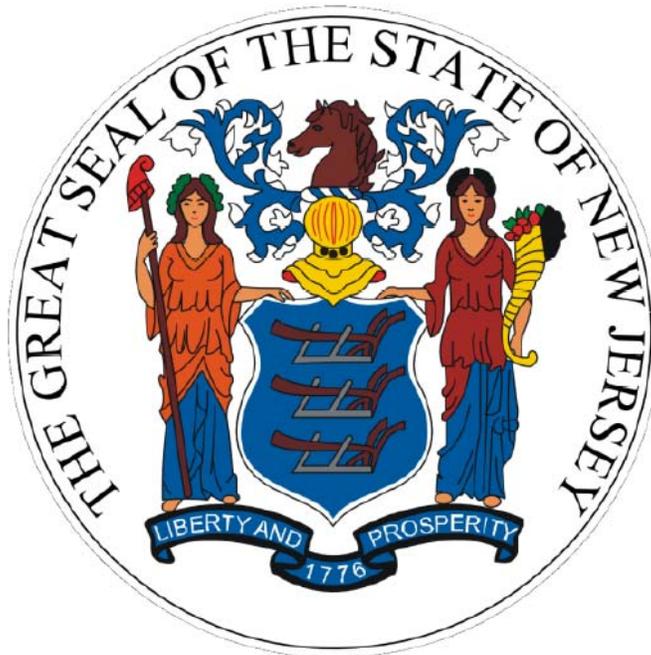


**State of New Jersey
Commission on Capital Budgeting and Planning**

**Fiscal 2016
Seven Year Capital Improvement Plan**



**Chris Christie, Governor
Kim Guadagno, Lieutenant Governor**

**Brian Francz
Executive Director**

**B. Carol Molnar
Commission Chair**

**Office of Management and Budget
April 21, 2015**

Table of Contents

	Page
Section I: Fiscal Year 2016 Capital Recommendations	
Commission Members	1
Commission Staff.....	2
Summary of the Fiscal 2016 State Capital Improvement Plan	3
 Section II: Fiscal Year 2016 Recommendations by Department	
Summary of Capital Requests and Recommendation.....	9
Department of Children and Families.....	10
Department of Corrections.....	11
Department of Environmental Protection	13
Department of Human Services	16
Department of Law and Public Safety.....	17
Juvenile Justice Commission.....	19
Department of Transportation.....	20
Interdepartmental Accounts.....	21
 Section III: Seven-Year Capital Improvement Plan	
Seven Year Summary of Capital Requests	23
Department of Agriculture.....	24
Department of Children and Families.....	29
Department of Corrections.....	32
Department of Education	43
Department of Environmental Protection	56
Department of Health.....	102
Department of Human Services	105
Department of Law and Public Safety.....	126
Juvenile Justice Commission	133
Department of Military and Veterans Affairs.....	145
Department of Transportation.....	152
Department of Treasury – Office of Information Technology	156
Interdepartmental Accounts.....	168
Judiciary.....	187
Higher Education Institutions	192
 Section IV: Project Status Report of Agencies and Higher Education	
Department of Children and Families.....	281
Department of Corrections.....	282
Department of Education.....	287
Department of Environmental Protection	289
Department of Human Services	296
Department of Law and Public Safety (and Juvenile Justice Commission).....	300
Department of Military and Veterans Affairs.....	303
Interdepartmental Accounts.....	304
Higher Education Institutions	310
 Commission Legislation	 Appendix A
By-Laws of the Commission	Appendix B

SECTION I

INTRODUCTION

Fiscal Year 2016

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Summary of the Fiscal 2016 State Capital Improvement Plan

Introduction

The State of New Jersey's capital program invests in critical short-term and long-term needs essential to the citizens of the state. These needs include preservation of existing capital equipment and facilities; investments in the transportation system; improvements to wastewater treatment and water supply facilities; cleanup of hazardous waste sites; preservation of open space; and construction of local schools and higher education facilities. Together, these investments ensure a clean and healthy environment, provide recreational space, enhance mobility, and generate economic growth and jobs for New Jersey citizens.

The annual capital budget is largely based on the recommendations of the New Jersey Commission on Capital Budgeting and Planning, as provided in this State Capital Improvement Plan. The Commission is composed of members of the Executive branch, Legislative branch, and the public. It prepares the State's Annual Capital Improvement Plan and serves in an advisory role to the Governor and the Legislature. In addition to the Commission, the capital budgeting process includes the Governor's Office, the Office of Management and Budget, the Department of the Treasury, and other State departments and agencies.

This fiscal 2016 plan recommends funding for recurring environmental, transportation, and open space capital expenditures. Given ongoing budget pressures, the plan recommends no significant funding for non-recurring capital expenditures.

Role of the New Jersey Commission on Capital Budgeting and Planning

The New Jersey Commission on Capital Budgeting and Planning was established in 1975 (P.L.1975, c. 208) and provides the State with a systematic and concentrated focus on the investment of limited capital resources and preservation of capital assets. Acting in an advisory role to the Governor and the Legislature, the Commission's specific responsibilities are:

- To develop the State Capital Improvement Plan and submit it to the Governor and the Legislature;
- To recommend capital projects for inclusion in the annual budget;
- To analyze and report on the impact of capital spending programs on future operating expenses;
- To develop and prioritize short and long-term capital spending plans and the means to fund them;
- To review capital projects recently completed or under construction;
- To make recommendations as to the maintenance of State facilities; and
- To consider the annual State of New Jersey Debt Report.

Comprised of four public members, four legislative members, and four members from the Executive Branch, the Commission is designed to be a permanent and bipartisan body. Of the four public members, the Governor appoints two members while the President of the Senate and the Speaker of the Assembly each appoints one member. The chairperson of the Commission is annually elected from the four public members. The Commission's staff consists of an executive director and staff from the Capital Planning Unit of the Office of Management and Budget.

New Jersey's Capital Planning Process

In addition to the Capital Planning Commission, the Treasurer (who is a member of the Capital Planning Commission) determines the amount of funding available and provides target figures for the upcoming fiscal year's capital recommendations. The Governor's office provides guidance to ensure capital

recommendations meet policy goals and objectives. Accordingly, a member of the Governor's Office is also represented on the Capital Planning Commission.

State agencies are responsible for evaluating the condition of their facilities, determining their priorities, estimating capital costs, and preparing a seven-year capital request. These agencies have the opportunity to appear before the Capital Planning Commission to present testimony on their capital requirements and provide additional information as requested by the Commission.

To provide a consistent and integrated system for capital requests and information, the State of New Jersey uses a computerized database program that resides on the State's information network and is accessible to all participating agencies. In addition to their annual capital requests, agencies are required to input their capital needs over a seven year period, including project descriptions, justifications, priorities, costs, funding sources, and impact on future operating costs. The information submitted in agencies' capital project requests is reviewed and analyzed by the Commission and Office of Management and Budget capital staff, culminating in the generation of the annual State Capital Improvement Plan.

Capital Definition and Funding Methods

A capital project includes the acquisition of land, new structures and equipment, and other projects whose cost of land, planning, furnishing and equipment is estimated over \$50,000. Projects or acquisitions under \$50,000 are appropriated in the maintenance accounts in the Direct State Services section of the Budget. New Jersey funds capital projects by means of four methods:

- Through general obligation bonds approved by voters and guaranteed by the State;
- Through bonds issued by semi-autonomous authorities, normally repaid over the life-expectancy of the project and funded by annual appropriation of the Legislature;
- Annual pay-as-you-go capital appropriations; and
- A master lease program.

In the master lease program, debt service on projects cannot exceed three years and the useful life must be at least five years. The types of projects funded through the master lease include automobiles, computers, and telecommunication systems. This is in contrast to new construction, major rehabilitation of buildings, land acquisition, with a useful life of at least 20 years, undertaken by semi-autonomous authorities or paid through general obligation bonds. The pay-as-you-go capital projects are funded through annual appropriations. These projects include roof replacements, building equipment acquisition, renovations, life/safety improvements, and mandated programs such as open space acquisition, shore protection, remediation of hazardous waste and industrial sites, and transportation programs.

Funding Criteria

Because of the large number of capital requests, the Commission applies strict criteria to ensure that only the most urgent and necessary projects are recommended for funding. The Commission usually centers its attention on projects that are focused on life-safety requirements, critical to essential programs, mandated by statute, use non-State funding sources, or preserve State assets.

Fiscal 2016 Capital Recommendations

For fiscal year 2016, the Commission was presented with \$3.56 billion in General Fund capital requests from State departments. After holding public hearings from October of 2014 through February of 2015, the Commission recommended funding of \$1.59 billion for capital projects.

Of the \$1.59 billion recommended for capital projects in fiscal 2016, \$1.46 billion (or 92%) is for programs funded by dedicated revenue in the State Budget. Of the dedicated revenues, the Commission

recommends \$1.28 billion for transportation infrastructure improvements, \$25.0 million for shore protection, \$11.1 million for underground storage tank remediation, \$16.0 million for park development, \$12.0 million to clean up contaminated industrial sites, \$20.3 million for mitigation of hazardous waste sites, and \$97.7 million for open space preservation. Also recommended is \$30.4 million for discretionary projects for departments and agencies and \$101.9 million for New Jersey Building Authority Debt Service.

A summary of the recommendations by department is displayed in Table 1.

Table 1
FY 2016 Capital Recommendations (\$000's)

<u>Department</u>	<u>Recommended</u>
Agriculture	\$0
Children and Families	\$195
Corrections	\$9,556
Education	\$0
Environmental Protection	\$90,937
Health	\$0
Human Services	\$1,600
Law and Public	\$2,000
Juvenile Justice Commission	\$550
Military and Veterans Affairs	\$0
Transportation	\$1,279,650
Treasury Office of Information Technology	\$0
Interdepartmental Accounts	\$209,666
The Judiciary	\$0
Total	\$1,594,154

In addition to the \$1.59 billion in capital recommendation, funds from proceeds on the sale of surplus State property may be used to fund capital improvement projects. Major construction projects proposed in the Capital Improvement Plan may also be funded through sources other than the General Fund that include the New Jersey Building Authority, the Economic Development Authority, general obligation bond funds, and other funding sources.

Highlights -- Recommendations by Departments and Programs

Environmental Protection

For the Department of Environmental Protection, \$90.9 million is recommended, including \$20.3 million for Cleanup of Hazardous Substance Discharges, \$12.0 million in loans and grants for Brownfields Redevelopment projects, \$25.0 million for Shore Protection, \$11.1 million for Underground Storage Tank remediation, and \$16.0 million for Parks Development and Conservation projects. These five mandated programs are funded through dedicated sources. In addition, \$6.5 million is recommended for the HR-6 flood prevention program. Both the HR-6 and Shore Protection programs will generate substantial federal matching funds.

The allocation of Corporate Business Tax (CBT) supported programs per the new Open Space Constitutional Dedication was determined subsequent to the Capital Commission's recommendation. Therefore, the fiscal 2016 Governor's Detailed Budget reflects the new CBT allocation as well as updated revenue estimates. The Commission's recommendation reflects an allocation flat to the previous fiscal year.

Department of Transportation

New Jersey lies at the heart of a giant metropolitan area stretching from Boston to Washington, D.C. To take advantage of this unique position, New Jersey's highways, buses, and rail service provides businesses with a responsive and reliable transportation system that moves people and goods. To ensure such a system's effectiveness, the fiscal 2016 recommendation for the Transportation Trust Fund (TTF) is \$1.28 billion. The Commission's recommendation reflects a debt service need that comports with the fiscal 2014 Debt Report. Subsequent to this recommendation, a one-time savings from prior year balances was utilized to offset a portion the TTF debt service amount, as reflected in the fiscal 2016 Governor's Detailed Budget.

Funding is derived from the constitutional dedications of motor fuel taxes and the petroleum products gross receipts tax, as well as a portion of the sales tax, toll road authority contributions and certain motor vehicle and insurance surcharge fees. Such funds, in combination with federal funds, will pay for debt service on bonds issued by the Transportation Trust Fund Authority and for capital improvements to the State's highway and mass transit systems.

Interdepartmental Accounts

The Interdepartmental recommended budget reflects a total of \$209.6 million. This is mainly comprised of debt service payments of \$101.9 million for New Jersey Building Authority and \$97.7 million for the constitutionally-mandated Open Space, Farmland, Parks and Historic Preservation programs. A total of \$10 million is also earmarked for critical life safety and information technology projects.

Other Capital Recommendations

Other funding recommended for various departments totaled \$13.9 million for preservation, life safety, compliance, and other critical projects including:

- Roof replacements at Corrections facilities, \$5.7m;
- Emergency generator replacements at critical facilities, \$3.7m;
- Fire suppression system upgrades at South Woods State Prison and the NJ Training School for Boys, \$1.5m;
- Exterior shell replacement at the State Police headquarters in Totowa, \$1.5m;
- Locking system design for the Albert C. Wagner Correctional Facility, \$1.3m; and
- Window replacements at regional schools maintained by the Department of Children and Families, \$195,000.

Maintenance of State Facilities

As part of its mission, the Commission is required to comment on the maintenance of State buildings and building systems. The Commission recommends that State departments and agencies review their facility maintenance operations to ensure that they adhere to the principles, practices and techniques of maintenance management. Because proper maintenance is critical to the protection and preservation of New Jersey's capital assets, each facility's maintenance operation should, at a minimum, incorporate a set of management practices that include:

- An inventory of items that require periodic maintenance, such as HVACs, pumps, motors, and other electrical and mechanical systems;

- A preventive maintenance program;
- A work order system that distinguishes the various types of maintenance work performed;
- A work control center responsible for planning, estimating, scheduling, and tracking work;
- A materials inventory system; and
- A maintenance management information system that determines what has been accomplished with the available work force, time, and material resources.

The Commission strongly believes that adherence to such principles, practices, and techniques will preserve the State's capital investments in buildings, equipment and building systems, and prevent premature deterioration and replacements.

Long-term Debt

The State Capital Improvement Plan is required to include a report on the overall State debt, assessing the State's ability to increase such debt and recommending the amount of increase, if any. In February 2015, the Commission reviewed the fiscal 2014 *State of New Jersey Debt Report* submitted by the Office of Public Finance and voted to accept the report's findings.

The Commission advocates a prudent policy of debt management to ensure fiscal responsibility. Capital projects that are undertaken utilizing long range financing, whether through general obligation debt or debt subject to appropriation, must be essential to the citizens of the State and critical to State operations. The Commission endorses the concept that pay-as-you-go capital funds should be used primarily for repairs, renovations, and additions to State-owned facilities. Projects funded with pay-as-you-go capital are relatively small, less costly, and can be funded through annual appropriations. General obligation debt and debt incurred by autonomous authorities, however, should be used to finance costly capital construction projects that yield substantial benefits to present and future generations. Such projects should have a useful life equal to, or exceeding, the time required to retire the debt.