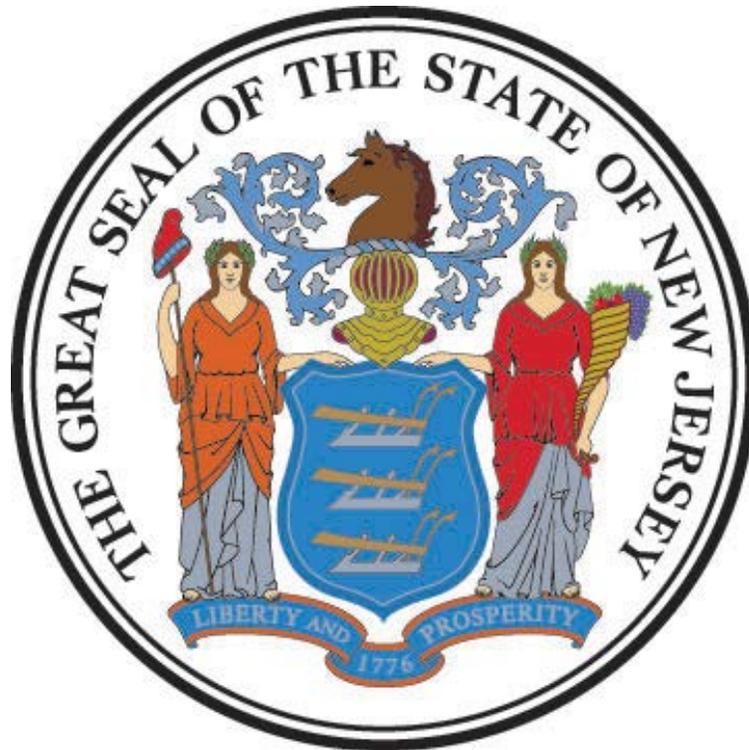


**State of New Jersey
Commission on Capital Budgeting and Planning**

**Fiscal 2018
Seven Year Capital Improvement Plan**



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

**Brian E. Francz
Executive Director**

**B. Carol Molnar
Commission Chair**

**Office of Management and Budget
May 22, 2017**

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SECTION I

INTRODUCTION

Fiscal Year 2018

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Summary of the Fiscal 2018 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 2018 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 Commission on Capital Budgeting and Planning) 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 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 Commission on Capital Budgeting and Planning 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 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 2018 Capital Recommendations

For fiscal year 2018, the Commission was presented with \$3.927 billion in General Fund capital requests from State departments. After holding public hearings from October of 2016 through March of 2017, the Commission recommended funding of \$1.565 billion for capital projects.

Of the \$1.565 billion recommended for capital projects in fiscal 2018, \$1.446 billion (or 92%) is for programs funded by dedicated revenue in the State Budget. Of the dedicated revenues, the Commission recommends \$1.3 billion for transportation infrastructure improvements, \$25.0 million for shore protection, \$9.0 million for underground storage tank remediation, \$10.1 million to clean up contaminated industrial sites, \$5.0 million for mitigation of hazardous waste sites, and \$97.7 million for open space

preservation. Also recommended is \$32 million for discretionary projects for departments and agencies and \$86.2 million for New Jersey Building Authority Debt Service.

A summary of the recommendations, by departments that have requested capital funding, is displayed in Table 1.

Table 1
FY 2018 Capital Recommendations (\$000's)

<u>Department</u>	<u>Recommended</u>
Agriculture	0
Children and Families	180
Corrections	6,971
Education	0
Environmental Protection	55,628
Human Services	2,403
Law and Public	1,100
Juvenile Justice Commission	1,928
Military and Veterans Affairs	1,900
Transportation	1,299,611
Interdepartmental Accounts	194,839
The Judiciary	0
Total	\$1,564,560

In addition to the \$1.565 billion in capital recommendations, 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, \$55.6 million is recommended, including \$25.0 million for Shore Protection, \$10.1 million in loans and grants for Brownfields Redevelopment projects, \$9.0 million for Underground Storage Tank remediation, and \$5.0 million for Cleanup of Hazardous Substance Discharges. These four 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.

Department of Transportation

New Jersey lies at the heart of a giant metropolitan area stretching from Washington, D.C. to Boston. 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 2018 recommendation for the Transportation Trust Fund (TTF) is \$1.3 billion. The Commission's recommendation reflects a debt service need that comports with the fiscal 2016 Debt Report.

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 funding reflects a total of \$194.8 million. This is largely comprised of debt service payments of \$86.2 million for the New Jersey Building Authority and \$97.7 million for the constitutionally-mandated Open Space, Farmland, Parks and Historic Preservation programs. A total of \$11 million is also earmarked for critical life safety and information technology projects.

Other Capital Recommendations

Other funding recommended for various departments totaled \$14.5 million for preservation, life safety, compliance and other critical projects including:

- \$7 million for fire safety projects and roof replacements at East Jersey State Prison within the Department of Corrections;
- \$2.4 million for fire alarm upgrades at Hunterdon Developmental Center operated by the Department of Human Services;
- \$1.1 million for boiler replacements at the Buena Vista State Police Troop A Headquarters;
- \$1.9 million for suicide resistance improvements and a roof replacement at facilities maintained by the Juvenile Justice Commission;
- \$1.9 million for Emergency Generator upgrades at three Veterans' Home Facilities operated by the Department of Military and Veterans' Affairs; and
- \$180,000 for window replacements at regional schools maintained by the Department of Children and Families.

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 March 2017, the Commission reviewed the fiscal 2016 *State of New Jersey Debt Report* submitted by the Office of Public Finance. The debt report can be found at the following link:
http://nj.gov/treasury/public_finance/pdf/DebtReportFY2016.pdf.

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.