ANALYSIS OF THE NEW JERSEY

FISCAL YEAR 2003 - 2004 BUDGET

INTERDEPARTMENTAL ACCOUNTS

PREPARED BY

OFFICE OF LEGISLATIVE SERVICES

NEW JERSEY LEGISLATURE

MAY 2003

NEW JERSEY STATE LEGISLATURE

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INTERDEPARTMENTAL ACCOUNTS

Budget Pages....... C-13, C14, C-21; D-495 to D-511

Fiscal Summary ($000)

	Expended FY 2002	Adjusted Appropriation FY 2003	Recommended FY 2004	Percent Change 2003-04
State Budgeted	$1,766,682	$2,044,536	$2,369,613	15.9%
Federal Funds	0	0	0	—
Other	0	0	12,813	—
Grand Total	$1,766,682	$2,044,536	$2,382,426	16.5%

Personnel Summary - Positions By Funding Source

	Actual FY 2002	Revised FY 2003	Funded FY 2004	Percent Change 2003-04
State	0	0	0	—
Federal	0	0	0	—
Other	0	0	0	—
Total Positions	0	0	0	—

FY 2002 (as of December) and revised FY 2003 (as of September) personnel data reflect actual payroll counts. FY 2004 data reflect the number of positions funded.

Introduction

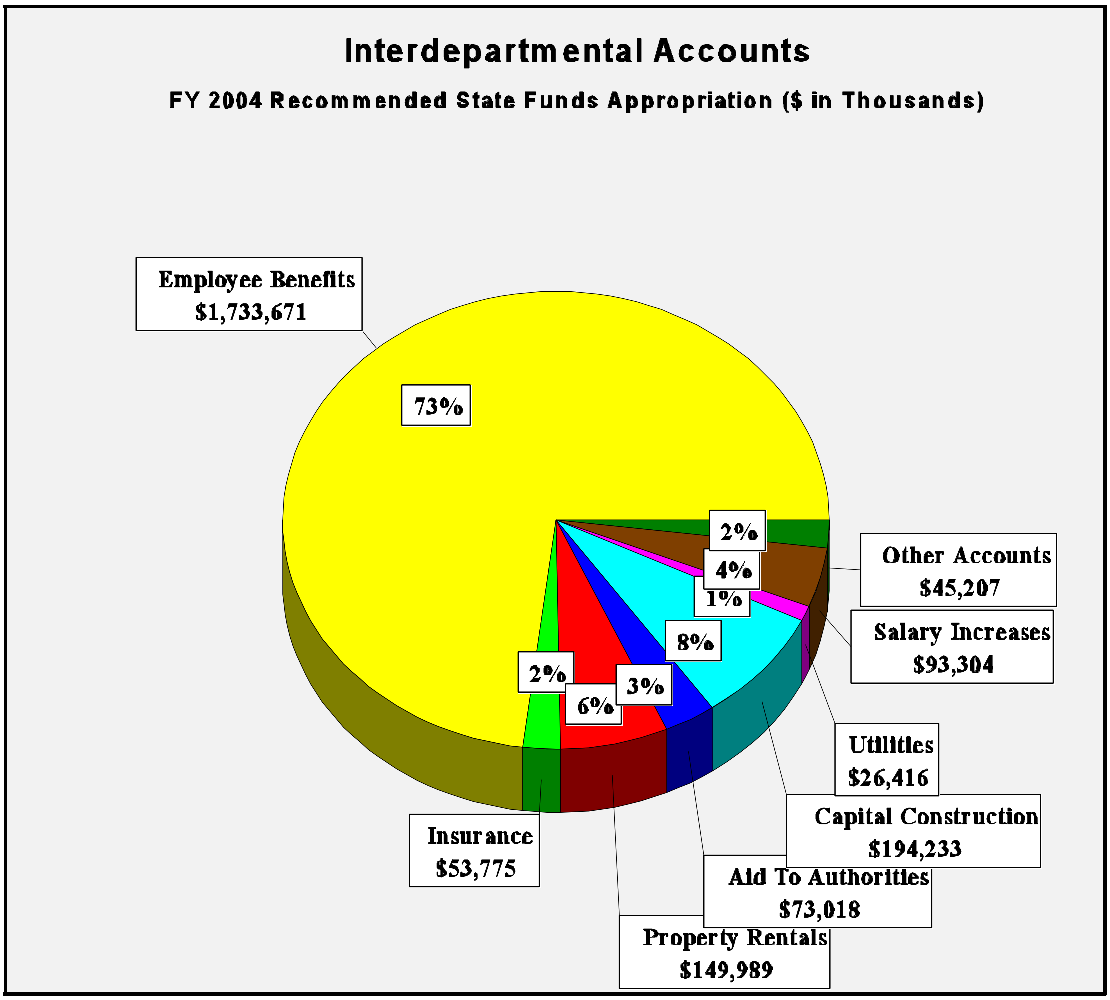
The Interdepartmental Accounts budget consists of those funds not appropriated to any single State department, but which instead are administered centrally — by the Department of the Treasury — on behalf of all State government agencies and some independent authorities. Interdepartmental Accounts are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

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

Key Points

The Governor recommends a FY 2004 State appropriation totaling $2.370 billion for Interdepartmental Accounts, up $325.1 million or 15.9 percent, over the FY 2003 adjusted appropriation of $2.045 billion.

The following chart summarizes the FY 2004 recommended appropriation by major purpose. The summary detail of changes is included in the Fiscal and Personnel section of this analysis.



Key Points (Cont'd)

EMPLOYEE BENEFITS

- The recommended FY 2004 State appropriation for Employee Benefits is $1.734 billion, a $274.8 million or 18.8 percent increase over the FY 2003 adjusted appropriation of $1.459 billion. The recommended $1.186 billion Direct State Services (DSS) appropriation is an increase of $203.3 million or 17.1 percent, over the FY 2003 adjusted appropriation of $982.3 million. Grants-In-Aid (GIA) for higher education employee benefits are recommended at $548 million, up 15 percent over the FY 2003 adjusted appropriation of $476.6 million.

Pension Plans

- The FY 2004 budget recommends paying the $756.2 million certified to fund both normal cost and accrued liability to the pension plans in installments by implementing a "five-year phase-in" of pension contributions.

- A General Fund pension contribution of $25.7 million and the use of $125.8 million in excess valuation assets are recommended; payments totaling $604.8 million are delayed.

Post Retirement Medical (PRM) Benefits

- A total FY 2004 appropriation of $715.4 million is recommended to fund PRM benefits for retired State employees from the Public Employees Retirement System (PERS), retired teachers from the Teachers' Pension and Annuity Fund (TPAF), and other retirees eligible for PRM benefits, including $17.7 million from the Property Tax Relief Fund. This is an increase of $285.0 million or 66.2 percent, from the FY 2003 adjusted appropriation of $430.4 million. The FY 2003 adjusted appropriation was reduced by approximately $110.4 million by utilizing a drawdown of PRM reserve balances in the PERS and TPAF to help meet claims incurred. The FY 2004 recommended appropriation does not include funding the State's obligation to increase the contribution to the PRM fund by 3/5 of 1 percent of active members' salary, or approximately $65 million, to begin to replenish the depleted reserve balances of the PRM funds. Recommended budget language (page D-508) permits additional sums as required to fund the PRM accounts.

Pension Obligation Bonds

- The Interdepartmental recommendation for debt service on State contract bonds issued pursuant to the *Pension Bond Financing Act of 1997* is $45.6 million, down 24.6 percent from the $60.4 million FY 2003 adjusted appropriation. In FY 2004, Economic Development Authority assets would offset a portion of Pension Obligation Bond debt service payments, thus allowing the recommended State appropriation to be lowered.

Health Benefits

- An appropriation of $957.4 million, up $126.3 million or 15.2 percent, over the FY 2003 adjusted appropriation, is recommended to fund health benefits for active employees. Funding for the cost of providing health benefits for State employees increases by $84.6 million, to $688.6 million; for higher education employees costs rise by $41.8 million, to $268.7 million.

Key Points (Cont'd)

Payroll Taxes

- The FY 2004 Interdepartmental Accounts budget recommendation for employer payroll taxes totals $449.9 million, up $8.6 million over the FY 2003 adjusted appropriation. The State's share of the Social Security tax will rise 2.9 percent, to $436.1 million and includes $299.3 million for State employees and $136.8 million in funding to institutions of higher education.

- In addition, a State Aid payment of $611.1 million is budgeted in the Department of Education for the employer (school district) share of Social Security taxes.

SALARY ADJUSTMENTS

- The Governor's FY 2004 budget provides $93.3 million for employee salary increases and other benefits, consisting of $82.3 million in increments, bonuses, progressions for certain county court employees, and across-the-board raises per contracts for eligible employees and $11 million in unused accumulated sick leave payments to eligible employees at retirement. In FY 2003, lump sum sick leave payments totaled $24.3 million because of the early retirement incentive (ERI). The State is presently negotiating with four unions for contracts to be in place for FY 2004.

STATEWIDE CAPITAL CONSTRUCTION

- The Governor's budget recommends $194.2 million for capital construction projects — Statewide, an increase of 14.5 percent over the FY 2003 adjusted appropriation. This recommendation includes $9.7 million for unidentified Statewide Fire, Life Safety and Renovation Projects. This account will likely fund "high priority" projects that emerge over the course of the year.

- The State's share of debt service payments on outstanding bonds issued by the New Jersey Building Authority are recommended to increase 41.5 percent to $78.6 million. This total is for debt service already incurred by the Authority and does not project any new bond sales. Included in this amount is the first year of recently issued bonds totaling $22.5 million for Other State Projects, that include renovations to the State Museum and the Pinelands Commission headquarters.

AID TO INDEPENDENT AUTHORITIES

- The FY 2004 recommended appropriation of aid to independent authorities is $73 million, an increase of $5.1 million or 7.5 percent, over the FY 2003 adjusted appropriation. The bulk of this appropriation pays for debt service on bonds issued by quasi-State authorities.

- New funding of $10.9 million is recommended to finance the first year of debt service related to the anticipated sale of bonds pursuant to the "Municipal Rehabilitation and Economic Recovery Act" P.L.2002, c.43. The act authorizes the issuance of $175 million in bonds on the part of the Economic Development Authority (EDA) in order to capitalize a series of funds for the City of Camden.

Key Points (Cont'd)

- New funding of $2.5 million is recommended for Sports and Exposition Authority litigation expenses.

- State support for the Sports and Exposition Authority's debt service on its sports complex and other facilities is recommended at $49.2 million. For the first time in recent years, the State operating subsidy to the Sports Authority is not required.

PROPERTY RENTALS, UTILITIES AND INSURANCE

- The recommended net State appropriation for the property rentals category is $150 million, an increase of $5.4 million over the FY 2003 adjusted appropriation. This recommendation includes $17.5 million for Economic Development Authority (EDA) debt service payments related to State occupied buildings and $19.4 million in other debt service and fixed costs.

- The recommended appropriation in the property rentals category includes $2 million for the lease of additional laboratory space for the Department of Health and Senior Services and $250,000 for four months of FY 2004 funding for a new State-owned warehouse.

- The Governor's FY 2004 budget recommends an $8.3 million reduction in funding for insurance and other services from the FY 2003 adjusted appropriation. However, this reduction includes a $3 million decline in recommended funding for the Tort Claims Liability Fund and a $5 million drop in recommend funding for the Workers' Compensation Self-Insurance Fund, two accounts that historically require supplemental funding to meet expenses.

OTHER INTERDEPARTMENTAL ACCOUNTS

- A $37 million reduction to pay interest on short term notes is recommended in FY 2004, reflecting the State's more favorable cash flow compared to FY 2003.

- The Governor recommends elimination of DSS funding for the Statewide 911 Emergency Telephone System and proposes, in lieu thereof, an appropriation not to exceed $12.8 million in other funds derived from a prospective "Wireless Communication / Cell Tower Assessment."

Background Papers

Program Description and Overview

Interdepartmental Accounts consist of those funds not appropriated to any single State department, but which are administered centrally on behalf of State government agencies and some quasi-governmental entities, such as independent authorities. Interdepartmental Accounts are categorized into the following budget areas: (1) Employee Benefits — includes funding for employee pensions and health benefits; (2) Salary Increases and Other Benefits — funds allotted to various departments for the cost of general and special salary increases; (3) Property Rentals and Leases — rents for office space and other premises for State agencies; (4) Utilities and Other Services — funds services such as fuel purchases, and trash removal; (5) Insurance and Other Services — supports State's tort liability and certain insurance claims; (6) Capital Projects — Statewide; (7) Aid to Independent Authorities; and (8) Other Interdepartmental Accounts — which includes the Governor's contingency fund, pays expenses related to certain up-front and fixed borrowing costs and high technology upgrades.

(1) Employee Benefits: Recommended Appropriation at $1.734 billion, or 73% of total

Employee Benefit costs in FY 2004 total $1.759 billion. However, the Governor's FY 2004 budget will require $25.3 million of this cost to be reimbursed from departmental budgets.

(a) Pensions and Post-Retirement Medical: Recommended Appropriation at $351.7 million

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

- The Public Employees' Retirement System (PERS) (N.J.S.A. 43:15A-1 et seq.) provides coverage to substantially all full-time employees of State and local governments who are not members of one of the other systems described below. State and local governments pay the employer contributions for this system for their respective employees. Required State contributions are reflected in the Interdepartmental Accounts budget. Approximately 113,051 retirees and beneficiaries will receive pensions totaling $1.4 billion in FY 2004.

- The Teachers' Pension and Annuity Fund (TPAF) (N.J.S.A. 18A:66-1 et seq.) provides coverage to all full-time school teachers in the State, including those in county vocational schools, as well as certain employees in the State Department of Education. The State pays the full employers' share of contributions (except for the cost of the early retirement incentive programs which are paid for by the participating districts) on behalf of local school districts. These payments are included in the State Aid portion of the recommended budget for the Department of Education. Approximately 61,534 retirees and beneficiaries will receive pensions totaling $1.9 billion in FY 2004.

- The Judicial Retirement System (JRS) (N.J.S.A. 43:6A-1 et seq.) provides pension coverage to members of the State judiciary. The State pays the employer contributions for this system as a part of the Interdepartmental Accounts budget. Approximately 410 retirees and beneficiaries will receive pensions totaling $27.2 million in FY 2004.

- The Police and Firemen's Retirement System (PFRS) (N.J.S.A. 43:16A-1 et seq.) provides coverage to all full-time county and municipal and State police and firefighters. Employer obligations are paid by the local employers and the State (as an employer). Required State contributions are budgeted in Interdepartmental Accounts. Approximately 28,324 retirees and beneficiaries will receive pensions totaling $1 billion in FY 2004.

Program Description and Overview (Cont'd)

- The State Police Retirement System (SPRS) (N.J.S.A. 53:5A-1 et seq.) provides benefits to all uniformed officers and troopers of the Division of State Police in the Department of Law and Public Safety. The State pays the employer contributions for this system as a part of the Interdepartmental Accounts budget. Approximately 2,177 retirees and beneficiaries will receive pensions totaling $87.3 million.

- The Prison Officers' Pension Fund (POPF) (N.J.S.A. 43:7-7 et seq.) provides coverage for certain employees of the Department of Corrections. Effective January 1, 1960, the system was closed to new employees. Although there are no remaining active members, approximately 208 retirees and beneficiaries receive annual pensions. This system is entirely funded by current trust assets. State contributions may be necessary if the trust assets prove insufficient.

- The Consolidated Police & Firemen's Pension Fund (CP&FPF) (N.J.S.A. 43:16-1 et seq.) membership consists of policemen and firemen appointed prior to July 1, 1944. Although there are no remaining active members, in FY 2002, approximately 1,360 retirees and beneficiaries received annual pensions totaling $22.1 million. Local employers are billed for the cost of COLA adjustments.

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

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

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

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

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

Program Description and Overview (Cont'd)

The FY 2004 budget recommendation to fund pensions, the Alternate Benefit Plan, debt service on pension obligation bonds and post retirement medical (PRM) benefits within the Interdepartmental Accounts is $351.7 million. However, this funding level is achieved only by delaying $177.5 million in pension plan contributions, applying surplus assets of $77.4 million, and using Benefit Enhancement Fund reserves of $29.1 million. Before these offsets, costs were projected to total $635.7 million.

In addition, pension-related funding is included in other areas of the budget as follows:

Other State Appropriations for Pensions and Related Benefits (in thousands)	FY 2003	FY 2004
Department of Treasury: page D-442 (Aid to County Colleges)		
Employer Contributions — Alternate Benefit Program	$15,908	$17,514
TPAF — Post Retirement Medical	– – –	322
Other Than TPAF — Post Retirement Medical	6,802	9,538
Debt Service on Pension Obligation Bonds	76	85
Department of Treasury: page D-473 (Consolidated Police & Firemen's Pension Fund)		
Consolidated Police and Firemen's Pension Fund	2,714	1,951
Debt Service on Pension Obligation Bonds	15,897	8,552
PFRS — Post Retirement Medical	12,739	17,709
Police & Firemen's Retirement System	– – –	4,729
Police & Firemen's Retirement System (P.L.1979,c.109)	– – –	5,629
Department of Education: page D-131		
Teachers' Pension & Annuity Fund Post Retirement Medical	302,605	442,658
Minimum Pension for Pre-1955 Retirees	1	1
Other Than TPAF — Post Retirement Medical	48,348	67,737
Debt Service on Pension Obligation Bonds	76,899	86,704
TOTAL, State Aid	$481,989	$663,129

The Governor's FY 2004 budget recommendation also includes $611.1 million in Social Security Tax payments for the local school districts employer's share and $450,000 for the County Colleges FICA share.

Program Description and Overview (Cont'd)

(b) Health Benefits: Recommended Appropriation at $957.4 million

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

The State's obligation to pay the premium or periodic charges for the SHBP coverage with respect to active employees and retirees who accrued 25 years of service is subject to collective bargaining. For FY 2004, employee premium sharing arrangements have not been determined. Current law requires <u>local</u> participating public employers to pay the cost of SHBP coverage for <u>local</u> employees and authorizes those employers to require an employee contribution toward some or all of the cost of dependent coverage. Many participating local employers, however, have assumed the cost of dependent coverage.

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

(c) Other Fringe Benefits: Recommended Appropriation at $449.9 million

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

<u>(2) Salary and Other Benefits: Recommended Appropriation at $93.3 million, or 4% of total</u>

Salary increases for existing State positions are budgeted centrally in the Interdepartmental Accounts budget, then allocated to individual departments/agencies during the fiscal year. These increases include cost-of-living adjustments (COLAs), merit increments, and lump-sum adjustments. Increases for the majority of State employees are subject to collective bargaining. Contracts are in place for the three largest unions in the Division of State Police, including the State Trooper Fraternal Association, State Trooper NCO and State Trooper Superior Officers. Members will receive a scheduled 4 percent across-the-board salary increase on July 1, 2003 and an increase in the maintenance allowance rise to over $10,834 per covered employee.

The two unions that represent Judicial employees — CWA professional and the Judiciary Council of Affiliated Unions — will receive a 2 percent across-the-board salary increase on July 1, 2003 and again on January 1, 2004. Additionally, members will receive 4.15 percent salary progression (4.75 percent for judges' secretaries) on January 1, 2004.

Contracts for the largest employee unions — the American Federation of State, County, and Municipal Employees (AFSCME); International Federation of Professional and Technical Engineers (IFPTE); Communication Workers of America (CWA); and the Policemen's Benevolent Association (PBA) — expire on June 30, 2003. The State is currently in negotiations for new multi-year contracts with these unions.

Program Description and Overview (Cont'd)

(3) Property Rentals and Leases: Recommended Appropriation at $150 million, or 6% of total

Administered by the Department of the Treasury, the Property Rentals account provides funding for rent and leases of office space and other property for State departments and agencies. For FY 2004, the Governor proposes $2.0 million for a new bio-terrorism lab for the Department of Health and Senior Services.

(4) Insurance and Other Services: Recommended Appropriation at $53.8 million, or 2% of total

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

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

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

(6) Capital Projects – Statewide: Recommended Appropriation at $194.2 million, or 8% of total

This category funds various statewide capital projects administered by the Department of the Treasury on behalf of State agencies. The recommended capital construction projects include: building renovations related to compliance with the federal Americans with Disabilities Act (ADA) and statewide security projects, $98 million to purchase open space through the Garden State Preservation Trust Fund, and $78.6 million in debt service payments for the New Jersey Building Authority.

(7) Aid Independent Authorities: Recommended Appropriation at $73 million, or 3% of total

This is Grants-In-Aid funding to Independent Authorities for operating expenses and construction costs for facilities.

(8) Other Accounts: Recommended Appropriation at $45 million, or 2% of total

This category includes funding for interest on cash flow borrowing, emergencies and contingencies, and other statewide initiatives (e.g. 911 Emergency Telephone System) that do not fall under the categories described above. The largest recommended appropriation in this category is interest on short-term notes.

Fiscal and Personnel Summary

AGENCY FUNDING BY SOURCE OF FUNDS ($000)

	Expended FY 2002	Adj. Approp. FY 2003	Recom. FY 2004	Percent Change 2002-04	Percent Change 2003-04
General Fund					
Direct State Services	$1,120,640	$1,330,175	$1,554,141	38.7%	16.8%
Grants-In-Aid	488,207	544,712	621,239	27.2%	14.0%
State Aid	0	0	0	0.0%	0.0%
Capital Construction	157,835	169,649	194,233	23.1%	14.5%
Debt Service	0	0	0	0.0%	0.0%
Sub-Total	$1,766,682	$2,044,536	$2,369,613	34.1%	15.9%
Property Tax Relief Fund					
Direct State Services	$0	$0	$0	0.0%	0.0%
Grants-In-Aid	0	0	0	0.0%	0.0%
State Aid	0	0	0	0.0%	0.0%
Sub-Total	$0	$0	$0	0.0%	0.0%
Casino Revenue Fund	$0	$0	$0	0.0%	0.0%
Casino Control Fund	$0	$0	$0	0.0%	0.0%
State Total	$1,766,682	$2,044,536	$2,369,613	34.1%	15.9%
Federal Funds	$0	$0	$0	0.0%	0.0%
Other Funds	$0	$0	$12,813	----	----
Grand Total	$1,766,682	$2,044,536	$2,382,426	34.9%	16.5%

PERSONNEL SUMMARY - POSITIONS BY FUNDING SOURCE

	Actual FY 2002	Revised FY 2003	Funded FY 2004	Percent Change 2002-04	Percent Change 2003-04
State	0	0	0	0.0%	0.0%
Federal	0	0	0	0.0%	0.0%
All Other	0	0	0	0.0%	0.0%
Total Positions	0	0	0	0.0%	0.0%

FY 2002 (as of December) and revised FY 2003 (as of September) personnel data reflect actual payroll counts. FY 2004 data reflect the number of positions funded.

AFFIRMATIVE ACTION DATA

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

Significant Changes/New Programs ($000)

Budget Item	Adj. Approp. FY 2003	Recomm. FY 2004	Dollar Change	Percent Change	Budget Page

PROPERTY RENTALS

Direct State Services

Property Rentals (Net)	$144,626	$149,989	$5,363	3.7%	D-499

Major components of the proposed $5.4 million increase in FY 2004 include $2.0 million for a proposed bioterrorism laboratory to be operated by the Department of Health and Senior Services, $250,000 for four months of funding of a newly constructed 100,000 square foot State-owned warehouse and $469,000 in annualized rent increases that occurred this year.

INSURANCE AND OTHER SERVICES

Casualty Insurance Premium Payments	$2,380	$2,030	($350)	(14.7)%	D-499

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

The spike in premiums in FY 2003 (from only $624,000 in the prior year) reflected increased costs to insure the State's four airports and aircraft.

Tort Claims Liability Fund	$14,000	$11,000	($3,000)	(21.4)%	D-499

The funds appropriated to this account are available for the payment of direct costs of legal, administrative and medical services related to the investigation, mitigation and litigation of tort claims under N.J.S.A. 59:12-1, "The New Jersey Tort Claims Act," concerning claims against public entities. Historically, supplemental funding is required to support the expenses incurred in this account during the fiscal year, so the apparent decrease in FY 2004 may not materialize.

Workers' Compensation Fund	$39,900	$34,900	($5,000)	(12.5)%	D-499

The State is self-insured for workers' compensation payments made to State employees. State expenditures for workers' compensation have been increasing in recent years and the program has required supplemental funding annually since FY 1997. In FY 2002, $41.3 million was expended; in FY 2003, the adjusted appropriation is $39.9 million. In FY 2004, only $34.9 million is budgeted, which may prove inadequate.

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

Budget Item	Adj. Approp. FY 2003	Recomm. FY 2004	Dollar Change	Percent Change	Budget Page

AID TO INDEPENDENT AUTHORITIES

Grants-In-Aid

Sports and Exposition Authority Operations	$5,000	$0	($5,000)	(100.0)%	D-500

Due to cost savings measures, the Sports and Exposition Authority does not require a direct operating subsidy in FY 2004.

New Jersey Performing Arts Center, EDA	$5,543	$5,109	($434)	(7.8)%	D-500

This recommended reduction is made possible through the use of New Jersey Economic Development Authority (EDA) assets to fund a portion of the FY 2004 scheduled debt service of $5.5 million. Should EDA assets prove insufficient to meet the estimated FY 2004 debt service, the State would be liable to make the payments. Budget language (page D-503) allows additional funding for debt service costs without legislative action.

Liberty Science Center Educational Services	$6,600	$3,300	($3,300)	(50.0)%	D-500

This appropriation subsidizes visits to the Liberty Science Center by students in the "Abbott districts" for the science education component of the comprehensive core curriculum standards. The reduction reflects the State's difficult budget situation.

Municipal Rehabilitation and Economic Recovery, EDA (Camden)	$0	$10,939	$10,939	—	D-500

This recommended appropriation would finance the first year of the Economic Development Authority's (EDA) debt service related to a recent sale of bonds pursuant to the "Municipal Rehabilitation and Economic Recovery Act" P.L.2002, c.43. The act authorized the issuance of $175 million in bonds on the part of the EDA in order to capitalize a series of funds for the improvement of the City of Camden. The funds are divided as follows: (1) the Residential Neighborhood Improvement Fund, $35 million; (2) the Demolition and Redevelopment Financing Fund, $43 million; (3) the Downtown Revitalization and Recovery Fund, $45.8 million; (4) the Higher Education and Regional Health Care Development Fund, $46.2 million; and $2.5 million to the Qualified Municipality Economic Opportunity Fund within the Department of Labor, $2.5 million.

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

Budget Item	Adj. Approp. FY 2003	Recomm. FY 2004	Dollar Change	Percent Change	Budget Page
Horse Racing Litigation Settlement	$0	$2,500	$2,500	—	D-500

This recommended appropriation would assist the New Jersey Sports and Exposition Authority (NJSEA) in the settlement of a lawsuit brought by the New Jersey Thoroughbred Horsemen's Association. This lawsuit accuses the NJSEA of breach of contract with respect to payment of thoroughbred purse monies at both Monmouth Park and the Meadowlands and failure to safely maintain the race course at the Meadowlands.

CAPITAL CONSTRUCTION

Budget Item	Adj. Approp. FY 2003	Recomm. FY 2004	Dollar Change	Percent Change	Budget Page
Statewide Fire, Life Safety and Renovation Projects	$0	$9,695	$9,695	—	D-500

The Governor's FY 2004 budget includes this recommendation to fund unidentified, "high priority" fire, life safety projects that emerge during the course of the fiscal year in various departments.

Budget Item	Adj. Approp. FY 2003	Recomm. FY 2004	Dollar Change	Percent Change	Budget Page
DEP Building Fire Alarm Upgrade	$0	$922	$922	—	D-500

This recommended appropriation would fund the engineering study and construction costs for a new fire alarm system at the Department of Environmental Protection (DEP) building. The current fire alarm system at the department's building is 15 years old, is no longer supported by the manufacturer and is considered to be "obsolete." If approved, this FY 2004 request would fund the hiring of an independent fire protection engineer to evaluate the existing fire alarm system, wiring and field devices and to design system upgrade/replacement and to fund construction costs of a new fire alarm system.

Budget Item	Adj. Approp. FY 2003	Recomm. FY 2004	Dollar Change	Percent Change	Budget Page
Life Safety and Emergency Projects — Statewide	$200	$0	($200)	(100.0)%	D-500

This appropriation funded fire code compliance and life safety projects that emerged as the result of inspections. Approximately $375,000 was reappropriated to this account from a prior fiscal year and as of March 1, 2003, just under $200,000 remained uncommitted.

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

Budget Item	Adj. Approp. FY 2003	Recomm. FY 2004	Dollar Change	Percent Change	Budget Page
New Jersey Building Authority Debt Service:					
General State Projects: Debt Service	$47,016	$71,403	$24,387	51.9%	D-501

Through lease arrangements, the State pays the debt service on bonds issued by the New Jersey Building Authority to construct or improve State facilities. The increase in State payments in FY 2004 is due to reserve of a one-time surplus available to the Building Authority in FY 2003 to help make its debt payments. No new projects are being supported with this additional amount in FY 2004.

Budget Item	Adj. Approp. FY 2003	Recomm. FY 2004	Dollar Change	Percent Change	Budget Page
Counter Terrorism Projects: Debt Service	$8,553	$7,213	($1,340)	(15.7)%	D-501

This FY 2004 recommended appropriation would fund the Building Authority's debt service for State Police projects. A debt service payment of $6.1 million is recommended for the construction of the $83.5 million State Police Multipurpose Building and Troop "C" Headquarters. Construction is scheduled to be completed in May 2003. A debt service payment of $1.1 million is recommended for the construction of the State Police Emergency Management and Emergency Operations Center. The new $24 million building will include: an auditorium style support room which will accommodate 150 people for activation and training use; an executive room which will house 15-20 of the Governor's Office staff; a medical room; and a space for FEMA, nuclear power, and public utilities representatives for use during emergencies.

<u>Capital Construction</u>

Budget Item	Adj. Approp. FY 2003	Recomm. FY 2004	Dollar Change	Percent Change	Budget Page
New Jersey State Police Professional Learning Center	$5,000	$0	($5,000)	(100.0)%	D-501

This FY 2003 appropriation would have provided up-front funding for a New Jersey Building Authority feasibility study, preliminary design, and land acquisition costs for the proposed State Police Professional Training Center, as well as for a new State Police headquarters building. The Office of Legislative Services has been informed that the project has been suspended indefinitely, and perhaps terminated. Only $25,000 of the FY 2003 appropriation has been expended for preliminary design costs. No funds are recommended in FY 2004 to continue this project, and further legislative approval would be required to authorize the commencement of the $125 million project by the New Jersey Building Authority as originally proposed. The $4.975 million balance in this account was transferred to fund the costs of post-retirement medical (PRM) benefits for retired members of the Public Employees' Retirement System (PERS).

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

Budget Item	Adj. Approp. FY 2003	Recomm. FY 2004	Dollar Change	Percent Change	Budget Page
Renovation Projects, Existing and Anticipated Leases	$2,700	$0	($2,700)	(100.0)%	D-501

Over the past four fiscal years, the amount appropriated to this account totaled $16.1 million and was expended on a variety of renovation projects.

Budget Item	Adj. Approp. FY 2003	Recomm. FY 2004	Dollar Change	Percent Change	Budget Page
Statehouse Security Modifications	$1,180	$0	($1,180)	(100.0)%	D-501

This FY 2003 appropriation funded an upgrade to the security and fire safety systems and replaced obsolete equipment in the State House.

EMPLOYEE BENEFITS

Direct State Services

Budget Item	Adj. Approp. FY 2003	Recomm. FY 2004	Dollar Change	Percent Change	Budget Page
Public Employees' Retirement System — Post Retirement Medical	$52,113	$152,908	$100,795	193.4%	D-506

This account funds post retirement medical (PRM) benefits for State employees who retire after 25 years as members of the Public Employees' Retirement System (PERS). The total cost of PRM benefits for retired PERS members was approximately $114.2 million in FY 2003. The $52.1 million adjusted appropriation assumes that remaining PRM reserve balance in the system of approximately $62.1 million will be used to offset required premium payments.

The increase in the FY 2004 requested appropriation is primarily due to (1) significant premium rate increases for State employee retirees estimated between 20 - 24 percent; (2) the use of the PRM reserve asset balance to pay for the FY 2002 and FY 2003 premiums, a source not available next year; and (3) an unexpected increase in the number of retirees due to the number of State employees who opted for the Early Retirement Incentive (ERI). P.L.2002, c.11 increased the employer payroll contribution to the PRM reserve from .5 percent to .6 percent of payroll beginning FY 2004. However, this increase in the reserve fund portion of the contribution is not included in the recommended appropriation.

Budget Item	Adj. Approp. FY 2003	Recomm. FY 2004	Dollar Change	Percent Change	Budget Page
Police and Firemen's Retirement System	$0	$9,987	$9,987	—	D-506

The amount required to fund the State's portion of the Police and Firemen's Retirement System (PFRS) in FY 2004 is $88.4 million. After offsetting $38.5 million of this cost with excess PFRS assets, the remaining State obligation will be $49.9 million. The FY 2004 recommended appropriation of $9.9 million represents 20 percent of this requested total, reflecting the Governor's five-year phase-in of normal and accrued liability contributions to the pension plans.

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

Budget Item	Adj. Approp. FY 2003	Recomm. FY 2004	Dollar Change	Percent Change	Budget Page
Police and Firemen's Retirement System (P.L.1979, c.109)	$0	$1,036	$1,036	—	D-506

The requested State appropriation to fund the normal cost associated with the Police and Firemen's Retirement System (PFRS) pursuant to the provisions of P.L.1979, c.109 totaled $5.2 million. The FY 2004 recommended appropriation of $1.0 million represents 20 percent of this requested total, reflecting the Governor's five-year phase-in of normal and accrued liability contributions to the pension plans. P.L.1979, c.109 provides enhanced benefits to members of the PFRS who retire after 25 years of service, granting a retirement allowance of 65 percent of final compensation. Under the provisions of this chapter, the State is liable for the increase in the normal contribution to fund the benefits provided by this act. Extra State contributions of 1.1 percent of covered salary are required to provide for the extra benefits offered under the act.

Budget Item	Adj. Approp. FY 2003	Recomm. FY 2004	Dollar Change	Percent Change	Budget Page
Judicial Retirement System	$8,468	$3,481	($4,987)	(58.9)%	D-506

The requested State contribution to fund normal and accrued liability costs associated with the Judicial Retirement System totaled $17.4 million and includes $16.6 million in normal cost and $816,956 in accrued liability. The FY 2004 recommended appropriation of $3.5 million represents 20 percent of this requested total, reflecting the Governor's five-year phase-in of normal and accrued liability contributions to the pension plans.

Budget Item	Adj. Approp. FY 2003	Recomm. FY 2004	Dollar Change	Percent Change	Budget Page
Teachers' Pension and Annuity Fund — Post Retirement Medical — State	$0	$1,470	$1,470	—	D-506

This recommended appropriation would fund the post retirement medical (PRM) benefits made by the State on behalf of those members of the Teachers' Pension and Annuity Fund (TPAF) who are employed by the State Department of Education. The increase in the requested appropriation is primarily due to significant increases in the premium rates ranging from 31 percent for retirees under age than 65 and 26 percent for retirees average 65 in FY 2003 and the use of the PRM reserve balance to pay for the FY 2002 and FY 2003 premiums, a source not available next year. P.L.2002, c.11 increased the employer payroll contribution to the PRM reserve from .5 percent to .6 percent of payroll beginning in FY 2004. However, this increase in the reserve fund portion of the contribution is not included in the recommended appropriation.

Budget Item	Adj. Approp. FY 2003	Recomm. FY 2004	Dollar Change	Percent Change	Budget Page
Debt Service on Pension Obligation Bonds	$57,140	$41,872	($15,268)	(26.7)%	D-506

P.L.1997, c.114 authorized the Economic Development Authority (EDA) to issue $2.8 billion in bonds to finance a portion of the unfunded accrued liability of the State pension systems, which

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

Budget Item	Adj. Approp. FY 2003	Recomm. FY 2004	Dollar Change	Percent Change	Budget Page

together with the use of additional assets recognized by the one-time change to full-market value of assets (P.L.1997, c.115) were sufficient to fully fund the retirement systems (State liability), excluding post retirement medical (PRM) costs. This reduction of $15.3 million is primarily due to the one-time use of Economic Development Authority (EDA) assets in FY 2004 to supplement State debt service payments.

Budget Item	Adj. Approp. FY 2003	Recomm. FY 2004	Dollar Change	Percent Change	Budget Page
State Employees' Health Benefits	$443,885	$521,884	$77,999	17.6%	D-506
State Employees' Prescription Drug Program	$138,219	$144,628	$6,409	4.6%	D-506
State Employees' Dental Program — Shared Cost	$20,956	$21,129	$173	0.8%	D-506

These health care benefit recommendations are the estimated cost to provide health, prescription drug and dental coverage to active State employees. For health benefits, the assumed rate increases are 22 percent for traditional plan members, 20 percent for employees enrolled in one of the participating HMOs, and 20 percent for NJ Plus enrollees. The prescription drug program recommendation assumes a 25 percent rate increase effective January 1, 2004. For the dental program, increases ranging from 5 percent to 7 percent are assumed in the recommendation.

Budget Item	Adj. Approp. FY 2003	Recomm. FY 2004	Dollar Change	Percent Change	Budget Page
Social Security Tax	$291,076	$299,254	$8,178	2.8%	D-506

The FY 2004 recommended appropriation is to fund the employer's share of Social Security contributions for State employees, other than higher education employees at State institutions. The taxable wage base for Social Security is increasing from $84,900 to $87,000 in calendar year 2003 and will increase again on January 1, 2004. The recommended appropriation is an estimate of the funding required to meet the State's liability as an employer to pay FICA (Old Age, Survivors, and Disability Insurance) and Medicare taxes for FY 2004. The rate for Social Security (FICA) remains at 6.2 percent and the tax rate for Medicare remains at 1.45 percent. There is no Medicare wage base, so Medicare taxes are paid on total compensation.

Budget Item	Adj. Approp. FY 2003	Recomm. FY 2004	Dollar Change	Percent Change	Budget Page
Temporary Disability Insurance Liability	$5,803	$6,327	$524	9.0%	D-506

The recommended appropriation of $6.3 million is to fund TDI contributions for State employees. All eligible State employees are included in the State Temporary Disability Insurance Plan. The plan is a shared-cost plan which provides payments to employees who are unable to work as the result of a non-work connected illness or injury and who have exhausted their sick leave and are ineligible for any unemployment compensation or workers' compensation. The employee

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

Budget Item	Adj. Approp. FY 2003	Recomm. FY 2004	Dollar Change	Percent Change	Budget Page

contribution is 0.5 percent on the first $23,900 in covered wages earned during calendar year 2003 and the employer rate is 0.3 percent of taxable wages up to the wage base of $23,900. New Jersey is one of only five States which provides compulsory temporary disability insurance for workers.

Budget Item	Adj. Approp. FY 2003	Recomm. FY 2004	Dollar Change	Percent Change	Budget Page
Unemployment Insurance Liability	$6,044	$2,826	($3,218)	(53.2)%	D-507

The FY 2004 recommended appropriation is an estimate of the amount required to pay unemployment claims for former State employees if the employee payroll tax proves to be insufficient. According to the Governor's Budget Message, the FY 2004 budget anticipates the elimination of 1,000 employees through downsizing and attrition. Should additional funds be required during the course of FY 2004, recommended budget language (page D-508) permits the Director of the Division of Budget and Accounting to appropriate additional funds to pay unemployment claims.

Unlike private industry, the State does not contribute a matching percentage of compensation to fund the Unemployment Compensation Trust Fund. The State operates on a pay-as-you-go basis as an insurer of last resort. Employees contribute 0.2 percent of salary, up to the unemployment wage base of $23,900. After the employees' contribution is dispersed, the State, as an employer, contributes sufficient funds to keep the program solvent.

Grants-In-Aid

Budget Item	Adj. Approp. FY 2003	Recomm. FY 2004	Dollar Change	Percent Change	Budget Page
Public Employees' Retirement System — Post Retirement Medical	$7,789	$22,546	$14,757	189.5%	D-507

This account funds post retirement medical (PRM) benefits for State college or university employees who retire after 25 years as members of the Public Employees' Retirement System (PERS). The total cost of PRM benefits for retired PERS members was approximately $12.2 million in FY 2003. The $7.8 million adjusted appropriation assumes that remaining PRM reserve balance in the retirement system of approximately $4.4 million will be used to offset required premium payments.

The increase in the requested FY 2004 appropriation is primarily due to (1) significant premium rate increases for State employee retirees estimated between 20 - 24 percent; (2) use of the PRM reserve asset balance to pay for the FY 2002 and FY 2003 premiums, a source not available next year; and (3) an unexpected increase in the number of retirees due to the number of college and university employees who opted for the Early Retirement Incentive (ERI). P.L.2002, c.11 increased the employer payroll contribution to the PRM reserve from .5 percent to .6 percent of payroll beginning in FY 2004. However, this increase in the reserve fund portion of the contribution is not included in the recommended appropriation.

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

Budget Item	Adj. Approp. FY 2003	Recomm. FY 2004	Dollar Change	Percent Change	Budget Page
Police and Firemen's Retirement System	$0	$771	$771	—	D-507

Funds appropriated in this account cover the State higher education portion of the required contribution to the retirement system for normal costs. This recommended appropriation excludes State-paid benefits provided under Chapter 109, 247, 511 and 428.

The FY 2004 recommended appropriation of $771,000 represents 20 percent of the requested amount of $3.8 million, reflecting the Governor's five-year phase-in of normal and accrued liability contributions to the pension plans.

Budget Item	Adj. Approp. FY 2003	Recomm. FY 2004	Dollar Change	Percent Change	Budget Page
Alternate Benefit Program — Employer Contributions	$100,137	$110,182	$10,045	10.0%	D-507

The State is required to pay the employer contribution to the Alternate Benefit Program for State colleges and universities at a rate of 8 percent of the members' base salary. The State also provides life insurance coverage and long-term disability coverage to plan members employed by various State higher education institutions. Assumed salary increase is 7 percent for State higher education institutions. Also assumed in this recommended appropriation is an 8 percent increase in life insurance premiums and a 9.9 percent increase is disability insurance premiums.

Budget Item	Adj. Approp. FY 2003	Recomm. FY 2004	Dollar Change	Percent Change	Budget Page
Teachers' Pension and Annuity Fund — Post Retirement Medical State	$0	$550	$550	—	D-507

This account funds post retirement medical (PRM) benefits for State college or university employees who retire after 25 years as members of the Teachers' Pension and Annuity Fund (TPAF). The increase in the requested appropriation is primarily due to (1) significant increases in the premium rates ranging from 31 percent for retirees under age 65 and 26 percent for retirees average 65 during FY 2003 and (2) use of the PRM reserve asset balance to pay for the FY 2002 and FY 2003 premiums, a source not available next year. P.L.2002, c.11 increased the employer payroll contribution to the PRM reserve from .5 percent to .6 percent of payroll beginning in FY 2004. However, this increase in the reserve fund portion of the contribution is not included in the recommended appropriation.

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

Budget Item	Adj. Approp. FY 2003	Recomm. FY 2004	Dollar Change	Percent Change	Budget Page
State Employees' Health Benefits	$163,941	$195,418	$31,477	19.2%	D-507
State Employees' Prescription Drug Program	$55,073	$64,848	$9,775	17.7%	D-507
State Employees' Dental Program — Shared Cost	$7,981	$8,483	$502	6.3%	D-507

These health care benefits recommendations are the estimated cost to provide health, prescription drug and dental coverage to active employees at State colleges and universities. For health benefits, the assumed rate increases are 22 percent for traditional plan members, 20 percent for employees enrolled in one of the participating HMOs, and 20 percent for NJ Plus enrollees. The prescription drug program recommendation assumes a 25 percent rate increase effective January 1, 2004. For the dental program, increases ranging from 5 percent to 7 percent are assumed in the recommendation.

Budget Item	Adj. Approp. FY 2003	Recomm. FY 2004	Dollar Change	Percent Change	Budget Page
Social Security Tax — State	$132,459	$136,799	$4,340	3.3%	D-507

The FY 2004 recommended appropriation is to fund the employers' share of Social Security contributions for employees of State institutions of higher education. The recommended appropriation is an estimate of the funding required to meet the State's liability as an employer to pay FICA (Old Age, Survivors, and Disability Insurance) and Medicare taxes for FY 2004. The rate for Social Security (FICA) remains at 6.2 percent and the tax rate for Medicare remains at 1.45 percent. The amount of salary on which Social Security is based is increasing from $84,900 to $87,000 in calendar year 2003 and will increase again on January 1, 2004. There is no Medicare wage base, so Medicare taxes are paid on total compensation.

Budget Item	Adj. Approp. FY 2003	Recomm. FY 2004	Dollar Change	Percent Change	Budget Page
Unemployment Insurance Liability	$3,232	$1,868	($1,364)	(42.2)%	D-507

The FY 2004 recommended appropriation is an estimate of the amount required to pay unemployment claims for former employees of State institutions of higher education if the employee payroll tax proves to be insufficient. Should additional funds be required during the course of FY 2004, recommended budget language (page D-508) permits the Director of the Division of Budget and Accounting to appropriate additional funds to pay unemployment claims.

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

Budget Item	Adj. Approp. FY 2003	Recomm. FY 2004	Dollar Change	Percent Change	Budget Page

OTHER INTER-DEPARTMENTAL ACCOUNTS

Direct State Services

Budget Item	Adj. Approp. FY 2003	Recomm. FY 2004	Dollar Change	Percent Change	Budget Page
Interest on Short Term Notes	$65,000	$28,000	($37,000)	(56.9)%	D-509

The anticipated cash flow of the State has improved over FY 2003 due to the securitization of approximately $1.3 billion from the remainder of the tobacco settlement and an increase in tax collections from the revamped Corporate Business Tax. Thus, the need for short term borrowing is reduced.

Budget Item	Adj. Approp. FY 2003	Recomm. FY 2004	Dollar Change	Percent Change	Budget Page
Statewide 911 Emergency Telephone System	$11,470	$0	($11,470)	(100.0)%	D-509

This FY 2003 appropriation represents full year funding for the debt service payments of approximately $8.1 million, monthly telephone charges associated with operating the 911 Emergency Telephone System, and costs associated with software and hardware upgrades to the system. In FY 2004, the debt service payments, monthly telephone charges and costs for upgrades would be shifted off budget, and funded from a proposed wireless communications / cell tower assessment, subject to enabling legislation.

Budget Item	Adj. Approp. FY 2003	Recomm. FY 2004	Dollar Change	Percent Change	Budget Page
Network Infrastructure	$3,600	$7,200	$3,600	100.0%	D-509
Garden State Network Infrastructure	$705	$282	($423)	(60.0)%	D-509
Automated Document Factory	$225	$450	$225	100.0%	D-509
Automated Cartridge System Upgrade	$150	$300	$150	100.0%	D-509

The FY 2003 adjusted appropriation of $4.68 million for these four information technology items comprised one semi-annual payment on line of credit financing totaling $24.6 million. The FY 2004 recommended appropriation of $8.23 million reflects full year funding for this line of credit. Project components and their total estimated costs are: Network Infrastructure upgrade, $18.9 million; Garden State Network Infrastructure, $3.75 million; Automated Document Factory, $1.2 million; and Automated Cartridge System Upgrade, $800,000.

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

Budget Item	Adj. Approp. FY 2003	Recomm. FY 2004	Dollar Change	Percent Change	Budget Page
All Other Funds					
Other Inter-Departmental Accounts: 911 Telephone System	$0	$12,813	$12,813	—	D-510

This "off budget" appropriation would replace State funds required for debt service payments and operational costs of the Statewide 911 Emergency Telephone System. Funding would be derived from receipts collected from a "Wireless Communication / Cell Tower Assessment," subject to the passage of enabling legislation. Recommended budget language (page D-510) would require that appropriated revenues, not to exceed $12.8 million, be deposited into a dedicated account for this purpose.

SALARY INCREASES AND OTHER BENEFITS

Budget Item	Adj. Approp. FY 2003	Recomm. FY 2004	Dollar Change	Percent Change	Budget Page
Salary Increases and Other Benefits	$99,729	$82,304	($17,425)	(17.5)%	D-511

According to the Office of Management and Budget, approximately $48.3 million of the salary increases is for COLA increases for the contracts that are in place for FY 2004 with the three largest unions in the Division of State Police and the two unions that represent Judicial employees. The remaining $34 million of the recommended appropriation is for increments and deferred increments for employees who are not covered under the settled contracts for FY 2004.

Contracts for the largest employee unions — the American Federation of State, County, and Municipal Employees (AFSCME); International Federation of Professional and Technical Engineers (IFPTE); Communication Workers of America (CWA); and the Policemen's Benevolent Association (PBA) — expire on June 30, 2003. The State is currently in negotiations for new multi-year contracts with these unions.

Budget Item	Adj. Approp. FY 2003	Recomm. FY 2004	Dollar Change	Percent Change	Budget Page
Unused Accumulated Sick Leave Payments	$24,231	$11,000	($13,231)	(54.6)%	D-511

The FY 2003 adjusted appropriation reflects a sharp increase in sick leave payments due to an increase in the number of retirements that took place this year following approval of an Early Retirement Incentive (ERI). Data provided in September 2002 by the Department of the Treasury, Division of Pension and Benefits indicated that a total of 4,766 State employees opted for the ERI, with 3,832 of these individuals retiring prior to the start of FY 2003 and 934 extended past July 1, 2002. This account funds 1/2 of accumulated sick days for retiring employees, not to exceed $15,000 for any one retiree.

Language Provisions

GENERAL GOVERNMENT SERVICES

Direct State Services

2003 Appropriations Handbook	2004 Budget Recommendations
p. B-187	p. D-502
An amount not to exceed $2,000,000 shall be appropriated for the costs of security, maintenance, utilities and other operating expenses related to the Marlboro Psychiatric Hospital and North Princeton Developmental Center closure initiatives, subject to the Director of the Division of Budget and Accounting.	An amount not to exceed $2,500,000 shall be appropriated for the costs of security, maintenance, utilities and other operating expenses related to the Marlboro Psychiatric Hospital and North Princeton Developmental Center closure initiatives, subject to the approval of the Director of the Division of Budget and Accounting.

Explanation

This language provides a $500,000 increase for repairs, maintenance, security and other expenses related to these two closed facilities. Negotiations have been ongoing with Marlboro Township on the sale of the Marlboro Psychiatric Hospital and plans for the sale and development of North Princeton Developmental Center to Montgomery Township continue to be negotiated.

2003 Appropriations Handbook	2004 Budget Recommendations
p. B-187	
The unexpended balance as of June 30, 2002 in the Property Rentals account allocated for the installation of sprinkler systems at various Human Services facilities, up to $1,500,000, is appropriated for the same purpose.	No comparable language.

Explanation

This language authorized up to $1.5 million allocated from the Property Rentals account for the installation of sprinkler systems at various Human Services facilities to be carried forward to FY 2003 and re-appropriated for the same purpose. These funds were expended, thus the language is not necessary.

Language Provisions (Cont'd)

Capital Construction

2003 Appropriations Handbook

p. B-194

The amount hereinabove for the New Jersey Performing Arts Center account shall be used to pay the State's obligations pursuant to a lease with the New Jersey Economic Development Authority, for the lease of real property and infrastructure improvements and the Performing Arts Center structure constructed thereon purchased by the authority for the State in the city of Newark, for the purpose of constructing buildings to comprise a Performing Arts Center. Notwithstanding any other provision of law, the State Treasurer may enter into a lease with the New Jersey Economic Development Authority to lease the real property and improvements thereon purchased or caused to be constructed by the authority for the State in the city of Newark for the Performing Arts Center, subject to the prior written consent of the Director of the Division of Budget and Accounting, the President of the Senate and the Speaker of the General Assembly. Upon the final payment of the State's obligations pursuant to the lease for the real property and infrastructure improvements purchased by the authority, the title to the real property and improvements shall revert to the State. The State may sublease the land and facilities for the purpose of operating, maintaining or financing a Performing Arts Center in Newark. Any sublease for use of land and improvements acquired for the State by the New Jersey Economic Development Authority for the Performing Arts Center shall be subject to the prior written approval of the Director of the Division of Budget and Accounting and the Joint Budget Oversight Committee, or its successor.

2004 Budget Recommendations

p. D-503

Same language as last year, except for the addition of a new final sentence: There is appropriated such additional sums as may be necessary to pay debt service for the New Jersey Performing Arts Center.

Language Provisions (Cont'd)

Explanation

The added recommended language, "There is appropriated such additional sums as may be necessary to pay debt service for the New Jersey Performing Arts Center," allows additional funding for debt service costs without legislative action. The FY 2004 budget recommends $5.1 million in debt service payments for the New Jersey Performing Arts Center, down from the FY 2003 adjusted appropriation of $5.5 million (page D-500). This recommended reduction ($434,000) is made possible through the use of New Jersey Economic Development Authority (EDA) assets to fund a portion of the FY 2004 scheduled debt service of $5.5 million. Should EDA assets prove insufficient to meet the estimated FY 2004 debt service, the State would be liable to make the payments.

2003 Appropriations Handbook	2004 Budget Recommendations
	p. D-503
No comparable language.	Notwithstanding the provisions of P.L.1997, c.258 (C.30:4-177.53 et seq.) or the provisions of any other law or regulation to the contrary, the amounts hereinabove appropriated to the New Jersey Building Authority Debt Service General State Projects shall be payable in part from monies derived from the sale or conveyance of the former North Princeton Developmental Center, Montgomery, New Jersey, and the former Marlboro Psychiatric Hospital, Marlboro, New Jersey.

Explanation

Section 5 of P.L.1997, c.258 (C.30:4-177.57), the "Community Mental Health and Developmental Disability Services Investment Act," requires that all monies received by the State from the sale of a State psychiatric hospital or developmental center operated by the Department of Human Services are earmarked exclusively for capital and equipment costs associated with the development of community placement for persons with serious mental illness or developmental disabilities. This recommended language would override this statute and, in lieu thereof, earmark monies received from the sale of either of these two facilities to New Jersey Building Authority debt service payments for costs associated with General State Projects.

Language Provisions (Cont'd)

2003 Appropriations Handbook	2004 Budget Recommendations
p. B-194	
Such additional sums as may be necessary to subsidize county and county authority debt service payments for environmental investments incurred pursuant to the "Solid Waste Management Act," P.L.1970, c.39 (C.13:1E-1 et seq.) and the "Solid Waste Utility Control Act," P.L.1970, c.40 (C.48:13A-1 et seq.) as determined by the State Treasurer based upon the need for such financial assistance after taking into account all financial resources available or attainable to pay such debt service. Such sums shall be subject to the approval of the Director of the Division of Budget and Accounting and shall be provided upon such terms and conditions as the State Treasurer may determine.	See Department of the Treasury.

Explanation

Solid Waste Management — County Environmental Investment Debt Service Aid has been moved from Interdepartmental Accounts in FY 2003 to the Department of the Treasury (page D-473) for FY 2004.

2003 Appropriations Handbook	2004 Budget Recommendations
p. B-194	
Of the amount hereinabove for the Battleship U.S.S. New Jersey Refurbishment, such sums as are necessary may be transferred to Grants-In-Aid for the Battleship U.S.S. New Jersey Refurbishment and Visitors Center subject to the approval of the Director of the Division of Budget and Accounting, and the unexpended balances are appropriated.	No comparable language.

Explanation

This language would have allowed the carry forward of any funds remaining at year-end FY 2002 from a $3.5 million supplemental Capital Construction appropriation to be reappropriated and transferred to a Grants-In-Aid account for distribution to the non-profit Home Port Alliance. The entire supplemental appropriation was lapsed in FY 2002 for deficit reduction. Therefore, this language was not utilized.

Language Provisions (Cont'd)

2003 Appropriations Handbook

p. B-194

Notwithstanding the provisions of any law to the contrary, of the amount hereinabove for the Garden State Preservation Trust Fund Account, up to $5,139,000 shall be transferred to the Department of Agriculture **for expenditures related to previously approved farmland preservation projects**, and is subject to the constitutional amendment on open space (Article VIII, Section II, paragraph 7), and the remainder is subject to the provisions of P.L.1999, c.152 (C.13:8C-1 et al.) and the constitutional amendment on open space (Article VIII, Section II, paragraph 7), provided, however, that the amount herein transferred to the Department of the Agriculture shall be counted in the calculation of the Garden State Preservation Trust's allocation of funds to the State Treasurer for deposit into the Garden State Farmland Preservation Trust Fund, pursuant to section 18 of P.L.1999, c.152 (C.13:8C-18) such that it does not affect the allocation of funds to the Garden State Green Acres Preservation Trust Fund.

2004 Budget Recommendations

p. D-503

Notwithstanding the provisions of any law to the contrary, of the amount hereinabove for the Garden State Preservation Trust Fund Account, up to $819,000 shall be transferred to the Department of Agriculture **for soil and water conservation grants**, and is subject to the constitutional amendment on open space (Article VIII, Section II, paragraph 7), and the remainder is subject to the provisions of P.L.1999, c.152 (C.13:8C-1 et al.) and the constitutional amendment on open space (Article VIII, Section II, paragraph 7), provided, however, that the amount herein transferred to the Department of the Agriculture shall be counted in the calculation of the Garden State Preservation Trust's allocation of funds to the State Treasurer for deposit into the Garden State Farmland Preservation Trust Fund, pursuant to section 18 of P.L.1999, c.152 (C.13:8C-18) such that it does not affect the allocation of funds to the Garden State Green Acres Preservation Trust Fund.

Explanation

This language allows $819,000 to be transferred from the Garden State Preservation Trust Fund Account to the Department of Agriculture for soil and water conservation grants, thereby offsetting an identical reduction in General Fund support for that program. This transfer of funds will not affect the $98 million Constitutionally dedicated to the Trust Fund. The FY 2003 language allowed $5,139,000 of the funds appropriated in FY 2003 for the purchase of open space and farmland preservation to be transferred to the Department of Agriculture and used for previously approved farmland preservation projects.

Language Provisions (Cont'd)

EMPLOYEE BENEFITS

Direct State Services; Grants-In-Aid

2003 Appropriations Handbook

p. B-190

Such additional sums as may be required for State Employees' Health Benefits, State Employees Prescription Drug Program, Social Security Tax - State, Temporary Disability Insurance Liability, and Unemployment Insurance Liability are appropriated, as the Director of the Division of Budget and Accounting shall determine.

2004 Budget Recommendations

p. D-508

Such additional sums as may be required for **Public Employees' Retirement System - Post Retirement Medical, Alternate Benefits Program - Employer Contributions, Teachers' Pension and Annuity Fund - Post Retirement Medical - State**, State Employees' Health Benefits, State Employees' Prescription Drug Program, **State Employees' Dental Program - Shared Cost, State Employees' Vision Care Program**, Social Security Tax - State, Temporary Disability Insurance Liability, and Unemployment Insurance Liability are appropriated, as the Director of the Division of Budget and Accounting shall determine.

Explanation

The expanded FY 2004 language allows the appropriation of additional funding, without further legislative involvement, for post retirement medical (PRM) benefits, the Alternate Benefits Program, and the dental and vision care programs, if the amounts appropriated to these accounts are insufficient. The FY 2003 language allowing additional funding for the health benefits, prescription drug, social security tax, TDI and unemployment insurance liability accounts is continued and incorporated in the new FY 2004 language. In addition, language providing the flexibility to move funding between Direct State Services (State employees) and Grants-In-Aid (higher education employees) throughout the year is continued.

2003 Appropriations Handbook

No comparable language.

2004 Budget Recommendations

p. D-508

No monies appropriated herein shall be used to provide additional health insurance coverage to a State or local elected official when that official receives health insurance coverage as a result of holding other public office or employment.

Language Provisions (Cont'd)

Explanation

This recommended language prohibits the appropriation of State funds for health insurance coverage to elected officials if such officials also receive health insurance coverage as a result of holding other public office or employment.

2003 Appropriations Handbook	2004 Budget Recommendations
p. B-190	
Among the amounts appropriated in section 1 of this act that are designated as State Aid or Grants-In-Aid to be distributed by the State to governmental units that participate in the State of New Jersey Cash Management Fund reserve fund, there shall be a corresponding reduction in the distribution of payments from those appropriations amounts, as the Director of the Division of Budget and Accounting shall determine, up to the amount of the funds returned from the reserve fund to those participating governmental units pursuant to this act. The Director of the Division of Budget and Accounting shall provide notice of the payment reductions to the Legislative Budget and Finance Officer on the effective date of any payment reductions. An amount up to the total reduced payments shall be transferred by the Director of the Division of Budget and Accounting from such appropriations to the appropriations made in the Employee Benefits program classification accounts in the Inter-Departmental accounts for the purposes of those accounts, which transferred amounts shall be deemed a "Base Year Appropriations" for the purposes of the "State Appropriations Limitation Act," P.L.1990, c.94 (C.52:9H-24 et seq.).	No comparable language.

Language Provisions (Cont'd)

Explanation

This language authorized the substitution of loss reserve funds within the Cash Management Fund, which were the assets of local entities (e.g. counties and municipalities) investing with the Fund, for State Aid appropriated to these governmental units. The loss reserve fund was fully disbursed. No proposal to use any loss reserve funds in this manner is included in the FY 2004 budget, hence the language is not repeated.

OTHER INTERDEPARTMENTAL ACCOUNTS

2003 Appropriations Handbook

p. B-191

There are appropriated to the Emergency Services Fund such sums as are required to meet the costs of any emergency occasioned by aggression, civil disturbance, sabotage, disaster, or for flood expenses for State owned structures to comply with Federal Insurance Administration requirements, as recommended by the Emergency Services Council and approved by the Governor, and subject to the approval of the Director of the Division of Budget and Accounting.

2004 Budget Recommendations

p. D-510

There are appropriated to the Emergency Services Fund such sums as are required to meet the costs of any emergency occasioned by aggression, civil disturbance, sabotage, disaster, or for flood expenses for State owned structures to comply with Federal Insurance Administration requirements, as recommended by the Emergency Services Council and approved by the Governor, and subject to the approval of the Director of the Division of Budget and Accounting. **In the event that the Emergency Services Council is unable to convene due to any such emergency described above, there shall be appropriated to the Emergency Services Fund such sums as are required to meet the costs of any such emergency described above, and payments from the Fund shall be made by the State Treasurer upon the approval of the Governor and the Director of Budget and Accounting.**

Explanation

This language provides additional flexibility to appropriate money to the Emergency Services Fund in the event that such emergency prevents the Emergency Services Council from convening.

Language Provisions (Cont'd)

2003 Appropriations Handbook	2004 Budget Recommendations
	p. D-510
No comparable language.	Receipts derived from the wireless communication \ cell tower assessment pursuant to the passage of enabling legislation, not to exceed $12,813,000 for the Statewide Emergency Telephone System are appropriated for this purpose 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.

Explanation

The Governor recommends the elimination of direct state services funding in FY 2004 for the Emergency 911 Telephone System account and proposes, in lieu thereof, an amount not to exceed $12.8 million appropriation in other funds derived from a prospective "Wireless Communication/Cell Tower Assessment." This will require separate enabling legislation. The recommended budget language described above would require the deposit of a portion of this new revenue not to exceed $12.8 million into such a dedicated account. The Statewide 911 Emergency Telephone System account is used to pay for costs associated with debt service payments, software upgrades and phone access charges incurred in the operation of the 911 Emergency Telephone System.

2003 Appropriations Handbook	2004 Budget Recommendations
p. B-192	
The unexpended balance as of June 30, 2002 in the Geographic Information System (GIA) account is appropriated for the same purpose, subject to the approval of the Director of the Division of Budget and Accounting.	No comparable language.

Explanation

This language provided that any remaining balance in the Geographic Information System account at the end of FY 2002 would carry forward to FY 2003 and be re-appropriated for the same purpose. However, the $1 million appropriation was transferred out of this account in FY 2002 and used for other purposes. Thus, this language was not utilized in FY 2003 and is not needed in FY 2004.

Language Provisions (Cont'd)

SALARY INCREASES AND OTHER BENEFITS

2003 Appropriations Handbook	2004 Budget Recommendations
p. B-192	
The Director of the Division of Budget and Accounting shall transfer from Departmental Accounts and credit to the Salary Increases and Other Benefits accounts a sum of $17,304,000 to reflect savings from a managed attrition program. This additional sum is appropriated for Salary Increases and Other Benefits.	No comparable language.

Explanation

This language provided that $17.3 million was transferred from State departments' salary accounts and credited to the Interdepartmental salary account in order to achieve this savings. In essence, the language required the various departments and agencies to finance a portion of the COLA and increment salary adjustments for their employees in FY 2003. The FY 2004 recommended appropriation of $93.3 million in "Salary Increases and Other Benefits" does not reflect a budget based on recovery of departmental funds as a credit to the Interdepartmental salary account. Therefore, the language is not repeated.

Discussion Points

Early Retirement Incentive Results

1. In an effort to reduce current payroll costs an Early Retirement Incentive (ERI) program was enacted last year. Pursuant to the provisions of P.L.2002, c.23, certain State employees and certain employees of State institutions of higher education were offered increased pension benefits if they opted to retire prior to July 1, 2002. While such incentives are designed to reduce payroll costs in the near term, ERI programs often create significant long-term unfunded pension obligations. Moreover, in reporting on previous ERI programs, the Division of Pensions and Benefits has observed that "the total savings directly resulting from an ERI occurs within no more than three to five years (frequently within one to two years)."

- *Question: Based on the actual number of State and State college and university employees who opted for the latest ERI, what are the aggregate costs and savings attributable to the provisions of P.L.2002, c.23 to both the Public Employees' Retirement System (PERS) and the Teachers' Pension and Annuity Fund (TPAF)?*

Pension Plans

2. Employer contributions to the State-administered pension funds are based on the "actuarial value of assets" held by the funds compared to accrued and anticipated liabilities. The actuarial value of assets is a synthetic measure of a pension fund's financial health at any given time because it compensates for annual fluctuations in investment performance by spreading gains and losses over several years. In recent years, while the market value of the State pension portfolio has declined dramatically, the actuarial value of the portfolio has thus far been maintained at an artificially high level due to various State enactments mandating that investment gains be "captured" immediately, while losses continue to be spread forward. As a result, State pension contributions have been held down due to the existence of "excess assets" in the retirement systems even as the actuarial value of those assets has diverged further and further from their current market value.

As of June 30, 2002, there was a $14.2 billion or almost 30 percent difference between the actuarial value of assets used to determine FY 2004 contributions to the Public Employees' Retirement System (PERS) and the Teachers' Pension and Annuity Fund (TPAF), and the market value of those funds' assets. For instance, the actuarial value of assets in the PERS was calculated at $27.7 billion, but the market value was only $21.5 billion, a difference of $6.2 billion; in TPAF the corresponding figures were $35.1 billion versus $27.1 billion, an $8 billion difference. The June 30, 2002 TPAF actuary's report noted that "If an asset value closer to market value were used..., the required pension contribution would be significantly higher."

Through the first nine months of FY 2003, the total market value of all funds managed by the Division of Investments declined by another 4.7 percent, from $72.7 billion on July 1, 2002 to $69.3 billion on March 31, 2003. Even with a recent stock market improvement, it does not appear that the State's pension funds will realize any considerable investment income gain during FY 2003.

- *Question: Please discuss the reasons for the substantial difference between the actuarial and market value of assets in the PERS and TPAF. What are the implications of this divergence in terms of State contributions to the pension systems in FY 2005 and beyond?*

Discussion Points (Cont'd)

3. The FY 2004 Budget includes a "five-year phase-in" of pension contributions, recommending a total appropriation of $151.4 million, including $25.7 million from the General Fund and applying $125.7 million in excess valuation assets. The amount certified to fund both normal cost and accrued liability was $756.2 million. Thus, $604.8 million in pension contribution payments would be delayed in FY 2004 under the phase-in plan.

- *Question: Please detail and provide a realistic example as to how a five-year pension contribution phase-in would be implemented. What is the estimated increase in the unfunded accrued liability due to the $604.8 million delay in pension contributions? To what extent will the funding levels of the major pension systems deteriorate due to this partial contribution plan?*

<u>Post Retirement Medical Benefits</u>

4. The FY 2004 recommended appropriation for post retirement medical (PRM) benefits is $715.4 million, an increase of 32.5 percent over the FY 2003 estimated cost of $540.0 million. The cost of funding this pay-as-you-go health care system for retired local school district employees, retired State employees, county college and higher education retirees, and local law enforcement retirees, has increased substantially over the past several years. As recently as FY 2000, PRM benefit premium costs totaled approximately $200.2 million for the Public Employees' Retirement System (PERS) and the Teachers' Pension and Annuity Fund (TPAF). Beginning in FY 2008, the Governmental Accounting Standards Board (GASB) will require that employers account for PRM benefits in a manner similar to how pension benefits are currently measured. Although government employers will not have to pre-fund PRM benefits under the new GASB standards, government employers will have to measure the annual appropriation to fund current premiums and obligations made to current retirees and future retirees. Up to now, most government employers, including the State of New Jersey, have financed and accounted for these benefits on a pay-as-you-go, cash outlay basis, thereby masking what has in fact become a huge unfunded payment obligation.

- *Question: What is the present value of future PRM benefits payable? Please provide the actual and projected amount and rate of growth in gross PRM benefit costs, by retirement system, attributable to growth in covered enrollment, medical cost inflation, increased benefits, and any other cost factor considered significant, for the period FY 2000 - FY 2004. Please provide this information separately for State and local employees. Is the Administration considering any proposals to control the rising cost of PRM premiums?*

<u>Prescription Drug Program</u>

5. Horizon Blue Cross Blue Shield of New Jersey signed a multi-year contract with a new Pharmacy Benefit Management company (PBM) to administer the State Health Benefits Program (SHBP) Employee Prescription Drug Plan. AdvancePCS began administration of the SHBP drug plan on July 1, 2002. The State Health Benefits Program estimated $6.1 million in CY 2003 in savings from increased rebates from the new PBM, plus additional savings of approximately $4 million from better dispensing fees and discounts due to the new PBM.

- *Question: Have these estimated savings materialized? What are the projected total savings for CY 2003 due to increased rebates, dispensing fees and discounts attributable to the new PBM? What percentage of total rebates to AdvancePCS does the estimated $6.1 million in savings represent?*

Discussion Points (Cont'd)

6. On March 31, 2003, *The Wall Street Journal* reported that Pharmacy Benefit Management (PBM) companies are making "impressive profits" through the sale of generic drugs. In one example mentioned in the article, Express Scripts Inc. made a $200 profit on a 90-pill prescription for a generic version of the ulcer medication *Zantac*. Express Scripts paid the pharmacy only $15 for the prescription, but charged the client company $215 for the same prescription. In 2000, the state of Arkansas hired AdvancePCS to pass through pharmacy prices without any markup and receive administrative fees of 24 cents per claim, as well as a share of certain drug-manufacturer rebates. Instead, an auditing arm of the Arkansas legislature found last year that AdvancePCS was charging the state more for many prescriptions. The audit report concluded that AdvancePCS over-charged the state a total of $479,000 on generic drugs over a four-month period.

- *Question: What are the administrative fees per claim of AdvancePCS? Does the State have the right to review pharmacy billing statements? When is the first audit of this program expected to be conducted and released?*

7. Recommendations of the State Health Benefits Commission to control prescription drug costs include changing from the current two-tier structure (generic / brand name), to a three-tier structure (generic / preferred brand / all other brands). The same report suggested that if the drug benefit program were to move to a $5/$10/$20 retail, $10/$20/$40 mail order program, the projected savings would be 17.5 percent, or $44 million. Employee costs are currently 7.1 percent, while the estimated cost sharing in the three-tier design will approximate 16 percent. The commission report also recommends an increase to the retirees out-of-pocket maximum from $345 per member to $1,000, estimating a savings to the SHBP of 4.5 percent.

- *Question: Please provide the fiscal analysis used to arrive at the estimated SHBP savings described above.*

<u>Health Benefits</u>

8. A professional consulting firm is in the process of performing a broad-based evaluation of the State Health Benefits Plan (SHBP) to include: (1) a review of the benefits offered; (2) a detailed comparison of the SHBP to other large programs; (3) a review of program finances; (4) an analysis of current rate structure and methodology; and (6) an analysis of current cost containment mechanisms.

- *Question: When are the results of this evaluation expected to be made available to the Legislature? Will this study include an estimate of savings under various cost containment mechanisms? What changes, if any, will require Legislative action? Will the study compare the level of benefits and cost-sharing provisions for State and local employees with benefits offered by local school districts to their employees?*

9. The FY 2004 budget recommends a $521.9 million appropriation to provide health benefits to active State employees, a 17.6 percent increase over the FY 2003 adjusted appropriation of $443.9 million. However, from January 2002 to January 2003 the State work force was reduced by over 2,000 State employees and in his FY 2004 Budget Message to the Legislature, the Governor announced that "there will be downsizing and attrition that will reduce the State payroll by 1,000 workers."

Discussion Points (Cont'd)

- *Question: Although there has been and will be a reduction in the workforce, the total cost to provide health benefits to active State employees is expected to increase 17.6 percent from FY 2003 to FY 2004. What is the percentage and dollar increase on a per enrollee basis? Please provide a chart for FY 2002 - FY 2004 indicating the per enrollee claim expenditure and percentage change by major category (i.e. prescription drugs, hospital outpatient care, hospital inpatient care, physician visits, all other).*

10. The Pension and Health Benefits Review Commission has not met since December 2001. Established pursuant to P.L.1991, c.382 (C.52:9HH-1), the Commission is charged with the review of every bill, joint resolution, or concurrent resolution introduced in the Legislature which constitutes pension or health benefits legislation for public employees. The Commission is to report its comments and recommendations to the Legislature. The number of legislative bills certified by the Legislative Budget and Finance Officer for Commission review totals approximately 205 for the 2002-2003 legislative session. To date, none of these bills have been considered by the Commission.

- *Question: Please explain the reasons for the inactivity of the Pension and Health Benefits Review Commission. Are there a sufficient number of members to conduct business?*

11. A recent audit of the State Health Benefits Program (SHBP) reported that the State could save $2.5 million a year if the division monitored dependent marital status. Pursuant to the provisions of N.J.S.A. 52:14-17.26, children of SHBP subscribers are not eligible for health coverage when they marry. The Office of the State Auditor found that 13 percent of dependents between the age of 18 and 23 were covered even though other State records show a marriage record for them. Based on these results, the State Auditor estimated 3,900 dependents in that age group were married and still actively covered by parents with either Traditional or NJ Plus plans. An additional 800 more instances of married dependents covered by reimbursable health maintenance organizations (HMOs) were also estimated by the auditor.

In its response to the State Auditor's findings, the Division of Pensions and Benefits stated it would implement computer programming to prevent duplicate coverage as both a subscriber (or spouse of a subscriber) and as a dependent child. The division said this would address the issue of children who have married and are covered twice under the SHBP as well as children enrolled as subscribers who remain unmarried but are not longer financially dependent upon their parent(s) for support.

- *Question: Has the division implemented computer programming changes to monitor and remove ineligible dependents from coverage?*

12. The State Auditor found that prohibiting and monitoring dual coverage could save State and local employers $1.2 million a year. The auditor recommended that the Division of Pensions and Benefits review its records for active employees who are receiving dual coverage from separate employers, and seek legislation to prevent retirees from receiving dual coverage when they return to active employment.

- *Question: Does the Administration plan to seek legislation to prohibit an individual from qualifying for enrollment as both a retiree and an active employee and to prohibit duplicate coverage when an employee qualifies for such coverage through more than one eligible employment?*

Discussion Points (Cont'd)

Horse Racing Litigation

13. The FY 2004 budget recommends (page D-500) a $2.5 million appropriation to the New Jersey Sports and Exposition Authority (NJSEA) for a pending lawsuit filed by the New Jersey Thoroughbred Horsemen's Association (THA). The suit alleges a number of claims, including but not limited to, breach of contract with respect to payment of thoroughbred purse monies at both Monmouth Park and the Meadowlands and failure to safely maintain the race course at the Meadowlands.

- *Question: Please explain this recommended appropriation in more detail. Is the State a participant in this legal action? Please explain the details of the proposed settlement between the NJSEA and the THA.*

Liberty Science Center

14. Several years ago, plans were developed for an expansion of the Liberty Science Center in Jersey City which would be financed through State contract bonds issued by the New Jersey Economic Development Authority (EDA). The debt service on those bonds would become a State obligation, in conjunction with private fund raising efforts. The Governor's FY 2004 budget does not mention an expansion of the Liberty Science Center and does not request an appropriation for such purpose.

- *Question: What is the scope and status of the Liberty Science Center expansion project? Has the State Treasurer entered into an agreement with the Science Center and the EDA for State participation in the cost of this project? If so, to what extent will the State be obligated to offset any shortfall in private support? Does the EDA have the power to undertake such a project and obligate the State to pay for all or most of the costs with no further approval of the Legislature?*

Background Paper: State Employment Trends

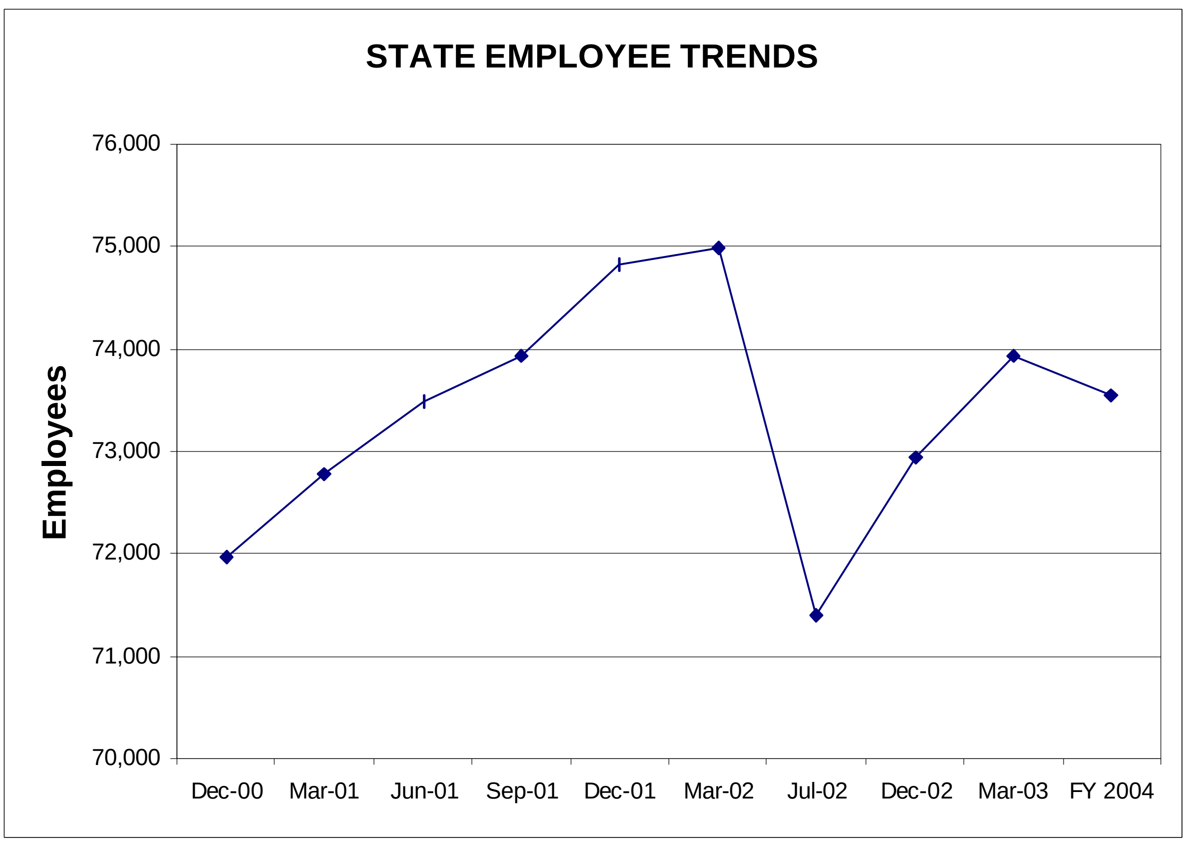
TABLE 1

Personnel Summary - Positions By Funding Source

	Full-Time Employees July 2002	Full-Time Employees Dec 2002	Full-Time Employees March 2003	Funded FY 2004	Percent Change March 2003 — Funded FY 2004
State	54,280	55,285	55,892	53,974	(3.4)%
Federal	11,829	12,229	12,511	12,731	1.8%
Other	5,287	5,428	5,529	6,838	23.7%
Total Positions	71,396	72,942	73,932	73,543	(0.5)%

Full-Time Employees reflects the number of employees that received pay checks for the pay periods 15/02 (June 29, 2002 - July 12, 2002); 01/03 (December 14, 2002 - December 27, 2002); and 07/03 (March 8, 2003 - March 21, 2003). FY 2004 data reflect the number of positions funded in the Governor's budget proposal.

CHART 1



Background Paper: State Employment Trends (Cont'd)

Table 1 on the previous page displays, by funding source, the number of Full-Time State employees (including county court employees) who were on the payroll as of July 2002; December 2002; March 2003 and funded in the FY 2004 Budget. In addition, Table 1 compares the percentage change in the number of Full-Time employees in March 2003 to the number of positions funded in the proposed FY 2004 Budget.

Chart 1 displays State workforce levels from December 2000 to the level of funded positions projected by the FY 2004 budget, showing a steady growth in employees through FY 2001 and FY 2002, illustrating the impact on the size of the State workforce of the Early Retirement Incentive (ERI) program and the resumption of employment growth during FY 2003. The decline in employment level from March 2002 (74,983) to July 2002 (71,396) was driven by the ERI, under which 3,832 employees left the payroll by June 30. The Administration stated that it expected to replace about 50 percent of the employees who participated in the ERI. Accordingly, absent any other hiring, a growth in employment of about 1,900 would be expected. Chart 1 shows that by March 2003 the State workforce had grown by about 2,500. It is not possible to determine how much of this workforce growth resulted from replacing retirees and how much resulted from filling other vacant or newly created positions. However, the data raise the question of whether the level of hiring exceeds the goal originally set by the Administration to achieve desired savings.

A decline in the State workforce of about 400 between March and July 2003 would be needed in order to begin FY 2004 at the level of funded positions projected by the FY 2004 budget. Since another 600 employees are to retire under the ERI program between March and June 30, 2003, the achievement of workforce levels commensurate with funding resources seems within reach if the Administration adjusts downward its plans to replace 50 percent of ERI participants.

Background Paper: Post-Retirement Medical Cost Trends

Budget Pages.... D-131, D-442, D-473, D-506, D-507

Summary	
	• Post-Retirement Medical (PRM) benefit costs increased 215 percent over the past four fiscal years (FY 2000 - FY 2004 recommended appropriation). • The FY 2004 recommended appropriation for PRM benefits is $715.4 million, of which 61.9 percent would fund benefits of eligible TPAF local school district retirees. • The number of PRM benefit eligible retirees has been rising steadily, and this trend accelerated due to the provisions of the recent Early Retirement Incentive program for State and college employees. • New accounting rules will require government employers to account for the unfunded accrued liability of PRM benefits, a liability which is currently hidden due to the method of financing these benefits.

Cost of PRM Benefits

Post-Retirement Medical (PRM) benefits represent a significant funding issue for public sector employers. According to Standard & Poors, as a result of the discrepancy between rapid cost acceleration in many health-related areas (the annual percentage growth is projected in the low teens over the next several years), and very slow growing revenues, funding these promised benefits is a rapidly increasing concern. Up to now, most government employers, including the State of New Jersey, have financed and accounted for these benefits on a pay-as-you-go, cash outlay basis, thereby covering what has in fact become a huge unfunded payment obligation.

PRM Eligibility and Benefits

Under current law, the State is responsible for payment of full or partial cost of PRM benefits under the State Health Benefits Plan for numerous State and local government retirees and their dependents, but not their survivors. State employees who accrued 25 years of service on or before July 1, 1997 receive fully paid health benefits coverage in the Traditional (fee for service) Plan as well as all the managed care plans and full reimbursement of the prevailing cost of Medicare Part B. State employees who attain 25 years of service credit or retire on disability after July 1, 1997, may be required to share in paying the cost of coverage and Medicare Part B according to the terms specified in the union contract applicable to them at the time they attain 25 years of service credit, or retire for disability.

School board and county college employees who accrued 25 years of service are eligible to receive fully paid health benefits coverage in the Traditional Plan as well as managed care plans. However, approximately 80 percent of school board employees have remained in the more expensive Traditional Plan.

Background Paper: Post-Retirement Medical Cost Trends (Cont'd)

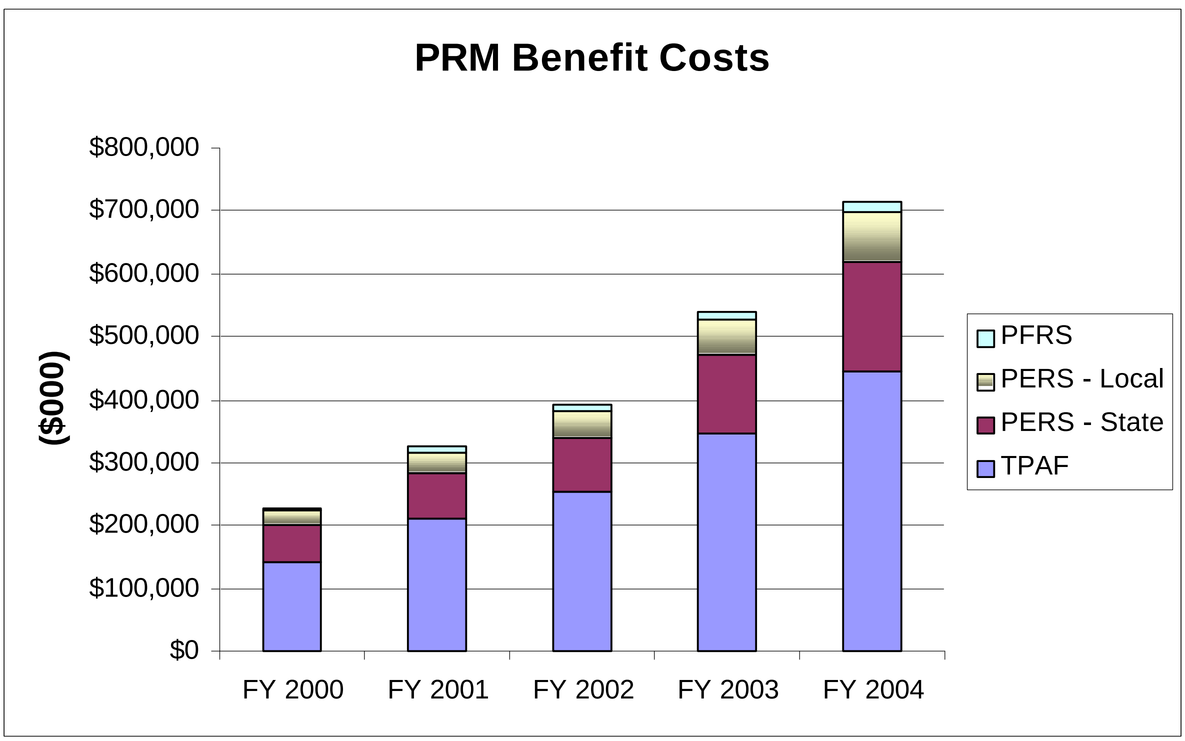
For certain police officers and firefighters and their dependents, but not survivors, who retire with 25 or more years of service credit, or on disability, and who do not receive any employer payment toward PRM benefits, regardless of whether their former employers make any payment toward such benefits for other retirees, the State pays 80 percent of the least expensive cost of the chosen type of coverage among the State health benefits plans. The retiree pays the remainder of the cost of whatever plan is chosen and pays for Medicare Part B.

Funding for PRM Benefits

In FY 2004, the State's cost to fund PRM premiums is $715.4 million, an increase of 32.5 percent over the FY 2003 estimated cost of $540.0 million. The increase in the requested FY 2004 appropriation is primarily due to (1) significant premium rate increases for retirees estimated between 20 to 35 percent; (2) the use of the PRM reserve asset balance to pay for the FY 2002 and FY 2003 premiums; and (3) an unexpected increase in the number of retirees due to the number of State employees who opted for the Early Retirement Incentive (ERI) (P.L.2002, c.23) and the continued increase in the number of new local school district retirees.

Chart 1 displays State PRM gross premium costs for the two largest retirement groups, the Teachers' Pension and Annuity Fund (TPAF) and the Public Employees' Retirement System (PERS), and State Aid payments to county colleges and institutions of higher education and to the Police and Firemen's Retirement System on behalf of local governments for the FY 2000 — FY 2004 time period.

Chart 1



Sources: Division of Pensions and Benefits, Financial Statements and Schedules FY 2000 - FY 2002. Department of the Treasury Accounting System. FY 2003 is the estimated cost and FY 2004 is the recommended appropriation in the Governor's Budget Document.

Background Paper: Post-Retirement Medical Cost Trends (Cont'd)

Of the total $715.4 million FY 2004 recommendation, approximately 61.9 percent — or $442.7 million — would fund health care for local school district TPAF retirees. Another $154.4 million — or 21.6 percent — is recommended for retirees of the State. The remainder of the recommended appropriation would fund retirees of county colleges, institutions of higher education, local governments, and certain school district employees who are not members of the TPAF.

Although actuarial funding of PRM benefits was eliminated by P.L.1994, c.62 — allowing the State to pay for these benefits on a current, pay-as-you-go basis — the 1994 law also required the State to make an annual contribution to the PERS and TPAF sufficient to increase from year to year the balance in the PRM funds by an amount equal to 1/2 of 1 percent of the current covered payroll of the active employees in the systems. These additional contributions had been deposited into separate accounts in the PERS and TPAF, creating reserve balances. These reserves were used to generate investment income and a cushion against annual budget fluctuations.

Over the past two years, the State has used approximately $327.8 million of PRM reserves to offset State appropriations and there are no longer any reserve assets.

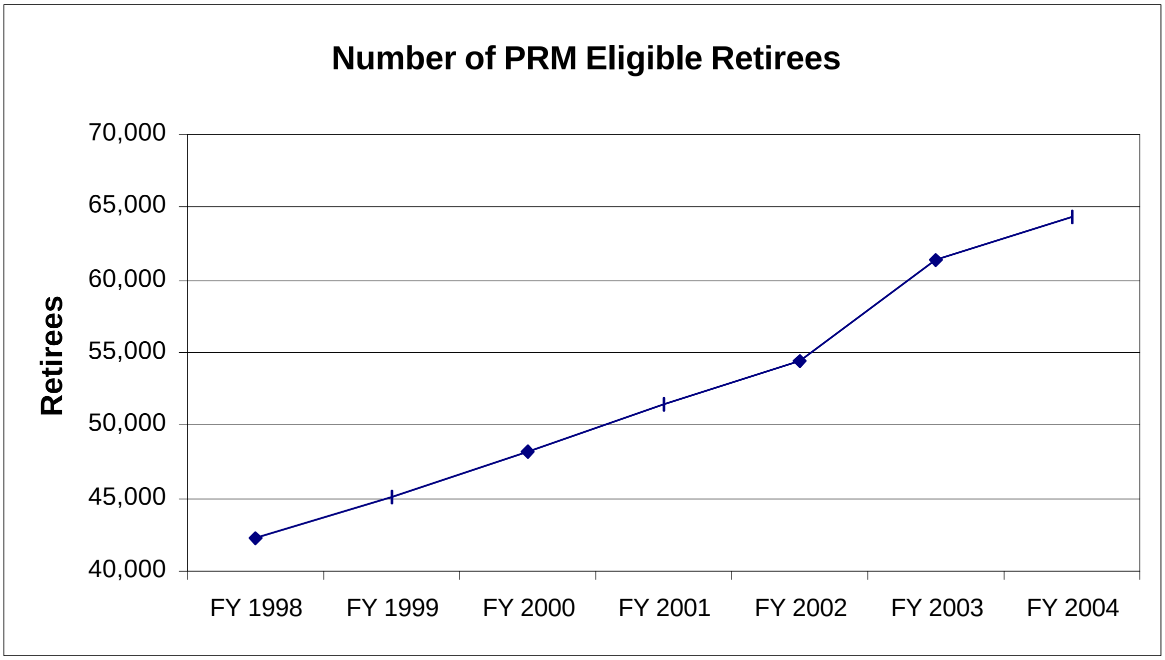
P.L.2002, c. 11 increased the required additional contribution to the PRM benefits funds in the PERS and TPAF from 1/2 of 1 percent to 3/5 of 1 percent of the active members' salary beginning in FY 2004. The amounts necessary to fund this requirement were estimated at $21.1 million and $45.9 million for the PERS and TPAF, respectively. These funds would be used to replenish reserve balances that were depleted in FY 2002 and FY 2003 to help meet current premiums, pursuant to the 2002 law. However, the recommended PRM appropriation does not include this certified $67 million in additional contributions.

Number of PRM Retirees

The number of State retirees eligible for PRM benefits is displayed in Chart 2. For the four years prior to the impact of an Early Retirement Incentive (ERI) program for certain State employees, the number of retirees eligible for PRM benefits increased at a 6.5 percent annual rate, from 42,240 in FY 1998 to 54,493 in FY 2002. Due primarily to the number of State employees who opted for the most recent ERI, the Office of Legislative Services (OLS) estimates that the historical 6.5 percent annual increase in beneficiaries accelerated to a 12.5 percent increase in FY 2003. Based on statistics provided by the Division of Pensions and Benefits, OLS estimates the total number of retirees eligible for PRM benefits rose by 6,832, from the 54,493 recorded in FY 2002 to an estimated 61,325 in FY 2003. OLS estimates that this rise will moderate to about 5 percent from FY 2003 to FY 2004. Thus, in addition to the rate of health care inflation, the increase in the number of PRM eligible retirees has played a significant role in the rising cost to the State.

Background Paper: Post-Retirement Medical Cost Trends (Cont'd)

Chart 2



Source: New Jersey Comprehensive Annual Financial Report FY 1998 - FY 2002. OLS estimate FY 2003 - FY 2004.

New Accounting Standard

Beginning in FY 2008, the Governmental Accounting Standards Board (GASB) will require that employers account for PRM benefits in a manner similar to how pension benefits are currently measured. Although government employers will not have to pre-fund PRM benefits under the new GASB standards, government employers will have to measure the annual appropriation to fund current premiums, and also measure the costs of obligations made to current retirees and future retirees.

Unfunded PRM Accrued Liability

Because PRM benefits are financed on a current, as opposed to actuarial or reserve basis, there is technically no unfunded liability recognized for the value of future PRM obligations that have been promised. Nevertheless, the liability exists. In March 2001, the Division of Pensions and Benefits estimated that the unfunded liability for future PRM benefits payable by the State was estimated to be $8.3 billion in FY 2002, growing to $9.1 billion in FY 2003. However, this liability has probably increased substantially since the time of the last estimate, due to the depletion of the reserve balance and, more significantly, to a rapid increase in the cost of future benefits payable. This cost increase is being driven by the rising number of PRM benefit eligible retirees and the double digit rate of medical inflation. OLS Discussion Point Number 4 requests that the Administration provide an update on the present value of future PRM benefits payable by the State.

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Individuals wishing information and committee schedules on the FY 2004 budget are encouraged to contact:

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