Citizens' Guide to the

Fiscal 2008 Appropriations Act

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Citizens of the State of New Jersey:

In an effort to rebuild public confidence in the decision-making process that constitutes our State Budget, I am pleased to provide the "Citizens' Guide to the Fiscal 2008 Appropriations Act." All of the major funding decisions and policy initiatives for this fiscal year are highlighted in this document, representing the most comprehensive summary of the final Appropriations Act in the history of our State. This publication completes the set of budget process reforms that the leadership of the Legislature and I recommended in February 2007, all of which were successfully implemented. Collectively, these reforms increase the public accountability and transparency of our final decisions, which affect the lives of so many.

Respectfully,

Jon S. Corzine
Governor of New Jersey

Citizens' Guide to the Fiscal 2008 Appropriations Act

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Governor Corzine's Remarks on the Fiscal 2008 Budget Agreement

Governor's Outer Office
June 28, 2007
As Delivered

Good afternoon everyone.

First of all, let me welcome my colleagues from the legislature, particularly Senate President Codey, Speaker Roberts, Assemblyman Steele and Payne, Budget Chairman Greenwald, Budget Chairman Majority Leader Kenny, and Senator Buono.

It is good to be with you on some day other than July 4, July 3, or July 2. I am very pleased that we have an early signing of the Fiscal Year '08 budget.

Before I start, let me say, yesterday, a number of us attended a funeral of what I think is the solid epitome of a public servant, Byron Baer.

Too often in New Jersey, we focus on the negatives of what is done in public service.

[Byron Baer's] life and his public service, I think, demonstrate fairly clearly for anyone that checks the record that there are people who are tremendous people who do the public's work.

The remarks of Senate President Codey I think struck home to all of us that were there.

That is a path that sometimes in the next few days, thanks to the very good work of the Senate Judiciary Committee, Stuart Rabner will take the oath of office as the next chief justice of the judiciary and Anne Milgram will become attorney general. Two people who are of high character and strong reputation, and I am very, very proud that this is a statement, in my view, that good people entering into public service can make a difference and they will as we go forward.

Let me turn back to the budget. I'm glad to say that I'm not going to miss the cot this Fourth of July.

I do want to make very clear, right from the start, that I believe this budget is fiscally sound and fiscally responsible, and affirms both the Legislature's and my commitment to providing substantial property tax relief in the context of sound budgeting principles – principles that were hard fought for in last year's budget, and that we maintain in this year's.

It spends only what we can pay for, carves out new efficiencies and savings, avoids the short-term gimmicks of some past budgets, and upholds our commitments to the most vulnerable in our state. And, it was proposed, debated, and passed both on time and with unprecedented transparency.

Unquestionably, I believe this is a good budget for the people of the State of New Jersey. I want to thank my colleagues who are here with me, particularly Senate President Codey, Assembly Speaker Roberts, for their leadership and their cooperation. We worked very closely in getting to this final product.

It is the earliest any budget has been signed and produced in any recent memory -- I can't find an earlier budget.

I congratulate other leadership, Senate Majority Leader and Budget Committee Chairman Bernie Kenny, Assembly Majority Leader Bonnie Watson Coleman, Assembly Budget Chairman Lou Greenwald, and all of those who participated in and strengthened the budget process, made it more accountable to our citizens, whose lives it affects, but we didn't lose track of having recurring revenues match recurring expenditures.

I would also like to express deep appreciation to a lot of people who you don't know who worked on this budget. You've seen Treasurer Abelow around the statehouse, but Dave Rousseau, Charlene Holzbaur, Bob Peden, all the professionals at OMB have worked over four or five months in an extraordinary way to put this together. My legislative Deputy Chief Patti McGuire, my Chief Counsel Ken Zimmerman, Policy Counsel Heather Howard, and all of their staff, have truly contributed to making this, I think, a very excellent product – and I'm sure the leadership feels the same way about OLS staff and people who worked on it. Too often, they're not recognized for the great work, the hard work they do for all of us.

As we embarked on this budget process this year, I had five broad objectives which I posed as questions, more rhetorical, but I wanted answered:

One, what could we do to address New Jersey's property tax crisis? I think all of us know that over the past 20 years, the growth in property taxes has been 6.5 to 7 percent, year after year after year, and so we needed to address that crisis for individuals.

Two, could we address our requirements without mortgaging our future, and staying away from some of the manipulations of history?

Three, how do we exercise the discipline and restraint to responsibly close an inherited structural deficit?

Four, are there places where we can make the budget more compassionate? Can we do more with less in areas where there are real needs, the needs of our most vulnerable among us -- our children, the disabled population, and seniors?

Five, can we do all of this while building on the foundation of reform we laid down last year? And, again, I can't emphasize enough, matching recurring revenues to recurring expenditures.

This year, we're really working to rebuild public confidence in the workings and the processes of the legislative process -- and government in general through transparency and accountability.

Working together, I believe we made great strides in finding solutions to those areas.

The outcome, some will say, is not perfect. I will say it is real progress on a pathway to restoring New Jersey's fiscal integrity and processes.

First, we passed the largest increase in direct property tax relief in New Jersey history – a $2.3 billion credit program, about $1.4 of it new, which is part and parcel of $16.8 billion in total property tax relief built into this budget.

$16.8 billion, almost 50 cents on every dollar in this budget, goes to property tax relief.

Among other elements, it provides $2 billion in credits for 1.9 million of the 2 million taxpaying residents of the state – and, just to remind you, 70 percent of those 1.9 million will receive $1,000 plus in a rebate check.

And I would just note, I hope it gets into the press, the applications for those rebates went out on Monday of this week, and I hope the public will pay attention, I suspect they will, and send those applications back in.

So this initiative doubled rental rebates, which I'm proud of, on a means tested basis, increased rental checks from $75 to $350, really working to try to help the working poor.

The budget also contains $11 billion to support the neighborhood schools, including a $582 million increase over last year that includes a 3 percent increase for every school district.

This is the largest increase in non-Abbott aid since 2000, and we used it in precise ways that are focused on trying to follow children not geography, and hopefully builds a bridge to a new school funding formula.

This budget also provides $2.9 billion to encourage towns and counties to keep property taxes down, including a 2 percent hike across the board in municipal aid.

I'll repeat, 50 cents of every dollar in this budget goes to property tax relief.

The budget also finances tax relief without abandoning principles established last year. It does so by diverting 80 percent fewer dollars from dedicated funds than the average of the last five years. What does that mean? We didn't tap into the Unemployment Insurance fund, for the second year in a row. We're building that back up so that we're preparing for a rainy day in our economy.

Between FY '07 and FY '08, we've contributed $2.2 billion, net, to the pension fund, an amount equal to the total of the state's contributions between 1993 and 2006. We've put more in, in the last two years, than was put in between 1993 and 2006, and we've gotten an increase in contributions from our public employees.

We balanced this budget in part by implementing a number of spending restraints and efficiencies that generally go unnoticed – except when you see it build up in the surplus at the end of the year.

We cut more than 400 political appointees, reduced the state payroll by 1,300 employees, and that's after accounting for mandated increases in child welfare, the public advocate's office, and the build-up of the homeland security office, which total about 1,000 people.

So we have had real reduction in employee headcount, and we're actually hearing about it in a lot of places, that we're not able to get all the work done.

But we're continuing to press on developing efficiencies, we suspended the purchase of new office furniture and office space, eliminated 1,200 vehicles from our fleet, achieved significant savings through improved energy conservation.

And there's more to do. There's a lot more to do -- and we're working on it day in and day out. I will tell you, in our new contract with public employees, we have instituted cost sharing with regard to healthcare that will produce almost $100 million in savings for healthcare next year.

We're staying focused not only on the expense side; we're working on the revenue side. Cutting business taxes in this budget by $275 million to spur economic expansion, particularly in our urban communities.

And we've had success. We're retaining and growing companies like Sanofi-Aventis, Citigroup, Campbell's Soup, and there are others that we're about to roll out. We've attracted the new North American headquarters for Bayer Pharmaceutical and Unilever.

There's a lot of things in the transom, and I know, and I think the public understands, that if we grow our economy, if we grow jobs, we will have real help in balancing the long-term fiscal instability we have in the state's finances and we will improve the quality of our life.

We're working on it. We're working on it in Atlantic City, we're working on it in our ports in north and south Jersey, we're working on it with our pharmaceutical industry, and with the help of the legislature, we've made major, major investments in stem cell research, genome research, and cancer research. You can see it if you go through the budget, if you're intellectually honest about how you do it, and I congratulate them for their commitment to these efforts.

This budget also reflects our abiding commitment to a more just society as well. I said we have to look after our most vulnerable. Society shouldn't just leave anybody behind, we ought to be committed to making sure that everyone has a fair chance to get ahead.

To that end, one of the things that I'm most proud of in this budget, is that we have instituted an expansion in the Earned Income Tax Credit. It's really the best program we have to reward work and help our working citizens earn their way into self-sufficiency.

We've moved the income threshold level on the EITC up to $40,000. Three-hundred-thousand people who struggle the most to make ends meet in a tough society will get real benefits from the EITC, we're going to grow it over the next three years, and I am very pleased that the legislature joined in making this item at the top of the list of things that we initiated this year.

In this context, we also worked to widen the circle of opportunity by promoting the well-established benefits of early childhood education -- there's a lot of work in here on expanding full-day kindergarten, access to high-quality pre-school in non-Abbott districts. I know Bill Payne is absolutely excited about that.

Opening doors to higher education, where we expanded TAG, STARS and EOF. Providing additional support for Charity Care, a very significant increase in Charity Care with a more rationalized formula, which really goes at our uninsured population in our state. We have more work to do here, but we made real steps and strides in trying to rationalize how we allocate out our charity care.

And, as I said, we're working on stem cell research. But in this budget, I want to congratulate Speaker Roberts for his leadership on this, we've taken real strides in investing on dealing with autism, it really leverages off the things that Governor Codey did with developmental disabilities, mental disabilities, and now we're focused on autism.

If you go through this budget line by line, you will see a real commitment, and there should be in this state, since we have such a high incidence of autism among our youth and developing into adults.

And this budget maintains initiative we started with regard to affordable housing, food security, and after school initiatives last year.

Finally, this budget represents an important step towards creating a government that costs less, does more, and stays accountable to the people who pay for it.

Not just over the course of four months of legislative and public review, 35 hearings with department officials, six public hearings, and by implementing Senate President Codey's reforms to open the process, and through the leadership of Speaker Roberts and others who worked to make the final budget available early.

This has had, thorough review by both sides of the capitol, and I think led to real oversight and restraint. On the Christmas tree issue, I'm proud that we have reduced the number of those, even though I don't think anybody knows how to define exactly what those numbers are.

I will say that what we have done has been more before we got to the budget than afterwards. There has been serious negotiation with the legislature about what went into the budget to start with, and made it a lot less complicated, although I'm sure just as infuriating to some legislators after the fact by some of the actions that we'll be taking today.

On that score, I am reducing or eliminating from this budget at total of 66 items for savings of something over ten million dollars. Most of these items were additions by the legislature to the original proposal.

I must say that when you're doing these line item vetoes and you're doing each one of them individually you struggle since so many of them go to the heart of the social services that we're trying to do, and government should be involved in. But what we're trying to do is get this into an ongoing process that will operate through the departments through the grant making process that all work in government and hopefully we've made real progress on getting this away from being single district focus and to regional and statewide activity.

So that's the budget. And I know these guys would like me to shut up, but I'm going to say one more thing about our future since I hear a lot about it – and we have our work cut out in 2009 and beyond.

Think about the mandatory spending increases that we can identify. After making investments in school construction, open space preservation, transportation, stem cell research, and acknowledging what I think are failed policies with regard to pension and tobacco settlement financing, we have an increase in total debt service. It'll go from about $2.6 billion to $3.4 billion over the next five years. It could go larger if we have additional funding that we have to meet.

Employee and retiree health care costs are expected to double from 1.4 billion to 2.8 billion over the next five years. You all know that we have a very substantial unfunded health care liability for our retirees.

And I want people to get the idea; we need to understand, because people understand what's happening in healthcare. In our budget, there's about 9 billion dollars worth of health care related cost items. Whether it's the mentally disabled, whether it's healthcare for our seniors, whether it's Medicaid or Medicare, 9 billion dollars roughly we spend. Just think about a 10 percent increase in healthcare cost which is going on not just in New Jersey but also across this country. $900 million a year in additional spending. You put that with the amount of money that we have on debt service and then you add it to the pension liabilities that we have which, if by 2012 we were meeting all our obligations, will go from about 1.3 billion to 3.3 billion, and you got a heck of a growth path for the budget before we even start looking at what we have to do.

As a matter of fact, the way I calculate by the back of the envelope, that's about $8 billion of growth in spending before we get started. These are commitments already made -- and I get a little frustrated when I hear some of the people in the legislature and others say "you're supposed to cut costs" when health care costs are growing at 10 percent, when commitments were made by previous administrations to borrow that are going to drive debt service, and other things that are already committed to that we are growing the budget out of control. The fact is, other than property tax relief, this year this budget goes up 1.5 percent. It's a total of 8 percent.

Property tax relief is the bulk of what we have in growth and we've been doing a lot to constrain growth in this budget. It's painful. Fixed costs are going to be a problem and a challenge.

That said, what keeps me awake at night -- and this truly keeps me awake at night -- is what we are going to do about our future. How are we going to build a future that New Jersey has every right to ask for? How do we make investments to improve the well-being of our state? How do we build mass transit? How do we build universal pre-k and kindergarten? How do we build universal healthcare like we hear about going on in other states? How do we preserve open space?

Countless ways we know New Jersey is the best state in the country. I believe that. I know the people that are here believe that – best schools, most educated work force, highest median income, transportation network that's better than most.

But we can't rest on our laurels. We can't continue to go from budget to budget to budget without investments in the future, and we need to invest in our future. We need new resources -- we need renewed political courage to make those investments. And it isn't political courage when somebody says politicians in Trenton are planning to sell the turnpike to foreign corporations [holds up direct mail piece]. "For sale, act now." This is the stuff that's going out. That is not political courage. It's political demagoguery.

And the fact is, we need a solid debate on a solid program that gives us the ability to invest in our future, and I'm going to fight for it. We're working on a proposal where the public will continue to own and operate our toll roads that will give us some of the financial benefits that other states have achieved through privatization. We're not going to privatize.

To that end, we're developing a new vehicle – completely out of the box scenario – to give the benefits of monetization, without the costs and compromises that other states have done on private lease or sale. I'm announcing today, and you'll see it in the budget, eight principles to which this administration is firmly committed as we work toward such a plan.

I wish I could tell you all the details of the plan right now, but these things don't just snap happen. I've said that over and over in press conferences, and I hope that you commit to communicating that to the public, we're working on some of the details of this.

First, New Jersey's roadways will not be sold, and they will not be leased to either a for -profit or foreign operator.

Second, allowable uses for any reinvestment will be identified up front, and subject to public and or legislative approval.

Third, the people of New Jersey will retain ownership and the benefits from both the initial proceeds and ongoing operation, and it's my belief that we should only use the proceeds from any kind of transaction to reduce state debt or make capital investments, particularly for transportation infrastructure.

Fourth, safety, maintenance, and operating standards on our toll roads will be maintained or improved in all instances. Safety, maintenance, and operating standards are not going to go down; they're going to go up, because we're actually going to have money to invest.

Any reinvestment plan, five, will provide for a capital plan with sufficient funding to improve our roadways and reduce congestion. I want to widen the toll ways, but you have to have money to be able to do it -- and you can't just borrow without some sort of funding.

Sixth, terms and conditions of employment for current employees and contractors will not change and all prevailing wage and competitive contracting procedures will be retained.

Seventh, toll schedules will be open, predictable, and available to the public.

And eight, the people of New Jersey will have the opportunity to engage in substantial, open and public discussion in advance of any transaction. Twenty-one town halls in twenty-one counties. You can guarantee it. You can count on it.

Unfortunately, we don't have the proposal ready today. I wish we did, but you can bank on it, when we have it, it'll be there. When we get the recipe right, everyone will hear about what the ingredients are.

The alternatives to change are simply unacceptable, the status quo is unacceptable. New Jersey has for far too long cobbled together bare bones budgets that do not allow for the kind of investment in our futures that we need.

We've been working on righting our fiscal ship, now it's time to change its course so we can build that future that I think all of us believe in. We're resetting our finances. We're working on changing the standards of how ethical behavior unfolds in the state. We're revitalizing our economy. And we're renewing the promise of New Jersey.

We're just getting started and have a long road ahead – a road the public will own.

Where Does The Money Go?

Too often, budgets and appropriations acts are seen as just columns of numbers, devoid of any real-life impact. However, these columns of numbers are the means by which a government pledges to its citizens how it will help provide opportunities for them to pursue healthier, safer, and more meaningful lives.

This *Citizens' Guide* attempts to lend greater understanding to the Fiscal 2008 Appropriations Act, to translate it into goals and outcomes that are more easily comprehended. The following chart displays some prime examples of the services that New Jersey residents rely on from their State government. In so many ways, many not very well known, the State offers a helping hand to its residents, every moment of every day.

Where Does the Money Go?
The Programs and Services Behind the Numbers

People Served/ Items Purchased	***Helping Those in Need***
110,081,450	Subsidized School Lunches
29,081,340	Subsidized School Breakfasts
	Subsidized Drugs for Seniors and Disabled:
6,865,287	PAAD Annual Prescriptions
799,640	Senior Gold Annual Prescriptions
6,300,000	Hunger Initiative – Food Purchased (lbs)
2,923,000	Home-Delivered Meals to the Aged
784,860	Persons Receiving Health Care thru Medicaid
500,000	Earned Income Tax Credit – Workers Benefiting
316,650	Energy Assistance – Tenants and Homeowners Served
253,581	Individuals Receiving Mental Health Services (Community Programs)
242,204	Children and Adults Receiving Health Care via Family Care
154,971	Children Receiving Services from Division of Youth and Family Services (DYFS)
98,512	Temporary Assistance to Needy Families – Recipients
72,000	Cancer Institute of New Jersey – Patient Visits
35,522	Developmentally Disabled Served (Community Programs)
23,088	Adoption Subsidies/Foster Care: Average Daily Population
15,120	Students Served in After School Programs
1,750	State Rental Assistance - Families Served
1,280	Families Licensed for Foster and Adoptive Care

	Protecting the Public Safety
867,860	State Police Investigations (Criminal, Accident, and General)
800,000	Agricultural Commodities Inspected and Graded (lbs)
242,121	Fire, Housing, and Construction Code Inspections
210,000	State Police – Instances of Aid to Motorists
27,500	Inmates Supervised (Annual Average)
14,665	Parolees Supervised (Annual Average)
1,800	Forest Fire Responses
1,135	State-owned Bridge Safety Inspections
539	Criminal Indictments Obtained – Criminal Justice

	Preserving the Environment
17,300,000	Parks Visitors Served
31,593	Acres of Open Space Preserved:
20,593	Via Green Acres
11,000	Via Farmland Acres
11,200	Air and Water Pollution Inspections

People Served/ Items Purchased	Protecting the Public's Health
322,000	Uninsured Primary Care Visits to Federally Qualified Health Centers
280,000	Women, Infants, and Children – Healthcare Recipients
240,000	Children Screened for Lead Poisoning
131,000	Family Planning – Women in Reproductive Years Receiving Services
86,000	Number of Licensed Long Term Care Beds/Slots
78,800	AIDS Clients Tested and Counseled
59,000	Homes Tested for Radon
20,000	Breast Cancer and Cervical Cancer Screenings
6,500	Blood Lead Samples Examined
6,100	Food and Milk Samples Examined
3,000	Potable Water Samples Examined
2,500	Helicopter Response Missions for Traumatic Injuries
840	Long Term Care Facilities Licensed

	Transportation Services
441,500	Average Daily Mass Transit Ridership
13,469	Miles of Roads Maintained
8,600	Emergency Call Responses
3,225	Traffic Signals Maintained
700	Highway Lanes Under Construction
435	Lane Miles Resurfaced

	Serving Businesses
477,649	State Professional Boards – Total Regulated Licenses
97,000	Real Estate Brokers and Salespersons Licensed
42,000	Insurance Licenses Issued
26,500	Participating Businesses – Urban Enterprise Zones
6,900	Banking Licenses Issued
269	Recipients – Business Employment Incentive Grants

	Educating Our Children
1,551,229	Standardized Tests Administered
1,440,767	Total Enrollment (Subsidized by State Aid)
202,467	Special Ed Enrollment
139,162	Kindergarten/Preschool Enrollment
23,218	Vocational Ed Enrollment
18,756	Charter School Enrollment
9,070	Adult Education Enrollment
839,901	Pupils Transported – Public/Non-Public (Subsidized by State Aid)

People Served/ Items Purchased	Higher Education Assistance
75,357	New Jersey College Loans to State Students (NJCLASS)
61,743	Tuition Assistance Grants (TAG, Full and Part Time)
7,672	Coordinated Garden State Scholarship Program Grants (Total)
4,195	NJ Student Tuition Assistance Reward Scholarship (NJSTARS I & II) Grants

	Direct Tax Relief
2,700,000	Annual Homestead Rebate (Checks)
1,900,000	Homeowners
800,000	Tenants
290,000	Veterans Claiming a Property Tax Deduction
164,000	Annual Senior Freeze (Checks)
85,000	Seniors and Disabled Claiming a Property Tax Deduction

	Protecting the Consumer
	Public Advocate:
16,191	Mental Health Advocacy – Representation of Individuals at Civil Commitment Hearings – New Cases FY07
6,550	Elder Advocacy – On-Site Investigations Regarding Care/Abuse/Neglect or Patient Funds
3,550	Elder Advocacy – Nursing Homes/Boarding Homes/Other Facilities Visited
1,081	Rate Counsel – Representation of Ratepayers on Cases Involving Utilities and Cable Television

Budget Process Reforms

Overview

Appropriations Act Reforms

In an effort to avoid a repeat of the government shutdown that resulted from the June/July, 2006 budget negotiations, Governor Corzine issued a letter to the legislative leadership in February, 2007, outlining a plan to reform the State's budget process. That letter built upon previous suggestions outlined by Senate President Richard Codey. Specifically, the Governor sought to identify areas of common interest that would increase the accountability and transparency of the budget debate and provide a more rational, constructive environment. These reforms were designed to improve the public's understanding of the budget deliberations, to scrutinize key issues, and to consider relative funding priorities.

Specifically, the plan included four main points:

- Introduce the final Appropriations Act no later than June 20 and enact it no later than June 27, thus providing three full days for the Executive Branch to review it before the constitutional deadline;
- Hold legislative hearings on the final Appropriations Act before it is voted on by the Legislature;
- Ensure that all requests for changes are submitted by a date certain in early June, identifying the individual sponsor and providing an explanation of its necessity;
- Release a summary document to the public at the end of the process that provides detail on the final Appropriations Act agreement.

In forwarding this plan to Senate President Codey, Assembly Speaker Roberts, Senate Minority Leader Leonard Lance and Assembly Minority Leader Alex DeCroce, the Governor recognized that the Legislature was likely to have similar ideas and indicated a willingness to work cooperatively. Subsequently, the Senate President and the Assembly leadership outlined separate plans that would govern the deliberations of their respective Budget Committees. That set of rules, as outlined below, embellished the Governor's plan by adding the following requirements, all of which were adopted by the Legislature:

- Begin and close the budget process with public hearings;
- Require lawmakers to disclose potential conflicts in the event that their employers, business clients, or relatives have a direct stake in the appropriations process;
- Written submission of change requests to the Chair of the Budget Committee at least three weeks before the June 27 deadline for enactment, with each change signed by the individual lawmaker or (in the case of Administration resolutions) a Treasurer's Office representative;
- Use of a standard form detailing each request;
- Release change resolutions to the public at least two weeks before the date the Legislature considers the final Appropriations Act bill;
- Subsequent resolutions were permissible only if approved by two-thirds of the committee members;
- The final Appropriations Act would contain only items originally proposed by the Governor and those changes proposed through these procedures.

Results

The implementation of the Fiscal Year 2008 Appropriations Act successfully incorporated all of the ideas noted above. Broad agreement was reached on the parameters of the final Appropriations Act in early June and a final bill was formally introduced in the Legislature on June 14th. That bill was approved by the Legislature on June 21st and was signed by the Governor on June 28th.

This joint approach provided all interested parties with an opportunity to provide input and to evaluate proposed changes before they became law.   The requirement for advance notice of proposed changes avoided last minute revisions, thus eliminating a key source of potential delay that plagued past appropriation acts. Finally, for those changes that survived the process, the public was able to take a better measure of their worth, their source of support, and their relative priority.

As the final step in the process, Governor Corzine employed his line item veto power to eliminate 66 programs totaling over $10 million, most of which were legislative additions that did not serve a statewide purpose or policy goal. Instead, supporters of those programs were encouraged to submit their requests to the appropriate departments so that they may be considered as part of the normal grant-making process. This approach removes the traditional focus on the special needs of individual districts while still recognizing key regional or statewide programs that were not funded through the regular budget process.

CHAPTER 1: APPROPRIATIONS ACT HIGHLIGHTS

The $33.47 billion State Appropriations Act provides substantial property tax relief in the context of sound fiscal principles. Specifically, this Fiscal 2008 Appropriations Act spends only what we can pay for, provides new efficiencies and savings, eschews the tricks and gimmicks of budgets past, and upholds our commitments to the most vulnerable in our state and society. And it was proposed, debated, and passed with unprecedented transparency and on time.

Direct Property Tax Relief

The Fiscal 2008 Appropriations Act, first and foremost, provides the citizens of New Jersey with significant property tax relief. It increases the State's property tax relief programs by nearly $2 billion, and provides an additional $300 million in tax savings to businesses and working families. It is the first adopted budget since fiscal 2001 not to rely on tax or fee increases.

This Appropriations Act also finances tax relief without abandoning the principle, re-established last year, that the State must fund today's liabilities rather than pushing costs off to the future – and it does so by diverting dramatically less from dedicated funds than the average of the last five years. For the second consecutive year, the final budget does not redirect any funds from the Unemployment Insurance Fund.

Nearly $16.8 billion in property tax relief is at the center of this Appropriations Act. This is an increase of approximately $2 billion over the adjusted fiscal 2007 levels, and represents over 80% of the overall increase in the final Fiscal 2008 Budget as compared to the adjusted fiscal 2007 appropriation level.

Direct relief to more than three million homeowner and tenant households accounts for nearly $3 billion of the total $16.8 billion in property tax relief. This is an increase of $1.25 billion from the current levels and represents more than half the overall increase in the Appropriations Act.

The majority of the $3 billion in direct relief is the new $2.25 billion property tax relief program that was enacted in April – the cornerstone of the special legislative session on property tax relief and reform. Under this new program, nearly two million homeowner families will receive an average benefit of approximately $1,000. For non-senior homeowners, this is more than three times the amount they received last year. Approximately 550,000 non-senior tenants with incomes of $50,000 or below will see their current $75 rebate increase to between $200 and $350 depending on their incomes. Senior homeowners and tenants are guaranteed whichever is larger, either the benefit under the new program or the amount they received last year, assuming they still meet eligibility requirements.

The Senior Property Tax Freeze program remains fully funded, and provides 164,000 eligible senior homeowners with an average benefit of $931. An additional 30,000 senior homeowners will become eligible for this program in the upcoming year.

Aid to School Districts and Municipalities

In addition to the relief this Appropriations Act provides directly to homeowners and tenants, it also holds down New Jersey's aggregate property tax bill by nearly $14 billion through the State's assumption of certain local costs and by aiding municipalities, counties, school districts, and other local governments.

This budget provides nearly $11 billion in aid to local school districts to ensure a quality education and help control property taxes. This represents an increase of $582 million from the fiscal 2007 adjusted appropriation level.

Every school district in the state will be receiving at least a 3% increase in aid, which is the first major increase for the non-Abbott districts in three years, and the largest dollar increase since fiscal 2000.

Taxpayers and students also benefit from three initiatives that reflect key educational priorities. This Appropriations Act establishes a new $67 million aid program targeted to districts with higher proportions of low-income students. These districts have struggled to provide programs to bolster academic performance in the face of flat State aid. In addition, this Appropriations Act provides $26 million to support school districts that currently provide full-day kindergarten and $10 million to expand and enhance the quality of preschool programs in non-Abbott districts – promoting the well-established benefits of early education.

Through the legislative process, this Appropriations Act evolved to address other educational needs as well. It includes $10 million for adult education programs, $5.7 million to ensure that charter schools receive the benefit of the new aid targeted to low-income students, $2.9 million to assist districts that are spending below the minimum amount recommended for a thorough and efficient education and whose students are not meeting educational standards, and $3.2 million to provide an inflationary increase for nonpublic school transportation costs.

This Appropriations Act also provides nearly $2.9 billion in aid to municipalities, counties, and other local governments – an increase of $152 million from the adjusted fiscal 2007 level.

Direct aid to municipalities accounts for nearly $2 billion of the $2.9 billion, representing an increase of $79 million from the adjusted fiscal 2007 appropriation level. Included in this amount is $32.6 million in new formula aid to every municipality in the state.

The final budget also appropriates nearly $900 million in aid to local governments to finance several initiatives that were not included in the Fiscal 2008 Governor's Budget Message: $25 million to continue the local grant portion of the successful Garden State Preservation Trust Program; $10.5 million for the costs associated with the February 2008 presidential primary; $10 million to assist counties in upgrading their voting machines to meet the requirements to have a voter- verified paper audit trail; and $8 million to assist counties and municipalities match the federal aid from the Spring 2007 flood. Without State funds, all of these costs would have been passed on to local property taxpayers.

Tax Relief: The Earned Income Tax Credit and Corporation Business Tax Reform

Property tax relief is not the only tax reduction in this Appropriations Act package. In addition, legislation was enacted that expands the Earned Income Tax Credit (EITC) program for approximately 300,000 working families, with incomes between $20,000 and $40,000, who previously were eligible for the federal program but not the State program. This change brings New Jersey in line with the other 19 states that have EITC programs, will provide at least $36 million in tax relief to these families this year, and will impact over 500,000 families when the State increases payment to 22.5% of the federal benefit in 2009, and 25 percent in 2010.

This Appropriations Act package also spurs economic growth by including significant tax relief for New Jersey businesses and cutting corporate business taxes by $275 million. Specifically, it allows the alternative minimum assessment, net operating loss, and subchapter S provisions of the 2002 Corporation Business Tax reforms to expire. In addition, the sales tax on memberships at non-profit health clubs has been repealed, saving taxpayers an additional $20 million next year.

Funding Other Top Priorities

Although almost half of this Appropriations Act, $16.8 billion, will go towards property tax relief, it also maintains New Jersey's commitment to help those in the dawn, shadows, and twilight of life – children and students, our most vulnerable populations, and seniors.

In particular, this Appropriations Act maintains or increases funding for higher education and tuition assistance, PAAD and Senior Gold programs that help defray prescription costs for the elderly, healthcare under Medicaid and Family Care, nursing homes, and community based efforts to help those suffering from mental illness.

Furthermore, this Appropriations Act recognizes that New Jersey's acute care hospitals need additional support. It provides $716 million in State and federal funds for Charity Care, an increase of $133 million from the amount originally proposed. Most importantly, the Charity Care allocation formula has been updated. First, aid will be distributed based on a formula that uses the most recent available claims data rather than data from 2002, which informed the past few appropriations acts. This will more accurately reflect the uncompensated care that New Jersey hospitals provide. Second, the Charity Care formula applies existing statutory and regulatory requirements to calculate the graduate medical education component of Charity Care. As a transitional device for this year, the formula guarantees that no hospital will lose more than 10% of its projected reduction, or gain more than 20% of its projected increase compared to fiscal 2007. This year, the Commission on Rationalizing Health Care Resources, which was created by an Executive Order issued by Governor Corzine, is meeting to assess the financial condition of New Jersey hospitals and to consider ways to promote a system of high-quality, affordable, cost-effective and accessible health care in the state. Their recommendations will help inform future budget decisions in this area.

For fiscal 2008, this Appropriations Act provides $60 million in Medicaid funding for graduate medical education programs at hospitals – an increase of $40 million in State and federal funding over the amount originally proposed in the Fiscal 2008 Governor's Budget Message. Unlike past spending plans, this year's Appropriations Act includes no hospital assistance grants or specific line-item appropriations to any hospital. All funding will be provided through either the Charity Care formula or the Graduate Medical Education distribution under the Medicaid program.

This Appropriations Act also provides nearly $2.2 billion to support higher education, including a $50 million increase proposed in February to offset last year's reductions. In addition, the Act provides over $250 million to support the State's Tuition Assistance Grants and STARS programs to help students with financial need to attend college.

Other important elements of New Jersey's Fiscal 2008 Appropriations Act include:

- Nearly $40 million in new funding for a 3% cost of living adjustment to the community provider organizations that provide vital services to many of our most vulnerable citizens. Without this added funding, many of these organizations would have little choice but to reduce service or staff.
- $30 million in new funding for community programs that support individuals with developmental disabilities or mental illness.
- $10 million for stem cell research grants to maintain New Jersey's leadership in the face of restrictions on federal grants for this life saving science.
- $5.35 million in added funding to address the needs of the autism community.
- $5 million for an initiative to improve access to health care for children.
- $3.5 million to eliminate the waiting list for the Personal Assistance Service program, which makes it possible for adults with physical disabilities to work, attend school, and engage in their communities.
- Funding for two new training classes for the State Police and the purchase of new vehicles to ensure the troopers are safe on the roads -- protecting not just themselves, but the millions of drivers on our roads.
- An additional $1.5 million to provide support to returning veterans and their families.

The operations of the executive departments of State government account for only $3.6 billion – or 11% of the total budget – with the vast majority of this money being used to fund the operations of the prison system, the State developmental centers and psychiatric hospitals, veterans' homes, State Police, and many other critical functions that serve and protect New Jersey's citizens.

Efficiencies, Savings, and Transparency

Over the last two years, this administration has implemented a number of spending restraints and efficiencies that have achieved real savings for the people of New Jersey. This budget includes those savings – among them the elimination of almost 400 political appointees, reduction of approximately 1,500 employees (even accounting for necessary increases for child welfare, homeland security, and the newly restored Office of the Public Advocate), suspension of the purchase of new office furniture and office space, energy conservation, and subtraction of 1,200 State vehicles.

This administration has also achieved substantial savings through the recent contract settlement with the State's civilian employees, which yields cost-sharing arrangements for both pension and healthcare benefits. Over the long run, both taxpayers and public employees will reap the rewards of the important reforms this administration has implemented.

Critics point out that this Appropriations Act grows by $2.4 billion, or nearly 8%. While that is accurate, it is also important to be mindful that 80% of the increase returns directly to property tax payers, leaving the real increase closer to 1.4%. If the critics do not believe the State should spend $2 billion more on property tax relief – or if there are other areas of the budget that can or should be reduced – they should add their ideas to the public debate. Judging from the budget debate that took place since the issuance of the Fiscal 2008 Governor's Budget Message, however, actionable alternatives have not emerged.

Finally, the issue of "Christmas tree" grants, earmarks, "member spending," or whatever supporters or critics want to call them needs to be addressed. No one should expect or accept that the Legislature simply serves as a rubber stamp for the Executive, approving whatever budget the Governor presents. There will always be differences of opinion about what should and should not be funded and at what level. Many of these differences are policy driven, and need to be worked through cooperatively – as was done this year in areas like aid to schools and municipalities, the decision not to impose co-payments on Medicaid and medical day-care clients, and increased funding for hospitals. None of these legislative changes to the proposed budget can legitimately be characterized as "Christmas tree" items.

Line Item Vetoes

Just as the Legislature has the authority to promote different policy priorities in New Jersey's budget, it also has the authority to send a Governor an appropriations bill that in appropriate circumstances includes specific appropriations for specific causes. The practice of including such additions goes back many years and actually predates the adoption of the 1947 State Constitution.

During this Appropriations Act process, Governor Corzine expressed to the Senate President and the Speaker his desire that any additions to the budget for these types of items meet the criteria of being statewide or regional in scope. Many of the legislative additions met these criteria, including the appropriations for statewide or regional entities such as the Boys and Girls Clubs of New Jersey, Federally Qualified Health Centers to provide services to the homeless, the Battleship New Jersey, the Newark Museum, and Liberty Science Center. These are all programs that benefit all of the citizens of the State, and the Governor supported them as included in the appropriations bill or with modest reductions as set forth in the line-item veto statement.

Conversely, there are numerous, specific line-item appropriations that do not clearly meet these criteria. Based on the power provided by the New Jersey Constitution, Governor Corzine applied a line item veto of those specific appropriations.

During the budget negotiation process, Governor Corzine also requested that, to the greatest extent possible, we look to existing departmental programs to provide additional funding to specific entities or groups and not dictate to the respective departments where the money should go. Programs like Special Municipal Aid and Extraordinary Aid should be the vehicle for municipalities to request additional funds. Thus, the Governor supported the addition of funds to the Appropriations Act for these programs. This will allow the professionals in the Department of Community Affairs to make the decisions on which municipalities qualify for this funding. In the case of Special Municipal Aid, the Local Finance Board also must approve that decision. Unlike previous years, there are no new specific line-item appropriations to any municipality in the Appropriations Act.

Similarly, Governor Corzine directed that requests for additional funds for arts and cultural groups should, to the greatest extent possible, be approved through the State Council on the Arts and the peer review process that the Council has developed. The Fiscal 2008 Appropriations Act bill has a number of specific line-item appropriations to arts and cultural groups that effectively bypassed the State Council on the Arts process. Based on discussions between the Governor and legislative leaders, it became clear that there are some areas that the State Council on the Arts has failed to address, prompting legislators to advocate for specific line-item appropriations. Therefore, Governor Corzine was willing to accept with some minor adjustments these specific line-item appropriations this year. However, the Governor will ask for a review of the processes used by the State Council on the Arts to determine arts and cultural grant awards, and will request that those processes be modified if necessary. Next year, similar requests for specific line-item appropriations for arts and cultural entities are not likely to be accepted.

Governor Corzine's other specific area of concern is the allocation of funds to various institutions researching cancer. When the Governor proposed the budget in February, it included $25.25 million for the Cancer Center of New Jersey and $14.75 million for other cancer research institutions to be allocated by the Commissioner of Health and Senior Services. While the Governor generally supports the additional $24.15 million that the Legislature included in the Fiscal 2008 Appropriations Act for this most worthy cause, he is concerned that the language added to the bill directs where the funding is to be allocated. No information was provided to help determine whether this allocation is appropriate, and thus the Governor applied a line-item veto to make minor adjustments to these appropriations. Still, the Governor remains concerned that the Legislature, not the research experts, has made this allocation decision, and therefore has requested that the Commissioner of Health and Senior Services and the Director of the Cancer Institute of New Jersey develop criteria for a peer review process both to review past grants and to better inform future appropriations.

In all, in accordance with the principles stated above, Governor Corzine objected to more than 60 individual line items contained in this bill, which reduced State spending by more than $10 million. However, on balance, the Governor was pleased and proud to sign into law this Appropriations Act for fiscal 2008. It affirms the State's commitment to provide substantial property tax relief in the context of sound fiscal principles, spends only what we can pay for, provides new efficiencies and savings, eschews the tricks and gimmicks of budgets past, and upholds our commitments to the most vulnerable in our state and society. Moreover, it was proposed, debated, and passed with unprecedented transparency and on time.

Fiscal Solvency

To fully understand the difficult set of choices represented in the State's Appropriations Act, some context is required concerning New Jersey's "structural deficit." Simply put, a structural deficit arises when the rate of growth in ongoing revenues fails to keep pace with the rate of growth for expenditures required to maintain the current level of service. New Jersey is not unique in this regard, as many states face deficits at the start of their budget deliberations. The goal, however, is to minimize the size of the deficit without resorting to easy fixes and fiscal gimmicks that compound the problem in the future. As summarized below, this Administration has adopted just that approach, and consequently is making clear progress in restoring fiscal responsibility.

Constraints in Crafting the Fiscal 2008 Appropriations Act

This subsection describes many of the constraints associated with the Fiscal 2008 Appropriations Act in order to provide context for the decisions that were required. The goal of this Administration is to continue to make the difficult decisions now, in order to create conditions for a brighter future for the State and its citizens.

The State's Major Cost Drivers

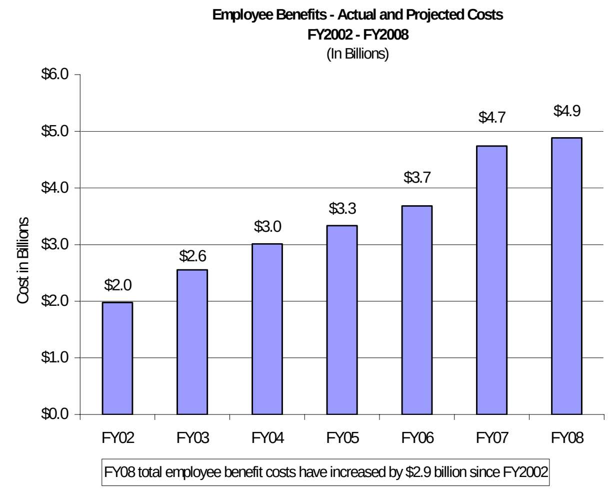
Funding increases are necessary to maintain the current level of State service, and are primarily attributable to three cost drivers: employee/retiree benefits and salary increases, Medicaid, and debt. The best way to appreciate the aggressive cost growth in these areas is to view it over time, as depicted on the charts that follow. These three programs collectively require over $700 million in growth in fiscal 2008.

Employee Benefits

Within the State Budget, employee benefits are defined as pensions, health benefits, post retirement medical costs, and employer payroll taxes. State appropriations support not only active and retired State employees, but also employees of senior public colleges and universities, school districts, and certain local governments.

Due in part to the breadth of coverage provided, employee benefits comprise 14.6% of the State's Fiscal 2008 Appropriations Act, compared to 8.8% in fiscal 2002. The appropriation for these fixed costs has grown by $2.9 billion, or 147%, from approximately $2 billion in fiscal 2002 to almost $4.9 billion in fiscal 2008. (This includes approximately $195 million in debt service on Pension Obligation bonds in fiscal 2008.) As noted on the chart entitled, "Employee Benefits – Actual and Projected Costs," the dramatic rate of growth in fiscal 2007, which required increased pension funding of $800 million (excluding related debt service), will be tempered in fiscal 2008.

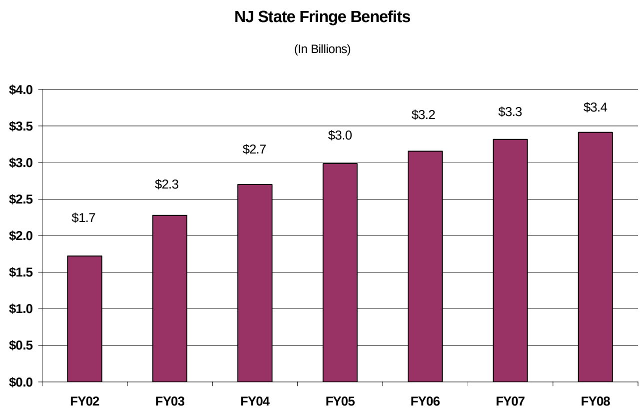
In the Fiscal 2008 Governor's Budget Message, the combined growth for fringe benefits and pensions of $480 million was reduced to $166 million through savings from contract negotiations and by reducing the pension funding phase-in from 60% to 50%. Based on updated information, the growth was further reduced by an additional $39 million, to $127 million, during negotiations with the Legislature.



Fringe Benefits

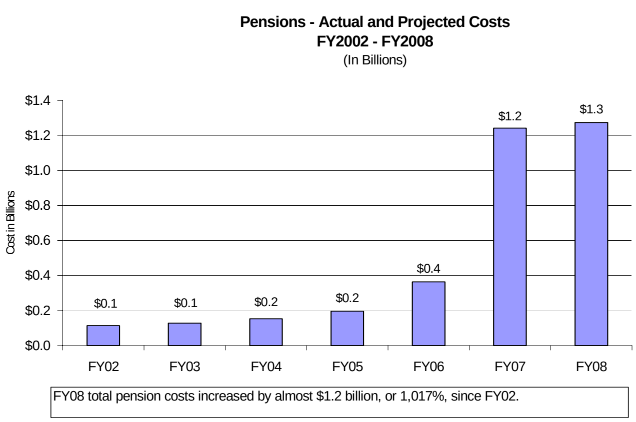
Health benefits for active school district and local employees are not a State responsibility; however, per statute, the State must fund the health insurance costs of retired teachers and certain public employees who have 25 or more years of service prior to retirement. The State also funds the cost of teachers' federal social security taxes, even though the State does not negotiate teacher contracts. The total amount appropriated in fiscal 2008 for all of these fringe benefits is $3.4 billion.

In fiscal 2008, health benefits costs for active and retired members will increase to $2.1 billion, or 44% of total employee benefits costs. Of this amount, payments for eligible retired school district employees are expected to total $751 million. The remaining $1.3 billion is appropriated for employer taxes.



Pensions

In fiscal 2008, pension costs for active and retired members comprise 26%, or almost $1.3 billion, of employee benefit costs. The chart entitled "Pensions – Actual and Projected Costs" illustrates the actual and projected costs of pension contributions from fiscal 2002 to fiscal 2008. Pension costs have consistently increased since fiscal 2002, with significant growth of 241% occurring between fiscal 2006 and fiscal 2007. In that year alone, State funding for the defined benefit plans exceeded the total combined amount from the prior ten years. The Fiscal 2008 Appropriations Act assumes a 50% phase-in for the defined benefit pension plans, or $1.1 billion of the $2.2 billion required to fund pensions at 100%. In fiscal 2007, the phase-in was funded at 57.5% of the recommended contribution.

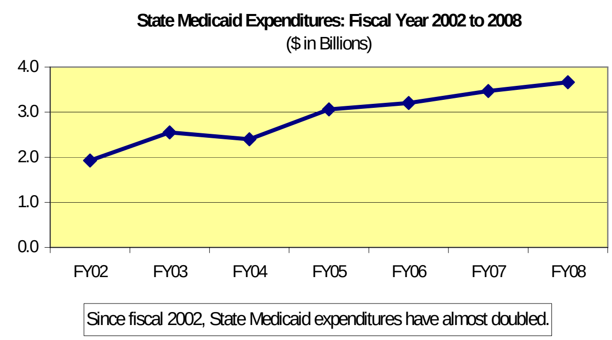


The total State appropriation for Fringe Benefits and Pensions in fiscal 2008 equals $4.7 billion (i.e., excluding $195 million in Pension Obligation debt service.)

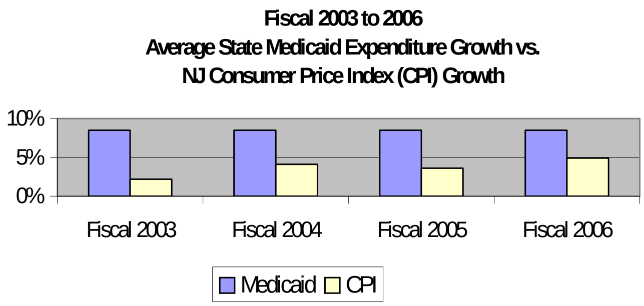
Medicaid

This Administration is committed to providing the State's residents with access to health care, and Medicaid, a federal-State program, is a key component of this commitment. Similar to most states, New Jersey has faced rising Medicaid costs, placing added stress on the State's budget. As the chart below illustrates, State expenditures on Medicaid have almost doubled since fiscal 2002 and are appropriated at approximately $3.7 billion in fiscal 2008.

From fiscal 2003 to fiscal 2006, average annual Medicaid costs have grown at nearly three times the rate of inflation. In fiscal 2008, growth in appropriations totals $209 million (i.e., before subtracting savings solutions), and reflects rising caseloads, medical inflation, increasing utilization, and a shortfall in federal grants for the State Children's Health Insurance Program (SCHIP).



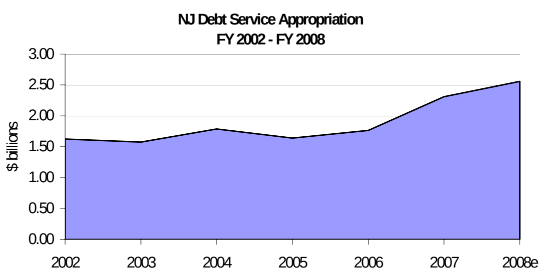
The following chart illustrates the gap in recent years between the average yearly increase in State spending on Medicaid and the actual annual increase in the inflation rate. With Medicaid costs increasing so rapidly, the State must spend more than the rate of inflation each year just to purchase the same amount of health care.



The State Children's Health Insurance Program (SCHIP) is the source of federal funding for the NJ FamilyCare program. SCHIP is currently being considered for federal reauthorization leaving New Jersey uncertain about the amount of federal support to be received in fiscal year 2008. If SCHIP is not reauthorized with sufficient funding to cover states' needs, NJ FamilyCare may face a substantial shortfall in federal funding. The Appropriations Act assumes necessary funding will be reauthorized but that adults will be matched at 50%. (See Chapter 2 for more details.)

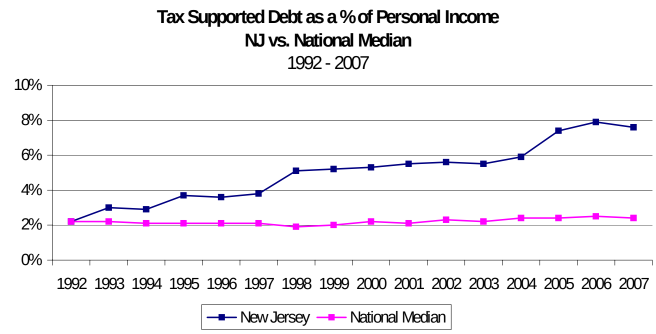
Debt Service

In fiscal 2008, total debt service will equal $2.7 billion (including debt service related to revenue bonds). This includes an increase of $201 million, or 8.7%, over the fiscal 2007 adjusted appropriation for debt funded from State appropriation. Most of this increase is attributable to past decisions on how debt would be structured and when debt service payments would be made. The major components of this growth include increased appropriations for School Construction, General Obligation, Transportation Trust Fund Authority, and Pension Obligation bonds. In total, debt service comprises 8.0% of the total appropriation for the entire Budget.



Debt service has increased over 57% from fiscal 2002 to the projected $2.7 billion total for fiscal 2008.

Note: Fiscal 2008 is estimated, using current projections.



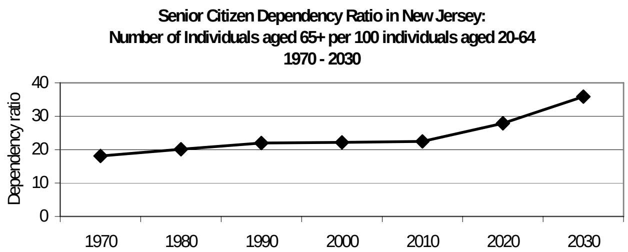
New Jersey's debt service as a percent of State Personal Income has outpaced the national average since 1993.

New Jersey's tax-supported debt represented 7.6% of personal income in 2007, far exceeding the national median of 2.4%. In broad terms, rising debt service represents an opportunity cost for the State, limiting budget flexibility and redirecting resources away from other critical programs.

Beyond these cost drivers, other prime factors are demographic pressures, federal budget cuts, and a rapidly aging infrastructure, as outlined below:

Demographic Pressures

Though policy issues such as School Aid formulas, property tax relief, debt, and health care typically form the core of the annual budget debate, there are other, more subtle yet powerful pressures on spending, including natural increases in population and changing demographics. For example, population growth is a prime factor in increasing school and higher education enrollment and social service caseloads. Additionally, a gradual increase in average lifespan has spawned the need for more services for seniors, including costly pharmaceutical and medical costs. (See chart below for one illustration of the impact of such demographic changes.) New Jersey's cost of living, population density, and foreign-born residents consistently rank among the highest in the nation, providing an added impetus to expand services.

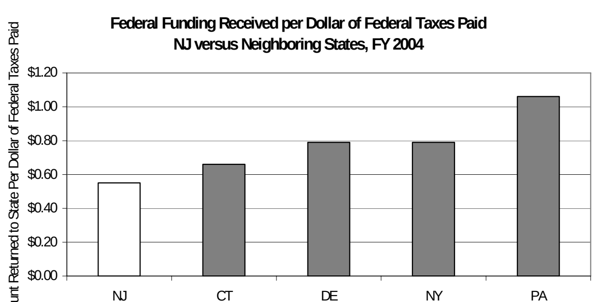


The senior citizen dependency ratio increased by more than 20% from 1970 to 2000, and is projected to increase by an additional 60% from 2000 to 2030.

Source: U.S. Census Bureau, Population Division, Interim State Population Projections, 2005 and U.S. Census Bureau, 1970, 1980 and 1990 Census.

Impact of the Federal Budget on New Jersey

Historically, New Jersey residents have consistently sent more in federal taxes to Washington, DC, than the State has received back in federal funding. New Jersey is one of only 18 such "net donor" states. In fiscal 2004, New Jersey received only 55 cents from the federal government for every dollar that residents paid in federal taxes, worse than its neighboring states or any other state in the nation (see chart below). In contrast, 32 states received more than a dollar back for every dollar sent, with 4 of these states receiving $1.75 or more.



In FY 2004, NJ received 55 cents back for every dollar sent to the federal government, which was the worst ratio in the nation.

Source: Federal Funds Information for the States, Issue Brief 06-44, October 25, 2006.

Examining data from fiscal 1984, fiscal 1994, and fiscal 2004, New Jersey has never been higher than 49th among the 50 states in terms of how much funding it receives back from the federal government for every dollar of federal taxes paid by its residents.

Secondly, the federal government has continued its recent trend of reducing its aid to all states, and New Jersey has been impacted by these reductions as well. In comparing the high points for individual federal grants from fiscal 2002 through fiscal 2007, the State lost approximately $1.2 billion in the human services and health areas *alone*, including $473 million in the Intergovernmental Transfer program. Based on President Bush's proposed federal budget for fiscal 2008, New Jersey may lose an additional $348 million across all its federal programs.

As just one example of how such trends impact the State, the federal government made a commitment to pay 40% of per pupil expenditures for the State's special education pupils, under the Individuals with Disabilities Education Act (IDEA). Unfortunately, the federal government has never come close to meeting this obligation. Proposed federal funding for IDEA in fiscal 2008 would only fund 16% of this obligation. Federal Funds Information for States (FFIS) recently estimated that New Jersey would have gained an additional $500 million in federal funds in fiscal 2008 alone if the federal government had funded its obligation fully.

Age of the State's Infrastructure

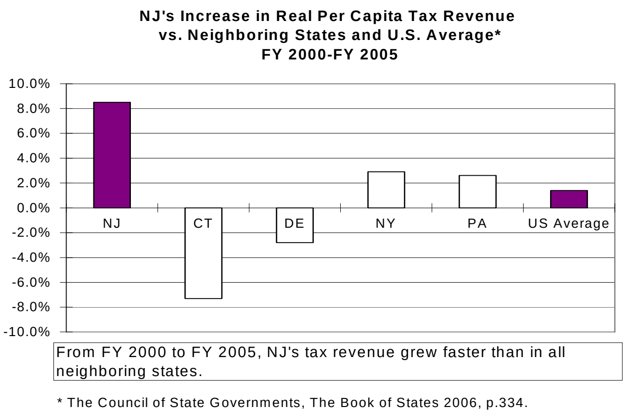
The age of New Jersey's infrastructure is also worth mentioning, particularly in the key areas of transportation, environment, corrections, and human services, where facilities are far older and, consequently, in greater need of rehabilitation than in most other states. As a case in point, nearly 70% of the State's prisons and human services institutions are more than 30 years old, and these institutions house approximately half of the State's total inmate, mental health, and developmentally disabled populations. (Forty percent of these facilities are over 50 years old). Three of the State's corrections facilities were first opened in the late 1800s. Physical plant of such age requires constant repair and maintenance. Though relatively unnoticed, there is strong, persistent pressure on agency maintenance budgets to keep pace with these needs.

The collapse of the Interstate 35W bridge in Minneapolis further highlights the critical importance of maintaining our infrastructure. In response to that tragedy, on August 2, the Governor ordered a complete review of the more than 6,400 State, county, and local bridges in New Jersey, pledging to shut any bridge found to be unsafe. The review also would examine the effectiveness of the current inspection process and estimate the costs of making necessary repairs.

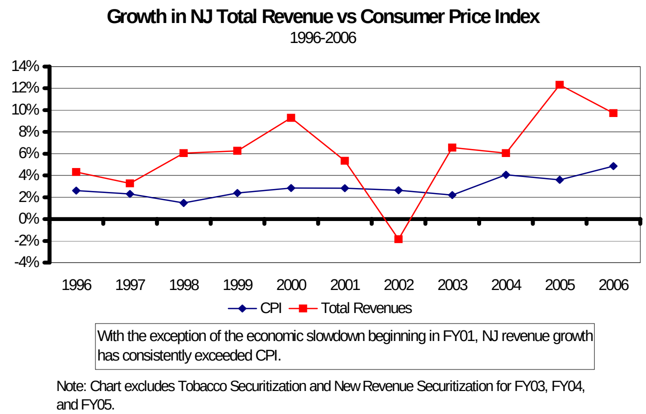
The gross value of New Jersey's capital assets totalled approximately $24 billion as of 2006, including land, buildings, equipment, transportation and other infrastructure. The nationally-recognized standard for investment in deferred maintenance is 2% of total assets. This would translate to approximately $480 million in annual appropriations. Due to budget constraints, however, the amount of discretionary capital appropriated by the State for this purpose for fiscal 2008 (excluding dedicated funding for specific purposes, such as $895 million for transportation) totalled only $52 million, thus providing very little for upgrading our existing facilities.

Revenue Growth Comparison

On the revenue side, the State's historical growth rate has been fairly strong by most comparisons. From fiscal 2000 to fiscal 2005, the increase in real per capita revenue collection far exceeded our neighboring states and the national average.



State revenue growth also is above the rate of inflation in all fiscal years except for the recession of 2001 - 2002. (See chart below.)

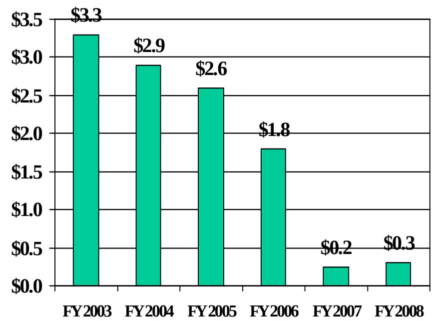


Total revenue growth includes an amount that represents "natural" growth, that which results from the normal expansion of the State's economy. The relationship of natural revenue growth to spending growth is a key component of the State's structural deficit. From the adjusted Fiscal 2007 Appropriations Act to fiscal 2008, spending growth is $2.4 billion. Therefore, since natural revenue growth is projected at $620 million in fiscal 2008, this amount represents only a portion of the amount required.

To begin to address this issue, the Administration's first two proposed budgets adopted a consistent strategy of matching ongoing expenditures with ongoing resources. As depicted on the chart below, this has resulted in a precipitous drop in the State's reliance on non-recurring resources. From fiscal 2003 through 2006, one-time diversions from various special revenue and trust funds averaged $2.7 billion annually; however, that average dropped by more than 80%, to approximately $300 million annually, during the first two years of this Administration. In addition, numerous spending reductions are included in fiscal 2008, maintaining downward pressure on costs. Additional details on these savings ideas are found in Chapter 3.

Diversions from Dedicated Funds Down by More Than 80% Compared to the Average of Last 5 Years

(In Billions)



Note: Excludes $80 million of one-time revenues for capital improvement projects in FY07.

Summary - Balancing the Fiscal 2008 Appropriations Act

The total State appropriation of $33.5 billion in the Fiscal 2008 Appropriations Act includes $2.4 billion in net budget growth. To support these needs, this Appropriations Act employs $650 million in dedicated sales tax revenue deferred from fiscal 2007 for property tax relief; $945 million from stronger revenue collections and aggressive spending restraints in fiscal 2007; $188 million generated through improved debt management, debt collection initiatives and spending savings and constraints; and $620 million in natural revenue growth projected in fiscal 2008. An ending surplus of $603 million is projected which, based on recent experience, will provide sufficient flexibility to manage fiscal conditions over this budget year.

The following chapters will examine in more detail the Fiscal 2008 Appropriations Act. Chapter 2 describes the policy initiatives that, taken as a whole, will improve the lives of the residents of this State. Chapter 3 highlights the progress that this Administration is making in reducing costs and increasing State government's efficiency and effectiveness for its customers, the citizens of New Jersey. Chapter 4 forecasts the level of revenue for fiscal 2008, and outlines a number of initiatives that will help the State enhance its ability to collect revenue in a fair and efficient manner.

Details of the FY 2008 Appropriations Act

(In Millions)

	FY2007 Adjusted Approp.	FY2008 Approp. Act	Change $	Change %
Opening Surplus	**$ 1,779**	**$ 2,198**	**$ 419**	23.6
Revenues				
Income				
Base	11,510	12,415	905	7.9
EITC Expansion		(36)	(36)	-
Sales	8,150	8,480	330	4.0
Corporate	2,930	2,520	(410)	(14.0)
Other				
Base	8,293	8,121	(172)	(2.1)
Additions		376	376	-
Total Revenues	$ 30,883	$ 31,876	$ 993	3.2
Lapses	604		(604)	-
Total Resources	**$ 33,266**	**$ 34,074**	**$ 808**	2.4
Appropriations				
Original	$ 30,819	$ 33,471	$ 2,652	8.6
Supplemental	249		(249)	-
Total Appropriations	**$ 31,068**	**$ 33,471**	**$ 2,403**	7.7
Fund Balance	**$ 2,198**	**$ 603**	**$ (1,595)**	(72.6)

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CHAPTER 2: POLICY INITIATIVES

OVERVIEW

This chapter provides details of policy initiatives set forth in the Fiscal 2008 Appropriations Act. In the descriptions that follow, initiatives are grouped by policy category.

Property Tax Relief

In fiscal 2008, this Appropriations Act provides a historic commitment to relieve the property tax burden in New Jersey, both in the total amount committed – $16.8 billion – and the increase over fiscal 2007 – $1.98 billion. With the $16.8 billion commitment, the Governor and the Legislature have set aside approximately 50 cents of every dollar in the Fiscal 2008 Appropriations Act for property tax relief. The centerpiece of this commitment is more than $2.2 billion in funding for direct property tax relief through the Homestead Rebate program, which is nearly $1.2 billion higher than the benefit in the Fiscal 2007 Appropriations Act. The relief amounts to 20% of most residential tax bills.

Funding for Property Tax Relief

(In Millions)

	FY2007 Adjusted Approp.	FY2008 Approp. Act	Change $	Change %
School Aid	$ 10,319.1	$ 10,900.9	$ 581.8	5.6
Municipal Aid	1,917.5	1,996.5	79.0	4.1
Other Local Aid	814.2	887.0	72.8	8.9
Direct Property Tax Relief	1,740.9	2,991.0	1,250.1	71.8
Total Direct Aid	**$ 14,791.7**	**$ 16,775.4**	**$ 1,983.7**	**13.4**

Nearly two million homeowners will receive the direct and immediate relief – at an average of $1,000 per homeowner. An additional 800,000 tenants will benefit from doubled funding of the tenants relief program. This historic commitment is in addition to smaller increases totaling $50 million in the other forms of direct property tax relief-- this Appropriations Act fully funds the Senior Tax Freeze program, along with deductions for veterans and senior/disabled citizens, as well as property tax deductions for income tax filers.

Investments in municipalities and counties will further support property tax relief, including a 2% increase in formula municipal aid and a $15 million increase in shared services and consolidation incentives.

In addition, this Appropriations Act helps relieve the property tax burden while investing in our children by including an increase in support for education of approximately $580 million, including State assumption of locally-based costs for teachers' pensions, social security, and post-retirement medical benefits. Of this amount, an increase of over $376 million is allocated for direct aid for school districts. With these increases, state aid for education totals nearly $11 billion, which equals almost one third of the Fiscal 2008 Appropriations Act.

These efforts, combined with the reform initiatives that Governor Corzine worked on with the Legislature to establish a 4% growth cap on local property tax increases, the new Office of the Comptroller, and similar legislative initiatives, will significantly lower the rate at which property taxes have historically risen.

The three subsections that follow provide further details about the State's efforts at reducing its residents' property tax burden:

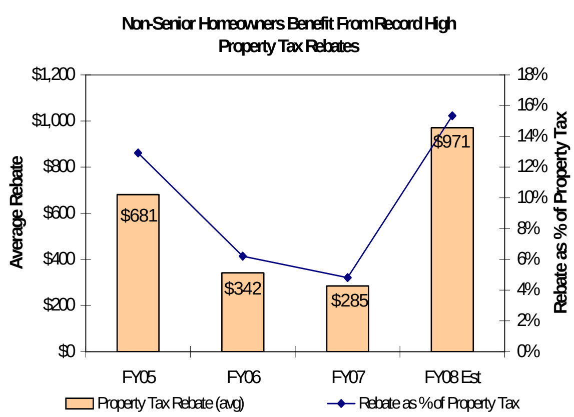
- *Direct Property Tax Relief* highlights how this Appropriations Act provides the largest increase ever in Homestead Rebate program, while fully funding the State's other direct property tax relief programs;

- *Municipal Aid and Other Local Aid* emphasizes how this Appropriations Act increases aid for all municipalities, and provides more funding for county programs;
- *School Aid* illustrates how this Appropriations Act funds almost $11 billion for the State's schools. It highlights the fact that all non-Abbott school districts will receive increased levels of State Aid. (The ensuing section on "Education" will go into more detail about the State's overall role in maintaining the strength of New Jersey's public schools.)

Direct Property Tax Relief

Homestead Rebate Program

The Fiscal 2008 Appropriations Act allocates $2.0 billion toward direct property tax relief through the Homestead Rebate for Homeowners program. This is the highest level of direct property tax relief ever appropriated in a single year. The program, which will provide significant tax relief for an estimated 1.9 million New Jersey taxpayers, includes record high rebates for 82% of homeowners (1.5 million). The remaining 18% of homeowners (340,000), whose current rebates are higher than the new fiscal 2008 rebate formula would provide, will continue to receive a level benefit.



Rebates for non-senior homeowners will grow by nearly $700 on average, outpacing average increases in property taxes and increasing the credit to up to 20% of the property tax bill (15% on average across all income levels).

The degree of benefit will be determined by income. Homeowners will receive a percentage of the first $10,000 of their 2006 property taxes as a property tax credit/rebate in fiscal 2008. Also, for the first time since fiscal 2004, the property tax credit/rebate program will be extended to homeowners whose income exceeds $200,000. The following chart details the new program benefits for homeowners.

Homeowner Income	Projected Recipients	Percent of Property Taxes	Average Benefit
$0-100,000	1,338,000	20%	$1,115
$100,001-150,000	343,000	15%	$960
$150,001-250,000	206,000	10%	$745

Funding for Homestead Property Tax Rebates for Tenants is doubled to $251 million in fiscal 2008 to provide a rebate to nearly 800,000 tenants. The maximum rebate amount for approximately 550,000 non-senior tenants with annual incomes of $50,000 or below has been increased, as displayed in the chart below. The formula targets new and significant relief to lower-income tenants whose property tax-inflated rental costs are among the highest in the nation. Tenants with income between $50,001 and $100,000 will receive a maximum rebate of $80 that has been adjusted for a 3.9% cost-of-living-adjustment.

Tenant Income (Non-Seniors)	Projected Recipients	Maximum Benefit
$0-20,000	230,000	$350
$20,001-35,000	194,000	$300
$35,001-50,000	129,000	$200
$50,001-100,000	132,000	$80

Tenant Income (Seniors)	Projected Recipients	Maximum Benefit
$0-70,000	96,000	$860
$70,001-100,000	1,500	$160

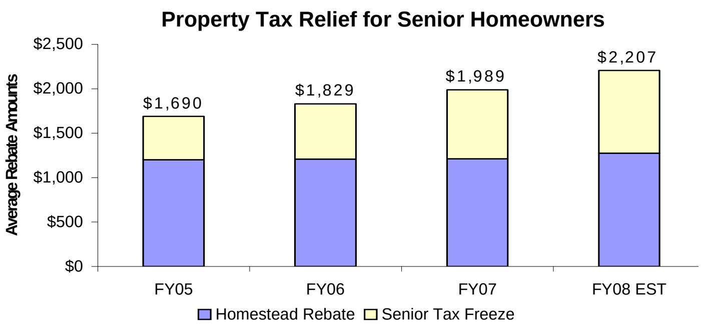
Senior Tax Freeze

The State will continue to provide a 100% reimbursement of property tax increases for low- and middle-income seniors through the Senior and Disabled Citizens Property Tax Reimbursement (Senior Tax Freeze) program. This program freezes property taxes for low- and middle-income seniors, reimbursing them for any property tax increases that were assessed after they joined the program. The

Fiscal 2008 Appropriations Act provides a 21% increase in funding, or $26.5 million, over the prior year, resulting in rebate checks that will average a record high $931 for approximately 164,000 total participants.

The Senior Tax Freeze program is funded at $153 million in fiscal 2008 to provide an average rebate of $1,077 for 134,000 repeating participants ($144.2 million) and $281 for 30,000 new participants ($8.4 million). Income eligibility levels have increased 4.1%, based on the Social Security Administration's cost-of-living-adjustment, to $43,693 if single and $53,575 if married.

Total property tax relief through the Homestead Rebate and the Senior Tax Freeze programs for eligible senior homeowners will increase to $2,207 in fiscal 2008 (see chart below).



The average combined reimbursement for property tax increases to senior homeowners eligible for the Property Tax Freeze program climbed from $1,690 in fiscal 2005 to an estimated $2,207 in fiscal 2008, comprising more than one-third of their property tax bill.

Property Tax Deductions

Since fiscal 2004, the State has provided the constitutionally-mandated maximum property tax deduction of $250 to veterans and eligible senior and disabled residents on their property tax bills. Approximately 375,000 veterans, seniors and disabled citizens are expected to apply for this deduction in fiscal 2008. The State has allocated $97 million in the Fiscal 2008 Appropriations Act to reimburse municipalities for reduced tax collections.

Eligible homeowners and tenants who pay property taxes, either directly or through rent, on their principal residence in New Jersey are eligible for either a deduction or a refundable credit on their New Jersey resident income tax return. The property tax deduction against State income tax liability will save middle-income taxpayers an estimated $490 million in fiscal 2008. This is $32 million, or 7% higher, than the previous fiscal year.

Municipal and Other Local Aid

Municipal Aid

The Fiscal 2008 Appropriations Act provides nearly $2 billion in municipal aid to New Jersey's 566 municipalities. Newly created is the 2008 Municipal Property Tax Assistance program at $32.6 million. This funding represents a 2% growth of formula-based municipal aid, namely, Consolidated Municipal Property Tax Relief Aid and Energy Tax Receipts Property Tax Relief Fund aid. The $32.6 million will be allocated proportionately to New Jersey's 566 municipalities.

The Consolidation Fund, newly appropriated at $15 million in fiscal 2008, will augment the existing Sharing Available Resources Efficiently (SHARE) program funding to encourage consolidation and shared services. The nearly $20 million total for the Consolidation Fund and SHARE will allow the State to develop new incentives for municipalities, counties, and other local units to conduct their work more efficiently.

The appropriation for the Special Municipal Aid program in fiscal 2008 is $153 million, representing 62% growth over the previous year's funding. This program provides assistance to municipalities facing severe fiscal conditions in recovering from fiscal distress and improving management and financial practices. As a condition of receiving such assistance, municipalities must agree to stringent controls as set forth by the Special Municipal Aid Act. As a result of the negotiations with the Legislature for the final Fiscal 2008 Appropriations Act, funding for Trenton Capital City Aid was increased by $21 million to $37.5 million.

While level funding totaling $1.7 billion is sustained in fiscal 2008 for several municipal aid programs outlined below, one-time legislative grants of $35.9 million to certain municipalities have been discontinued. A substantial portion of the $1.7 billion provides level funding to the State's two largest municipal aid programs, the Consolidated Municipal Property Tax Relief Aid program at $835.4 million and the Energy Tax Receipts Property Tax Relief Fund program at $788.5 million. Other programs that will continue to provide assistance at the fiscal 2007 level are listed below.

- Municipal Efficiency Promotion Aid Program - $34.8 million
- Municipal Homeland Security Assistance Aid - $32 million
- Highlands Protection Fund Aid - $12 million
- Open Space Payments in Lieu of Taxes - $9.5 million

This Appropriations Act also includes a reduction in the Extraordinary Aid program of $9 million, to $34 million. This program provides aid to municipalities facing unexpected increases in costs that would otherwise lead to an unacceptably high spike in municipal tax rates. The provision of the 2008 Municipal Property Tax Assistance program at $32.6 million is expected to mitigate the need for Extraordinary Aid in fiscal 2008.

Funding for the Regional Efficiency Aid Program (REAP), $8 million, represents a 27% reduction from the previous year, signaling the beginning of a phase-out of the program. Since fiscal 2003, REAP assistance totaling $52 million has been limited to 14 towns which achieved the largest per capita savings through consolidation of municipal services. The State payment was intended as an incentive and reward for their efforts to consolidate, but after five years of such payments, the reward should be phased out.

In addition to the municipal aid programs discussed above, since 2003 the State has authorized municipalities to raise new revenue by placing a local surcharge of up to 3% on hotel stays. For fiscal 2008, the 58 towns that have enacted this surcharge to date are expected to raise a combined total of $40 million to mitigate their need to raise property tax levies.

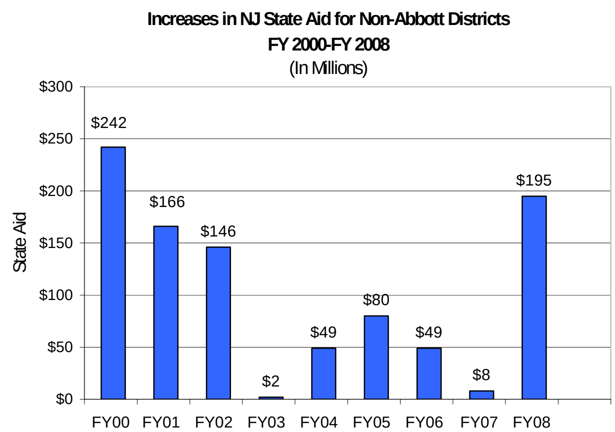
Other Local Aid

This Appropriations Act provides an increase of $72.8 million for counties and other local government units. This increase will fund a number of initiatives, including an expansion of aid to county colleges ($13.8 million, described in the "Higher Education" section); local costs associated with the Presidential Primary ($10.5 million) and new Voter Verified Paper Audit Trail requirement ($10 million, both described in the "Public Safety" section); providing local relief funds to help communities after the devastating floods in the spring of 2007 ($8 million, described in the "Public Safety" section); and the strengthening of the Garden State Preservation Trust ($25 million, described in the "Environment" section).

School Aid Funding for Non-Abbott Districts

Governor Corzine recognizes the critical importance of adopting a new school funding formula and will work persistently toward that goal in the upcoming months. In the Fiscal 2008 Appropriations Act, interim steps have been taken to target additional State aid to districts that are struggling to meet the educational needs of their students. All non-Abbott districts will receive a minimum 3% increase in formula aid. Beyond the across-the-board increase, additional aid will be targeted toward educational priorities that focus on the individual needs of the children. Additional resources will be provided for non-Abbott communities with high concentrations of children living in poverty. New aid will be provided to support expansion and enhancement of preschool and full-day kindergarten programs and for literacy programs. (For further information on these new categories of aid, see the "Education" section that follows.)

As shown in the chart "Increase in NJ State Aid for Non-Abbott Districts," this Appropriations Act provides a $195 million increase in formula aid to these districts. This represents the largest increase in aid to non-Abbotts since fiscal 2000 and the largest percentage increase since fiscal 2001, and exceeds the combined total increase received from fiscal 2003 to fiscal 2007. The increases are targeted to districts with the highest needs. The common methodology for comparing districts is through their District Factor Group (DFG), the approximate measure of a community's relative socioeconomic status, which range from DFG "A" districts to DFG "J" districts. The neediest districts, DFG "A" and "B", will see average increases of 10.3% and 9%, respectively, and DFG "CD" districts will have average increases of 8%. The most affluent districts, DFG "J" will receive the 3% inflationary increase. These amounts exclude State payments made on behalf of the districts for pensions, Social Security, and post retirement medical benefits.



The increase in FY 2008 state aid for non-Abbott school districts is the largest increase since FY 2000.

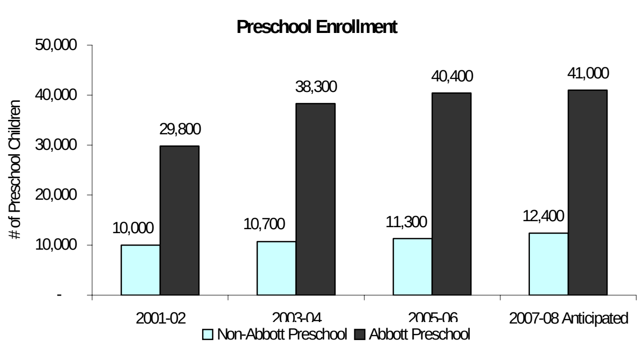
Education

State aid for education comprises close to one-third of the Fiscal 2008 Appropriations Act, or nearly $11 billion of the $33.5 billion total State appropriation. This represents an increase of $582 million from fiscal 2007. Some of the more prominent programs are described below.

The Preschool Advantage

The importance of a quality education during a child's early years cannot be overstated. In light of this, the State has maintained a firm commitment to enhance preschool services for our children. Through the joint efforts of the Departments of Education and Human Services, the State comprehensively integrates educational, social, and family programs to promote academic and social development. The quality of this effort has attracted national attention, as the National Institute for Early Education Research continues to rank New Jersey's Abbott Preschool program as one of the best in the nation.

As the following "Preschool Enrollment" chart illustrates, the Department of Education expects preschool enrollment in the Abbott districts to grow to 41,000 for the 2007-2008 school year, a level that is approximately 38% higher than when the program began in the 2001-2002 school year. This year's growth represents a small increase in what has become a program with leveling enrollments. If these enrollment levels are achieved, approximately 80% of all general education three and four-year-olds in the Abbott districts will be enrolled in a high-quality preschool program.



Preschool enrollment is anticipated to grow to approximately 53,400 in FY08, a 34% increase over enrollment in FY02.

Since fiscal 2003, state aid has been provided to fund the dramatic increase in preschool enrollment in the Abbott districts. The Fiscal 2008 Appropriations Act includes an appropriation of $246.3 million for Abbott Preschool Expansion Aid, as well as $99.1 million in the Department of Human Services for programs offered before and after school for Abbott preschoolers.

A second form of state preschool aid—Early Childhood Program Aid—supports an additional 43,400 preschoolers and kindergartners in 132 high poverty districts around the State. The Fiscal 2008 Appropriations Act includes $330.6 million for this program. In fiscal 2005, a new category of Early Childhood State Aid, the Early Launch to Learning Initiative, was introduced. The $3 million included in the Fiscal 2008 Appropriations Act will allow the program to run at the same level as fiscal 2007, increasing access to high-quality preschool for four-year-olds by creating new or expanded preschool programs in the low income districts that have participated in the program since its inception. In fiscal 2008, eligible districts will receive additional resources for early childhood and literacy programs through two new categories of school aid, Full-Day Kindergarten Supplemental Aid and Targeted At-Risk Aid. (See "School Aid" below.)

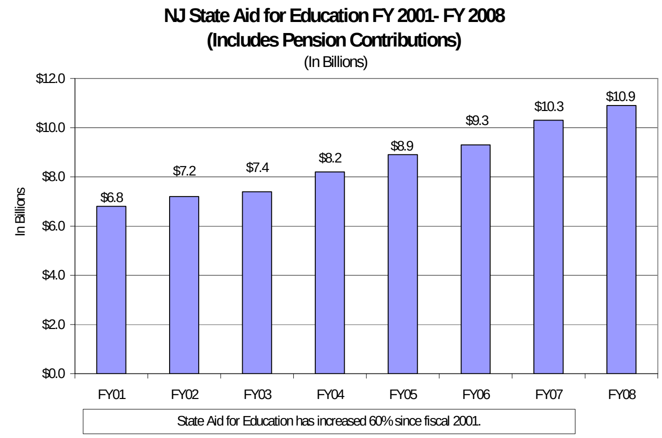
Governor Corzine is deeply committed to expanding high-quality preschool opportunities for all low-income students across the state. He recognizes that the current "patchwork" approach to early childhood education is inequitable. Three- and four-year-old children in non-Abbott districts also need access to high-quality programs so they can enter school ready to learn. In the current system, there are some cases where Abbott students and non-Abbott students attend programs in the same community-based child care centers. In these settings, the non-Abbott families must pay for the programs, while the students who live in an Abbott district receive the program for free. Even if the children have the same demographic characteristics, their mere geographic difference determines whether they receive a free high-quality program or a costly one.

In order to address these inequities, high-quality preschool must be made available to all low-income students. In the Fiscal 2008 Appropriations Act, Governor Corzine has included $10 million for the Preschool Expansion and Enhancement Grant program to improve the quality of preschool providers in non-Abbott districts. The appropriation will also support an independent needs assessment to determine what steps and resources will be needed to create a seamless preschool system for all low-income students.

The grants will be targeted to providers that serve the neediest students in non-Abbott districts. There will be a strong emphasis on expanding the capacity of Head Start providers, who serve students at or below 100% of the federal poverty level. The grants will be used to support certification efforts for classroom teachers, selection of a research-based curriculum and professional development, and other steps necessary to align these programs with the high-quality Abbott preschool programs.

School Aid

State aid for school districts is the single largest purpose to which State funds are devoted, with a total appropriation of $10.9 billion for fiscal 2008, as seen in the chart below. This number includes the significant contributions the State makes on behalf of local school districts for employee benefits and provides increases in funding for all New Jersey schools.



Overall, the Fiscal 2008 Appropriations Act provides an increase of nearly $360 million in school formula aid, including funding for new programs targeted to districts with the highest needs. It also includes $512.3 million for the School Construction and Renovation program and $113 million in School Building Aid. The combined total of these two programs represents an increase of $143.7 million over the fiscal 2007 adjusted appropriation for these categories of aid. This funding will service State school construction debt on new and existing bond issues, as well as provide aid for qualifying local debt issued for school construction.

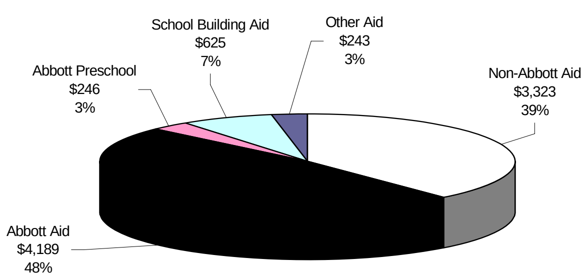
Appropriations provided for the Teachers' Pension and Annuity Fund, debt service on pension bonds, post-retirement medical benefits, and Social Security payments made by the State on behalf of the districts provide valuable contributions to local school districts both financially and educationally, since pension and benefits assist in recruiting and retaining qualified teachers. In fiscal 2008, these payments will increase by a net of $61.9 million, to nearly $2.3 billion.

This Appropriations Act includes funding to ensure that parity is guaranteed for all Abbott districts. There are a limited number of Abbott districts in fiscal 2008 that are projected to be below the court-ordered parity with the wealthiest districts. A $1.7 billion appropriation for Education Opportunity Aid will allow for a 3% increase in state aid for the Abbott districts that are already at parity, increased operating costs of new facilities, and other documented needs determined by the Department of Education via the Abbott budget review process.

This Appropriations Act also includes a $3.1 million increase in Abbott Preschool Expansion Aid (and a total appropriation of $246.3 million), representing an increase of $21.4 million over projected actual fiscal 2007 spending for the program. As discussed above in the "Preschool Advantage" section, these funds are combined with Early Childhood Program Aid to support high quality, full-day, full-year preschool programs in all of the Abbott districts.

The Fiscal 2008 Appropriations Act recognizes that, due to a combination of increases in state aid and no required local levy increase in Abbott districts from 1997 through 2006, there are Abbott districts with relatively low total equalized tax rates. As a condition of receiving Education Opportunity Aid, Abbott districts below 120% of the state average total equalized tax rate will be required to contribute a greater local share toward the costs of educating students in those districts. The increased local share will not exceed $125 per household and will not exceed the 4% tax levy cap adjusted for enrollment growth. This is the second year in which Abbott districts with relatively low tax rates have been asked to increase their local share to assist in supporting the costs of educating students. This requirement is part of the Administration's effort to ensure that Abbott districts are contributing their fair share toward the cost of education.

Components of State Aid for Education in New Jersey, FY2008
(In Millions)



In addition, the State provides nearly $2.3 billion in benefit payments for public school teachers.

This Appropriations Act provides $92.6 million for a 3% increase in state aid to non-Abbott districts in order to recognize the financial hardship caused by years of limited or no state aid increases. Since school formula aid has not been updated for changes in demographics and special education needs in recent years, all districts can use additional funding to address the individual needs of their students. Aid to nonpublic schools also will increase 3%.

An Administration priority for education is ensuring that high quality early childhood education serves as the foundation for continued academic success for all students. This foundation includes a focus on the quality of students' kindergarten experiences. The benefits of full-day kindergarten have been documented in many studies. The Fiscal 2008 Appropriations Act includes $26.2 million for Full-Day Kindergarten Supplemental Aid, a new program to assist districts currently providing full-day kindergarten. The Governor recognizes that districts that have used local resources to expand to full-day kindergarten deserve additional support from the State to provide this educational benefit to students and their families. The additional funding will benefit 185 districts and allow for quality enhancement. Funding will be distributed on a wealth-equalized basis in accordance with the current method used to fund the first half-day of kindergarten. The long-term goal will be to increase the number of full-day kindergarten programs.

This Appropriations Act recognizes that there are districts all across the state with high concentrations of low-income students who qualify for free and reduced price meals, and additional funding will be provided to such districts through another new category of school aid, Targeted At-Risk Aid. Districts with concentrations of 15% to 20% of students qualifying for free or reduced price meals will receive an additional $250 per low-income student. Districts with concentrations greater than 20% will receive an additional $500 per low-income student under this new aid category. These funds must be spent on programs that will help close the achievement gap for the low-income students in these communities, such as literacy programs, preschool, and full-day kindergarten. Qualifying districts may use the funds to start new programs or enhance the quality of existing programs. This new State funding program recognizes that per-pupil spending in many non-Abbott districts with high concentrations of poverty is well below the state average and the average per-pupil spending in the Abbott districts. More than 200 districts will benefit from this $66.8 million in new funding. In addition, $5.7 million was added during negotiations with the Legislature to extend eligibility to 54 charter schools.

Finally, this Appropriations Act recognizes the value of providing an alternative for high school dropouts, recent immigrants, and other disadvantaged New Jersey residents who strive to attain a high school diploma based on the State's arduous core curriculum content standards. To address this need, an additional $10 million was added to the final Fiscal 2008 Appropriations Act for Adult Education Aid. The funding for this new aid category will be distributed to approved adult high schools and post-graduate programs at a rate of $1,110 per pupil.

Promoting Literacy

The Department of Education's Office of Literacy provides for the development of statewide math and reading literacy policies, along with support for literacy programs throughout the state. The increased attention being given to the instruction of students in the primary grades has resulted in gains in student achievement across New Jersey. However, according to assessment data, these gains are not sustained during the middle grades. In order to change this trend, significant changes in schools at all levels are required.

A grant from the National Governor's Association has allowed the Department's Adolescent Literacy Policy and Planning Committee to develop a research-based strategy that includes a comprehensive instructional model and intensive training program to improve literacy instruction and outcomes for middle school students. This program, Literacy is Essential to Adolescents' Development and Success (LEADS), began in three school districts in the summer of 2005. In fiscal 2007, the Department expanded the program to eight districts, and the plan for fiscal 2008 expands it to 18 districts.

Department staff also provides ongoing professional development to these districts, as well as to a consortium of 45 non-Abbott Special Education Literacy districts that are focused on reducing the classification of students affected by literacy deficiencies. The Department's literacy specialists assist in Literacy Assessment Team reviews, provide help to State intervention districts, and oversee the implementation of multiple literacy grant programs.

Special Education Grants

Federal funding for special education falls short of federal pledges and shortchanges the needs of special education students. When the Individuals with Disabilities Education Act (IDEA) was established, the federal government promised to pay 40% of the per pupil expenditure. The federal government has never fully funded IDEA and for fiscal 2008 proposed funding is approximately 16% of the federal obligation. Governor Corzine recognizes this shortfall and in fiscal 2007 established a grant program to assist school districts in meeting the high costs of special education in New Jersey, which currently has an estimated 203,000 special education students aged 3 to 21 throughout its public school system.

The Fiscal 2007 Appropriations Act included $15 million to support students with autism spectrum disorders as well as $4.5 million in new grants for local school districts to develop or enhance their special education programs. Continued funding for these grants does not appear in the Fiscal 2008 Appropriations Act, as these are multi-year programs with a grant period beginning in fiscal 2007. Therefore, expenditures for fiscal 2008 related to these grants will be supported by the fiscal 2007 appropriation. The autism grant program will run for 15 months from April 1, 2007 to June 30, 2008. The special education grant program will run for 25 months from June 1, 2007 to June 30, 2009.

The autism grants will be used to help districts with autism program planning and start-up costs, as well as professional development, personnel costs, special education teachers, program coordinators, behavior intervention specialists, parent outreach, transition planning, assistive technology, and instructional support. Individuals with autism have marked deficits in areas such as attention, imitation, communication, socialization, and motivation – skills that are the foundation for early education. This effort will be augmented by a $5 million Governor's Initiative in fiscal 2008 in the Department of Human Services for Addressing the Needs of the Autism Community. (For further details, see the "Human

Services" section later in this chapter.) Approximately 7,400 New Jersey children between the ages of 5 and 21 have been diagnosed with autism spectrum disorders, and a recently released report from the U.S. Centers for Disease Control and Prevention found the highest rate for autism in northern New Jersey.

School Construction—Reforming the Process

As defined by the Educational Facilities Construction and Financing Act of 2000 (EFCFA), New Jersey's school construction program is the largest in the nation. This law established a comprehensive program for the financing, design, renovation, repair, and new construction of primary and secondary schools throughout the state. The New Jersey Schools Construction Corporation (SCC), a subsidiary of the New Jersey Economic Development Authority (EDA) and one of the State entities that has a role in administering the school construction program, was responsible for financing, designing, and constructing all of the school facilities projects in the Abbott districts and in districts that receive 55% or more in State funding for education. In addition, the SCC monitored the disbursement of grants previously approved for any of the remaining districts.

EFCFA allocated $8.6 billion for school construction programs for districts across New Jersey, of which $6 billion was for Abbott districts, $2.5 billion was for non-Abbott districts, and $100 million was for vocational schools. However, the SCC spent or obligated all allocated funds, with many of the planned school construction projects still on the waiting list, unable to move forward with needed construction or rehabilitation.

In February 2006, Governor Corzine issued Executive Order No. 3 that established the Interagency Working Group on School Construction to review the SCC and develop recommendations for reform. This group strongly recommended legislative reforms that would address the following five core issues: program governance; increasing the role, responsibilities, and accountability of school districts; land acquisition; the project approval process; and project delivery.

On August 7, 2007, Governor Corzine signed into law A-4336 [P.L.2007, c.137], which implements a number of the recommendations made by the working group, reforms the school construction program, and improves its operation and management. Under the provisions of this bill, the SCC is abolished and the New Jersey Schools Development Authority (SDA) is established in, but not of, the Department of Treasury. The EDA will continue to provide the necessary financing, and the SDA will focus solely on the construction aspects of the program.

Youth ChalleNGe

The Youth ChalleNGe program assists at-risk youth in a highly disciplined environment to get their General Educational Development (GED) high school diploma. It is operated by the New Jersey National Guard (NG), which proactively changes the attitudes and future paths of youth who have problems with substance abuse and other criminal activity before it is too late.

Funding for this program is allocated on a 60% - 40% matching split between federal and state governments. The fiscal 2008 increase of $350,000 will expand the number of graduates from 200 to 350 students per year.

Youth ChalleNGe has been recognized nationally for "Academic Excellence" and has a post-graduation job placement rate of over 80%.

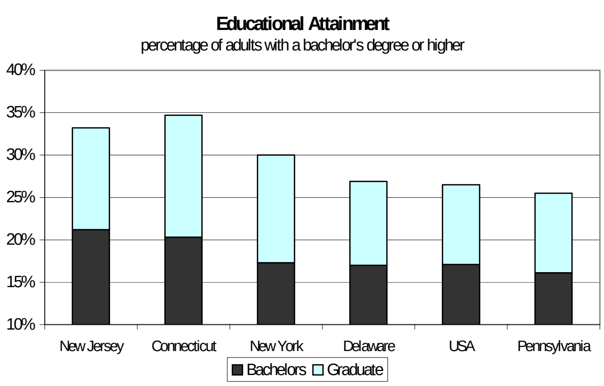
Higher Education

One of New Jersey's greatest strengths is its highly educated population. Sustained investment in higher education is vital to New Jersey's long-term economic and social health. Accordingly, this Appropriations Act provides $2.17 billion in overall support of the State's higher education system in fiscal 2008. This Appropriations Act maintains New Jersey's commitment to a diversified, accessible system of higher education. In particular, programs providing need-based financial assistance to students receive an increase of $16 million in fiscal 2008, to $236.3 million. This represents 88% of the total $268.3 million in student financial aid, and assures that our neediest students will not be denied the opportunity to go to college.

Higher Education

(In Millions)

	FY2007 Adjusted Approp.	FY2008 Approp. Act	$ Change
Colleges and Universities			
Senior Public Colleges and Universities	$ 1,468.5	$ 1,494.7	$ 26.2
County Colleges	217.6	231.4	13.8
Independent Colleges and Universities	19.5	20.4	0.9
Student Financial Assistance	**250.2**	**268.3**	**18.1**
Educational Opportunity Fund	**40.6**	**40.6**	-
Facility and Capital Improvement Programs	**98.5**	**93.4**	**(5.1)**
Other Programs	**18.3**	**18.1**	**(0.2)**
Total Higher Education	**$ 2,113.2**	**$ 2,166.9**	**$ 53.7**



More than 33% of adults in New Jersey have completed at least a four-year college degree or better, compared with less than 27% nationally.

Higher education benefits both the individual and society in a variety of ways. Educated individuals are less likely to be unemployed or live in poverty. Research has shown that, in addition to contributing more to tax revenues than others do, adults with higher levels of education are less likely to depend on social safety-net programs, generating decreased demand on public budgets. Higher levels of education also correlate with higher levels of civic participation, including volunteer work, voting, and blood donation. New Jersey's highly-educated workforce is also a key inducement to companies seeking to expand in or relocate to the Garden State.

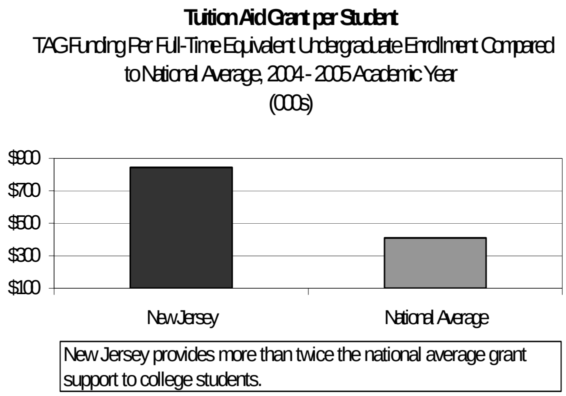
The table summarizes fiscal 2008 Higher Education allocations by major program area. The overall increase of $53.7 million from fiscal 2007 is largely due to increased operating support of $50 million distributed proportionally to all higher education institutions and $18.1 million for student aid programs, offset by anticipated savings in fringe benefits costs for college employees and other minor adjustments. Net fringe benefit savings of $21.6 million are expected to result from the recently negotiated State labor contracts; however, this Appropriations Act fully funds the employer share of expected fringe benefits costs for State-funded employees of colleges and universities under the new contracts.

Student Financial Assistance

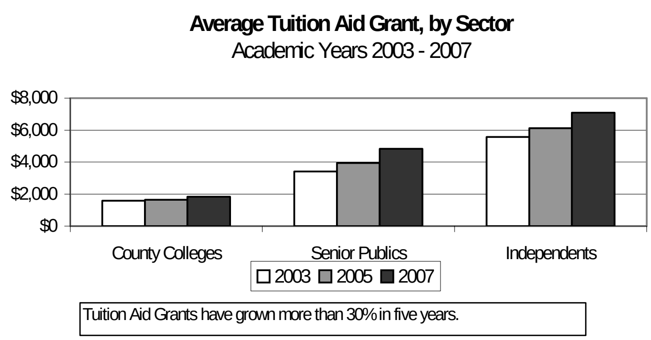
Even in this time of fiscal austerity, this Appropriations Act provides $268.3 million in fiscal 2008 for the various student financial assistance programs, administered by the Higher Education Student Assistance Authority. An increase of approximately $16 million is provided for need-based student assistance programs, and an additional $5.8 million is targeted for the New Jersey STARS merit programs bringing total funding for that program to $13.8 million. Funding for other non-need-based student aid programs is reduced by $3.7 million. Overall, this Appropriations Act increases funding for student assistance by $18.1 million, or 7.2%, from fiscal 2007.

Tuition Aid Grants

New Jersey's student financial assistance programs continue to be among the strongest in the nation. New Jersey's flagship Tuition Aid Grant (TAG) program provides more than twice the national average grant support per student.



New Jersey's need-based TAG program generously supports low-income students at the State's senior public institutions, independent institutions, and county colleges.



This Appropriations Act provides $230.2 million for the TAG program for full-time students in fiscal 2008, an increase of $15.5 million. In addition, $5.5 million is included for the Part-Time TAG for County Colleges program that was initiated in fiscal 2004. The $553,000 increase in this program will support 10,627 recipients during fiscal 2008, 686 more than in fiscal 2007, with a $517 average award.

NJ Educational Opportunity Fund

The New Jersey Educational Opportunity Fund (EOF) was created by law in 1968 to ensure meaningful access to higher education for those who come from backgrounds of economic and educational disadvantage. This Appropriations Act maintains EOF funding at $40.6 million in fiscal 2008; these programs assist low-income New Jersey residents who are capable and motivated, but lack adequate preparation for college study, through a variety of programs such as Opportunity Program Grants, Supplementary Education Program Grants, the C. Clyde Ferguson Law Scholarships, and the Martin Luther King Physician-Dentist Scholarships.

Health Care Initiatives

Access to Healthcare for Children

The Fiscal 2008 Appropriations Act increases funding for Physician Services from $33 million to $41 million in the Medicaid program. Of this increase, $5 million will be used to provide better medical care for our most vulnerable children by increasing reimbursements to pediatric service providers. The fact that New Jersey has the lowest Medicaid reimbursement rates in the nation has created a barrier to accessing care. Increasing the funding for pediatric services as of January 1, 2008, will expand access to primary care services and result in fewer Medicaid resources being spent on expensive and less appropriate settings such as hospital emergency rooms. In fiscal 2009, this appropriation increase will annualize to $20 million including State and federal funding. These funds reaffirm Governor Corzine's position to provide quality medical coverage for this most vulnerable population.

Personal Assistance Services Program

The Fiscal 2008 Appropriations Act includes a State appropriation of $10.9 million to the Personal Assistance Services Program (PASP). This amount includes a $3.5 million increase to enroll 150 additional beneficiaries into the program, thereby eliminating the existing waiting list. PASP makes it possible for adults with physical disabilities to work, go to school, and engage in their communities by providing help with the activities of daily living.

Office of the Medicaid Inspector General

Governor Corzine has made it a priority to reduce fraud, waste, and abuse in the State's Medicaid program. As part of that effort, this Appropriations Act reflects the enactment of legislation entitled the "Medicaid Program Integrity and Protection Act," which establishes the Office of the Medicaid Inspector General to coordinate such efforts. To ensure the integrity of the new Office, the legislation places it within the existing Office of the Inspector General, completely independent of the Department of Human Services; $3 million is available to support its operations during fiscal 2008.

There are other promising initiatives already underway. In one prime example, Medicaid has implemented a claims software product that automatically audits and adjusts professional billing errors to avoid overpayments. This initiative alone is projected to save the State $11 million during fiscal 2008.

Updated Charity Care Formula

The New Jersey Hospital Care Payment Assistance Program (Charity Care) provides uninsured patients the opportunity to receive inpatient and outpatient services at acute care hospitals throughout the State of New Jersey at a reduced cost or at no cost at all. To qualify, the resident must be ineligible for any private or governmental sponsored coverage (such as Medicaid) and meet both income and asset eligibility criteria.

For the first time in five years, the outdated Charity Care formula will be changed to incorporate the most recent Charity Care cost reports available. By using the most recent cost data, the Charity Care allocation will more accurately reflect the costs that hospitals are incurring to treat the uninsured. Additionally, $133 million (State and federal) was added in Charity Care funding bringing the total Charity Care allocation to $716.4 million – the highest funding level ever in New Jersey.

Further, $40 million (State and federal) additional funding was appropriated to enhance the Graduate Medical Education (GME) program for teaching hospitals throughout the State. In total, the appropriation for State and federal funds for GME in fiscal 2008 is $60 million.

Global Budgeting—Nursing Homes

The objective of global budgeting is to promote the independence and choice of senior citizens and individuals with disabilities to live in their homes and communities. New Jersey strives to redirect long-term care away from an over-reliance on institutional care towards more home and community-based options. On April 21, 2005, an Executive Order established a "money follows the person" pilot program in Atlantic and Warren counties and set aside funding in fiscal year 2006 to rebalance long-term care. A total of $26 million (State and federal) was appropriated in fiscal 2008 for this Global Budget program and used to transition individuals out of nursing facilities and into less expensive community-based options. Assuming the pilot program proves to be successful and cost effective, global budgeting will be carried out statewide beginning in March of 2008. The program will operate within the existing level of funding as cited in the Independence, Dignity, and Choice in Long-Term Care Act, which was signed into law by Governor Corzine in June 2006. The Act will continue to ensure the reallocation of Medicaid long-term care expenditures to create a more appropriate balance between funding for institutional care and care provided in the community.

Cancer Research

Despite the unfavorable fiscal climate in the State of New Jersey over the past several years, the commitment to eradicate cancer through cutting edge research remains a priority of the Governor and the Legislature. In fiscal year 2008, funding for Cancer Research grants to the Cancer Institute of New Jersey and the other major cancer centers throughout the State has reached the highest level in our history at $66.5 million.

Promoting Women's Health

In fiscal 2007, the rising cost of healthcare, combined with declining federal support, led Governor Corzine to commit $2 million for the promotion of women's health through family planning services in the Department of Health and Senior Services' Division of Family Health Services.

As a result of this commitment, the program has reached the goal of serving 4,500 new clients during fiscal 2007. To continue this positive momentum, the Fiscal 2008 Appropriations Act includes a $500,000 expansion for additional family planning clients. Including the two new initiatives noted above, the total appropriation in fiscal 2008 for Family Planning Services is $7.5 million.

Family planning services may be the only source of primary care for low income and working poor families who would otherwise not seek traditional preventive health care. These services help prevent unintended pregnancies, lower the rate of abortion and sexually transmitted diseases, and lower the risk of infant mortality. Funding also allows for prenatal care, HIV testing and counseling, and essential screenings for breast and cervical cancer, hypertension, and diabetes. New Jersey receives a solid benefit from this funding as every public dollar spent on family planning services saves an estimated $3 in associated Medicaid costs.

Health Drug Price Website

In fiscal 2007, Governor Corzine signed legislation which established the New Jersey Prescription Drug Retail Price Registry. The registry is available through the Division of Consumer Affairs website and provides consumers with retail information for the 150 most frequently prescribed prescription drugs in the State.

The Director of the Division of Consumer Affairs, in consultation with the Commissioners of Human Services and Health and Senior Services will obtain drug price information for these prescription drugs that will allow consumers to comparison shop for drugs by name, dosage, and zip code. Consumers can then use this information to determine which pharmacies have the best price on prescription drugs they frequently purchase.

Medicaid and Long-Term Care

In the Departments of Health and Senior Services and Human Services, the Medicaid State appropriation is $3.7 billion. Much of the cost increase that is required for Medicaid is attributable to the NJ FamilyCare and Managed Care programs. However, since Governor Corzine issued his Budget Address in February, updated projections allowed the State to reduce the appropriations in Clinic Services by $15 million and Managed Care by $6 million. In addition, $25 million in federal balances have been used to offset State expenditures in the Medicare Premiums account, resulting in a corresponding decrease in the fiscal 2008 appropriation.

State funding for the NJ Family Care program totals $249 million, an increase of $63 million. The majority of this growth is attributable to the State assuming costs that were previously funded by the federal government through the State Children's

Health Insurance Program (SCHIP). Total State and federal funding for fiscal 2008 amounts to $514 million. The Fiscal 2008 Appropriations Act assumes that, beginning on October 1, 2007, the federal match on parents (excluding pregnant women) decreases from 65% to 50%. Growth in the program is also attributable to the "Family Health Care Coverage Act" (P.L. 2005, c. 156), sponsored by Senator Vitale. This legislation expands enrollment in NJ FamilyCare, and beginning September 1, 2007, enrollment will be opened to eligible adults whose income does not exceed 133% of the federal poverty level.

The Medicaid program also includes funding to expand health insurance benefits as part of Governor Corzine's initiative to expand health insurance to uninsured children. The combined appropriation in Medicaid and NJ FamilyCare provides funding for health insurance to 68,000 additional children in fiscal 2008 compared to fiscal 2006.

Funding for prescription drugs will remain flat due to continued savings from the federal Medicare Part D program.

This Appropriations Act does not include any new co-payments or cost sharing initiatives that may adversely affect Medicaid beneficiaries.

The Fiscal 2008 Appropriations Act continues to support senior services and long term care alternative programs by including an appropriation of $875.1 million. This appropriation ensures that Nursing Homes and providers of Medical Day Care services will be able to rebase their rates and adjust for inflation for fiscal 2008.

To help offset growth, the following cost containment measures have been taken in various Medicaid programs resulting in a total savings of $6.7 million:

- Moving certain Managed Care populations into a capitation plan in which the State pays health maintenance organizations (HMO) a fixed capitation rate per beneficiary so that the HMOs become responsible for the service costs to providers.
- Auditing long-term care facilities to identify unnecessary spending.
- Requiring prior authorization of prescription drugs in the General Assistance program to offset drug inflationary growth.
- Eliminating bed hold reimbursement to Nursing Homes that have less than a 90% occupancy rate. The occupancy rate in nursing facilities has been declining due, in part, to patients being transitioned to home and community based services. As a result, it is unnecessary for facilities to hold beds when patients enter a hospital.

Possible Future Changes in NJ FamilyCare and SCHIP

The State Children's Health Insurance Program (SCHIP) is the source of federal funding for the NJ FamilyCare program (parents and children). Approximately 242,000 individuals are supported by SCHIP funding. The program provides health insurance to families based on income. It is free for a family of four with a yearly income of up to $31,000. It charges a sliding scale for premiums and co-payments for a family of four with a yearly income up to approximately $72,000.

The program was authorized by Congress in 1997. SCHIP is currently being considered for federal reauthorization leaving New Jersey uncertain about the amount of federal support to be received in fiscal year 2008. In the past, Congress has allowed money to be redistributed from states that did not use their SCHIP allotments. In fiscal 2007, Congress supplemented the State's allotment by $153 million. This year, however, NJ FamilyCare will run out of money in spring 2008, assuming that Congress reauthorizes the program and only grants the State a $105.2 million allotment (equivalent to New Jersey's fiscal 2007 allotment).

If funds are not restored in fiscal 2008 during the SCHIP reauthorization process beyond the amount that President Bush is proposing, the existing program supported by SCHIP will have to be restructured and additional resources will need to be found beyond what is included in the State's Fiscal 2008 Appropriations Act. The State appropriation for NJ FamilyCare assumes that the federal match on adults will decrease to 50% and that Congress will act to restore the necessary SCHIP funding.

Medicare Part D

Beginning on January 1, 2006, Medicare Part D benefits were coordinated with the Pharmaceutical Assistance to the Aged and Disabled (PAAD), Senior Gold, and Medicaid Prescription Drug Programs, thus offering Medicaid dual eligibles (those eligible for Medicaid and Medicare) and senior citizens a federal prescription drug benefit. Medicare is now the primary prescription drug coverage for these beneficiaries. As a result, the State pays for drugs not covered by the Prescription Drug Plan (PDP) to make certain that access to drugs for seniors is not diminished. In keeping with past practice, PAAD and Senior Gold beneficiaries are responsible only for their respective co-payments.

The PAAD and Senior Gold programs effectively enrolled 177,000 beneficiaries into a Medicare Plan that best met their needs based on their prescription drug utilization. While enrollment in Medicare Part D is not mandatory for Senior Gold, more than 60% of beneficiaries in this program have voluntarily enrolled. This enrollment effort has resulted in savings for the State beyond those originally anticipated. Consequently, the Fiscal 2008 Governor's Budget recommended a $72.5 million reduction. Since the Governor's Budget, updated projections allowed for a further decrease of $70 million to PAAD and Senior Gold. Despite the $142.5 million overall reduction compared to the Fiscal 2007 appropriations, beneficiaries enrolled in these programs will continue to receive the same benefits at no additional costs to them.

There are currently 147,000 dual-eligibles enrolled in Medicare Part D. There has been a 56% reduction in prescription drug expenditures as a result of the new federal program, but these savings have been offset by a loss in pharmaceutical manufacturer rebates shifting to the Part D plans and increased State-only expenditures from co-payments on behalf of dual-eligibles. Further, the State is responsible for reimbursing the federal government for what it would have paid for dual-eligible prescriptions prior to the implementation of Medicare Part D. This is commonly referred to as the clawback and is estimated to cost the State $284 million in fiscal 2008.

The Appropriations Act includes funding to cover the co-payments and wraparound costs for dual-eligibles, the clawback, and nearly a quarter of a billion dollars in State funds for those clients not enrolled in Part D, such as those aged, blind and disabled without Medicare and prescription drugs for behavioral health services for the three quarters of a million clients in managed care plans.

Cost Shifts in Medicaid – Reporting Requirements

The Bush administration is proposing a number of regulatory changes that may shift costs to the State. For example, the federal Centers for Medicare and Medicaid (CMS) plan to require submission of a four page form for each governmental provider including government financial reports and the provider's appropriations or contractual reimbursements. Submission is required for all governmental providers initially and for each future Medicaid State Plan Amendment (SPA). These requirements will increase existing work and may impact Medicaid reimbursement for at least 150 governmental providers participating in the Medicaid program. These providers include State, county, and locally operated medical facilities (hospitals, nursing homes, developmental centers, and residential treatment centers); school districts; and distinct agencies (DDD Community Care Waiver and DYFS). Using current assumptions, most governmental providers should be approved by CMS. However, county operated providers and school districts will require legal analysis to assure compliance.

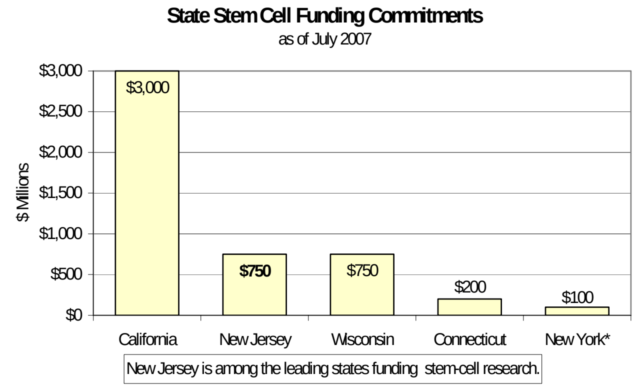
Stem Cell Research

Governor Corzine has spearheaded efforts to vault New Jersey to the forefront in stem cell research, with investments that have the potential to save and extend lives and lead us to cures that have previously been beyond our grasp. These investments will position New Jersey as a world leader in cutting edge research and yield results that could touch lives around the globe.

Our efforts have the potential to impact people the world over, in ways we cannot yet imagine. The true scope of this initiative may not be felt for a decade or even longer - when people around the world live vastly improved lives because of the work that will be done right here in New Jersey. For over a century, this has been our legacy as a state and we are preserving it.

We are creating a statewide laboratory of interconnected research and collection centers that will help attract the best minds currently engaged in the field of stem cell research. The work performed in New Jersey's stem cell research centers will soon stand as a shining beacon leading other researchers forward and giving hope to millions afflicted with incurable and untreatable injuries and diseases.

Altogether, New Jersey will commit approximately $750 million to stem cell research – building new facilities, recruiting new world-class researchers, and providing stable funding for our growing stem cell research community. These investments put us among the leading states in new stem cell investments, and with our long-established dominance in pharmaceuticals, will make New Jersey the most exciting and attractive place in the world for stem cell researchers and companies to locate.



*New York has earmarked an additional $500 million, subject to conversion of HIP Greater New York to for-profit status, and resolution of various legal challenges.

This Appropriations Act doubles the funding to $10 million in fiscal 2008 for stem cell research grants through the Commission on Science and Technology, and continues to provide $5.5 million for the New Jersey Stem Cell Research Institute in New Brunswick. These investments build on the foundation that we have already established to ensure that New Jersey remains a leader in stem cell research.

In fiscal 2007, $270 million was authorized to build stem cell research centers and facilities for cancer and biomedical research in New Jersey:

- $150 million to build the Stem Cell Institute in New Brunswick;
- $50 million to build stem cell research facilities at the New Jersey Institute of Technology in Newark;
- $50 million to a biomedical research center in Camden, which will be operated by a consortium of Rutgers, the Coriell Institute for Medical Research, the Robert Wood Johnson Medical School at Camden, and the Cancer Institute of New Jersey, South Jersey;

- $10 million to the Garden State Cancer Center, in Belleville; and,
- $10 million for the Eli Katz Umbilical Cord Blood Program, in Allendale, for cord blood collection in support of stem cell research.

In June 2007, the Legislature adopted legislation which authorizes the issuance of $450 million in bonds to finance stem cell research grants, subject to the approval of New Jersey voters in November 2007. Governor Corzine signed that bill (P.L. 2007, c.117) thus providing a stable source of support for the researchers in these new laboratories. In the absence of support at the federal level, New Jersey's commitment to this critical research will ensure our continuing status as the medicine chest to the nation and the world.

Human Services

Developmental Disabilities and Mental Health Placements

In fiscal 2007, Governor Corzine provided $3 million for housing capital, a $50 million, three-year institutional placement and home supports initiative for the Division of Developmental Disabilities (DDD), and $10 million for a similar program in the Division of Mental Health Services (DMHS). The Governor remains committed to providing greater options and capacity to fully integrate the developmentally disabled and mentally ill into their communities through placement from institutions and home supports for families.

An additional $10.1 million has been appropriated for DDD, which is dedicated towards consumers in the community, both in residential placements and in their own homes. This will help fund the Real Life Choices program, which enables individuals to continue living at home by self-directing services specific to their needs; new family support funding to expand respite care hours; the placement of individuals on the Community Services Waiting List who require immediate housing and support services; and continuation of day program services for individuals aging out of the educational system.

In DMHS, $20 million will be dedicated to two main areas – continuing to implement the recommendations of the Mental Health Task Force and building on last year's initiative to begin placing individuals ready to live in the community out of psychiatric hospitals, as well as providing housing and supports for the mentally ill who would otherwise be homeless or living in conditions without access to care.

Addressing the Needs of the Autism Community

Governor Corzine proudly announced a $5 million initiative in the Fiscal 2008 Budget to address autism in our communities. The Fiscal 2008 Appropriations Act increased this funding by $350,000, for a total fiscal 2008 appropriation of $5.35 million for autism. Based on recent studies, New Jersey's rate of diagnoses is 10.6 cases per 1,000 children, or 1 in every 95. When compared to the national average of 1 in every 150 children, it is clear that New Jersey needs to take greater steps in providing services, such as respite care, job coaching, transportation, and home supports. In addition, portions of this amount will fund research grants to various organizations to better coordinate State health policy which impacts the autism community.

Including all of the new initiatives noted above, the fiscal 2008 appropriation for the Community Programs operated by the Division of Developmental Disabilities totals $547 million and the total appropriation for the Division of Mental Health Services is $435 million

Community Provider Cost of Living Adjustment

In concert with efforts to serve New Jersey's most vulnerable citizens, the State's network of community providers has become indispensable in the delivery of direct care to the developmentally disabled, mentally ill, and vulnerable children and families in our communities. Governor Corzine and the Legislature recognize the important role these professionals fill, as well as the pressures that rising staff, energy, and transportation costs place on agencies. In order to maintain this high quality care, the initial increase of more than $26.8 million recommended in the Governor's Budget was increased to $39 million in the final Appropriations Act. Since this amount represents a 3% increase with a start date of January 1, 2008, the $39 million increase in the community provider cost of living adjustment will annualize to $78 million in fiscal year 2009. This increase will provide a substantial cost of living adjustment for providers contracting with the Departments of Human Services, Children and Families, Health and Senior Services, Labor and Workforce Development, and the Juvenile Justice Commission.

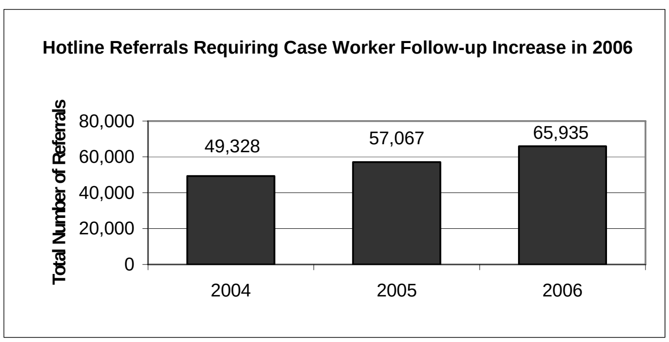
Federal Impact - Welfare-to-Work

The federal Deficit Reduction Act of 2005 requires states to document that 50% of families receiving welfare are engaged in work and job preparation activities. In order to provide opportunities for participants to become gainfully employed and to comply with federal regulations, growth is required in the following areas, which were funded by one-time federal resources in fiscal 2007: $14.4 million for work activity program slots in the Department of

Labor and Workforce Development; $9.7 million for child care slots so parents can work effectively, in the Department of Human Services' Division of Family Development; and $4 million for a system to report hours worked.

Department of Children and Families

In fiscal 2007, one of Governor Corzine's top priorities was turning around New Jersey's child welfare system through the creation of the State's first cabinet agency devoted to safeguarding vulnerable children and strengthening their families. Since that time, the Department of Children and Families (DCF) has aggressively implemented a data-driven reform plan, measuring performance and outcome targets for children in areas including referrals for abuse/neglect investigations, finalized adoptions, licensed resource families and staff caseloads. In fiscal 2008, DCF will continue to implement the requirements of the settlement agreement. Investments in children and families will grow in the Division of Youth and Family Services (DYFS) for caseload increases, annualized program and staff costs, and other services.



In calendar 2006, DCF experienced an historic surge in the number of calls reporting child abuse and neglect to the Statewide Central Registry hotline, but due to investment in staff and systems, the caseloads continued to decline. By November 2006, DYFS was on target in hiring caseload-carrying staff, having achieved 95% of the fiscal 2007 goal of 2,444. Additionally, DCF licensed 1,280 new resource (foster and adoptive) families in calendar 2006, more than in either of the prior two years, and the agency achieved its first net gain of 209 families in at least five years. Most notably, over this same period DCF made substantial progress in building specialized adoption practices in DYFS local offices, which enabled the State to exceed its target of 1,100 finalized adoptions by 275.

DCF is also engaged in an ambitious "right-sizing initiative" with counties and community organizations to identify the needs of children with mental health issues and build a continuum of services that can be accessed before crisis situations develop. A large part of this effort to improve outcomes requires a substantial investment in training staff. In fiscal 2006, DCF embarked on a pre-service training program for new workers that included a new, mandatory module on abuse and neglect investigative training. DCF trained more than three times as many DYFS staff in calendar 2006 than in the previous year, and more than doubled the number of training courses delivered to staff, supervisors, and managers across the agency.

EITC Expansion

The Earned Income Tax Credit (EITC) is a targeted income tax benefit that helps low-income working individuals earn their way out of poverty and into self sufficiency. A major impact of the credit is to lessen the burden of payroll taxes for Social Security and Medicare that disproportionately affect lower income workers. Most EITC dollars go to working people who are raising children. In addition to the federal program first enacted in 1975, New Jersey has had a state EITC since 2000. Out of the 19 states and the District of Columbia that have a state EITC, New Jersey is the only state that cuts off eligibility below the level set by the federal program – a hard cut-off at $20,000 rather than a gradual decline.

The Fiscal 2008 Appropriations Act includes an increase of $36 million to expand the state EITC eligibility to match the federal criteria. (The total impact of the EITC program in fiscal 2008, including this expansion, totals $159 million.) The credit, the amount of which is determined by income and family size, now will be available for families with up to $39,783 in earnings for a married family with two or more children ($37,783 for a single head of household with two or more children adjusted annually for inflation). Additionally, workers without children will be eligible to receive EITC benefits for the first time. An estimated 300,000 workers will benefit from this expanded eligibility, which would increase total program participation to approximately 500,000 workers.

This expansion would be the first step in a three step commitment to low-income workers. Step two, in fiscal 2009, would require raising the benefit level from 20% of the federal credit to 22.5%, and step three, in fiscal 2010, would involve raising the benefit level to 25% of the federal benefit.

Employee Benefits Reform

Recent contract negotiations between the State and representatives of its public employees show a commitment from the Administration to control rising employee benefit costs. Consistent with recommendations from the Joint Legislative Committee for Public Employee Benefits Reform, the terms of recently ratified labor agreements include provisions that increase cost-sharing of health care benefits for active and certain retired State employees and also increase employee contributions to the State's pension systems. These changes became effective July 1, 2007 for Executive Branch and Higher Education employees covered under labor agreements with CWA (Communications Workers of America), AFSCME (American Federation of State, County, and Municipal Employees), and IFPTE (International Federation of Professional and Technical Engineers). Negotiations continue with unions representing corrections and non-corrections law enforcement officers employed by the State for their currently expired contracts. Contracts for members of the Judicial and State Police unions will expire on June 30, 2008.

The agreement requires active State employees to contribute 1.5% of their salary towards health care costs. (Contributions towards the cost of health care for local employees and educators are negotiated at the local level.) Health plan changes are also projected to yield long-term savings by replacing the Traditional and NJ Plus plans with a preferred provider organization (PPO). Active State employees in the State Health Benefit Program (SHBP) will pay increased co-pays for doctor and emergency visits and for prescription drugs.

The Administration has worked very closely with the Legislature to enact two pieces of legislation, Chapter 92 and Chapter 103, P.L. 2007, to contain rising employee costs and to stop pension abuses.

The pension system is designed for individuals who are career employees of the State or local governments. Chapter 92, P.L. 2007 maintains this principle by establishing the Defined Contribution Retirement Program for newly appointed and elected officials beginning service after July 1, 2007. This helps to contain future cost increases to the existing pension systems.

Chapter 103, P.L. 2007 implements the pension and health benefit reforms negotiated in the State employee labor agreements through increases in employee pension contributions for all affected employees, an increase in the retirement benefit age for newly hired employees, and the use of a defined contribution plan to cover earnings in excess of the Social Security cap for new hires. Effective July 1, 2007, new State, municipal, and educational employees with earnings above the Social Security limit cap, currently set at $97,500, will contribute these excess amounts to the Defined Contribution Retirement Plan to help contain pension costs when they retire.

Anticipated savings are also projected by increasing employee contributions to the PERS and TPAF pension systems from the current 5% to 5.5% of an employee's annual salary. The increase in employee contributions begins to address the substantial unfunded liabilities in those systems.

For PERS and TPAF members hired on or after July 1, 2007, the retirement age has been increased from 55 to 60. If those members retire between ages 55 and 60, their retirement benefit will be reduced by 1% per year prior to age 60. For those members who retire prior to age 55, a continuation of the current 3% reduction will apply for every year below age 55.

To help offset the increase in member cost-sharing for health benefits and the increase in pension contributions, salary increases of 3% in years one and two and 3.5% in years three and four will be paid to State employees for a net increase of 11% over four years. Unlike many earlier contracts, the proposed contract calls for an even distribution of salary increases across the full term of the agreement, rather than being back-loaded.

The Administration supports this agreement based on its emphasis on reducing long-term costs and providing long-term stability and security to the pension and health benefit system. While the agreement will produce savings this year, the real benefits will be felt over the next two or three decades.

Over the long run, this agreement will protect the stability and solvency of the benefit structure for taxpayers and public employees alike. Savings will continue to grow each year. It is anticipated that in 2022, the negotiated reforms will save the State nearly $312 million.

Public Safety

Homeland Security

Protecting New Jersey's citizens and critical assets is clearly the top priority for the State of New Jersey. We have entered into a new threat era with acts of terrorism, natural disasters, catastrophic events, and pandemics that requires a new all-hazard operations paradigm in our approach to homeland security and emergency preparedness.

Because of New Jersey's location and our highly developed infrastructure, funding is needed to protect New Jersey's ports, chemical plants, bridges, tunnels, highways, and transit systems. An appropriation of $15 million will continue for homeland security needs throughout the State, supporting critical projects such as interoperable communications, tools for intelligence sharing, and enhanced infrastructure protection.

In March of 2006, Governor Corzine signed an executive order to establish the Office of Homeland Security and Preparedness (OHSP). The Office provides oversight for all homeland security and counter-terrorism related efforts. The Office has multiple responsibilities including, but not limited to, the following:

- **Grants** — Oversees and distributes discretionary State and federal homeland security preparedness funds solely on basis of risk (i.e., threat, vulnerability and consequence).
- **Preparedness Exercises** — Conducts regular exercises, such as tabletops (i.e., drills) and other simulations, to assess and prepare responses for terrorist and "all hazards" incidents.
- **Training** — Provides training to law enforcement personnel and other individuals involved with homeland security and emergency preparedness responsibilities.
- **Investigations** — Conducts joint investigations related to potential terrorist activities with the New Jersey State Police, the FBI's Joint Terrorism Task Forces, and other entities.
- **Intelligence Gathering and Sharing** — Collects, analyzes and shares intelligence data affecting New Jersey with the proper public agencies and private sector groups.
- **Clearinghouse for Legislation** — Reviews all State legislation concerning counter-terrorism and preparedness issues and makes recommendations to the Governor's Office.
- **Protecting Critical Infrastructure** — Works with private industry, which controls 85% to 90% of New Jersey's critical facilities, to protect those facilities against potential terrorism and other hazardous incidents.
- **Protecting Civil Rights and Liberties** — Works with the New Jersey Office of Public Advocate, which has established a public ombudsman to help ensure that citizens' rights and civil liberties are protected, in matters of homeland security and preparedness issues.

Federal Impact – Homeland Security Grants

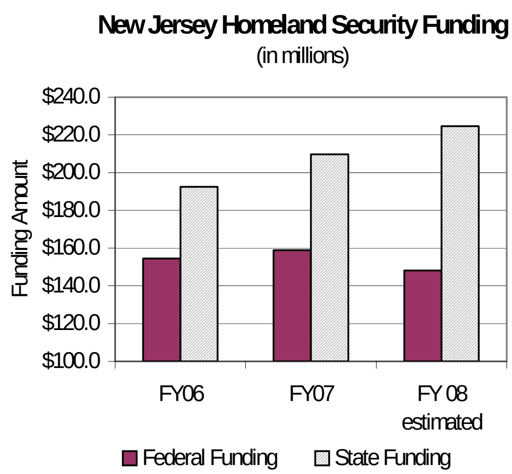
The President's budget request for federal fiscal 2008 includes an overall reduction for the federal Department of Homeland Security's major homeland security grant programs.

Two of the grants, the State Homeland Security Grant Program and the Law Enforcement Terrorism Prevention Program are shared by State and local governments, with 20% allocated to the State and 80% allocated to the counties/municipalities. The third major homeland security grant is the Urban Area Security Initiative, funding for which is fully dispersed to the counties for local use.

For the three major homeland security grants, the amounts allocated by the federal government to be shared by all 50 states have been significantly reduced. The State Homeland Security Grant Program has a proposed appropriation of $187 million nationally, which represents $338 million less than the federal fiscal 2007 level of $525 million. This is a 64% reduction in one of the largest resources from the federal government for homeland security funding. The Law Enforcement Terrorism Prevention Program proposed appropriation is also reduced by 30% to

$263 million, down by $112 million from the federal fiscal 2007 level of $375 million. The Urban Area Security Initiative is also reduced by 22% to $600 million, a cut of $170 million from the federal fiscal 2007 level of $770 million.

In forecasting the grant awards, there are two distinct amounts that are allocated to each state. There is a base amount, which is equal for every state, and there is also an amount allocated based on a risk formula. The greater the risk for terrorist threats, the greater the amount allocated to that particular state. The new risk formula for federal fiscal 2008 has not yet been approved by Congress. Once approved, New Jersey will know if overall homeland security related funding was increased or decreased for the new federal fiscal year.



Over a three year period, State funding has increased while federal funding has gone down for Homeland Security.

State Police

Based on P.L. 2005, c.311, the motor vehicle registration surcharge dedicated to the Division of State Police increased from $1.00 to $4.00 per registration. This funding provides for the purchase of new helicopters, maintenance of the existing fleet and the operation of the New Jersey Emergency Medical Service Helicopter Program as well as training of new State Trooper recruit classes. The Emergency Medical Service Helicopter Program is run by both the Department of Law and Public Safety and the Department of Health and Senior Services. A small portion of this revenue is shared with the Department of Health and Senior Services. The surcharge increase of $3.00 is estimated to raise revenues by $25.6 million for a total of $34.2 million in fiscal 2008.

The Division of State Police will use a portion of this revenue for its helicopter replacement program. The new helicopters will contain the most updated equipment to ensure reliability and safety.

With regard to new troopers, the State Police will provide two training classes that will graduate 200 new State troopers in fiscal 2008. With attrition, New Jersey will increase the total number of State troopers from 2,963 to 3,067 by the end of fiscal 2008. (See chart entitled "New Jersey State Trooper Strength.")

The Division will also use the revenue to purchase new State trooper vehicles. With a three year line-of-credit, the Division will purchase 250 vehicles in fiscal 2008. Because of the annual continuation of this revenue source, the Division is able to plan for the purchase of new vehicles to replace high-mileage vehicles on an ongoing basis.

New Jersey State Trooper Strength

Year	Number of Troopers Beginning of Year	Academy Graduates	Annual Attrition	Number of Troopers End of Year
FY 1998	2,585	112	(86)	2,611
FY 1999	2,611	150	(82)	2,679
FY 2000	2,679	0	(99)	2,580
FY 2001	2,580	165	(92)	2,653
FY 2002	2,653	228	(103)	2,778
FY 2003	2,778	80	(120)	2,738
FY 2004	2,738	50	(136)	2,652
FY 2005	2,652	279	(117)	2,814
FY 2006	2,814	214	(71)	2,957
FY 2007	2,957	102	(96) *	2,963 *
FY 2008	2,963 *	200 *	(96) *	3,067 *

* Projected

Spring 2007 Flood Relief

In April 2007, a brutal storm caused widespread damage and inland coastal flooding in various counties throughout New Jersey. An appropriation of $8 million was added to the Fiscal 2008 Appropriations Act to assist public entities as well as private individuals and households in meeting these extraordinary costs. The funds are in addition to federal assistance being provided by the Federal Emergency Management Agency (FEMA).

Domestic Violence

Nationwide, one in four women report they have been physically or sexually assaulted by an intimate partner. Domestic violence affects families of all different backgrounds, and survivors of domestic violence need support and security. The fiscal 2007 Appropriations Act included an additional $1 million to address violence against women through the Department of Law and Public Safety's (LPS) Division of Criminal Justice STOP Violence Against Women Act and the Victims of Crime Act. In fiscal 2008, that commitment is increased by an additional $500,000 for a total allocation of $1.5 million. LPS distributes grants to support domestic violence survivors through non-profit agencies and other programs. These programs provide legal and medical assistance, counseling, and access to other important community programs to address domestic violence and related issues. This increase will ensure that many more women and their families will receive the support they need.

Fighting Gang-Related Violence

Gangs and gang related violence are an increasing threat in New Jersey's cities and suburban areas. This Appropriations Act includes funding in the Departments of Law and Public Safety and Corrections to address gang related issues. In fiscal 2008, an appropriation of $1 million is continued in the State Parole Board to provide alternative community programs for parolees affiliated with gangs. Operation CeaseFire reduces gun violence by improving arrest rates, decreasing retaliation, and changing the culture of violence through community outreach.

Fiscal 2008 funding for Operation CeaseFire includes an increase of $100,000, from $750,000 to $850,000, to support continued efforts to address crime such as prevention, enforcement, and reentry. These initiatives will be coordinated by the Attorney General's recently reorganized units within the Division of Criminal Justice and the New Jersey State Police.

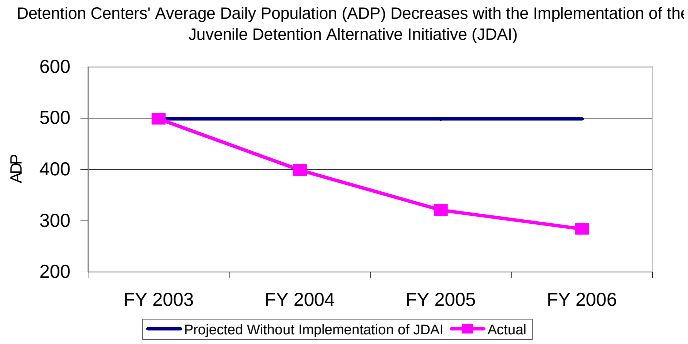
Project Phoenix and related gang prevention activities, funded at $150,000 in fiscal 2008, provide educational information on the danger of gang involvement to high risk school districts targeted through the Juvenile Justice Commission.

Helping Troubled Youth: The Juvenile Detention Alternatives Initiative

The Juvenile Detention Alternatives Initiative (JDAI) was developed in response to national trends reflecting a drastic increase in the use of secure detention for juveniles despite large decreases in juvenile arrests. This situation ultimately resulted in the overcrowding of youth detention centers nationwide.

The goal of JDAI is to reduce the number of youth inappropriately held in secure detention while maintaining public safety and ensuring that these youth appear for scheduled court dates. The JDAI also works to improve conditions in secure detention for youth who require that level of supervision. To address these issues, the program focuses on a number of core strategies including: the implementation of effective admissions policies and practices; the enhancement of juvenile alternatives to secure detention; the identification of strategies to reduce racial disparities in secure detention; the reduction of delays in case processing that could unnecessarily extend the stay at a secure facility; and challenges presented by "special populations," including youth admitted for violations of probation and youth awaiting dispositional placement.

The JDAI, which began as a privately-funded grant from the Annie E. Casey Foundation, exists in five counties in New Jersey. Results in the five pilot counties have been dramatic. Comparing 2003, before the implementation of this program, to 2006, the average daily population (ADP) for detention centers in these counties has decreased by 43.1%. These reductions primarily impact minority youth. Through this initiative, the program will be expanded to ten counties in fiscal 2008. The initiative is appropriated at $4 million in fiscal 2008.



In FY 2003, prior to the implementation of JDAI, the juvenile detention center ADP in 5 pilot counties averaged 499 juveniles/day. After JDAI, the ADP decreased by 43.1%, or 215 juveniles/day within 3 years.

Providing Appropriate Treatment for Juveniles

The Juvenile Justice Commission (JJC) previously administered the Life Skills and Leadership Academy (LSLA), which provided 50 secure care beds for juvenile offenders. The program was no longer cost effective because the level of security, which was provided by uniformed correction officers, exceeded the safety and security parameters required for these juvenile residents.

The juvenile population enrolled in the LSLA could be managed in a less restrictive environment. Therefore, the JJC converted the LSLA to a more appropriate program delivery system by contracting with a third-party provider, Project Use, to establish a residential program with age appropriate educational, social, and work skills training. These learning skills should better equip these youths to re-enter the community. By completing this conversion, the JJC increased residential and transitional living bed space by 50 and reduced secure bed space by the same amount. A fiscal savings of $1.6 million was achieved through this conversion, and is reflected in the Fiscal 2008 Appropriations Act.

Supporting Re-Entry to Combat Recidivism

Sound re-entry policy and programs reduce recidivism, promote individual responsibility, and help former prisoners become productive members of their communities. This Appropriations Act provides $1 million to the Department of Corrections for a new re-entry initiative to assist and guide inmates on re-entry into community life. An additional $400,000 also is provided to the State Parole Board to expand its Re-Entry Case Management program for mentally ill parolees.

Salary Increases for Judges

The last salary increase for New Jersey judges was authorized by legislation signed on January 1, 2000. Since that three-step increase was implemented, New Jersey judges have fallen nearly $25,000 behind their federal counterparts. First-year attorneys at some of the state's largest law firms are offered starting salaries higher than a Superior Court judge's salary of $141,000.

The State is losing experienced judges and recruitment of highly qualified attorneys for positions on the bench will be hampered without an alignment of judicial salaries with the federal bench and with other states. Over the past three years, 73 New Jersey judges have left the bench. Of those, 26 retired at the mandatory retirement age of 70. An additional 47, or 64 % of the experienced judges who left the bench, did so for other employment.

For these reasons, the Fiscal 2008 Appropriations Act supports the first phase of an initiative that will help prevent New Jersey judges from falling even further behind. Specifically, judges' salaries will increase by approximately 5.7%. This will serve to ensure the quality of New Jersey's court system and retain experienced judges by providing salary increases over a three year period.

Voter Verified Paper Audit Trail (VVPAT)

An additional appropriation of $10 million was added to the Fiscal 2008 Appropriations Act through negotiations with the Legislature for the Voter Verified Paper Audit Trail. This initiative will ensure that all voting machines produce a permanent paper record of each vote cast by January 1, 2008. These paper records are to be made available for voter inspection and verification, and are to be stored for use in a manual audit. These funds will be used for equipment payments for voting machines that produce paper records of votes cast.

Presidential Primary Elections

Beginning in 2008, presidential primary elections will be held in February of each presidential election year. For this purpose, the amount of $3.5 million was included in the Governor's Budget, and was increased by $7 million, to a total of $10.5 million, in the Fiscal 2008 Appropriations Act. This amount will fund the State and local share of poll worker compensation costs, as well as various election operating costs, including ballot printing and postage, processing, legal advertising, polling place rental and voting machine delivery.

Veterans' Affairs

Support Services for Returning Veterans and Their Families

The State of New Jersey is grateful to the veterans of Iraq and Afghanistan for serving with honor, decency, and resolve. They have earned our respect, admiration, and appreciation. Currently, there are nearly 5,000 soldiers from New Jersey serving in Iraq and Afghanistan, including 3,169 active duty soldiers, 862 federal reserve troops who had been on inactive status but were called up, and 898 New Jersey Army and Air National Guard. As of August 10, 2007, we have lost 95 New Jerseyans in these conflicts. This initiative will provide $1 million in grants through the Department of Military and Veterans' Affairs to provide support to returning veterans and their families. This support will be made available through grants. The funds will be used specifically to aid veterans returning from Iraq and Afghanistan and give them priority service, in order to assist their rehabilitation and help them to reintegrate back into the community.

Beyond celebrating their safe return, Governor Corzine recognizes the need for support programs that assist veterans in acclimating to civilian life with their families and loved ones. In response to current conflicts and the deployment of New Jersey members of the Armed Forces and National Guard, particularly in Afghanistan and Iraq, the number of counseling sessions for post traumatic stress disorder is projected to grow to 16,848 in fiscal 2008, an increase of 161% over the past three years. To ensure that our men and women in uniform receive the services they need, the Governor has committed to meeting the increased demands by providing an additional $500,000 of appropriations in fiscal 2008, for a total of $1.3 million.

World War II Memorial

To honor the State's veterans of World War II, who made the greatest sacrifice in our behalf, an additional $1 million is appropriated in fiscal 2008 toward the construction of the World War II Memorial in Trenton. When combined with appropriations from prior years, this increase raises the State's total commitment to this project to $3.6 million.

Vietnam Veterans' Memorial

Funding of $250,000 has been appropriated in fiscal 2008 for the Vietnam Veterans Memorial Foundation. These funds will be used to create new educational packets for teachers, expand and create new exhibits related to the Vietnam experience, and provide outreach to the veterans and educational community to attract more visitors to the Memorial.

Environment

The Fiscal 2008 Appropriations Act provides funding increases in several areas critical to the stewardship of the State's natural resources, including Garden State Preservation Trust supplemental funding, recreational land development, diesel emission reductions, forest fire vehicles, black bear management, and ocean wind power ecology. Other important Department of Environmental Protection (DEP) programs highlighted below retain continuation level funding in fiscal 2008. These include watershed restoration projects, the Shore Protection program, and the Highlands Council.

Garden State Preservation Trust Supplemental Funds

The Appropriations Act provides a $25 million appropriation to continue open space preservation efforts at the record pace that DEP's Green Acres Program has achieved over the last several years. This $25 million will be used for local open space preservation projects in fiscal 2008. These State funds will augment locally raised funds to preserve and improve municipal, county, and nonprofit-owned open space.

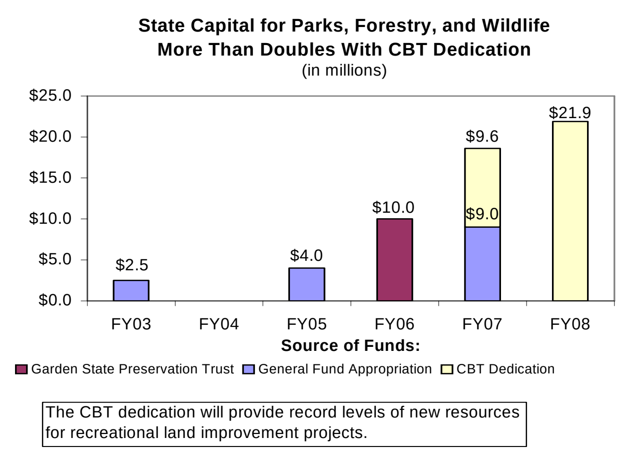
The Green Acres and Farmland Preservation programs have accelerated spending in the Garden State Preservation Trust's land preservation programs, committing nearly all of the $2 billion originally allotted in fiscal 2000 almost two years ahead of schedule. Since fiscal 2000 over 300,000 acres have been preserved, with 100,000 more acres funded and in the process of being preserved. In order to size the fiscal 2008 local preservation program at $40 million, an additional $25 million is provided in direct State appropriation.

The open space program will continue in fiscal 2009 if a November 2007 voter referendum is approved to authorize $200 million in general obligation bond financing for land and historic preservation.

Recreational Land Development – Constitutional Dedication

The recent constitutional amendment dedicates $21.9 million of Corporation Business Tax (CBT) revenue to State parks, forests, wildlife management areas and historic sites, to begin to address an estimated $250 million in deferred capital and maintenance needs. As dictated by the constitutional amendment, annual funding will range from $14 million to $22 million through 2015 and is expected to grow to over $30 million annually thereafter. This marks the first time that a stable source of capital funding has been provided for the State's natural resource facilities, thus enabling the Department of Environmental Protection to create a long-term plan to preserve those assets.

Specific projects consist of restorations to State-owned historic sites (e.g. Waterloo Village, Walt Whitman House, the homestead of Dr. James Still), construction of a new forest nursery pesticide building, urban park development, and renovations to various recreational areas throughout the state. DEP will also undertake critical health and safety improvements, including demolition of unsafe structures, asbestos removal, lead abatement, air quality improvements, and fire safety projects.

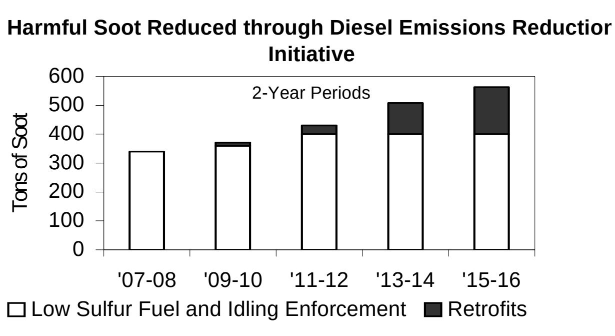


Diesel Emissions Reduction

The Corporation Business Tax dedication for the Diesel Risk Reduction program will amount to $24.8 million in fiscal 2008, bringing total State appropriations for diesel emissions to over $62 million since the program was initiated in fiscal 2006. The program is on the verge of adopting rules to implement the Diesel Retrofit Law, which aims to reduce diesel exhaust emission levels through the use of ultra-low-sulfur diesel fuel, prevention of idling, and retrofitting of 40,000 vehicles, with initial focus on school buses, garbage trucks, and transit buses.

Specific requirements for school buses include the installation of closed crankcase ventilation technology to prevent under-hood engine emissions from entering the cabin. Other vehicles are required to install tailpipe control technology to reduce fine particle emissions and public exposure to diesel exhaust. Once the rules are adopted, certain procedures (e.g., fleet inventory and fleet plan submission by vehicle owners and State contracts with authorized installers of retrofit devices) must be followed for installers to be reimbursed.

To date, this program's outreach efforts have resulted in the installation of over 4,000 "No Idling Zone" signs throughout the state, and nearly 100 school districts have signed a No Idling Pledge for buses. The program continues to promote idling alternatives, including electrification of truck stops and rest areas. Additionally, the Diesel Risk Reduction program is expected to complete a study to assess the need to further reduce cabin pollution levels in school buses.



By 2016, the Diesel Emissions Reduction program will have eliminated 565 tons of soot from the atmosphere.

Forest Fire Vehicles

The Appropriations Act includes an appropriation of $1 million for forest fire fighting needs. This funding will be used to replace 18 of the oldest vehicles in the forest fire truck fleet. This upgrade of the vehicle fleet will ensure the New Jersey Forest Fire Service's readiness to combat future wildfires, such as the May 2007 wildfire in the Pinelands that burned through more than 17,000 acres of forest, forcing the evacuation of 2,500 people and destroying a half–dozen homes.

Black Bear Management

Reflecting Governor Corzine's commitment to non-lethal black bear management, the Fiscal 2008 Appropriations Act provides $850,000 in new funding for research, education, and control. Non-lethal management is consistent with the decision to cancel a six-day bear hunt in fiscal 2007. Following the lifting of a 35-year ban in 2003, two hunts resulted in the killing of approximately 600 bears.

Human safety concerns are a critical aspect of black bear management. The state's growing black bear population has adapted to living in close proximity to people, taking advantage of human-derived food sources. Through public education, however, people can learn how to modify their behavior and take the precautions necessary to avoid conflicts with bears. With some modest adjustments and adherence to common-sense regulations, public safety can be ensured.

Watershed Restoration Projects

The Fiscal 2008 Appropriations Act continues Corporation Business Tax (CBT) dedication funding for Watershed Restoration Projects at $2.7 million, augmenting the $5 million appropriated for this purpose in fiscal 2007. Individual regional watershed and stormwater management committees have identified close to $100 million in watershed restoration projects that are necessary to address the ongoing sedimentation and pollution of impaired ponds and streams. With the funding provided in fiscal 2007, the Department of Environmental Protection has initiated four projects:

- Wreck Pond Restoration Plan – Watershed Restoration. The Department is working with Monmouth County on upstream erosion and pollution prevention projects to reduce the sediment accumulation in Wreck Pond, whose discharge is the source of most of New Jersey's ocean beach closings (i.e., in fiscal 2005, it accounted for 45 out of 52 beach closings in the state);
- Pequannock River Temperature Impairment – Characterization, Assessment and Management Plan;
- Delaware and Raritan Canal Tributary Assessment and Nonpoint Source Management Project with Franklin Township; and
- Strategic Water Quality Improvement Plan for Surface Water Quality Improvements of the Long Swamp Creek Watershed.

The fiscal 2008 appropriation will enable DEP to complete these projects and also restore other watersheds including Greenwood Lake, Lake Carasaljo, Rockaway River, Cooper River and the Sandlers Woods portion of Newton Creek. The Department will continue to use these CBT funds to match federal grant monies.

Shore Protection Projects

As in previous years, $25 million will be appropriated for the Shore Protection program to protect and replenish New Jersey's public beaches. This dedicated appropriation will leverage up to $49 million in federal funding and $6 million in local funds. The projects planned for fiscal 2008 include beach fills and construction of public access points at Long Beach Island, North Wildwood and Ocean City. In fiscal 2007, the program completed beach replenishment in Surf City and intends to continue existing projects for shoreline stabilization in Island Beach State Park, bulkhead installation in Keyport and Waretown, and flume reconstruction in Fletcher Lake.

Highlands Water Protection and Planning Council

The $3 million in the Fiscal 2008 Appropriations Act for the Highlands Council will continue to fund the Council's operations as well as the adoption of the Regional Master Plan. The November 2006 release of the draft Regional Master Plan marked a historic moment for the Council. The Plan outlined the regional land use policies and strategies required to satisfy the provisions of the Highlands Water Protection and Planning Act, and will guide future land use, water resource protection, land preservation, and economic development for the Highlands region. The next phase of development includes completion of the Final Plan, evaluation of municipal proposals and ordinances for 88 municipalities and seven counties to ensure conformance with the Plan, and project review. The successful implementation of the Plan is essential to the protection of 859,000 acres of land in northern New Jersey that provide over 115 billion gallons of water each year to State residents, businesses and industries.

Ocean/Wind Power Ecological Baseline Study

The Fiscal 2008 Appropriations Act provides a total of $4.5 million in dedicated funding, which includes $2 million from the Clean Energy Fund, to support an Ocean/Wind Power Ecological Baseline Study. In April 2006, the Blue Ribbon Panel on Development of Wind Turbine Facilities in Coastal Waters recommended baseline studies of New Jersey's coastal waters to develop spatial and temporal information regarding ocean uses and living natural resources. The scope of work includes the collection of field data over an 18-month period on the distribution, abundance and migratory patterns of avian, marine mammal, marine turtle, and other species in a study area extending approximately 15 miles offshore and 1,000 square miles in size. The results of this study will help to inform the decision to place up to 80 wind turbines, which will provide a new source of clean energy for New Jersey. In addition, these studies will provide significant data to better understand and characterize the natural resources in the offshore waters of New Jersey, allowing the State to develop a more comprehensive strategy for our ocean resources.

Federal Impact - Clean Water State Revolving Fund

The President's Fiscal 2008 Budget continues to reduce funding for the Clean Water State Revolving Fund (SRF) program. Over the past four years, federal funding for New Jersey's Clean Water SRF program has declined 51%, from $54.7 million in fiscal 2004 to $26.7 million proposed in fiscal 2008.

This ongoing reduction will significantly impede the New Jersey Environmental Infrastructure Financing program's ability to satisfy localities' growing demand for zero- and low-interest loans, which finance clean water infrastructure improvement projects. In the last year alone, the number of applications for local clean water projects increased 29%, from 42 applications in 2006 to 54 applications in 2007. It is estimated that the current need for these projects in the State amounts to $15 billion.

Economic Growth

As a central focus of his administration, Governor Corzine in fiscal 2007 established the Office of Economic Growth (OEG). In September 2006, the Office unveiled the Governor's Economic Growth Strategy, aimed at building New Jersey's economic base and growing jobs. The strategy is organized around six core priorities to ensure that State government 1) markets New Jersey for economic growth; 2) develops a world-class workforce; 3) supports smart, sustainable growth and infrastructure investments; 4) supports and encourages innovation; 5) encourages entrepreneurship and growth of small, minority-owned and women-owned businesses; and 6) enhances global competitiveness of New Jersey's businesses and expands access to international trade opportunities.

Under the direction of the OEG, the Governor's Strategy is being implemented, strengthening New Jersey's business climate. These achievements include:

- Secured commitments from dozens of companies – including Bayer, Unilever, Deutsche Bank, and Campbell Soup Company – to expand in New Jersey, resulting in nearly 11,500 new jobs;
- Implemented Governor Corzine's Executive Order 34, establishing the Division of Small, Women and Minority Business Development;
- Established a new State business website (www.newjerseybusiness.gov) and a centralized business hotline (866-534-7789) to facilitate "one-stop" service delivery;
- Launched the Edison Innovation Fund to grow high tech businesses, with an initial commitment of $150 million from the Economic Development Authority (EDA) and leveraging funds from private sources. Since October 2006, EDA has made nine Edison Innovation Fund investments totaling $8.25 million. These investments involve other funding sources totaling over $41 million, resulting in combined investments of nearly $50 million. These investments support the creation of 319 new jobs and 298 existing jobs;
- Created the Urban Fund to stimulate investment in urban communities with an initial investment of $185 million from the EDA and also leveraging private sector funds. Since October 2006, EDA has invested in over 92 projects, providing over $156 million in assistance to targeted projects in urban aid cities. This assistance, which supports over 2,583 current jobs and the estimated creation of over 3,513 new jobs, will result in total projects of $376 million;
- Established partnerships and utilized technology to promote business and commerce between New Jersey-based companies and foreign businesses.

Supporting New Jersey's Citizens

The following proposals highlight some of the Governor's other initiatives, including help for hungry children and their parents.

Fighting Hunger

In one of the most affluent states in the nation, approximately 1.6 million New Jerseyans still go to bed hungry, including roughly 470,000 children. That is why, despite severe fiscal constraints, Governor Corzine found it unacceptable to leave these individuals behind in the Fiscal 2007 Appropriations Act. The Fiscal 2008 Appropriations Act will continue last year's commitment and invest an additional $1 million in the Department of Agriculture's Food Distribution Program (for a total of $4 million), which services the major Emergency Feeding Organizations (EFOs) and 660 food pantries, soup kitchens, and homeless shelters. This $4 million will be used to purchase 6.3 million pounds of nutrient-dense food, with first priority given to food items grown and/or produced in New Jersey. (To the extent available, purchasing priorities are to buy locally first, regionally second and nationally third.) The funding will enable the Department to expand the amount of food available for the 1.6 million New Jerseyans living below 185% of the federal poverty standard.

The Department of Agriculture purchased approximately 4.7 million pounds of food in fiscal 2007 with these funds. For the first time in several years, the purchases included turkeys for Thanksgiving and Christmas. The cost of those items had increased in recent years, which had prevented many of the EFOs from purchasing those commodities. We have a moral responsibility to support New Jersey's most vulnerable citizens. This investment continues last year's important strides toward alleviating hunger in the state.

Improving Services for Hispanic Communities

Furthering the progress of New Jersey's Hispanic community through cooperation and collaboration with community-based organizations is an integral part of the economic and social success of New Jersey. Recognizing that many Hispanic families and individuals face challenges and obstacles in attaining necessary services, the Governor and Legislature included increases totaling $1.5 million for the Center for Hispanic Policy Research and Development in the Department of Community Affairs This appropriation will strengthen existing programs and provide funds for new programs administered by Hispanic community-based and nonprofit organizations whose primary focus is to address the economic, educational, and social needs of the Hispanic community in New Jersey.

Arts and History

In fiscal 2008, $26.4 million is appropriated for arts and history grants funded by dedicated revenues derived from the State hotel and motel occupancy fee (P.L. 2003, c. 114). This is an increase of $3.1 million over the fiscal 2007 adjusted appropriation of $23.3million. Included are the following:

- The Council on the Arts will receive $21.9 million to support cultural projects, an increase of $2.8 million, of which $0.9 million was uniquely added during the appropriations process.
- The New Jersey Historical Commission will receive $3.8 million for the New Jersey Historical Commission's agency grants, an increase of $346,000.
- The New Jersey Cultural Trust will receive $720,000, which is the same level of appropriation as in fiscal 2007.

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CHAPTER 3: BUDGET MANAGEMENT EFFICIENCY AND SAVINGS MEASURES

OVERVIEW

The Fiscal 2008 Appropriations Act reflects a major emphasis on making State government more efficient. This chapter reports on new efficiency efforts for fiscal 2008 and highlights savings from initiatives that began in previous fiscal years. These efforts are central to the Corzine Administration's efforts to help achieve structural balance in the budget through minimizing recurring spending needs.

Office of the State Comptroller

The newly created Office of the State Comptroller is a critical component of Governor Corzine's commitment to sound fiscal management and honest and efficient government in New Jersey. The creation of this new office is based on a simple, fundamental idea that already is applied across all sectors of our society and economy: People who work in an organization will perform more honestly and efficiently if they know their organization will be subjected to a regular audit by a professional, independent auditor. The State Comptroller will apply this basic idea to government at all levels in New Jersey and help control State and local spending and root out waste, fraud and abuse that fuel our property tax problem and also dissipate State resources.

The State Comptroller, who will be appointed by the Governor (with the advice and consent of the Senate) for a six-year term, will have broad authority to conduct financial audits and performance reviews of all State agencies, public institutions of higher education, independent State authorities, units of local government, and boards of education. Also, in order to prevent improper expenditures from occurring in the first place, the State Comptroller will have the authority to closely monitor large-scale procurements and to halt them in any case where procurement laws and rules are not being followed.

Fiscal 2008 will be the first year of existence for this new office. This Appropriations Act includes an appropriation of $9.0 million and a staff of 59. The Office of the State Comptroller will perform its functions in cooperation with the Office of the Inspector General, the Departments of Law and Public Safety, Education, Treasury, Transportation, and Community Affairs (Division of Local Government Services), and the Office of the State Auditor.

Hiring Freeze

This Administration has enacted a stringent hiring freeze on State employment. As of the end of June 2007, this freeze has reduced the State's workforce by approximately 1,500 employees (including almost 400 unclassified positions), compared to the number at the beginning of the Corzine Administration. This reduction is net of growth in high priority areas such as the Department of Children and Families and Homeland Security. During fiscal 2008, attrition will continue to reduce the workforce in other areas.

In fiscal 2007, the State saved $64 million through attrition, management savings, and reductions in unclassified positions. This total is a permanent reduction to the State's salary base. For fiscal 2008, the Administration will continue the enforcement of the hiring freeze and other management efficiencies, for a further reduction of at least $25 million.

Moratoria on State Agency Spending

In fiscal 2007, the State implemented new restrictions to slow the pace of spending on information technology (IT) equipment and services, equipment, and office furniture. The following section details these moratoria. The chart below identifies categories of non-salary State spending that appear to be trending down. Specifically, the chart compares spending in the first seven months of fiscal 2007—from July 2006 to January 2007—with the corresponding time period one year earlier, in fiscal 2006. It shows a spending slowdown in the four identified categories of almost $16 million in State funds alone. While not every dollar in spending reductions can be directly attributable to the moratoria, these trend lines reflect the Corzine

Administration's approach to efficiency in State government operations.

Spending Category	Slowdown in State Spending from 1st 7 Months of FY2007 (in millions)
IT Equipment	$8.6
IT (Consultant Services)	$1.0
Equipment (other than IT)	$3.8
Office Furniture	$2.2
Total	**$15.6**

Cost Efficiencies - IT Moratorium

Beginning with an Office of Management and Budget (OMB) directive in July 2006, the purchase of IT equipment was constrained during fiscal 2007. Subsequently, the IT moratorium established through Executive Order 42 in November 2006 expanded these restrictions to include IT services (e.g., consultants). Critical ongoing projects were exempted, including initiatives whose disruption would increase future costs or trigger a significant loss of investment, as well as emergency maintenance, repairs and supplies under $2,500, and projects mandated by the federal government.

Nonetheless, IT expenditures from State funds declined by $8.6 million in equipment and an additional $1 million in consultant services, in the first seven months of fiscal 2007 as compared to the same period in the previous fiscal year. Spending from other non-State funds dropped by over $16 million, with savings mostly attributable to fewer equipment orders. Though some of this reduction may be ascribed to the vagaries of equipment purchasing from year-to-year, overall the spending trend is clearly down.

Spending Moratorium on Non-IT Equipment

In addition to the spending moratorium on information technology (IT) equipment, the Office of Management and Budget also heightened its scrutiny of other equipment purchases in fiscal 2007. Such purchases include vehicles, telephones, fax machines, and photocopiers, as well as equipment for food preparation, laundry, and science and engineering. A comparison of the first seven months of fiscal 2006 and fiscal 2007 suggests a spending slowdown of $3.8 million in State funds, a decrease of almost 11% in non-IT equipment spending, though some of this decline may be due to the influence of other factors, as well.

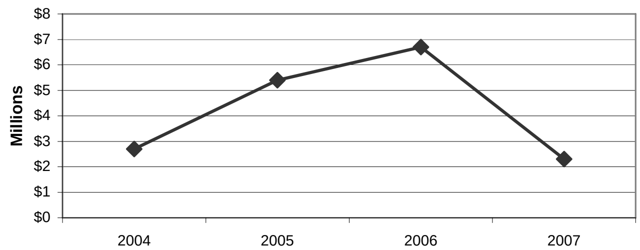
Furniture Moratorium and Re-use

Office furniture also falls under the State's spending moratoria. In an on-going initiative, the Treasury Department's Division of Property Management and Construction (DPMC) consolidated the collection of used furniture from various State agencies, centralizing it in one location. DPMC redistributes this furniture to other State agencies, thus avoiding the cost of new purchases. This initiative has produced savings of $2.2 million in State funds from July 2006 to January 2007, compared to the same time period in fiscal 2006, and savings of an additional $2.2 million in non-State funds.

Prior to DPMC's initiative, used office furniture was haphazardly stored and inefficiently managed. These assets often occupied costly leased space or were discarded altogether. Through aggressive central management at its First Avenue warehouse in Trenton, DPMC has created a central catalog of used furniture that departments must consult before purchasing new items and made it possible to achieve warehouse lease efficiencies. DPMC also has arranged a new partnership with the Juvenile Justice Commission in which a team of nine juveniles restores damaged furniture to its original condition while earning a salary and gaining critical job training skills.

The success of this program goes beyond one year's savings, however. When judged over time, spending from all funds for office furniture was rising significantly in recent years, more than doubling from $2.7 million in the first seven months of fiscal 2004 to $6.7 million in the first seven months of fiscal 2006. This initiative has restricted furniture purchases to $2.3 million for the first seven months of fiscal 2007.

Office Furniture Expenditures
First Seven Months of Each Fiscal Year
FY 2004 - 2007
(All Funds, in Millions)



Spending on office furniture dropped more than 65% from FY 2006 to FY 2007.

Re-using Personal Computers

Building on the success of the furniture initiative, DPMC recently expanded the program to include the recycling of surplus personal computers. In partnership with the Office of Information Technology, DPMC refurbishes used computers for approximately $200 per unit. Doing so generates savings of roughly 80% compared to the average cost of buying a new computer, which is approximately $1,000. All State departments seeking to order new computers now are referred first to DPMC, to see if their needs can be satisfied from this inventory of used computers. As a result of this partnership, orders for new computers by Executive agencies dropped by nearly $1 million during the last half of fiscal 2007.

Western States Contracting Alliance

On July 19, 2007, New Jersey joined a nationally recognized purchasing cooperative to leverage its computer buying power and achieve significant cost savings for taxpayers in state and local governments. Currently, 43 states, led by Minnesota, have united on a single contract for computer equipment, using a high volume of purchases to negotiate significant discounts with vendors. IT commodities leveraged in the Western States Contract Alliance (WSCA) include personal computers and peripherals, such as printers, flash drives, scanners, cables and docking stations.

Comparisons between the pricing discounts available through the WSCA contract and discounts in the State's current contract show projected annual savings through WSCA from $21 million to $38 million. The State portion of the estimated savings ranges from $4 million to $8 million, while the savings to local government entities could range from $17 to $30 million, providing opportunities to ease pressure on property taxes.

Reduction in State Vehicles

In April 2006, in an effort to maximize the efficient utilization of the State vehicles, the Governor implemented a mandatory recall of at least 10% of the State's fleet, which was originally projected to total approximately 600 vehicles. Since that time, 835 vehicles have been turned in, or about 40% more than the original target. Of that amount, 764 have been sold at auction, generating revenue of roughly $1.1 million and eliminating approximately $1 million in annual operating costs.

Enhanced Debt Collection

The Fiscal 2008 Budget, along with associated legislation, includes several debt collection efficiencies that are projected to generate a total of $47 million in new revenue. Several of the more prominent proposals are described below, each of which could be a significant source of delinquent or deficient tax revenue:

Sale of Business Assets and Liquor Licenses

The Uniform Procedure Law is amended to authorize collection of all outstanding tax liabilities prior to the purchase of a business, and upon the annual renewal or purchase of a liquor license. Current law limited such collections solely to the amount owed in sales tax. (See A-5002; P.L.2007, c.100, signed on June 28, 2007.)

Business Assistance Grants - Tax Clearance

A wide variety of State agencies (e.g., Labor, Board of Public Utilities), as well as independent authorities (e.g., Economic Development Authority) award grants and loans to businesses for various projects totaling an estimated $1 billion per year. Unlike individual taxpayers who are subject to Treasury's existing Setoff of Individual Liability (SOIL) program, most businesses receiving State assistance are not presently checked for tax compliance. The Fiscal 2008 Appropriations Act implements a policy whereby business applicants voluntarily agree to a tax clearance check as a standard grant or loan condition. The Division of Taxation will determine whether a tax debt exists, and the business will pay that amount before any grants are issued. A three-year sample data match between one of the State's major business assistance programs and State debt collection records indicated a total of $28 million in potentially outstanding taxes. (See A-5003; P.L.2007, c.102, signed on June 28, 2007.)

Bank Attachment – Expand to Jointly-Held Accounts

In a law enacted in 2004, the Division of Taxation was authorized to request deposit information from banks when a tax judgment has been secured against a bank customer. In a limited effort over the past two years involving only three banks, Taxation successfully recovered $6 million from individual bank accounts. The Fiscal 2008 Appropriations Act requires disclosure of all bank account information for any accounts in which at least one account holder is a Taxation judgment debtor. (See A-5002; P.L.2007, c.100, signed on June 28, 2007.)

In addition, the Fiscal 2008 Appropriations Act includes a new appropriation of $276,000 to support eight additional Taxation field staff. These investigators will be used to expand the bank attachment program to up to 30 additional banking institutions.

Arbitrary Assessments

The Fiscal 2008 Appropriations Act implements a 10% cost-of-collection fee on arbitrary assessments, which result when a taxpayer fails to file or fails to register to conduct business. Current law authorizes such fees upon the filing of a formal judgment. Since 1996, when the fee was challenged as being limited to judgments only, the State has not collected this fee, and therefore has lost an estimated $1 million per year in revenue. Associated legislation clarifies that the fee will be levied before a judgment is issued, thus enabling Taxation to recover its costs for tracking down such debtors. (See A-5002; P.L.2007, c.100, signed on June 28, 2007.)

Lottery Winnings – Tax Clearance

For individuals who win Lottery payouts of $600 or more, the Division of Lottery will verify with the Division of Taxation that no tax debt is owed to the State. If debt is owed, it will be deducted from the winnings. This process would mirror Lottery's current process for checking on past-due child support and student loans. (See S-2400; P.L.2007, c.106, signed on June 28, 2007.)

Personal Liability for Responsible Officers

Personal liability is imposed on officers who serve as the State's fiduciary agent for the collection of certain State taxes and fees (e.g., 911 Emergency Response fee, Atlantic City Luxury Tax). This reform is particularly important to ensure compliance by small businesses. (See A-5004; P.L.2007, c.102, signed on June 28, 2007.)

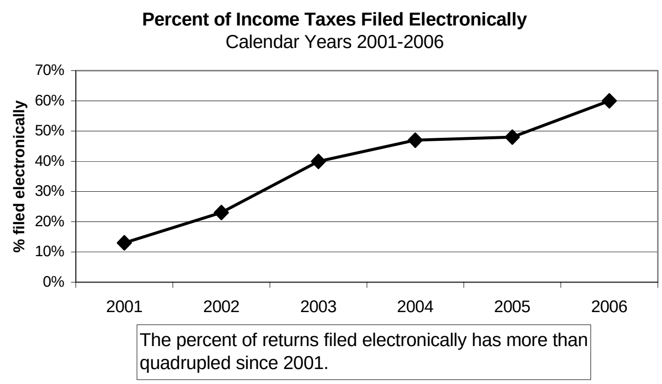
Electronic Filing

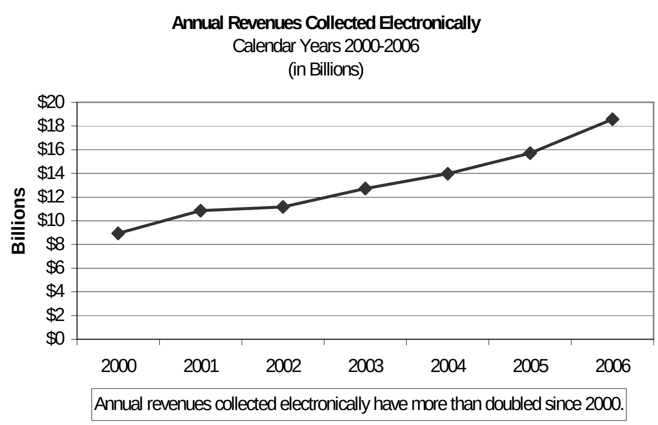
The State's rapidly expanding electronic filing (i.e., e-filing) options have increased the number of e-filing transactions from 607,000 in fiscal 2000 to 3.6 million in fiscal 2006. Today, nearly $20 billion of revenue is processed electronically, compared to only $9 billion six years ago. Programs that increase the speed and accuracy of filing and payment transactions benefit individual taxpayers and the State's business community, and at the same time, help to reduce the cost of government. Electronic services foster a "win-win" environment for New Jersey State government and its citizens.

The New Jersey Division of Revenue has expanded its electronic filing and processing to the point that paper transactions, which require more staff resources for data entry and manual tasks, have been reduced from 85% of all tax filings in 2001 to only 44% by 2006.

Electronic filing initiatives have produced recurring annual savings for the Division. Through fiscal year 2007, the Division of Revenue has reduced its operating budget by nearly $3 million since fiscal 2005.

The State continues to expand its efforts in this area. In January 2008, in conjunction with the Department of Labor and Workforce Development, the Division will lower the threshold at which employers must use electronic filing for their quarterly wage reports from businesses with more than ten employees to those with more than five employees. In addition, e-filing is now available for a wide range of payment types, including individuals filing their income taxes and businesses filing sales and other corporate taxes.





Restructuring Information Technology

In a report published in July 2006, Governor Corzine's Commission on Government Efficiency and Reform (GEAR) identified a critical need to overhaul and modernize the State's information technology (IT) systems, pointedly mentioning "…a lack of accountability, control, monitoring and oversight of State department and agency information technology projects." By reinforcing the role of the Office of Information Technology (OIT), the goal is to bolster the State's IT infrastructure, create a comprehensive business plan for statewide IT services, coordinate planning across departments, and identify potential management efficiencies. Reforms implemented during fiscal 2007 have addressed, and, in several cases exceeded, GEAR's initial objectives.

As a first step, the Governor signed Executive Order 42 in November 2006, authorizing the following organizational changes, which were later affirmed by statute in P.L.2007, c.56 in March 2007:

IT Governing Board

Established an IT Governing Board to determine strategic direction, standards, and funding priorities. The Board consists of 9 voting members including a chairperson appointed by the Governor, the State Treasurer, three Executive Branch commissioners, three public members, and the Chief Technology Officer described below.

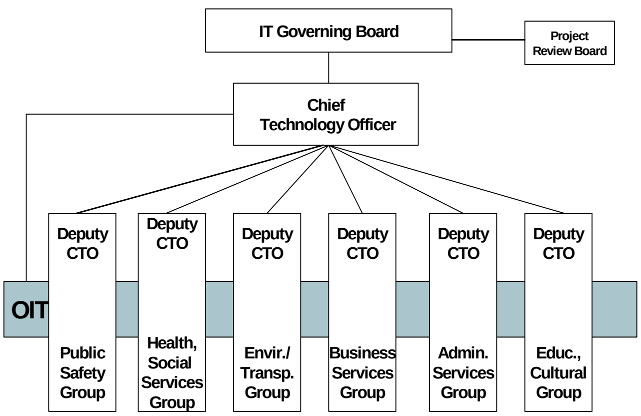
Chief Technology Officer (CTO) and Deputy CTOs

Established the position of the Chief Technology Officer (CTO) and provided for the appointment of up to six Deputy Chief Technology Officers. Serving at the pleasure of the Governor, the CTO coordinates information technology operations across the entire Executive Branch. The six deputy chief technology officers are responsible for IT management, planning and budgeting in single areas of interest that span multiple agencies, namely:

- Public Safety
- Health and Social Services
- Education, Cultural, and Intellectual Services
- Environmental and Transportation Services
- Business and Community Services
- Administrative Services

The deputy CTOs, who were primarily selected from existing staff, provide the oversight necessary to coordinate similar IT services across departmental boundaries and serve at the pleasure of the CTO.

Statewide Information Technology Governance Model



Project Review Board

Created a Project Review Board (PRB) to review and monitor large scale IT projects. In the past, control over such procurement was decentralized among the affected departments, yielding a costly patchwork of fragmented and isolated IT systems. The PRB, which reports to the new Governing Board, presently includes representatives from OIT, the Division of Purchase and Property and the Office of Management and Budget within the Department of Treasury. This collaboration provides a fresh, objective view for the purpose of quality assurance and priority-setting.

The Board plans to review all of the State's major, long-term IT projects, which will collectively cost a projected $500 million to develop, applying stringent management principles as a way of leveraging the State's investment. PRB reviews have already begun on Human Services' new child support (NJKids) and consolidated assistance (CASS) projects as well as the Motor Vehicle Commission's Motor Vehicle Automated Transaction System (MATRX).

Strategic Planning

In fiscal 2007, OIT initiated a detailed strategic planning process that required agencies to project their IT service needs for both new systems and ongoing services for the next three years. This plan should drive each individual department's entire IT thrust, from the service level agreements that are struck with OIT to the equipment that is purchased. This process will be fully integrated into the State's budget process during the fiscal 2009 cycle.

Elimination of OIT Revolving Fund

Since its inception in 1984, OIT's operating budget has been funded through a revolving fund, with appropriations placed in the respective user departments that were billed for service. While the intent was to create a relationship between desired service levels and appropriations, that plan never fully materialized. Although the billing process approximated each department's service usage on various mainframes and servers, it was not equitable or completely accurate. Instead, related State appropriations were routinely swept into the revolving fund to offset OIT's fixed cost of service.

In fiscal 2008, the State-funded portion of the revolving fund has been eliminated and the supporting appropriations have been moved from the departments to OIT. OIT will continue to bill for services funded from non-state funds, which comprise about 60% of its operation. Besides eliminating an unproductive billing process, this initiative provides OIT with some degree of certainty and flexibility in operating the State's core IT infrastructure.

IT Maintenance Savings

Annually, OIT spends approximately $10 million to maintain the State's core distributed environment (i.e., non-mainframe assets). In fiscal 2008, OIT will seek to leverage such expenses across all agencies, realizing better vendor pricing through the existing State global maintenance contract. In addition, OIT will identify instances where it would be economical to eliminate costly “24/7” type coverage in favor of “per incident” coverage, particularly for modern equipment with a good track record for repairs. A savings of $500,000 is anticipated.

Telephone Monitoring

OIT is in the process of implementing a new, automated phone monitoring system that will eliminate the existing, manual-intensive process of issuing individualized, paper-based, toll statements each month to State employees for the purpose of tracking external phone calls. The new system will improve productivity by enabling OIT to search for anomalies and suspicious patterns of usage from a central location. In addition, OIT has recently published new guidelines establishing a monthly threshold below which reimbursement would not be sought, eliminating the unproductive pursuit of insignificant charges. This initiative relinquishes five OIT staff to analyze data, rather than merely assembling and sorting it, and effectively eliminates the printing of 30,000 paper bills each month. Savings of $360,000 is projected from reduced printing costs alone.

Future Efforts

The Fiscal 2008 Appropriations Act includes $9.8 million to fund several OIT operational efficiency projects:

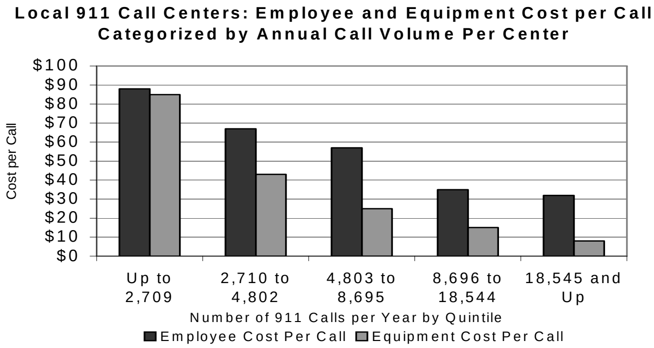
- Rollout of a statewide electronic timekeeping system to replace the existing systems, which are manual-intensive and antiquated. The application of this new system to all agencies will allow the State to process payroll in a more accurate, timely, and detailed manner and will substantially reduce processing and recordkeeping costs.
- Standardization and consolidation of e-mail systems to improve statewide communications. The State’s four distinct systems will be consolidated into one.
- Increased Quality Assurance (QA) oversight of large information technology projects. The development of new QA requirements and assessment of current projects will provide for greater cost containment and project monitoring.
- Consolidation of data centers into a single facility in Trenton.

OIT will also be focusing on several other key initiatives throughout fiscal 2008, including:

- Data Sharing: Establish a common, core set of data that can be shared across all levels of government, negotiating comprehensive data sharing agreements with local and county organizations.
- Mobile Workforce: Automate field operations by providing IT systems and infrastructure to support the direct delivery of agency services in the field, where appropriate.
- Shared Infrastructure: Redeploy and consolidate underused infrastructure and services to support agencies’ growing demands.
- Self Service: Aggressively expand e-Government/e-Commerce to provide more residents and clients with quick, easy options for accessing government services.
- Procurement: Work with the Purchase Bureau to aggregate IT purchase requests and maximize the State’s purchasing power. Early indications suggest a significant potential to reduce IT hardware costs with this approach, particularly if the effort includes local governments.

Consolidation of 911 Call Centers

In October 2006, the John J. Heldrich Center for Workforce Development, Rutgers University, completed a study commissioned by the Office of Management and Budget concerning the potential for consolidation of the State’s local 911 system. The study confirmed that the existing system, which includes approximately 200 primary Public Service Answering Points (PSAPs) and 100 secondary Public Service Dispatch Points (PSDPs) spread across a multitude of municipalities and counties, is significantly overbuilt. This finding was bolstered by a November 2006 report, issued by the Joint Legislative Committee on Government Consolidation and Shared Services, which recommended that the State’s 911 Commission be given the specific authority to consolidate PSAPs on an as-needed basis.



Costs per 911 call decrease significantly as call center volume increases.
Source: Heldrich Center/PSAP Survey, Verizon, and OETS, 2005.

Within the existing system, New Jersey has a relatively high number of very small 911 call centers, with 36% of PSAPs receiving less than one call per hour. On the other hand, only 15% of the existing PSAPs handle nearly 80% of all 911 calls. The Heldrich Center report concluded that these larger PSAPs are more efficient by every known measure. Furthermore, because small 911 centers are easily overwhelmed in a crisis situation, consolidation offers an opportunity to save money *and* significantly bolster public safety by improving service.

The Fiscal 2008 Appropriations Act includes action on two of the key recommendations of the Heldrich Center report, both of which support efforts toward future consolidation:

- To improve the collection of financial and performance information on PSAP and dispatch operations, 911 grants and State aid to localities that are issued through the Department of Community Affairs' existing Municipal Homeland Security Assistance Aid program will be predicated on the submission of budget, staffing, and call volume data to the State's Office of Emergency Telecommunications Services (OETS) during fiscal 2008.
- To target the issuance of State grants for 911 operations and equipment to the most efficient PSAPs, the Appropriations Act empowers OETS to set grant criteria. Effective with the fiscal 2008 grants, the 911 Commission recently adopted OETS' recommendation that requires all PSAPs to certify that they use a minimum of two call takers per shift in order to qualify for State assistance. This level of service, which is typical of larger 911 centers, will support future consolidation efforts and enhance public safety.

Rent Consolidation

In fiscal 2007, the Department of the Treasury's Division of Property Management and Construction (DPMC) conducted audits of State-owned buildings in the Trenton area, as well as all leased facilities, to identify opportunities for reducing lease costs. Due to a reduction in workforce initiated by the Governor, DPMC and State departments collaborated to identify initiatives that would enable the State to either close leases or relinquish existing office space for staff associated with new or enhanced programs. As a result, nine leases have been eliminated from the Fiscal 2008 Budget, generating a reduction of $1.8 million in rent expense. The audits also identified opportunities to consolidate into existing vacant space as a means of absorbing five new or enhanced programs, generating $1.7 million in cost avoidance.

The Joint Space Utilization Committee is expanding this inquiry, requiring all agencies to justify their current allocations and project future requirements for office space. This information will be captured in the State's Land, Building, and Asset Management system (LBAM), and will be used for future space planning initiatives.

Roofs – Central Account (Capital)

The Fiscal 2008 Appropriations Act includes a total of $7 million in capital funding for roofing projects that were previously deferred. In a break with past practice, these funds have been budgeted in a central (i.e., Interdepartmental) account so that projects may be prioritized across departments. After first creating a statewide database of roof conditions, the Department of Treasury's Office of Management and Budget and its Division of Property Management and Construction will rank projects based on a set of specific criteria, including the importance of the facility, its age, and potential operating savings. By appropriating funds within a central account, an added degree of flexibility and accountability will be provided, thus ensuring that the maximum number of projects can be funded at the lowest responsible cost.

Automated Records Management Systems

In an interagency effort involving the Department of Treasury's Office of Management and Budget (OMB), Division of Revenue (DOR) and Office of Information Technology (OIT), as well as the Department of State's Division of Archives and Records Management (DARM), strict procedures were established in July 2006 for the review and approval of new automated records management systems and services. The initiative, which applies to all Executive Branch departments, requires agencies to first consult the considerable expertise that exists in DOR, DARM, and OIT before supplementing or replacing paper-based records with new automated systems or services.

Up until now, individual departments would independently purchase new automated systems and services, including electronic imaging and related technologies, with quality varying significantly across agencies. There was little attempt to leverage these investments across other departments with similar needs under the new effort. As of fiscal 2007, agencies must submit proposals including a detailed conceptual design or requirements statement, along with a cost/benefit analysis. The joint review will establish whether departments can avoid unnecessary expenditures by taking advantage of unused capacity in the State's existing systems (e.g., DOR imaging), some of which fluctuates seasonally, and whether proposed new systems will be compatible with other affected departments.

In sum, this initiative will help State government save money, streamline records management operations, and maximize the benefits of standardization and resource sharing across agency lines.

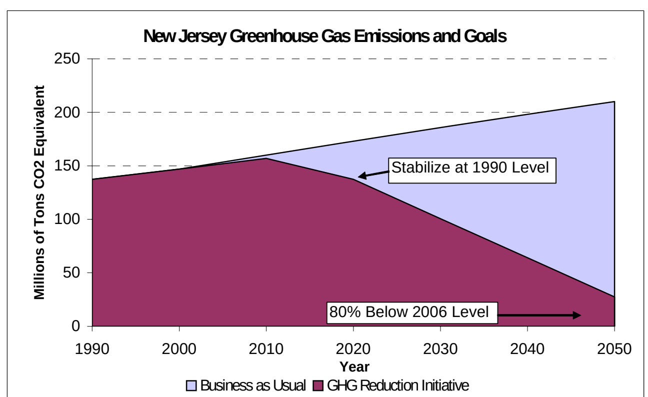
Energy Savings and Efficiencies

This Administration is committed to maintaining New Jersey's status as a leader in the effort to curb greenhouse gases. Moreover, with the actions it is taking to save energy at its own facilities, the State is striving to show how conserving energy helps the environment while generating savings for taxpayers. The following policy initiatives illustrate the steps the State is taking to save energy and combat global warming.

Reducing Greenhouse Gases

On February 13, 2007, the Governor signed Executive Order 54, establishing a goal of reducing statewide greenhouse gas emissions to 1990 levels by 2020, with further reductions to 80% below 2006 levels by 2050. The Order mandates that the Department of Environmental Protection work with the Board of Public Utilities, the Department of Transportation, and the Department of Community Affairs, to evaluate methods to meet or exceed the 2020 target reductions and to develop a 1990 greenhouse gas emission inventory and a monitoring system to track progress. The Order also requires the Director of Energy Savings to develop targets and implement strategies to reduce energy use by State facilities and vehicle fleets.

On July 6, 2007, the Governor signed the *Global Warming Response Act* (A-3301), which establishes as law the Governor's goals for lowering the State's greenhouse gas emissions. New Jersey becomes only the third state in the nation to mandate such reductions under state law.



Greenhouse gas reduction initiative aims to reduce statewide greenhouse gas emissions to 1990 levels by 2020, with further reductions to 80% below 2006 levels by 2050.

Lighting Reduction

With the signing of Executive Order 11, Governor Corzine created the position of the Director of Energy Savings within the Department of Treasury. The Director is responsible for implementing a program to increase energy efficiency, reduce energy usage, and improve the procurement of energy for all State facilities. The Executive Order mandates the performance of energy audits at State buildings, the purchase of energy-efficient products, and the development of a plan for the use of renewable energy and advanced energy sources. Since the issuance, off-peak lighting restrictions have been implemented in State offices located in the city of Trenton, resulting in a reduction of more than 3.5 million kilowatt hours per year and generating fiscal 2008 savings of $250,000 in the central fuel and utility account.

Capital Investments – State Facilities

To reduce energy use in State facilities, the Fiscal 2008 Appropriations Act authorizes $10 million in critical capital investments from the Clean Energy Fund, a dedicated program administered by the Board of Public Utilities that supports energy efficiency investments by businesses, residents and governmental entities. The projects chosen for the $10 million, all of which were approved by the Commission on Capital Budgeting and Planning, were drawn from a larger list of nearly $90 million in energy-saving needs identified by various departments during the Fiscal 2008 Budget process. The facilities affected include institutions that house sensitive clients as well as major office buildings, all of which are in dire need of new energy-efficient support systems. Major projects include:

- Heating, Ventilating, and Air Conditioning (HVAC) at various Human Services institutions ($6 million);
- Automated energy control (i.e., pneumatic) systems in State office buildings ($2.8 million);
- Boiler at Agriculture's Beneficial Insect Laboratory ($275,000);
- Energy efficiency study, State-owned facilities ($200,000)

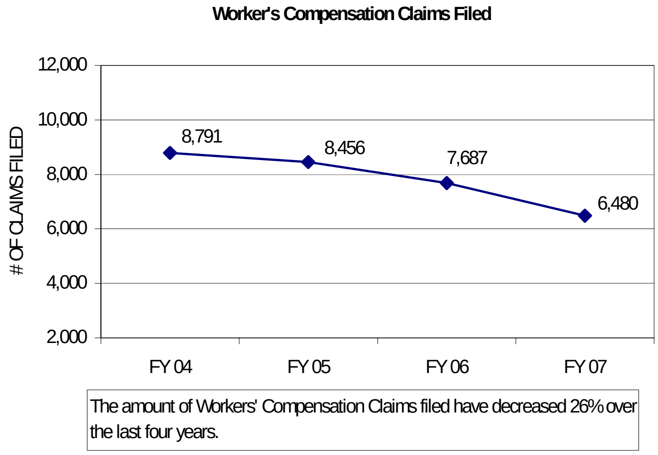
To achieve maximum energy efficiency, these investments will be subject to the review of the Department of Treasury's Director of Energy Savings.

Energy Monitoring

This Appropriations Act provides funding from the Petroleum Overcharge Reimbursement Fund to institute a centralized Energy Tracking System (ETS) to determine current levels of energy performance for State facilities and develop a cost-effective, targeted strategy for reducing consumption, cost, and related greenhouse gas emissions. In addition, by tracking ongoing energy performance, the ETS will increase accountability for all State agencies. The State spends well over $100 million a year on energy and utility costs for its facilities and institutions. Thus, ETS will serve as the foundation for a sustainable energy management program that will save the State millions each year and be a major contributor to New Jersey's greenhouse gas reduction initiative. The Office of Energy Savings is preparing a Request for Proposal for such a system to be used statewide, with oversight by the Director of Energy Savings.

Risk Management

A consultant report commissioned by the Department of Treasury in 2005 suggested numerous management reforms for the State's Workers Compensation program that are gradually being implemented by the Bureau of Risk Management (BRM). One of the key suggestions was to expand BRM's investigative staff to increase the number of field investigations and improve the overall administration of claims. In response, the Bureau hired seven new investigators, an increase of 100% over BRM's existing investigatory staff. This enabled BRM to assign more reasonable caseloads consistent with industry standards. Due in part to that initiative, there was a noticeable decrease in the number of Workers Compensation claims reported for fiscal 2006 as compared to fiscal 2005. Specifically, 2006 claims fell 9% from the number of claims filed in fiscal 2005. This trend has continued into fiscal 2007 (see chart below). To sustain this progress, BRM will need to retain key investigative staff to provide a degree of continuity in this program.



Over the past few months, the BRM has partnered with other agencies to obtain accurate information regarding the true value of State-owned assets. As a result, several facilities were removed from BRM's property schedule, thus lowering the cost of related insurance premiums by $150,000. In addition, the Bureau has established a "First Response" team of trained Treasury staff who can respond to notifications from State agencies regarding potential damage to State property. Since BRM is responsible for the handling of all claims or loss to State property, this early notification system mitigates losses and helps improve the accuracy of claims.

New legislation has established the Bureau of Risk Management as a discrete Treasury Division, reporting directly to the State Treasurer. This legislation empowers Risk Management to establish a Statewide Risk Management Committee, establish programs to protect agencies' physical assets, and implement safety programs. These reforms will help arrest claims growth, improve claims management, and substantially improve workplace safety, thus accomplishing the combined goal of reducing costs to the taxpayer while protecting the health and welfare of public workers, clients, and visitors.

Statewide Management Efficiency Savings

This Appropriations Act assumes $25 million in savings from management efficiencies in fiscal 2008. This initiative is similar to that implemented in the Fiscal 2007 Appropriations Act, which assumed management efficiencies totaling $50 million. Savings will be realized across the various departments, each of which will be asked to identify efficiency gains through such means as: utilization of internal economies-of-scale; consolidation of functions; and improvements in operating methods.

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