely to continue in years to come.

As the growing average rebate amounts underscore, individual freeze benefits increase at a rapid pace. In percentage terms, a participant's benefits rise faster than property tax liabilities, even though the dollar amounts of both increases are identical. For example, if a homeowner paid $3,000 in property taxes in 2001, the base year, and if the amount was to grow by ten percent per year, the tax liability will have increased by 33.1 percent from 2002 to 2005, yet the benefits by 264.1 percent. **Figure 5** illustrates these dynamics.

Figure 5

Benefit under Senior and Disabled Citizens' Property Tax Freeze
FY 2005 - FY 2006

Year	Property Tax	Increase Property Tax (%)	Benefit	Increase Benefit ($)
2001	$3,000	NA	NA	NA
2002	$3,300	10.0%	$300	NA
2003	$3,630	10.0%	$630	110.0%
2004	$3,993	10.0%	$993	57.6%
2005	$4,392	10.0%	$1,392	40.2%
Increase over 2002	**$4,392**	**33.1%**	**$1,092**	**264.1%**

Background Paper: Direct Property Tax Relief in New Jersey (Cont'd)

In general, program cost growth will outstrip property tax increases in percentage terms as long as more residents join the program than leave it. Once the program achieves its full fiscal impact, property tax increases will determine its expenditure growth almost exclusively. Since the program is still in its infancy, its earliest base year being 1997, and since the baby boomer cohort has not yet met its age requirement of 65 years, the program cost is still in the process of building up to its full fiscal impact. Accordingly, the Governor's FY 2006 Budget notes that the Executive expects 170,000 program participants in FY 2006, about 20,000 more than in FY 2005.

PROPERTY TAX DEDUCTION FOR VETERANS

Article VIII, Section I, Paragraph 3 of the New Jersey Constitution provides a $250 property tax deduction to veteran homeowners who were honorably discharged or released under honorable circumstances from active service in time of war or other emergency. The State reimburses municipalities for 102 percent of the revenue lost because of the deduction.

At first, the deduction, adopted in 1947, exempted from taxation the first $500 of assessed valuation of the homes owned by veterans. An amendment in 1953 allowed widows of soldiers killed during active duty to also claim the deduction.

A 1963 revision converted the $500 veteran property tax exemption into a $50 property tax deduction. As of 1983, widowers of veterans may also claim the deduction. A 1988 amendment extended it to veterans who held stock in a cooperative or mutual housing corporation. A fifth amendment, approved by the voters in 1999 provided an incremental increase in the deduction to $100 in calendar year 2000; $150 in calendar year 2001; $200 in calendar year 2002; and $250 as of calendar year 2003.

From FY 1999 to FY 2005, the number of deductions claimed has declined from 344,000 in FY 1999 to 311,000 in FY 2005. Because of the phase-in of the deduction increase from $50 in FY 2000 to $250 in FY 2004, however, the annual program cost has increased in spite of declining participation. In FY 1999, the program had cost $17.5 million, yet by FY 2005 it cost $79.5 million. The FY 2005 Appropriation Act included $86 million for this program, which the Governor's FY 2006 Budget proposes to reauthorize.

PROPERTY TAX DEDUCTION FOR SENIOR AND DISABLED CITIZENS

Article VIII, Section I, Paragraph 4 of the New Jersey Constitution grants homeowners who are at least 65 years of age or disabled or both a $250 deduction from their annual property tax bill. To qualify, claimants must be New Jersey residents, own and occupy their homes, and have an annual income not in excess of $10,000. The State reimburses municipalities for 102 percent of the revenue loss engendered by the deduction.

At first, the deduction, adopted by constitutional amendment in 1960, exempted from taxation the first $800 of assessed valuation of the homes owned by residents of the State age 65 or older whose annual income was $5,000 or less. Moreover, the exemption could not be claimed in addition to any other exemption to which the senior citizen might have been entitled.

A 1963 amendment changed the $800 property tax exemption to an $80 property tax

Background Paper: Direct Property Tax Relief in New Jersey (Cont'd)

deduction on homes owned by citizens aged 65 or older with an annual income of $5,000 or less. In 1970, an amendment increased the amount to $160 and allowed senior citizens to calculate their annual income for determining eligibility without including Social Security benefits. Two additional benefits were excluded from the income limitation in 1971: federal benefits in lieu of Social Security or for persons not covered by Social Security; and pension, disability or retirement benefits of any state or its political subdivisions for persons not covered by Social Security. Nevertheless, the amount excluded from the $5,000 income limitation could not exceed the Social Security maximum.

A 1975 amendment extended the deduction to permanently and totally disabled persons and to the surviving spouses of senior citizens or disabled persons who received the deduction during their lifetimes. In addition, the amendment allowed persons receiving this deduction to also receive a homestead rebate or credit.

A 1980 amendment increased both the amount of the deduction and its qualifying income ceiling. The amount was raised to $200 in 1981, $225 in 1982, and $250 as of 1983. The annual income limit was raised to $8,000 in 1981, $9,000 in 1982 and $10,000 as of 1983. A 1984 amendment allowed persons receiving the senior citizens' and disabled persons' property tax deduction to also receive the veterans' property tax deduction.

From FY 1999 to FY 2005, the number of deductions claimed has declined from 130,000 in FY 1999 to 93,500 in FY 2005. Likewise, the annual program cost has declined from $33.7 million in FY 1999 to $24.4 million in FY 2005. The FY 2005 Appropriation Act included $23 million for this program, which the Governor's FY 2006 Budget proposes to maintain.

Background Paper: Procedures Governing the Proposed Sale of State Assets

Budget Page .... p. C-13

INTRODUCTION

Included in the Schedule I revenues anticipated in the Governor's Budget Recommendation is $500 million to be realized from the sale of State assets. According to the Budget in Brief, "the State will examine all of its assets to determine which are still useful and productive and which assets could be sold. The State currently has $19.4 billion in assets, including buildings, infrastructure and land." As of this writing, the State Treasurer has declined to identify which property or properties are under consideration to effectuate the $500 million. Unless legislation is enacted to prescribe other procedures regarding the sale of State assets as part of the FY2006 budget, the asset sales will be governed by current statutory law, the details of which are outlined below.

PROCEDURES FOR THE SALE OF STATE PROPERTY

Department or agency declares real property to be surplus →

Division of Property Management and Construction (Division) gives notice to all departmental "land review officers"→

If no State department declares an interest within 30 days, Division recommends to the *State House Commission* that the property be sold at public auction with an established minimum bid based on an appraisal of fair market value →

Clearance letter issued by the Division upon approval of State House Commission →

Division assumes responsibility for the property →

Property disposal committee in Division coordinates marketing and sale in consultation with State House Commission →

Division develops fair market value →

Division drafts legislation if required for sale →

Division sells by public auction or negotiated sale unless the State House Commission directs otherwise.

CURRENT LAW

N.J.S.A.52:31-1.1 provides that the head of any State department, with the written approval of the Governor, is authorized to sell all or part of the State's interest in any real property or to grant an easement in or across any property, if the department no longer requires the property and the sale or granting of an easement is in the best interests of the State. The statute provides further that the terms and conditions of the sale or grant shall be determined by the State House Commission (hereinafter "the Commission"), and shall be conducted by public auction to the highest bidder unless the Commission directs otherwise.

A department or agency having jurisdiction over unused State property can declare it surplus by forwarding a form to the Division of Property Management and Construction (hereinafter "the Division") in the Department of the Treasury (hereinafter "the Department") providing all pertinent facts about the property. The

Background Paper: Procedures Governing the Proposed Sale of State Assets

Division is required by Department Circular letter No:99-02-PMC/OMB to offer the property to other departments within State government. Through a real property review system, a surplus land notice is then circulated to the land review officers in each department for a review period of 30 days. Notice of the disposal will also be provided to the local municipality in accordance with P.L.1997, c.135. When another department expresses an interest in the listed property, the Division evaluates the proposed usage. If it approves a proposed departmental acquisition, the Division draws up an interdepartmental transfer and the State-owned property is transferred from one department to another. The amount of compensation, if any, exchanged between agencies as a result of inter-agency transfer of real property is determined by the State Treasurer, with any debit and credit issued in accordance with existing procedures.[2]

If, however, no State department is interested in the surplus property, the Division may recommend to the Commission that the property be sold at public auction with an established minimum bid based on an appraisal of fair market value. If no problems or conflicts exist regarding the property, or if problems or conflicts exist and they have been resolved, a clearance letter is issued by the Division approving the action. After issuance of a clearance letter to the Department, the Division assumes responsibility for the property, maintaining it in good order until passage of the title.

In further accordance with the above cited circular letter, a property disposal committee established within the Division then coordinates the activities and approvals associated with the marketing and sale of the surplus real property. The committee consists of

What is the State House Commission?

The State House Commission was created in 1953 pursuant to P.L.1953, c.85 (C.52:20-1 et seq.). The Commission controls the sale and leasing of state owned properties. It consists of the Governor, the State Treasurer, and the Director of the Division of Budget and Accounting or their designees, two members of the Senate appointed by the Senate President and two members of the General Assembly appointed by the Speaker of the Assembly, with no more than one of either group of two or their alternates in the same political party. Each alternate for an appointed member must also be a member of the Senate or General Assembly appointed by the President or Speaker, as appropriate, and has full voting powers when required to attend commission meetings.

As of May 16, 2005, the members are: Acting Governor Richard J. Codey (Designee: Paul Josephson, Chief, Governor's Authorities Unit); John E. McCormac, State Treasurer (Designee: Robert L. Smartt, Deputy State Treasurer); Charlene M. Holzbaur, Director, Office of Management & Budget; Senator Walter Kavanaugh; Senator Bernard F. Kenny, Jr.; Senator Bob Smith (Alternate Member); Assemblyman Peter J. Biondi; Assemblyman John S. Wisniewski.

[2] Normally, inter-agency transfer deeds will contain a reversion clause providing for the return of the property to the original State agency if it is no longer needed by the acquiring agency, or the property is not used for construction within five years.

Background Paper: Procedures Governing the Proposed Sale of State Assets

seven members, including the Director of the Division, a member of the Division, a member of the Attorney General's office as counsel to this committee, and members appointed by the Director. The Division develops a fair market value for the surplus real property by arranging for a full narrative appraisal from a member of the Appraisal Institute, an international membership association of professional real estate appraisers. This appraisal is subsequently reviewed internally by Division staff. The Division next arranges for a licensed land surveyor to prepare a site survey whenever required for property disposal or for granting of easements across State property.

The disposal of all surplus real property is by public auction or, in certain circumstances described below, through negotiated sale. In the case of a public auction, bids may be open or closed at the discretion of the Division, and the property is sold to the highest bidder, unless the Commission otherwise directs. Notice of auctions is advertised at least five days prior to the date of auction in a minimum of two newspapers published in the State, one of which must be in the county where the property is located. If an auction is not successful, properties are reauctioned at a later date or reappraised and resubmitted to the Commission for further consideration.

N.J.S.A.52:31-1.4 also requires the Division to notify former owners of record of any pending surplus property sales, and offer them first right of refusal at fair market value. Such notice is given to former owners whenever the State has held title to real property for 10 years or less. The address listed on previous correspondence is utilized to contact former owners for this purpose.

In addition, while unlikely to be relevant in the realization of the FY2006 budgeted revenues, the sale process can also be initiated by a private citizen. Occasionally, the Division is approached by a person having an interest in acquiring a piece of State-owned land and entertains the possibility of a direct sale. Circular letter No:99-02-PMC/OMB indicates that direct sales may be to a local government agency, an organization currently leasing State premises, a property owner bordering a landlocked parcel of land, or, in certain cases, a nonprofit organization. In such instances, the Division first contacts the relevant department to see if the land is available. If that is the case, the property goes through the real property review system as described above. If no State department expresses an interest in acquiring the property, the Division notifies all property owners within 200 feet of the parcel in question to see if someone else is interested in the property. The adjacent landowners then have 10 business days to respond to the Division indicating any interest. If no other person expresses an interest in buying the property, the Division submits the details of the direct sale to the Commission for approval. If, on the other hand, at least one adjacent landowner responds and expresses interest in acquiring the surplus property within the specified deadline, the property is placed before the Commission with the recommendation that it be disposed of at public auction at fair market value in accordance with the procedure above.

Because N.J.S.A.52:31-1.3 limits the authority to convey an interest on State-owned land under N.J.S.A.52:31-1.1 to real property with a value of $500,000 or less and to

Background Paper: Procedures Governing the Proposed Sale of State Assets

"....with the exception of real property valued at $500,000 or less, in New Jersey, a legislative act authorizes the sale of public land ....

easements with a value of $100,000 or less, legislation must be enacted to authorize a sale and conveyance exceeding those values. In the absence of constitutional or statutory prescriptions, common law appears to be the basis for this procedure. When the American colonies established their independence, each state became the owner of vacant and unappropriated lands within its border. Over such lands, a state holds title as absolute owner and may pass title to an individual by legislative grant, the best evidence of title. In addition, a state may acquire real or personal property and, absent a statute providing otherwise or any constitutional restrictions, the state may dispose of it at such times, for such consideration, and upon such terms as it sees fit. Thus, with the exception of real property valued at $500,000 or less, in New Jersey, a legislative act authorizes the sale of public land. The legislation is not an actual grant but the intent to sell is clear. And, although specifying no particular terms, the legislation provides that the property shall be sold "upon such terms and conditions as the State House Commission shall determine to be in the best interests of the State."

ASSET SALE RESTRICTIONS UNDER GREEN ACRES

P.L.1993, c.38 placed additional requirements upon the conveyance of land acquired or developed by the State with Green Acres funds or acquired or developed by the State in any other manner and administered by the Department of Environmental Protection (DEP). Under N.J.S.A.13:1D-51 et al., the Commission is required to conduct a public hearing at least 90 days in advance of determining the terms and conditions of the sale or conveyance of any of those certain State-owned lands. The DEP is also required to prepare a report on the proposed conveyance, make that report available to the public, and hold certain public hearings. Any meeting at which the Commission is to determine the terms and conditions of the sale or conveyance or to decide to approve or disapprove a conveyance of lands acquired or developed by the State with Green Acres funds or acquired or developed by the State in any other manner and administered by the DEP must be open to the public, and the commission must provide at least 30 days public notice of any such meeting. The proceeds for the conveyance of land acquired or developed by the State with Green Acres funds shall be deposited, appropriated, and utilized as prescribed pursuant to N.J.S.A.13:1D-57. In general, that section and other relevant sections require proceeds to be utilized for the acquisition of additional property dedicated to public recreational uses.

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