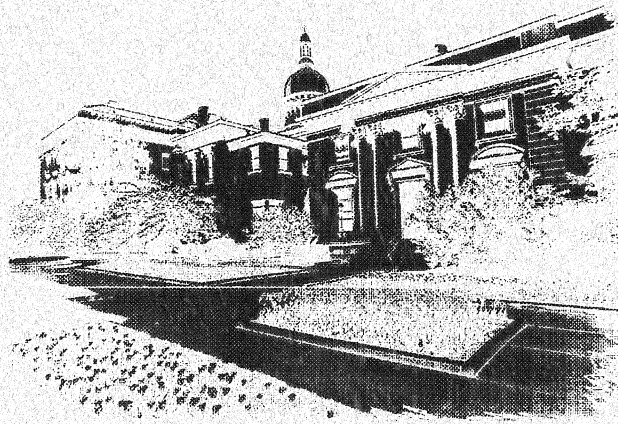


Fiscal Year 1995

*Budget
in
Brief*



Christine Todd Whitman, Governor

Fiscal Year 1995

*Budget
in
Brief*



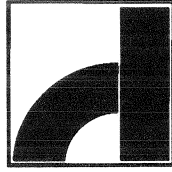
Christine Todd Whitman, Governor

*Brian W. Clymer
State Treasurer*

*James A. Archibald
Deputy State Treasurer*

*Brian T. Baxter
Director
Office of Management and Budget*

MARCH 15, 1994



GOVERNMENT FINANCE OFFICERS ASSOCIATION

*Distinguished
Budget Presentation
Award*

PRESENTED TO

State of New Jersey

For the Fiscal Year Beginning

July 1, 1993

Arnold H. Hahn *Jeffrey L. Eselle*

President

Executive Director

The Government Finance Officers Association of the United States and Canada (GFOA) presented an award for Distinguished Budget Presentation to the State of New Jersey for its annual budget for the fiscal year beginning July 1, 1993.

In order to receive this award, a governmental unit must publish a budget document that meets program criteria as a policy document, as an operations guide, as a financial plan and as a communications device.

The award is valid for a period of one year only. We believe our current budget continues to conform to program requirements, and we are submitting it to GFOA to determine its eligibility for another award.

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STATE OF NEW JERSEY
OFFICE OF THE GOVERNOR
CN-001
TRENTON
08625

CHRISTINE TODD WHITMAN
GOVERNOR

Dear Citizen,

A budget is more than just numbers.

It is the ultimate definition of our policies and priorities as a state. It is the annual process through which state government "puts its money where its mouth is." Only it's not the state government's money. It's your money. Every dollar comes out of your pocket. That's why we have to be more careful about how we spend it.

Government in New Jersey has been spending too much of your money. If I were to follow the pattern of past governors, the state budget I inherited would double to \$32 billion in eight years. That cannot — and will not — happen.

We must cut taxes if New Jersey is going to compete on an equal basis with other states to attract new jobs and, just as important, to keep the jobs we have. That's why this budget includes:

- A 15 percent income tax cut for families earning under \$80,000 and individuals under \$40,000 in 1995, and a tax cut of 6 percent to 7.5 percent for those in higher tax brackets.
- Elimination of all income taxes for those making less than \$7,500 because they need a tax cut the most.
- Termination of a \$40 million business tax surcharge.

These tax cuts require state government to manage with \$589 million less during the year that begins July 1. We will do so by setting clear priorities, by building in long-term fiscal savings, and by managing better.

We are not cutting the state aid and services upon which you depend. In fact, more state dollars will be spent in this budget on programs that reduce property taxes than in the last budget.

We concentrated on preserving services for the poor, the aged and the disabled — those who need government's help the most.

Not everyone will be pleased with this budget.

It is impossible to please everyone.

But this budget starts the process of bringing sanity to government. Starting this year, government will start to live within its taxpayers' means, rather than always increasing its means by raising taxes.

This is just the first step in putting state government on an allowance you can afford. My administration has already begun looking for ways to save money and provide better services this year and in the years ahead.

We will have to make some tough choices on priorities in future years. But we will make them together in budget discussions that bring everyone to the table.

Together, we will cut government spending further.

We will continue to cut taxes. Because it's your money. The more money we can put back in your pocket, the more you will have to spend. And when you spend money in the economy, your dollars create jobs and economic prosperity for all of us.

Thank you.

Yours sincerely,

Christine Todd Whitman

BUDGET SUMMARY

The fiscal year 1995 budget embodies changes that Governor Whitman intends to effect in how New Jersey State government does business. State government will be streamlined, and local government will be provided with the tools and freedom to manage more effectively. The outcome is a decrease in State spending.

The hallmark of this budget is a decrease in the overall tax burden for individuals and corporations in New Jersey. This decrease signals a change in the state's business environment that will result in a revitalized economy, with more jobs and higher incomes for New Jerseyans.

But the budget also recognizes that essential services must be maintained. Residents must continue to be safe

and secure. The neediest citizens must not bear the burden of a streamlined government; in the case of health care, the goal is to increase access while managing costs to a greater degree than has been heretofore achieved.

The fiscal year 1995 budget recommends \$15.4 billion in appropriations. This is a \$123 million decrease from fiscal year 1994 levels. The fiscal year ending surplus is \$453.5 million.

These themes are expanded in the sections that follow. In addition, the last section, the "Components," elaborates the major, on-going functions of State government.

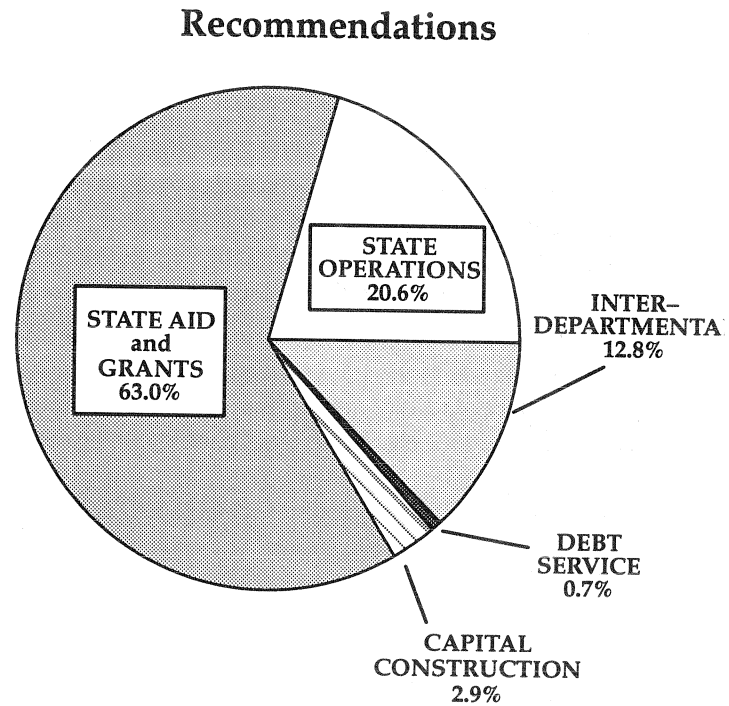
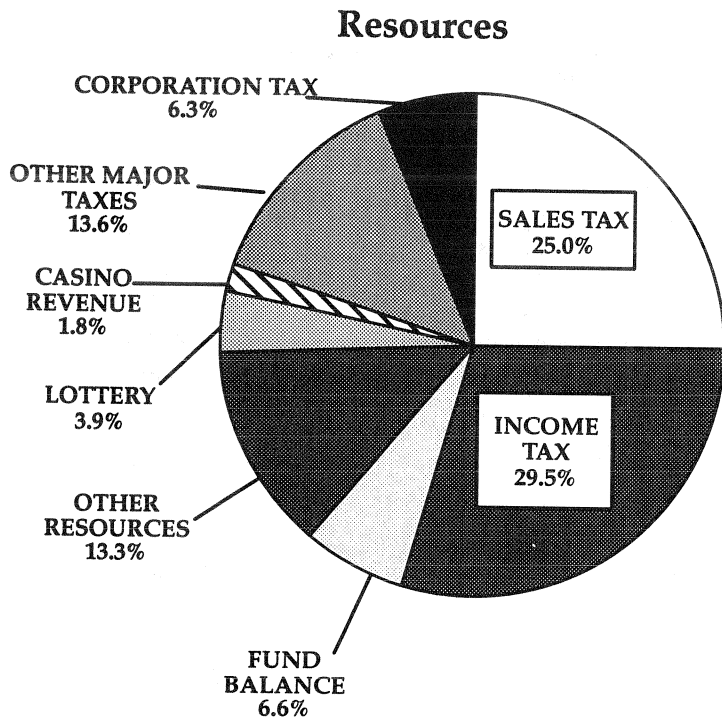
RECOMMENDATIONS BY DEPARTMENT ALL FUNDS (thousands of dollars)

	Direct State Services	Grants In-Aid	State Aid	Capital Construction	Debt Service	Total Recom- mendation
Legislature	51,886	—	—	—	—	51,886
Chief Executive	4,120	—	—	—	—	4,120
Agriculture	8,994	6,832	—	492	—	16,318
Banking	6,632	—	—	—	—	6,632
Commerce and Economic Development	16,788	17,402	7,548	770	3,077	45,585
Community Affairs	24,353	32,114	601,281	—	—	657,748
Corrections	576,320	111,513	—	49,847	—	737,680
Education	33,936	10,887	3,909,688	1,669	—	3,956,180
Environmental Protection and Energy	168,931	—	5,332	26,480	1,342	202,085
Health	32,427	41,082	18,371	1,000	—	92,880
Higher Education	688,854	188,766	123,650	16,729	—	1,017,999
Human Services	592,868	2,926,633	595,276	44,534	—	4,159,311
Insurance	12,449	—	—	—	—	12,449
Labor	49,702	16,496	—	—	—	66,198
Law and Public Safety	379,019	265	9,000	54,584	—	442,868
Military and Veterans Affairs	53,203	1,145	—	6,293	—	60,641
Personnel	28,721	—	—	—	—	28,721
State	59,445	10,500	1,720	730	—	72,395
Transportation	92,075	242,200	19,488	210,600	—	564,363
Treasury	186,203	318,900	314,317	29,070	99,106	947,596
Miscellaneous Executive Commissions	1,800	—	—	2	—	1,802
Inter-Departmental Accounts	1,963,200	—	—	—	—	1,963,200
The Judiciary	104,016	—	163,481	1,200	—	268,697
TOTAL RECOMMENDATION	5,135,942	3,924,735	5,769,152	444,000	103,525	15,377,354

NEW JERSEY BUDGET

RESOURCES AND RECOMMENDATIONS FOR FISCAL YEAR 1995

ALL STATE FUNDS



RESOURCES

	(\$000)
SALES TAX	\$3,950,000
INCOME TAX	4,675,000
CORPORATION and BANK TAX	1,000,000
LOTTERY REVENUE	618,000
CASINO REVENUE	287,000
OTHER MAJOR TAXES:	
Motor Fuels	450,000
Motor Vehicles	390,000
Inheritance	312,000
Insurance Premiums	254,000
Cigarette	214,000
Petroleum Products Gross Receipts	175,000
Public Utilities	133,000
Beverage	80,000
Enhanced Tax Compliance	55,000
Realty Transfer	45,000
Savings Institutions	35,000
Racing	6,000
Tobacco Products Wholesale Sales	4,000
OTHER RESOURCES	2,110,693
SUB-TOTAL	\$14,793,693

FUND BALANCE, JULY 1, 1994

General Fund	\$772,298
Surplus Revenue Fund (Rainy Day)	147,828
Property Tax Relief Fund	93,135
Casino Revenue Fund	23,894
Casino Control Fund	—
Gubernatorial Elections Fund	—

TOTAL **\$15,830,848**

RECOMMENDATIONS

	(\$000)
Human Services	\$4,163,640
Education	3,956,180
Interdepartmental	1,963,200
Higher Education	1,017,999
Treasury	887,465
Corrections	740,869
Community Affairs	657,748
Transportation	516,363
Law and Public Safety	444,375
Judiciary	268,697
Environmental Protection	200,743
Debt Service	103,525
Health	92,880
State	72,395
Other Departments	70,042
Labor	66,198
Military and Veterans' Affairs	60,641
Legislature	51,886
Commerce	42,508

SUB-TOTAL RECOMMENDATION **\$15,377,354**

ESTIMATED FUND BALANCE, JUNE 30, 1995

General Fund	\$303,166
Surplus Revenue Fund	147,828
Property Tax Relief Fund	—
Casino Revenue Fund	1,000
Casino Control Fund	—
Gubernatorial Elections Fund	1,500

TOTAL **\$15,830,848**

Financial Summary of the Fiscal Year 1995 Budget

SUMMARY ESTIMATED REVENUES, EXPENDITURES AND FUND BALANCES GENERAL STATE FUNDS (thousands of dollars)

	Fiscal Year Ending June 30	
	1994 Estimated	1995 Estimated
Beginning Balances July 1		
Undesignated Fund Balances		
General Fund	937,378	772,298
Surplus Revenue Fund	65,328	147,828
Taxpayer Relief Fund	—	—
Property Tax Relief Fund	109,202	93,135
Gubernatorial Elections Fund	(1,694)	—
Casino Control Fund	598	—
Casino Revenue Fund	38,806	23,894
<i>Total Undesignated Fund Balances</i>	<i>1,149,618</i>	<i>1,037,155</i>
State Revenues		
General Fund	9,777,098	9,747,822
Property Tax Relief Fund	4,695,000	4,700,000
Gubernatorial Elections Fund	1,500	1,500
Casino Control Fund	57,371	57,371
Casino Revenue Fund	272,000	287,000
<i>Total State Revenues</i>	<i>14,802,969</i>	<i>14,793,693</i>
Other Adjustments		
General Fund		
Balances lapsed	554,000	—
Prior year balances lapsed	21,000	—
From State Disability Benefit Fund	102,000	—
To Unemployment Compensation Fund	(102,000)	—
To Surplus Revenue Fund	(82,500)	—
To Taxpayer Relief Fund	(150,000)	—
To Property Tax Relief Fund	—	—
To Gubernatorial Elections Fund	(7,994)	—
Miscellaneous	—	—
Surplus Revenue Fund		
From General Fund	82,500	—
Taxpayer Relief Fund		
From General Fund	150,000	—
To Property Tax Relief Fund	(150,000)	—
Property Tax Relief Fund		
From General Fund	—	—
From Taxpayer Relief Fund	150,000	—
Gubernatorial Elections Fund		
From General Fund	7,994	—
Casino Control Fund		
Miscellaneous	(598)	—
Casino Revenue Fund		
Balances lapsed	10,000	—
Miscellaneous	43	—
<i>Total Other Adjustments</i>	<i>584,445</i>	<i>—</i>
<i>Total Available</i>	<i>16,537,032</i>	<i>15,830,848</i>
Appropriations		
General Fund	10,276,684	10,216,954
Property Tax Relief Fund	4,861,067	4,793,135
Gubernatorial Elections Fund	7,800	—
Casino Control Fund	57,371	57,371
Casino Revenue Fund	296,955	309,894
<i>Total Appropriations</i>	<i>15,499,877</i>	<i>15,377,354</i>
Ending Balances June 30		
Undesignated Fund Balances		
General Fund	772,298	303,166
Surplus Revenue Fund	147,828	147,828
Taxpayer Relief Fund	—	—
Property Tax Relief Fund	93,135	—
Gubernatorial Elections Fund	—	1,500
Casino Control Fund	—	—
Casino Revenue Fund	23,894	1,000
<i>Total Undesignated Fund Balances</i>	<i>1,037,155</i>	<i>453,494</i>

Financial Summary of the Fiscal Year 1995 Budget

SUMMARY OF FISCAL YEAR 1994-1995 APPROPRIATION RECOMMENDATIONS (thousands of dollars)

	Fiscal Year 1994 Adjusted Appropriations	Fiscal Year 1995 Recommendations	— Change — Dollar Percent	
GENERAL FUND AND PROPERTY TAX RELIEF FUND				
State Aid and Grants	\$ 9,287,436	\$ 9,397,381	\$ 109,945	1.2%
State Operations				
Executive Departments	\$ 3,036,797	\$ 2,946,081	\$ (90,716)	-3.0%
Legislature	46,885	51,886	5,001	10.7%
Judiciary	104,016	104,016	—	0.0%
Interdepartmental	2,098,656	1,963,200	(135,456)	-6.5%
<i>Total State Operations</i>	<u>\$ 5,286,354</u>	<u>\$ 5,065,183</u>	<u>\$(221,171)</u>	<u>-4.2%</u>
Capital Construction	444,022	444,000	(22)	0.0%
Debt Service	119,939	103,525	(16,414)	-13.7%
TOTAL GENERAL FUND AND PROPERTY TAX RELIEF FUND	<u>\$ 15,137,751</u>	<u>\$ 15,010,089</u>	<u>\$(127,662)</u>	<u>-0.8%</u>
CASINO REVENUE FUND	296,955	309,894	12,939	4.4%
CASINO CONTROL FUND	57,371	57,371	—	0.0%
GUBERNATORIAL ELECTION FUND	7,800	—	(7,800)	-100.0%
GRAND TOTAL STATE APPROPRIATIONS	<u>\$ 15,499,877</u>	<u>\$ 15,377,354</u>	<u>\$(122,523)</u>	<u>-0.8%</u>

SUMMARY OF FISCAL YEAR 1994-95 APPROPRIATION RECOMMENDATIONS BY FUND (thousands of dollars)

Year Ending June 30, 1993					Year Ending June 30, 1995		
Orig. & (S)Supple- mental	Reapp. & (R)Recpts.	Transfers & (E)Emer- gencies	Total Available	Expended	1994 Adjusted Approp.	Requested	Recom- mended
5,101,032	237,398	-1,130	5,337,300	5,207,920	General Fund		
2,843,615	103,013	-30,571	2,916,057	2,859,915	5,286,354	6,019,062	5,065,183
1,525,899	35,901	6,897	1,568,697	1,531,180	3,153,456	3,396,629	3,345,997
167,500	35,308	129	202,937	164,843	1,272,913	1,293,917	1,258,249
444,331	—	—	444,331	209,784	444,022	561,528	444,000
					119,939	103,525	103,525
<u>10,082,377</u>	<u>411,620</u>	<u>-24,675</u>	<u>10,469,322</u>	<u>9,973,642</u>	<u>10,276,684</u>	<u>11,374,661</u>	<u>10,216,954</u>
4,330,995	—	1	4,330,996	4,327,330	Property Tax Relief Fund		
57,371	—	—	57,371	54,566	4,861,067	5,006,605	4,793,135
254,241	42,596	1	296,838	290,395	57,371	57,371	57,371
12,500	—	—	12,500	5,778	296,955	312,870	309,894
					7,800	—	—
<u>14,737,484</u>	<u>454,216</u>	<u>-24,673</u>	<u>15,167,027</u>	<u>14,651,711</u>	<u>15,499,877</u>	<u>16,751,507</u>	<u>15,377,354</u>
					GRAND TOTAL STATE APPROPRIATIONS		

Financial Summary of the Fiscal Year 1995 Budget

SUMMARY OF APPROPRIATIONS MAJOR INCREASES AND DECREASES

This table summarizes the major increases and decreases in the fiscal year 1995 budget, defined as a change of \$1.0 million or more compared to the fiscal year 1994 appropriation. Information is organized by fund and by category.

Categories of appropriations are defined as follows:

State Operations consist of programs and services operated directly by the State government. Funding is largely for the salary and benefits of State employees, as well as faculty and staff at the State colleges and universities. This portion of the budget is subject to the spending limitations imposed by the Cap Law.

Grants-in-Aid expenditures are for programs and services provided to the public on behalf of the State by a third party provider, or are grants made directly to individuals based on assorted program eligibility criteria. The Medicaid program, the Tuition Assistance Program, Homestead Rebates, payments for State inmates housed in county jails, and public transportation aid fall into this category.

State Aid consists of payments to or on behalf of counties, municipalities, and school districts to assist them in carrying out their local responsibilities. In addition to School aid, this category of expenditure includes the Municipal Revitalization program, the Supplemental Municipal Property Tax Relief program, and other forms of municipal aid. It also includes funding for county colleges, and local public assistance and county psychiatric hospital costs.

Debt Service payments represent the interest and principal on capital projects funded through the sale of bonds.

Capital Construction represents pay-as-you-go allocations for construction and other infrastructure items.

APPROPRIATIONS MAJOR INCREASES (\$ In Millions)

GENERAL FUND AND PROPERTY TAX RELIEF FUND

State Operations		
Salary and Other Benefits (increments and COLA)		167.5
Gross Increase	217.5	
Less: Savings from attrition	(50.0)	
Local Examination and Discrimination Adjudication		8.0
Legislature		5.3
Office of Parole		2.2
Travel and Tourism		1.1
Subtotal State Operations		184.1
Grants-In-Aid		
Medicaid Program		203.4
Corrections — County Backup		26.0
Mental Health — Community Services		10.7
DYFS — Community Programs		5.8
Tuition Aid Grants		4.2
Subtotal Grants-in-Aid		250.1
State Aid		
State Assumption of County Court Costs		163.5
Income Maintenance		18.5
Subtotal State Aid		182.0
Other Increases (Net)		7.8
Grand Total All Funds (Major Increases)		624.0

MAJOR DECREASES

State Operations		
Employee Benefits		323.5
State Highway Facilities		22.4
Unused Sick Leave — Early Retirement		16.0
Higher Education — Institutions		11.5
Department of the Treasury (Various Programs)		9.9
Gubernatorial Elections Fund		7.8
Higher Education — Office of the Chancellor		7.4
Department of Health (Various Programs)		5.4
Department of Law and Public Safety (Law Enforcement)		5.4
Katzenbach School (Tuition Offset)		5.2
Division of Youth and Family Services		2.8
Public Broadcasting		2.0
Department of Community Affairs (Various Programs)		1.8
Department of Labor (Various Programs)		1.8
Department of Law and Public Safety (Consumer Affairs)		1.6
Human Resource Development Institute		1.5
Department of Insurance (Various Programs)		1.4
Subtotal State Operations		427.4

Financial Summary of the Fiscal Year 1995 Budget

Grants-in-Aid	
Homestead Rebates	10.0
NJ Transit	7.0
Aid to Independent Colleges and Universities	5.0
Pharmaceutical Assistance to the Aged and Disabled	4.5
Labor — Summer Challenge Program	3.0
Judiciary Grant Programs	3.0
Corrections — Facilities Use Agreements	3.0
Science and Technology	2.8
Fairleigh Dickinson — Special Aid	2.4
Division of Developmental Disabilities — Community Programs	2.1
Income Maintenance Programs	2.0
Youth Apprenticeship Program	2.0
Lifeline Programs	1.8
Boarding Home Rental Assistance	1.6
<i>Subtotal Grants-in-Aid</i>	<u>50.2</u>
State Aid	
Aid to Education	43.7
Aid to Densely Populated Municipalities	8.0
County Psychiatric Hospitals	9.4
Services to State Owned Properties (Additional Payments)	7.0
Safe and Secure Communities Program	6.0
<i>Subtotal State Aid</i>	<u>74.1</u>
Debt Service	16.4
<i>Grand Total All Funds (Major Decreases)</i>	<u>568.1</u>

Economic Forecast and Revenue Projections

ECONOMIC REVIEW

The primary goal of this administration is to secure the economic future of New Jersey. If the State's economy is left unattended, it is projected that pre-recession levels of employment will not be attained until well into the future. This budget seeks to improve that forecast by initiating steps to accelerate New Jersey's recovery and expand the total State economy.

TAX REDUCTIONS

The first order of business is the reduction of personal and corporate tax rates. The income tax reductions, signed into law on March 7, 1994, are the first in New Jersey history and are designed to increase the state's competitiveness. In concert with other initiatives included in this budget, such as the elimination of excess bureaucratic regulation, these tax reductions will improve New Jersey's ability to attract and retain business and industry.

Tax reductions transfer economic decision-making from the government to the consumer. They place income in the realm of the competitive marketplace and out of the public sector, which depends on regulations and controls that are often inefficient.

The personal income tax is scheduled to be reduced a total of 30 percent for most taxpayers. The first decrease of 5 percent was retroactive to January 1, 1994. With this budget, the second phase of the tax reduction plan is recommended. An additional 10% reduction for most taxpayers is planned to take effect January 1, 1995. As the table below indicates, the second phase of the cut will be distributed in a progressive fashion, with higher wage earners receiving less of a tax reduction than low wage earners. Individuals earning less than \$7,500 will be totally exempt from the state income tax. Based on

1992 data, the total 30 percent tax cut will lower New Jersey's per capita income tax rank from its current position of 11th highest to a projected rank of 29th, compared with all other states.

A schedule of income tax reductions, by salary range, is provided below.

Manufacturers are continuing efforts to improve efficiency and increase productivity, and in this environment, taxes are a significant factor in deciding whether and where to locate or relocate industrial plants and commercial facilities. To help industry decide in favor of New Jersey, the second tax reduction initiative reflected in this budget reduces the Corporation Tax from 9.375 percent to 9.0 percent of net New Jersey income.

NATIONAL ECONOMY— OVERVIEW

For the U.S. as a whole, general economic performance improved considerably in 1993, particularly in consumer-driven sectors. The uneven and hesitant growth between 1990-1992 has become a steady, but moderate, economic expansion.

Continued low interest rates were a key factor in this recovery. The decline in rates spurred spending on housing and automobiles, and investment in business. The lowest mortgage rates in twenty years prompted millions of homeowners to refinance existing debt, which improved consumer cash flow and accelerated spending on goods and services. During the last months of 1993, spending on consumer durable goods was up at an annual rate of 14 percent, due to substantially increased demand for new cars, furniture and appliances.

CUMULATIVE RATE REDUCTION*

MARRIED FILING JOINTLY, HOUSEHOLD HEAD, SURVIVING SPOUSE			SINGLE FILERS, MARRIED FILING SEPARATELY		
TAXABLE INCOME	1994	1995	TAXABLE INCOME	1994	1995
<i>\$7,500 – \$80,000</i>	5.0%	15.0%	<i>\$3,750 – \$40,000</i>	5.0%	15.0%
<i>\$80,000 – \$150,000</i>	5.0%	7.5%	<i>\$40,000 – \$75,000</i>	5.0%	7.5%
<i>more than \$150,000</i>	5.0%	6.0%	<i>more than \$75,000</i>	5.0%	6.0%

* In addition, households with gross income between \$3,000 and \$7,500 (\$1,500 to \$3,750 for married filing separately) will not have to pay any income tax starting in 1994.

Economic Forecast and Revenue Projections

Businesses increased investment in new equipment at an annual rate of 25 percent during the fourth quarter of 1993. Most of this was targeted for information processing and industrial equipment needed to improve business efficiency and global competitiveness. Investment in nonresidential facilities, which had been relatively static due to excess capacity in some regions, also increased by 11 percent.

The growth of real Gross Domestic Product (GDP), the most inclusive measure of economic activity available, is expected to be more than 3 percent, compared with 2.1 percent in 1992. Employment has moved past the pre-recession levels of 1990, and in 1993, personal income was up 4.7 percent. Retail sales grew 5.7 percent compared with 1992, the best performance in four years and the second consecutive year of improvement.

THE NEW JERSEY ECONOMY – OVERVIEW

New Jersey's recession was more severe than in much of the nation and its recovery has been more uneven. Although the state's economy is now recovering at a moderate rate, it still lags significantly behind the national pace.

Most of the economic forces affecting the national economy are at work in New Jersey. Several areas appear to be leading the improved performance. Home building is increasing and business has been expanding in the service sector, consumer spending on durable goods and consumer items has been increasing compared with prior years levels, and an increased number of manufacturers are tooling up in response to rising orders for both consumer goods and equipment. Public investment in roads, bridges, and other infrastructure is also contributing to the recovery.

In terms of employment, there has been substantial improvement since the summer of 1992. Employment gains have occurred in most sectors, except manufacturing. The largest gains have been recorded by health-care providers, personnel supply agencies and firms dispensing data processing, accounting, engineering and other kinds of business services. Low interest rates spurred construction activity and employment has increased significantly in that category. However, even with the recent gains, employment levels are still 200,000 below the 1989 peak.

ECONOMIC FORECAST– NEW JERSEY

New Jersey is projected to recover at generally the same rate as the nation, although reaching a lower level, at least in the short term. Employment levels are expected to continue the reversal started late last year with average annual employment increasing by more than 50,000 jobs in 1994. Overall levels of economic activity, measured by employment, retail sales, housing starts, and new car sales will accelerate as pent-up consumer demand is released.

The forecast for 1994 and early 1995 is based on the following assumptions:

- A long-term economic expansion has started;
- The State's personal income growth will improve in the range of 6 to 7 percent;
- Employment has stabilized and levels are expected to improve, and ;
- The unemployment rate will continue to fall from its 1992 peak.

Retail sales growth, including durable goods, will show a stronger recovery throughout 1994 prompted by growth in personal income and improving employment prospects.

The combination of these factors will produce increases in economically sensitive tax receipts.

It should be noted that, even though this budget incorporates a number of economic stimuli, there is only so much that can be managed at the state level. The single most important factor affecting New Jersey's economy continues to be the national economy, meaning that New Jersey too depends on continued low inflation, low interest rates, and a controlled national deficit.

The accompanying tables display trends in key economic categories: sales, housing starts, employment levels, automobile registrations, and income patterns based on actual information for 1993, and estimates associated with the economic effects of the tax reductions and other economic stimuli. In calendar 1993, sales of durable goods and total sales increased compared with 1992 but did not reach levels forecast in last year's budget. Current data, however, show employment increasing to more than 3.5 million jobs in 1995 and continued improvement in income patterns lending credence to perceptions of improved consumer confidence.

Economic Forecast and Revenue Projections

NEW JERSEY CONSUMER DEMAND PATTERNS CALENDAR 1982 - 1995 (DURABLE GOODS SALES AND TOTAL SALES)

(\$ in billions)

	DURABLE GOODS	ANNUAL PERCENT CHANGE	TOTAL SALES	ANNUAL PERCENT CHANGE
1982	\$11.82		\$35.59	9.8%
1983	13.16	11.3%	40.43	7.6
1984	15.10	14.8	44.35	9.7
1985	17.54	16.2	48.19	8.7
1986	20.86	18.9	52.47	8.9
1987	22.77	9.2	57.10	8.8
1988	24.53	7.7	62.39	9.3
1989	24.81	1.2	64.43	3.3
1990	25.72	3.7	66.62	3.4
1991	24.55	-4.6	65.96	-1.0
1992	24.94	-1.6	67.70	2.7
1993 *	25.24	4.5	68.45	1.1
1994 Projected	27.96	10.8	73.58	7.5
1995 Forecast	30.23	8.1	78.09	6.1

*Based on year-to-date actuals.

Source: New Jersey Division of Taxation.

Economic Forecast and Revenue Projections

NEW JERSEY EMPLOYMENT PATTERNS CALENDAR 1980 - 1995 (000's)

	EMPLOYMENT LEVELS	ANNUAL PERCENT CHANGE
1980	3,058	1.1%
1981	3,097	1.3
1982	3,091	-0.2
1983	3,163	2.3
1984	3,325	5.1
1985	3,412	2.6
1986	3,486	2.2
1987	3,576	2.6
1988	3,651	2.1
1989	3,689	1.1
1990	3,635	-1.5
1991	3,498	-3.8
1992	3,441	-1.7
1993 *	3,407	-1.0
1994 Projected	3,463	1.7
1995 Forecast	3,531	2.0

*Based on year-to-date actuals.

Source: New Jersey Division of Taxation.

NEW JERSEY HOUSING STARTS CALENDAR 1980 - 1995

	UNITS	ANNUAL PERCENT CHANGE
1980	22,900	
1981	21,070	-8.0%
1982	21,370	1.4
1983	34,390	60.9
1984	43,680	27.0
1985	57,470	31.6
1986	63,450	10.4
1987	53,710	-15.4
1988	44,040	-18.0
1989	31,980	-27.4
1990	20,540	-35.8
1991	15,560	-24.3
1992	18,000	15.7
1993 *	20,580	14.3
1994 Projected	28,080	36.4
1995 Forecast	31,860	13.5

*Based on year-to-date actuals.

Source: New Jersey Division of Taxation.

NEW JERSEY PERSONAL INCOME PATTERNS CALENDAR 1980 - 1995 (\$ in billions)

	TOTAL PERSONAL INCOME	ANNUAL PERCENT CHANGE
1980	\$ 85.9	12.8%
1981	96.6	12.4
1982	104.4	8.1
1983	113.5	8.7
1984	125.8	10.9
1985	135.9	8.0
1986	146.1	7.6
1987	157.6	7.8
1988	172.7	9.6
1989	184.0	6.5
1990	193.7	5.3
1991	197.1	1.8
1992	210.1	6.6
1993 *	217.1	3.4
1994 Projected	230.6	6.2
1995 Forecast	245.9	6.6

*Based on year-to-date actuals.

Source: New Jersey Division of Taxation.

NEW AUTOMOBILE REGISTRATIONS CALENDAR 1980 - 1995

	NEW AUTO REGISTRATIONS	ANNUAL PERCENT CHANGE
1980	364,190	-2.6%
1981	317,830	-12.7
1982	325,880	2.5
1983	349,260	7.2
1984	433,050	24.0
1985	456,580	5.4
1986	551,160	20.7
1987	494,290	-10.3
1988	463,830	-6.2
1989	416,280	-10.3
1990	372,560	-10.5
1991	327,740	-12.0
1992	318,630	-2.8
1993 *	357,860	12.3
1994 Projected	390,310	9.1
1995 Forecast	417,790	7.0

*Based on year-to-date actuals.

Source: New Jersey Division of Taxation.

REVENUE FORECAST

Revenue for fiscal year 1995 is estimated at \$14.79 billion, a decrease of \$9.3 million or .06 percent below the revised fiscal year 1994 revenue estimates. When combined with the opening balance of \$1.037 billion, including \$147.8 million in the Rainy Day Fund, projected resources total \$15.8 billion.

REVISIONS TO FISCAL YEAR 1994 ANTICIPATED REVENUE

The current estimate of \$14.79 billion in total revenues is \$213 million less than when appropriations were finalized in June 1993. The greatest shortfalls were in the three largest taxes: Sales, Income, and Corporate. Sales tax collections, now estimated at \$3.78 billion, are \$140 million less than anticipated. This is primarily due to the continued sluggish pace of economic recovery in the northeast, and New Jersey in particular. Corporate tax collections are now estimated at \$965 million, \$135 million less than anticipated. This decrease is due, in part, to corporate restructuring charges which have impacted corporate earnings. It is also affected by tax reduction legislation that was passed last year. Income tax revenues are estimated at \$4.67 billion, \$78 million less than the \$4.75 billion projected. The expected collections in the three major taxes are somewhat offset by gains in other taxes, such as the Bank and Financial Institutions tax and the Insurance Premium tax.

FISCAL YEAR 1995 REVENUE PROJECTIONS

For fiscal year 1995, the yield from the sales tax is projected to increase, corporate taxes are expected to decrease, and all other revenues, including the personal income tax, are generally expected to remain stable.

Sales tax revenues are projected to increase by 4.5 percent above the revised fiscal year 1994 anticipation of \$3.78 billion, to \$3.95 billion. As the accompanying tables indicate, the adjusted rate of change in the sales tax tracks with aggregate changes in total sales. The fiscal year 1995 tax estimate is predicated on consistent, moderate growth in sales, particularly in durable goods. This improvement is related, in large part, to increases in housing starts in calendar 1993 and 1994, compared to prior year levels. With improved employment prospects and continued low long-term interest rates, housing sales — and associated sales of durable goods like appliances and home furnishings — are expected to grow steadily. Automobile sales are also expected to increase at a moderate rate over the next eighteen to twenty-four months. Offsetting these expected increases are several adjustments that will lower total sales tax collections by approximately \$23 million.

These include losses associated with the creation of new Urban Enterprise Zones, and an expected increase in the federal tax on cigarettes which will result in lower sales.

The personal income tax is projected to increase marginally above the revised fiscal year 1994 level, from \$4.67 billion to \$4.68 billion, even though this estimate incorporates a \$549 million reduction related to the cut in the personal income tax rates. Improved economic conditions stemming from projected increases in total hours worked, targeted public investment in infrastructure, and an improved regulatory environment will combine to expand the number of private sector jobs and relative income levels. Long-term benefits derived from the reduced income tax rates are expected to offset short-term reductions in income tax collections.

Projected General Fund revenues from Motor Vehicle fees total \$390 million in fiscal year 1995. Included are \$60 million in additional revenues in several of the fees, some of which have not been changed in more than 20 years. The proposed fee package, which includes driver's license, title, and registration fees, will require legislative or regulatory changes.

Even though profits and the general business climate are improving, revenues from the corporation tax are expected to decrease by 7.8 percent, or \$75 million, to a total of \$890 million. This decrease is associated with the economic development legislation passed in 1993 and the expiration of the corporation surtax.

Another significant revenue source expected to decline is Public Utility Gross Receipts and Franchise tax. Collections will decline by \$426 million compared to fiscal year 1994 in accordance with the collection date changes that were legislated in 1991.

MAXIMIZING FEDERAL REIMBURSEMENTS

The State has aggressively pursued maximizing the amount of federal reimbursement received for services and costs provided. Toward this end several changes will be made in the way the State bills the federal government for its share of the costs of operating the State developmentally disabled and mental health institutions. These changes will add an additional \$24 million in reimbursements to the State. Of this amount, approximately \$16 million represents reimbursement for prior periods and the remainder will be received each future fiscal year.

In addition, as part of a major new initiative, the Departments of Education and Human Services have been collaborating on a project to obtain Medicaid Title

Economic Forecast and Revenue Projections

XIX federal reimbursement for medical services currently provided to special education children in our schools. The health services to be covered are those associated with special education, including the evaluation which is part of the development of the child's education program and a number of related services provided to the pupil. This year's budget includes \$45 million in revenue for this reimbursement and authorizes sharing any revenue received with the school districts.

NEW JERSEY LOTTERY REVENUE

In fiscal year 1995 the State Lottery is estimated to generate \$618 million. A revenue to the General Fund, it is used to support programs in State institutions, education and higher education.

SURPLUS REVENUE FUND (RAINY DAY FUND)

The Surplus Revenue Fund Act (P.L. 1990, c. 44)

requires that the Governor include in her annual budget to the Legislature an estimate of the credit to be made to the Surplus Revenue Fund. The amount estimated by the Governor for this purpose shall not be less than 50 percent of the difference between the amount certified by her as anticipated General Fund revenue, upon approval of the Fiscal Year 1994 Appropriations Act, and the revised amount of General Fund revenue for Fiscal Year 1994 anticipated in the fiscal year 1995 budget. The certified General Fund revenue anticipation in the Fiscal Year 1994 Appropriations Act was \$9.9 billion. The revised estimate for fiscal year 1994 anticipated General Fund revenue is \$9.8 billion, a \$100 million decrease. Hence, this budget includes no new appropriations for this fund, which has a current balance of \$147.8 million.

ANTICIPATED REVENUES (\$ in millions)

	<u>Estimated FY 1994</u>	<u>Estimated FY 1995</u>
Major Taxes:		
Income Tax	4,670.0	4,675.0
Sales Tax	3,780.0	3,950.0
Corporation Business Tax	965.0	890.0
Other Major Taxes & Fees:		
Motor Fuels	421.0	442.0
Motor Vehicle Fees	330.0	390.0
Transfer Inheritance	307.0	312.0
Cigarette	244.0	214.0
Insurance Premium	260.0	254.0
Petroleum Products Gross Receipts	175.0	175.0
Public Utility Excise	139.0	133.0
Enhanced Tax Compliance Effort	95.0	55.0
Alcoholic Beverage Excise	80.0	80.0
Banks/Financial Institutions	100.0	110.0
Realty Transfer	42.0	45.0
Savings Institutions	30.0	35.0
Motor Fuel Use	8.0	8.0
Business Personal Property	8.0	—
Pari-mutuel	6.0	6.0
Tobacco Products – Wholesale	4.0	4.0
Miscellaneous Taxes & Fees:		
Public Utility Gross Receipts and Franchise Tax	786.0	360.0
Medicaid/Uncompensated Care – Ongoing	461.1	427.2
Inter-Departmental Accounts	336.5	211.5
Human Services	66.5	138.5
All Other Miscellaneous	397.2	604.2
Interfund Revenues:		
State Lottery Fund	590.0	618.0
All Other Interfund	170.8	310.4
Casino Revenue Fund	272.0	287.0
Casino Control Fund	57.4	57.4
Gubernatorial Election Fund	1.5	1.5
Total Revenue	14,803.0	14,793.7

Economic Forecast and Revenue Projections

REVENUE PROJECTIONS FOR FISCAL YEAR 1994 – 1995 THREE MAJOR TAXES (\$ in millions)

	ORIGINAL FISCAL YEAR 1994	REVISED FISCAL YEAR 1994	FISCAL YEAR 1995	DOLLAR CHANGE	PERCENT CHANGE
Sales	\$3,920	\$3,780	\$3,950	\$170	4.5%
Income	4,748	4,670	4,675*	5	.1
Corporation	1,100	965	890*	(75)	(7.8)

* Amounts include the impact of tax reduction policies.

ADJUSTED RATE OF CHANGE IN THE THREE MAJOR TAXES FISCAL 1982 – 1995*

	Sales	Income	Corporation**
1982	8.5%	13.8%	0.3%
1983	10.3	9.0	-1.9
1984	15.3	12.8	22.4
1985	14.5	11.7	19.8
1986	11.9	12.9	12.0
1987	11.6	12.4	-0.6
1988	8.0	10.2	9.4
1989	0.6	13.5	12.5
1990	1.5	1.9	-11.1
1991	-8.0	4.7	-10.1
1992	0.6	1.2	1.1
1993	5.5	5.5	4.7
1994 Projected	3.5	8.0	7.5
1995 Projected	5.1	10.8	7.4

*Percentage change based on collections adjusted for rate, base, or one-time collection changes to permit comparison to the prior year's base.

**Net tax liability.

Source: New Jersey Division of Taxation

Policy Initiatives

TOWARD A MORE EFFICIENT GOVERNMENT

Fundamental to the economic reforms supported by this Administration is the redirection of personal income back into the individual's pocketbook. To achieve this, State government must implement fundamental changes that reduce costs while maintaining critical services.

Government must change its business practices to take advantage of opportunities in an expedited fashion. Opportunities exist with respect to changes in the economy, as well as a rethinking of governmental administration and public finance. For example, the recent slowdown in the rate of health care inflation impacts throughout the public sector, from the financing of health care programs to the long-term funding of its pension systems.

The underlying principle of privatization is the placement of public services into the private sector, thereby allowing competitive market forces to operate. This increases the likelihood that services will be delivered at the lowest cost possible while maintaining quality.

Ongoing initiatives associated with streamlining government must be raised to a new level through a pro-active effort to pare nonessential services and to sharpen the mission of departments and agencies throughout State government. New Jersey must also continue to aggressively pursue opportunities to increase federal resources in order to reduce State costs while improving the quality of services. In this rethinking of the role and responsibility of State government, it is essential that savings are ongoing and

growing, and most importantly, redirected to the taxpayer. Toward this end, the budget recommends several changes:

- It recommends changing the method of funding used for public pension systems, thereby establishing more appropriate annual payments that create savings for the taxpayer while maintaining benefits for future retirees. The changes are largely attributable to lower health care costs.
- Other health care reform initiatives include conversion of Medicaid service delivery to a managed care approach, application of Medicare cost principles to certain services, and moving toward competitive bids for services.
- It reduces by two the number of State Departments. The Department of Higher Education will be eliminated, with remaining functions transferred to other entities. A number of functions within the Department of the Public Advocate will be eliminated or privatized, with the principal function – that of the Public Defender – transferred to the Department of State.
- Initiatives that privatize selected day care services, federally mandated advocacy services for the developmentally disabled, and State marinas are included in the budget.
- The State's revenue budget includes initiatives that will increase federal revenue in the areas of school based medicaid services.

DEPARTMENT OPERATING BUDGETS (\$ in thousands)

	FY 1994 Adjusted Appropriation	FY 1995 Recommendation	Difference	% Difference
EXECUTIVE AGENCIES:				
Governor's Office	\$5,149	\$4,120	(\$1,029)	-20.0%
Agriculture	\$8,994	\$8,994	\$0	0.0%
Banking	\$6,632	\$6,632	\$0	0.0%
Commerce	\$18,143	\$16,788	(\$1,355)	-7.5%
Community Affairs	\$26,186	\$24,353	(\$1,833)	-7.0%
Corrections and Parole	\$576,828	\$576,320	(\$508)	-0.1%
Education	\$38,887	\$33,936	(\$4,951)	-12.7%
Environmental Protection & Energy	\$170,998	\$168,931	(\$2,067)	-1.2%
Health	\$37,786	\$32,427	(\$5,359)	-14.2%
Higher Education	\$707,924	\$688,854	(\$19,070)	-2.7%
Human Services	\$598,543	\$592,868	(\$5,675)	-0.9%
Insurance	\$13,849	\$12,449	(\$1,400)	-10.1%
Labor	\$51,524	\$49,702	(\$1,822)	-3.5%
Law and Public Safety	\$395,250	\$379,019	(\$16,231)	-4.1%
Military & Veterans Affairs	\$54,523	\$53,203	(\$1,320)	-2.4%
Personnel	\$30,813	\$28,721	(\$2,092)	-6.8%
State	\$61,895	\$59,445	(\$2,450)	-4.0%
Transportation	\$116,375	\$92,075	(\$24,300)	-20.9%
Treasury	\$195,588	\$186,203	(\$9,385)	-4.8%
Mis. Exec. Commissions	\$1,075	\$1,800	\$725	67.4%
Total Executive Departments	\$3,116,962	\$3,016,840	(\$100,122)	-3.2%

PENSION SYSTEM REFORM

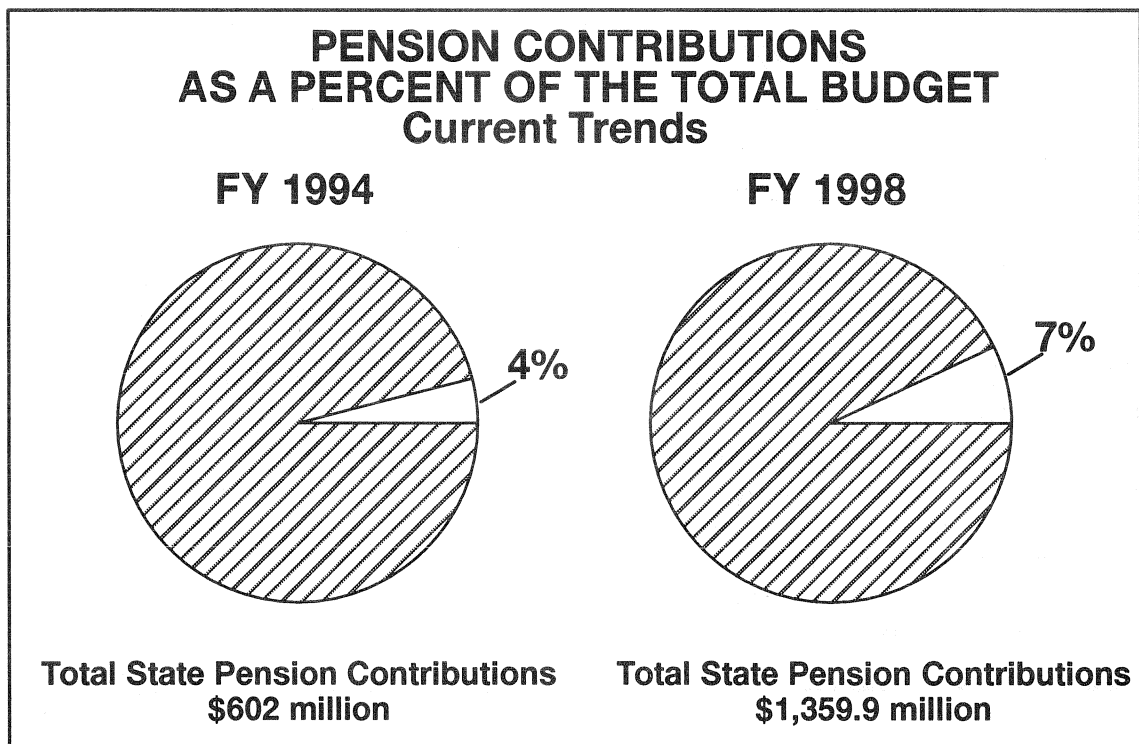
The proposed budget anticipates several changes to fund more accurately and appropriately long-term pension requirements. They are based on the following principles:

Pension System Reform Principles

- Pension and Health Benefits should not be altered
- Actuarial assumptions should reflect current economic conditions

- One time savings should be avoided
- Independent actuaries should agree with reforms.

The chart below displays the impact of pension costs on the State budget between fiscal year 1994 and fiscal year 1998 if current funding patterns continue. The obvious consequence is that more of the budget will go for pension needs, and less money will be available for services provided by the government.

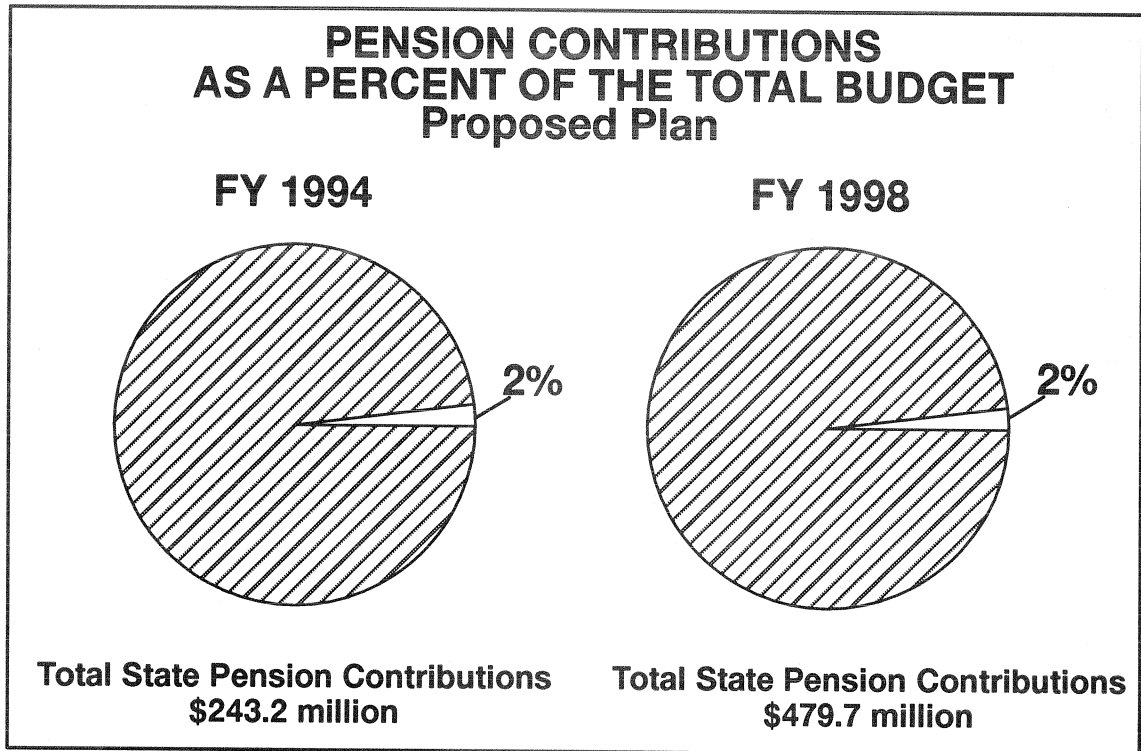


In order to address this problem six proposals will be recommended in separate legislation:

1. Eliminate pre-funding of post retirement medical benefits and switch to a pay-as-you-go method;
2. Decelerate the pre-funding of the cost-of-living adjustment;
3. Switch from the current entry age method of funding pensions to a "unit credit" method;
4. Extend the period for amortizing the unfunded liability in the pension system;
5. Extend the phase-in period for recognizing revised actuarial assumptions in the teachers' pension system;
6. Eliminate the two percent employee pension subsidy due to Social Security.

These savings reduce the fiscal year 1995 appropriations by \$736 million. The savings are continuous. When measured against actuarially determined costs, the changes, would save approximately \$880 million in fiscal year 1998.

As the following chart indicates, the pension changes will stabilize pension costs with respect to the overall budget.



1. Prefunding of Post Retirement Health Care Coverage

The State currently provides 100 percent of the cost of post-retirement medical (PRM) coverage for certain retired employees. In particular, a retired State employee under Public Employees Retirement System (PERS) and retired teachers and other employees of local boards of education under the Teachers' Pension

and Annuity Fund (TPAF) and PERS who have completed 25 years of service or who are retired under the disability provision of these programs are covered for medical benefits after retirement. This coverage includes the cost of the sponsor provided benefits, as well as the Medicare Part B premium. For the 1995 fiscal year, the estimated annual costs per individual are as follows:

Coverage	PERS		TPAF	
	Pre 65	Post 65	Pre 65	Post 65
Single Retiree	\$2,785	\$1,459	\$2,710	\$1,445
Retiree w/Spouse	5,960	4,085	5,903	3,938
Retiree w/Family	7,093	5,154	6,902	4,857
Medicare Part B	N/A	523	N/A	523

History: State employees began to receive post-retirement medical coverage in 1972. In 1987, the decision was made to extend PRM benefits to TPAF members and to pre-fund the benefits (as well as post-retirement COLA benefits) under the retirement system. To this

end, liabilities for retirees were fully recognized and were to be funded through the annual contributions. Under the 1987 package, liabilities would be fully funded by the year 2017.

The pension refinancing package, adopted effective with the 1990 valuations, changed a number of aspects of the existing funding policy. Among the changes was an acceleration of the recognition of the active employee post-retirement medical (PRM) liability. Full recognition would occur in the year 2004. However, Chapter 8, P.L. 1993 revised this schedule further. Full recognition of liability would occur by the year 2003. This schedule remains in effect today. The various accelerations have had the effect of increasing appropriations (the annual payment to the pension systems) by substantial amounts.

Proposal: Revert to pay-as-you-go funding of this benefit.

Rationale for Change: Since 1990, two very dramatic and related developments have occurred.

First, medical inflation rates have decreased dramatically from the mid-to-high teens (or more) to a level which is below six percent. In the case of the State's increases, the latest annual renewals for fiscal year 1995 show a negative impact; i.e., reduced rates for this coverage.

Health Insurance Inflation Assumptions

<u>Valuation Year</u>	<u>Current Assumption</u>	<u>Proposed Assumption</u>
1993	12%	8.0%
1994	12%	7.5%
1995	12%	7.0%
1996	12%	6.5%
1997	12%	6.0%
1998	12%	6.0%
1999	12%	6.0%
2000 and after	7%	6.0%

Presently only seven states prefund post-retirement medical benefit costs. Large systems that do not pre-fund medical benefit costs include, Pennsylvania, Illinois, Ohio,

New York, Connecticut, Massachusetts, and Florida. The proposals will reduce appropriation needs over the next five years.

Savings:

Fiscal Year	State Budget
1994	\$268 million
1995	341 million
1996	376 million
1997	306 million
1998	327 million

2. Decelerate the Prefunding of Cost-of-Living Adjustments (COLA's)

Program Description: Public pension system retirees receive annual COLAs equal to 60 percent of the change in the Consumer Price Index.

History: Beginning in 1970, annual COLA adjustments in the pensioners' benefit were instituted. These COLA benefits were paid by government employers on a pay-as-you-go basis.

Beginning with the TPAF in 1987, pre-funding of the COLA through the retirement systems was initiated. Pre-funding of COLA under the Police and Firemen's Retirement System (PFRS) was begun in 1989, and under the PERS in 1988. The pension revaluation legislation in 1992 provided for pre-funding COLA and post-retirement medical benefits for members of the State Police Retirement System (SPRS) and the Judicial Retirement System (JRS) beginning in fiscal year 1995.

To avoid dramatic increases in current pension contributions (related to the full funding of the liability) a phase-in schedule was adopted. Under TPAF, the phase-in period was initially set at 30 years beginning in 1987, and under PERS, at 25 years beginning in 1988. However, the recent pension restructuring accelerated the phase-in of the COLA liability. This, like the post retirement change, placed a substantial burden on the budget.

Policy Initiatives

Proposal: Revert to the phase-in policy prior to the 1992 pension reform. The proposal will reduce appropriation needs on an ongoing basis.

Savings:

Fiscal Year	State Budget	Local Government
1994	\$33 million	\$57 million
1995	88 million	62 million
1996	53 million	67 million
1997	64 million	72 million
1998	75 million	77 million

3. The Unit Credit Funding Method

Program Description: There are a number of acceptable actuarial funding methods used in connection with the budgeting of pensions costs. These are budgeting tools — the various methods simply affect the timing of contributions.

Methods include the “entry age” funding method (the current State method) and the “unit credit” funding method (the proposed method).

The entry age method determines the liability for future service based on the value of contributions that would have been payable during an employee’s entire career in order to fund his or her pension. This method calculates the annual payment as a constant percentage of his/her career earnings.

The unit credit funding method, on the other hand, funds only the year-to-year increase in liability.

Currently, the State Pension System has used the entry age system since inception. This budget proposes to change the budgeting technique to the unit credit funding method from the entry age funding method. The unit credit funding method allows for changes in actuarial assumptions to be immediately captured in contribution levels. Overall employee levels will decline in the long term. Use of the unit credit funding method will allow the State to realize savings quickly.

Savings:

Fiscal Year	StateBudget
1994	\$ 54.9 million
1995	121.3 million
1996	222.3 million
1997	274.2 million
1998	314.0 million

4. Amortizing the Unfunded Liability — The 40 Year Period

Program Description: A portion of the pension system accrued liability is unfunded. These amounts are funded over a period of time. Present law allows for an amortization period of up to 40 years. Currently, the State uses 30 years. The budget proposes changing the amortization period to 40 years.

Savings:

Fiscal Year	State Budget	Local Government
1994	\$3.7 million	\$21.4 million
1995	28.1 million	22.5 million
1996	10.6 million	10.5 million
1997	11.3 million	11.2 million
1998	11.9 million	11.8 million

5. Extend Phase-in Period for Recognizing Revised TPAF Actuarial Assumptions.

Program Description: Current law mandates that every three years an experience study of each pension system occur in order to revise actuarial assumptions.

New Jersey has a history of extending the period for recognition of actuarial assumption changes. For example, there was a one-year delay and a two-year phase-in for the actuarial changes produced from the study for the period ending March 1988. Changes proposed under a current study were to be phased-in over a two-year period as well. The budget extends the two-year phase-in to five years. Appropriation needs will be reduced.

Savings:

Fiscal Year	StateBudget
1994	\$ —
1995	60 million
1996	56 million
1997	40 million
1998	23 million

6. Elimination of the 2% Employee Pension Contribution Reduction Due to Social Security

Program Description: Public pension benefits were reduced by the amount of social security benefits a retiree received. This “integration” of public pension and social security benefits meant that employees would be overpaying into their pension and social security

systems when compared with the benefits received. To eliminate this inequity, since 1955 New Jersey government employees (State and local government and school districts) under PERS and TPAF have received a subsidy toward their employee pension contributions for Social Security contributions up to the Social Security maximum wage base.

But, in 1966, the integration of the Social Security and Pension Systems was eliminated, meaning that state and local retirees no longer received reduced retiree benefits. However, the two percent reduction in employee pension contributions was not eliminated. No other state in the nation provides this offset without an integration of benefits.

Key Data: Value of the two percent reduction for an employee at the maximum Social Security wage.

1959: \$ 120/yr.
1966: 132/yr.
1994: 1,212/yr.

The budget proposed elimination of the pension subsidy. It will reduce appropriations on an ongoing basis.

Savings:

Fiscal Year	State Budget
1994	\$ —
1995	98 million
1996	114 million
1997	122 million
1998	130 million

Policy Initiatives

PROGRAM REDUCTIONS AND ATTRITION

PROGRAM REDUCTIONS

The State workforce will be reduced by 606 employees as a result of program reductions taken in the budget, saving an estimated \$32 million. These reductions, by department, are shown in the table below.

Department	# of Staff	(In 000's) \$ Savings
Agriculture	9	\$ 320
Science and Technology	1	60
Public Broadcasting	20	1,000
Community Affairs	10	420
Corrections	13	600
Health	25	1,400
Higher Education	56	4,200
Human Services	71	3,500
Law and Public Safety	60	2,840
Military and Veterans' Affairs	26	1,150
Personnel	42	2,100
Public Defender	84	6,420
Office of Administrative Law	3	500
Transportation	108	5,400
Treasury	78	2,200
TOTAL	606	\$32,110

This represents a first step in a concerted effort to review government activities and reduce or eliminate those programs that are marginal or ineffective. Future budgets will utilize performance budgeting as an important tool to determine the allocation of the State's limited resources.

Approximately 150 of the staff affected by these reductions, or 25 percent, are in administrative and management activities. The reductions reflect the elimination of the Department of the Public Advocate, and reassigning certain programs to the Department of State while privatizing other programs. Clearly, there are certain services which are more effectively and efficiently performed by the private sector. Also reflected are changes in the way the State does business in the Department of Higher Education, making it more

consistent with the autonomy granted to our higher education institutions in 1986.

Additionally, this budget effects efficiencies in the delivery of services. For example, in the Department of the Treasury, the Office of Leasing Operations and the Office of Property Management are consolidated, eliminating duplicative services and reducing the workforce by 30 staff. In the area of design and right-of-way, the Department of Transportation will reduce the workforce by 108 positions by restructuring outdated office practices.

The Public Broadcasting Authority is reduced by \$2 million to reflect a greater reliance on fund raising to support the Authority. Further analysis of the privatization of New Jersey's public television network will be undertaken.

This budget removes funding for 31 employees in the Rate Counsel program. The Board of Regulatory Commissioners and the Department of Insurance oversee the rate setting of their respective regulated entities, making additional review by the Rate Counsel redundant. This unit is therefore abolished.

ATTRITION

The budget also includes a fiscal year 1995 savings of \$50 million through a controlled attrition program. This program began in fiscal year 1994 with the issuance of full-time employee targets to each Executive department, the first step in a program to reduce the State workforce. This controlled attrition program will permit departments to replace on average one of three employees who leave, assuming a normal attrition rate of 3,300 employees per year. The allocation of attrition will vary from department to department to assure that the most critical employees, such as direct care workers in the State's institutions, are replaced.

SHIFT TO NON-STATE FUND SOURCES

Another practice being used to reduce the cost of the State workforce is to shift employees to non-State fund sources, such as federal funds or fees. This is being utilized in nine State departments and almost 500 employees will be shifted to non-State fund sources, generating \$20 million in savings in the General Fund.

SIZE OF THE STATE WORKFORCE

The actions reflected in this budget continue an ongoing effort to reduce the size of the State workforce. That workforce peaked late in calendar year 1990 at 71,300 employees. The most current employee count is 65,400, or 5,900 (8.2 percent) below the peak.

Virtually every State department is below the number of employees that were employed during the peak. This reflects a more efficient service delivery system in many cases, since the workload has continued to grow. A

prime example is the Department of Corrections. The number of inmates in state-operated correctional facilities has grown 1,600 during this period while the number of employees in the Department has dropped more than 600.

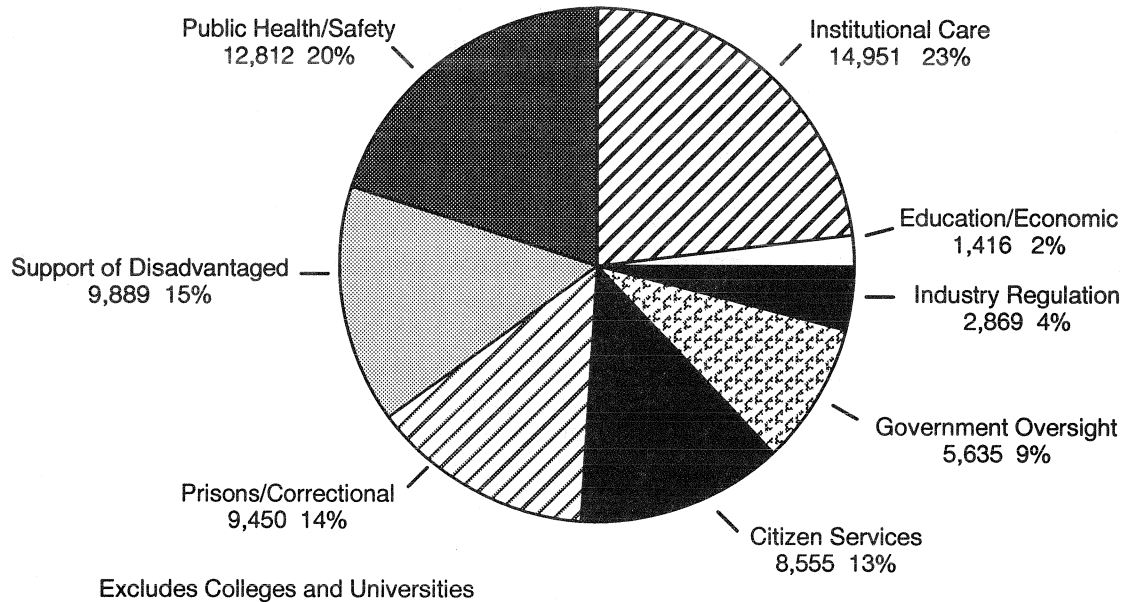
The reduction of the State workforce has been achieved through early retirement initiatives, layoffs and a controlled attrition program. This budget continues two of these initiatives, with a reduction of 540 employees through program eliminations or reductions, and the attrition of 1,100 employees.

**GOVERNMENT SERVICES
AS STAFFED BY NEW JERSEY'S WORKFORCE
(EXCLUDING COLLEGES AND UNIVERSITIES)**

	DEC 1990	FEB 1994	DIFFERENCE	PERCENT
INSTITUTIONAL CARE	16,173	14,951	(1,222)	-7.56
Centers for the Developmentally Disabled	9,549	8,718	(831)	-8.70
Psychiatric Hospitals	5,547	5,061	(486)	-8.76
Veterans' Nursing Homes	1,077	1,172	95	8.82
PUBLIC HEALTH and SAFETY	13,600	12,812	(788)	-5.79
Health	1,690	1,491	(199)	-11.78
Environmental Protection	2,946	2,854	(92)	-3.12
State Police	3,861	3,405	(456)	-11.81
Justice				
- The Courts	1,640	1,667	27	1.65
- Civil	1,508	1,695	187	12.40
- Criminal	1,619	1,405	(214)	-13.22
National Guard and Veteran Programs	336	295	(41)	-12.20
SUPPORT FOR THE DISADVANTAGED	10,706	9,889	(817)	-7.63
Unemployment, Disability, Employment Services	3,796	3,776	(20)	-0.53
Youth and Family Services	3,739	3,261	(478)	-12.78
Medical Assistance (Medicaid)	937	919	(18)	-1.92
Economic Assistance (Welfare)	606	465	(141)	-23.27
Programs for the Deaf and Blind	345	309	(36)	-10.43
Human Services Community Programs (DDD & DMH)	1,283	1,159	(124)	-9.66
PRISONS AND CORRECTIONAL PROGRAMS	10,010	9,450	(560)	-5.59
CITIZEN SERVICES	9,655	8,555	(1,100)	-11.39
Transportation and Roads	5,333	4,587	(746)	-13.99
Motor Vehicles	2,729	2,400	(329)	-12.06
State Parks, Forestry & Natural Resource Management	890	923	33	3.71
Community Programs	309	222	(87)	-28.16
Public Broadcasting Authority	196	169	(27)	-13.78
Library, Museum and Arts	198	254	56	28.28
GOVERNMENT OVERSIGHT	6,432	5,635	(797)	-12.39
General Services, State Planning, Governor's Office, etc. ..	1,612	1,219	(393)	-24.38
Taxation	1,339	1,380	41	3.06
Data Processing and Telecommunications	1,427	1,205	(222)	-15.56
Pensions, Investments	451	443	(8)	-1.77
Office of Management & Budget	340	262	(78)	-22.94
Personnel and Training	728	648	(80)	-10.99
Legislature	535	478	(57)	-10.65
INDUSTRY REGULATION	2,901	2,869	(32)	-1.10
Legalized Games of Chance	1,123	942	(181)	-16.12
Housing and Fire Safety	748	739	(9)	-1.20
Insurance	445	521	76	17.08
Licensed Occupations/Professional Regulation	167	274	107	64.07
Banking	142	122	(20)	-14.08
Commercial Recording	117	104	(13)	-11.11
Board of Public Utilities	159	167	8	5.03
EDUCATION	1,472	1,115	(357)	-24.25
ECONOMIC DEVELOPMENT	375	301	(74)	-19.73
TOTAL WORKFORCE	71,324	65,577	(5,747)	-8.06

**GOVERNMENT SERVICES
AS STAFFED BY NEW JERSEY'S WORKFORCE
AS OF FEBRUARY 1994**

TOTAL WORKFORCE – 65,600



**STATEWIDE COUNT
FULL-TIME EMPLOYEES**

YEAR	EMPLOYEES
1982	58,178
1983	58,840
1984	60,345
1985	62,966
1986	65,087
1987	66,770
1988	70,144
1989	69,943
1990	71,324
1991	66,524
1992	67,094
1993	64,700
1994	CURRENT 65,600

NEW BUSINESS PRACTICES

This Budget implements smarter business practices that will reduce the cost of government without compromising services to individuals. The Medicaid program is moving aggressively to implement managed care. Besides saving money, this will improve access to care, which means that patients ultimately will no longer have to go to emergency rooms to receive primary care services. The program is also making other changes to save money. Over \$2 million will be saved by adjusting payments for durable medical equipment to the same level the federal Medicare program pays. Transportation services for Medicaid clients increased from \$9 million in 1991 to \$23 million in 1994. By imposing a tighter review of procedures \$4 million is saved.

The Medicaid program will also begin to competitively bid for hospital utilization review services to save \$380,000. Another \$2.6 million savings to the Medicaid program will occur by requiring the health insurance of noncustodial parents to pay for the health care of the children.

Also, the State employee health benefits program has piggy-backed onto the aggressive discounts won by Blue Cross/Blue Shield in their provider network of select hospitals and physicians. And, since there is unrestricted hospital choice for State employees in the traditional plan, discounts have been negotiated with hospitals excluded from the Blue Cross/Blue Shield provider network for the employees.

In 1995, additional federal funds in the amount of \$6.3 million will become available to the State because of the certification of additional bedspaces in developmental centers. Leveraging of existing spending on these clients will permit a savings in State funds with no reduction in services to the developmentally disabled. Federal funds will also cover the cost of additional staff needed to gain the additional certification.

PRIVATIZING

Another effort to make government more efficient and streamlined is the privatization of six of the eleven day care centers operated by the Division of Youth and Family Services. By turning over the operations to private providers, a savings of \$600,000 will be generated. This action will not result in any loss of service or level of care for the 347 children presently served by the State centers. In addition, the budget

proposes privatizing selected advocacy services within the Department of State and selected services in Higher Education.

RESTRUCTURING HIGHER EDUCATION

In 1986, New Jersey took the first, major step on the road to self-governance for the State's public colleges. Each was charged with developing its own, unique mission and was given the autonomy to pursue that mission. In the intervening years, the colleges have succeeded and stand on their own. It is therefore time to take a second, equally bold step.

This budget proposes that the current Office of the Chancellor be eliminated as a separate, Cabinet-level department because it has become redundant. Oversight functions are — or ought to be — performed principally by the boards of trustees for the institutions, and independent audits are required of each institution's finances. Existing bodies such as the Capital Planning and Budgeting Commission can expand their scope to review requests from the colleges and universities, thereby avoiding duplication of time and staff. The budget does recognize that a small, central staff will still be required to review audits and other information required to ensure that the State's multi-million dollar investment in higher education is spent efficiently and effectively. Accordingly, funds have been recommended in the Department, but the intent is to place the staff in one of the other executive departments after legislation is enacted to effect these changes.

ELIMINATION OF THE DEPARTMENT OF THE PUBLIC ADVOCATE

As a part of the efforts to streamline State government, the fiscal year 1995 Budget recommends the elimination of the Department of the Public Advocate. This decision required prioritizing the services provided by the Department. The constitutionally mandated responsibilities of providing legal counsel to the indigent and to individuals involuntarily committed to mental hospitals will continue with the transfer of the Office of the Public Defender and the Division of Mental Health Advocacy to the Department of State. Federally funded programs for the protection and advocacy of the developmentally disabled will be privatized. Efforts will continue to develop further privatization of the Department's programs in the future.

PERFORMANCE/PROGRAM AUDITS

In order to achieve savings in fiscal year 1995, but more importantly to achieve savings for future budgets and eliminate the remaining structural deficit in the state, the Governor has recommended \$970,000 for the Governor's Performance Review Program. This Administration will work with the private sector to generate resources, both financial and manpower, to do performance audits in each State department and agency. The programs for these departments will be reviewed to determine first, whether they are still needed, and second whether they are being run

efficiently. Performance measures will be established for State programs and will be integrated into the State planning and budgeting process. Once in place, these performance measures will provide decision makers with needed information on how changes in funding will affect clients. In this way, the State can assure that the downsizing of government will be done responsibly, by reducing programs with limited public benefit and not reducing those programs which best serve the citizens of the State.

JOB CREATION

Providing a favorable climate for economic growth which encourages the creation of new job opportunities is a critical role for State government. This is particularly true during a prolonged recession, when business activity is diminished and the need for an economic stimulus is magnified. The fiscal year 1995 State budget includes a number of programs which help spur private sector activity, most of which are concentrated in the Departments of Commerce, Labor, Transportation, and Environmental Protection and Energy (DEPE).

The State's involvement in creating jobs typically takes one of three forms. First, the State acts as a source of credit to partially finance projects that will benefit the public interest. Second, the State intercedes to assist businesses or individuals to compete in the marketplace through initiatives such as job retraining, enterprise zones, and tourism promotion, or by encouraging new economic activity through research grants for new technology. Third, the State budget provides significant capital and bond fund investments to address infrastructure needs which provide capacity for future economic growth.

PROVIDING A BOOST TO PRIVATE INVESTMENT

A prime example of stimulating private investment is the Economic Recovery Fund (ERF), which is administered by the Economic Development Authority (EDA), an independent entity housed within the Department of Commerce. Leveraging resources provided by the Port Authority of New York and New Jersey, ERF funds are combined with private sector monies to support a variety of infrastructure, cultural, and tourism projects that advance the State's overall economic development strategy and create new jobs. To date, the EDA has committed a total of nearly \$800 million to these projects, including rehabilitation of the Atlantic City Airport, construction of the Newark Performing Arts Center and an outdoor amphitheater in Camden, and the Civic Square redevelopment project for the downtown area of New Brunswick.

EDA is also involved in the administration of a grant and loan program to assist responsible parties who are subject to the provisions of the Industry Site Recovery Act (ISRA), which requires landowners to remediate toxic contamination from industrial property before it may be sold or transferred. Using \$45 million in hazardous waste bonds and revenue from a one percent surcharge on private cleanup funds, the EDA distributes loans to companies and grants to landowners who

innocently purchased contaminated tracts. This program is expected to accelerate the rate of ISRA cleanups. Placing this land back into productive use will benefit the State's urban areas, where many ISRA sites are located.

ASSISTING BUSINESS

Job retraining is particularly critical as the State struggles to keep pace with changes in the workplace, business retrenchment, and globalization of the economy. The State's job retraining budget is centered in the Department of Labor (DOL), which will receive a total of \$140 million in fiscal year 1995 from the Workforce Development Partnership Program (\$50 million) and federal aid (\$90 million, Job Training Partnership Act). DOL supports retraining for disadvantaged individuals, the unemployed, and those who are in danger of losing their jobs due to obsolete skills. The Department uses a combination of tuition waivers, vocational education grants, and career counseling to redirect people into occupations that are in demand. DOL also provides matching training grants to private companies, essentially customizing a training program to meet specific business needs that ensure the viability of the firm. Since its inception in 1992, the Workforce Development Partnership Program alone has awarded over 10,000 grants to eligible individuals, as well as 46 customized training grants to private companies.

Through legislation enacted in January 1994, the Urban Enterprise Zone (UEZ) Authority was expanded from 10 to 20 locations. The UEZ Program encourages businesses to locate in distressed areas by providing development initiatives including reduced sales taxes. Revenues generated by the reduced sales tax are reinvested in capital improvements to the UEZ zone. This program has helped to revitalize struggling inner city areas throughout the State.

The Department of Commerce will receive an increase of \$1.2 million in its Travel and Tourism Program for advertising and promoting the State's vacation areas. Visitors made more than 136 million trips to New Jersey last year and spent almost \$18 billion before they left the Garden State. Studies suggest that each dollar spent on tourism promotion yields a \$70 return on investment.

The fiscal year 1995 budget also provides \$17 million in grants to the Commission on Science and Technology for the development of new technology through collaborative research between industry and State universities. These grants, which are matched by private and federal funds, accelerate economic activity by applying innovative ideas in science and technology

to industry, thus enhancing productivity and competitiveness. The Commission also supports the direct transfer of these ideas into the marketplace.

Port unification offers the potential to enhance the competitiveness of businesses in New Jersey. In October 1992, federal law was enacted authorizing the Delaware River Port Authority (DRPA) to participate in port operations on both sides of the Delaware River. The Authority should play a crucial role in economic development for the southern New Jersey region by unifying South Jersey ports with the Port of Philadelphia. Negotiations between the Authority and the States of New Jersey and Pennsylvania have begun. By combining limited resources, port unification could have far-reaching benefits for the regional economy by enhancing the competitiveness of the port vis-a-vis rival facilities in surrounding states.

DIRECT CAPITAL INVESTMENTS

The State also provides the foundation for economic growth through a myriad of bond funds and capital investments, including improvements to the transportation system, water supply network and wastewater treatment plants, as well as urgently needed capital improvements, renewals and replacements and deferred maintenance projects.

Capital funding for fiscal year 1995 is recommended at \$444 million, including an appropriation of \$210.6 million to the Transportation Trust Fund Authority. These funds will be leveraged through the bonding authority of the Trust Fund, thus enabling DOT to continue its spending level at \$565 million, including \$265 million for highway construction, \$200 million for mass transit, and \$100 million for local roads. This investment is expected to secure a total of \$616 million in federal and private funds. According to economic forecasters with the Department of Labor, each \$1 million of highway construction generates the equivalent of 22 person-years of employment based on raw material and heavy supply orders from suppliers ranging from local businesses to major industrial producers.

The State will also invest \$218.4 million in infrastructure repair, preventive maintenance, renewal and compliance projects for a variety of State-owned institutions and facilities. Another \$15 million in capital is provided for shore protection projects administered by DEPE. These funds will leverage available federal grants to replenish beaches affected by winter storms and ongoing erosion problems, work of critical importance to the tourism industry along the New Jersey shore.

The Budget also projects the receipt of \$100 million in Superfund grants from the federal government for hazardous waste cleanups in New Jersey during fiscal year 1995. These funds are leveraged by existing bond funds available to DEPE. The Department has compiled an enviable record in this area, having secured an annual average of \$151 million in Superfund aid since 1988. In the past, DEPE has garnered as much as 25 percent of the total Superfund monies distributed nationwide for a given year. Additionally, DEPE expects to receive \$85 million in federal funds for public wastewater construction, which are combined with bonds sold by the Wastewater Treatment Trust to generate loans to local wastewater facilities at half the market rate.

ELIMINATING REGULATORY BARRIERS

In a new initiative to cut bureaucratic red-tape, the Secretary of State will serve as Business Ombudsman and Advocate. The goal is to make the Secretary the focal point for business concerns by assisting them through the State process for business permits, licenses and registrations.

Though DEPE is often vilified as an obstacle to business decisions and a drag on the State economy, it is important to note that the Department has responded to these concerns with concrete steps. DEPE has changed its rulemaking process to consider input from fee payers while regulations are still in draft form. To consolidate the permitting process, DEPE will gradually introduce facility-wide permits to cover all types of emissions (i.e. water, air, hazardous waste) and all facilities at an industrial site. Several other measures are either underway or are receiving serious consideration, including the following:

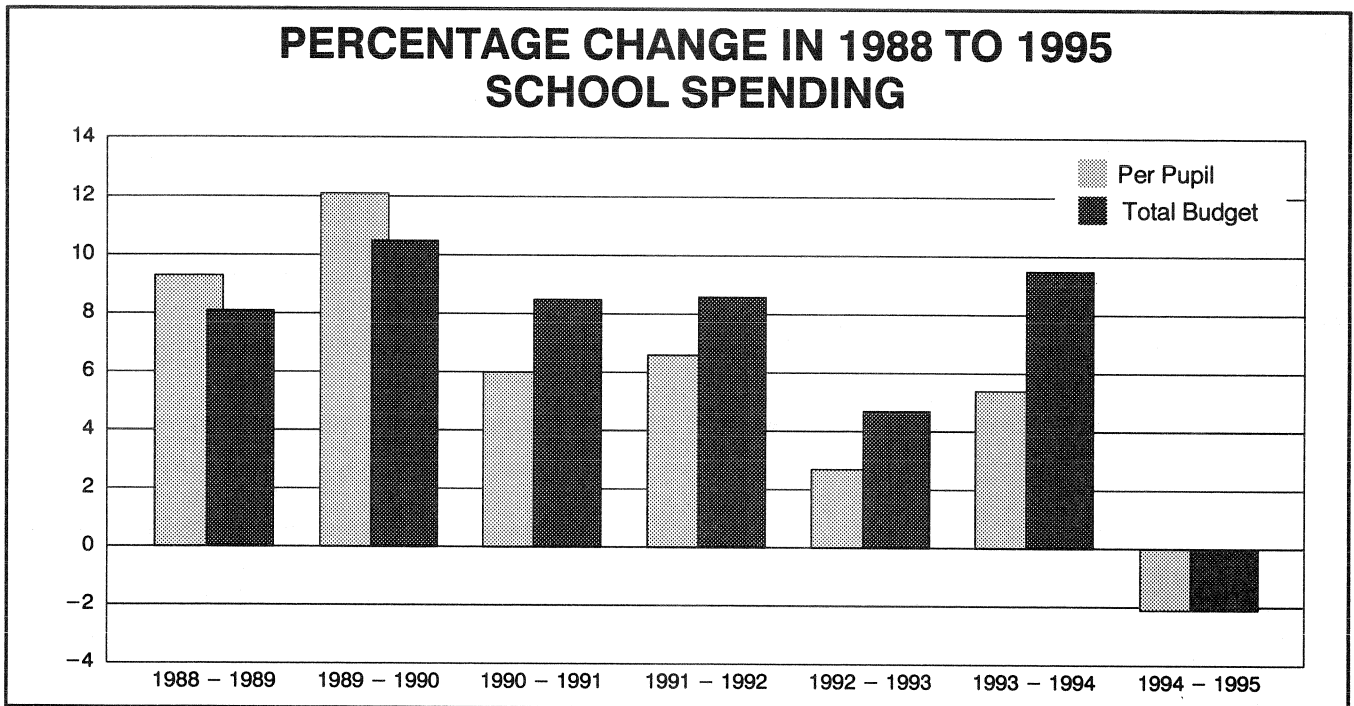
- Delegate certain permit writing authority to local agencies;
- Allow permittees to draft permits so DEPE can concentrate on substantive permit decisions;
- Explore the use of private engineers for some permit reviews;
- Classify permits to quicken turnaround for simple cases;
- Provide permit applicants with technical manuals to improve the quality of applications;
- Implement a standard set of technical requirements governing hazardous waste cleanups; and
- Institute a voluntary cleanup program that provides incentives for responsible parties to accelerate site remediations.

REDUCING LOCAL GOVERNMENT COSTS

For fiscal year 1995, the overall resources provided to municipalities and school districts will remain the same as they were in fiscal year 1994, slightly more than \$6 billion. Actual State appropriations have, in some cases, been offset by savings achieved in pension contributions that local governments make to Public Employees Retirement and Consolidated Police and Fire Retirement Systems, and by surpluses that have

accumulated in the State Health Benefits program, which will be rebated to school districts and municipalities that are members of the State program.

Some of these savings will be manifest in fiscal year 1995. For example, preliminary estimates of school budgets indicate that, for the first time in years, costs will decline overall and on a per pupil basis.



Municipalities, school districts, and counties cannot assume that increased State aid or reductions in employee benefit costs are the only responses to local management problems, however. Local governments must take the initiative to ensure that all resources are spent in the most efficient and effective way possible. To this end, staff in the Departments of Community Affairs and Education will be directed to comprehensively audit local governments under their jurisdictions.

STATE MANDATE/STATE PAY

In addition to reducing certain costs, such as those for pensions and health benefits, the coming year will see an expanded effort to assist local governments in managing more efficiently. This will consist of a comprehensive review of State-imposed mandates on local governments since mandates increase costs for local taxpayers regardless of the efficiency of the local government.

In addition to addressing direct mandates, whereby the

State requires that a service be performed without paying for it, the review will include indirect mandates, such as binding arbitration, that inhibit management flexibility and increase costs. "State mandate/State pay" is a concept whose time has come, and legislation will be proposed to implement it.

COURT UNIFICATION

As the result of a constitutional amendment approved by New Jersey's voters, on January 1, 1995, the State will become responsible for the costs of trial court operations and probation services now borne by the counties through local property taxes. Included among the costs to be assumed by the State are the salaries, health benefits, and pension payments of approximately 8,000 county judicial and probation services employees. State assumption of funding will be phased in over the years 1995, 1996, and 1997. Upon completion of the phase-in in 1998, it is estimated that annual expenditures of more than \$400 million will have been transferred from county budgets to the State.

CRIME AND PUBLIC SAFETY

Protection from crime and violence is a major public concern in New Jersey. Citizens want to feel safe in their own neighborhoods and secure in the knowledge that violent offenders will be removed from the streets and sent to prison. The fiscal year 1995 budget will continue the Safe and Secure Communities Program through which the State provides grants to eligible municipalities to hire additional police officers and to purchase new equipment to aid police in fighting crime. In 1994, approximately 400 local police officers will be added to the beat in more than 180 municipalities.

The fiscal year 1995 budget recommends funding for the 110 graduates of the 114th State Police class as well as the training costs for the 115th State Police class, from which approximately 80 more troopers will graduate. The addition of nearly 200 troopers will reverse the recent decline in the State Police enlisted ranks and strengthen the State's ability to ensure public safety, prevent crime, reduce accidents, and enhance the safety of all troopers on patrol.

The problem of prison overcrowding is again reaching crisis proportions. In recent months, the adult inmate population has resumed the accelerated growth of the 1980s. With State correctional facilities already jammed to 130 percent of capacity, the number of State inmates backed up in county jails has exceeded 3,000. The State Supreme Court has imposed an April 22, 1994, deadline after which the State can no longer

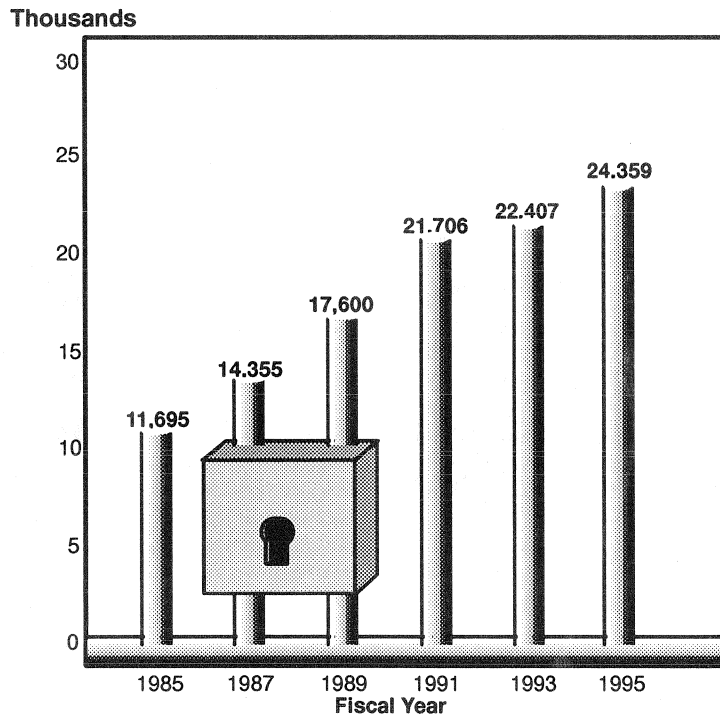
exercise its use of emergency Executive Orders to house State inmates in the county jails. In response to the Court's ruling, the State raised the per diem rate of reimbursement to the counties from \$45 to \$58.50, effective January 1, 1994. However, several hundred State inmates may have to be removed from the county jails by the April deadline. Construction of a new 3,000 bed prison in Bridgeton will begin in 1994, but it will not be available for occupancy until 1996.

The overcrowding problem needs to be addressed immediately through initiatives begun in fiscal year 1994 and continuing in fiscal year 1995. Efforts will be made to place non-violent offenders who are nearing parole eligibility in alternatives to prison confinement. Among these initiatives will be residential drug and alcohol rehabilitation programs for inmates in need of treatment, re-establishment of the Electronic Monitoring/Home Confinement Program with stricter standards of eligibility and controls, and expansion of community half-way house programs. These alternative programs will be funded from monies budgeted for housing inmates in county jails.

In addition, resources will be provided to the State Parole Board in order to eliminate the backlog of parole-eligible inmates awaiting their initial parole hearing and to reduce the delay in discharging inmates who have been granted parole.

**ADULT
INMATES

AVERAGE
DAILY
POPULATION**



PLANNING FOR NEW JERSEY'S HEALTH

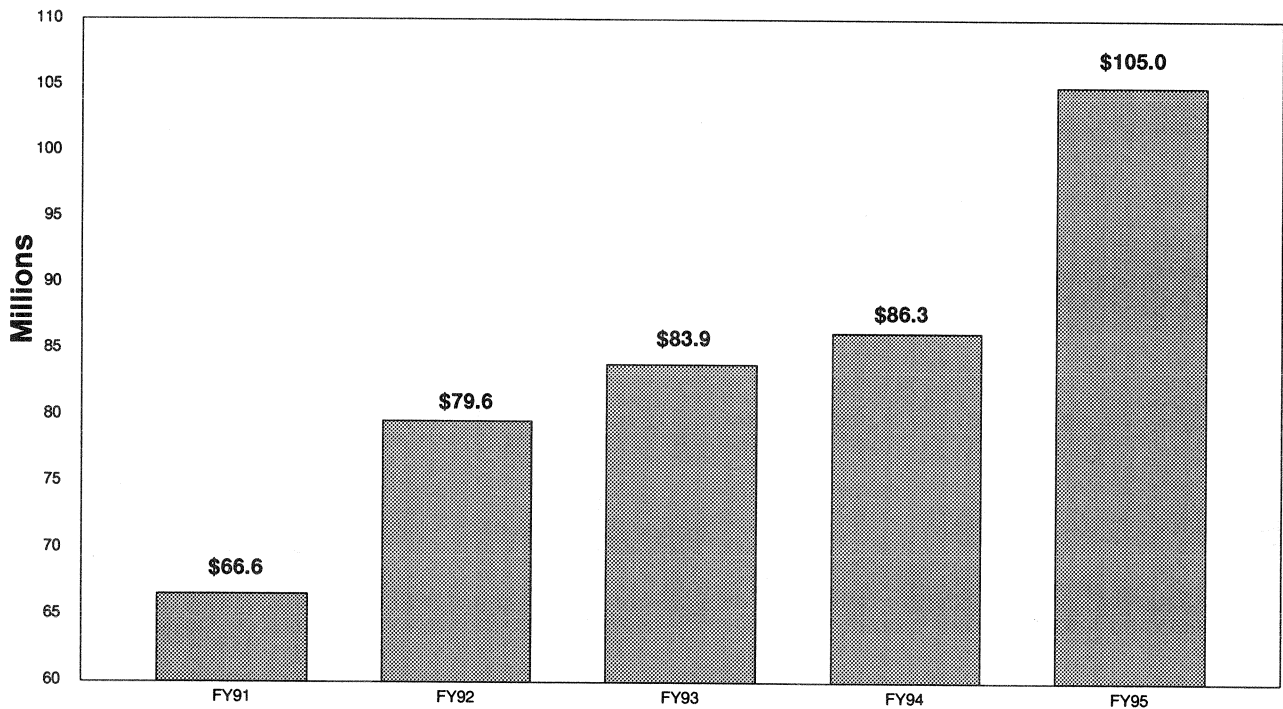
Maintaining the State's efforts in providing quality community care programs for the elderly, the developmentally disabled, the mentally ill, and youth and families is a key issue for fiscal year 1995.

The State's community care network for this group of constituents offers residential services to those in need in locations where they will be best able to benefit from these services, in local communities throughout the state. In addition to providing a place to live as an alternative to an institution, the State also provides supervision and consultation, day training activities, and advocacy services. Community services have the benefit of costing less than institutionalization, but the greater benefit is that they provide the client dignity and an enhanced quality of life.

Even in this Budget, which is tightly constrained, there is \$12 million in additional funding for the community providers of these services.

This Budget preserves the social welfare services and cash assistance for needy clients who meet income requirements. While other states have reduced or eliminated welfare payments to needy single individuals and couples without children, this State recognizes that these payments enable these people to stay in their current housing and, thereby, decrease the need on the already overburdened homeless shelters. Further, this Budget will continue to aggressively pursue delinquent child support payments through a number of planned initiatives. These efforts will result in the recovery of \$105 million of child support for fiscal year 1995 for families receiving welfare.

**TOTAL CHILD SUPPORT COLLECTIONS
FISCAL YEARS 1991 TO 1995**



Access to high quality health care will be expanded for needy children and pregnant women as the Medicaid program begins an aggressive move into managed care. With the funding provided in this Budget, Medicaid recipients living in Camden, Gloucester, and Hudson counties will begin to participate in Health Maintenance Organizations. Providing services through this type of system will reduce the existing excessive reliance on high cost emergency rooms in locations where Medicaid clients cannot get physician services. Ensuring that preventive services are provided in doctors' offices will give this State a healthier population and, as an added benefit, will avoid more costly treatment in the long term.

The cost of providing nursing home services for Medicaid eligible clients represents 25% of the total Medicaid program. For this reason, and to improve the quality of life for our senior citizens, Medicaid is reallocating to provide 100 slots for new alternatives. Assisted Living will offer the nursing home candidate a coordinated and continuous array of supportive personal, health, and social services in an apartment building. Alternate Family Care will match families trained in long-term care giving with nursing home candidates who would be better served in the community. These nursing home alternatives are expected to have lower costs than traditional nursing care and will provide care in more appropriate settings.

ECONOMIC AND INFRASTRUCTURE BENEFITS

The initial benefit of publicly financed investment in a recovering economy is accelerated job creation. Increasing private sector employment permeates an entire economy, boosting consumer confidence and triggering higher levels of economic activity. New Jersey, having battled its way through a difficult national recession, is primed for such an investment.

Maintaining New Jersey's parks and shoreline also makes good business sense. The State's tourism industry has benefited by keeping the coastline and beaches clean. Further, the Capital Program supports the Shore Protection Program, a need that became poignantly clear in the aftermath of the violent storm that struck the Jersey Shore in early December 1992.

Substantial savings will be achieved by installing and repairing institutional sewage treatment facilities, and the costly process of hauling waste from the State's institutions will be reduced by constructing sewage linkages to municipal sewage facilities. State expenditures for sewage hauling exceed \$5 million per year, and the planned enhancements will result in a relatively quick payback. Similarly, costly soil and water remediation projects will be avoided by eliminating aging underground storage tanks at State facilities. Due to the threat to aquifers and the environment, all underground tanks were required to meet new, more stringent standards in 1994.

The damage caused by leaking roofs has a substantial impact on the ability to operate programs and requires costly repairs. In order to prevent water damage, a series of roof repair and replacement projects are included in this budget. Failure to address these

problems in the past led to recent water damage at the state museum and auditorium. Leaking roofs have also caused the loss of bed spaces in prisons and veterans homes.

Investment in State institutions is necessary to ensure the continued flow of federal revenue to accredited facilities such as psychiatric hospitals and developmental centers. Millions of federal dollars are generated by maintaining institutional quality.

BOND FUNDS

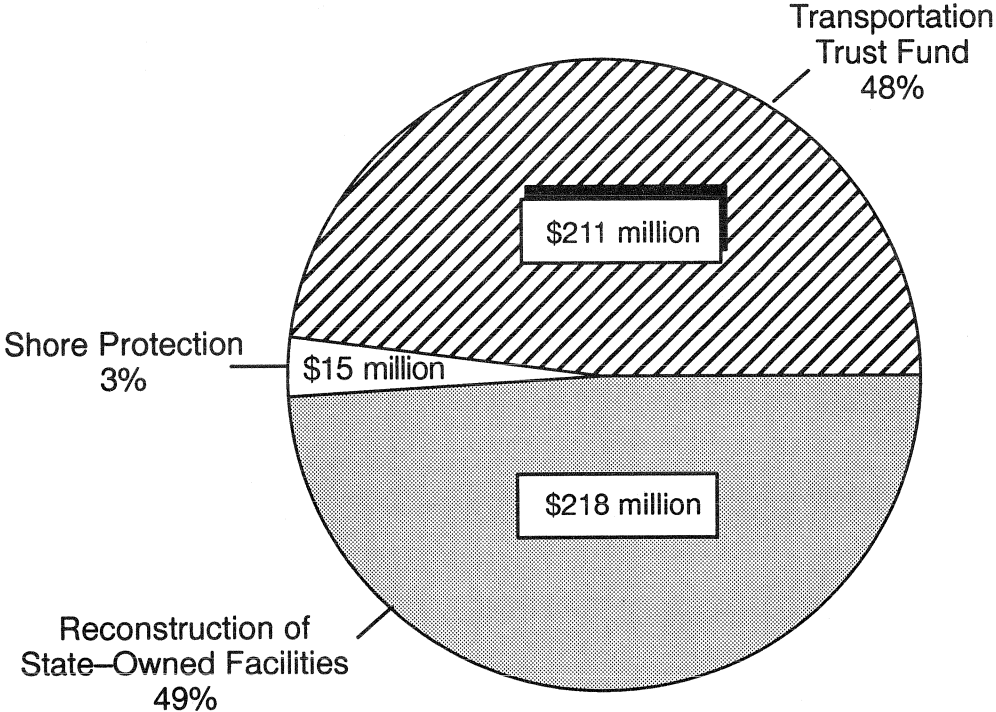
In addition to the pay-as-you-go capital dollars recommended, the Department of Corrections has \$35.6 million in bond funds to complete renovations and improvements to existing prisons. Completion of these projects will also prevent the loss of bed spaces, which would otherwise have occurred if necessary repairs were allowed to become emergency conditions.

Similarly, the Department of Human Services has \$70 million of bond funds available for capital planning, renovations and improvements at institutions and community facilities statewide, and the Department will proceed with the construction of a new Forensic facility on the grounds of Trenton Psychiatric Hospital.

Finally, \$400 million of Green Acres Bond funds are available to renovate, improve, and acquire property. As a result, parks, forests and recreation programs will be more accessible to New Jerseyans.

A narrative briefly describing departmental initiatives is included in the Components of the Budget section concerning capital.

**FISCAL YEAR 1995
STATE CAPITAL BUDGET**



Total \$444 Million

Components of the Budget

MAJOR COMPONENTS

The purpose of this section is to serve as a guide to better understand the budget. Most of the \$15.4 billion budget can be explained by a relatively few major programs or functions. Taken together, they comprise more than 90 percent of the State budget.

These components, as listed below, are described in this section.

COMPONENTS OF THE BUDGET (\$ in millions)	
School Aid	\$4,027
Employee Benefits – Education	475
Municipal Aid.	1,674 *
Homestead Rebates	319
Higher Education	1,001
Law and Public Safety	388
Environmental Protection and Energy	174
Transportation and Transit Subsidy	354 **
Public Health	92
Human Services Programs:	
—Family Development	559
—Medicaid	2,086
—Pharmaceutical Assistance and Lifeline	237
—Community Services and Institutional Programs	1,079
Corrections and Parole	689
Employee Benefits	1,053
Public Infrastructure and the Transportation Trust Fund	733
<p>* Includes \$716 million in dedicated taxes for information purposes. When we speak of these components totalling 93 percent of the budget, we control for this amount. It is not part of the \$15.4 billion total.</p> <p>** In addition to this amount, an authorization of \$565 million for the Transportation Trust Fund is discussed in this section.</p>	

In addition to the State appropriations listed above, some of these programs entail significant federal and other revenues. These are discussed in the relevant sections.

Components of the Budget

SCHOOL AID

The State provides about \$4.5 billion for the education of New Jersey's 1.2 million public school children—approximately 38.6 percent of the total cost. Aid is distributed for regular, on-going education programs in local districts, as well as for the additional costs of pupils with special requirements. Taken as a whole, the various State aid programs are intended to assure each child a complete education from kindergarten through high school, while also promoting greater equity among school districts in their educational spending and property tax rates.

The current school funding formulas were adopted in the Quality Education Act of 1990 (QEA). That Act was passed in response to the State Supreme Court's decision in *Abbott v. Burke*, which found that poorer urban school districts lack sufficient financial resources to assure that their children would receive the thorough and efficient education required by the State Constitution. The Court decreed that the State provide increased aid to such districts to enable them to spend for regular school programs at the same level as wealthier suburban districts. The QEA defined 30 of the poorest urban areas as special needs districts for purposes of meeting the Court mandate of achieving equity in school spending.

The QEA formulas were used to allocate State aid for the 1991–1992 and 1992–1993 school years. However, because of widespread concerns about large annual increases in State support for education, the QEA computations of aid were suspended for the 1993–1994 funding program. In its place, a one-year school financing plan was established by the Public School Reform Act (PSRA) of 1992. PSRA provided for modest increases in Foundation Aid, but held Transition Aid and the categorical programs unchanged at their 1992–1993 levels. Appropriations for the teachers' pensions and social security programs were permitted to rise in accordance with their projected costs.

In addition, the PSRA authorized appointment of an Education Funding Review Commission of 15 members. Its task is to take another look at the State's school financing statutes and to suggest revisions—taking into account the requirements of the *Abbott* decision. The panel began meeting in May 1993. It has heard considerable testimony from virtually all sectors interested in school funding and has been weighing the balance of needs and resources. However, this Commission has not yet completed its deliberations nor delivered its final report.

In the absence of recommendations from the Commission, an interim set of funding recommendations has

been put forward by the Governor to provide State aid for the 1994–1995 school year. The recommended budget retains the components of the QEA funding apparatus, but many of the formulaic aspects of the Act have been adjusted so that the overall State aid levels can conform to the reality of New Jersey's current fiscal situation.

A major savings in the State's aid for local districts will be achieved in teachers' pension assistance. The State is responsible for making payments to the Teachers' Pension and Annuity Fund (TPAF) on behalf of the local school districts. By relying upon existing surplus balances in the TPAF account and slowing down the phase-in of actuarially-revised mortality assumptions regarding future liabilities of the Fund, a significant reduction of \$300 million was effected in the TPAF payment required for fiscal year 1995.

The social security tax that will be due for 1994–1995 is expected to increase by \$28 million, reflecting the rising salaries of teachers. As a result of more moderate settlements in teacher salary contracts recently, the increase in the State's social security payment will not be as steep as it has been in previous years. However, because all the pension and social security costs for teachers are borne by the State, neither of these expenses will affect local school district budgets.

Continuing the phase-out of Transition Aid, the recommended appropriation for the 1994–1995 school year will be two-thirds of the amount for 1993–1994, yielding a reduction of \$28.5 million. Foundation Aid will be increased by that amount; the added funds will be distributed among the special needs districts, as the State continues to move toward greater equity in school spending in keeping with the *Abbott* decision. All other QEA-authorized programs—categorical aids and Transportation Aid—are to be funded at the same levels as in 1993–1994.

Other reductions in the State's education spending will be achieved by having local school districts use their health insurance premium rebates for educational budgets, thus offsetting the need for State aid by \$88 million; and from further savings that will be obtained from changes in pension funding, amounting to almost \$43 million.

Due to the substantial reductions attributable to the revised payment plan and other changes to the funding of teachers' pensions, overall State aid for education in fiscal year 1995 will be almost \$432 million below the current year appropriations, representing a savings of about nine percent.

Components of the Budget

STATE AID FOR LOCAL SCHOOL DISTRICTS CONSOLIDATED SUMMARY GENERAL FUND AND PROPERTY TAX RELIEF FUND (thousands of dollars)

	Expended Fiscal 1993	Appropriated Fiscal 1994	Requested Fiscal 1995	Recommended Fiscal Year 1995		Total
				General Fund	Property Tax Relief Fund	
Formula Aid Programs:						
Foundation Aid	2,367,476	2,538,223	2,566,766	—	2,566,766	2,566,766
Categorical Aids: —						
Bilingual Education	57,553	57,386	57,386	—	57,386	57,386
Aid for At Risk Pupils	291,728	292,986	292,986	—	292,986	292,986
Special Education	581,631	582,500	582,500	—	582,500	582,500
County Vocational Education	28,294	28,722	28,722	—	28,722	28,722
Local Area Vocational Education	766	—	—	—	—	—
Pupil Transportation Aid	258,753	263,849	263,849	—	263,849	263,849
Transition Aid	85,558	85,630	57,087	—	57,087	57,087
Debt Service Aid	69,951	69,945	69,945	—	69,945	69,945
Subtotal, Formula Aid Programs	3,741,710	3,919,241	3,919,241	—	3,919,241^(a)	3,919,241^(a)
Other Aid to Education:						
Nonpublic School Aid	65,168	69,586	69,586	69,586	—	69,586
Payments for Children with Unknown District of Residence	4,881	6,705	6,224	6,224	—	6,224
Minimum Teacher Starting Salary	623	480	250	250	—	250
Aid to Districts with Senior Citizen Concentrations	—	1,651	—	—	—	—
Desegregation Aid	13,570	14,000	14,000	—	—	—
Adult & Continuing Education	2,263	2,448	2,448	2,448	—	2,448
General Vocational Aid	6,488	6,821	6,821	6,821	—	6,821
School Nutrition	6,488	6,565	6,565	6,565	—	6,565
Additional School Building Aid (Debt Service)	18,103	17,192	14,841	14,841	—	14,841
Education Information and Resource Center	504	504	560	504	—	504
State-operated School District Differential Aid	24,000	25,000	—	—	—	—
Other Aid	709	801	801	801	—	801
Subtotal, Other Aid to Education	142,797	151,753	122,096	108,040	—	108,040
Total Aid to Education	3,884,507	4,070,994	4,041,337	108,040	3,919,241^(a)	4,027,281^(a)

(a) The total does not reflect \$130.7 million in school aid reductions that will be off-set by rebates to school districts that participate in the State Health Benefits Program (\$87.9 million) and by savings in contributions made by local districts to the Public Employees Retirement System (\$42.8 million). These changes will not negatively affect local school budgets.

MUNICIPAL AID

Providing financial assistance to municipalities has been one of the most important functions of State government, and the fiscal year 1995 Budget continues a substantial commitment to local government. Total aid to municipalities, both unrestricted and restricted, will amount to \$1.67 billion in fiscal year 1995, most of it in the form of unrestricted aid. Municipal aid spending will actually appear to decrease slightly in fiscal year 1995, but virtually all reductions are directly offset by local pension contribution savings or health insurance premium rebates.

Providing aid without restrictions allows municipalities and counties the flexibility to set their own priorities. Unrestricted aid also uses the state's power to raise broad-based taxes to meet local needs and helps to mitigate inequalities among municipalities arising from differences in their property tax bases and demands for services. Since the federal government eliminated its most flexible aid programs, General Revenue Sharing and the Comprehensive Employment and Training Act (CETA), unrestricted state aid has assumed additional importance in municipal budgets.

In New Jersey, several unrestricted aid programs allocate resources on the basis of common indicators of fiscal need, such as tax rate or tax base differentials and demographic characteristics. Others focus on revenue replacement, using state tax revenue to make up for resources formerly generated by direct local taxation.

Restricted-use State aid helps target resources to particular activities, programs and projects undertaken by local governments, which may be unable to ensure that these goals are met without State assistance. It is also targeted to particular municipalities that, due to local conditions, need additional resources to meet basic service needs and responsibilities.

Both unrestricted and restricted aid programs are crucial to combating excessive reliance on local property taxes to fund public services. In addition, the diverse range of programs provides the flexibility to address both unexpected, short-term needs and more enduring structural problems. Recently enacted programs address inequitable burdens for social service costs, high property tax rates, and urban revitalization.

UNRESTRICTED AID

Most State aid to municipalities and counties is in the form of unrestricted aid, totaling \$1.54 billion for fiscal year 1995. Of this amount, \$825 million is funded from major tax and revenue sources and \$716 million is from dedicated business taxes. The fiscal year 1995 budget

will reduce this bottom line by \$52.8 million, substituting state-initiated local budget savings for aid payments on a dollar-for-dollar basis. This technique enables the state to provide a level of assistance virtually equal to that of fiscal year 1994 in spite of reductions in state revenue dedicated for property tax relief.

The single largest source of unrestricted State aid is the distribution of Public Utility Franchise and Gross Receipts Taxes, from which all of New Jersey's 567 municipalities benefit. The funds are distributed according to a complex formula which returns utility taxes to each municipality based on the value of generation and transmission equipment within its borders, with an upper limit placed on the amount each can receive. The fiscal year 1995 distribution will again be based on a funding level of \$685 million.

The Supplemental Municipal Property Tax Relief Program is the second largest program, with four components totaling \$369 million. First is a Formula Aid component, \$302 million, which distributes aid to all 567 municipalities through a per capita grant weighted by the municipality's relative property tax rate. The second component, Discretionary Aid, provides \$30 million to allow the State to respond to conditions of fiscal hardship, based upon a review by the State Local Finance Board. Ninety-five municipalities currently receive funding from this source. The third component is a \$25 million supplement to the existing Municipal Aid program. (The Municipal Aid program itself allocates \$40.3 million based on a variety of demographic and fiscal indices including total population, AFDC population, and tax rate and tax base measurements. Fifty-four municipalities will receive assistance from the Municipal Aid program and its supplement.) Finally, a "hold-harmless" funding component provides over \$12 million in aid to negate formula-driven decreases in prior years' aid entitlements.

Municipal Revitalization Aid, \$165 million, directs aid to municipalities that display the most severe conditions of fiscal and economic hardship and the greatest need for fiscal assistance. To receive this discretionary aid, a municipality must apply to and receive the approval of the Local Finance Board; 51 municipalities have done so.

Business Personal Property Tax Replacement Aid, \$158.7 million, provides funds to all 567 municipalities to compensate them for the loss of revenue that occurred when business personal property was exempted from local taxation. This program was originally funded

Components of the Budget

from a group of dedicated business tax revenues which have since been repealed or modified, and is now funded from general resources.

Aid to Densely Populated Municipalities, \$25 million, is directed to the most densely populated municipalities in the most densely populated counties in the state, but which are ineligible for Municipal Aid. Twenty-six municipalities benefit from this program; the aid they receive helps defray the high cost of basic municipal services which tends to result from high population density.

Municipal Purposes Tax Assistance Aid allocates \$30 million to approximately 400 municipalities, divided into two groups designated as qualifiers and participators. Qualifiers, municipalities with the highest tax rates

and smallest tax bases, receive about 85 percent of the funds, with participators, which reflect less severe but nevertheless significant tax conditions, receiving the balance. Funds are allocated within each group based on a population weighted by tax base.

Payments in Lieu of Taxes on State Property totaling \$27.9 million serve to counteract the erosion of local tax bases and defray the added cost of municipal services caused by the presence of State facilities. Of this total, \$13.5 million is allocated under a statutory formula compensating municipalities for a variety of State properties and facilities. The balance is targeted to municipalities with facilities which produce extraordinary needs not adequately met by the standard formula.

Unrestricted State Aid Programs		Fiscal Year
(In Millions)		1995
Program		Funding
Budgeted Programs:		
Supplemental Municipal Property Tax Relief Aid		\$ 369.0*
Municipal Revitalization Aid		165.0
Business Personal Property Tax Replacement Aid		158.7
Municipal (Urban) Aid		40.7
Aid to Densely Populated Municipalities		25.0
Municipal Purpose Tax Assistance		30.0
Payments in Lieu of Taxes on State Property		27.9
Payments to Replace Telecommunications Franchise Taxes		6.5
All Other		2.2
	<hr/>	
Subtotal		825.0
Distributions of Dedicated Taxes:		
Franchise and Gross Receipts Taxes		685.0
Insurance Premiums Taxes		27.0
Financial Business Taxes		3.5
	<hr/>	
Subtotal		715.5
Total		\$ 1,540.5*

* Actual distribution will be reduced by \$52.8 million in offsets of municipal pension and health benefits cost savings.

RESTRICTED AID

The State's interest in supporting specific local programs and services is demonstrated by restricted or categorical aid. This form of state-local partnership is an important means of attaining mutually desired public service goals while respecting specific local needs and conditions.

The State Constitution provides deductions from property tax bills for veterans and qualified senior citizens, disabled citizens and their surviving spouses. Veterans receive a \$50 deduction, while seniors and disabled homeowners receive \$250. The State annually reimburses municipalities for cost of these deductions, estimated at \$58.1 million for fiscal year 1995.

Restricted aid programs funded through the Department of Community Affairs are particularly important to meeting basic community needs. The Safe and Clean

Neighborhoods program, \$25 million, directs funds to municipalities that receive Municipal Aid, permitting them to enhance local fiscal efforts to provide police protection, recreation facilities and public works services. Expanded Police Services Aid, \$25.9 million, and Supplementary Fire Services Aid, \$8 million, both target 65 percent of their resources to these same communities to further enhance basic public safety services. The balance of funds is shared by most other communities for added public safety services. Fair Housing Aid, \$13.9 million, allocates a portion of the state tax on real estate transfers to municipalities who are striving to meet affordable housing requirements. Neighborhood Preservation, \$2.75 million, supports multi-year grants to selected municipalities to rejuvenate older neighborhoods. Both residential and commercial districts are improved through a mixture of approaches that closely involve community residents.

Major Restricted Aid Programs (In Millions)

Program	Fiscal Year 1995 Funding
Veterans' and Senior/Disabled Citizens' Property Tax Deductions	\$ 58.1
Safe and Clean Neighborhoods Aid	25.9
Expanded Police Services Aid	25.0
Fair Housing Aid	13.9
Supplementary Fire Services Aid	8.0
Neighborhood Preservation	2.8
Total	<hr style="width: 50%; margin-left: auto; margin-right: 0;"/> \$ 133.7

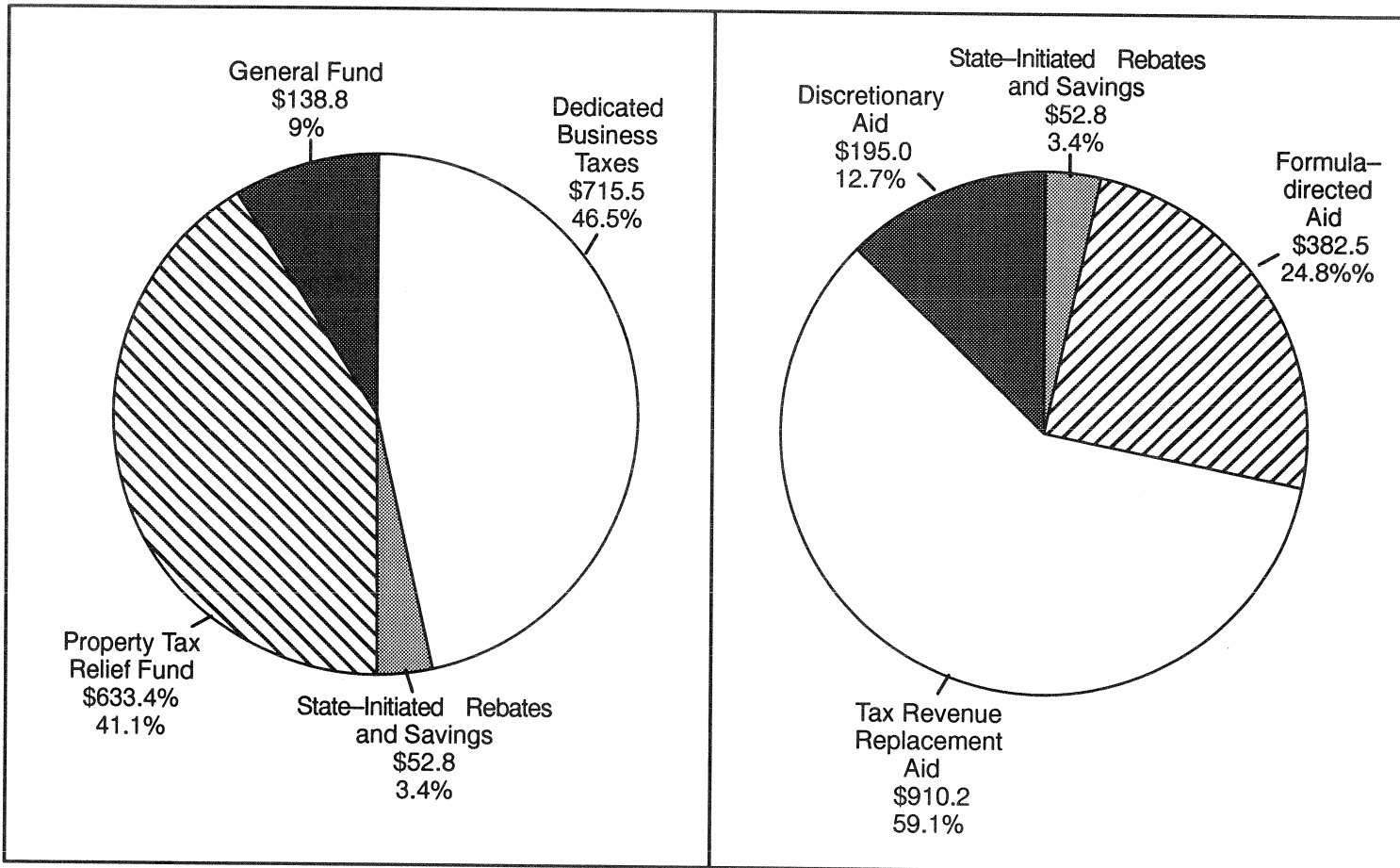
**UNRESTRICTED AID
TO COUNTIES AND MUNICIPALITIES**

Fiscal Year 1995

(In Millions)

Sources of Funds

How Funds are Allocated



THE HOMESTEAD REBATE PROGRAM

The Homestead Rebate Program is a key element of the State's property tax relief agenda. It emphasizes tax relief by direct payment to individual households. By employing income tests and tax burden measurements, the program is designed to be progressive and to focus most of its impact on the state's neediest households.

By the close of fiscal year 1994 approximately 1.52 million households will have received rebates totaling more than \$328 million. Due partly to a decline in the number of households filing for rebates, the average rebate increased to \$215 per household, up from last year's average of \$197.

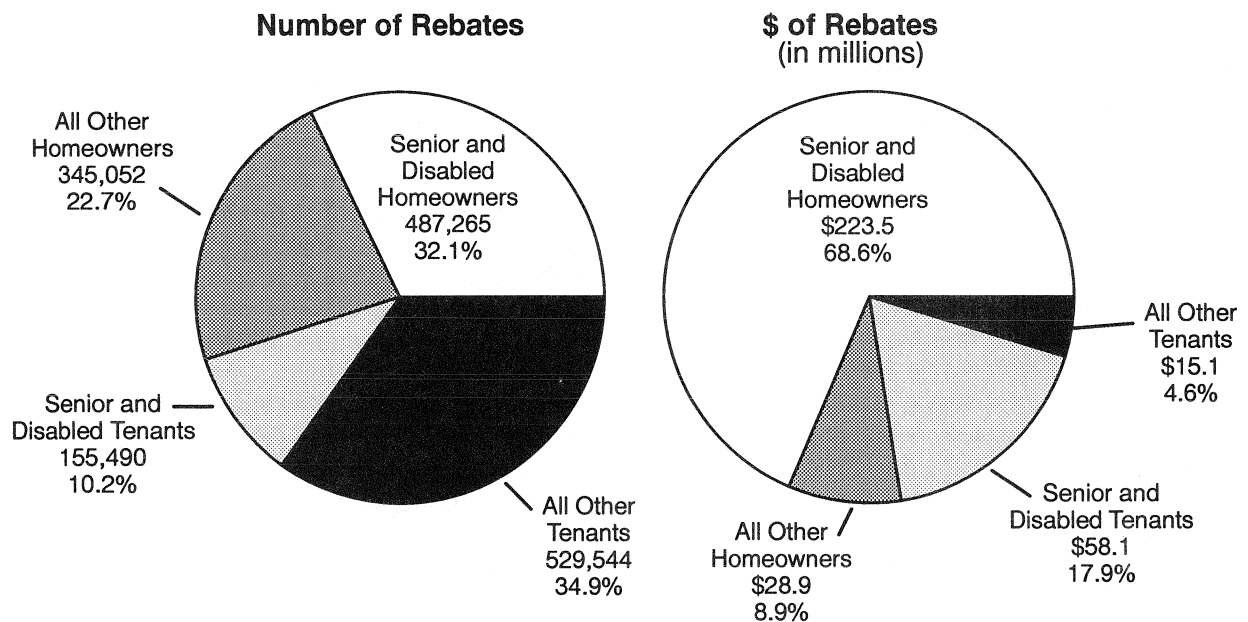
For senior and disabled citizens the program continues to be a significant source of tax relief. If their household income does not exceed \$70,000, they may receive property tax rebates of up to \$500. The rebate follows the "circuit-breaker" principle, with the rebate equal to the amount by which property taxes exceed five percent of household income. Regardless of the outcome of the calculation, senior and disabled homeowners are guaranteed a minimum rebate of \$150 and tenants a minimum of \$65. Senior and disabled citizens with incomes between \$70,000 and \$100,000 receive a flat grant of \$100 if they are homeowners and \$35 if they are

tenants. In fiscal year 1994, more than 642,000 of these households received rebates totaling \$281.6 million. Rebates averaging \$459 went to 487,000 senior and disabled homeowners. Senior and disabled tenant households were granted average rebates of \$374.

All other households whose income does not exceed \$40,000 also receive rebates. In these circumstances, homeowners receive a fixed amount of \$90 and tenants receive a fixed amount of \$30. Approved claims for these households totaled nearly 875,000 in number worth \$44 million: 345,000 homeowners received \$29 million in rebates, while 530,000 tenant households received \$15 million.

The fiscal year 1995 budget provides \$319 million for the program, continuing it at the same scale as fiscal year 1994. This will maintain the present concentration of benefits to senior and disabled citizens, while providing some assistance to other households of limited means. For all these households, the program provides a needed counterbalance to onerous property tax burdens which can threaten their economic security. Savings are projected from more careful scrutiny of returns to eliminate rebates to occupants of tax-exempt housing units.

DISTRIBUTION OF HOMESTEAD REBATES Fiscal Year 1994



Components of the Budget

HIGHER EDUCATION

The fundamental purpose for supporting New Jersey's higher education system is to ensure that the state's continuing and long-term educational and workforce needs are satisfied. The state's economy is more competitive with a college-educated population. Future economic growth will depend on new technologies developed through university research. Higher education provides job training and other career advancement opportunities for the state's citizens. The community colleges, in particular, have developed new curricula and have moved into partnership agreements with private enterprises. New Jersey's colleges and universities provide comprehensive educational services and are major employment centers.

For fiscal year 1995, the State will support New Jersey's higher education system with \$1 billion in direct appropriations. This includes \$688.3 million for the autonomous, public institutions: Rutgers, the State University; the University of Medicine and Dentistry of New Jersey (UMDNJ); the New Jersey Institute of Technology (NJIT) and nine state colleges. Tuition increases at these institutions will be held to 3.5 percent, the lowest increase in at least six years. Approximately \$165.2 million in direct assistance to students is provided from several sources, primarily the Tuition Aid Grant and the Educational Opportunity Fund programs. Subsidies for the county colleges total \$123.7 million, largely for their educational and related expenses. The independent colleges and universities are expected to receive \$15.8 million in fiscal year 1995.

Accessibility and Affordability

A college education has become one of the most expensive items in a family's budget. During the past several years, tuition increases outpaced overall inflation as colleges struggled to meet rising costs without sacrificing quality. For 1994-1995, however, the Budget will hold tuition increases at State institutions to 3.5 percent.

In addition, the State provides direct assistance to the neediest students. The Tuition Aid Grant (TAG) program, funded at \$125.5 million, is designed to keep college accessible and affordable for students who are New Jersey residents. Assistance is based on financial need, with maximum awards being provided to the neediest students. Funding for the TAG program has significantly increased in recent years because the program has served more students and covered rising tuition costs. The economic recession contributed to more students being eligible for TAG awards because of their reduced ability to pay full-time college costs. For fiscal year 1995, the TAG program will provide grants

to 56,000 students to cover tuition increases up to 3.5 percent at public colleges. The Equal Opportunity Fund program provides direct grants and support services to educationally and economically disadvantaged students from the state's urban areas (\$28.6 million).

New Jersey College Loans to Assist State Students (NJCLASS), a supplemental loan program, provides an alternative source of financing collegiate education for middle-income families in New Jersey. The program is funded from the proceeds of tax exempt bonds issued by the New Jersey Higher Education Assistance Authority. These loans are available for undergraduate and graduate students, regardless of family income. The amount borrowed may not exceed a student's estimated cost of attendance minus all other financial assistance received for the academic period for which the loan is intended. The interest rate paid by borrowers is fixed and will vary with each bond issue in relation to bond market conditions.

College and University Support

The State's public colleges and universities operate autonomously in most areas. Each has its own board of trustees and develops and conducts its own educational programs within broad policy guidelines established by the Board of Higher Education. The senior institutions receive State appropriations for educational and related functions, which subsidize approximately 59 percent of the costs. Students share the remaining cost through payment of tuition and various fees. The senior public institutions are estimated to have 124,972 students - an equivalent of 89,948 full time - enrolled in 1994-1995. The average State support per full time student is expected to be about \$5,104.

A number of New Jersey's senior public institutions have been recognized for their achievements. For example, Trenton State College and Rutgers University, Camden are ranked among the top fifteen colleges and universities in the North region of the nation for low cost and high academic standards. Several of Rutgers' graduate programs are ranked among the best in the country, and the University currently ranks in the top third of public institutions in the American Association of Universities with faculty represented in the National Academy of Sciences. The University of Medicine and Dentistry of New Jersey has achieved national prominence in AIDS-related research. The University is also working with other hospitals to establish a comprehensive cancer treatment center in central New Jersey. And the New Jersey Institute of Technology was selected by Money Magazine's Guide to Best College Buys 1993 as a top ten value among U.S. Science and Technology Schools. Its Center for Pre-College

Components of the Budget

Programs has become a national model, serving 3,000 local elementary and high school, primarily minority students, through 30 programs supported by private and federal resources. On September 1, 1992, Glassboro State College was renamed to Rowan College of New Jersey as an expression of appreciation for an exceptional endowment of \$100 million provided to the college during the summer of 1992 by Mr. and Mrs. Henry Rowan. It is the largest gift ever made to a public college or university.

The community college system, consisting of 19 colleges, is funded jointly by the State and the individual counties. These colleges, which enroll more than 138,000 full-time and part-time students a year, provide access to higher education for a broad range of people who would otherwise be denied the advantages associated with a college education. The colleges receive more than \$123 million in State aid to match contributions made by the counties to their respective

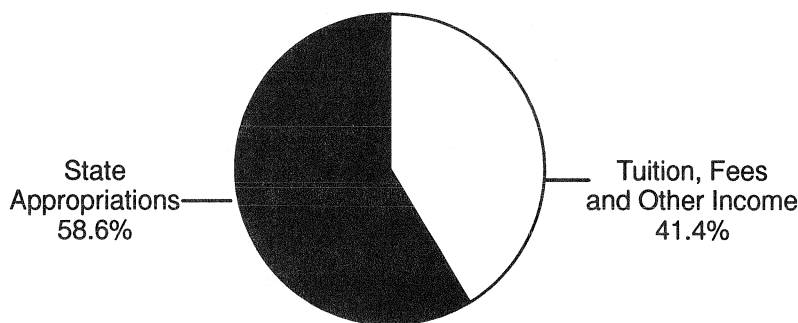
county community colleges. Most of the State aid directly supports the operational costs of the community colleges. Aid also meets about half of the debt service on bonds sold by counties to construct community college buildings, and it pays for part of the employee benefits provided to community college faculty and staff.

The 27 independent institutions in New Jersey receive funding through the Independent College and University Assistance Act. Aid to independent institutions is distributed according to a formula that is linked to the changes in the amount of the State's subsidy of the state college system. These funds are primarily used by the institutions to provide financial assistance to their students. The independent colleges will receive approximately \$15.8 million from this program in fiscal year 1995.

FISCAL YEAR 1995 NET STATE APPROPRIATION FOR HIGHER EDUCATION INSTITUTIONS (thousands of dollars)

Thomas A. Edison State College	4,136	Rutgers, The State University	234,729
Rowan College of New Jersey	29,705	Agricultural Experiment Station	20,230
Jersey City State College	25,808	University of Medicine and Dentistry of New Jersey	172,335
Kean College of New Jersey	29,045	New Jersey Institute of Technology	41,443
William Paterson College of New Jersey	32,087		
Montclair State College	36,458	Total Universities	468,737
Trenton State College	29,451		
Ramapo College of New Jersey	15,779		
Richard Stockton State College	17,048		
Total State Colleges	219,517	Total Appropriation	688,254

FISCAL YEAR 1995 SUPPORT OF EDUCATION AND GENERAL SERVICES AT STATE COLLEGES AND UNIVERSITIES*



*Excludes University of Medicine and Dentistry of New Jersey and the Agricultural Experiment Station because of their unique funding.

Components of the Budget

LAW AND PUBLIC SAFETY

The Department of Law and Public Safety, under the direction of the Attorney General, is the State's primary civil and criminal law enforcement agency. Law Enforcement and Motor Vehicle Services comprise more than 82 percent of the Department's budget, recommended at \$344.6 million for fiscal year 1995. The Department is also responsible for protecting consumers and individuals' civil rights, providing legal services to State agencies, and regulating the alcoholic beverage, boxing, and racing industries. Funded from the receipts of New Jersey's casino industry, \$34.3 million is recommended so that the Division of Gaming Enforcement can meet its responsibilities to supervise and regulate the Casino Industry. In addition, three agencies are administratively located "in-but-not-of" the Department of Law and Public Safety: the Election Law Enforcement Commission; the Executive Commission on Ethical Standards; and the Violent Crimes Compensation Board.

Law Enforcement

The fiscal year 1995 recommendation for the Division of State Police is \$148.9 million. This funding level will continue to support the Division's vital functions dealing with the prevention, investigation and prosecution of criminal activities.

In support of these functions, two new classes of State Troopers are planned for fiscal year 1995. The 114th State Police Recruit Class was funded in fiscal year 1994. Approximately 110 troopers are expected to graduate during fiscal year 1995. The 115th State Police Recruit Class, expected to graduate 80 troopers, will be trained during fiscal year 1995.

In addition, programs such as the Automated Fingerprint Identification System, Computer Aided Dispatch, and Computerized Criminal History records will continue to provide outstanding support in the day-to-day operations of the State's law enforcement agencies.

The Division of Criminal Justice, Office of the State Medical Examiner, and Narcotics, Organized Crime, and Racketeering programs provide less visible but equally important functions, such as the investigation of all violent and suspicious deaths, enforcement of the State's antitrust laws, and prosecution of criminal

activities in the state. In fiscal year 1995, \$27.4 million is provided for these programs to give them the ability to continue current activities.

The Safe and Secure Communities program is recommended at \$9.0 million for fiscal year 1995 and provides much needed financial assistance to municipalities for salaries of police officers and purchases of law enforcement related equipment.

Motor Vehicle Services

In fiscal year 1995, the Division of Motor Vehicles (DMV) will receive \$107.5 million for, 31 percent of the Department's total budget. The State-operated motor vehicle agencies, regional centers, inspection stations, and privately operated motor vehicle agencies will continue to provide registration and inspection services for all New Jersey motor vehicles.

The Division also administers driving and vision tests for new drivers in the state. The federally mandated Commercial Motor Vehicle Safety Act requires the Division of Motor Vehicles to test commercial truck drivers in the state. Other functions include removing dangerous drivers from the road and educating and rehabilitating suspended drivers.

In fiscal year 1995, the Division will continue a very aggressive uninsured motorist program. DMV is responsible for verifying automobile liability insurance for every driver in the state and for providing vehicle odometer readings to the state's insurance industry to be used as a criterion for developing automobile insurance rates.

Citizens' Rights

A total of \$29.7 million is recommended in fiscal year 1995 to ensure the fair, equitable and competent treatment of New Jersey consumers as well as to protect the civil rights of individuals, and to assist the victims of violent crimes. The Division on Civil Rights continues to promote outreach by providing educational and preventive information and programs to clients. Complaints or disputes related to equal opportunity in employment, housing, public accommodations, and the extension of credit or making of loans are investigated and either resolved or recommended for prosecution.

Components of the Budget

The State Professional Boards are responsible for the following: regulating the practices of the respective professions, occupations and trades; protecting consumers by prescribing standards of conduct and performance; conducting hearings regarding statutory provisions; and determine penalties for violators. Among the professions regulated are accountants, dentists, electrical contractors and plumbers.

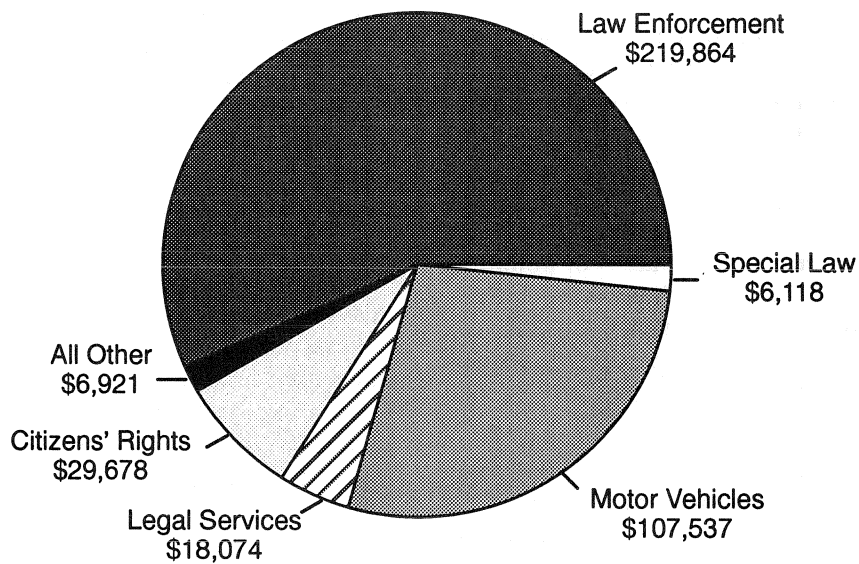
Legal Services

The Division of Law, which provides a wide range of legal services to all State agencies, is recommended at

\$18.1 million. The Division continues to be involved in major litigation related to insurance reform.

In conjunction with the Department of Environmental Protection and Energy, the Division also provides legal support for the enforcement of environmental regulations, such as those under the Clean Water Enforcement Act and the Cost Recovery Program. This involves maintaining enforcement and penalty actions related to discharge permits and recoveries of moneys expended by the State for hazardous substance clean-up from responsible parties.

NEW JERSEY DEPARTMENT OF LAW AND PUBLIC SAFETY (thousands of dollars)



FISCAL YEAR 1995 BUDGET

Components of the Budget

DEPARTMENT OF ENVIRONMENTAL PROTECTION AND ENERGY

Protecting New Jersey's natural resources and minimizing environmental risk to human health in a manner conducive to economic growth has become a delicate balancing act for the Department of Environmental Protection and Energy (DEPE). While there is a general consensus that the environment must be safeguarded, opinions vary over what level of protection is necessary. The practical effect of implementing environmental policy often involves tradeoffs between the competing interests of industry and the protection of public health and safety. In fiscal year 1995, the operating budget recommendation (excluding Capital) for DEPE totals \$174 million, a reduction of \$2 million from the fiscal year 1994 amounts.

The Department's programs fall into four broad categories: regulation of pollution discharges, site cleanup or remediation, utility rate regulation, and preservation of natural resources.

REGULATING POLLUTION

Pollution threats to the environment or human health take a variety of forms, including waste discharges or air emissions from industrial and commercial activity, sewage flow, stormwater runoff, or naturally-occurring radon gas. To protect the public health, DEPE regulates pollution releases through programs in Air Pollution, Water Resources, Pesticides, Radiation, and Solid Waste, which mirror the various sources of pollution. Each program typically has three components: planning, permitting, and enforcement. Collectively, these programs will receive a State appropriation of \$64 million in fiscal year 1995, or 37 percent of DEPE's total State budget.

The Department's regulatory foundation for all of these programs is rooted in science, principally through the use of risk assessment techniques to establish health standards that minimize human exposure. Traditionally, DEPE implemented these standards through control measures, containment, and remediation. This approach often placed the Department in an adversarial relationship with the regulated community, and resulted in prolonged legal actions. In recent years, DEPE has recognized that common ground exists between environmental and economic goals, and that emphasis on this interdependency could yield solutions that are more comprehensive and equitable than those forged by strict enforcement of prescribed standards.

Perhaps DEPE's greatest regulatory challenge is to improve air quality. Nearly the entire state has been designated as a "severe" area for ozone pollution, second only to Los Angeles, California. Carbon

monoxide levels also exceed the federal health standard. The federal Clean Air Act Amendments of 1990 established compliance deadlines of 1995 for achieving the carbon monoxide standard and 2007 for ozone. Failure to show progress toward the Clean Air standards could trigger federal sanctions including the loss of federal highway funds and restrictions on economic growth.

The State is very close to achieving the carbon monoxide standard, as evidenced by the fact that no CO violations were recorded in 1993. This improvement was primarily due to the seasonal oxygenation of gasoline required by DEPE. Oxygenated fuel will be replaced in 1995 by a federally-mandated fuel reformulation which, when combined with mandated improvements to automobile inspections (Enhanced Inspection Maintenance Program), should cut CO emissions by a total of 40 percent and ensure compliance with the Clean Air standard. The retirement of older, high-polluting cars through normal fleet turnover will help preserve the State's attainment classification into the future.

Attainment of the ozone standard will be more problematic. Air emission restrictions implemented to date by DEPE have helped reduce the annual number of days that ozone levels exceeded the health standard by 16 days (or 46 percent), from the ten-year average of 35 days during the 1980s to the four-year average of 19 days from 1990 to 1993. Unfortunately, the full impact of past pollution control strategies was partly negated by increased emissions due to economic growth and a steady increase in driving, particularly for trips between scattered job and housing locations that typify the pattern of development in New Jersey. Thus, while some progress has been made, a significant gap still exists between the current level of air emissions and the Clean Air Act standard.

In November 1993, DEPE submitted to the federal Environmental Protection Agency (EPA) its second revision to the State Implementation Plan (SIP) which identified pollution control strategies required to reduce ozone emissions by 15 percent by 1996, as required by the Act. Nearly 75 percent of the 1996 ozone reduction is furnished by three federally-mandated programs: Enhanced Inspection Maintenance (45percent), Reformulated Fuel (17percent), and Gasoline Transfers from Marine Barges (11percent).

In November 1994, DEPE will submit its third SIP revision outlining how the State will fully attain the ozone standard by the year 2007. Preliminary modeling

by DEPE suggests that ozone emissions must be reduced by a total of nearly 80 percent to fully comply with the Act. The Department estimates that future emissions reductions from mandatory measures (e.g., Enhanced Inspection Maintenance), additional controls on power-generating utility boilers and industrial furnaces (including out-of-state sources whose emissions affect New Jersey), and the sale of low emission "California Cars" beginning in model year 1999 could generate all but six percent of the emission savings required to fully comply with the ozone standard by 2007. Strategies for this final portion of emission savings are still being developed.

SITE REMEDIATION

The fiscal year 1995 budget recommends \$35 million for staff costs associated with the cleanup of toxic substances, which represents 20 percent of DEPE's total State budget. All of these funds are derived from sources such as fees, the taxes on the transport of hazardous substances, and cost recoveries from responsible parties, and thus the activities pose no burden on State general revenues.

Actual cleanups, which typically are performed by private contractors, are also funded predominantly from non-tax revenues. In fiscal year 1995, DEPE will authorize a total of \$228 million for cleanup projects and emergencies and unforeseen cases of high environmental concern. This amount includes \$158 million in non-State funds, of which \$147 million is derived from federal Superfund grants (including projects administered by the federal EPA), \$4 million from the Spill Compensation Fund, and \$7 million from other sources. Also included are \$70 million in State bonds, which are typically used to provide the State match required for Superfund grants or to accelerate cleanups where the responsible party either cannot be identified or has obstructed cleanup negotiations. In this last case, the State may seek damages in court for up to three times the actual cost of the cleanup. Note that the \$70 million of State bond funds assumes the passage of a new bond act dedicated to hazardous site cleanup before fiscal year 1995.

In addition to these funds, DEPE will also oversee 325 cleanup projects funded by responsible parties. Thus, a total of over 463 projects both publicly and privately-funded will move forward in fiscal year 1995.

UTILITY RATE REGULATION

In August 1991, the Board of Regulatory Commissioners (formerly the Board of Public Utilities) was merged into DEPE. The Board regulates rates for such essential

services as natural gas, electricity, water and sewer, and telecommunications, including cable television, and will receive a State appropriation of \$11 million in fiscal year 1995, all of which is derived from assessments on the regulated utilities. In recent years, the issues confronting the Board have increased in complexity, due in part to rapid changes in technology, such as new telecommunications opportunities spawned by development of fiber optic systems, as well as fundamental changes in the energy industry, such as the proliferation of small co-generation plants, the sale of energy to out-of-state utilities, and re-structuring of utility rates to encourage energy conservation. Since New Jersey residents now spend nearly \$4 billion per year to heat and cool their homes, these issues often carry major cost implications for the homeowner. Utility costs and regulation are also significant factors in business decisions, so actions of the Board affect New Jersey's ability to retain and attract industry.

NATURAL RESOURCES MANAGEMENT

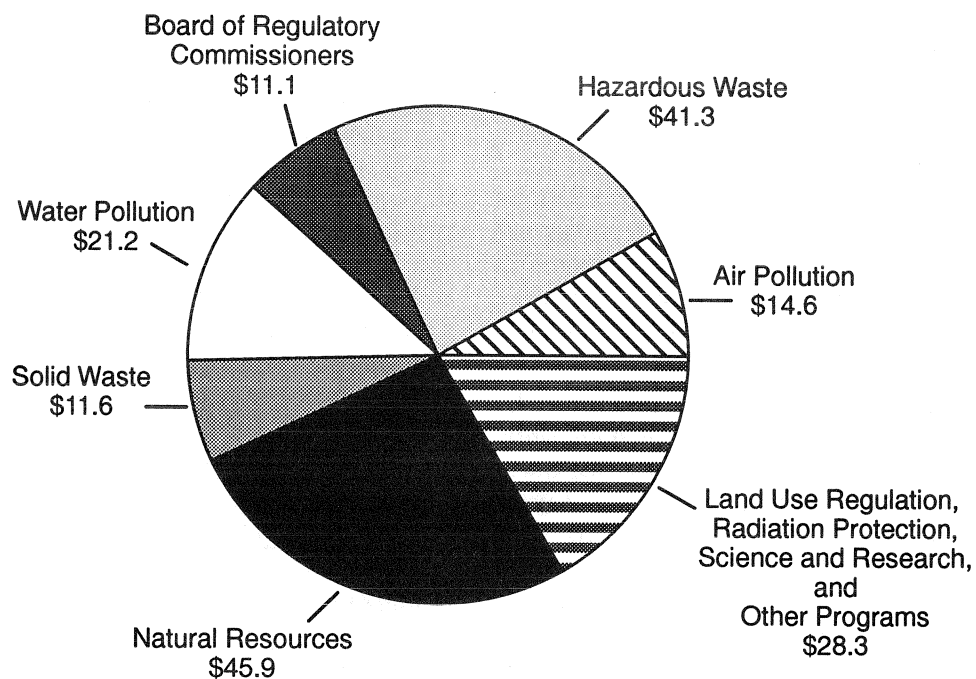
The Department's fiscal year 1995 budget for Natural Resources Management totals \$46 million, or 26 percent of DEPE's total State budget. This allocation is sufficient to keep all State parks open and to provide an adequate level of forest fire protection.

As an illustration of the importance of fee revenue to the DEPE, dedicated fees totaling \$11 million support the activities of Marina Operations and Fish and Game, while \$35 million from general revenues pays for Forest Management, Parks, Shellfish Management and the operations of the Palisades Interstate Park Commission. When dedicated fees are removed, the \$35 million for Natural Resources Management represents 75 percent of all DEPE funds derived from State general revenues.

Historically, DEPE has used bond funds to upgrade natural resource facilities and to expand recreational opportunities. Of the 21 bond funds actively administered by DEPE, 13 address natural resource needs, such as shore protection, open space preservation, flood control, dredging, dam restoration, and water supply. The open space issue has received particular attention. From 1961 to 1992 the State's voters authorized eight separate Green Acres bond issues. Proceeds from these bonds have preserved approximately 300,000 acres of land, or about 47 percent of the 640,000 acre goal for new open space acquisition identified in the DEPE's master plan.

**DEPARTMENT OF ENVIRONMENTAL PROTECTION
AND ENERGY**

**FISCAL YEAR 1995 BUDGET
(\$ in Millions)**



Total \$174

TRANSPORTATION

The transportation system of New Jersey is one of the critical success factors for our economic well-being. New Jersey is at the geographic center of the largest continuous metropolitan region of the country and has developed an extensive network of highways and feeder roads to support its business and industry. As an economic instrument, investment in the transportation infrastructure not only stimulates the economy in the short term, with each \$100 million investment in transportation infrastructure resulting in the creation of 3,000 jobs, but it also makes our region an attractive business location for the production and distribution of goods.

The mission of the Department of Transportation (DOT) is to build, operate, maintain and regulate the State's transportation system. This mission has evolved during the last decade from a primary focus on building and maintaining highways to promoting public transit use and ridesharing, and squeezing additional capacity from the existing highway system through high technology traffic management, computerized message, and electronic toll systems. In addition, controlling access to the State highway system and bus and rail safety have become major concerns. The Department also regularly resurfaces or reconstructs aging roads and bridges, expands existing highways to relieve congestion, upgrades and repairs traffic signals and highway lighting units, and plans for the state's future transportation needs. Through the New Jersey Transit Corporation, the third largest public transit entity in the country, 290,000 daily passengers are transported along 12 rail lines and 152 bus routes throughout the state.

DOT's fiscal year 1995 budget totals \$544.2 million and has three major components. The \$92.1 million operating budget funds roadway maintenance, regulatory activities and department administration. The public transportation subsidy, \$241.5 million, offsets the cost of fares, making public transportation a cost-effective alternative. The State contribution to the Transportation Trust Fund of \$210.6 million will allow DOT to continue to emphasize preservation of infrastructure, new public transit services and improvements, and "high tech" traffic management to promote both mobility and the improvement of air quality.

The \$92.1 million operating budget is \$24.3 million less than the fiscal year 1994 of \$116.4 million. Most of the difference, \$18 million, is the result of supplemental appropriations to fund increased snow removal costs and extraordinary road maintenance and repair associated with the snowfall this winter. The remaining

\$6.3 million are budget reductions that will be achieved through internal economies or appropriate shifts to the Transportation Trust Fund. The recommended funding maintains the Department's core activities with no reductions in the current levels of services. Increased federal resources will offset some of the State funding reductions in highway maintenance, and the use of toll road authority investments as matching funds for federal grants will offset the need for the State to provide a match for federal funds.

The State appropriation to New Jersey Transit totals \$241.5 million in fiscal year 1995, \$7 million less than the fiscal year 1994 amount of \$248.5 million. The reductions will be realized through managerial efficiencies with no change in service and with no fare increase for the fourth consecutive year. The funding level will allow NJ Transit to continue funding paratransit services under the Americans with Disabilities Act for state residents who are unable to use existing public transit services.

For federal fiscal year 1995, the federal government is proposing to phase out all mass transit operating assistance provided to the states, while increasing the amounts available for capital construction projects. Although NJ Transit would receive an increase in its annual federal capital appropriation, it would gradually lose the \$38 million in annual operating subsidies it receives. Under the federal budget proposal, NJ Transit would lose approximately \$9 million in federal funds in State fiscal year 1995. If this proposal is enacted, it may require an increase in the level of annual State operating assistance to maintain the current level of service.

The capital program, which is funded through the Transportation Trust Fund, will be one of the largest in the Department's history, well over \$1 billion dollars when combined with funding from the federal government. Preservation of existing infrastructure will be targeted, with particular emphasis on rehabilitation and replacement of bridges on both State and local roads. Other investments in traffic management systems and motorist advisory systems will relieve congestion and safety problems through more efficient movement of traffic, thus avoiding the need for costly roadway expansion. Additional investment in public transit facilities and equipment will provide additional options for New Jersey commuters. The overall goal of improving the mobility of New Jersey citizens is directed in a way that will also result in improving air quality for the state.

Components of the Budget

Transportation Trust Fund Changes

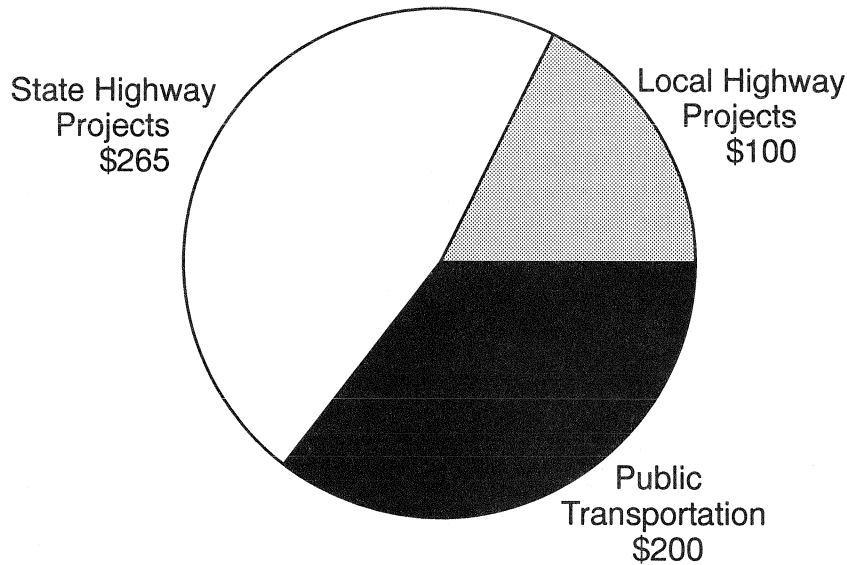
After a decade of declining transportation infrastructure investment, the State established the Transportation Trust Fund in 1984. The Transportation Trust Fund pays for the State's share of highway, bridge, public transportation and local government road and bridge projects. The Transportation Trust Fund Authority issues bonds to supplement the State's contributions to the Fund and is authorized to incur bonded indebtedness up to a total of \$1.7 billion at any one time.

In fiscal year 1995, the State appropriation to the Transportation Trust Fund will increase by \$50.2 million, from \$160.4 million to \$210.6 million. The appropriation will be provided by contributions from the State's toll road authorities (\$24.5 million) and by

dedicated gasoline tax revenues (\$186.1 million). Beginning in fiscal year 1993, funding for Transportation Trust Fund projects was shifted from a combination of pay-as-you-go appropriations and bonds to an exclusive reliance on bonds. Although this trend will continue in fiscal year 1995, the Department of Transportation will still be able to fund the maximum allowable capital program of \$565 million.

Thus, by utilizing the bonding capacity of the Transportation Trust Fund Authority in fiscal year 1995, the State can maintain its commitment to investment in infrastructure and economic recovery while focusing revenues on critical programs that have no funding flexibility.

NEW JERSEY TRANSPORTATION TRUST FUND FISCAL YEAR 1995 (\$ Millions)



EXPENDITURES – \$565 MILLION

PUBLIC HEALTH

Beginning with the traditional public health concerns of maintaining a record of births and deaths and detecting and preventing the spread of communicable diseases, the mission of the Department of Health has been transformed to fostering accessible, affordable quality health care for all residents of New Jersey. In the process, the Department has been confronted with significant changes in the scope and complexity of public health problems, of which AIDS is a prime example. Promoting public health in this context involves not only preventing disease but also promoting community awareness and action, and protecting those at special risk.

No one is at greater risk than a newborn child, and one of the Department's goals is to reduce infant mortality from 10.0 per 1,000 live births in fiscal year 1991 to 8.8 in fiscal year 1995. Outreach programs such as "A Pregnant Woman Never Drinks Alone" attempt to prevent birth defects and similar problems. In addition there are screening programs in effect to catch problems as early as possible. In fiscal year 1995, the Department's goal is to screen 135,000 newborns for neonatal deficiencies such as Phenylketonuria (PKU), galactosemia, hypothyroidism, and sickle cell, compared to 130,781 in fiscal year 1993.

The fiscal year 1995 budget will continue to provide basic public health services to the citizens of New Jersey, but with an emphasis on doing it more efficiently and with less bureaucracy. Even with this constrained budget, little or no service cuts were made in the area of AIDS, substance abuse, or family health services. The Department's budget provides funding to non-profit organizations that support local community-based health services. It also provides funding for the Department to inspect health care providers and provides a wide array of laboratory services to State and federal agencies, physicians, clinics, hospitals, local health departments, and other health care parties. Also, due to the availability of increased federal funds, the Department will increase inspections of clinical laboratories.

In recent years, the emphasis in the Department of Health has been on the regulatory side of the health care industry. However, because of the deregulation of hospital rates, this budget reduces the regulatory emphasis and begins to focus on providing consumers with information about health care. This will provide consumers with information needed to make informed choices in the new, deregulated hospital environment.

Funding is continued for indigent patients at acute care hospitals. In addition, the Essential Health Services

Commission will begin implementation of a subsidized health insurance program for individuals and families up to 300 percent of poverty.

Acquired Immune Deficiency Syndrome (AIDS)

The fiscal year 1995 budget recommends \$15.1 million for the fight against AIDS, which continues to be a public health priority in New Jersey. New Jersey continues to rank fifth nationally in the number of confirmed cases of AIDS and third in the number of pediatric cases. Since 1980, more than 19,899 cases have been reported in New Jersey, and more than 339,250 in the United States.

This budget continues a number of activities at current levels. Education and technical assistance will be provided to health care professionals and the public. Cooperative action among public and private agencies, organizations and groups will be encouraged, leading to the development of community-based counseling and treatment services. In addition, funding is recommended for early intervention programs that treat HIV-positive individuals with anti-viral drugs to help prolong life and mitigate symptoms, thereby preventing expensive hospitalization. This program provides financial assistance to 1,232 clients for the purchase of drugs, such as AZT, to be used in their treatment.

Tuberculosis

The resurgence of tuberculosis (TB), a disease once thought to be under control, is attributable to a variety of factors, including poverty in the inner cities, crowded prisons, non-compliance with medication regimens, and the AIDS epidemic. Particularly alarming is the appearance of drug-resistant strains of TB, which become even more difficult to treat if the patient does not complete a standard regimen of medication. Multiple drug-resistant TB is fatal in 50 to 80 percent of those who contract it. A recent sampling of active TB cases in six New Jersey cities indicates that 12 percent of the State's new cases are resistant to one or more of the standard prescribed treatments. The budget continues funding to treat and control the anticipated increase in drug-resistant tuberculosis. These funds will be used for intensified treatment, rapid laboratory identification, and stricter supervision to ensure that clients are completing their prescribed regimen of medication.

Public Health Laboratories

The Public Health Laboratory provides a comprehensive range of timely diagnostic services to most parties in the identification and control of disease and environmental threats. The service will continue to be provided on a 24-hour, seven-day-a-week basis.

Components of the Budget

FAMILY DEVELOPMENT

The social welfare assistance programs administered by the Division of Family Development (DFD) provide for the minimum income requirements of a diverse set of needy clients, half of whom are children, through direct cash assistance. In addition, a greater emphasis has been placed on reuniting and strengthening the family as a means of obtaining self-sufficiency, through the creation of the Family Development Program (FDP). The funding recommended for the Division in fiscal year 1995 totals \$559 million, an increase of \$15 million or three percent more than the current year.

Aid for Families with Dependent Children (AFDC) is the largest program. welfare clients are also automatically eligible for Food Stamps and for Medicaid. The average family is composed of a single parent and two dependent children, who receive a maximum of \$424 per month in welfare assistance payments. This represents 43 percent of the current federal poverty income guidelines; when combined with \$292 per month in Food Stamps, the percentage increases to 72 percent. The last welfare grant increase of 5 percent was provided in 1988.

Single individuals and married couples without children are eligible for the State-funded General Assistance (GA) program. Recipients who are employable receive \$140 per month while those who are unemployable receive \$210 per month. Recipients are also eligible to receive nursing home care, homemaker services, pharmaceuticals, and physicians' services. Additional-

ly, 10,500 GA recipients will receive temporary rental assistance and emergency housing assistance in fiscal year 1995.

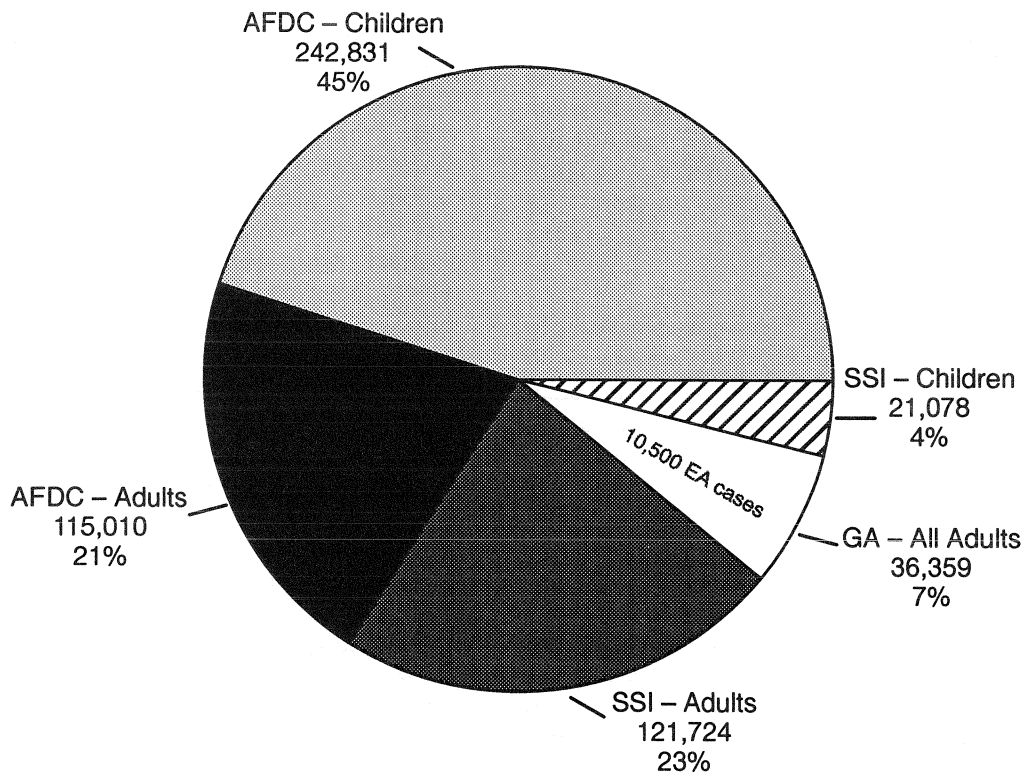
The Family Development Program significantly expands current education, training, and employment opportunities for recipients of both the Aid to Families with Dependent Children and the General Assistance programs. FDP is operational in eight counties for AFDC families and in Trenton for GA recipients. FDP moves beyond the federal Job Opportunities and Basic Skills (JOBS) legislation by setting a new direction of individual responsibility, family stability, and self-sufficiency. Greater emphasis is placed on education and training, including opportunities for higher education, in order to enable clients to pursue rewarding careers and a life independent of welfare. Regulations have been changed to encourage the formation of families by allowing AFDC benefits to continue following marriage. Comprehensive services are provided to other family members, not just the head of the household, so that the cycle of welfare dependency and poverty can be broken. Health care coverage has been extended from one to two years following employment to encourage self-sufficiency. The budget includes \$45 million for welfare reform training initiatives to provide services for an estimated caseload of 43,539 in fiscal year 1995. Additionally, \$4 million is recommended from the New Jersey Workforce Development Partnership Fund for training activities.

INCOME ASSISTANCE PROGRAMS FISCAL YEAR 1995 BUDGET (\$ IN MILLIONS)

INCOME ASSISTANCE PROGRAM	STATE FUNDS	FEDERAL FUNDS	LOCAL FUNDS	TOTAL FUNDS
AFDC	\$213.3	\$230.8	\$21.4	\$465.5
JOBS	\$8.6	\$11.4	\$0.0	\$20.0
GENERAL ASSISTANCE (GA)	\$204.5	\$0.0	\$0.0	\$204.5
EMERGENCY ASSISTANCE (EA)	\$28.6	\$25.7	\$2.6	\$56.9
SSI	\$67.7	\$757.3	\$0.1	\$825.1
FAMILY DEVELOPMENT	\$36.3	\$41.2	\$0.0	\$77.5
TOTAL	\$559.0	\$1,066.4	\$24.1	\$1,649.5

NEW JERSEY INCOME ASSISTANCE PROGRAMS FISCAL YEAR 1995 CASELOAD

NUMBER OF INDIVIDUALS



This chart includes participants funded from all funding sources.

THE MEDICAID PROGRAM

Medicaid is the State's health care program for an array of needy populations within New Jersey. Medicaid covers a full range of inpatient and outpatient hospitalization services, physician visits, dental care, prescription drugs, medical supplies, medical transportation, home health services, and long-term care. Starting in fiscal year 1995, the State will also undertake major managed care initiatives. It is estimated that all Medicaid services will cost the State \$2.1 billion in fiscal year 1995.

Medicaid costs have accelerated rapidly, and, as a funding mechanism, Medicaid has been utilized to expand services to broader populations. Yet, adequate health services still are not accessible in certain portions of the State. Consequently, the central policy dilemma of Medicaid is how to balance three often conflicting goals — controlling expenditures, providing access to high quality care, and dealing with pressures for program expansion to meet the health care needs of the uninsured.

Many Medicaid recipients also receive cash assistance through such programs as Aid to Families with Dependent Children (AFDC) and Supplemental Security Income (SSI). Numerically, AFDC recipients comprise the largest group of eligibles. However, there has been little growth of AFDC eligibles in recent fiscal years while the SSI population has been steadily increasing.

For Medicaid, as for the average health care consumer, the cost of care varies greatly depending upon the type of service received. That is, if an individual is hospitalized, the cost will be high, but a routine doctor's visit is relatively low. Thus, although AFDC recipients constitute 62 percent of all Medicaid recipients, they account for only 28 percent of Medicaid expenditures. The composite average Medicaid State cost for an AFDC recipient is \$130 per month.

A second Medicaid eligibility group consists of low-income persons who meet the federal Social Security criteria of age, disability, or blindness. Aged eligibles comprise 15 percent of Medicaid recipients and now account for 36 percent of expenditures. The high cost is largely explained by the provision of nursing home and hospital care to a growing number of elderly persons. Although disabled and blind eligibles comprise 23 percent of Medicaid recipients, they account for 36 percent of expenditures due to their high utilization of medical services and prescription drugs.

In fiscal year 1995 every effort has been made to preserve the State's comprehensive medical package

provided to eligibles and to maintain all eligibility groups in the face of the need for budget austerity. No services provided at the State's option have been eliminated nor have any eligibility categories. The savings that have been realized have been generated through administrative efficiencies and more effective business practices. Examples include competitive bidding of medical transportation services, federally mandated hospital service utilization reviews, and limiting payments to providers for durable medical equipment.

Starting in fiscal year 1995, the State will be phasing in mandatory managed care for AFDC clients. The process will begin in Camden and Gloucester counties, followed by Hudson County before the end of the fiscal year. Projected enrollment is 88,000 clients by the end of the fiscal year, with the remainder of the state to be included by the end of calendar year 1996. Managed care will provide the full scope of medical services by contract with Health Maintenance Organizations (HMO) licensed to operate in the State. The goal is to reduce health care costs for Medicaid eligibles by increasing accessibility, encouraging preventive health care practices, and reducing reliance on expensive hospital services.

MEDICAID EXPANSIONS

The Medicaid program serves persons who would otherwise be part of the growing pool of those without resources for health care. While insurance reform will reduce the number of those without health insurance, families with incomes at or near the poverty level will continue to be at risk. Those without health care insurance tend to receive limited health care, particularly preventive health care, reducing the overall well-being of the State's population.

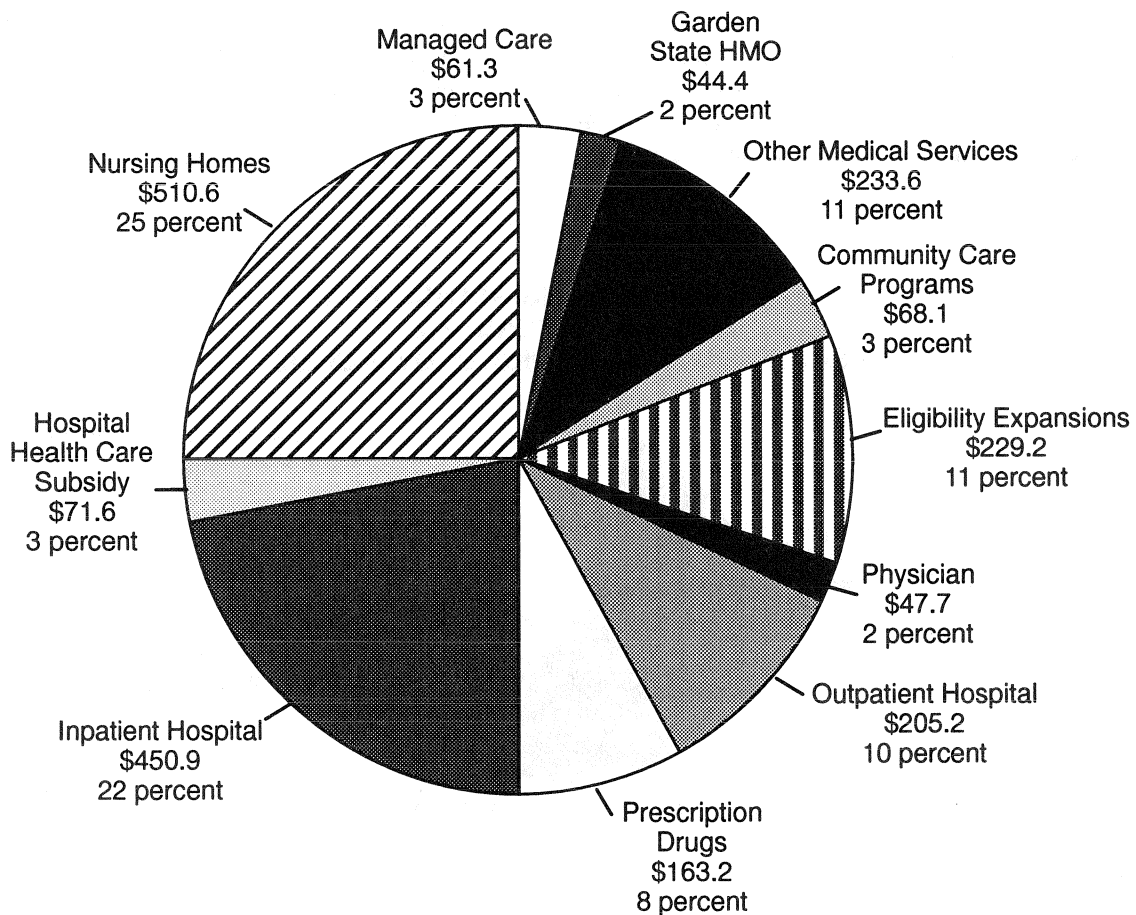
Consequently, Medicaid services have been made available to New Jersey residents with incomes above AFDC or SSI eligibility limits but at or near the federal poverty level. These individuals receive benefits under the New Jersey's Medicaid expansion program called New Jersey Care. The first expansion of eligibles included pregnant women, children up to age two, plus aged, blind, and disabled persons. A subsequent expansion extended Medicaid coverage to pregnant women, and children to age one, with family income up to 185 percent of poverty. Additional expansions have targeted older children. Each of these expansions reduces the level of uncompensated care in the State, provides services to persons before a health crisis develops, and receives 50 percent federal matching funds.

ALTERNATIVES TO INSTITUTIONALIZATION

In addition to the regular Medicaid program, there are programs that provide home-based and community-based alternatives to institutionalization for the elderly and disabled. Individuals must be at least 65 years old or determined to be disabled under the Social Security Act, and they must be in need of institutional (nursing home) level of care. Services include medical day care, medical transportation, case management, social adult day care, homemaker services, and respite care. These community-based services are funded from the Casino Revenue Fund (CRF), and most receive 50 percent federal matching funds. Also, New Jersey pioneered an AIDS community care program for those who would need institutional care when sufficient in-home care can not be provided. Case management, private duty nursing, and certain narcotics and drug abuse treatment are provided in the home.

This budget provides for 100 slots to be used for placements in new alternatives to nursing home care. Assisted Living will offer the nursing home candidate a coordinated and continuous array of supportive personal, health, and social services in an apartment building. Alternate Family Care will match families trained in long-term care giving with nursing home candidates who would be better served in the community. These nursing home alternatives are expected to have lower costs than traditional nursing care and will provide care in more appropriate settings. Community placement, when appropriate, has become a major theme, not just in Medicaid, but throughout the Department of Human Services. It represents both an effective and efficient mode of care, and it is a more economical use of scarce State resources.

**MEDICAID GRANTS-IN-AID
General and Casino Revenue Funds
(\$ in Millions)**



FY95 Total – \$2,085.8

Components of the Budget

PHARMACEUTICAL ASSISTANCE TO THE AGED AND DISABLED

The Pharmaceutical Assistance to the Aged and Disabled (PAAD) program reduces the cost of prescription drugs to a vulnerable segment of the population. This program pays the full cost of prescriptions for eligible individuals, less a \$5 copayment to be paid by the recipient. This copayment was raised to \$5 from \$2 in fiscal year 1993; the first increase since 1979. The program, which serves approximately 211,000 aged and disabled persons, is recommended at \$163.9 million for fiscal year 1995.

The financial savings to individuals for prescription drugs are substantial. The typical elderly person averages more than 22 prescriptions per year at an average cost of \$42.61, resulting in a \$937 savings. For a disabled individual, the typical savings are \$1,867 based on an average of 35 prescriptions per year at an average cost of \$53.36.

The program has three distinct eligibility groupings. These generally reflect the program's evolution, in which income standards for eligibility were increased in consideration of cost of living increases, or expanded to include new participants. The original program was established in 1975 for persons over 65 years old with incomes under \$9,000 if single, or under \$12,000 if married. When resources were made available from the Casino Revenue Fund (CRF) in 1981, pharmaceutical assistance was extended to aged individuals with a higher income, up to \$13,650 if single and \$16,750 if

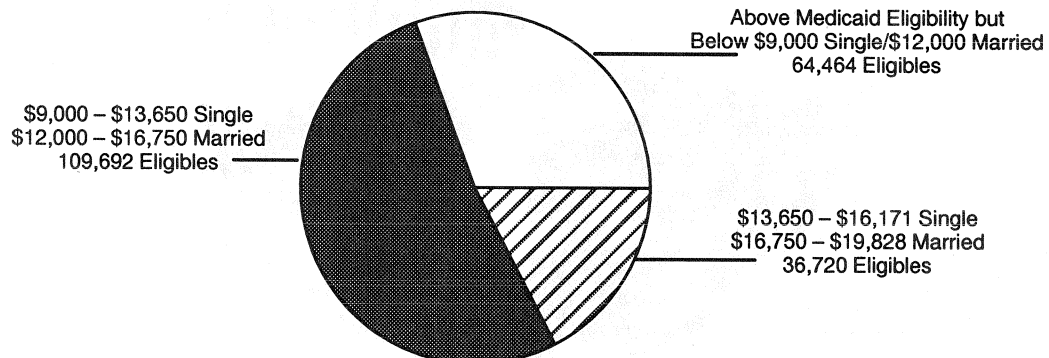
married. Eligibility was also expanded to include persons deemed disabled under federal Social Security criteria. All disabled individuals with incomes up to \$13,650 (single)/\$16,750 (married) were funded by the Casino Revenue Fund. Since that time eligibility has been expanded to include single persons with incomes up to \$16,171 and married persons with combined incomes up to \$19,828.

The State initiated a pharmaceutical manufacturers' rebate program in July 1992, similar to the federally mandated rebate for the Medicaid program. Under this program, pharmaceutical manufacturers that participate in the PAAD program are required to provide rebates to New Jersey, reflecting a "bulk purchase" discount. More than \$46 million in rebates is expected in fiscal year 1995. Further savings in fiscal year 1995 will also be possible because the State is changing regulations to allow for additional discounts for the purchase of drugs costing \$30 or more. This will result in savings of more than \$2.3 million without increasing the costs of prescription drugs to PAAD participants.

LIFELINE

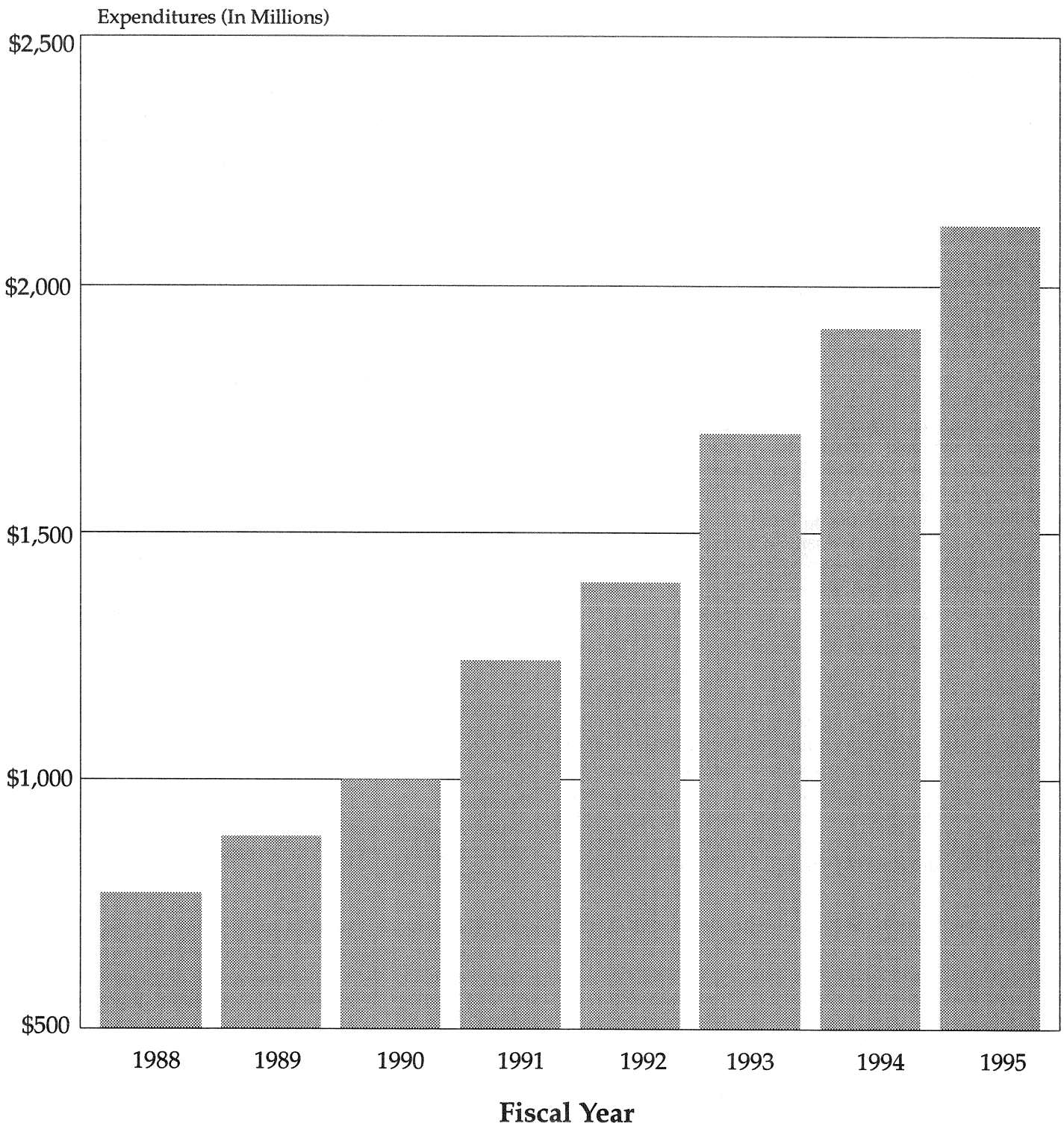
In addition to pharmaceutical assistance, PAAD eligibility also confers entitlement to Lifeline home energy payments of \$225 annually per household. The Lifeline Tenants program is funded from the General Fund while the Lifeline Credit program for homeowners is funded from the Casino Revenue Fund. Total Lifeline benefit expenditures of \$73.5 million are anticipated in fiscal year 1995.

PHARMACEUTICAL ASSISTANCE TO THE AGED AND DISABLED FISCAL YEAR 1995 ELIGIBLES BY INCOME



ANNUAL INCOME ELIGIBILITY LIMITS

Medical Assistance and Health Services
State Expenditures for Medicaid, Pharmaceutical Assistance and Lifeline
(General Fund Only)



Beginning fiscal year 1993, includes programs previously funded by the Casino Revenue Fund.

Components of the Budget

COMMUNITY, SOCIAL AND INSTITUTIONAL SERVICES

COMMUNITY AND SOCIAL SERVICES

Community Mental Health—Mental Health community services are provided by 172 contracted private community mental health agencies and by two mental health centers associated with the University of Medicine and Dentistry of New Jersey. These services are provided to persons who have previously been in institutions, are at risk of psychiatric hospitalization, or who are suffering from emotional distress in daily living. Community mental health centers are contacted by clients more than 240,000 times each year.

The major goal of clinical intervention is to enable clients to relieve distress and permit them to function as independently as possible, using a variety of services. Emergency services — provided on a 24-hour basis — are designed to stabilize individuals through assessment, intensive supervision, medication monitoring and general crisis intervention. Residential services provide a live-in setting, in the least restrictive environment necessary, that ensures safety and helps the client achieve personal growth by living independently. Treatment is provided on an outpatient basis to people who are not in an immediate crisis; such services may include individual, group or family therapy, medication monitoring, clinical assessment and outreach. Partial care settings provide several hours of daily program involvement designed to increase the client's individual independence and community living skills.

Clinical case management ensures that clients receive services that are unified, coordinated and integrated to meet their specific needs. Primary activities include assessment, service planning, various therapeutic interventions, ongoing monitoring and referral to other services. Community treatment often provides an alternative to institutionalization for adults and children. The recommendation for fiscal year 1995 contains \$15.4 million in State funds to support community programs developed to serve 450 patients in alternative treatment programs in the community.

Youth and Family Services—The Division of Youth and Family Services (DYFS) is the State's primary provider of social services within the community. As the State's child welfare agency, DYFS focuses much of its activity on abused, neglected and delinquent children and their families. Services may be provided directly from the Division or from community agencies contracted under its supervision. Current projections indicate that approximately 44,500 children will be served during fiscal year 1995.

The Division's substitute care programs offer temporary or permanent care to clients whose needs prevent them from remaining in their own homes. Probably the best known alternative is foster care for children whose families are unable or unwilling to provide appropriate care for them. The number of foster care placements is expected to remain relatively stable during fiscal year 1995, which is true of all major placements served by the Division of Youth and Family Services. In addition, private and state-operated residential facilities are available for children who require more intensive treatment and closer supervision than they receive in other less restrictive community settings. Alternative living arrangements may be established for older adolescents to prepare them for self sufficiency. Finally, adoption subsidies are provided to encourage the permanent placement of special needs children.

Community-based family support services are designed to assist families in crisis and to preserve and strengthen families. "Wrap-around services" provide a network of family-oriented activities individually tailored around a child with serious emotional or behavioral problems. The term "wrap-around" reflects the goal of considering total client needs and preventing residential placement. Some other contracted services developed and monitored by the Division are homemaker, companionship, employment, housing, legal, and psychological/therapeutic services. The fiscal year 1995 budget will include additional federal funding in the amount of \$2.7 million from Title IV-B for the Family Preservation and Support Services program. The funding is intended to be used for community based preventive activities such as respite care for parents and care givers, early developmental screenings, mentoring, tutoring, and health education programs. This program is also designed to help families alleviate crises that might lead to out-of-home placements by use of more intensive family counseling services.

Another major component of DYFS community services is child care. DYFS directly subsidizes approximately 220 community day care centers in addition to operating eleven State-owned centers. The fiscal year 1995 budget recommends the privatization of six of these eleven centers as a cost saving initiative with no impact on the 347 children currently being served. Purchase of day care is also subsidized through vouchers, which give a family the ability to purchase its own choice of day care.

Community Services for the Developmentally Disabled—The Division of Developmental Disabilities offers a wide array of residential and support services for individuals in community settings. Residential programs include group homes, supportive living arrangements, supervised apartments, skill development homes, family care homes and private institutional placements. Many individuals also participate in an adult day program, which includes adult activities, supported employment, and extended employment programs. School-aged children receive day training services. Respite/Home Assistance programs provide families short-term relief from the often difficult task of caring for a developmentally disabled family member at home.

All programs are designed around clients' individual needs and their level of independence. As developmentally disabled individuals move through the series of community services, they develop the skills associated with living a more normal life.

Residential programs such as group homes, supervised apartments, supportive living arrangements, skill development homes and family care homes (the same as foster care) represent a continuum of living arrangements, from the least restrictive (family care home) to the most restrictive (group homes, supervised apartments). Individuals residing in family care homes lead very normal, productive lives with very little supervision. Most have full-time jobs and are active members of the community. Group homes, on the other hand, have around-the-clock staff supervision and most of the residents participate in an adult day program. Group homes and supervised apartments provide residential living arrangements for six to eight individuals. Skill development homes and supportive living arrangements are less restrictive than group homes. Many residents participate in supported employment or extended employment programs with the help of a job coach or staff member.

The fiscal year 1995 budget recommends funding for 964 individuals to be placed in private institutions, 136 in family care, 1,420 in skill development homes, 3,167 in group homes, and 5,623 in adult activities.

Juvenile Programs—The Division of Juvenile Services incorporates 27 residential and community centers and 23 day programs. Generally, these programs have been successful in keeping children out of the juvenile institutional system, thereby creating long-term savings for the State. In addition, the Division works with local communities, governments, and other institutions to develop innovative programs

and ideas about juvenile treatment that can save New Jersey money even in the short term. An example of this effort is Project C.O.R.E. (Communities Organized to Reclaim their Environments). This program targets inner city male youths in Newark and Essex County through a contract with Cook College, Rutgers University that provides interrelated supervision and educational assistance by the Division, the University, and the community. Key to the program is the development and implementation of the C.O.R.E. Service projects, which are designed to involve the juveniles in the revitalization of distressed urban communities.

A budget of \$27.5 million is recommended for the Division of Juvenile Services for fiscal year 1995, an amount sufficient to provide care, supervision, and treatment to almost 750 young individuals.

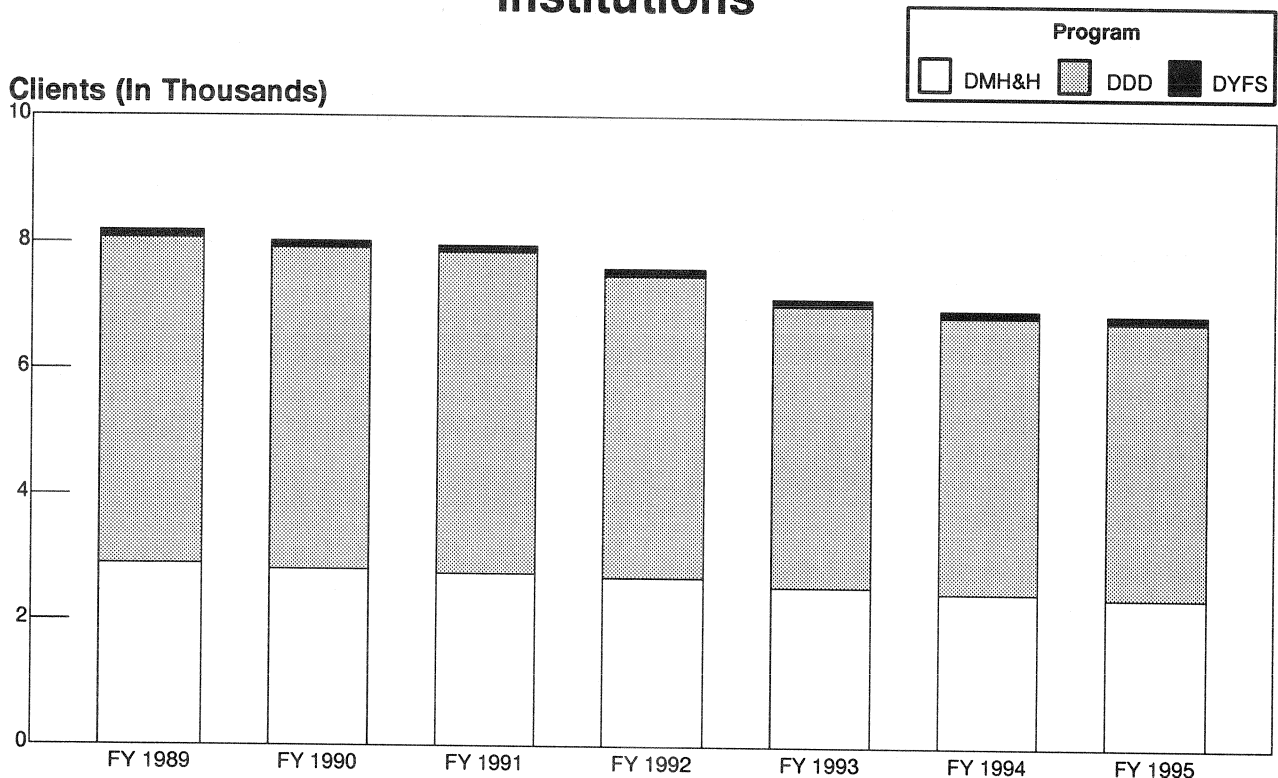
INSTITUTIONAL CARE

Psychiatric Hospital Care—The State maintains seven psychiatric hospitals to serve voluntarily or legally committed mentally ill persons. The facilities include one geriatric facility for those who have an additional need for skilled or intermediate nursing and medical care, and one facility for preadolescent school age children and adolescents who have been legally committed. In 1995, the number of patients at the mental health institutions is anticipated to average 2,401. Marlboro Psychiatric Hospital is the largest of the hospitals, averaging 642 patients on any given day. The Arthur Brisbane Child Treatment Center, the smallest facility, houses an average of 45 patients.

The seven hospitals target seriously mentally ill persons who suffer severe and persistent emotional disorders that disrupt their personal lives. Alcohol and drug abuse may complicate a patient's disorders and resulting treatment. The psychiatric hospitals provide medical intervention, a protective therapeutic environment, and various rehabilitative, vocational and treatment services. The goal of treatment is to prevent the onset of acute illness or limit its duration, so that patients can return to the community as rapidly as possible, with community care support, if necessary.

Counties operate a total of six psychiatric hospital facilities. The combined number of patients at these county hospitals averages 650. Essex is the largest of the hospitals, averaging 297 patients. The smallest and newest hospital is Runnells in Union County, averaging 13 patients. The State provides funds for 90 percent of the maintenance costs of county patients.

Average Daily Population Institutions



DYFS	0.121	0.112	0.107	0.115	0.113	0.113	0.113
DDD	5.178	5.109	5.11	4.8	4.478	4.402	4.402
DMH&H	2.9	2.814	2.752	2.696	2.556	2.469	2.401

Developmental Centers—Developmental centers provide residential, habilitation and educational services for the developmentally disabled. These facilities traditionally have been viewed as places that provide food, shelter and basic care for their residents. In addition to these basic services, however, residents receive habilitation services which may include basic skills in grooming, eating and toilet training (activities of daily living) and educational services (reading, writing and arithmetic).

In fiscal year 1995, an estimated 4,402 individuals will reside in the centers, a significant reduction of 776 from the 5,178 residents living in institutional facilities in 1989. New Jersey is committed to reducing the populations in developmental centers while providing a wide variety of residential and support services in the community. The State recently closed two facilities that

had not been certified under the federal Intermediate Care Facilities/Mental Retardation (ICF/MR) program, the Edward R. Johnstone Training and Research Facility and the Developmental Center at Ancora. This further reduces the number of non-certified beds in New Jersey. In recent years, the budget has also included separate initiatives to reduce the number of non-certified bedspaces at Vineland (256 beds) and Woodbine Developmental Centers (100 beds). In fiscal year 1995, 247 non-certified ICF/MR beds will be converted to certified status by the addition of 102 staff supported by \$2.9 million in new federal funds.

Overall, New Jersey will have reduced the number of non-certified beds from 1,464 in fiscal year 1989 to 480 as of the end of fiscal year 1995 by a combination of depopulation of clients to community care or conversion of bedspace to certified status.

**COMMUNITY CARE PROGRAMS
APPROPRIATED DOLLARS
(in thousands)**

Program	State	Federal and All Other	Total
Division of Mental Health and Hospitals	\$ 144,183	\$ 14,312	\$ 158,495
Division of Developmental Disabilities	195,875	144,624	340,499
Division of Youth and Family Services	227,814	82,154	309,968
Division of Juvenile Services	17,080	8,303	25,383
TOTAL	\$ 584,952	\$ 249,393	\$ 834,345

**INSTITUTIONAL PROGRAMS
APPROPRIATED DOLLARS
(in thousands)**

Program	State	Federal and All Other	Total
Division of Mental Health and Hospitals (State)	\$ 213,202	\$ 1,972	\$ 215,174
Division of Mental Health and Hospitals (County)	79,392	—	79,392
Division of Developmental Disabilities	201,854	110,917	312,771
TOTAL	\$ 494,448	\$ 112,889	\$ 607,337

CORRECTIONS

The Department of Corrections is responsible for the confinement of criminals and the preparation of these individuals for return back to the community. The Department operates within a complex network of law enforcement agencies and the courts, which influences the number of inmates incarcerated in the State prison system. Following years of rapid growth, the adult prison population declined slightly during the first half of fiscal year 1993. However, during late fiscal year 1993 and into fiscal year 1994, admissions have, once again, dramatically outpaced releases causing concern for an already overcrowded correctional system. By the end of fiscal year 1995, the inmate population is expected to exceed 24,700.

The State's ability to use county jails to house State inmates on an emergency basis will end April 22, 1994, because of a court order. After that date, the State can only place inmates in county facilities based on contractual agreements with the counties. The Department is exploring various options to move inmates out of county facilities in order to comply with the court order and reduce reliance on the use of county facilities. Some of the options being considered include double bunking in State facilities, re-establishing the Electronic Monitoring/Home Confinement Program, and expanding drug and alcohol treatment programs.

The Department's recommended budget is \$677.6 million for fiscal year 1995. This amount will provide custody, care, supervision, and treatment for approximately 68,000 inmates and parolees.

PRISONS

A recommendation of \$484.2 million for prisons will continue the present level of custody, supervision, education, treatment and other programs for approximately 19,200 adult inmates. The recommendation includes \$1.1 million for full years' costs for the operation of a 264 bed expanded capacity unit at the

Edna Mahan Correctional Facility for Women that is expected to open in the spring of 1994.

The recommendation of \$98.9 million to counties will provide funding to handle the backup of State inmates in county facilities, which is expected to average approximately 4,100 in fiscal year 1995. If a significant number of State inmates need to be removed from the county jails, funding will be reallocated to alternative programs.

Construction on a 3,000 bed prison in Bridgeton is expected to begin in fiscal year 1994. Inmates are scheduled to be housed there beginning in fiscal year 1996.

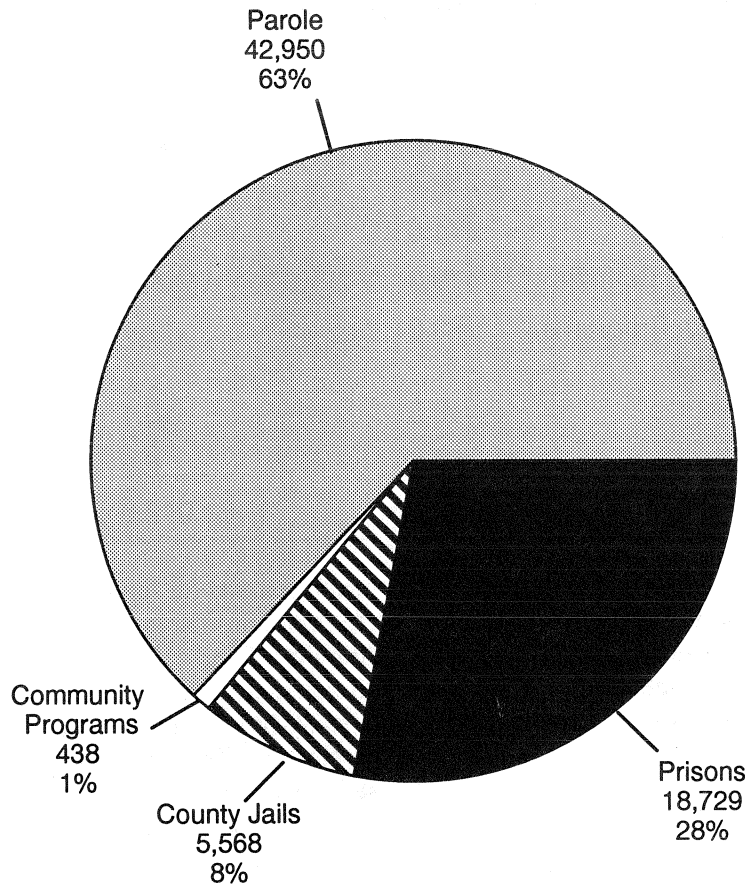
More than 7,000 employees currently provide custody, care, supervision and treatment of inmates housed in State prisons and youth correctional facilities. Of these, more than 70 percent are correction officers and supervisory staff. The remaining employees provide support and treatment services, such as medical, psychological, and food services.

PAROLE AND THE STATE PAROLE BOARD

In fiscal year 1995, \$20.5 million will support the supervision of approximately 43,000 parolees as well as inmates assigned to the Intensive Supervision/Surveillance Program (ISSP) or assigned to halfway houses. The ISSP is an alternative to returning parole violators to institutional confinement. Inmates who are within six months of their parole date or parole eligibility hearing date participate in this program in lieu of serving their sentence in an institution or halfway house.

The Parole Board's budget is recommended at \$7.2 million. This will allow the Board to meet the increasing demand of the overcrowded prison system by conducting the required number of hearings and reviews. The Parole Board is expected hold more than 44,000 hearings and reviews in fiscal year 1995.

**NUMBER OF INMATES AND PAROLEES
UNDER
DEPARTMENT OF CORRECTIONS SUPERVISION
ENDING FISCAL YEAR 1995**



TOTAL UNDER SUPERVISION = 67,685

Components of the Budget

EMPLOYEE BENEFITS

Like other employers, the State provides a variety of benefits to its employees, including the employees of the State colleges and universities. Some of the benefits are required by federal or state law, while others are negotiated with the employee unions. Employees contribute toward most of their benefits, directly through salary deductions or indirectly through

copayments or deductibles, as determined by the law or negotiated agreement.

In fiscal year 1995, employee fringe benefits will total \$1.05 billion. The major components of the benefits package and their budgeted amounts for fiscal years 1994 and 1995 are displayed below (\$ in millions).

Employee Benefits	FY 1994 Appropriation	FY 1995 Recommendation	Difference
Pension Systems	\$ 284.4	\$ 188.9	\$ (95.5)
Social Security Taxes	271.0	300.0	29.0
State Employees Health Benefits	479.3	457.0	(22.3)
Other Employee Health Programs (Dental, Drugs, Vision)	80.3	77.7	(2.6)
Unemployment Insurance	10.5	10.1	(.4)
Temporary Disability Ins.	<u>5.0</u>	<u>8.9</u>	<u>3.9</u>
	\$1,130.5	\$1,042.6	\$ (87.9)

In fiscal year 1995, inflationary costs will be mitigated by the surplus in the health benefits fund which resulted from a lower than expected expenditure over the last few years. In addition changes in the pension systems allow the State to further reduce costs without changing benefits.

EMPLOYEE PENSIONS

The largest State pension system is the Public Employees Retirement System (PERS). The recommendation for this system is \$5.6 million, \$142.8 million less than the fiscal year 1994 appropriation. A recommendation of \$56 million is made for the Alternate Benefits Program, which covers faculty at the state's colleges and universities. The recommendation for the Police and Firemen's Retirement System is \$62.5 million, or \$29.3 million more than the appropriated level for fiscal year 1994. All the remaining State pension recommendations total approximately \$64.7 million.

It should be noted that the fiscal year 1995 recommendation for all pensions, all funds, includes approximately \$765.9 million in savings attributable to a revision to the accelerated payments schedule of

health benefits for future retirees, as well as a change in the mortality tables of the Teachers' Pension and Annuity Fund (TPAF), a two percent subsidy elimination, an actuarial change, and elimination of the cost-of-living allowances pre-funding for active employees. Those changes are expected to continue to save the State approximately \$750 million in each of the next few fiscal years. The pension systems affected include the PERS, the TPAF, the Police and Firemen's Retirement System, the State Police, and the Judicial Retirement Systems. If the changes were not instituted, an increase of approximately \$341.7 million would be necessary.

STATE EMPLOYEES HEALTH BENEFITS

State employees' health benefits are recommended at \$457.0 million, a decrease of 4.6 percent. This coverage is provided for approximately 92,000 employees, including those employed by State colleges and universities, through three plans: the traditional plan (37,000 employees); health maintenance organizations (40,000 employees); and a preferred provider organization called New Jersey Plus (15,000 employees). Premiums in the traditional plan are decreasing an average of 5.3 percent, and in the HMO's an average of

6.4 percent. Nationally, traditional coverage is increasing 10 percent, and 5.6 percent for HMO's.

Other health programs recommendations include Prescription Drugs (\$58.4 million), Dental Care (\$17.9 million), and Vision Care (\$1.4 million). Each of these programs requires some form of employee copayment.

Currently, there are many programs designed to eliminate or reduce the rate of increase in health benefits reflected in these recommendations. One such program encourages the use of generic prescription drugs. The copay for non-generic drugs has increased while the copay for generic drugs has decreased. This change reduces the cost of generic drug prescriptions to both the employees and the State by deterring the purchase of the more expensive name-brand drugs.

In addition, the State continues to educate the workforce about the various methods available to save on personal health expenses while helping the State contain costs.

For example, it may be to the advantage of some employees to switch from the traditional health coverage to the New Jersey Plus program, or a health maintenance organization. The employee and the State would realize savings. The State suggests utilization of the mail-order prescription purchase program. This purchase method can be used for maintenance drugs and requires no copay from the employee. The State maintains a contract with a mail-order firm that will mail the prescriptions directly to one's house, and charge the State a reduced price. Total savings to the State will be dependent upon employee use.

SOCIAL SECURITY TAX

An increase of \$29.0 million in the State share of Social Security taxes is necessary due to the higher salaries resulting from the payment of merit increments and negotiated salary increases, as well as an increase in the maximum salary to which social security is applied.

Components of the Budget

PUBLIC INFRASTRUCTURE

The State provides for its capital needs—land, buildings, and other improvements—in one of three ways. First, the needed facility may be acquired or built directly, with financing coming from bonds approved by the voters. The annual cost of acquiring these facilities through bonds appears as Debt Service appropriations. Second, the State either rents space or enters into lease-purchase arrangements funded through the Property Rentals account. Third, significant construction, repairs, additions, or similar modifications to new and existing facilities are also made using annual appropriations for Capital Construction.

CAPITAL CONSTRUCTION

The Capital Construction Budget is a result of the development and submission of seven-year capital plans by agencies, the review and recommendations of the New Jersey Commission on Capital Budgeting and Planning, and the selection by the Governor of the projects to be funded in the budget to address repairs, renovations, improvements, and absolutely necessary capital replacements. Due to revenue constraints, capital funding was scarce for several years and many State facilities now require significant investment. The following discusses the fiscal year 1995 capital appropriations.

The single largest item in the Capital Budget is a \$210.6 million recommendation for the Transportation Trust Fund. A review of this fund appears in the Transportation Section.

The remaining Budget recommendation contains a \$233.4 million appropriation which will be utilized to fund the highest priority items during the year. In the Capital Plan, the agencies requested and the Capital Commission recommended the following items which will be among the projects considered for funding:

Environmental Protection

In addition to \$15 million of Shore Protection Program funding provided for in this budget, which will finance the State's share needed to garner Federal Water Resource Development Act (HR-6) funds, nearly \$7 million is made available for flood control, mosquito control, lakes and wild life management projects and projects that will improve the navigational safety of the State's waterways.

Specifically, the Shore Protection Program Fund will provide \$1.5 million for US Army Corps of Engineers

Feasibility Studies and \$1.3 million for a beachfill project at Sea Bright/Monmouth Beach. These two projects will generate \$23.8 million in federal matching funds under the Water Resources Development Act of 1986 (HR-6) and \$2.1 million in local matching funds. In addition \$750,000 is allocated for a public access project, \$450,000 for dune repairs, \$1 million for FEMA Shoreline Monitoring, \$5.9 million for beachfill projects at Avalon, Long Beach Township and Keansburg, and \$3.2 million for a Bulkhead replacements at Brigantine and Atlantic Highlands. These projects will generate \$3.7 million in local matching funds.

Correctional Facilities

The fiscal year 1995 budget request will fund a broad range of projects essential to the safe and efficient operation of the prisons and their support systems. These projects include replacing locking mechanisms, upgrading sewage treatment capabilities, repairing and improving heating systems, renovating prison gymnasiums, kitchens and inmate work areas, replacing roofs, and upgrading electrical systems.

Colleges and Universities

Although bond funds have addressed substantive capital needs and the Sports and Exposition Authority is funding a Rutgers Stadium project, New Jersey's higher education institutions have had to defer a number of maintenance projects due to the lack of recent capital funding. This budget will enable the Department to address these problems, together with fire and life safety projects.

Mental Health and Hospitals

This budget funds infrastructure and maintenance projects at both Human Services institutions and community facilities. Long overdue attention to deferred maintenance at various Developmentally Disabled and Youth and Family Services training and residential group homes would be accomplished through this budget. Funding included in this budget, along with previously appropriated bond funds would also fulfill the resource requirements to complete the Forensic facility.

Law Enforcement and Vehicular Safety

This request would provide for the centralization of all regional maintenance, firearms qualification, and training operations, as well as evidence control at the new Southern Regional Headquarters in Buena Vista

Township. In addition, this request would address health and safety issues, and maintenance projects at Motor Vehicle Services facilities.

The Clean Air Act

This budget includes funding the first year Capital requirements necessary for compliance with the Federal Clean Air Act.

Veterans Programs and the New Jersey National Guard

This budget provides for fire protection and critical preventive maintenance projects at armories, training facilities and Veterans' Homes.

The Capital Complex and Compliance Mandates

This budget provides for preservation, improvement, and replacement projects at all facilities in the Capital Complex. Also, necessary funding would be made available to supplement available appropriations which must be used to support the renovations of the Justice Complex. This budget provides funding necessary for compliance with mandated issues including the Americans with Disabilities Act, underground tank removal and replacement and hazardous material removal and mitigation.

DEBT SERVICE

The State finances capital construction, land acquisition, local aid, or other program needs through the issuance of voter-approved long-term general obligation bonds (debt backed by the full faith and credit of the State). Once bond authorizations, including the purpose and dollar amount, have been approved by the Governor, the Legislature, and the New Jersey voters, specific appropriations are made by the Legislature for part or all of the monies authorized by the bond. As actual funds are needed for the appropriations, the State sells bonds, thus incurring debt service payments – principal and interest – to bondholders.

The fiscal year 1995 debt service payments on all outstanding General Obligation Bonds amount to \$449.4 million. However, due to a December 1992

Refunding Bonds sale of \$1.8 billion, most of these payments will be made from an escrow account created from a portion of the bond proceeds. Accordingly, the direct State appropriation required for debt service payments is only \$103.6 million. In FY 1996, with the end of the escrow account for current payments, Debt Service on existing bonds is estimated to be \$451.1 million.

PROPERTY RENTALS

Office space and other rentals for State agencies are paid from the Property Rentals account, which is recommended at \$186 million for fiscal year 1995. This account also supports lease-purchase rental agreements for buildings whose titles will pass to the State upon the final lease payment.

The Rent account contains funding for existing and anticipated leases. Further, under lease-purchase agreements, the State funds the New Jersey Building Authority's debt service \$15.7 million for the several recently constructed buildings in and about Trenton. In January 1994, the Building Authority refinanced its debt and sold bonds which will finance the new prison in Bridgeton. Other projects financed by these bonds include historical renovations of the Old Barracks, the War Memorial Building and brownstone structures adjacent to the State House, and renovation and reconstruction projects at the Labor Building, the Taxation Building, the Education Building and the State House Complex. The increase in debt service payments for the new projects will not occur until fiscal year 1996.

The Richard J. Hughes Justice Complex has been financed by the Mercer County Improvement Authority under a lease-purchase agreement whose fiscal year 1995 payment is in the amount of \$7.3 million. The Economic Development Authority payment of \$12.9 million is required to fund the payments for the Trenton Office Complex, and other lease-purchase agreements.

A \$16.6 million increase is needed for the Sports and Exposition Authority to bring payments to \$35.3 million in fiscal year 1995, for its projects throughout the state, including renovations at the Rutgers Stadium, the Meadowlands Complex, and Monmouth Racetrack.