

Fiscal Year 1998

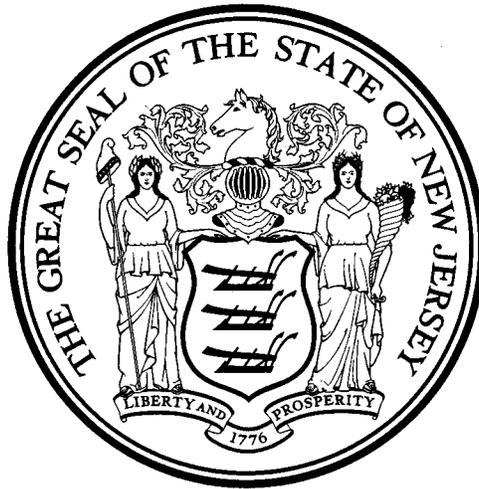
*Budget
in
Brief*



Christine Todd Whitman, Governor

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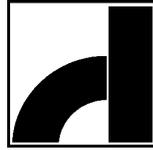
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JANUARY 29 , 1997



GOVERNMENT FINANCE OFFICERS ASSOCIATION

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The Government Finance Officers Association of the United States and Canada (GFOA) presented an award of Distinguished Budget Presentation to the State of New Jersey for its annual budget for the fiscal year beginning July 1, 1996.

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

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

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The Budget, The Budget-in-Brief, and the Comprehensive Annual Financial Report are available on the Internet @ <http://www.state.nj.us/>



State of New Jersey
OFFICE OF THE GOVERNOR
CN-001
TRENTON NJ 08625-0001

CHRISTINE TODD WHITMAN
Governor

January 29, 1997

Dear Citizen:

The fiscal 1998 State budget proposal that I present to the Legislature and the public today carries out my administration's commitment to provide vital, high-quality government services and local aid without burdening New Jersey taxpayers.

Upon enactment of this \$16.4 billion budget, the annual growth in State appropriations over the four years of my administration will average 1.3 percent -- easily the lowest average growth rate in decades. And I am pleased to report that this fiscal responsibility has been mirrored at the local level. Property tax rates statewide have risen by historically low percentages over the past three years.

This budget continues my administration's commitment to taxpayers and businesses by absorbing the \$ 100 million impact of the property tax deduction enacted last July while anticipating a \$13 million tax cut for small, typically family-owned businesses known as chapter "S" corporations. Our tax cuts and other job creation policies have helped the private sector realize a net gain of more than 154,000 jobs since January 1994.

This budget provides \$286 million in additional funding for New Jersey public schools in accordance with landmark school reform legislation enacted last December. For the first time, State aid to public education will be linked to the achievement of rigorous core curriculum standards in seven subject areas by every student in every school in New Jersey. And to help parents save for their children's college education, the budget funds NJ-BEST, our New Jersey Better Educational Savings Trust program.

This budget enables New Jersey to lead the way in the fight against crime. It provides \$65 million in funding to operate South Woods State Prison, which will add 3,200 beds to our state correctional system. And it funds the New Jersey State Police's 117th class of new troopers -- adding another 80 troopers to the ranks of our men and women in blue.

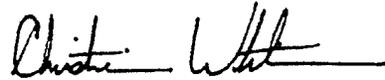
This budget supports the implementation of our Work First New Jersey (WFNJ) welfare reform program. It includes more than \$100 million in State and federal funds for client work activities because in fiscal 1998, 30 percent of all WFNJ clients must participate in a work activity. As a result, we will also invest more than \$105 million to provide child care services to help welfare clients achieve self-sufficiency.

This budget continues to support our strong commitment to New Jersey's environment. It includes \$37 million for major clean-up projects and another \$10 million to create a comprehensive water quality monitoring system for the entire state over the next 18 months.

In the coming months, the Legislature and I will be working closely together to pass a budget that reflects our concern for New Jersey's taxpayers and our determination to keep New Jersey in the lead in groundbreaking efforts to make government more efficient and effective.

I hope you will take the time to review the budget I have prepared. This budget -- the fourth of my administration -- builds on the progress we have made in unleashing the energy, creativity, and ingenuity of the people of our state to build a better New Jersey. If you have any comments or concerns, please do not hesitate to share them with me and your representatives in the Legislature.

Yours sincerely,

A handwritten signature in black ink, appearing to read "Christine Whitman", with a long horizontal flourish extending to the right.

Christine Todd Whitman
Governor

Introduction to the Budget

A Governor's proposed budget is more than just a set of numbers. It is a road map of state government, reflecting an administration's priorities. The proposed Budget for fiscal 1998 upholds the tenets embodied in each of the three previous budget proposals.

It holds the line on spending. It supports policies and programs that benefit the people of New Jersey. It increases, reduces, or eliminates appropriations on a targeted, individual, programmatic basis -- not randomly across-the-board. It includes a \$550 million surplus essential to preserving New Jersey's favorable bond rating. And it makes prudent investments in the future by supporting education, infrastructure improvements, and the environment to improve the quality of life for all New Jerseyans.

The fiscal 1998 Budget will help New Jersey continue to lead the way into the 21st century -- a prosperous, educated, safe and strong state.

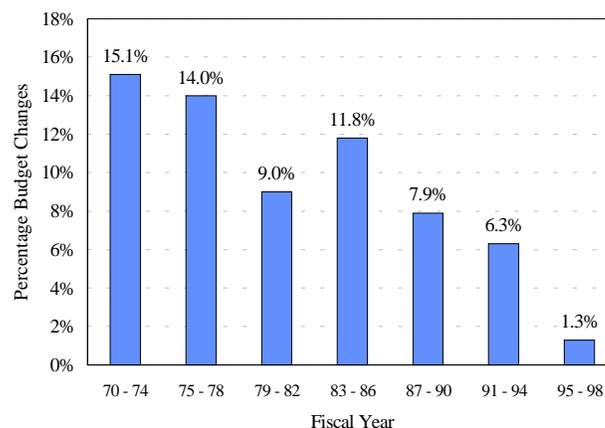
OVERVIEW

This Budget contains several key features:

- It continues the phase-in of three tax deductions. It implements the second phase of the Property Tax Deduction Act which will increase the direct tax relief for homeowners and renters from last year's \$120 million to \$200 million. In addition, the "double weighting" of sales in the Corporation Business Tax allocation formula, and the Corporation Business Tax rate reduction to 7.5 percent for small businesses are both fully implemented in fiscal 1998, putting \$51 million back into the economy.
- This single-year jump in education spending of approximately \$286 million underscores the Governor's commitment to restore excellence to New Jersey's schools, both through innovative and forward-looking reforms, like core curriculum content standards and Charter Schools and through greater funding.
- It continues to hold down the growth in state government spending. Because the Legislature and the administration have worked together with the citizens of New Jersey, the rate of growth in the State's annual budgets has been held to an annual average of 1.3 percent.

- It provides the resources necessary to continue the war on crime by increasing funds for corrections facilities -- so that the State has the capacity to house those convicted of crimes -- and by increasing funds for drug education and prevention.
- It makes investments in the future through capital funding for transportation, the environment, higher education, and human services facilities.

FISCAL YEAR 1970 TO 1998 APPROPRIATION CHANGES (AVERAGE ANNUAL GROWTH RATE)



In short, this Budget will help make New Jersey a more economically competitive state and a more attractive place to live and raise a family. It also points the way to a future the taxpayers can afford. It ensures that government will function only where it belongs, and then as efficiently as possible. And it vigorously tackles today's challenges, problems, and needs to ensure a safer, happier, and more prosperous tomorrow.

Following are some of the most important initiatives of this year and the past three years:

Introduction to the Budget

A PROSPEROUS NEW JERSEY

CUTTING TAXES AND SPENDING

Tax Cuts

In fiscal 1998, New Jersey is building on the strong economic foundation constructed in the past three years. Tax cuts are the main footings of that foundation.

This Budget continues to phase-in the Property Tax Deduction Act signed last July. This tax cut allows taxpayers to deduct up to \$2,500 of their property taxes from their state income tax. In fiscal 1997, it provided \$120 million in direct relief to property tax payers. In fiscal 1998, it will provide \$200 million in direct tax relief.

This latest tax cut was the tenth enacted by this Governor and Legislature. It demonstrates State Government's continued support of New Jersey taxpayers.

Since 1994, they have enacted the following tax cuts:

- cut the Gross Income Tax by an initial 5 percent retroactive to January 1, 1994 for all New Jerseyans (1994);
- discontinued the Corporation Business Tax surtax (1994);
- eliminated 380,000 low-income taxpayers from the rolls (1994);
- cut the Gross Income Tax again by another 10 percent for the majority of taxpayers (1994);
- cut the Gross Income Tax yet again by another 15 percent for most New Jerseyans (1995);
- eliminated the sales tax on "yellow pages" advertising (1995);
- restructured the Corporation Business Tax formula to give companies with facilities in New Jersey an incentive to stay here (1995);
- put into place the lowest small business corporate tax rate in the region at 7.5% (1995); and

- enacted a sales tax exemption for broadcast equipment (1995).

This Budget reflects support for this administration's eleventh tax cut -- a cut that will directly benefit thousands of small businesses that are the foundation of New Jersey's economy.

It sets aside funds to implement proposed legislation that will provide lower fixed tax rates for small companies known officially as "S" corporations. When fully implemented, it will save these typically small, family-run businesses \$13 million a year.

By the end of fiscal 1997, these eleven tax cuts will have pumped \$2.8 billion in cumulative tax savings back into the economy. By the end of fiscal 1998, that number will jump to more than \$4.4 billion.

Those dollars are helping the private sector do what it does best -- create jobs. Since January 1994, New Jersey has achieved a net gain of nearly 155,000 good-paying jobs. Every sector of the New Jersey economy -- construction, services, high technology, communications, pharmaceuticals, and retail trade -- has participated in this growth.

Holding the Line on Spending

Setting a good example on the state level is one of the best ways to encourage fiscal responsibility and innovation on every level. And New Jersey is leading the way when it comes to prudent management.

Fiscal 1998 will continue the trend of holding the line on state government spending. Reducing taxes provided the discipline to control spending. If spending had continued to rise at the rate it had under previous administrations, the State Budget would now be approaching \$20 billion. But by working with the citizens of New Jersey, the State has kept the rate of growth in last four budgets to an average of about 1.3 percent.

This stabilization of the budget has been achieved in a number of ways. For fiscal 1998, the Governor is recommending a decrease of more than \$26 million, or 0.8 percent, for the Executive departments and agencies, the second consecutive year that the total operating budget of the Executive departments has been reduced.

Introduction to the Budget

**SUMMARY -- GENERAL, PROPERTY TAX RELIEF, CASINO, AND
GUBERNATORIAL ELECTIONS FUND
(\$ IN MILLIONS)**

	Adjusted FY 1997	Recommended FY 1998	\$ Dollar
State Operations			
Executive Departments	\$ 3,220.00	3,193.7	\$ (26.30)
Interdepartmental	1,535.5	1,467.4	(68.1)
Legislature	52.8	52.8	---
Judiciary	345.8	347.5	1.7
Grants In Aid	3,858.0	3,828.2	(29.8)
State Aid	6,384.7	6,534.2	149.5
Capital Construction	374.1	505.9	131.8
Debt Service	446.9	491.2	44.3
 TOTAL	\$ 16,217.80	\$ 16,420.90	\$ 203.10

Consolidation

This Budget continues to streamline state government. It calls for the elimination of 1,235 positions from the State payroll through attrition, layoffs, and privatization initiatives. In the three years since the beginning of the Whitman Administration, the number of State employees on the payroll has decreased by 4,427, not including the addition of employees from the state takeover of the county courts.

This downsizing is also reflected in the merger of the Departments of Banking and Insurance, the elimination of the Office of the Public Advocate and of the Department of Higher Education. We've pursued other efficiencies too like the privatization of the motor vehicle agencies and consolidation of services for seniors from four departments into the Department of Health and Senior Services.

Increasing Transportation Spending and Creating Jobs

Transportation Trust Fund

A successful state is one in which goods, services, and people can move freely and easily from one place to another.

That's why the Governor and Legislature reauthorized the Transportation Trust Fund to finance highways, bridges, mass transit, and local transportation projects -- without raising taxes on motorists or anyone else to pay for it.

The commitment from the Trust Fund of more than \$3.5 billion through the year 2000 has enabled the

State to move forward on 465 highway and public transit projects.

Next year, the State will award more than \$600 million in construction contracts, which is almost double the usual annual level of contracts awarded. When combined with available federal funds, the Transportation Trust Fund will generate over \$6.6 billion in transportation improvement projects through the year 2000 which will support nearly 250,000 jobs during the five year reauthorization period.

Transit

Over the five year reauthorization period, the Trust Fund will provide more than \$1 billion to enhance mass transit. That way, the State keeps its competitive economic edge without jeopardizing open spaces and its commitment to clean air.

In addition, between 1994 and 1997 there have been no fare increases on New Jersey Transit. This savings for the consumer has been accomplished by prudent management. As a result, ridership has increased by 9 percent.

Preserving the Environment

Preserving Open Space

Economic prosperity and environmental protection are not mutually exclusive, but rather mutually dependent goals. A clean and green environment makes New Jersey an even better place to live, work, visit, and start a business.

This administration has aggressively invested in open space. Through the Green Acres program, more than 21,000 new acres of open space were acquired by the Department of Environmental Protection in the past year, more than in any year since the program started.

This year's Budget preserves more open space, adding to the 78,000 acres approved in the past three years. Environmentally sensitive areas will be protected from the incursion of development. Furthermore, this Budget provides funds to identify better locations for business and industry to set up shop -- locations where labor is available and infrastructure is already in place. And it funds the next planning phase of the State Master Plan, which in the long run can save taxpayers the costs of poor planning.

Introduction to the Budget

Hazardous Waste Cleanup & Water Monitoring

Keeping New Jersey clean is as important as keeping it green. In November, 1996 voters approved an amendment to the State Constitution dedicating 4 percent of the State's Corporations Business Tax for hazardous waste cleanup and water monitoring. This initiative will provide \$29.6 million in fiscal 1997 and \$51.9 million in fiscal 1998. Of this amount, \$27 million will be made available as loans and grants for the upgrade, replacement, closure, and cleanup of underground storage tanks owned by private businesses or local governments.

Another \$37 million will provide pay-as-you-go funding for major cleanup projects undertaken by the DEP, including the provision of alternative sources of potable water where needed. And nearly \$10 million will be used to create a comprehensive water quality monitoring system for the entire State.

New Jersey has made impressive gains in cleaning the environment. Yet, there is more to do.

The State must preserve the gains already made, while addressing the broad array of problems that are only compounded by rigid regulation of business and industry. This Budget supports efforts to achieve greater compliance through cooperation and coordination, but clamps down on those who resist such efforts.

AN EDUCATED NEW JERSEY

Reforming Education

Record Education Aid

One of the best ways to plan for tomorrow is to invest in New Jersey's children today. This Budget invests more than \$5 billion in educating New Jersey students. This administration's proposal includes increases of \$286 million for direct aid to the schools and \$12.9 million in funds for increased social security costs for school teachers.

New Funding Formula and Core Curriculum Standards

On May 1, 1996, the State Board of Education adopted the administration's core curriculum content standards which specify seven areas of study with specific, measurable, grade-appropriate levels of accomplishment for each.

This Budget incorporates the new school funding formula, which guarantees that all children, regardless of where they live, will receive a first-class education. It ensures that every school district will have the resources needed to teach the rigorous core curriculum content standards that are forming the bedrock of educational improvement education in New Jersey.

Disadvantaged Youth

This Budget fulfills the State's obligation to its disadvantaged students, including full funding of programs like pre-school and all-day kindergarten in the Abbott districts.

This Budget also recommends \$1 million for the development of Demonstrably Effective Program Resource Teams. These teams will provide technical assistance, professional development, and training on the development of programs for disadvantaged youth. The teams will work with state agencies to coordinate programs and services and with local officials to develop community-based initiatives that target the needs of these students and communities.

Distance Learning

This Budget also funds important new initiatives that will open up learning opportunities for all students. In fiscal 1997, a program of technology aid was initiated at a level of \$10 million. For fiscal 1998, that program is developed into a Distance Learning Network program with \$50 million in support.

Accountability

The education funding proposal also contains provisions requiring the Department of Education to assess the effectiveness of schools. In keeping with this requirement, this Budget recommends an increase of \$1 million for the Statewide Assessment program.

Supporting Higher Education

Saving for College

Learning is a lifelong proposition. To help New Jersey's children take the next step after high school, this Budget supports the creation of the New Jersey Better Educational Savings Trust (NJ BEST) program -- a program that will help parents save for their children's education.

The interest earned through NJ BEST will be federally tax deferred and completely exempt from state taxes. This will increase the value of every dollar parents put aside for their children's education.

Aid to Students, Colleges and Universities

In keeping with the State's commitment to higher education, this Budget provides nearly \$1.4 billion in resources for higher education, including approximately \$181 million in direct assistance to students primarily through the Tuition Aid Grant and the Educational Opportunity Fund programs.

A SAFE NEW JERSEY

Crime and Punishment

More Funding for Prisons

Government has the responsibility to do all it can to protect law-abiding citizens from criminals. This Budget meets that responsibility.

Increased law enforcement efforts and tougher sentencing laws mean that the prison population is growing and that inmates are in jail for longer lengths of time. This Budget accommodates this growth, providing more than \$710 million for the Department of Corrections in fiscal 1998.

This Budget includes \$65 million for the operation of the new 3,200-bed South Woods State Prison in Bridgeton, which will open this year. It will help fund alternative sanction programs to address the growth in inmate population. And, it reflects the annual \$17 million in savings realized through privatization of inmate medical services.

Addressing Juvenile Crime

Funds are also provided for the State's second boot camp, increasing the potential for rehabilitating young adult offenders ages 18 to 26.

State Police

In addition, efforts made by the State Police to keep the State's highways safe and to deter criminal activity through regular patrol activities and criminal investigations will be further enhanced by the addition of approximately 80 new troopers from the 117th State Police Class, which is scheduled to graduate in the fall of 1997.

A STRONG NEW JERSEY

Providing Property Tax Relief

Record Aid to Communities and Taxpayers

Through fiscal 1998, the Whitman Administration will have increased aid to local governments and to individual property taxpayers by \$720.1 million, reaching nearly \$7.9 billion.

These increases include:

- \$187 million in additional aid to schools, including teachers pension costs and school board pension payment relief;
- assuming the costs of the county courts for \$240 million;
- \$23 million in additional aid for local road projects;
- a \$32 million increase in revenue for Urban Enterprise Zones;
- holding harmless municipal aid, including municipal pension payment relief;
- holding harmless the \$325 million Homestead Rebate program; and
- re-establishing the Property Tax Deduction Act for \$320 million in direct savings for local property taxpayers.

In addition, the Whitman Administration and the Legislature have reformed the binding arbitration process and implemented State Mandate/State Pay. The administration has also sent local budget review teams to school districts and municipalities to help them identify efficiencies and savings. These teams have identified \$55 million in savings for local governments.

Efforts to help schools and towns are paying off. Last year, the statewide average property tax increase was the second lowest in 18 years. Overall, the average property tax increase has been lower in the past three years than in any administration since 1974 -- and those lower increases have occurred while other taxes have decreased, not increased as in the past.

Work First New Jersey

Administrative Savings

This Budget demonstrates a strong commitment to real welfare reform. It helps lead the way by reinvesting all planned programmatic savings into

Introduction to the Budget

Work First New Jersey (WFNJ), this administration's proposal to replace welfare dependency with individual self-sufficiency. These funding changes will result in a leaner, more efficiently operated welfare program in fiscal 1998.

Making Recipients Work

Major new spending initiatives in Work First New Jersey include \$49.4 million in State and federal funds for client work activities to meet federally mandated client work participation rate. In fiscal 1998, 30 percent of all WFNJ clients must participate in a work activity.

DIVISION OF DEVELOPMENTAL DISABILITIES

The Community Services Waiting List

Another long-standing issue on which progress has been made is services for individuals with developmental disabilities. In 1994, Governor Whitman signed legislation to put a \$160 million bond issue on the ballot for capital construction. The voters passed it overwhelmingly. This Budget recommends a total of nearly \$16 million to provide much-needed residential services to more than 700 New Jersey families who are presently caring at home for their adult children with developmental disabilities. In addition, 335 individualized adult day programs will be created. This includes \$4 million of new State dollars for the Division of Developmental Disabilities to help reduce the community services waiting list.

By the end of fiscal 1998, \$61.5 million will be used to reduce the Community Services Waiting List: 1,363 people have been placed in community residential settings.

Health Care

Managed Care for Medicaid

Beginning in June 1995, the State began phasing in mandatory managed care for Aid to Families with Dependent Children (AFDC) recipients. Total Medicaid enrollment in managed care will save the State \$32.8 million in fiscal 1998, while providing many recipients with their first primary care physician. It is also projected that Medicaid long-term savings will result from managed care's emphasis on preventive health to control costs. Therefore, this cutting edge change saves the State money and improves the health of New Jersey's most needy citizens.

Charity Care

In fiscal 1997, for the first time, money from the General Fund was used to fund a portion of the charity care services provided by hospitals to indigent patients. The fiscal 1998 Budget sets aside \$33 million in State funding for charity care and for the ACCESS program, which helps low-income families purchase health insurance.

CONCLUSION

New Jersey can be proud of all that it has accomplished. It can be proud of being a leader in so many areas -- cutting taxes, sound management, protecting its environment, fighting crime, and reforming welfare.

This Budget provides a clear road map -- a map that reflects where the State has been, where it is now, and where its headed. It is the primary document that will help New Jersey continue to lead today and well into the next century.

Highlights of the Fiscal 1998 Budget

The total budget recommended by the Governor for fiscal 1998 is \$16,420.9 million, an increase of \$203 million or 1.3 percent over the current year. Over the four budgets of the Whitman Administration, the annual growth in appropriations has averaged 1.3 percent. This compares to 6.3 percent in the prior administration.

Additional funding is dedicated to program initiatives which stress the following:

Improving Education

- In funding the Comprehensive Educational Improvement and Financing Act, direct school aid, is increased \$286 million. Included in this is \$50 million for a Distance Learning Network and a \$10 million program of rewards and recognition for schools that perform at high levels.
- An additional \$1 million is included for statewide assessments of school districts.
- A new initiative, Demonstrably Effective Resource Program Teams, funded at \$1 million, will provide school districts with state of the art information about effective programs along with practical “how to” assistance for districts creating and implementing these demonstrably effective programs for disadvantaged youth.
- A \$1 million minority graduation enhancement program designed to enhance minority graduation rates is included.
- Support for a \$50 million Higher Education Technology Bond Fund to support critical technological needs and complement existing facility and equipment bond programs.

Fighting Crime and Protecting the Public

- A \$46.3 million increase is included for the operation of the new South Woods State Prison.
- A \$5.9 million increase is included to purchase over 260 additional community bedspaces.
- A \$1.9 million increase is included for 475 additional slots in the Intensive Supervision and Surveillance program which closely monitors parolees.
- \$1.3 million is added for a program that will put offenders to work doing projects beneficial to the public.

- A \$4.0 million increase is included for the purchase of State Police vehicles.

Improving the Environment

- A \$12.8 million increase in capital funds for hazardous waste cleanup and a \$7.4 million increase in capital funds for underground storage tanks are included.
- A \$2.1 million increase is included to administer water monitoring and site remediation projects.
- \$2.4 million is provided in master lease financing to upgrade and integrate DEP’s disparate data systems.

Developing a Strong Economy

- A \$75.8 million increase in Transportation capital funding will help preserve and maintain the highway system which is critical to the economy of New Jersey, situated at the geographic center of the largest contiguous metropolitan region in the country. This represents a portion of the funding that supports an annual \$700 million transportation related capital program.
- \$884,000 is included for an “Accounts Management System” which will assign account managers in the Department of Commerce to each of the major firms in the state to handle all their interactions with government and keep them and their employees in New Jersey.
- \$600,000 is included primarily to encourage the growth of environmentally friendly businesses in New Jersey. Primarily, these funds will be used to make recoverable grants to eligible companies that wish to expand in New Jersey.
- \$200,000 is included for aquaculture development.

Enhancing the Quality of Life

- \$33 million is included for charity care services provided to indigent people by hospitals and for the ACCESS program which helps low income families obtain health insurance. This is the first time that General Funds are used for this purpose.

Highlights of the Fiscal 1998 Budget

- \$1,250,000 is included for substance abuse treatment for DYFS and Work First mothers and children.
- \$200,000 is included for a “Drugs are Ugly and Uncool” campaign.
- Cost of living adjustments totaling \$11.2 million are included for operators of community programs.
- \$4 million is included to reduce the community services waiting list for people with developmental disabilities.
- \$600,000 is included for the recruitment of adoptive parents.
- \$250,000 is included for services to the children of the victims of domestic violence.
- \$550,000 to create an additional PACT (Program for Assertive Community Treatment Team) to divert individuals from psychiatric placement to community services.

The fiscal 1998 Budget Compared to fiscal 1994.

The budget that the Whitman Administration inherited when it took office in fiscal 1994 was \$15.609 billion. The fiscal 1998 Budget is \$16.421 billion, an increase of \$812 million or 5.2 percent. This represents an average increase of 1.3 percent each year.

Those program areas that have increased the most are:

--Fighting Crime and Protecting the Public which have increased \$328 million or 27 percent. Judicial Services have increased \$243 million which reflects the state takeover of the court system. Programs for the detention and rehabilitation of criminals have increased \$80 million as a result of the increase in the number of prisoners. A strong commitment to treating juvenile offenders has resulted in a \$27 million, or 70 percent, increase in Juvenile Services, including a new state/community partnership grant program, an alternatives to juvenile incarceration program, and a crisis intervention program.

--Direct Aid to School Districts has increased \$398 million or nearly ten percent.

--Higher Educational Services, excluding fringe benefits, has increased by \$110 million or eleven percent.

--Programs that provide health services to citizens of New Jersey and other services to senior citizens and veterans have increased \$81 million or 2.9 percent. For the first time, a General Fund appropriation is required for Charity Care (\$20.5 million) and the ACCESS program (\$12.5 million).

The most significant programmatic decrease has occurred in the area of Public Assistance (Welfare). This has decreased \$165 million or 35 percent; the number of people on public assistance has dropped as the economy has improved and jobs have become available.

The fiscal 1998 Budget Compared to fiscal 1997.

State Aid

The recommendation for State Aid is \$6,534.1 million, an increase of \$149.4 million or 2.3 percent.

The State's contribution to support New Jersey's schools in fiscal 1998 is \$5,038.5 million, a net increase of \$187.1 million. This increase includes a \$285.7 million increase in direct aid and a \$12.9 million increase in funds for increased social security costs for school teachers. These increases are partially offset by a \$111.4 million decrease in the state contribution to teachers' pensions as a result of a pension surplus. The new school aid law, the Comprehensive Plan for Educational Improvement and Financing Act, identifies core curriculum standards to assure New Jersey's children are taught the skills and knowledge they will need for the future. This will allow us to measure the quality of our educational system by how much our children learn, not by how much we spend.

County college aid is increased \$4.8 million to fund debt service costs. This increase is partially offset by a \$1.5 million reduction in the state contribution to county college fringe benefits, as a result of a pension surplus.

Significant reductions in State Aid funding are:

Final Phase Out of Aid to Densely Populated Municipalities	(9.0)
General Assistance -- Prescription Drug Initiatives	(6.0)

Highlights of the Fiscal 1998 Budget

Grants-In-Aid

The recommendation for Grants-In-Aid is \$3,828.3 million, a net decrease of \$29.7 million or 0.8 percent. This net change is the result of some significant policy decisions or changes in entitlement programs that either increase or decrease grant programs. The major increases in grant programs are:

Medicaid -- Cost and Caseload Growth	71.9
Charity Care	20.5
PAAD -- Cost and Caseload Growth	19.7
Nursing Facilities -- Long Term Care	11.5
ACCESS Program	12.5
Community Care Programs -- Cost of Living Adjustment	11.2

The major decreases in grant programs are:

Medicaid -- Savings Initiatives	(65.1)
Purchase of Beds from County Correctional Facilities	(39.2)
NJ Transit	(38.2)
PAAD -- Savings Initiatives	(26.7)
Nursing Facilities -- Long Term Care Savings Initiatives	(8.3)

State Operations

The recommendation for State operations for the Executive Departments and Agencies is \$3,193.7 million, a decrease of \$26.3 million or 0.8 percent. This is the second straight year under the Whitman Administration that the operating budgets of the Executive Departments have experienced an overall decrease. The budget recommendation for the Legislative Branch is held level at \$52.8 million and the Judicial Branch is increased by \$1.7 million or 0.5 percent to \$347.5 million.

The Interdepartmental accounts reflect a net decrease of \$68.1 million to \$1,467.4 million. Included in the budget is \$88.4 million to fund salary increases for fiscal 1998. This increase is more than offset by a reduction in rent and utilities of \$5.9 million, a reduction in insurance and other services of \$13.9 million and a net reduction in employee benefits of \$152.3 million, primarily in the health benefits and pension accounts due to surpluses in both health and pension funds.

The net decrease in the Executive Departments' operating budgets and the Interdepartmental accounts reflect a mix of increases and decreases. Some of the significant increases are:

Salary Increases	88.4
South Woods State Prison	46.3
Pension Growth (State Employees)	26.0
Year 2000 Data Processing Initiatives	15.0
Social Security (State Employees)	12.8
Prescription Drugs (State Employees)	9.6

Some of the significant decreases are:

Retirement Systems -- Use of Surplus	(144.7)
Health Benefits surplus less growth	(63.2)
Privatize Temporary Disability Insurance	(16.0)
Attrition Savings -- Law and Public Safety	(9.5)
New Jersey Redevelopment Authority (non-recurring appropriation)	(9.0)
Tort Claims	(7.6)

Capital Construction

The recommendation for Capital Construction is \$505.9 million, an increase of \$131.8 million or 35.2 percent. The recommendation for the appropriation to the Transportation Trust Fund is increased by \$75.8 million to \$380.3 million. These funds are used to pay debt service for bonds issued by the Transportation Trust Fund Authority, for a pay-as-you-go capital program for highways, and capital maintenance for New Jersey Transit. Funding for the Department of Environmental Protection is increased by \$28.9 million to \$66 million, reflecting the recent dedication of a part of the Corporation Business Tax to environmental programs. Of this amount, \$24.9 million is for cleanup projects, \$17.3 million is for underground storage tanks and \$15 million is for shore protection. The remaining capital funds, for the most part, support the maintenance of state facilities in the Departments of Corrections (\$9.6 million), Human Services (\$11.1 million), Law and Public Safety (\$4.6 million) and the Higher Education institutions (\$5.9 million).

Debt Service

The recommendation for Debt Service is \$491.2 million, an increase of \$44.3 million or 9.9 percent. This reflects the need for \$480 million for principal and interest due on bonds outstanding and \$11.2 million for anticipated bond sales.

Economic Forecast and Revenue Projections

NATIONAL ECONOMY -- OVERVIEW

Strong economic growth in early 1996 moderated in the second half of the year. Real growth of 2.2% in the third quarter is close to the expected long term sustainable growth trend of the economy. Wage and price inflation remain tame in spite of continued low levels of unemployment and high capacity utilization.

During the first half of the year, many assumed that the Federal Reserve Board would have to tighten monetary policy, raising interest rates to cool the economy. But, as spending slowed and inflation remained slight, this concern dissipated and policy has remained steady. Consumer spending, particularly on durable goods, weakened in the summer in the face of high household debt burdens. Real growth of Gross Domestic Product will be about 2.3% in 1996, after 2% in 1995. Real consumer spending increased 2.4%, with durables leading the way at 5.6%. Business investment spending slowed slightly to 7% growth, while residential investment rebounded to 5.4% growth after being negative in 1995. Employment growth, as is to be expected with low unemployment, decelerated to 2% growth.

NEW JERSEY ECONOMY -- OVERVIEW

Economic growth in the state has continued at a moderate rate since the rapid recovery of 1994. Business services have been the leading employment growth sector.

Employment growth in October was 29,500 jobs, 0.8%, greater than a year ago. This brings the

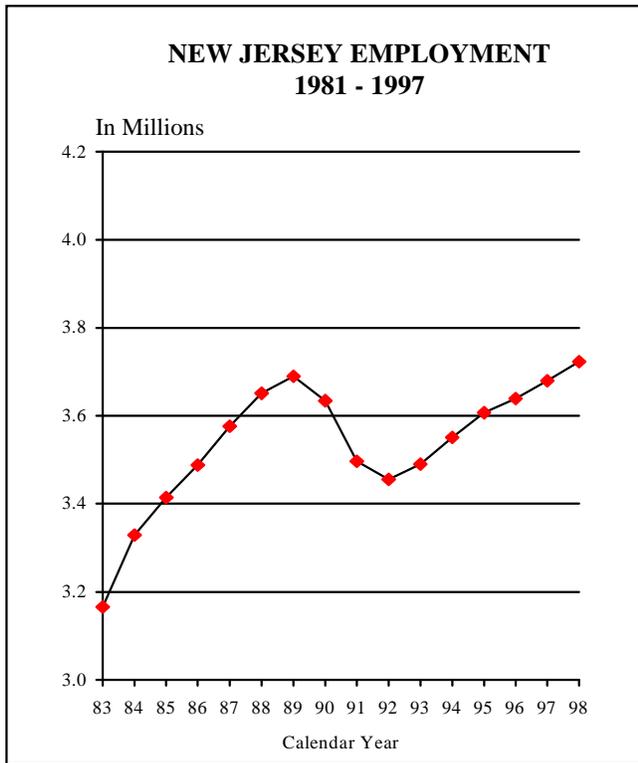
employment gain since the low of May, 1992, to 205,200, or 78% of the jobs lost in the recession. Service sector employment increased by 42,000. The unemployment rate is 6.2%, down from 6.4% a year ago. Retail sales slowed over the Summer, and through September were 3.3% above 1995. This is in contrast to personal income growth of 4.5% for the first half of the year. Total income in New Jersey is benefiting from booming financial markets.

ECONOMIC FORECAST

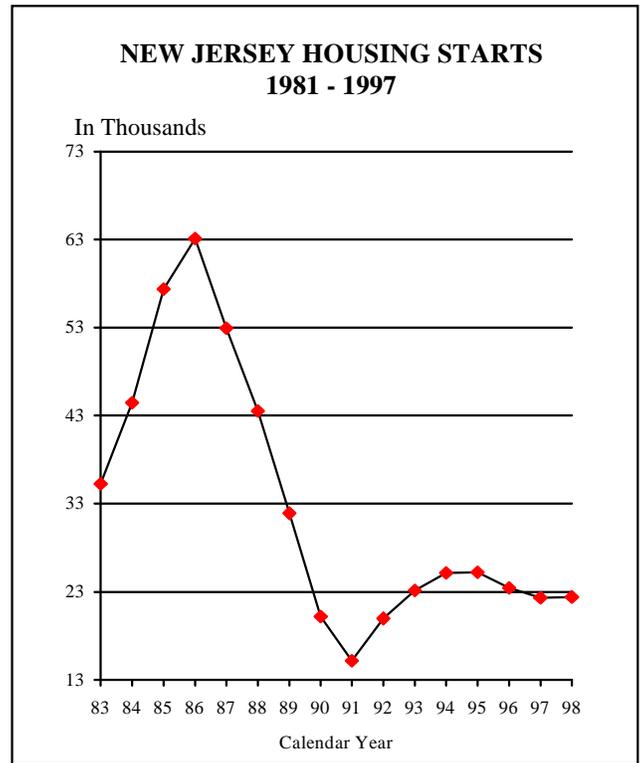
National economic growth will continue at a sustainable pace into 1998, resulting from 2.3% growth in 1996, 2.1% in 1997, and 2.2% in 1998. This will keep the economy at roughly full employment. Real consumer spending should keep pace with this rate of growth, while business spending should continue to climb. Government spending and the foreign sector will be a drag on growth. Employment growth is expected to be 1.7% in 1997 and 1.4% in 1998. Inflation will increase only slightly to the 2.8% range, and long term interest rates will gradually fall by about 90 basis points over the next two years.

The New Jersey economy will continue on a moderate growth course. By early 1998 employment should grow at a 1.1% rate, surpassing the previous peak jobs level of 1989. Income and wage growth will be in the range of 4.5% to 5% through 1998, with retail sales growth slightly less. Car sales will rebound to 4% growth through 1997, and housing construction will stabilize in 1997.

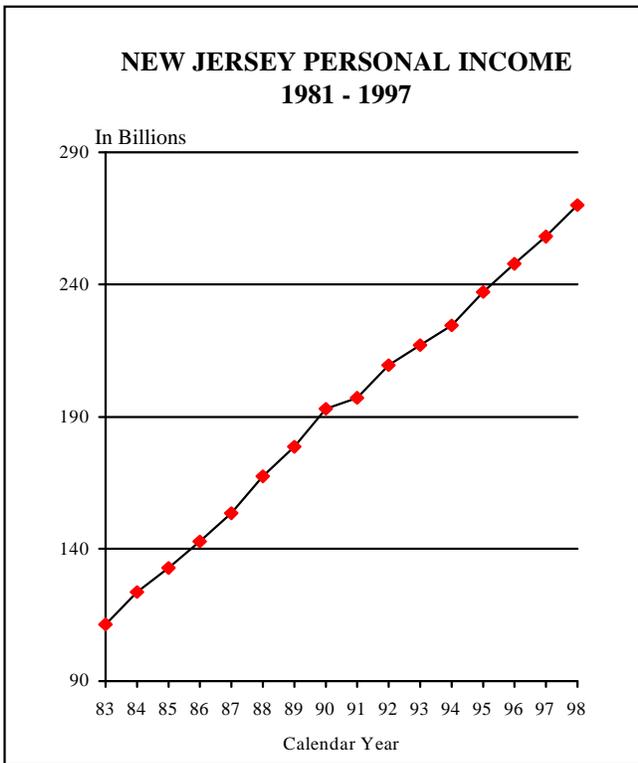
Economic Forecast and Revenue Projections



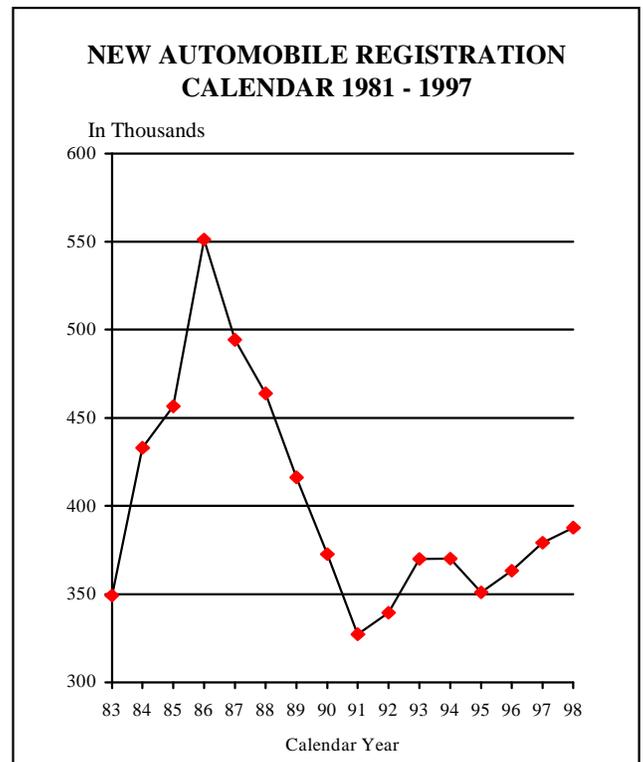
Source: New Jersey Division of Taxation



Source: New Jersey Division of Taxation



Source: New Jersey Division of Taxation



Source: New Jersey Division of Taxation

Economic Forecast and Revenue Projections

REVENUE FORECAST

REVISIONS TO FISCAL 1997 ANTICIPATED REVENUE

The current estimate of \$15.8 billion in total fiscal 1997 revenue is \$142.4 million more than when revenues were certified by the Governor in June, 1996.

The three largest taxes: gross income, sales, and corporate business, account for 65% of total revenue and are now forecast to yield \$10.2 billion. This is an increase of \$306 million and reflects an upward revision in the estimate for each of these three taxes. The total revenues from other major taxes are revised downward by \$211 million primarily due to lower than anticipated year-to-date collections in the motor fuel excise tax, insurance premiums, motor fuel use, sales and leasebacks, and the Market Transition Fund (MTF).

The sales tax is estimated to generate \$4.39 billion, a 4% rate of growth rather than the 2.6% rate originally projected. This reflects a less than anticipated pull-back by consumers after the explosive growth in demand for durables. Growth in new vehicle sales since the second quarter of 1995 underscore this change.

The Corporate Business tax is projected to generate \$1.13 billion, or \$45.8 million more than originally anticipated. WEFA forecasts before-tax profits for U. S. corporations to grow 5.4% in calendar 1996. On the basis of year-to-date collections, it appears that the performance of New Jersey corporations is more similar to the national rate than was originally anticipated. Since the economic recovery began in 1992, growth in New Jersey's corporate business tax liability has paralleled the trend in national profits growth.

The gross income tax forecast is revised to \$4.71 billion. This increase of \$200 million or 4.4% reflects an economy growing somewhat more vigorously than originally anticipated due to a large end-of-year bonus and stock market gains. The projection for New Jersey personal income growth in 1996 has been revised upward from 3.9% to 4.5%, and from 4.3% to 4.1% in 1997. New Jersey employment growth in both 1996 and 1997 remains at .9% to 1.1%.

FISCAL 1998 REVENUE PROJECTIONS

Revenues for fiscal 1998 are expected to increase modestly as both the state and national economies settle into their long-term growth rates.

SALES TAX:

The forecast of \$4.56 billion for fiscal 1998 sales tax revenue is an increase of \$172 million or 3.9% compared to fiscal 1997. This reflects the impact of the underlying economic trends affecting sales tax collections rather than any specific policy changes.

This forecast reflects a return to a modest growth path compared to 1995 and 1996. Two key sectors driving sales tax collections, new housing and automobile sales, are expected to be virtually flat in 1997 and 1998.

CORPORATE BUSINESS TAX:

The forecast of \$1.13 billion for fiscal 1998 corporate business tax revenue is an increase of \$13.9 million or 1.2% compared to fiscal 1997. This assumes that before-tax profits will grow at 3.8% in 1997 and 3.5% in 1998. This reflects the cyclical slowing of the national economy from the strong profit growth posted in 1995 (12.7%) and 1996 (5.4%).

The impact of two policy changes enacted into law in 1995 also limit the expected revenue growth. One is the change in the formula used by corporations with multi-state operations to allocate income to New Jersey. For corporate tax years starting after June 30, the formula will double-weight the sales receipts factor to give a tax preference to corporations that have a higher concentration of payroll and facilities in New Jersey. The other policy change is the introduction of a 7.5% rather than a 9% tax rate for corporations that have net income up to \$100,000. An additional \$5 million revenue offset is expected due to an enactment of a change in the taxation of Subchapter S corporations.

In November 1996, voters approved an amendment to the State Constitution dedicating 4% of the corporate business tax to hazardous waste cleanup and site monitoring. As a result of this 4% dedication, the New Jersey Department of Environmental Protection will have available \$30 million in 1997 and \$52 million in 1998 in dedicated revenues. The major components of this dedication are the corporate business tax, the tax on banks and financial institutions, and the newly proposed tax on public utilities.

The budget also anticipates that the Legislature will enact gross receipts and franchise tax reform. As a result, revenue estimates provide for the phase out

Economic Forecast and Revenue Projections

of the old tax and the inclusion of the new Transitional Energy Facilities Assessment. This tax is budget neutral in both fiscal 1997 and fiscal 1998.

GROSS INCOME TAX:

The forecast of \$4.83 billion for fiscal 1998 gross income tax revenue is an increase of \$120 million or 2.5% over fiscal 1997. This represents an underlying growth in New Jersey personal income of 4.6% in 1997 and 1998 compared to 4.5% growth in 1996. The forecast includes the full impact of the final phase of the Governor's three year tax rate reduction program. Fiscal 1998 revenues are \$200 million lower than they would have been if the 1996 property tax deduction for local property taxes had not been enacted.

OTHER REVENUES

The fiscal 1997 revenue estimates have eliminated a number of proposed initiatives that require further research, statutory change, and other analysis. The escheating of county court revenue was reduced by \$14 million, and the sale/leaseback of state property for \$40 million has been eliminated. As a result, fiscal 1997 revenues no longer include these one-time revenue items.

The revenue estimates for the lottery reflects the continued health of the state lottery in New Jersey, and its successful marketing campaign. Revenues are supported by new lottery machines now being installed throughout the state. The Casino Revenue Fund benefits from the continued health of the gaming business in Atlantic City. The opening of the new Atlantic City Visitors and Convention Bureau, and the plans for casino expansion all bode well for this important revenue segment.

The revenue estimate for the MTF has been revised in the current fiscal year. These estimates have been revised to \$82.7 million based upon an analysis by the Division of Revenue on the privatization of motor vehicle surcharges. The revenue estimate for fiscal 1998 is \$54.1 million. These funds are available for general fund use because MTF collections are exceeding debt service requirements in both 1997 and 1998.

The fiscal 1998 revenue estimates anticipate the sale of the Temporary Disability Insurance (TDI) program. It is estimated that the sale will bring in \$200 million.

SALE OF THE STATE GOVERNMENT'S TEMPORARY DISABILITY INSURANCE BUSINESS

This Budget recommends the sale of the State's TDI business. Temporary disability insurance is mandatory for nearly all workers covered under the Unemployment Compensation Law to insure against loss of earnings due to non-occupational sickness or accident. At present, employers may, with the approval of the Department of Labor, provide temporary disability insurance coverage via a private insurance plan. Otherwise, coverage must be provided under the State's TDI plan which is administered by the Department of Labor. The benefits and administrative costs of the State's TDI plan are financed through employer and worker contributions and specified assessments. Administrative costs associated with private TDI plans are ultimately borne by those plans.

New Jersey is one of only five states in which temporary disability insurance is provided by state government. Because there is an existing private competitive market for the provision of temporary disability insurance, it is no longer necessary for the State to directly provide this form of insurance. Accordingly, this Budget proposes the sale of the State's Temporary Disability Insurance book of business. The sale is to be conducted in a competitive process, and is expected to be completed in fiscal 1998.

The Department of Labor provides oversight of private TDI plans, to ensure proper administration and fair treatment. The temporary disability insurance business being divested by the state will become subject, following the sale, to the Department's oversight.

**TAX CUTS ENACTED BY THE WHITMAN
ADMINISTRATION**

PUBLIC LAWS OF 1994

- 1. Cut the gross income tax by 5 percent for all New Jerseyans (Assembly Bill No. 1)**
- 2. Removed 380,000 low-income taxpayers from the tax rolls (Assembly Bill No. 2)**
- 3. Discontinued the corporation business surtax (Assembly Bill No. 3)**
- 4. Cut the gross income tax rates by another 10 percent for the majority of taxpayers (Assembly Bill No. 10)**

PUBLIC LAWS OF 1995

- 5. Cut gross income tax rates by another 15 percent for most New Jerseyans (Assembly Bill No. 100)**
- 6. Eliminated the sales tax on “yellow pages” advertising (Assembly Bill No. 520)**
- 7. Restructured the corporation business formula (Assembly Bill No. 89, “double weighting “ Bill)**
- 8. Put into place the lowest small business tax rate in the region (Assembly Bill No. 2927)**
- 9. Enacted a sales tax exemption for broadcast equipment (Assembly Bill No. 1048)**

PUBLIC LAWS OF 1996

- 10. Enacted Property Tax Deduction Act (Senate Bill No. 1)**

Economic Forecast and Revenue Projections

STATE REVENUES FISCAL YEAR 1997 PROJECTIONS

(\$ In Thousands)

	<u>APPROP 07/01/96</u>	<u>REVISED FY 1997</u>	<u>CHANGE DOLLARS</u>	<u>PERCENTAGE CHANGE</u>
Major Taxes				
Sales	\$4,325,000	\$4,385,000	\$60,000	1.4%
Corporation Business	1,075,000	1,120,760	45,760	4.3%
Motor Fuels	490,000	455,000	(35,000)	(7.1%)
Motor Vehicle Fees	427,000	421,000	(6,000)	(1.4%)
Transfer Inheritance	305,000	305,000	-	-
Insurance Premium	295,000	275,000	(20,000)	(6.8%)
Cigarette	250,000	245,000	(5,000)	(2.0%)
Petroleum Products Gross Receipts	200,000	194,000	(6,000)	(3.0%)
Public Utility Excise	127,000	7,000	(120,000)	(94.5%)
Corporation Banks and Financial Institutions	80,000	78,000	(2,000)	(2.5%)
Alcoholic Beverage Excise	77,000	74,000	(3,000)	(3.9%)
Realty Transfer	47,000	51,000	4,000	8.5%
Savings Institution	16,000	16,000	-	-
Motor Fuel Use-Carrier (moved to Motor Fuels)	18,000	-	(18,000)	(100.0%)
Tobacco Products Wholesale Sales	6,000	6,000	-	-
Total Major Taxes	<u>7,738,000</u>	<u>7,632,760</u>	<u>(105,240)</u>	<u>(1.4%)</u>
Miscellaneous Taxes, Fees, Revenues				
Public Utility Gross Receipts & Franchise Taxes	250,000	38,240	(211,760)	(84.7%)
Transitional Energy Facilities Assessments	-	361,000	361,000	100.0%
Sales and Leases	40,000	-	(40,000)	(100.0%)
MTF Revenue Fund	137,099	82,700	(54,399)	(39.7%)
Other Miscellaneous Revenue	1,467,817	1,450,963	(16,854)	(1.1%)
Total Miscellaneous Taxes, Fees, Revenues	<u>1,894,916</u>	<u>1,932,903</u>	<u>37,987</u>	<u>2.0%</u>
Interfund Transfers				
TDI	274,767	274,767	-	-
State Lottery Fund	675,500	675,500	-	-
All Other Funds	183,902	204,784	20,882	11.4%
Total Interfund Transfers	<u>1,134,169</u>	<u>1,155,051</u>	<u>20,882</u>	<u>1.8%</u>
TOTAL STATE REVUENUES GENERAL FUND	<u>10,767,085</u>	<u>10,720,714</u>	<u>(46,371)</u>	<u>(0.4%)</u>
Property Tax Relief Fund	4,510,000	4,710,000	200,000	4.4%
Casino Revenue Fund	323,875	313,675	(10,200)	(3.1%)
Casino Control Fund	54,000	52,981	(1,019)	(1.9%)
Gubernatorial Election Fund	1,500	1,500	-	-
TOTAL STATE REVENUES	<u>\$15,656,460</u>	<u>\$15,798,870</u>	<u>\$142,410</u>	<u>0.9%</u>

Economic Forecast and Revenue Projections

STATE REVENUES FISCAL YEAR 1998 PROJECTIONS

(\$ In Thousands)

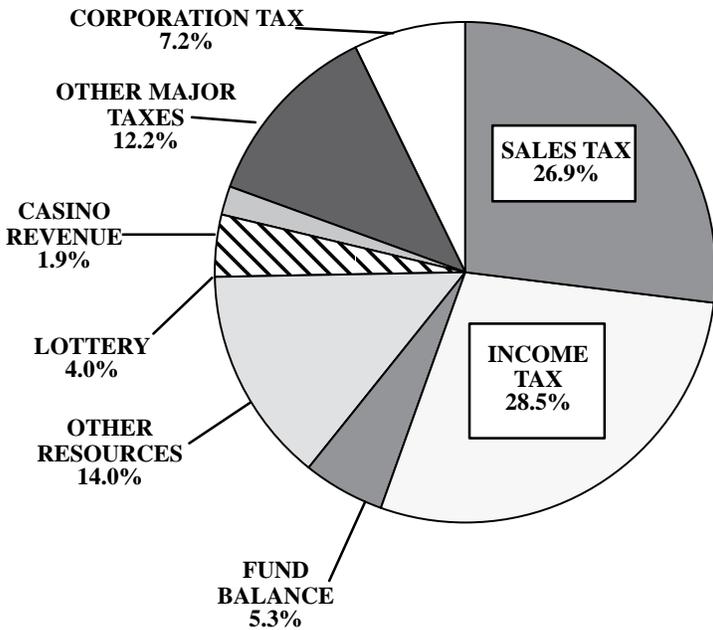
	REVISED FY 1997	BUDGET FY 1998	CHANGE FY97 TO FY98	PERCENTAGE CHANGE
Major Taxes				
Sales	\$4,385,000	\$4,557,000	\$172,000	3.9%
Corporation Business	1,120,760	1,134,640	13,880	1.2%
Motor Fuels	455,000	470,000	15,000	3.3%
Motor Vehicle Fees	421,000	420,000	(1,000)	(0.2%)
Transfer Inheritance	305,000	305,000	-	-
Insurance Premium	275,000	284,000	9,000	3.3%
Cigarette	245,000	243,000	(2,000)	(0.8%)
Petroleum Products Gross Receipts	194,000	196,000	2,000	1.0%
Public Utility Excise	7,000	7,000	-	-
Corporation Banks and Financial Institutions	78,000	80,000	2,000	2.6%
Alcoholic Beverage Excise	74,000	72,000	(2,000)	(2.7%)
Realty Transfer	51,000	52,000	1,000	2.0%
Savings Institution	16,000	14,000	(2,000)	(12.5%)
Tobacco Products Wholesale Sales	6,000	6,000	-	-
Total Major Taxes	<u>7,632,760</u>	<u>7,840,640</u>	<u>207,880</u>	<u>2.7%</u>
Miscellaneous Taxes, Fees, Revenues				
Sale TDI	-	200,000	200,000	100.0%
Public Utility Gross Receipts & Franchise Taxes	38,240	38,360	120	0.3%
Transitional Energy Facilities Assessments	361,000	361,000	-	-
Sale of Real Property	-	4,194	4,194	100.0%
MTF Revenue Fund	82,700	54,100	(28,600)	(34.6%)
Other Miscellaneous Revenue	1,450,963	1,434,950	(16,013)	(1.1%)
Total Miscellaneous Taxes, Fees, Revenues	<u>1,932,903</u>	<u>2,092,604</u>	<u>159,701</u>	<u>8.3%</u>
Interfund Transfers				
TDI	274,767	8,774	(265,993)	(96.8%)
Medical Malpractice Reinsurance Recovery Fund	-	14,500	14,500	100.0%
State Lottery Fund	675,500	687,200	11,700	1.7%
All Other Funds	204,784	217,648	12,864	6.3%
Total Interfund Transfers	<u>1,155,051</u>	<u>913,622</u>	<u>(241,429)</u>	<u>(20.9%)</u>
TOTAL STATE REVENUES GENERAL FUND	<u>10,720,714</u>	<u>10,846,866</u>	<u>126,152</u>	<u>1.2%</u>
Property Tax Relief Fund	4,710,000	4,830,000	120,000	2.5%
Casino Revenue Fund	313,675	330,700	17,025	5.4%
Casino Control Fund	52,981	54,761	1,780	3.4%
Gubernatorial Election Fund	1,500	1,500	-	-
TOTAL STATE REVENUES	<u>\$15,798,870</u>	<u>\$16,063,827</u>	<u>\$264,957</u>	<u>1.7%</u>

NEW JERSEY BUDGET

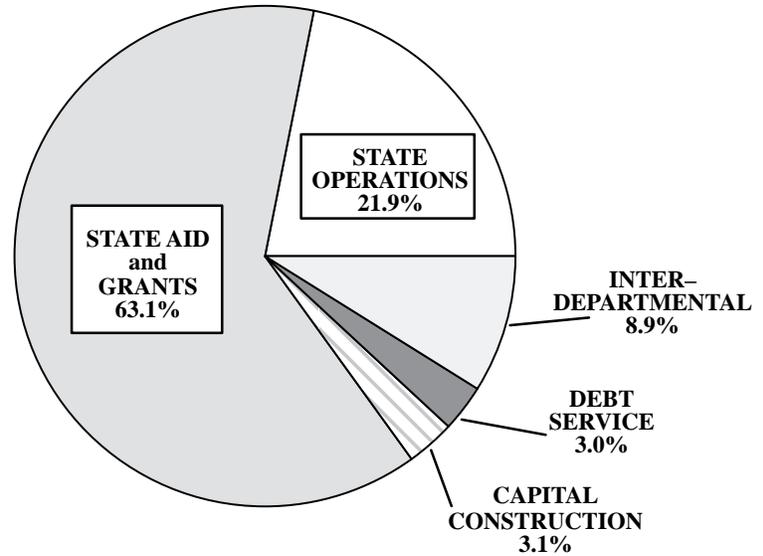
RESOURCES AND RECOMMENDATIONS FOR FISCAL YEAR 1998

ALL STATE FUNDS

Resources



Recommendations



RESOURCES

	(\$000)
INCOME TAX	\$4,830,000
SALES TAX	4,557,000
CORPORATION and BANK TAX	1,214,640
LOTTERY REVENUE	687,200
CASINO REVENUE	330,700
OTHER MAJOR TAXES:	
Motor Fuels and Motor Carriers	470,000
Motor Vehicles	420,000
Inheritance	305,000
Insurance Premiums	284,000
Cigarette	243,000
Petroleum Products Gross Receipts	196,000
Alcoholic Beverage Excise	72,000
Realty Transfer	52,000
Savings Institutions	14,000
Public Utilities	7,000
Tobacco Products Wholesale Sales	6,000
OTHER RESOURCES	2,375,287
SUB-TOTAL	\$16,063,827
FUND BALANCE, JULY 1, 1997	
General Fund	\$297,627
Surplus Revenue Fund	272,316
Property Tax Relief Fund	336,798
Casino Revenue Fund	284
Casino Control Fund	—
Gubernatorial Elections Fund	—
TOTAL	\$16,970,852

RECOMMENDATIONS

	(\$000)
Education	\$5,077,997
Human Services	2,959,132
Interdepartmental	1,484,386
Higher Ed	1,122,448
Community Affairs	892,342
Corrections	728,537
Transportation	730,510
Treasury	586,833
Debt Service	491,210
Law and Public Safety	357,372
Judiciary	347,500
Environmental Protection	256,101
Health and Senior Services	1,006,153
State	94,858
Labor	59,793
Military and Veterans' Affairs	54,439
Legislature	52,802
Banking and Insurance	42,323
Commerce	35,739
Other Departments	40,377
SUB-TOTAL RECOMMENDATION	\$16,420,852
ESTIMATED FUND BALANCE, JUNE 30, 1998	
General Fund	\$277,439
Surplus Revenue Fund	272,316
Property Tax Relief Fund	—
Casino Revenue Fund	245
Casino Control Fund	—
Gubernatorial Elections Fund	—
TOTAL	\$16,970,852

Financial Summary of the Fiscal 1998 Budget

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

	-----Fiscal Year Ending June 30-----	
	1997	1998
	Estimated	Estimated
Beginning Balances July 1		
Undesignated Fund Balances		
General Fund	441,983	297,627
Surplus Revenue Fund	272,316	272,316
Property Tax Relief Fund	152,913	336,798
Gubernatorial Elections Fund	1,986	---
Casino Control Fund	180	---
Casino Revenue Fund	12,828	284
	882,206	907,025
State Revenues		
General Fund	10,720,714	10,846,866
Property Tax Relief Fund	4,710,000	4,830,000
Gubernatorial Elections Fund	1,500	1,500
Casino Control Fund	52,981	54,761
Casino Revenue Fund	313,675	330,700
	15,798,870	16,063,827
Other Adjustments		
General Fund		
Balances lapsed	355,837	---
To Gubernatorial Elections Fund	(2,214)	(6,600)
Miscellaneous	11,600	---
Property Tax Relief Fund		
Balances lapsed	76,000	---
Gubernatorial Elections Fund		
From General Fund	2,214	6,600
Casino Revenue Fund		
Balances lapsed	300	---
	443,737	---
<i>Total Other Adjustments</i>		
	17,124,813	16,970,852
Appropriations		
General Fund	11,230,293	10,860,454
Property Tax Relief Fund	4,602,115	5,166,798
Gubernatorial Elections Fund	5,700	8,100
Casino Control Fund	53,161	54,761
Casino Revenue Fund	326,519	330,739
	16,217,788	16,420,852
Ending Balances June 30		
Undesignated Fund Balances		
General Fund	297,627	277,439
Surplus Revenue Fund	272,316	272,316
Property Tax Relief Fund	336,798	---
Casino Revenue Fund	284	245
	907,025	550,000
<i>Total Undesignated Fund Balances</i>		

Financial Summary of the Fiscal 1998 Budget

SUMMARY OF FISCAL YEAR 1997-98 APPROPRIATION RECOMMENDATIONS BY FUND

(thousands of dollars)

-----Year Ending June 30, 1996-----					Year Ending ----June 30, 1998----		
Orig. & (S)Supple- mental	Reapp. & (R)Recpts.	Transfers & (E)Emer- gencies	Total Available	Expended	1997 Adjusted Approp.	1998 Requested	1998 Recom- mended
General Fund							
5,323,161	217,451	6,363	5,546,975	5,320,568	5,094,451	5,100,588	4,985,555
3,203,426	141,433	7,047	3,351,906	3,176,069	3,245,452	3,235,935	3,224,899
1,995,443	26,637	-4,744	2,017,336	1,914,289	2,069,339	1,743,400	1,728,865
217,071	188,669	2,374	408,114	275,478	374,129	724,057	505,925
466,330	---	---	466,330	453,352	446,922	491,210	491,210
11,205,431	574,190	11,040	11,790,661	11,139,756	11,230,293	11,295,190	10,936,454
4,740,930	---	546	4,741,476	4,700,631	4,602,115	5,090,798	5,090,798
51,226	1,703	---	52,929	49,664	53,161	54,761	54,761
299,674	51,234	1	350,909	340,473	326,519	330,739	330,739
---	---	---	---	---	5,700	8,100	8,100
16,297,261	627,127	11,587	16,935,975	16,230,524	GRAND TOTAL STATE APPROPRIATIONS		
					16,217,788	16,779,588	16,420,852

SUMMARY OF FISCAL YEAR 1997-98 APPROPRIATION RECOMMENDATION

(thousands of dollars)

	Fiscal Year 1997 Adjusted Appropriations	Fiscal Year 1998 Recommendation	----Change----	
			Dollar	Percent
GENERAL FUND AND PROPERTY TAX RELIEF FUND				
State Aid and Grants	\$ 9,916,906	\$ 10,032,268	\$ 115,362	1.2%
State Operations				
Executive Departments	\$3,160,399	\$3,130,166	(\$30,233)	-1.0%
Legislature	52,802	52,802	---	0.0%
Judiciary	345,755	347,500	1,745	0.5%
Interdepartmental	1,535,495	1,467,381	(68,114)	-4.4%
Total State Operations	\$ 5,094,451	\$ 4,997,849	\$ (96,602)	-1.9%
Capital Construction	374,129	505,925	131,796	35.2%
Debt Service	446,922	491,210	44,288	9.9%
TOTAL GENERAL FUND AND PROPERTY TAX RELIEF FUND	\$ 15,832,408	\$16,027,252	\$194,844	1.2%
CASINO REVENUE FUND	326,519	330,739	4,220	1.3%
CASINO CONTROL FUND	53,161	54,761	1,600	3.0%
GUBERNATORIAL ELECTION FUND	5,700	8,100	2,400	42.1%
GRAND TOTAL STATE APPROPRIATIONS	\$ 16,217,788	\$ 16,420,852	\$ 203,064	1.3%

Financial Summary of the Fiscal 1998 Budget

SUMMARY OF APPROPRIATIONS MAJOR INCREASES AND DECREASES

This table summarizes the major increases and decreases in the Fiscal Year 1998 budget, defined as a change of \$1.0 million or more. Information is organized by category.

Categories of appropriations are defined as follows:

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

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

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

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

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

APPROPRIATIONS MAJOR INCREASES AND DECREASES (\$ In Millions)

	Increases	Decreases	Net Change Dollars
State Operations			
Salary Increases	\$ 88.4		
South Woods State Prison	46.3		
Pension Growth (State Employees)	26.0		
Prescription Drugs -- Net of Surplus (State Employees)	17.2		
Year 2000 Data Processing Initiatives	15.0		
Social Security (State Employees)	12.8		
Medicaid Office of Managed Care	6.9		
911 Emergency Phone System	6.2		
State Police Fleet Replacement	4.0		
Hire Additional Officers -- Edna Mahan	3.3		
Dental Care (State Employees)	2.6		
Health Benefits (State Employees)	2.6		
Gubernatorial Election Funding	2.4		
Data Processing (Department of Environmental Protection)	2.4		
Insurance Fraud Program	2.3		
Water Monitoring and Site Remediation	2.1		
State Capitol Joint Management Commission	2.0		
Intensive Supervision/Surveillance Program	1.9		
Judiciary -- Expand Intensive Supervision Program	1.7		
Gaming Enforcement -- New Casinos	1.6		
Day Training Staff -- Developmentally Disabled	1.4		
Inmate Highway Cleanup Program	1.3		
Unemployment Insurance (State Employees)	1.3		
Medicaid Fraud and Abuse Staff	1.1		
Repayment of Shore E-Z to NJHMFA	1.0		
Demonstrably Effective Resource Teams -- Department of Education	1.0		
Statewide Assessment -- Department of Education	1.0		
Subtotal State Operations Increases	\$ 255.8		

Financial Summary of the Fiscal 1998 Budget

APPROPRIATIONS
MAJOR INCREASES AND DECREASES
(\$ In Millions)

	<u>Increases</u>	<u>Decreases</u>	<u>Net Change Dollars</u>
Use of Pension Fund Surplus		\$ (144.7)	
Use of Health Benefit Surplus		(63.2)	
Privatize Temporary Disability Insurance Program		(16.0)	
Taxation -- Privatized Collection Contracts		(10.6)	
Attrition -- Law and Public Safety		(9.5)	
DYFS -- Case Management (Federal Offset)		(9.1)	
New Jersey Redevelopment Authority Act (Non-recurring)		(9.0)	
Tort Claims		(7.6)	
Enhanced Inspection and Maintenance -- Offset with Non-State Funds		(6.2)	
Lease Reductions (Net)		(5.7)	
Statewide Efficiency Initiatives		(5.6)	
Environmental Programs -- Eliminate One-Time Addition		(5.0)	
Workers Compensation (Net)		(4.9)	
State Criminal Alien Assistance Program (Federal Offset)		(4.9)	
Reduce Photocopy Costs (Statewide)		(4.5)	
Bridge Funding -- North Princeton Developmental Center (Reduced Need)		(4.0)	
Intermittent Workforce -- Taxation		(3.4)	
Capitalize Fleet Repairs -- Department of Transportation		(3.3)	
Reduce Tower Posts -- Department of Corrections		(3.1)	
Vroom Facility (Non-recurring)		(3.0)	
Convert Southern State Prison to Minimum Security		(2.8)	
Food Service Efficiencies -- Department of Corrections		(2.6)	
Streamline the Management of the Transportation Capital Program		(2.0)	
Bridge Funding -- Marlboro Psychiatric Hospital (Reduced Need)		(1.7)	
Streamline Functions (Criminal Justice, Alcoholic Beverage Control and Law Divisions)		(1.5)	
Lottery -- Advertising Reductions		(1.5)	
MAVA -- Management Efficiencies		(1.5)	
Vehicle Insurance		(1.5)	
Facility Maintenance Efficiencies -- Department of Corrections		(1.4)	
Shift Racing Commission to Non-State Funds		(1.3)	
Postal Operations Efficiencies		(1.1)	
Child Study Teams -- Medicaid Offset		(1.0)	
Administration Consolidation -- Law and Public Safety		(1.0)	
Other (Net)		(4.3)	
Subtotal State Operations Decreases		\$ (348.5)	
Net Change (State Operations)			\$ (92.7)
Grants-in-Aid			
Medicaid -- Cost and Caseload Growth	\$ 71.9		
Charity Care	20.5		
PAAD -- Cost and Caseload Growth	19.7		
ACCESS Program	12.5		
Nursing Facilities -- Long Term Care	11.5		
Cost of Living Adjustment -- Community Programs	11.2		
Purchase Community Services -- Department of Corrections	5.9		
Community Care Program for the Elderly and Disabled	5.8		
Community Services Waiting List Reduction -- Developmentally Disabled	4.0		

Financial Summary of the Fiscal 1998 Budget

APPROPRIATIONS MAJOR INCREASES AND DECREASES (\$ In Millions)

	<u>Increases</u>	<u>Decreases</u>	<u>Net Change Dollars</u>
DYFS Group Homes	2.5		
Hudson River Waterfront Walkway	2.0		
Higher Education Technology Bond -- Debt Service	1.5		
Substance Abuse Treatment for DYFS and Work First Mothers	1.3		
Improve Minority Graduation Rates	1.0		
<i>Subtotal Grants-in-Aid Increases</i>	\$ 171.3		
Medicaid Savings Initiatives		\$ (65.1)	
Purchase of Service for Inmates Incarcerated in County Penal Facilities		(39.2)	
NJ Transit Initiatives		(38.2)	
PAAD Savings Initiatives		(26.7)	
Nursing Facility Savings Initiatives		(8.3)	
Reduce County Backup Costs Through Expansion of Intensive Supervision		(4.3)	
Production Efficiency and Agricultural Business Development Incentives		(2.9)	
Goodstarts		(2.9)	
FDU -- Dental School Aid		(1.6)	
Competitive Bidding - Contracts (Department of Corrections)		(1.6)	
Eliminate Amer-I-Can Program		(1.3)	
Limit Administrative Component of Grants (Department of Health and Senior Services)		(1.1)	
Other (Net)		(7.9)	
<i>Subtotal Grants-in-Aid Decreases</i>		\$ (201.1)	
<i>Net Change</i>			\$ (29.8)
State Aid			
School Aid	\$ 285.6		
Teachers Social Security	12.9		
County College Debt Service	4.8		
Elderly and Handicapped Transportation Services	1.1		
Library Aid	1.1		
<i>Subtotal State Aid Increases</i>	\$ 305.5		
Teachers' Pension Fund Savings		\$ (129.3)	
Final Phaseout of Aid to Densely Populated Municipalities		(9.0)	
General Assistance -- Pharmaceutical Initiatives		(6.0)	
Veterans/Senior Citizens Tax Deductions		(1.6)	
County College Fringe Benefits		(1.5)	
Other (Net)		(8.6)	
<i>Subtotal State Aid Decreases</i>		\$ (156.0)	
Net Change			149.5
Capital Construction (Increase)	131.8		131.8
Debt Service (Increase)	44.3		44.3
GRAND TOTALS	\$ 908.7	\$ (705.6)	\$ 203.1

Appropriations

RECOMMENDATIONS BY DEPARTMENT STATE FUNDS (thousands of dollars)

	State Operations	Grants- In-Aid	State Aid	Capital Construction	Debt Service	Total Recom- mendation
Legislature	\$ 52,802	0	0	0	0	\$ 52,802
Chief Executive	5,057	0	0	0	0	5,057
Agriculture	8,426	1,408	0	415	0	10,249
Banking and Insurance	39,552	0	0	0	0	39,552
Commerce and Economic Dev.	16,932	15,334	3,148	325	5,098	40,837
Community Affairs	23,937	30,815	837,590	0	0	892,342
Corrections	639,847	79,136	0	9,554	0	728,537
Education	32,694	4,667	5,038,488	2,148	0	5,077,997
Environmental Protection	179,931	2,350	7,840	65,980	82,703	338,804
Health and Senior Service	44,078	940,553	20,116	1,506	0	1,006,253
Higher Education	0	0	0	0	0	0
Human Services	605,286	1,954,506	388,256	11,084	0	2,959,132
Labor	39,331	20,462	0	0	0	59,793
Law and Public Safety	336,586	13,133	3,600	4,053	0	357,372
Military and Veterans Affairs	51,970	969	0	1,500	0	54,439
Personnel	25,414	0	0	0	0	25,414
State	802,269	47,639	15,012	6,651	0	871,571
Transportation	146,883	181,100	22,227	380,300	0	730,510
Treasury	193,212	536,161	197,793	5,402	403,409	1,335,977
Miscellaneous Commission	2,326	0	0	2	0	2,328
Inter-Departmental Accounts	1,467,381	0	0	17,005	0	1,484,386
The Judiciary	347,500	0	0	0	0	347,500
TOTAL RECOMMENDATION	\$ 5,061,414	\$ 3,828,233	\$ 6,534,070	\$ 505,925	\$ 491,210	\$ 16,420,852

DEPARTMENT OPERATING BUDGETS (\$ in thousands)

	Adjusted Approp. FY 1997	Recom- mended FY 1998	Difference 1997-1998	% Change 1997-1998
EXECUTIVE AGENCIES:				
Legislature	\$ 52,802	\$ 52,802	0	0.0%
Chief Executive	5,057	5,057	0	0.0%
Department of Agriculture	8,280	8,426	146	1.8%
Department of Banking and Insurance	37,644	39,552	1,908	5.1%
Department of Commerce and Economic Development	24,987	16,932	-8,055	-32.2%
Department of Community Affairs	25,132	23,937	-1,195	-4.8%
Department of Corrections	604,740	639,847	35,107	5.8%
Department of Education	30,394	32,694	2,300	7.6%
Department of Environmental Protection	179,931	179,931	0	0.0%
Department of Health and Senior Services	45,116	44,078	-1,038	-2.3%
Department of Human Services	602,066	605,286	3,220	0.5%
Department of Labor	55,546	39,331	-16,215	-29.2%
Department of Law and Public Safety	341,510	336,586	-4,924	-1.4%
Department of Military and Veterans' Affairs	53,432	51,970	-1,462	-2.7%
Department of Personnel	25,957	25,414	-543	-2.1%
Department of State	803,113	802,269	-844	-0.1%
Department of Transportation	159,364	146,883	-12,481	-7.8%
Department of the Treasury	215,719	193,212	-22,507	-10.4%
Miscellaneous Commissions	1,976	2,326	350	17.7%
Inter-Departmental Accounts	1,535,495	1,467,381	-68,114	-4.4%
The Judiciary	345,755	347,500	1,745	0.5%
Total Executive Departments	\$ 5,154,016	\$ 5,061,414	-92,602	-1.8%

State Aid and Local Taxpayer Relief

The allocation of state fiscal resources for the support of local governments -- school districts, municipalities and counties -- continues in fiscal 1998 as one of the most important aspects of the State Budget. School Aid and related budget savings passed on to local school districts total \$5.139 billion. Unrestricted aid to municipalities combined with budget savings initiatives will total \$1.687 billion in fiscal 1998. Other local aid programs such as transportation projects and mental health services, combined with additional budget savings initiatives to local governments, will provide an additional \$527.2 million. An additional \$525 million in relief from local tax burdens will be provided through direct tax rebates and reductions to taxpayers.

SCHOOL AID

State aid for local school districts is the single largest purpose to which state funds are devoted. Beginning in fiscal 1998, the State will provide aid for public schools under new formulas adopted with the passage of the "Comprehensive Educational Improvement and Financing Act of 1996." In conjunction with the new law, the fiscal 1998 State Budget includes \$4.470 billion in direct aid to local school districts, an increase of approximately \$286 million. Teachers' Pension and Social Security payments made by the State on behalf of local districts add \$569 million to the direct aid amount raising the total aid figure for fiscal 1998 to \$5.038 billion. Major new funding components include \$287 million for Early Childhood programs and \$175 million for Demonstrably Effective programs.

The new school funding law reflects a complete revision of the structure and funding of elementary

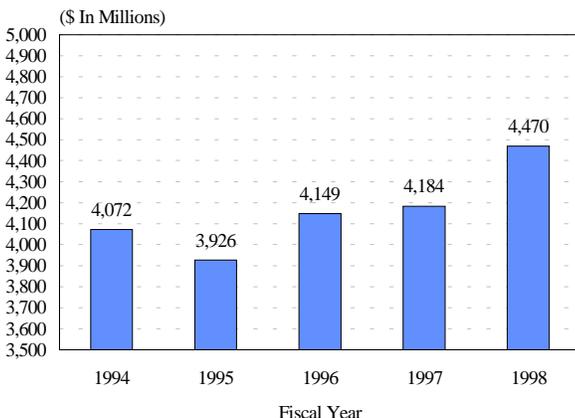
and secondary education in New Jersey. Funding for New Jersey's public school system is now based on a consistent set of core curriculum standards. These new standards form the basis for a more equitable distribution of resources.

The State Board of Education formally adopted the new core curriculum content standards last Spring. The new standards include seven specific areas of study with measurable, grade-appropriate levels of accomplishment. The seven areas are: Language Arts/Literacy, Mathematics, Science, Social Studies, Visual and Performing Arts, Physical and Health Education, and World Languages. In addition the standards include five cross-content workplace readiness standards.

Subsequent to the development of these rigorous standards, which defined the "thorough" element of the constitutional requirement, the Department of Education developed a financial model to describe the costs of providing an education consistent with those standards in an efficient manner. This model is comprehensive, taking into account all of the necessary spending, both direct and indirect, to support the education required by the core curriculum content standards. The result of this process is the establishment of a per-pupil amount that will support an efficient system for the provision of a thorough education. This amount varies by the grade level of the pupil, and is expressed as a range (plus or minus 5%) to account for regional differences and other cost variances.

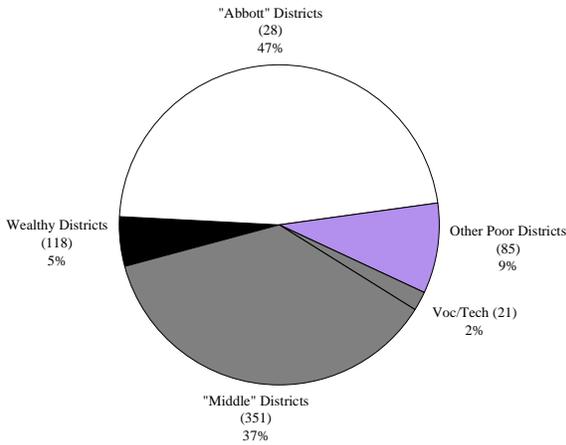
With the first two steps in the process complete, the Administration turned its attention to developing the fairest method to allocate resources to schools to help them to successfully meet the challenges they face. The Comprehensive Educational Improvement and Financing Act requires a consideration of each school district's wealth and income so that the poorest districts will receive the greatest percentage of aid. In fact, the 28 Abbott districts, with less than 25% of the state's students, would receive 47% of the aid provided. In contrast, the state's 118 wealthiest districts would receive only 5% of the total aid distributed.

TOTAL DIRECT SCHOOL AID BY FISCAL YEAR



State Aid and Local Taxpayer Relief

FY98 RECOMMENDED EDUCATION FORMULA AID DISTRIBUTION



The core curriculum content standards and the funding plan are predicated on the belief that all children can meet a high standard if it is expected of them and the necessary resources are provided. Therefore, the new funding law contains provisions to ensure that districts and schools with high populations of children from low-income families receive the additional funding necessary for programs of proven effectiveness, such as pre-school and full-day kindergarten, to give them the extra help needed to achieve at high levels.

The new law takes into consideration that there are other needy districts in the state beyond the 28 Abbott districts. Therefore, provisions guaranteeing additional aid to ensure spending at the model's levels without increasing taxes, cover not only those 28 districts, but also another 16 of the state's poorest districts.

The \$175 million for Demonstrably Effective Program aid will target funds to districts and schools with high concentrations of low income students. It recognizes that 193 disadvantaged districts, especially the Abbott districts, face particular challenges such as drugs, violence, lack of parental education and support, unemployment, etc., and require essential support systems to ameliorate these influences and their negative educational effects on children.

Unlike previous attempts to revise education funding, this plan does not focus solely on the needs of the poorest districts; it also ensures high levels of achievement in all of the State's districts, rich, poor,

and middle income alike. In addition to revising the calculation and distribution of the main component of school aid, the funding proposal also reasserts the Administration's commitment to certain existing aid programs.

The new funding plan also recognizes that it would be unfair to expect local taxpayers to bear burdens far in excess of their neighbors for the support of their schools. For this reason, the plan contains a provision to protect property taxpayers in districts with high concentrations of low income students as well as certain other districts from higher tax rates.

Consistent with the new funding law, the fiscal 1998 budget includes funding for important new initiatives. In fiscal year 1997, a program of technology aid was initiated at a level of \$10 million. For fiscal year 1998, that program is fully developed into a Distance Learning Network program in the amount of \$50 million. This program will combine the resources and expertise of local schools, businesses, the higher education community, and the State to produce a system to provide high-quality educational offerings through interactive, electronic teaching technology.

Also included is a provision for a \$10 million program of rewards and recognition for schools that perform at high levels. This program will serve to highlight school districts that demonstrate high levels of attainment as measured by the academic performance of their students.

In addition there are \$100.2 million State-initiated savings to local school districts in fiscal 1998. These include \$59.0 million in health benefit cost relief and \$41.2 million in school funded pension savings.

School Aid and Budget Savings	
	FY 1998
Direct Aid	4,469.7
Teachers' Pension & Social Security	568.8
State Initiated Budget Savings	100.2
School Aid And Budget Savings	5,138.7

State Aid and Local Taxpayer Relief

MUNICIPAL AID

The fiscal 1998 Budget continues each major municipal aid program at last year's funding level, providing municipal governments with a stable base of revenue to address their needs for local public services. Funding totaling \$1.549 billion are recommended for fiscal 1998. Of this amount, \$819 million are funded from major tax and revenue sources and \$730 million are from dedicated taxes collected under the new tax structure designed to replace the Gross Receipts and Franchise Tax. A \$9 million reduction in Aid to Densely Populated Municipalities, the final planned reduction to phase out this program, is the only reduction this budget makes to municipal aid. The chart below summarizes the principal components of municipal aid funding.

The largest program of municipal aid is the Consolidated Municipal Property Tax Relief Program which comprises \$756 million in aid previously distributed under 15 programs. This one program replicates dollar for dollar the amount each municipality received under those programs before consolidation.

The next largest source of municipal assistance is the distribution of taxes from public utilities, which benefits all of New Jersey's 567 municipalities. The fiscal 1997 funding level of \$730 million will be matched in fiscal 1998, assuming adoption of the Treasury/BPU task force proposal for tax restructuring. Unless the major reforms are implemented, the problem of revenue erosion is expected to worsen.

The Legislative Initiative Municipal Block Grant Program, initiated in fiscal 1995, will continue to provide \$33 million, an equal amount of aid per capita to each municipality. The Discretionary Aid Component of the Supplemental Municipal Property Tax Relief Program provides \$30 million which enables the State to respond to short-term municipal fiscal problems. This program has not been included in the consolidation initiative in order to maintain flexibility and responsiveness to emerging problems.

The critical factor in budgeting State aid for municipal governments is the Gross Receipts and Franchise Tax paid by regulated utilities. After record-high revenue and aid levels in fiscal 1995, the threat to municipal aid resources from erosion of this tax is becoming a reality. This tax generated \$52 million less in fiscal 1996, and further revenue loss is only a matter of time.

The business environment of energy and telecommunications service is in transition. Increased competition under de-regulation, already a fact of life for our natural gas and telecommunications utilities, will expand in both these sectors and will soon be introduced into the electric power sector. Under our current tax system, this will encourage consumption of service from providers who are not subject to the same tax burden as regulated utilities. In addition, the high rate of taxation on utility service drives up operating costs and acts as a disincentive to business retention. Loss of consumers to out-of-state locations, plus legal bypasses of the tax structure, equates to declining Gross Receipts and Franchise Taxes, and a corresponding decrease in municipal aid.

To forestall these unfavorable developments, a joint task force of the Treasury Department and the Board of Public Utilities has proposed a restructuring of public utility taxation. Enactment of this proposal is expected, and the favorable impacts it will produce are reflected in the fiscal 1998 recommended budget.

Municipalities also benefit from State-initiated savings in fiscal 1998 of \$138.4 million. Recurring savings from pension restructuring total \$103 million, and health benefit cost relief totals \$35.4 million.

MUNICIPAL AID AND BUDGET SAVINGS		
	<u>FY 1997</u>	<u>FY 1998</u>
Consolidated Municipal Property Tax Relief Aid	756.0	756.0
Legislative Initiative Block Grant Program	33.0	33.0
SMPTR Discretionary Aid	30.0	30.0
Aid to Densely Populated Municipalities	9.0	0.0
Municipal Aid From Utility Taxes - Restructuring Proposal	730.0	730.0
Subtotal Direct Aid	1,558.0	1,549.0
State-Initiated Budget Savings:		
Health Benefit Cost Relief	4.1	35.4
Municipal Pension Cost Savings	103.0	103.0
Subtotal Budget Savings	<u>107.1</u>	<u>138.4</u>
Total Municipal Aid And Budget Savings	<u>1,665.1</u>	<u>1,687.4</u>

State Aid and Local Taxpayer Relief

OTHER LOCAL AID AND BUDGET SAVINGS

The fiscal 1998 budget provides \$527.2 million in financial assistance through various other categorical aid programs and local budget savings initiatives. This form of state-local partnership is an important means of attaining mutually desired public service goals while respecting specific local needs and conditions.

The annual program of transportation funding through the Transportation Trust Fund includes funding for county and municipal road construction and repair. In Fiscal 1998, \$130 million will be allocated among local governments to enable continued improvement in the state's transportation network for which they are responsible.

Continued implementation of Judicial Unification, which gradually shifts certain funding of the state judicial system from the counties to the state, provides \$120 million in county budget savings, an increase of \$30 million over the previous year. This policy is instrumental in holding down the growth of county property taxes, which in 1996 increased by only 1.4%.

The state continues to provide substantial funds to three county operated psychiatric hospitals. \$76 million in state aid for this purpose is recommended, providing 90% of the costs of care and treatment for an average daily population of 730.

Another substantial and growing source of aid is the Urban Enterprise Zone Program. Eighteen new zones have been operating in the past two years, bringing the total number to 27. Two critical elements of the Urban Enterprise Zone Program involve the State's Sales and Use tax. First, sales taxes within the zones are reduced from the normal 6% to 3%. Second, state sales tax collections from economic activity within the zones are dedicated to municipalities to fund projects within the zone. The fiscal 1998 value of state assistance from this policy is \$60 million in reduced sales taxes, and an equal amount in municipal aid.

The State Constitution provides deductions from property tax bills for veterans and qualified senior citizens, disabled citizens and their surviving spouses. Veterans receive a \$50 deduction, while seniors and disabled homeowners receive \$250. The State annually reimburses municipalities for the cost of these deductions, estimated at \$54.1 million for fiscal 1998.

Other local governments in addition to besides school districts and municipalities that choose to

provide health benefits to their workforce through the State Health Benefits plans will receive cost relief. As a result of policy initiatives to improve health benefits administration and better control costs, a series of rate reductions and premium holidays have been approved by the State Health Benefits Commission. These policies will produce \$3.4 million in cost reductions over the remainder of fiscal 1997, and another \$29.7 million in fiscal 1998, for these local entities, with no decrease in the level of coverage or reduction in the efficiency of administration.

In addition to the above, there are a variety of programs directed through several State departments that provide specific types of direct aid to local governments and communities. The Department of Community Affairs oversees programs important to meeting basic community needs. Balanced Housing in the amount of \$13.9 million allocates a portion of the state tax on real estate transfers to municipalities that are striving to meet affordable housing requirements. Neighborhood Preservation, \$2.75 million, supports multi-year grants to selected municipalities to rejuvenate older neighborhoods.

State aid to support the New Jersey's vast public library system totals \$13 million. Nearly \$8 million is provided to support the basic operations of each county and municipal library in the state. In addition, \$5 million is allocated for inter-library networking and special developmental projects, greatly expanding citizen access to the rich resources and useful services New Jersey's public libraries have to offer.

OTHER LOCAL AID PROGRAMS AND BUDGET SAVINGS INITIATIVES	
FISCAL 1998 FUNDING	
(\$ in Millions)	
Transportation Trust Fund - Aid For Local Projects	130.0
Health Benefit Cost Relief	29.7
Judicial Unification	120.0
Aid to County Psychiatric Hospitals	76.0
Urban Enterprise Zones - Sales Tax Dedication	60.0
Veterans and Senior/Disabled Citizens Property Tax Deductions	54.1
Department of Community Affairs - Housing and Neighborhood Assistance	16.6
Library Aid	13.1
Pension Contributions on Behalf of Local Governments	9.7
Miscellaneous Programs	18.0
TOTAL	527.2

State Aid and Local Taxpayer Relief

DIRECT TAXPAYER RELIEF

In addition to appropriations to or on behalf of local governments, the State Budget implements policies that provide funds directly to taxpayers to lessen the burden of property taxes. In fiscal 1998, the state Budget provides \$525.0 million in direct taxpayer relief.

The Homestead Rebate Program provides property tax relief by direct payment to individual households. By the close of fiscal 1997 about 1.4 million households will have received rebates totaling \$325 million. The average rebate has increased to \$237 per household, up from last year's average of \$223.

Of the total, more than 630,000 senior and disabled households received rebates totaling \$282 million. Rebates averaging \$459 went to 510,000 senior and disabled homeowners. Over 120,000 senior and disabled tenant households were granted average rebates of \$390.

All other households whose income does not exceed \$40,000 receive a fixed amount of either \$90 for homeowners or \$30 for tenants. Approved applications for these households totaled 732,000, worth \$43 million. Nearly 299,000 homeowners received \$28 million in rebates, while 433,000 tenant households received \$15 million.

The fiscal 1998 Budget provides \$325 million for the program, continuing it on the same scale as fiscal 1997.

The enactment of the Property Tax Deduction Act in June, 1996 will enable taxpayers to obtain property tax relief through state income tax deductions. When filing state tax returns this year, all homeowners and tenants will receive added tax relief by deducting up to 50% of the first \$5,000 of their local property tax payments from their income subject to taxation. This new program is expected to provide \$120 million in tax relief in 1997. The following year, taxpayers will be allowed a deduction of up to 75% of the first \$7,500 in property tax payments, which is expected to translate into \$200 million in tax relief. The program will be fully implemented in 1999, when property tax payments up to \$10,000 may be deducted, reducing tax burdens by \$300 million.

DIRECT TAXPAYER RELIEF		
(\$ in Millions)		
	Fiscal Year 1997	Fiscal Year 1998
Homestead Rebates	\$ 325	\$ 325
Property Tax Deduction Act	120	200
TOTAL	\$ 445	\$ 525

PROPERTY TAX RELIEF PROGRAMS & INITIATIVES

(\$ in Millions)

<u>Program</u>	FY 1994	FY 1995	FY 1996	FY 1997	FY 1998	\$\$\$ FY 98-FY94	% FY 98-FY94
School Aid And Budget Savings	4,848.6	4,541.0	4,814.0	4,900.9	5,138.7	290.1	6.0%
Municipal Aid And Budget Savings	1,645.6	1,727.6	1,667.6	1,665.1	1,687.4	41.8	2.5%
Other Local Aid And Budget Savings	333.9	326.2	407.6	473.8	527.2	193.3	57.9%
Direct Taxpayer Relief	330.1	323.9	325.0	445.0	525.0	194.9	59.0%
GRAND TOTALS	\$ 7,158.2	\$ 6,918.7	\$ 7,214.2	\$ 7,484.8	\$ 7,878.3	\$ 720.1	10.1%

State Aid and Local Taxpayer Relief

PROPERTY TAX RELIEF PROGRAMS & INITIATIVES

(\$ in Millions)

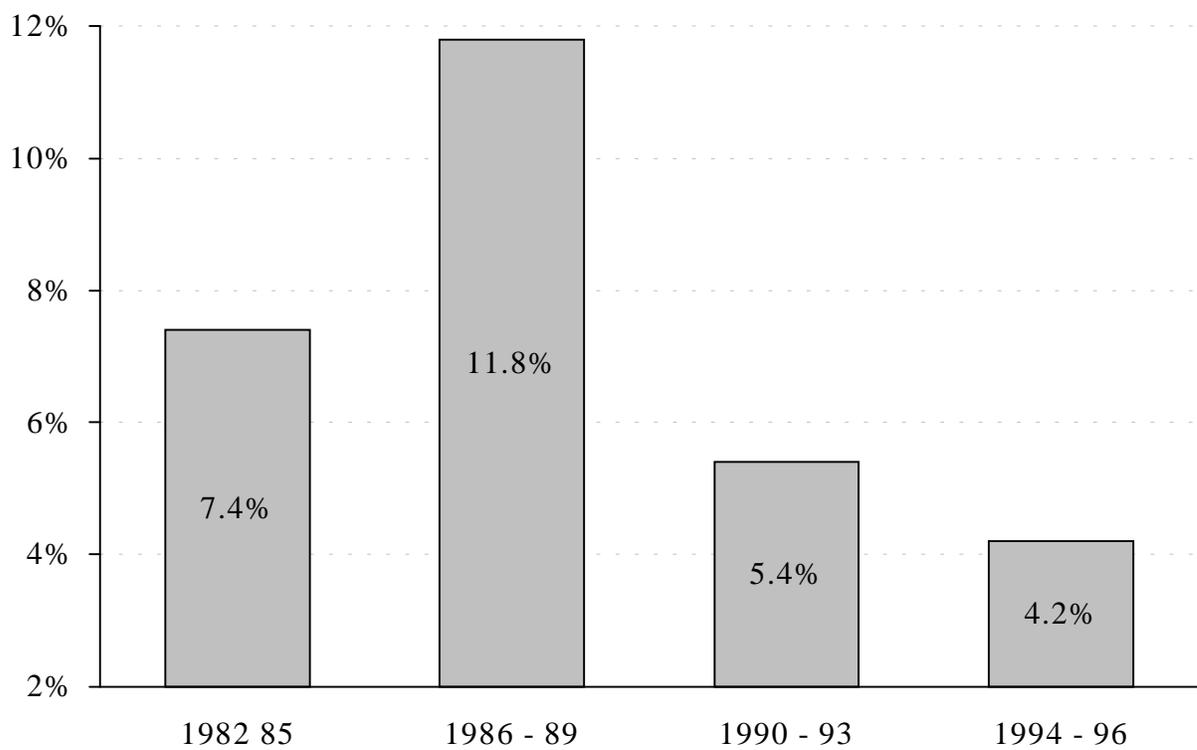
Program	FY 1994	FY 1995	FY 1996	FY 1997	FY 1998
School Aid					
Direct Aid	4,071.7	3,925.6	4,149.0	4,184.0	4,469.7
Teachers' Pension & Social Security	776.9	485.7	623.8	667.4	568.8
State Initiated Budget Savings	-	129.7	41.2	49.5	100.2
Subtotal School Aid And Budget Savings	4,848.6	4,541.0	4,814.0	4,900.9	5,138.7
Municipal Aid And Budget Savings					
Consolidated Municipal Property Tax Relief Aid	857.6	795.8	754.6	756.0	756.0
Legislative Initiative Block Grant Program	-	33.0	33.0	33.0	33.0
SMPTR Discretionary Aid	30.0	30.0	30.0	30.0	30.0
Aid to Densely Populated Municipalities	33.0	25.0	17.0	9.0	-
Municipal Aid From Utility Taxes - Restructuring Proposal	725.0	781.8	730.0	730.0	730.0
Health Benefit Cost Relief	-	27.1	-	4.1	35.4
Municipal Pension Cost Savings	-	34.9	103.0	103.0	103.0
Subtotal Municipal Aid And Budget Savings	1,645.6	1,727.6	1,667.6	1,665.1	1,687.4
Other Local Aid And Budget Savings					
Transportation Trust Fund - Aid For Local Projects	107.0	100.0	130.0	130.0	130.0
Judicial Unification	-	-	30.0	90.0	120.0
Aid to County Psychiatric Hospitals	79.8	79.4	78.3	76.0	76.0
Urban Enterprise Zones - Sales Tax Dedication	28.0	29.6	48.3	58.0	60.0
Veterans and Senior/Disabled Citizens Property Tax Deductions	58.9	58.2	57.9	55.8	54.1
Health Benefit Cost Relief	-	-	-	3.4	29.7
Department of Community Affairs - Housing and Neighborhood Assistance	16.6	16.6	16.6	16.6	16.6
Library Aid	13.1	13.1	13.1	12.0	13.1
Pension Contributions on Behalf of Local Governments	5.9	6.3	9.2	9.7	9.7
Miscellaneous Programs:	24.6	23.0	24.2	22.3	18.0
Subtotal Other Local Aid And Budget Savings	333.9	326.2	407.6	473.8	527.2
Direct Taxpayer Relief					
Homestead Rebates	330.1	323.9	325.0	325.0	325.0
Property Tax Deduction Act	-	-	-	120.0	200.0
Subtotal Direct Taxpayer Relief	330.1	323.9	325.0	445.0	525.0
GRAND TOTAL	7,158.2	6,918.7	7,214.2	7,484.8	7,878.3

State Aid and Local Taxpayer Relief

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

	Expended Fiscal 1996	Appropriated Fiscal 1997	Requested Fiscal 1998	----Recommended Fiscal Year 1998----		
				General Fund	Property Tax Relief Fund	Total
Formula Aid Programs:						
Foundation Aid	2,661,325	2,721,685	---	---	---	---
QEA Formula Correction Aid	---	810	---	---	---	---
School Efficiency Program Rewards	8,670	6,600	---	---	---	---
Restoration of Penalties for Excessive Administrative Expenditures	7,559	---	---	---	---	---
Core Curriculum Standards Aid	---	---	2,620,200	839,562	1,780,638	2,620,200
Supplemental Core Curriculum Standards Aid	---	---	208,794	---	208,794	208,794
Additional Supplemental Core Curriculum Standards Aid	---	---	32,952	---	32,952	---
Early Childhood Aid	---	---	287,575	---	287,575	287,575
Instructional Supplement	---	---	17,000	---	17,000	17,000
Demonstrably Effective Program Aid	---	---	175,420	---	175,420	175,420
Rewards and Recognition	---	---	10,000	10,000	---	10,000
Stabilization Aid	---	---	52,685	---	52,685	52,685
Supplemental Stabilization Aid	---	---	51,501	---	51,501	51,501
Additional Supplemental Stabilization Aid:	---	---	---	---	---	---
Large Efficient Districts	---	---	3,000	---	3,000	3,000
County Special Services District Placements	---	---	10,994	---	10,994	10,994
High Senior Citizen Concentrations	---	---	921	---	921	921
Supplemental School Tax Reduction Aid	---	---	10,687	---	10,687	10,687
Categorical Aids:	---	---	---	---	---	---
Distance Learning Network	---	---	50,378	50,378	---	50,378
Adult Education Grants	---	---	25,000	---	25,000	25,000
Technology Grants	---	10,000	---	---	---	---
Bilingual Education	57,455	57,454	57,428	---	57,428	57,428
Aid for At Risk Pupils	292,930	292,930	---	---	---	---
Special Education	601,039	601,054	585,589	---	585,589	585,589
County Vocational Education	28,690	28,690	22,564	---	22,564	22,564
Pupil Transportation Aid	249,430	247,206	243,916	---	243,916	243,916
Transition Aid	38,203	19,101	---	---	---	---
State-operated School District Differential Aid	22,000	22,000	---	---	---	---
Less:						
Stabilization Growth Limitation	---	---	(173,800)	---	(173,800)	(173,800)
Subtotal, Formula Aid Programs	3,967,301	4,007,530	4,292,804	899,940	3,392,864	4,292,804
Other Aid to Education:						
Nonpublic School Aid	62,906	69,586	72,186	72,186	---	72,186
Debt Service Aid	72,827	69,945	69,945	---	69,945	69,945
Additional School Building Aid (Debt Service)	12,263	10,685	9,204	9,204	---	9,204
Other Aid	24,874	26,299	25,522	24,802	720	25,522
Subtotal, Other Aid to Education	172,870	176,515	176,857	106,192	720	176,857
Subtotal, Department of Education	4,140,171	4,184,045	4,469,661	1,006,132	3,393,584	4,469,661
Direct State Payments for Education:						
Teachers' Pension Assistance	170,254	235,591	123,014	---	123,014	105,121
Pension and Annuity Assistance - Other	10,684	12,409	13,545	13,545	---	12,691
Teachers' Social Security Assistance	404,281	419,368	432,268	---	432,268	432,268
TOTAL	4,725,390	4,851,413	5,038,488	1,019,677	3,948,866	4,968,543

AVERAGE INCREASES IN STATEWIDE TOTAL PROPERTY TAX LEVY



Source: NJ Department of Community Affairs

The State provides for its capital needs -- land, buildings, and other improvements -- through three funding mechanisms, which may be used singularly or in combination. These mechanisms include pay-as-you-go Capital Construction, General Obligation Bond funds, and Property Rentals through lease or lease-purchase agreements.

Pay-as-you-go Capital Construction provide funds primarily for repairs, renovations and additions to State-owned facilities. Projects funded with pay-as-you-go capital are relatively small, less costly and are funded through annual appropriations. General Obligation Bond funds are used to finance more costly capital construction projects. Projects funded with bonds are expected to have a useful life equal to at least the time required to retire the bonds and must yield substantial benefits to present and future generations. Rental of property through lease or lease-purchase postpones or eliminates the cost associated with State ownership of facilities. This funding mechanism provides budget flexibility and is an alternative to financing capital construction. As such, lease-purchase is a recognized and accepted business practice of structuring and financing capital investments to coincide with the useful life expectancy of a facility.

Jobs Through Public Infrastructure Improvements

For fiscal 1998, the State's investment in Public Infrastructure Improvements totals \$1.9 billion. This investment of State, federal, independent authority and bond dollars, targeted for highway and public transportation programs, hazardous substance abatement projects, shore protection, safe drinking water projects, wastewater treatment programs, public health and safety improvements and other capital projects, will support approximately 53,000 private sector jobs. Of these jobs, 33,000 are directly related to the construction industry. These jobs, in turn, will generate an additional 20,000 jobs in manufacturing, retail, services, finance, real estate and other employment categories. The State's investment in its infrastructure has direct and positive impacts on economic growth and development, jobs, the environment and is consistent with the goals and objectives of the State Development and Redevelopment Plan.

Capital Construction

The pay-as-you-go Capital Construction Budget is developed as a result of a three step process. First, State agencies develop and submit annually Seven-Year Capital Improvement Plans. Second, the plans

are reviewed by the New Jersey Commission on Capital Budgeting and Planning, which recommends projects for funding to the Governor. Third, the Governor selects projects to be funded in the budget.

The projects selected for funding must meet criteria that emphasize preservation of facilities, elimination of life/safety concerns, compliance with statutory mandates and reduction of operating costs. High priority is given to those projects that preserve and protect the State's investment in buildings and systems. Requests for new construction are carefully scrutinized to minimize the impact on operating budgets. Because the thrust of the fiscal 1998 Capital Improvement Program is towards the preservation of facilities, there is little impact on operating budgets except where noted.

For fiscal 1998, \$505.9 million is recommended for pay-as-you-go Capital Construction. Of this amount, \$15 million is for Shore Protection, \$42.2 million is for hazardous waste cleanup and replacement of private underground storage tanks, and \$380.3 million is to improve and maintain our transportation infrastructure. The balance of \$68.4 will provide for needed repairs at Human Services, Corrections, and Juvenile Justice and other State departments and agencies. Additionally, funds derived from the proceeds of the sale of surplus State property will supplement the capital appropriation and will be used for repairs and renovations of facilities and compliance with building codes, environmental regulations, and the Americans with Disabilities Act. Major construction projects in the annual Seven-Year Capital Improvement Plan will be funded through other sources such as General Obligation Bond Funds, the New Jersey Building Authority or the Economic Development Authority.

Environmental Protection

Two referenda were approved in the general election of November 1996 that will preserve the State's environment, provide for economic development and increase commerce and job opportunities.

First, the voters approved *The Port of New Jersey Revitalization, Dredging, Environmental Cleanup, Lake Restoration, and Delaware Bay Area Economic Development Bond Act of 1996* for \$300 million. Of this amount, \$185 million is allocated for dredging and deepening the navigation channels from the New Jersey/New York port region and the decontamination and disposal of dredged material from the New Jersey/New York Port

Public Infrastructure

region; \$20 million will be used for dredging navigational channels outside the port region; \$70 million is allocated for remediation of hazardous discharge sites and contaminated water supplies; \$5 million will be applied for lake restoration projects; and \$20 million is for financing economic development sites in the Delaware River and Bay Region. It is expected that the \$300 million in bonds will generate an additional \$1.5 billion in federal and NY/NJ Port Authority funds.

This bond issue will have an enormous economic impact and will continue to ensure the economic viability and growth of the region's shipping and trade industry. This industry creates more than 200,000 direct and indirect jobs, provides for more than \$20 billion in regional economic benefits and generates salaries and wages in excess of \$5 billion. It will also provide for the protection of the State's environment by remediation of the hazardous discharge sites and contaminated water supplies.

Second, voter approval of the constitutional dedication of 4% of the revenues from the Corporation Business Tax for environmental projects will provide a stable source of funding for hazardous discharge cleanups, underground storage tank upgrades and cleanups and water quality preservation and monitoring. In fiscal 1998, \$42.2 million will be available for capital projects. Of this amount, \$24.9 million is for hazardous discharge projects and \$17.3 million is for loans and grants to both citizens and private businesses for underground storage tank cleanup. In addition to the capital funds, \$5 million is included for water quality monitoring, planning, and management and \$4.7 million is allocated to support the Site Remediation Program's administrative costs. Related activities to be funded include provision for alternative sources of public or private water supplies when a water supply is suspected of contamination by hazardous substance.

In addition, the fiscal 1998 Budget recommends \$15 million for Shore Protection projects. This could leverage up to \$45 million of federal and local funds to maintain the Jersey shore, one of the nation's premier tourist attractions. Also, \$8.8 million is recommended to renovate state park facilities and provide funding for flood protection projects.

Taken together, these measures represent a significant commitment to maintaining, preserving and enhancing the environment.

Transportation Trust Fund

The fiscal 1998 Budget provides \$380.3 million for the Department of Transportation. These funds will be used to pay debt service for bonds issued by the Transportation Trust Fund Authority and fund pay-as-you-go capital to improve the State's highways and support capital maintenance assistance for the New Jersey Transit Corporation. The funds are provided by a constitutional dedication of 7 cents of the motor fuels tax, funding agreements with the toll road authorities, commercial motor vehicle registration fees and motor vehicle good driver surcharge revenue. When combined with available federal funds, the Transportation Trust Fund will generate over \$1.3 billion in transportation improvement projects in fiscal 1998.

Correctional Facilities

The fiscal 1998 Budget includes a recommendation of \$9.6 million for various construction projects at adult correctional facilities. These projects maintain prison bed spaces and support facilities and code compliance issues. Some of the proposed work includes replacing essential building components, upgrading facility infrastructure, expanding food service facilities, and repairing and installing fire suppression and alarm systems.

In 1995, the State initiated construction of the new 3,200 bed South Woods State Prison in Bridgeton. This was the first prison financed by the New Jersey State Building Authority and the largest construction project ever undertaken by the State. When completed, it will enable the State to reduce the number of State prisoners in county jails and reduce payments to the counties for maintaining the prisoners. The first 960 beds will be available for occupancy by May 1997. The remaining bedspace will be phased in during fiscal 1998. The fiscal 1998 Budget includes \$65 million for the operation of South Woods that funds approximately 1,100 positions.

Colleges and Universities

For the State colleges and universities, this Budget provides \$5.9 million in capital funds to help preserve critical equipment and building systems. Operating costs related to facility maintenance are expected to decline by \$120,000 as a result of these capital appropriations. For fiscal 1998 and beyond an additional \$183 million remains available through the Higher Education Facilities Trust Fund (HEFT) and over \$9.4 million is also available from

the Higher Education Equipment Leasing Fund (ELF) to meet the capital needs of New Jersey colleges. Such bonds, issued by the Educational Facilities Authority, are supported through revenues from the State Lottery. They provide for major construction and reconstruction projects and for the purchase of scientific and technical equipment necessary for teaching and research.

Human Services

The Governor's fiscal 1998 Budget includes \$11.1 million for the Department of Human Services to provide funding for the most essential maintenance projects. These include upgrading facility mechanical systems, roof replacement, and deferred maintenance projects, which if further delayed, would require major capital expenditures. The \$11.1 million will supplement the \$52 million appropriation from the 1994 Developmental Disabilities Waiting List Reduction and Human Services Facility Bond Fund, which provides funding for major projects at State and community-based facilities.

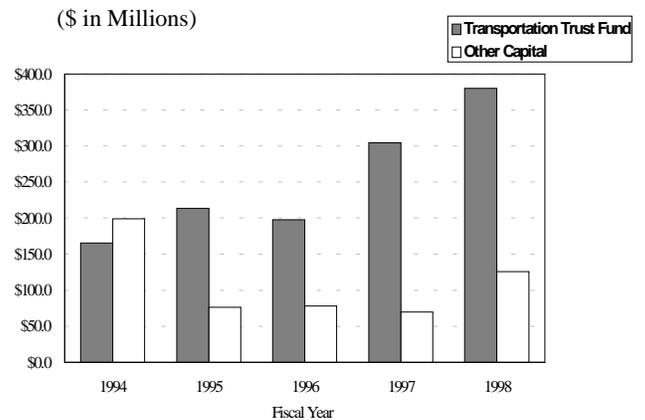
The Juvenile Justice Commission

The Governor's fiscal 1998 Budget recommends \$3.0 million to address critical capital needs at juvenile facilities. Such funds, combined with capital available from prior years and bond funds, will provide for construction of housing units, renovation of food service facilities, replacement of roofs, and upgrades to utilities at virtually all juvenile justice sites. This will maintain and preserve the existing bed and program space.

Office of Telecommunications and Information Services

The fiscal 1998 budget includes \$5.4 million for data processing equipment acquisition and facility upgrades. Funding for the Data Center Upgrade and Consolidation project includes the purchase of two mainframes and peripherals, which will facilitate the consolidation of two data center operations into a single location. The purchase of equipment will provide needed capacity improvement while significantly reducing data processing operating costs. The consolidation will make available 15,000 square feet of prime office space and will result in staff reduction and associated fringe benefit savings. Operating savings from this initiative are projected to be \$2.3 million for the first year.

Pay-As-You-Go Capital Construction Expenditures



Compliance Mandates

The fiscal 1998 Budget includes a recommendation of \$15 million for compliance with federal and State statutory mandates. Of this amount, \$3 million is for the Americans with Disabilities Act (ADA) projects to remove physical barriers that prevent access by individuals with disabilities to State facilities; \$5 million is for removal of State owned Leaking Underground Storage Tanks; \$4 million is for Consolidation and Upgrade of the State's Fueling sites; and \$3 million will be applied to mitigate unhealthy conditions caused by the presence of hazardous materials.

GENERAL OBLIGATION DEBT SERVICE

The State funds many large scale capital construction projects and programs, land acquisition, and local aid projects through voter-approved long-term general obligation bonds. These bonds represent a debt of the State and are backed by its full faith and credit. General obligation bond issues must first be approved by New Jersey's voters. The Legislature then must appropriate the moneys authorized by the bond. As the funds are needed, the State sells bonds, thus incurring debt service payments -- principal and interest -- to bondholders.

The State has carefully used its debt capacity in order to fund those projects that the Governor and Legislature have deemed a strategic priority. Projects supported by general obligation bonds include Correctional facilities, Human Services facilities, Transportation projects, Higher Education facilities (including advanced technology centers), environmental projects and other critical infrastructure improvements such as wastewater

Public Infrastructure

treatment facilities and water supply protection and development.

The State Constitution limits the amount of debt that the Legislature can create to one percent of the total fiscal year's appropriation, unless authorized by law and submitted to the voters for approval. Voter authorization, however, is not required for the creation of a debt to refinance all or a portion of the general obligation debt, provided that the refinancing produces a savings. The outstanding general obligation bonded indebtedness for New Jersey as of June 30, 1996 was \$3.7 billion. There is \$1.8 billion of additional long-term debt authorized but not issued to support future capital projects. This \$1.8 billion includes bonds approved by the voters in November 1996.

The fiscal 1998 debt service payments on all outstanding general obligation bonds amount to \$491.2 million. This is an increase of \$44.3 million from fiscal 1997. The projected level of debt service reflects \$480 million for principal and interest due on bonds outstanding on July 1, 1997, and additional funding of \$11.2 million for proposed bond sales in late fiscal 1997.

The sound financial management policies of the State have inspired confidence with both the Wall Street community and the various debt rating agencies. The bonds issued by the State have the following ratings:

Moody's	Aa1
Standard and Poor's	AA+
Fitch	AA+

PROPERTY RENTALS (MAJOR)

For fiscal 1998, \$208.2 million is recommended for office space and other rentals for State agencies. The recommendation contains funding for existing and anticipated leases, as well as lease-purchase rental agreements for buildings whose titles will pass to the State upon the final lease payment.

The Property Rentals budget recommendation for leases represents a decrease of \$5.7 million from fiscal 1997. The primary initiatives enabling this cost saving are: an aggressive lease reduction program with \$8 million in projected savings for fiscal 1998; a \$2 million reduction from the re-negotiation of term leases at more favorable rates; and a \$1 million savings from a containment of renovation costs for new rental space. These \$11 million in savings are offset by a \$3.8 million increase for the housing of State inmates in Hudson

County at the Kearny and Secaucus facilities as a result of an out-of-court settlement, and a \$1.5 million management agreement with the New Jersey Academy for Aquatic Sciences to maintain current levels of service at the New Jersey State Aquarium in Camden.

The decrease in the Property Rental Budget is the result of the state-wide facilities master plan recommendations concerning current and future office space requirements (excluding institutional facilities). The plan provides achievable targets for eliminating facilities and recommends geographic consolidations to produce immediate and future years savings. It also contains recommendations on the State's policy for leased versus owned space based on comparisons of New Jersey to other states. The lease-purchase agreements provide the State with an alternative means of financing capital construction. Under such agreements, the independent authorities issue bonds and construct the facilities. The State occupies such facilities, funds the debt service and, over a defined period of time, secures ownership.

For the New Jersey Building Authority, the State provides debt service of \$36.4 million for recently constructed buildings in and near Trenton. Projects financed through the Authority include historical renovations of the Old Barracks, the War Memorial Building, the Labor Building, the Taxation Building, the Education Building, the State House Complex, and the South Woods State Prison in Bridgeton, which was the first State prison project financed by Authority bonds.

The State is also responsible for the Richard J. Hughes Justice Complex debt service. This project was financed by the Mercer County Improvement Authority and is under a lease-purchase agreement, with a \$7.3 million payment due in fiscal 1998.

For fiscal 1998, the Economic Development Authority will receive \$17.9 million, representing the financing costs for the Trenton Office Complex and other lease-purchase agreements, including funding for the construction of the New Jersey Performing Arts Center in Newark, the purchase of the Riverview Building, and funding for the Green Lights Energy Program.

The Green Lights Energy Program provides for the installation of energy efficient lighting, fans, and motors in State owned and lease-purchase facilities. These improvements will result in reduced costs through energy savings of \$650,000 annually.

Additionally, the State will receive incentive payments for energy consumption reductions from utility companies amounting to \$525,000.

The Sports and Exposition Authority appropriation is recommended at \$31.4 million for fiscal 1998. This represents debt service requirements to support projects throughout the State including Rutgers Stadium, the Meadowlands Complex, and the Monmouth Racetrack.

Casino Revenue Fund

An amendment to the State Constitution in 1976 permitted the establishment and operation of casino gambling in Atlantic City in addition to providing that state revenues derived from casino gambling shall be applied solely for the purpose of “providing funding for reductions in property taxes, rental, telephone, gas, electric, and municipal utilities charges of eligible senior citizens and disabled residents of the State in accordance with such formulae as the Legislature shall by law provide.” The Casino Control Act, following approval of the aforementioned Constitutional amendment, provided an eight percent tax on the gross revenues of a casino, which were to be deposited in the Casino Revenue Fund to aid senior citizens and persons with disabilities. In 1981 voters approved an additional Constitutional amendment which expanded the authorized uses for state revenues from casino gambling to include “additional or expanded health services or benefits or transportation services or benefits to eligible senior citizens and disabled residents.” Programs funded from Casino Revenues are discussed below.

DESCRIPTION OF MAJOR PROGRAMS

Property Tax Reduction \$17.2 million

- Number of clients served: 60,000 recipients funded by Casino Revenue Fund
- Other funding source: Property Tax Relief Fund - \$18.9 million
- This appropriation partially supports the cost of property tax deductions for senior and disabled citizens. The Constitution provides a \$250 annual property tax deduction for senior and disabled homeowners whose annual income does not exceed \$10,000 (excluding Social Security, or pension income in lieu of Social Security). The State annually reimburses municipalities for the local tax loss resulting from these tax reductions. The total cost of these reimbursements in fiscal 1997 (which covers calendar year 1996 tax bill deductions) is estimated at \$37.3 million; \$17.2 million is funded from the Casino Revenue Fund (CRF), with the balance of \$20.1 million funded from the Property Tax Relief Fund.

Community and Personal Care \$16.7 million

- Due to decreasing growth in Casino Revenues, administrative costs of community care programs for aged and disabled persons were shifted from the Casino Revenue Fund to the General Fund in the fiscal 1997 Budget. The administrative costs of Pharmaceutical

Assistance and the Lifeline Programs, traditionally funded from the Casino Revenue Fund, were also shifted to the General Fund in fiscal 1997.

- Included in the \$16.7 million are Community Care Initiative and Long-term Care Alternative programs:
 - Community Care Initiative \$15.9 million
 - Number of clients served: 4,755 individuals
- Other funding sources:
 - Health Care Subsidy Fund \$1.5 million
 - Federal \$17.4 million
- A federal waiver permitting home and community based services for the elderly and disabled was approved October 1, 1983. In order to be eligible, individuals must be 65 or over, or determined disabled under the Social Security Act, and be in need of nursing home level of care. Under the waiver, seven services are available including case management, home health, homemaker services, medical day care, non-emergency medical transportation, respite care, and social day care.
- Community care services and long term care alternatives receive 50% federal matching funds. In fiscal 1997, Home Care Expansion Program (HCEP) beneficiaries who qualified for the Community Care Program were transferred into that program, thereby enabling the State to earn 50% federal matching funds while delivering the same benefits. HCEP beneficiaries who were ineligible for the Community Care Program remain in the 100% state-funded HCEP.
- Due to dwindling Casino Revenue Fund resources, approximately \$35 million in expenditures for Community Care Programs was shifted to the General Fund.

Home Care Expansion Program \$2.4 million

- This program provides non-medical care to invalid and disabled persons in their homes as a means to prevent or postpone the need for long term nursing home care. Clients of the HCEP have income and assets that

exceed Medicaid eligibility thresholds. This program is entirely state-funded.

Respite Care **\$4.0 million**

- Number of clients served: 2,100 cases
- Respite care provides short-duration relief to the regular caregivers of elderly persons. This is a State continuation of a former federally funded demonstration program. Federal matching funds ceased in federal fiscal year 1992 at the conclusion of the program's demonstration period. Respite care is capped at \$3,000 per case.

Pharmaceutical Assistance to the Elderly and Disabled (PAAD) **\$152.3 million (CRF)**

- Number of clients projected: 185,100 elderly and 25,800 disabled individuals (average monthly eligibles)
- Other funding: General Fund \$26.3 million provides pharmaceutical benefits for 32,900 additional lower-income elderly persons per month.
- Administrative costs have been shifted to the General Fund.
- The Pharmaceutical Assistance to the Aged and Disabled (PAAD) program provides payments to pharmacies for the cost of prescription drugs for eligible persons after deducting the required \$5 co-payment from the recipient.

The original General Fund PAAD program had income caps of \$9,000 for single persons and \$12,000 for married couples. Legislation in 1981 increased the income eligibility limits and enabled many additional aged persons, plus persons determined disabled under federal Social Security criteria, to receive PAAD benefits. The expansions have been funded from the Casino Revenue Fund since its outset.

PAAD income eligibility limits were subsequently increased in 1982, 1985, 1987, 1991, and 1993. The last expansion, in January 1995, indexed PAAD income eligibility standards to Social Security cost-of-living increases. The current eligibility limits are \$17,550 for single persons and \$21,519 for married couples. PAAD income eligibility is also used as the basis for eligibility in the Lifeline Programs which will be discussed subsequently.

Lifeline Programs **\$76.3 million (CRF)**

- Number of clients served: 340,500 households

- Administrative costs have been shifted to the General Fund as noted above.
- PAAD recipients are also entitled to Lifeline home energy payments of \$225 annually per household. Participants in the Supplemental Security Income program are also eligible for Lifeline. There are two Lifeline programs, one for tenants and one for homeowners. The Lifeline Tenant Assistance Program is expected to help pay home energy costs for 164,700 renter-occupied households. The Lifeline Credit Program will assist 175,800 owner-occupied households.

Transportation Assistance **\$22.2 million**

- The senior and disabled citizens assistance is administered through the New Jersey Transit Corporation. Of the amount available, 85 percent is allocated to support county development of accessible feeder and local transportation services. The remaining 15 percent is used by the New Jersey Transit Corporation to improve access to its buses and rail facilities, including the purchase and installation of wheelchair lifts for new buses and the construction of elevators at key rail stations. The recommended amount is set by formula and represents 7.5% of the prior year actual Casino Revenue Fund revenue and investment income.

Sheltered Workshop

Transportation **\$2.4 million**

- Number of clients served: 2,273 eligible recipients
- During fiscal 1997, a total of \$2.4 million in Casino Revenue Funds will be used to support the Sheltered Workshop Transportation program in the Department of Labor's Division of Vocational Rehabilitation Services. The funds support the transportation expenses for individuals with severe disabilities. These individuals cannot be absorbed in the regular labor market and have become extended employees of community rehabilitation programs. Many of these individuals require special transportation to get to and from work. A total of 2,273 eligible individuals are anticipated to benefit from this service.

Residential Care Developmental

Disabilities **\$24.5 million**

- Number of clients served: 13,544 recipients
- Other funding source(s):

Casino Revenue Fund

- General Fund - \$164.3 million
- Federal - \$168.6 million

- The Division of Developmental Disabilities provides a wide array of residential and support services for individuals in community settings. Residential programs include group homes, supportive living arrangements, supervised apartments, skill development homes, family care homes and private institutional placements. Many individuals also participate in an adult day program which includes adult activities, supported employment and extended employment programs. Day training services are provided for school aged children. Respite/Home Assistance programs provide the necessary supports for families, relieving families for a short time from the often difficult task of caring for a developmentally disabled family member at home. The CRF supplements General Fund appropriations for these types of services.

All Others **\$12.7 million**

- Included in all other programs within the Casino Revenue Fund are:

A. Personal Attendant Program \$3.7 million

- Number of clients served: 620
- Other funding source(s): General Fund - \$2.6 million

\$3.7 million is designated to provide attendant care services to approximately 620 physically disabled clients in all twenty-one counties. Personal attendants are individuals with training or experience in providing home services, who directly assist a physically disabled person in carrying out routine non-medical tasks such as bathing, dressing, transfer to a wheelchair, meal preparation, laundry, shopping, household management and transportation.

- B. Congregate Housing Support Services, \$1.9 million, provides residents at various congregate housing sites throughout the State subsidies for meals, housekeeping and personal services. The goal is to keep the elderly from unnecessary

institutionalization in nursing homes. These services support 1,900 clients.

- C. Senior Citizen Safe Housing and Transportation, \$2.0 million, affords senior citizens living in congregate housing sites to remain active by providing tenants shuttle services to go food and clothes shopping. In addition, these funds provide increased security at senior citizen housing sites. Approximately 1,900 clients are assisted with these services.
- D. Home Delivered Meals, \$1.0 million, supplements the federally supported home delivery meal program for elderly residents throughout the State. The State funds augment this program to allow for the delivery of meals on weekends and holidays. 2,791,000 meals are provided to 23,700 clients.
- E. Adult Protective Services, \$1.7 million is used to develop a coordinated system of services for the protection of 4,200 elderly and disabled adults from abuse. The program, recently transferred from the Department of Community Affairs to the Department of Health and Senior Services, has established a central registry to maintain and analyze information regarding reported cases of neglect and abuse. It also establishes protective service providers in each county to receive complaints and initiate appropriate services for the abused as well as the abuser.
- F. Alzheimer's Disease Demonstration Day Care Program, \$900,000, provides services to victims of Alzheimer's disease in adult day care centers as well as supportive services for their families.
- G. Statewide Birth Defects Registry, \$500,000, allows the Department of Health to register children with birth defects and thus make it possible to follow up on treatment and provide otherwise unavailable services.
- H. Other programs include hearing aid assistance (\$300,000), Health Department administration (\$600,000), and home health aid certification (\$100,000).

Casino Revenue Fund

CASINO REVENUE FUND SUMMARY AND PROJECTION (\$ In Millions)

	FISCAL 1994	FISCAL 1995	FISCAL 1996	FISCAL 1997	GOV. REC 1998
Opening surplus	\$38.8	\$24.0	\$0.0	\$12.8	\$0.0
Revenues	264.9	301.8	305.7	313.7	330.7
Lapses and adjustments	17.3	4.4	6.8	0.0	0.0
TOTAL RESOURCES	\$321.0	\$330.2	\$312.5	\$326.5	\$330.7
PROPERTY TAX ASSESSMENT					
Property tax deduction	17.2	17.2	17.2	17.2	17.2
MEDICAL ASSISTANCE					
Personal attendant	3.4	3.5	3.6	3.7	3.7
Home care expansion	8.0	8.0	8.0	2.4	2.4
PAAD -- expanded	116.8	122.5	121.3	147.4 ⁽¹⁾	152.3
Community and personal care/SOBRA	43.2	71.7	48.6	18.5 ⁽²⁾	16.7
Respite care	3.7	4.0	4.0	4.0	4.0
Long-term treatment assesment					
Hearing aid assistance	0.4	0.4	0.3	0.3	0.3
Statewide birth defects registry	0.5	0.5	0.5	0.5	0.5
Health Dept & health services admin	4.0	3.6	0.2	0.6	0.6
LIFELINE CREDITS	43.1	43.2	41.9	76.3	76.3
TRANSPORTATION ASSISTANCE					
Senior citizens and disabled residents	19.2	19.4	19.8	21.1	22.2
Sheltered workshop transportation	1.4	1.7	1.7	2.4	2.4
HOUSING PROGRAMS					
Congregate housing support	1.9	1.9	1.9	1.9	1.9
Boarding home rental assistance	3.2	1.6	0.0	0.0	0.0
Senior citizens safe housing & transportation	2.8	2.8	2.5	2.0	2.0
Residential care/Developmental Disabilities	24.5	24.5	24.5	24.5	24.5
OTHER	3.7	3.7	3.7	3.7	3.7
TOTAL APPROPRIATIONS	297.0	330.2	299.7	326.5	330.7
ENDING SURPLUS	\$24.0	\$0.0	\$12.8	\$0.0	\$0.0

Notes:

⁽¹⁾ Includes supplemental appropriation of \$14.4 million.

⁽²⁾ \$27.5 million of costs have been shifted to the General Fund due to a lack of resources available in the Casino Revenue Fund.

Workforce

This administration has balanced downsizing the State workforce and developing a more efficient, streamlined government with minimizing disruption to State programs and individual employees. It is anticipated that the number of employees on the State payroll will have decreased by 5,005 between January 1994 and June 1998. These staffing reductions will have been achieved through a variety of downsizing strategies as outlined below.

DOWNSIZING STRATEGIES

- **Controlled Attrition** -- A controlled attrition program requires agency heads to manage with reduced salary budgets and limits replacement of staff who leave. Agencies are given the flexibility to reallocate staff as necessary. Controlled attrition has been aggressively implemented as a downsizing strategy because this program:
 - focuses responsibility on agency management to prioritize use of staff;
 - is more humane and less disruptive than layoffs, and
 - takes advantage of voluntary separation initiated by employees.

This controlled attrition program accounts for a staffing decrease of approximately 2,100 employees statewide throughout this period.

- **Layoff Programs** --In addition to controlled attrition reductions, it is expected that over this same period, the State's workforce will have declined by approximately 2,900 through the implementation of various programmatic changes that result in layoffs. Such changes may involve competitive contracting and/or a variety of agency re-engineering initiatives.

In an effort to foster attrition as a less disruptive alternative to layoffs, the State typically implements a hiring freeze when the need for program reductions is identified. Attrition in non-targeted programs creates vacancies for which the employees targeted for layoff may qualify and be reassigned. Historically, such workforce management techniques have resulted in requiring the layoff of staff in only about one half of the positions initially targeted for layoff action.

FISCAL 1998 POSITION IMPACTS

The fiscal 1998 Budget includes growth of 1,170 positions and program initiatives which would eliminate 1,235 positions. The growth and reductions do not directly offset each other. To the extent that differing job requirements and geographic locations allow, employees holding positions targeted for elimination may be reassigned to fill these new positions.

The 1,170 new positions include 900 in the Department of Corrections -- 700 to staff the South Woods Prison, 150 to staff Youth and Women's Correctional Institutions and 50 to support various other correctional program initiatives. Approximately 100 additional positions will be created to investigate insurance and Medicaid fraud and abuse.

Of the 1,235 positions to be eliminated in fiscal 1998, approximately 500 are expected to become vacant through attrition. The remaining 735 eliminations are subject to layoff. A portion of these -- 100 employees in the Department of Labor's Temporary Disability Insurance program -- will be accommodated through a pilot Displaced Worker Pool program. Of the remaining 635 positions subject to layoff, only half or 320 are projected to result in actual employee layoffs. Based on historical experience, the other approximately 320 eliminations will be accomplished through a combination of additional attrition and/or the reassignment of staff either to the newly created positions or to funded vacancies that must be refilled to meet critical program needs.

FULL-TIME PAID EMPLOYEE COUNT COMPARISON
(ALL FUND SOURCES)
(excludes Colleges and Universities)

DEPARTMENT/AGENCY	WHITMAN TERM BEGINS 01/21/94	DECEMBER 1994	DECEMBER 1995	DECEMBER 1996	DECEMBER, 1996 vs JANUARY 21, 1994	
					DIFFERENCE	PERCENT DIFFERENCE
AGRICULTURE	202	201	203	204	2	0.99%
BANKING & INSURANCE	645	636	617	566	(79)	(12.25%)
CHIEF EXECUTIVE'S OFFICE	144	134	134	124	(20)	(13.89%)
COMMERCE	94	99	90	95	1	1.06%
-PUBLIC BROADCASTING AUTHORITY	169	148	153	145	(24)	(14.20%)
-COMMISSION ON SCIENCE & TECHNOLOGY	6	6	6	6	0	0.00%
COMMUNITY AFFAIRS	878	852	849	854	(24)	(2.73%)
CORRECTIONS	8,213	8,179	8,171	8,107	(106)	(1.29%)
-PAROLE BOARD	137	146	147	155	18	13.14%
EDUCATION	946	927	948	848	(98)	(10.36%)
ENVIRONMENTAL PROTECTION	3,674	3,542	3,380	3,119	(555)	(15.11%)
HEALTH	1,814	1,829	1,835	1,823	9	0.50%
HIGHER EDUCATION (CHANCELLOR'S OFFICE)	58	0	0	0	(58)	(100.00%)
HUMAN SERVICES	19,608	18,825	18,218	17,760	(1,848)	(9.42%)
LABOR	3,758	3,957	3,853	3,692	(66)	(1.76%)
-PUBLIC EMPLOYEES RELATIONS COMMISSION	35	35	36	37	2	5.71%
LAW & PUBLIC SAFETY	6,059	6,194	6,117	6,017	(42)	(0.69%)
-ELECTION LAW ENFORCEMENT COMMISSION	31	30	29	35	4	12.90%
-VIOLENT CRIMES COMPENSATION BOARD	58	53	55	51	(7)	(12.07%)
-EXECUTIVE COMM. ON ETHICAL STANDARDS	7	7	7	6	(1)	(14.29%)
-JUVENILE JUSTICE	1,059	1,058	1,094	1,181	122	11.52%
MILITARY AND VETERANS' AFFAIRS	1,470	1,485	1,458	1,370	(100)	(6.80%)
PERSONNEL	625	590	555	486	(139)	(22.24%)
STATE	262	264	263	253	(9)	(3.44%)
-OFFICE OF ADMINISTRATIVE LAW	153	141	136	129	(24)	(15.69%)
-PUBLIC DEFENDER	900	829	826	832	(68)	(7.56%)
-COMMISSION ON HIGHER EDUCATION	17	20	19	19	2	11.76%
TRANSPORTATION	4,531	4,318	4,278	4,161	(370)	(8.17%)
-DIVISION OF MOTOR VEHICLES	2,377	2,314	1,642	1,619	(758)	(31.89%)
TREASURY	4,597	4,443	4,479	4,394	(203)	(4.42%)
-CASINO CONTROL COMMISSION	369	361	343	343	(26)	(7.05%)
-STUDENT ASSISTANCE	178	190	190	192	14	7.87%
-BOARD OF PUBLIC UTILITIES	303	305	302	303	0	0.00%
SUBTOTAL EXECUTIVE BRANCH	63,377	62,118	60,433	58,926	-4,451	(7.02%)
LEGISLATURE	479	467	470	473	(6)	(1.25%)
JUDICIARY (ADM. OFFICE OF THE COURTS)	1,655	1,700	1,678	1,685	30	1.81%
STATEWIDE TOTAL	65,511	64,285	62,581	61,084	-4,427	(6.76%)
JUDICIARY (COUNTY COURTS)*	N/A	N/A	7,449	7,226	N/A	100.00%

* NOTES:

The State takeover of the County Courts was implemented in January of 1995.

Interdepartmental Accounts

SALARY INCREASES AND OTHER BENEFITS FOR STATE EMPLOYEES

In fiscal 1998, the \$88.4 million in the Salary Increases and Other Benefits component of the Budget provides funding for employee increments and cost of living adjustments in accordance with contractual agreements with the various State employee unions. This recommendation does not include funding for higher education senior public institutions. In addition to salary increases, this section of the Budget provides funding for payment of unused accumulated sick leave.

The appropriation recommendation for Salary Increases represents the total amount needed to fund the employee salary increases for all departments. The funding in this central account is transferred each year to the departments where it becomes part of each department's base budget. Therefore, the \$82.8 million recommended for fiscal 1998 is the cost of honoring these contractual agreements, after adjustment for statewide savings initiatives of \$5.6 million.

Public Employer-Employee Relations Act

The State of New Jersey, as a public employer, is covered by the New Jersey Public Employer-Employee Relations Act, as amended, NJSA 34:13A-1, et seq. This act guarantees to public employees the right to negotiate collectively through employee organizations certified or recognized as the exclusive collective negotiation representatives

for units of public employees. As of December 1996, there are approximately 68,000 full time employees, excluding employees at the senior public higher education institutions. Of these, 60,000 are represented by unions, as outlined below.

Employee Compensation

From fiscal 1991 to fiscal 1995 union employees received cost of living increases averaging approximately 4.0 percent per year and have been eligible for annual performance increments which range between 3.7 and 5 percent of salary.

The State has completed negotiations with the American Federation of State, County and Municipal Employees (AFSCME), International Federation of Professional and Technical Engineers (IFPTE), and Communications Workers of America (CWA), which collectively represent approximately 43,500 employees. Spurred by the goal of containing the cost of government, this Administration negotiated four-year contracts covering fiscal 1996 to 1999, which provide for an unprecedented 2-year salary freeze during fiscal 1996 and fiscal 1997. The traditional length of agreements prior to these negotiations had been three years.

From fiscal 1996 through fiscal 1999 these employees will receive contractual wage increases as outlined in the chart on the next page.

State Employee Union Affiliation

<u>Unions</u>	<u>Full-time Employees</u>
Communications Workers of America (CWA)	31,100
Judicial Unions	7,700
American Federation of State, County and Municipal Employees (AFSCME)	7,700
Policemen's Benevolent Association (PBA)	6,400
International Federation of Professional and Technical Engineers (IFPTE)	4,700
State Troopers Fraternal Association (STFA)	2,400
Total	60,000

Interdepartmental Accounts

EMPLOYEE CONTRACT FINANCIAL TERMS

Fiscal Year	1996	1997	1998	1999
Bonus	---	\$250 4/12/97	---	---
Wages	---	---	\$840 7/1/97	\$840 7/1/98
Increases	---	---	\$420 1/1/98	\$525 1/1/99

Negotiations are also under way with two units of State Police whose contracts expired June 30, 1996. The Security and Correctional Officers units of the Policemen's Benevolent Association are in the process of establishing an agreement through binding arbitration.

A total of \$88.4 million is needed in fiscal 1998 to support the cost of performance increases and contractually negotiated salary increases for State employees. This recommendation amount is being offset by approximately \$5.6 million in various planned statewide savings initiatives. Consequently, the net recommendation amount for Salary Increases is \$82.8 million.

Unused Accumulated Sick Leave Payments

Employees are permitted to accumulate earned sick days. Upon retirement, the retiree is paid for unused sick days at 50 percent of the normal pay rate, up to a maximum payout of \$15,000. Fiscal 1998 funding for this program remains at the fiscal 1997 level of \$4.5 million.

EMPLOYEE RETIREMENT, HEALTH BENEFITS, SOCIAL SECURITY AND OTHER EMPLOYEE FRINGE BENEFITS

The State of New Jersey offers a variety of benefits to its employees. While some of the benefits are mandated by State or federal law, others are the result of negotiations with unions representing various employees groups. Members of the State workforce contribute toward some of their benefits, either directly through payroll deductions or through copayments or deductible clauses in the specific agreements. For fiscal 1998, a total of \$1,072.4 million is included to provide fringe benefits to employees of State government. This funding represents costs in several benefit categories

including Pensions, Social Security, Health Benefits, Unemployment Insurance, and Temporary Disability Insurance.

The major components of the Direct State Services appropriation for employee fringe benefits for fiscal 1997 and 1998 are as follows:

	Adjusted Approp. Fiscal 1997	Recom. Fiscal 1998
	(\$ in millions)	
Employee Retirement	\$367.3	\$247.8
Health Benefits	517.8	470.6
Social Security Tax	322.4	336.2
Temporary Disability Insurance	10.8	10.1
Unemployment Insurance Liability	<u>6.4</u>	<u>7.7</u>
Total Direct State Services - Employee Benefits	<u>\$1,224.7</u>	<u>\$1,072.4</u>

Employee Retirement

All State employees and most employees of counties, municipalities, and school districts are members of the State retirement systems. There are seven State retirement systems. The Public Employees' Retirement System (PERS) and the Teachers' Pension and Annuity Fund (TPAF), created by acts of the State Legislature in 1920 and 1919, respectively, are the major plans in terms of membership. The Police and Firemen's Retirement System (PFRS), created in 1944, covers State, county and municipal police and firefighters.

Interdepartmental Accounts

State law regulates the administration of the retirement systems. The law provides that all systems be subject to actuarial valuation every year and actuarial experience studies every three years. Such valuations and studies ensure that these programs are adequately funded and recognize the costs resulting from experience and legislative changes in the benefits paid.

Fiscal 1998 Employee Pensions -- The fiscal 1998 Budget recommends a \$247.8 million appropriation for the seven State retirement systems and other special retirement acts. This amount includes \$57.5 million for the Public Employees Retirement System, \$84.5 million for the Police and Firemen's Retirement System, \$8.4 million for the State Police Retirement System, \$2.7 million for the Teacher's Pension and Annuity Fund and \$18 million for the Judicial Retirement System. A recommendation of \$72.1 million is made for the Alternate Benefits Program, which covers the faculty at the state's colleges and universities. The remaining State pension recommendations represent appropriations to smaller pension funds and other specially legislated retirement provisions and total \$4.6 million.

In addition to the \$247.8 million recommended for State employee pension systems for fiscal 1998, the State will also provide a State Aid appropriation to support the Teachers' Pension and Annuity Fund (TPAF) and Chapter 126 Health Benefits for local school districts. For fiscal 1998, the total appropriation for this obligation is \$136.5 million. (These appropriations are made to a State Aid account in the Department of Education.)

Further, the State pays for the Alternate Benefit Program and TPAF pension costs as well as the Chapter 126 health benefit costs of the county college faculty. The cost of these obligations is approximately \$16.0 million for fiscal 1998. (This appropriation is made to a State Aid account in the Department of Treasury.)

The State Aid appropriations for local employee fringe benefits for fiscal 1998 are as follows:

	Adjusted Approp. Fiscal 1997	Recom. Fiscal 1998
	(\$ in millions)	
Education		
Teacher Pension and Annuity Fund (TPAF)	\$235.6	\$123.0
Health Benefits - Chapter 126	<u>12.4</u>	<u>13.5</u>
Total Education	<u>248.0</u>	<u>136.5</u>
Consolidated Police and Fire	9.7	9.7
Aid to County Colleges		
Alternate Benefits Program	16.1	15.0
TPAF - Employer Contributions	0.5	0.2
Health Benefits - Chapter 126	<u>0.9</u>	<u>0.8</u>
Total Aid to County Colleges	<u>17.5</u>	<u>16.0</u>
Total State Aid - Employee Benefits	<u>275.2</u>	<u>162.2</u>

The combined Direct State Services and State Aid cost for all of these Pension, Health Benefit, Social Security and Other Fringe Benefit obligations is \$1,234.6 million for fiscal 1998, a decrease of \$265.2 million, or 17.7 percent of the \$1,499.9 million appropriated in the fiscal 1997.

Refinancing Pension Obligations -- The fiscal 1998 Budget proposes to refinance the State's pension obligations by issuing bonds, now at a lower interest rate, to finance the State's unfunded accrued liability. The State also proposes to recognize a substantial asset surplus in lieu of making contributions.

- **Pension Contributions**

The State annually contributes hundreds of millions of dollars to the State retirement system. There are two parts to the State's pension contributions. The first part, referred to as the "normal contribution," is for the cost of pension benefits which employees earn each year. The second part, referred to as the "unfunded accrued liability contribution," is for pension benefits earned in prior years which, pursuant to standard actuarial practices, are not yet fully funded. The current unfunded liability of the State under the State retirement systems is \$3.4 billion. The primary reason for this unfunded liability was the inclusion of funding for pension adjustments or cost-of-living-adjustment benefits (COLA) under the State retirement systems in the late 1980's and early 1990's.

Interdepartmental Accounts

- **Bonding the State's Unfunded Accrued Liability**

The State's opportunity to refinance its unfunded accrued liability under the state retirement systems is similar to a homeowner's opportunity to refinance a home mortgage. The issuance of bonds to finance this liability will enable the State to benefit from a lower interest rate market and, as a result, the State's pension obligation will be lower for future taxpayers.

In addition, the State's unfunded accrued liability under the retirement systems will be fully funded by the bond proceeds. The fiscal 1997 contributions for the unfunded accrued liability will not be necessary.

- **Surplus Pension Assets**

Very favorable experience in investment of the assets of the State retirement systems has resulted in an asset surplus of \$2.4 billion as of March, 1996. The systems have substantially more assets than are needed to pay for all benefits. It is proposed that the State draw down some of the surplus to make a portion of its normal contributions to the retirement systems for fiscal 1997 and fiscal 1998.

Pension Contribution Cost Avoidance (\$ in millions)		
	<u>Fiscal 1997</u>	<u>Fiscal 1998</u>
Normal Contributions	\$189	\$378
Unfunded Accrued Liability Contributions	80	
Total Cost Avoidance	\$269	\$378

State Employee Health Benefits

The cost for health benefits, including medical, prescription drug, dental and vision, for State employees in fiscal 1998 is projected at \$541.4 million. This is an increase of \$24 million or 4.6% above the fiscal 1997 appropriation of \$517.8 million.

However, the \$541.4 million in fiscal 1998 costs have been offset by \$70.8 million of health benefit surpluses for a net budget recommendation of \$470.6 million. The surpluses have been generated due to innovations in administration of health

benefit programs, including the fiscal 1996 rebid of the health benefit vendor service contract.

Effective January 1, 1996, the contract to administer the traditional indemnity and NJ PLUS portions of the health benefits program was awarded to a single vendor. This change, together with a reduction in trend rates for the plans, has provided significant cost savings for both local plan participants and the State of New Jersey. Improved management of health care costs has resulted in approximately a 13 percent decrease in the NJ PLUS plan costs and approximately a 7 percent decrease in Traditional Plan costs in fiscal 1998. HMO rates are projected to increase by about 5 percent during the same period.

In addition, the prescription drug program is projected to increase by \$9.9 million, or 14.4 percent, over the fiscal 1997 appropriation. This is largely due to an anticipated increase in premiums for the prescription drug plan, reflecting increases in utilization and drug costs.

CHANGE IN STATE EMPLOYEES' HEALTH BENEFITS APPROPRIATIONS		
<u>Fiscal</u>	<u>\$ *</u>	<u>Growth Rate</u>
1990	334.7	32.9
1991	405.0	21.0
1992	505.4	24.8
1993	526.9	4.3
1994	504.3	(4.3)
1995	588.0	16.6**
1996	555.6	(5.5)
1997	517.8	(6.8)
1998	470.6	(9.1)

* In millions

** Includes approximately \$23.6 million for the county court employees added on 1/1/95. The growth rate adjusted for the addition of the county court employees equals 11.9%.

Interdepartmental Accounts

The union contracts signed with AFSCME, IFPTE, and CWA introduced the concept of shared responsibility for medical costs by both the employee and the employer, effective July 1, 1996. Premium sharing is required by 95 percent of New Jersey private employers and 43 other State governments. The contracts also provide for the elimination of duplicative HMO coverage (i.e., employees covered both as themselves and as dependents of other State employees) and allows the State to take advantage of changes in the federal Medicare and tax laws.

Premium Sharing for Traditional Plan Coverage

-- On July 1, 1996 the State of New Jersey, consistent with practices in the private sector and most state governments, began to require some cost sharing by employees who select the traditional indemnity plan coverage, with the amount based on the salary of the employee. NJ PLUS and HMO coverage continued to be free for both employees and dependents.

The State realizes a significant recurring savings as a result of premium sharing while employees continue to have a variety of free health coverage choices.

Managed Care Savings -- From fiscal 1994 through fiscal 1997, there was a 13.4 percent shift of State employees from traditional coverage to managed care. That trend is expected to continue due to the implementation of premium sharing for traditional coverage. Fiscal 1998 assumes a further 10 percent shift away from the traditional plan.

<i>Health Benefits Enrollment Trends *</i>					
Fiscal Year	<u>1994</u>	<u>1995</u>	<u>1996**</u>	<u>1997</u>	Change <u>1994/1997</u>
Traditional	41.6%	40.7%	37.5%	28.2%	-13.4%
Managed Care	<u>58.4%</u>	<u>59.3%</u>	<u>62.5%</u>	<u>71.8%</u>	13.4%
Total	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	

* Includes State College and University employees
 ** Includes County Court personnel (State employees), beginning 1/1/95.

Eliminate Dual Coverage -- This fiscal 1997 initiative eliminated the inefficient practice that allowed two State employees who are married each to enroll for family coverage in an HMO. This double coverage is costly and wasteful. Under this policy, married employees may elect only one

HMO family policy. Therefore, the State pays only one premium, allowing the State to accrue savings without causing any loss in the family's health coverage. These reductions are reflected in the savings amounts associated with premium sharing for traditional coverage and the shift to managed care mentioned above.

Changes in Retiree Health Benefit Coverage --

Only 48 percent of New Jersey private sector employers provide any medical coverage for their retirees. Of those employers who do provide such coverage, 91 percent require retiree contributions. This concept of shared responsibility for medical costs is appropriate for State retirees and has been integrated into the health benefits plan. Health benefits continue to be free for current retirees and for anyone who accrues 25 years of pension credit by July 1, 1997. Employees who accrue 25 years of service after July 1, 1997 are subject to the same health benefit terms as active employees upon retirement. These savings will grow each year as more employees retire having attained their 25 years of service after July 1, 1997.

Federal Tax Law Changes - Section 125 Program

-- At the beginning of fiscal 1997, the State of New Jersey implemented a portion of Section 125 of the Internal Revenue Code. Under Section 125, the federal government allows employees to pay for their health benefits contributions and to set aside funds for unreimbursed medical expenses and dependent care expenses, all on a pre-tax basis. Employees authorize the deduction and deposit of a portion of their salary on a before-tax basis into a flexible spending account. The flexible spending accounts reimburse participating employees for their out-of-pocket health care and dependent care expenses incurred during the calendar year. By choosing to redirect a portion of salary into a flexible medical spending account, the employee reduces his taxable income and, as a result, saves on federal income taxes. In addition, pre-tax premiums reduce the average employee's Social Security and Medicare payments (FICA) and the State realizes an equal amount of savings in FICA, estimated at approximately \$1.4 million in fiscal 1998.

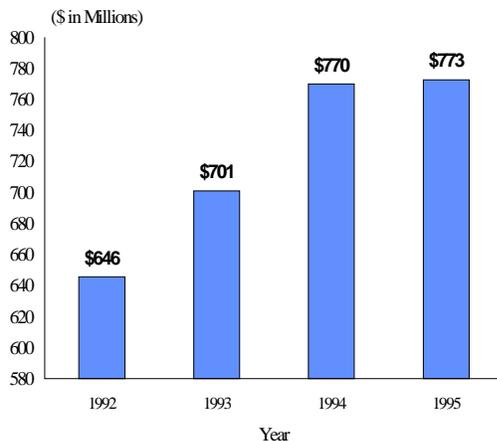
Social Security

The fiscal 1998 recommendation of \$336.2 million for the Social Security account reflects an increase of \$13.8 million or 4.3 percent over the fiscal 1997 adjusted appropriation. The taxable wage base is expected to increase by \$2,700 from \$62,700 to \$65,400.

The total appropriation for the Department of Agriculture in fiscal 1998 is \$9.8 million, including grants.

New Jersey is still a Garden State ranking third in the Northeast in the value of agricultural production. During the 1995 growing season, New Jersey's agricultural crops produced cash receipts of \$773 million. New Jersey is one of the nation's top ten producers of cranberries, blueberries, peaches, asparagus, bell peppers, spinach, lettuce, cucumbers, sweet corn, tomatoes, snap beans, escarole/endive and eggplant.

CASH RECEIPTS FROM FARM MARKETINGS



The State Aquaculture Development Plan identifies the Department of Agriculture as the lead agency to coordinate the aquaculture industry's development. The United Nations Food and Agriculture Organization defines aquaculture as, "the farming of aquatic organisms, including fish, mollusks, crustaceans, and aquatic plants". This includes various means to enhance production, such as regular stocking, feeding and protection from predators. Accordingly, the Department received a new appropriation of \$200,000 for aquaculture development. New Jersey's geographical location in the middle of the Boston-Washington Corridor and our outstanding transportation system of seaports, airports and roads combine to give the State tremendous potential as a source for domestic fish and seafood, not just throughout the Northeast, but nationally and internationally as well.

The Department of Agriculture's \$1,166,000 appropriation for Promotion/Market Development promotes all New Jersey agricultural products primarily with the Jersey Fresh Campaign. Regional awareness of promotional activities for Jersey Fresh farm products more than doubled in the last three years according to Jersey Fresh tracking studies. The Department further supports the Jersey Fresh promotional activities of commodity groups with a \$150,000 matching grant program.

The Farm Production Efficiency and Business Incentive Grant program has successfully supported economic recovery for farmers and agribusiness. Total net farm income has continued to improve over recession-related losses. In 1989, net farm income was 29% of gross farm income. In 1991, during the recession, net farm income dropped to 22% of gross farm income, however by 1995, net farm income recovered to 27%. Furthermore, according to the United States Department of Agriculture, regional hourly labor rates are no longer substantially above the national average since 1995 labor rates ranged from 103% to 108% of the national average. Accordingly, in keeping with the continued improvements in agriculture's economic picture, the fiscal 1998 budget continues the matching grant incentive program and other technical and economic development programs at a level reduced to \$1 million from \$3.9 million.

The Department of Agriculture's Farmland Preservation Program acquired development easement rights to approximately 12,000 acres of land in the last eighteen months, an increase of 55% to 33,868 total acres of land preserved. Recent research indicates that preserving farmland instead of developing residential homes has a positive property tax impact on a community. The Farmland Preservation Program is primarily supported by four bond issues, each approved by at least 60% of the state's voters.

The Horse Park of New Jersey represents a unique public-private partnership for scheduling equine events most weekends and many weekdays from March through November. While the Department oversees the development of the Horse Park, a not-for-profit educational organization, entitled the Horse Park of New Jersey at Stone Tavern, Inc., provides for operations. The equine industry, private-not-for-profit groups, Park trustees and hundreds of volunteers contribute to many aspects of equine events, including the National Hunter Pony Finals in 1994.

Banking and Insurance

Through enactment of P.L. 1996, c. 45, the Department of Banking and the Department of Insurance were consolidated, effective in the fiscal 1997 budget. Basic similarities in their core business activities -- licensing, chartering, examination, solvency review and complaint investigation -- offered an opportunity to eliminate duplicative regulatory activities and administrative functions.

The Departments of Banking and Insurance were previously one department until separated in 1970 in response to changes and growth in the banking and insurance industries. The laws and regulatory structures that evolved in later years to oversee banking and insurance assumed those industries would offer separate, non-overlapping services. Over time, however, the once distinct business lines have become less so with expanded bank powers and increased links between banking and other financial services. Overlaps in regulatory responsibilities have emerged and will likely become increasingly common.

As a single organizational entity, the Department of Banking and Insurance is well-suited to regulate industries which are now evolving, eliminate duplicative regulatory demands on New Jersey's banking and insurance industries, and streamline the provision of consumer related financial services.

The fiscal 1998 budget recommendation for the Department of Banking and Insurance totals \$39.6 million, an increase of \$1.9 million over fiscal 1997. To enable the Insurance Fraud Program to keep up with its expanded caseload, 50 additional investigators will be hired through additional funding of \$2.25 million in fiscal 1998. This increase is offset by savings of \$342,000 in salaries and other operating expenses.

The insurance related responsibilities of the department include provision of effective monitoring and regulation of the insurance industry; to assure fair markets and rates for all authorized lines of insurances; and, to monitor the real estate industry to ensure that professional standards are observed and maintained.

In addition, the Division of Insurance Fraud Prevention was created under the "New Jersey Insurance Fraud Prevention Act," P.L. 1983, c.320 (C.17:33A-1 et seq.) and is responsible for investigating allegations of insurance fraud and developing and implementing programs to prevent insurance fraud and abuse. Various amendments to the Fraud Prevention Act have expanded the scope of the Division's investigations to not only those cases reported by property and casualty companies, but also those cases reported by life and health companies, investigations of fraud within insurance companies and rate evaders.

The banking regulation of financial services such as consumer lending also falls within the Department's supervisory authority. Financial services range from mortgage bankers, mortgage brokers, check cashing and check selling companies, non-profit credit unions to various forms of consumer lending firms.

Each state-chartered bank is examined to determine whether the bank is conducting its business in conformity with the laws of the State and with safety to its depositors, other creditors and the public. State-chartered savings and loan associations are covered by similar requirements. The Department is also empowered to examine mortgage bankers, mortgage brokers, insurance premium finance companies, consumer loan companies, secondary mortgage companies, credit unions and pawnbrokers.

The Department reviews and processes applications by depository institutions for new charters, branches, relocations, plans for acquisition, mergers, bulk sales, stock conversions, and auxiliary offices, and for licensing all consumer lenders. Written complaints filed by consumers against State regulated institutions are investigated.

In addition, the Department has available the community reinvestment ratings of New Jersey's banks. The Community Reinvestment Act requires financial institutions to reinvest their assets in the communities they serve. These ratings provide municipalities, community groups, businesses and other banks with a convenient way to determine a bank's commitment to the community.

Commerce and Economic Development

The Department of Commerce and Economic Development was established to encourage business investment and expansion in our state. Its offices include the Division of Economic Development, the Division of International Trade, the Division of Travel and Tourism, and the Division of Small Business and Women and Minority Business Development.

Its affiliated agencies include the New Jersey Economic Development Authority, the New Jersey Redevelopment Authority, the New Jersey Urban Enterprise Zone Authority, Prosperity New Jersey, the Office of Maritime Resources and the Motion Picture and Television Commission. The Commission on Science and Technology, the South Jersey Port Corporation (SJPC) and the Public Broadcasting Authority are “in but not of” the Department.

Fiscal 1998 Budget

The fiscal 1998 budget recommends \$16.3 million for the Department of Commerce and Economic Development, including \$3.1 million for the South Jersey Port Corporation (SJPC). It reflects the continuation of the economic development programs that have already resulted in the creation of thousands of new jobs and new initiatives.

The Accounts Management System, recommended at \$.9 million in the fiscal 1998 budget, will make long-term structural changes in the way New Jersey approaches economic development. The largest job growth in the State occurs from companies that are already here and looking to expand. This budget gives the State a new tool to deliver economic services to those companies, and to keep them and their employees in New Jersey. The Accounts Management System takes the best ideas of the private sector and applies them to government. Account managers will be assigned to each of the major industry groups in the State to handle all their interactions with government. They will be there to answer questions and concerns as they arise—not after the company has decided to leave the state. One of the chief complaints of businesses in the past had been that they never knew who exactly to call in government. Now, under the Accounts Management System, they will have one individual assigned to their account.

In fiscal 1998, the Office of the Business Ombudsman (\$.2 million) will be shifted from the Department of State to the Department of Commerce and Economic Development where it

will complement Commerce’s existing business retention and attraction services.

The fiscal 1998 recommendation also provides \$.6 million for a new Office on Sustainability, which will encourage the growth of environmentally-friendly “sustainable” businesses in New Jersey. Sustainable businesses use raw materials from renewable sources, generate no emissions, and produce a product or service that is either environmentally benign or mitigates an environmental problem (i.e., cleanup). Primarily, funds will be used to make recoverable grants to eligible companies seeking to expand in New Jersey.

Accelerating Economic Development

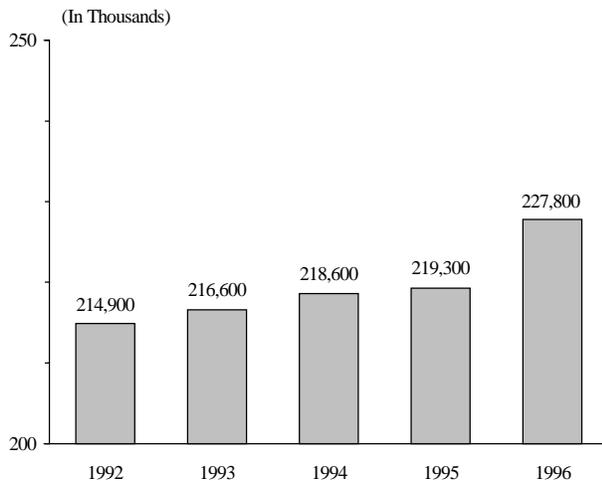
In May, 1996, the Governor gave the State one of the most powerful economic development tools it has ever had: a new Business Employment Incentive Program. This program allows businesses that expand or relocate to New Jersey to retain a portion of the increased income tax revenue resulting from the creation of new jobs. By December, in less than seven months, 17 companies who might have gone to other states had been awarded grants, creating more than 3,500 good, high-paying jobs.

Since January 1994, New Jersey has replaced one new job for every job lost, and has added over 154,000 more jobs. The New Jersey Council of Economic Advisors reported that New Jersey has led the Mid-Atlantic region in economic growth since 1993. The Federal Reserve Bank of New York, in its 1997 Job Growth Outlook, predicts that New Jersey’s employment will grow faster in 1997 than it did in 1996.

New Jersey’s reputation as an economic powerhouse is growing, now having the 8th largest state economy in the nation. During calendar year 1995, New Jersey had the largest increase in incorporations in the nation, up 23% to nearly 38,000. Fortune 500 companies have also cited the benefits of moving to New Jersey, with companies such as Bristol Meyers Squibb, Bayer, Lucent Technologies, Coopers Lybrand, Dow Jones and Raytheon announcing plans to expand and create more jobs in New Jersey.

According to a recent study done by Dun & Bradstreet, New Jersey ranked 8th nationwide in net business migration in to New Jersey between 1991 and 1995. According to Dun and Bradstreet, during that period New Jersey gained 591 net new businesses.

GROWTH IN NEW JERSEY BUSINESS ESTABLISHMENTS



Source: NJ Department of Labor

Prosperity New Jersey is the Whitman's public-private partnership dedicated to economic development and job creation. Major initiatives of Prosperity New Jersey include the business ambassador program, a peer-to-peer business retention program; a training program for local economic development professionals; regional partnerships, such as South Jersey Partnership Inc.; government to business town meetings; and a tourism master plan.

The Budget continues the State's commitment to the tourism industry, which generated \$23 billion in revenues last year. A new tourism master plan will help the State take its place as a leading tourist destination in the 21st century. In addition, this Budget supports a new initiative to highlight the State's multi-cultural tourism assets.

Foreign trade is one of New Jersey's fastest growing market sectors with more than 1,200 foreign firms now located here. These firms have invested over \$20 billion and employ over 200,000 residents. According to the latest data available, New Jersey ranked fifth nationally in attracting foreign business investment, making this the fastest growing component of New Jersey's gross state product. The Department is committed to increasing that growth by increasing both foreign direct investments and exports.

New Jersey's ability to compete internationally and domestically relies to a great extent on modern ports equipped to accommodate the latest in cargo ships. The Office of Maritime resources was created to ensure the continued economic development of New Jersey's commercial and recreational maritime industry. In 1996, the Governor entered into an historic agreement with the State of New York to ensure that the Port of New York and New Jersey would be prepared for increases in world trade, particularly at Port Newark/Elizabeth, part of the nation's third largest container port.

As a result of the Governor's trade mission to England, an exciting public-private partnership began when Portia Management, a world leader in port management, agreed to operate the Port of Salem, one of the most significant niche ports in the northeastern region. Comprised of companies from England and Ohio, this partnership will create 120 jobs and an investment of \$15 million to improve the port's facility.

It can be said that small business is the State's biggest business, with approximately 98% of all businesses employing fewer than 100 employees. New set-aside regulations require the State to purchase 15% of its goods from small business, 7% from minority-owned businesses, and 3% from women-owned businesses. The State has made a good faith effort to meet these goals. In the first 8 months of this program, the State purchased approximately 13% of its goods from small business, 5% from minority-owned businesses, and 5% from women-owned business. This Budget supports the programs designed to ensure that small businesses, particularly minority and women-owned businesses continue to receive their fair share of the State's procurements.

The fiscal 1998 budget also reflects the Department's commitment to the creation of innovative incentives to spur the economy. Under Governor Whitman's leadership, the number of urban enterprise zones has increased from 20 to 27. By reducing the sales tax on products sold and by providing other tax incentives, this program helps business owners in the zones create jobs and invest in their businesses. More than 39,000 jobs have been created since the program began.

The creation of the New Jersey Redevelopment Authority will increase investment in our urban areas. By focusing on low interest and no interest loans, grants, and technical support, New Jersey will strategically revitalize and empower our urban communities. This program will reflect a

coordinated approach to urban economic growth and development. The Authority may issue up to \$100 million in bonds to ensure continued support for redevelopment projects in urban areas.

Approximately \$15.1 million is recommended for the Commission on Science and Technology for the purpose of providing research grants to stimulate academic-industrial collaborations. By transferring the results of that research into the marketplace, economic development is accelerated. Beginning in fiscal 1997, grants are distributed largely on a competitive basis. This positions the Commission to react more quickly to opportunities for federal funding and to redirect research to areas of opportunity to the State.

The fiscal 1998 budget also includes \$4 million as state support for New Jersey Network (NJN), the State's only statewide, non-commercial, educational television station. New Jersey Network has aggressively generated private donations and underwriting revenues, resulting in greater self-sufficiency.

Community Affairs

The Department of Community Affairs provides advisory and financial assistance to communities and individuals. The life blood of New Jersey flows through its communities, and part of the Department's core mission includes laying a strong foundation for revitalizing cities, increasing the supply of affordable housing, strengthening the Many Faces, One Family program through the Office of Hispanic Policy Research and the Division on Women, and protecting the health and safety of all New Jerseyans by enforcing building safety standards. The onset of a new millennium offers new challenges to meeting the needs of New Jersey's residents; the Department will meet those demands by maintaining its investment in programs and services which work for New Jersey.

COMMUNITY DEVELOPMENT

The Community Development component of the Department's Budget directs state aid to local government, provides for community housing needs, and enforces safety codes and standards for buildings and other structures. The proposed fiscal 1998 Budget recommends \$874 million to fund local public safety and other critical service needs.

In a continuing effort to streamline government operations, the proposed fiscal 1998 Budget reflects the consolidation of building safety and various inspection programs begun in fiscal 1997. Under consolidation, the department will become the lead agency responsible for enforcement of the Uniform Construction Code. The transfer of inspection and building plan review functions previously performed by the Departments of Education and Health and Senior Services will result in approximately \$1 million in savings. This Budget recommends \$13 million for the administration of multiple dwelling and fire safety codes and standards to sustain current efforts.

This Budget recommends \$786 million for the continuation of the Consolidated Municipal Property Tax Relief Aid program (CMPTR), the single largest municipal aid program in the State Budget. The consolidation of 15 separate state aid programs into CMPTR has simplified the property tax relief system and stabilized municipal aid entitlements. This Budget also continues the expedited schedule for payment of aid initiated in fiscal 1996, which allows better municipal

investment planning and remedies a long-standing structural cash flow problem. The newest aid program, the Legislative Initiative Municipal Block Grant Program, is level funded at \$33 million.

Recommended level funding of the Joint Services Incentive Aid program demonstrates the Governor's commitment to encourage local partnerships for shared services. This \$500,000 program awards funding to municipalities to increase collaborative efforts which produce cost efficiencies at the local level.

This Budget recommends \$26 million for balanced housing, and other housing assistance programs, continuing the Governor's commitment to put more units of safe, decent housing within the financial grasp of low and moderate income households. These programs not only create affordable housing units, they also prevent homelessness, fund shelters for the homeless, and preserve neighborhoods.

In July 1996, Governor Whitman signed the New Jersey Urban Redevelopment Act, intensifying the State's commitment to reenergize New Jersey's neighborhoods. The Office of Neighborhood Empowerment develops partnerships with residents, community based organizations, and the private sector to revitalize cities one neighborhood at a time. Its efforts tailor solutions to each community and depend on participation by people and flexibility in government to identify and meet individual community needs. The program continues to be funded at the fiscal 1997 level of \$1.35 million.

SOCIAL SERVICES

The Social Services component of the Department's Budget funds community-based assistance programs and statewide advocacy efforts targeted to the needs of women, the Hispanic community, and economically disadvantaged groups. Fiscal 1998 resources will continue a wide variety of services and programs including aid to community resource and action centers, assistance to displaced homemakers and victims of domestic violence, Hispanic citizens, and the urban poor. This Budget will allocate \$16 million in state funds and \$34 million in Federal funds, in the form of payments to community organizations and local governments, to help deliver these services.

The Department of Corrections is responsible for the confinement of criminal offenders and the preparation of these individuals for return to the community. The impact of increased law enforcement efforts and tough sentencing laws is that more offenders are being incarcerated and for longer lengths of time. The number of State inmates, including those housed in county facilities, continues to grow and is projected to exceed 29,000 by the end of fiscal 1998. The average length of imprisonment for State inmates has increased from 37 months in 1992 to 40 months in 1996; for violent offenders, from 51 months in 1992 to 58 months in 1996.

For the last three years and for fiscal 1998, the Department of Corrections' budget reflects efforts to ensure that there is sufficient prison space for those offenders who need to be locked behind bars while providing transitional services such as halfway houses, drug treatment, and high supervision electronic monitoring/home confinement and parole programs for carefully screened and appropriate offender populations.

The Department's recommended budget of \$710.7 million for fiscal 1998 represents a net decrease of \$5.8 million from fiscal 1997 adjusted appropriations. It provides for expansion of State prison bed capacity and alternative sanction programs to address the growth in inmate population as well as to relieve overcrowding in the county jails by reducing the number of State inmates that will need to be housed there. The Department's operating budget will increase by \$34.9 million to \$631.6 million, while Grant-in-aid spending, which includes the payments to counties for State inmates, is projected to decline by \$40.7 million to \$79.1 million in fiscal 1998.

In addition to the opening of the 3,200 bed South Woods State Prison and the expansion of lower cost community supervision programs, reduced levels of inmate population growth will also contribute to fewer State inmates being housed in county facilities. It is now estimated that there will be a net increase of 100 inmates per month for fiscal 1997 and for fiscal 1998. A recommendation of \$51.9 million will provide funding to reimburse counties for the cost of housing State inmates.

PRISONS

A total recommendation of \$587.5 million in fiscal 1998 for the State prison facilities and system-wide program support will provide custody, supervision, education, treatment, and other programs for more

than 23,000 adult inmates. This includes \$65 million for the new South Woods State Prison in Bridgeton, which will begin operations in late fiscal 1997 when the first 960 beds open. Another 960 beds will open in the fall of 1997 and the remaining beds will be operational in the Spring of 1998.

A new initiative recommended at \$1,280,000 in fiscal 1998, "Paying Communities Back," will expand the current work detail program in the Department to include new community service projects in addition to the highway cleanup projects currently done by supervised low-risk inmates. Through this program, offenders will be held accountable for their crimes and the public will benefit.

In an effort to increase the potential for rehabilitation for young adult offenders ages 18 to 26, the Department will open the State's second boot camp in late Spring 1997. The program will consist of a comprehensive blend of military structure and discipline, physical training, academic and vocational instruction, substance abuse education, cognitive skills training, community service, job training as well as intensive aftercare supervision.

PAROLE AND COMMUNITY PROGRAMS

The fiscal 1998 recommendation of \$29.9 million will support the supervision of approximately 54,000 parolees. Included in this recommendation is funding for several special parole programs that provide enhanced public protection by incorporating high levels of supervision and random monitoring to small, carefully screened specialized caseloads.

The Intensive Supervision/Surveillance Program (ISSP) provides significantly enhanced law enforcement, surveillance, and risk management for caseloads of no more than 25 parolees who are at risk of failing regular parole. This program is recommended for a \$1,876,000 increase to \$2.5 million. The Electronic Monitoring/Home Confinement (EM/HC) program provides an intensive reintegration program for selected inmates who have been certified for parole and who are nearing their release dates. Program participants wear electronic surveillance transmitters and undergo random surveillance and drug testing.

The link between alcohol and substance abuse and crime is well established. For many inmates, a drug offense is their most serious charge with no convictions for violent crimes. A "drug court" pilot project will be implemented in four counties and is

Corrections

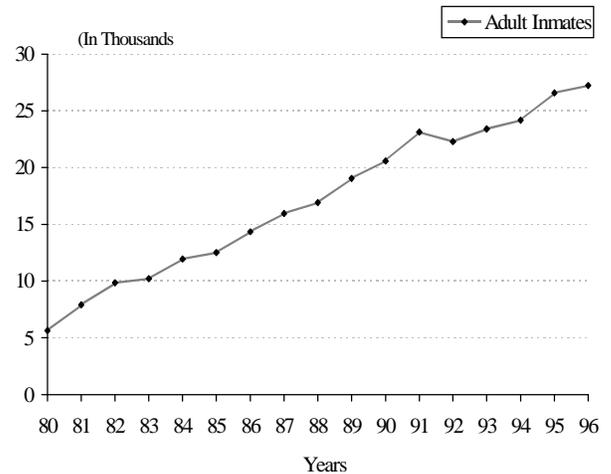
funded at \$800,000. This pilot project will involve the Judiciary in overseeing intensive drug treatment for carefully screened non-violent, addicted offenders.

During this administration, significant gains have been made in expanding in-prison drug treatment programs and post-incarceration residential treatment facilities. In fiscal 1998, the critical next step in this continuum will be implemented through a specialized parole program for addicted offenders called "Stop the Revolving Door." This program for offenders who have successfully completed in-prison drug treatment, will provide enhanced supervision, support and counseling in order to reduce the probability of their committing future crimes.

The Purchase of Community Services programs are recommended for \$27.1 million. This will support 1,512 contracted community bed spaces, an increase of 263 bedspaces over fiscal 1997. All halfway house programs are privately operated.

The Parole Board's budget is recommended at \$8.3 million, an increase of \$.2 million. This will allow the Board to keep pace with the number of hearings and reviews and to provide additional staffing needed at the new South Woods State Prison.

NUMBER OF ADULT INMATES 1980 - 1996, End of Year



The Department of Education administers the distribution of state aid, reviews and audits the budgets of the local public school districts, and regulates their operations. The Department provides technical assistance to districts in designing and implementing new educational programs. It supports pre-school, vocational, and adult educational programs; and it seeks to assure appropriate educational opportunities for students with disabilities. The Department encourages diversity and multiculturalism in staffing and programming; while it strives to acknowledge excellence in the accomplishments of New Jersey students, teachers and administrators. The Department of Education also operates the Marie H. Katzenbach School for the Deaf.

To this end, the FY 1998 budget includes \$1 million dedicated to creating a new unit to ensure the essential coordination of all disadvantaged programs within the department and across other agencies. As part of this new unit, resource teams will be established and work across the state to develop comprehensive collaborative initiatives which target the needs of at-risk districts and communities. The Demonstrably Effective Program Teams will provide technical assistance and training on the development of demonstrably effective programs including comprehensive early childhood programs as well as other strategies for assisting districts in addressing the needs of disadvantaged youth and their families.

However, schools cannot do it alone. All agencies that share responsibility for eliminating the negative conditions in poor communities must be involved. A strong interagency effort at the local level, fostered by significant collaboration and coordination at the state level must be targeted to the districts eligible for Programs for Disadvantaged Youth Aid. The new unit will include the position of Child Advocate who will work with the appropriate State agencies to integrate funding streams, eliminate categorical and institutional barriers to the coordination of programs and services and provide the direction and technical assistance needed to get the job done as quickly and efficiently as possible.

The Administration recognizes that it's responsibility to the state's children does not end with a check sent to their school. In cases where school districts are found lacking, the Commissioner of Education is given broad powers to take steps to ensure that performance is improved. In cases of repeated failure, the Commissioner could restructure

curricula, direct staff retraining or reassignment, redirect expenditures, or review the details of future collective bargaining agreements. The administration is firmly committed to assuring that this plan provides equal educational opportunity for all of the state's children. The expanded oversight role of the Department of Education will ensure that it does.

The funding plan also contains provisions empowering and requiring the Department of Education to assess the effectiveness of schools. In keeping with this requirement, an increase of \$1 million is recommended for the Statewide Assessment (testing) program. An additional sum of \$798,000 is provided for technology enhancements, and budget language allows for funds up to \$1.2 million to assure that the department can properly implement the requirements of the new school funding law.

The fiscal year 1998 budget recommendation for the Department of Education also features other noteworthy changes. In keeping with Governor Whitman's focus on smaller, more efficient government, the operating budget for the department includes a \$400,000 reduction of administrative expenditures from their fiscal year 1997 level by consolidating certain procurement and other administrative functions.

Education aid totals \$5.038 billion in fiscal 1998. This includes an additional \$286 million to fund the implementation of the "Comprehensive Educational Improvement and Financing Act of 1996." Major components of the new school funding plan include:

- Core Curriculum Standards Aid
- Supplemental Core Curriculum Aid
- Early Childhood Aid
- Demonstrably Effective Program Aid
- Stabilization Aid
- Distance Learning Network Program

Core Curriculum Standards Aid, the largest single aid component, replaces funding previously distributed to local school districts under the Foundation Aid formula. Supplemental Core Curriculum Aid targets the State's poorest districts to assure appropriate spending without undue tax burdens. Stabilization Aid provisions in the new law moderate the effects of the abrupt changes in the entitlements from fiscal 1997 resulting from the implementation of a new school funding formula.

Education

In general, the new funding mechanism directs aid based on wealth and income measures so that the poorest districts will receive the greatest percentage of aid. In fact 28 of the State's poorest districts, with less than 25% of the State's students, would receive 47% of the formula aid provided. Other poor districts would receive 9% of the aid. The so-called middle income districts will receive approximately 37% of the aid. Of the remaining formula aid, 5% will go to the State's 118 wealthiest districts, and 2% will be allocated to the vocational-technical schools.

The school funding plan also retains traditional categorical aid programs such as Transportation Aid, Special Education Aid, County Vocational School Aid, and Bilingual Education Aid. Aid amounts for these programs essentially reflect a continuation of the current funding levels.

To sustain our strong record of environmental accomplishment, the Whitman Administration is refining the way that government regulates the environment.

The first generation of environmental stewardship was characterized by the “command and control” method, whereby government expressly prescribed the means of compliance. Though that approach produced positive results, further progress will require new strategies. The current regulatory scheme must be supplemented with innovative programs and technologies to ensure a cleaner environment for future generations.

Under the Whitman strategy, government sets rigorous, risk-based standards but industry is challenged to determine the most effective means of compliance. This approach taps the private sector’s penchant for efficiency and innovation while preserving government’s role in setting goals and enforcing standards.

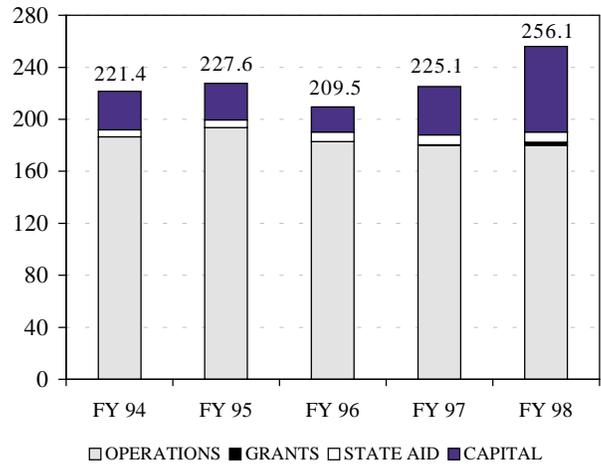
What is also clear is that environmental problems can no longer be solved in a fragmented way, with separate solutions fashioned for discharges to our air, water, and land. Instead, we need to adopt a holistic approach to environmental regulation. Thus, the Whitman philosophy focuses on pollution prevention. This approach reduces pollution through changes in manufacturing processes and improved waste management practices. Emphasis is placed on compliance assistance, working partnerships, and consensus-building to form comprehensive pollution control policies.

Whenever government moves away from outdated but familiar programs, there is bound to be some uncertainty. Now more than ever, change is necessary to enable DEP to target its resources to areas of greatest risk. By redirecting its efforts to maximize environmental benefits, DEP will provide a higher level of protection at less cost.

FISCAL 1998 BUDGET

Including capital funds, the fiscal 1998 State appropriation for DEP totals \$256 million, representing an increase of \$31 million (14 percent) over the fiscal 1997 budget. Most of this growth is reflected in Capital, and is related to the constitutional dedication of the Corporate Business Tax for Site Remediation and Water Monitoring.

FUNDING FOR ENVIRONMENTAL PROTECTION



*FY 94 and FY 95 have been adjusted to reflect off-to-on budget shift

Funding Increases

DEP’s fiscal 1998 budget of \$190 million, including operations, Grants and State Aid, represents an increase of more than \$2 million above the fiscal 1997 amount. No layoffs are required.

Funding for new initiatives includes \$2 million to accelerate completion of the Hudson River Walkway. Over the last several years, nearly eight miles of the Walkway have been created in the form of disconnected sections, half of which are located in Liberty State Park. State funding is needed to link segments that are either State-owned or not planned for private development. When complete, the Walkway will offer a 17 mile continuous path from the George Washington Bridge to the Bayonne Bridge, offering spectacular views of the New York City skyline and the Statue of Liberty.

A total of \$350,000 is provided to expand recreational trails in the State Park system. Specifically, \$100,000 will leverage federal matching grants and advance small trail projects throughout the State. The remaining \$250,000 will fund completion of the Sussex Branch Trail in Sussex and Morris counties. Though the Sussex Branch Trail is presently 20 miles long, its longest continuous stretch is only six miles because key bridges and right-of-way are missing. Through this investment, the entire 20 mile trail will be linked by the summer of 1998.

For the first time since 1986, DEP will inventory (i.e, map), monitor and assess the State’s wetlands

Environmental Protection

and open spaces. New funding of \$255,000 has been added for this purpose. Developing this information will provide the Department with a critical environmental indicator.

Another new appropriation of \$200,000 is provided for a study of potential contamination in the State's marine, estuarine, shellfish and freshwater fish. It has been 10 years since substantial testing was done by DEP in this area, and the discovery in 1994 of elevated mercury concentrations in certain freshwater fish underscored the need for this investment.

An additional \$525,000 is appropriated for In Lieu of Tax Payments to localities for land acquired by the State for open space (e.g., Green Acres program).

SITE REMEDIATION - DEDICATION OF CORPORATE BUSINESS TAX

In November, 1996, voters approved an amendment to the State Constitution dedicating 4 percent of the State's Corporate Business Tax to DEP for hazardous waste cleanup and water monitoring. This initiative will provide approximately \$82 million over two fiscal years, specifically \$30 million in fiscal 1997 and \$52 million in fiscal 1998.

Of the \$82 million total, \$27 million will be made available as loans and grants for the upgrade, replacement, closure and cleanup of underground storage tanks owned by private businesses or local governments. These funds provide critical financial support to tank owners facing a federal deadline of December, 1998 for spill, overfill, and corrosion standards.

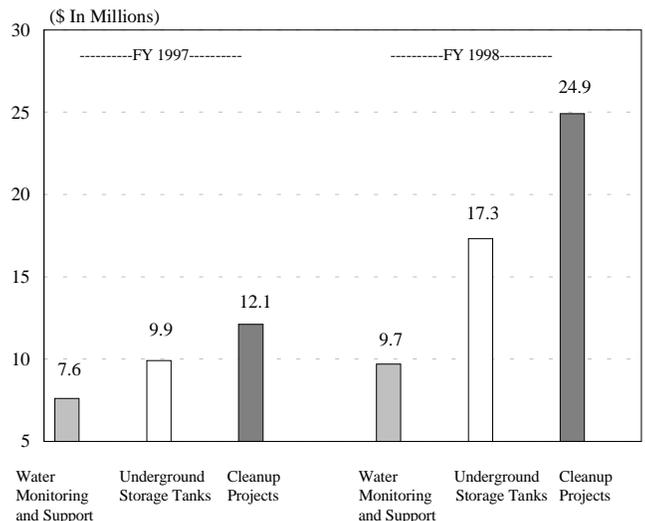
Another \$37 million will provide pay-as-you-go funding for major cleanup projects undertaken by DEP. These projects will include the provision of alternative sources of potable water. The \$37 million will advance a total of 133 cleanup projects through the year 2000. The availability of stable funding will also strengthen DEP's efforts to negotiate voluntary cleanup agreements with responsible parties, thus accelerating the pace of the cleanup program.

Nearly \$10 million will be used to create a comprehensive water quality monitoring system for the entire State. Instead of focusing primarily on point (e.g., industrial) sources of pollution, DEP will establish a comprehensive monitoring network to measure the cumulative effect of all pollution within

each regional watershed. Funding is also included for stormwater management and pollution prevention projects critical to improving the State's water quality.

Beyond fiscal 1998, annual funding for this program will be predicated on the revenues raised by the Corporate Business Tax.

CORPORATE BUSINESS TAX DEDICATION DEP State Remediation and Water Monitoring



TECHNOLOGY INVESTMENTS

Since the late 1980s, the lack of an integrated data system has been widely recognized as one of the most significant obstacles to improving DEP's efficiency. The Department presently operates over 200 separate data systems. This fragmented arrangement has resulted in duplicate data entry and collection as well as high costs for system maintenance and program development. The cumbersome nature of the present system has frustrated efforts to share information across programs to improve permitting and enforcement decisions.

In fiscal 1998, the goal of creating a unified, cohesive data system will become a reality. DEP will invest \$16 million to create a masterfile system and integrate the Air Pollution, Water Pollution, and Management and Budget systems by the close of fiscal 1998. Benefits include:

- electronic data interchange for permits
- one-stop permitting office

- closely coordinating permit reviews with field inspections by Enforcement programs
- facilitating comprehensive, single-facility
- permit reviews
- enhanced use of Geographical Information System as a decision-making tool

When completed, this pioneering system will place DEP squarely in the forefront of State regulatory agencies throughout the country.

MANAGING FOR RESULTS

In January, 1997, the Governor signed an historic, results-oriented agreement with the federal Environmental Protection Agency (EPA) to improve the State's environment. New Jersey is one of only six states chosen by the EPA to participate in the National Environmental Performance Partnership System (NEPPS). Through pilot programs in drinking water, air quality, and water quality, DEP and EPA will identify key environmental goals and allocate federal grant monies to achieve the greatest benefit. DEP's performance will be judged through the use of environmental indicators that measure key changes or trends in the environment over time.

For example, long term objectives for the year 2005 include progress toward the following:

- 95% of our 4,800 public water systems meeting drinking water standards
- attainment of Clean Air Act standards
- confirming a 50% reduction in the use of hazardous substances

NEW DIRECTIONS

Beyond these recent initiatives, the Whitman Administration has introduced a number of other innovative ideas over the past three years to strengthen and redirect our environmental priorities.

Dredging

The Governor is the first to adopt a policy to end ocean dumping of contaminated dredge materials. The Governor supported a \$300 million bond act to provide disposal alternatives for dredged materials and environmental cleanup projects, which the voters approved in 1996.

Alternative Dispute Resolution

DEP has reduced costly OAL hearings through the use of Alternative Dispute Resolution, an innovative negotiation technique. Enforcement cases formerly referred for litigation are now mediated internally

without compromising the environment. As a result, the number of new DEP cases which have had to be filed has declined by 77 percent (544 cases) since fiscal 1993, and the number of open or unsolved cases dropped by 65 percent (446 cases).

Air Amnesty Program

The Air Amnesty program implemented in 1994 produced over 1,100 permit applications from previously unregulated sources of air pollution. This program reduced air pollution without imposing costly penalties, and enhanced DEP's emissions data.

Air Operating Permits

In August, 1995, the new Air Operating Permit program was established in compliance with the federal Clean Air Act. DEP streamlined the process for simple permits, consolidated State and federal requirements, and established a new emissions-based fee structure as a pollution reduction incentive.

Open Space

The Governor supported a \$340 million bond issue, approved by the voters in 1995, to preserve land for recreation and farming and to acquire storm-damaged and environmentally-sensitive property along the shore and the Passaic River floodbasin.

An additional \$10 million was set aside in January, 1995, to match federal and private funds to preserve Sterling Forest, a vital watershed along the State's border with New York.

Voluntary Cleanup Agreements

One of the first of its kind in the nation, the Voluntary Cleanup program encourages property owners to remediate contaminated sites. Instead of waiting for a DEP enforcement action to force remediation, responsible parties sign an agreement that satisfies DEP's cleanup standards and establishes a flexible project schedule. Since 1992, 5,573 voluntary cleanup agreements have been signed, 82 percent of which (4,549) occurred from 1994 through 1996. Nearly 60 percent (3,288) of these agreements have been completely implemented.

Landfill Cleanup and Development

In 1996, the Governor signed legislation which encourages developers to restore closed landfill sites to productive use. Developers are reimbursed by the State for up to 75 percent of their cleanup costs through a credit for up to half of the sales tax generated by new businesses in the development.

Environmental Protection

Reciprocal Agreements, Other States

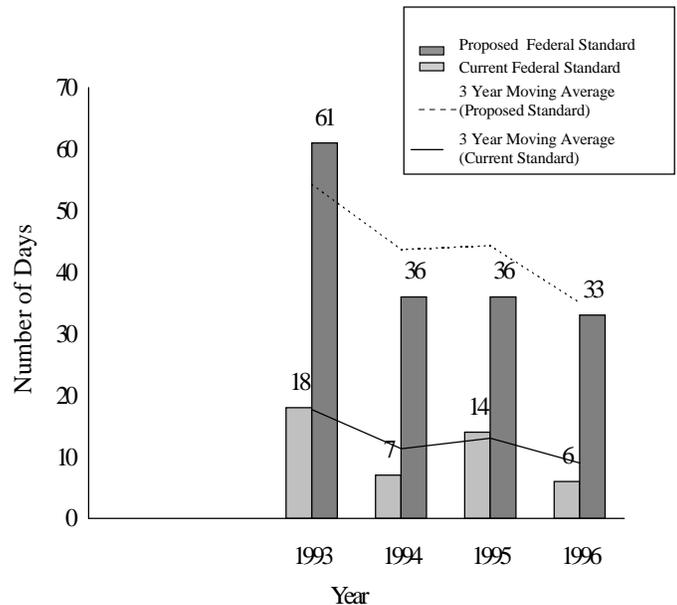
DEP secured reciprocal agreements with its counterparts in five other states to accept the certification of environmental technologies offered by those agencies, thus accelerating the use of these systems to solve problems in New Jersey.

ENVIRONMENTAL IMPROVEMENTS

Environmental protection is not measured merely in the number of staff or funding levels, but rather by tangible improvements in the quality of our water and air, conservation of our natural resources, and improvements in our quality of life. Long term trends suggest that DEP programs have yielded positive results in several critical areas, as summarized below:

- Acres of water open to shellfish harvesting have increased by 79,310 acres (16 percent), from 503,732 acres in 1977 to 583,042 acres today. Of New Jersey's 673,560 acres of shellfish beds, 87 percent are now harvestable, up from 75 percent in 1977.
- Using Green Acres bonds, State and local governments and non-profit organizations have acquired nearly 78,000 acres of open space during the Governor's term. This represents 20 percent of the 380,000 total acres purchased since 1961, when the Green Acres program began.
- As a result of the Division of Fish and Game's management programs, the number of nesting pairs of bald eagles has increased from 5 in 1990 to 13 in 1996. Since 1994, New Jersey bald eagles have produced a total of 46 young.
- The average number of days per year in which the State's air quality exceeded the current ozone standard has dropped by 63 percent, from an annual average of 24 days from 1987 through 1993 to an annual average of 9 days from 1994 to 1996
- In 1995, DEP directed New Jersey's five municipal solid waste incinerators to install advanced pollution control technology which resulted in a decline in mercury emissions ranging from 82 to 99 percent.

Days on Which the Current and Proposed Health Standards for Ozone Were Exceeded in New Jersey 1993 - 1996



During her fiscal 1997 budget address, the Governor announced her intention to create a new Department of Health and Senior Services. More than 20 State and federal programs for senior citizens once administered by four departments: Health, Human Services, Community Affairs, and Insurance have been consolidated into this new department.

The redesigned department has the budgetary and policy responsibility to administer the range of older adult programs now housed within it. Prior to the consolidation of older adult programs, the Department of Health's fiscal 1997 State-funded budget was nearly \$92 million, or about 10% of its proposed fiscal 1998 budget of \$1.006 billion dollars. This vast increase reflects the Department of Health and Senior Services' new responsibility for managing both the nursing facility and the alternative long-term care components of the Medicaid program. The redesigned department combines the traditional mission of public health with the new mission of providing high-quality services that promote independence, dignity and choice for 1.4 million older adults in New Jersey.

One of the linchpins of the new department is a pilot program called New Jersey EASE (Easy Access, Single Point-of-Entry). When fully established, older adults and their families will be able to call one number or go to one place in each county to get information on: transportation, employment, health screening, enrollment in programs such as Meals on Wheels, and to learn about options for long term care. This convenience of one-stop shopping for services will cut down on the frustration many seniors feel in obtaining information. Seniors and their families will be able to receive general information, assessments for physical and financial eligibility for services, as well as referrals to the appropriate provider and mode of care, all in one place.

SENIOR SERVICES

Community Long-Term Care

The fiscal 1998 Budget continues funding the expansion of home and community based forms of long-term care, including adult family care, in-home care, and assisted living. 500 additional openings will be added to the existing 500 slots dedicated specifically to community placement of persons in need of a level of long-term care that can be provided in a community or home-based setting.

Community Choice, to be launched in fiscal 1998, is a statewide effort to offer nursing facility residents

who do not require the intensive level of care provided in that setting an opportunity to experience a more appropriate level of care in a less restrictive home or community-based setting.

Traditional Long-Term Care

In fiscal 1998, under a grant from the Robert Wood Johnson Foundation, the Department will work to improve the quality of care in nursing facilities. A pilot program involving 20 facilities will, on a regular basis, analyze data that can help indicate the quality of care, such as frequency of falls and injuries among residents, number for whom restraints are used to prevent injury, or number suffering symptoms of depression. With dynamic analysis, problems can be identified and resolved as they emerge rather than through a one-time annual survey.

The fiscal 1998 budget for nursing facilities includes several proposals that reflect reimbursement nearer the average costs of economic and efficient entities. These proposals will save the state \$8.3 million on a base of \$522 million. Moreover, rather than use taxpayers' money to fund empty nursing facility beds, one proposal reduces payment for nursing facility beds that are underutilized. In this manner, facilities are encouraged to be efficient and target the average occupancy level of their peers.

Other Social Services

Programs transferred from the Department of Community Affairs will continue to meet the needs of the senior population by providing meals, transportation, employment opportunities, and a variety of other social services dedicated to the elderly.

PHARMACEUTICAL ASSISTANCE TO THE AGED AND DISABLED

The purpose of the Pharmaceutical Assistance to the Aged and Disabled (PAAD) program in the Department of Health and Senior Services is to reduce the cost of prescription drugs for low income seniors and people with disabilities. This program pays the cost of prescriptions for eligible aged and disabled individuals, less a \$5 co-payment paid by the recipient. PAAD currently pays pharmaceutical costs for approximately 215,650 older adults and 23,900 individuals with disabilities. The recommendation for fiscal 1998 is \$178.7 million, a decrease of \$7 million from fiscal 1997.

Health and Senior Services

The PAAD program is one of the two most generous pharmaceutical assistance programs in the nation. New Jersey's PAAD program has the second highest income eligibility limits, no deductibles, premiums, or enrollment fees, and a lower co-payment than many other state-funded pharmaceutical programs across the country. Furthermore, the financial savings to individuals for prescription drugs is substantial. The typical elderly person averages approximately 22 prescriptions per year at an average cost of \$44 each. Under PAAD, beneficiaries save \$854. The annual savings for a typical disabled individual is \$1,658 based on an average of 34 prescriptions per year at an average cost of \$54.

The program eligibility thresholds reflect PAAD's evolution. The original program was established in 1975 for persons aged 65 years and older with incomes under \$9,000 if single, or under \$12,000 if married. When resources were made available from the Casino Revenue Fund (CRF) in 1981, pharmaceutical assistance was extended to aged individuals of higher income as well as to persons determined disabled under federal Social Security criteria. At that time, the income eligibility standard for both groups became \$13,650 if single, or \$16,750 if married; resources for these expansions come from the CRF. Additionally, 1996 legislation has added a cost-of-living adjustment to the PAAD income eligibility criteria, which raises income eligibility to \$17,550 for single persons and \$21,519 for married couples. Because PAAD income eligibility criteria now parallel the increases in Social Security, thereby keeping pace with inflation, current beneficiaries are prevented from becoming ineligible for PAAD when their social security income increases by the cost-of-living.

In 1992, the State initiated a pharmaceutical manufacturers' rebate program similar to the federally mandated rebate on prescription drugs in the Medicaid program. Under the rebate program in PAAD, participating pharmaceutical manufacturers are required to provide rebates to New Jersey, reflecting a "bulk purchase" discount. Rebates of \$41 million are expected in fiscal 1998.

In 1982, the first year resources from the Casino Revenue Fund allowed expansion of pharmaceutical assistance to disabled individuals and higher income aged persons, the average prescription cost was \$9.00; in 1996 the average prescription cost had increased four-fold to over \$41 per prescription. The dramatic increase in drug costs combined with accelerating growth in the number of recipients as well as utilization have placed severe financial

pressure on the Casino Revenue Fund; expenditures are rapidly outpacing resources. Costs from 1987 through 1996 nearly tripled: a \$44.3 million program skyrocketed to over \$130 million in expenditures. Because growth of PAAD program expenditures has far exceeded the Fund's revenue capacity, additional efforts to strengthen prudent purchasing on behalf of recipients while retaining the same level of benefits for PAAD clients have been recommended in fiscal 1998. Budget recommendations that are projected to save over \$9 million in the PAAD program are based on the principle that the State should purchase services at rates which do not exceed those paid in the private sector. These savings will not reduce benefits to any recipient.

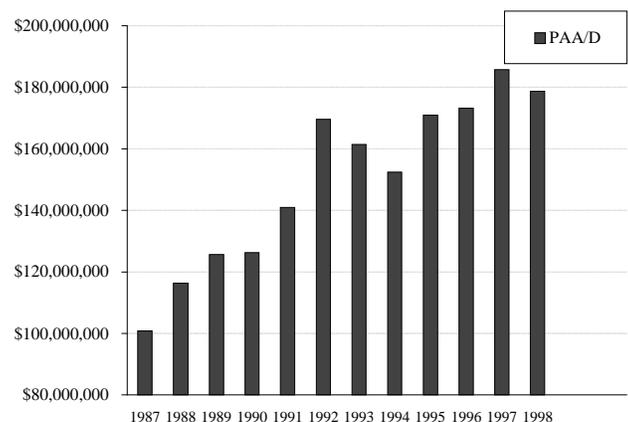
In addition to supporting the PAAD program, the CRF supports other programs for the State's elderly and disabled residents, as discussed separately in the section on the Casino Revenue Fund.

The chart depicting PAA/PAAD expenditures illustrates the burgeoning growth in this program. Moreover, the slight drops in various years reflect the successful implementation of cost saving initiatives, such as the implementation of pharmaceutical manufacturers' rebates in fiscal 1993. Despite cost containment efforts, costs continue to accelerate due to rapidly rising drug costs along with slight but steady beneficiary and utilization growth.

LIFELINE

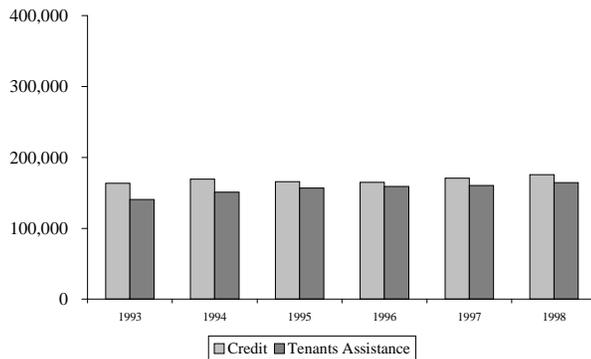
In addition to pharmaceutical assistance, PAAD eligibility also confers entitlement to Lifeline home energy payments of \$225 annually per household. The Lifeline program is level funded for fiscal 1998.

**PAA/PAAD
FISCAL YEAR EXPENDITURES &
PROJECTED EXPENDITURES**



at \$76.3 million. One Lifeline program helps lower-income aged or disabled renters, and the other assists lower-income aged or disabled homeowners with the costs of home energy. The fiscal 1998 Budget recommends that both the Tenants Lifeline Assistance Program and the Lifeline Credit Program be funded from the Casino Revenue Fund.

Lifeline Credit and Tenant Assistance Eligibles



PUBLIC HEALTH

The Department of Health and Senior Services has been confronted with significant changes in the scope and complexity of public health problems, of which AIDS is a prime example. Promoting public health in this context involves not only preventing disease but also promoting community awareness and action and protecting those at special risk.

No one is at greater risk than a newborn child, and one of the Department's goals is to reduce infant mortality from 8.9 per 1,000 live births in fiscal 1992 to 7.7 in fiscal 1998. Outreach programs such as the Healthy Mothers/Healthy Babies Program attempt to prevent low-birth-weight babies through appropriate prenatal care. In addition, all newborns are screened for neonatal illnesses in order to identify and treat problems as early as possible. In fiscal 1998, the Department's goal is to screen 118,000 newborns for neonatal deficiencies such as Phenylketonuria (PKU), galactosemia, hypothyroidism, and sickle cell anemia.

The fiscal 1998 Budget will continue to provide basic public health services to the citizens of New Jersey with a continued emphasis on greater efficiency and less bureaucracy. The Department's budget provides for a two percent cost of living increase effective January 1, 1998, for various non-

profit organizations that support local community-based health services.

In health planning, the emphasis has mainly focused on the regulatory side of the health care industry. The Department believes that it should get out of the regulatory business whenever possible and appropriate in order to let market forces operate. Continuing a trend begun with the deregulation of hospital rates, this budget aims to downsize the regulatory side and shift the focus to providing consumers with information about health care. This will give health care consumers the information they need to make informed choices in the new, deregulated hospital environment. For example, the Department began to change its monitoring approach from a retrospective case review and complaint investigation to a statistically-based, epidemiologic evaluation of the health status of the population served by each managed care plan. This approach will allow the Department to provide consumers and health benefits managers with comparative data to identify the "best choices" in the managed care arena.

However, there are clearly times when government must regulate areas of the health care industry. One such example is Health Maintenance Organizations (HMOs). The Department (along with the Department of Insurance) has begun the process of updating HMO regulations for the first time since 1978. These regulations will require the recertification of HMOs every three years, the establishment of an external appeal process, as well as an external quality audit of each HMO. However, two significant new requirements are that HMOs will report their success in achieving key preventive health indicators like immunization and mammography rates; and perhaps most importantly patients and doctors can openly discuss all medical alternatives, even if the HMO doesn't cover that alternative. Again, the focus is on informed consumer choice and quality assurance.

This Budget will continue to provide funding to enable the Department to inspect health care providers and to provide a wide array of laboratory services to State and federal agencies, physicians, clinics, hospitals, local health departments, and others from the health care community. In addition, the Department will conduct annual reviews of all residential health care facilities in order to ensure that patient care is adequate. Staff has been reallocated to respond to all complaints at these facilities.

Health and Senior Services

ACQUIRED IMMUNE DEFICIENCY SYNDROME (AIDS)

The Budget recommends \$14.2 million in state funds, and a projected \$47.4 million in federal funds for the fight against AIDS, which continues to be a public health priority in New Jersey. New Jersey now ranks fifth nationally in the number of confirmed cases of AIDS, and third in the number of pediatric cases. Since 1981, more than 32,227 cases have been reported in New Jersey, and more than 566,002 in the United States.

This Budget continues a number of activities at their programmatic levels. Education and technical assistance will be provided to health care professionals and the public. Cooperative action among public and private agencies, organizations and groups will be encouraged, leading to the development of community-based counseling and treatment services.

The Department has for a number of years operated an AIDS Drug Distribution Program that treats HIV-positive individuals with anti-viral drugs to help prolong life and mitigate symptoms, thereby preventing expensive hospitalization and improving the quality of their lives. Perhaps the most important initiative of this Administration was the adding of a new class of anti-viral drugs called Protease inhibitors to the AIDS Drug Distribution Program in the current fiscal year. This was made possible by an \$8 million dollar federal increase in Ryan White AIDS funding. These drugs will more than double the current \$4.9 million program. These drugs work by blocking an enzyme that is important to the growth of the HIV virus. This new class of drugs holds promise in allowing the medical community to manage AIDS like other life-long chronic illnesses. This program provides financial assistance to 1,700 clients for the purchase of drugs used in their treatment.

ADDICTION SERVICES

This budget proposes to enhance the quality of New Jersey residents life by reducing drug and tobacco abuse. In the area of drug abuse this budget proposes two initiatives to reduce drug abuse. The first initiative is a \$200,000 "Drugs are Ugly and Uncool" Campaign. The goal of this initiative is to decrease adolescent use of drugs, alcohol and tobacco through "A Day of Learning for New Jersey Youth" for middle and high school students. This program would be modeled after the World AIDS Day of Learning which the Department sponsors. The second initiative is a \$1.25 million dollar program for treatment services for the mothers of

DYFS/Work First clients. This initiative begins to implement the provisions of Assembly Bill Number 866. This bill mandates a substance abuse assessment for parents of children who are removed from their families. The additional funding would be used for treatment in the existing departmental treatment network.

One of the single most widespread public health problems facing the country is drug abuse, which includes tobacco use among teenagers. One of three adolescents who smoke will do so for twenty years. The direct medical cost of smoking related diseases is about \$1.1 billion dollars in New Jersey. The Department's plan is to stop vendors from selling cigarettes to children before they start. In one of the most important public health initiatives in recent years, the Department is launching a significant enforcement and communications campaign to remind the State's 26,000 licensed tobacco vendors that failure to heed the "age of sale" law will result in loss of licenses and fines. A tracking system will be put in place to evaluate the effectiveness of this surveillance program.

PUBLIC HEALTH LABORATORY

The Public Health Laboratory provides a comprehensive range of diagnostic services to parties in the identification and control of disease and environmental threats. The service will continue to be provided on a 24-hour, seven-day-a-week basis. In addition, the Department has established a national model for computerized laboratory reporting of diseases. This allows for easier tracking and monitoring of diseases.

MANAGED CHARITY CARE & SUBSIDIZED INSURANCE

Last year, New Jersey continued funding the charity care program for uninsured individuals at a level of \$310 million, and a projected \$300 million in calendar year 1997. Under this system hospitals were reimbursed under a formula for services provided for uninsured clients. However, the legislation directed the Department to design a charity care system that uses the principles of managed care. The Department has proposed a managed charity care initiative that would require hospitals to develop a network of providers to provide care to the uninsured. This proposal would require seeking a waiver from the federal government to allow federal subsidies to finance treatment in a setting other than a hospital.

Two years ago the Department launched a subsidized insurance program call *Health Access New Jersey*. This program was designed as a broad based initiative for the uninsured. The next logical step is a model insurance program called *Children First* that would provide health insurance for children whose families have incomes up to 250 percent of the federal poverty level and who do not qualify for Medicaid. With small investments in preventive care, enormous sums of money can be saved in the future. The funding for both programs will be part of the charity care solution to be considered by the Legislature.

electronic birth certificate system, a statewide immunization network, and a cancer registry. These systems will not only provide more reliable data, but will reduce burdensome paperwork and record keeping. Specifically, the HINT Program is beginning a pilot project in six hospitals to test the feasibility of electronic transmission of data. It is envisioned that in the near future, all hospitals in the State will be connected electronically. Also, continued funding of \$400,000 for the cancer registry will allow the Department to be pro-active in providing prevention and screening in areas of the State where cancer is increasing.

ELECTRONIC TRANSMISSION OF DATA

Quick, accurate, and reliable information is an absolute necessity in the field of health care. The Department is engaged in four major data initiatives: a Health Information Network (HINT) project, an

Human Services

The Department of Human Services fiscal 1998 Budget maintains this Administration's commitment to provide for New Jersey's most vulnerable citizens and, at the same time, emphasizes personal responsibility through the Work First New Jersey welfare reform initiative.

The Human Services Department's State fiscal 1998 budget, exclusive of Capital Construction, is recommended to increase from \$2.946 billion to \$2.948 billion, an increase of \$2 million. The Department is also expected to receive \$2.557 billion in federal funds in fiscal 1998. The net two million dollar increase reflects many increases and decreases. State Budget increases are mostly related to maintaining current services and are, therefore, driven by inflation increases, caseload changes and greater utilization.

The Department's Budget continues the theme of reducing costs without reducing services. In fact, this Budget includes several new initiatives. The budget for the Commission for the Blind and Visually Impaired includes a \$500,000 initiative to train and provide computer equipment to blind and visually impaired individuals so that they can learn about employment and educational opportunities through the internet. The Budget provides \$250,000 for specialized services designed to address the emotional and behavioral needs of children of victims of domestic violence. An additional \$600,000 is provided to expand recruitment of adoptive parents. The number of New Jersey children in need of adoption is increasing, while the availability of adoptive homes/families is not keeping pace with this increase. The fiscal 1998 Human Services Budget also includes an additional \$550,000 to establish a Program of Assertive Community Treatment (PACT) team to supplement the 27 PACT teams already established through the Marlboro closure initiative. PACT teams are designed to divert individuals with mental illness from State mental hospitals by providing appropriate treatment and support to individuals so that they can live instead in the community.

This budget also includes \$8.5 million for a 2% cost of living increase effective January 1, 1998 to community providers who care for the clients of the Department.

WORK FIRST NEW JERSEY

New Jersey's welfare assistance programs will be reformed in fiscal 1997 to conform to the new Federal welfare law. Federally funded benefits will basically be limited to five years over an adult's life.

The Work First New Jersey (WFNJ) program is designed to increase the economic self-sufficiency of individuals and families who receive public assistance by requiring participation in work activities for those needing assistance in entering the labor market. Work activities will emphasize jobs skills training in the work place rather than in the classroom. While adults will be required to take personal responsibility in moving toward self-sufficiency, in most instances, a viable safety net will be maintained to protect children. WFNJ encourages work by permitting clients to keep a greater share of their cash assistance when starting employment.

Recommended state funding for the Division of Family Development (DFD) in fiscal 1998 is \$448.2 million. These funds are supplemented by a federal Temporary Assistance to Needy Families (TANF) block grant of \$404 million and a federal Child Care block grant of \$66.6 million. A major policy strategy reflected in the design of Work First New Jersey includes the re-investment of program savings and increased federal funding for child care and other services that support the growing number of working recipients.

To meet federally mandated client work participation rates of 30% in fiscal 1998, an additional \$49.4 million in state and federal funds compared to fiscal 1996 will be provided to assist clients in job preparation and placement activities and with transportation allowances. Food Stamp clients for the first time will be required to participate in work activities or lose their benefits.

A federally mandated cap of 15% on program administrative costs will result in reduced spending of \$10 million in federal funds. The reinvestment of state and federal funds for information systems technology of \$42.8 million in fiscal 1997 and \$28.7 million in fiscal 1998 will make administrative reductions possible and will result in a more efficiently operated welfare program.

Child care represents the single most important work support not only for the increasing numbers of WFNJ families but for working poor families as well. More than \$105 million in state and federal funds is recommended for child care for New Jersey families in fiscal 1998, an increase of \$27.1 million over fiscal 1996 spending. Changing to a single child care administrative entity in each county will result in savings of \$12 million state and federal funds in fiscal 1997 and in fiscal 1998 that will be reinvested in increased child care.

Personal responsibility and self-sufficiency by age 18 is the goal under WFNJ for teen parents. They will be required to attend school to receive benefits. Teen parents will no longer be permitted to obtain their own welfare grant by living independently but will be required to live at home or in an adult-supervised setting. Almost \$3 million is recommended for community teen homes.

An average family receiving TANF cash assistance is composed of a single parent and two dependent children. That family receives a maximum of \$424 per month in welfare assistance payments and is eligible for Food Stamps and Medicaid.

Legal aliens who are denied benefits under the federal Supplemental Security Insurance program as a result of recent changes in federal law will be

eligible for limited benefits under WFNJ. Needy single individuals and married couples without children receive \$140 per person per month if able to work and \$210 if disabled. Recipients are also eligible to receive homemaker services, pharmaceuticals, physicians' services, and employment and training services in select locations. Almost 7,500 recipients will receive temporary rental assistance and emergency housing assistance in fiscal 1998. Implementing new efficiencies in the pharmaceutical program for single individuals and married couples without children will save \$6 million through improved eligibility verification at point of sale, through rebates, and through pharmaceutical fee dispensing controls.

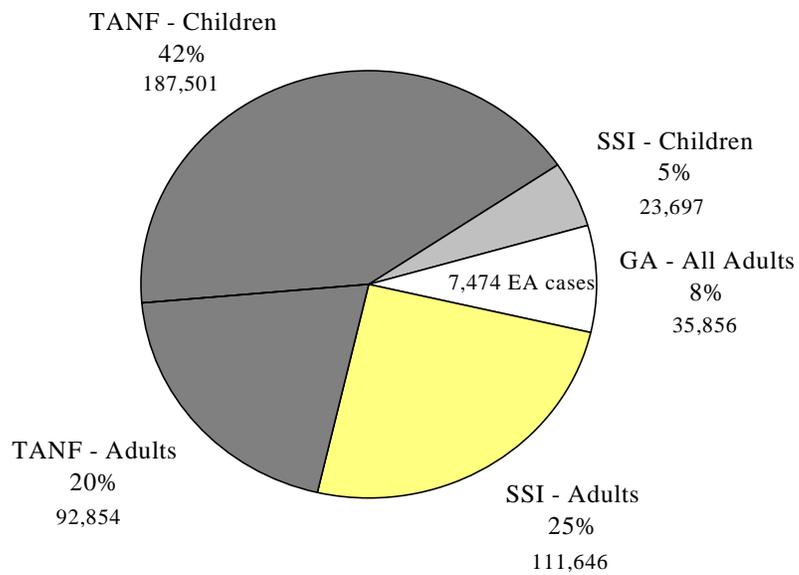
**INCOME ASSISTANCE PROGRAMS
FISCAL 1998 BUDGET
(\$ IN MILLIONS)**

INCOME ASSISTANCE PROGRAM	STATE FUNDS	FEDERAL FUNDS (1)	LOCAL FUNDS	TOTAL FUNDS (2)
WORK FIRST NEW JERSEY (WFNJ)	\$ 342.8	\$ 404.0	\$ 17.1	\$ 763.9
CHILD CARE	\$ 38.7	\$ 66.6	\$ -	\$ 105.3
Supplemental Security Income (SSI)	\$ 66.7	\$ -	\$ -	\$ 66.7
County Pass Thru Funds	\$ -	\$ 131.2	\$ -	\$ 131.2
Other Federal	\$ -	\$ 82.4	\$ -	\$ 82.4
TOTAL	\$ 448.2	\$ 684.2	\$ 17.1	\$ 1,149.5

- (1) Federal Funds include total welfare block grant funds and exclude Federal SSI funds of \$769.7 million.
- (2) Excludes \$155 million in WFNJ municipal, county, and Judiciary administrative funds.

NEW JERSEY INCOME ASSISTANCE PROGRAMS FISCAL YEAR 1998 CASELOAD

NUMBER OF INDIVIDUALS



COMMUNITY, SOCIAL AND INSTITUTIONAL SERVICES

COMMUNITY AND SOCIAL SERVICES

Community Services for the Mentally III —The Division of Mental Health Services maintains 221 contracts with private community mental health agencies and two mental health centers associated with the University of Medicine and Dentistry of New Jersey. Services are provided to persons who have previously been in psychiatric institutions, are at risk of psychiatric hospitalization, or are in need of outpatient treatment. Mental health providers will be contacted by clients nearly 258,000 times during fiscal 1998. Clinical case management ensures that clients receive services to meet their specific needs.

Clinical intervention permits clients to function as independently as possible, using a variety of services. Emergency services, provided on a 24-hour basis, assist individuals by providing crisis intervention assessment, intensive supervision, and medication monitoring. Residential services provide the least restrictive environment necessary to ensure safety and help the client live independently. Partial care services provide several hours of daily program involvement to increase the client's independence and community living skills. People who are not in an immediate crisis are treated on an outpatient basis; such services may include individual, group, or family therapy, medication monitoring, and clinical assessment.

In fiscal 1996, a major initiative was undertaken to reduce the overall population of the major State psychiatric hospitals and to relocate patients into community programs with support services to prevent readmission to a psychiatric hospital. Community treatment often provides an alternative to institutionalization for adults and children.

Community programs will continue to expand over the three-year period preceding the closure of Marlboro Psychiatric Hospital by June 30, 1998. An integrated case management program will monitor treatment for 18 months for all patients discharged from the State hospitals. Over fiscal years 1996 to 1998, "Bridge" funding to support the creation of expanded community mental health service infrastructure will total \$36.1 million. The ongoing operational support for these community placements will be redirected from the Marlboro Psychiatric Hospital budget as patients are discharged.

A total of 322 patients, who formerly resided in State psychiatric hospitals, are being placed into new community residential settings. The supervised settings include group homes, assisted living arrangements for the elderly, clustered apartments, supportive residential health care facilities, and consumer supportive housing.

A total of 180 State hospital beds will be reduced through a variety of new hospital diversion programs which are designed to prevent admission or readmission to the State psychiatric hospital system. The diversion programs provide expanded community mental health services for 3,171 clients. The Program for Assertive Community Treatment (PACT) program, a new intensive mobile treatment program will be available 24 hours per day, seven days per week. PACT is designed to address the needs of people with mental illness who have not fully responded to traditional methods of treatment. The range of direct services include: on-going mental health treatment, medication education, counseling, assistance in meeting basic social service needs, and assistance with activities of daily living. PACT teams are composed of seven to nine professionals and paraprofessionals from various disciplines (i.e. physicians, nurses, social workers). Each team has a caseload of 56 - 72 clients. A total of 27 teams will be operational in 14 of the State's 21 counties. The cost of each client served through a PACT team is less than one tenth of the cost of care in a state psychiatric hospital. Other community programs designed to divert admission to the State psychiatric hospitals include drop-in centers, intensive family support services, supported housing, and crisis residence.

A total of 180 Marlboro patients will transfer to Trenton Psychiatric Hospital and Ancora Psychiatric Hospital to continue their residential inpatient treatment and a total of 75 dual-diagnosed hospital patients will be transferred to the Division of Developmental Disabilities which will be responsible for their care.

A total of 100 new beds will be constructed at Senator Hagedorn Gero-Psychiatric Hospital to address the realignment of hospital admissions following the Marlboro closure.

In fiscal 1998 the budget recommendation contains three initiatives related to mental health community programs. A cost of living adjustment for the community mental health providers equal to a 2% annual increase. An additional \$550,000 is

Human Services

recommended to create an additional PACT team for the region with the highest number of state hospital admissions. Also included is \$1 million to pay for the Department's participation in the SHORE-EASY program.

SHORE-EASY (Shore Homeownership Opportunities, Restoration and Economic Assistance Strategy) has been developed for de-populating low quality boarding and rooming houses and residential healthcare facilities in communities where large concentrations of such facilities have developed. The plan attempts to alleviate overcrowding by relocating some of the occupants of these troubled boarding and rooming houses to units and homes where support services will be provided.

SHORE-EASY sets forth the following four goals:
Operation Relief -- Improve communities and eliminate boarding and rooming houses that do not contribute to the welfare of the community or its residents.

Operation Repair -- Provide resources to help citizens who want to operate decent and safe facilities.

Enhanced Enforcement -- Provide free training and technical assistance services to municipalities in licensing and inspection procedures.

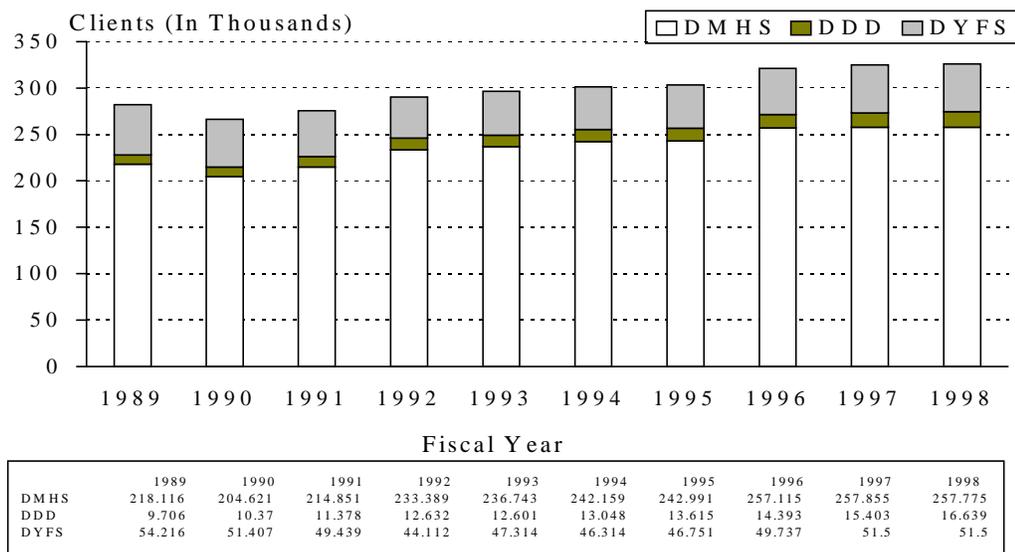
Proper Placement and Community Safeguards -- Track and provide data to avoid clustering and saturation of de-institutionalized and other vulnerable persons who are relocated.

Youth and Family Services—The Division of Youth and Family Services (DYFS) is the State's primary provider of social services within the community. DYFS focuses much of its activity on abused, neglected, and delinquent children and their families. Current projections indicate that approximately 51,500 children will be served during fiscal 1998.

Services may be provided directly from the Division or from community agencies contracted under its supervision. The fiscal 1998 Budget provides a cost of living increase of \$2.8 million for those community service providers under contract with the Division.

The Division's substitute care programs offer both temporary and permanent care to clients whose needs prevent them from remaining in their own homes. Foster care is for children whose families are unable to provide appropriate care for them. Adoption subsidies are provided to encourage the permanent placement of children with special needs. The number of foster care placements and adoption subsidies are each expected to reach approximately 6,000 in fiscal 1998.

Clients Served Community Care Programs



Recognizing that the number of New Jersey children in need of adoption is increasing and that the availability of adoptive homes is not keeping pace with this increase, a comprehensive adoptive family recruitment initiative, funded at \$600,000, is included in the fiscal 1998 Budget. This program will include public service announcements, grants to neighborhood and church groups, public service billboards, and the initiation of an Adoption Partnership Board as well as other recruiting activities to expand the availability of adoptive homes.

Private and state-operated residential treatment centers provide a more intensive educational and supportive environment for children who are hard to place. It is anticipated that approximately 1,203 children (89 in state facilities and 1,114 in private centers) will be served under this program this fiscal year at a cost of \$67 million.

Community-based family support services are designed to assist families in crisis and to preserve and strengthen families. One of these supports, "wrap-around" services, provide a network of family-oriented services individually tailored around a child with serious emotional or behavioral problems. Other contracted services developed and monitored by the Division include homemaker, companionship, employment, housing, legal, and psychological services.

Another major component of DYFS community services is child care, which is funded at \$46 million in this Budget. DYFS subsidizes approximately 215 community day care centers throughout the state and also provides day care vouchers, which gives families the ability to purchase the type of day care that best suits their needs. Beginning in fiscal 1998 the Department of Human Services will change to a single child care administrative entity in each county. This initiative will yield \$12 million in savings that will be reinvested to expand child care services.

This Budget maximizes available federal funds. Reimbursements for foster care case management and related services will result in over \$9 million in savings to the state. DYFS is also presently seeking federal accreditation of selected private children's residential facilities to generate an additional \$1.5 million in new federal reimbursements.

Community Services for the Developmentally Disabled- The Division of Developmental Disabilities offers a wide array of residential and support services for individuals in community

settings. Residential programs include group homes, supportive living arrangements, supervised apartments, skill development homes, family care homes, and private institutional placements. Individuals residing in family care homes lead productive lives with very little supervision. Most have full-time jobs and are active members of the community. Group homes offer around-the-clock staff supervision with most of the residents participating in an adult day program.

Many individuals participate in adult day care programs, which include adult activities, supported employment, and extended employment programs. School aged children receive day training. Respite/home assistance programs provide families short-term relief from the often difficult task of caring for a developmentally disabled family member at home.

The fiscal 1998 budget recommendation includes a State initiative for \$4 million to further reduce the community services waiting list. This initiative provides for a total of 700 residential placements and 335 adult activity placements. When fully implemented, the community waiting list reduction initiatives initiated since fiscal 1995 will amount to \$61.5 million annually, and place a total of 1,363 individuals in community residential programs and 575 individuals in adult day care activity programs. In an effort to avoid costly out of home placements, and keep families together, \$2 million has been allocated for expanded family support services.

Over the years, the Community Services Waiting List has grown by approximately 400 clients annually. Except for a small number of individuals who have declined services, everyone who was in the urgent category of the waiting list in fiscal 1995 has either been provided with a community residential service or will have a program developed for them by the end of fiscal 1998.

Community programs will grow as a result of closing the North Princeton Developmental Center. A final \$1.1 million for a total of \$11.3 million "Bridge" appropriation will complete the funding needed to conclude the development of community placements allowing the residents of North Princeton to be relocated over a two-year period ending this fiscal year.

An innovative selection process referred to as Person-centered planning is being employed to determine the final residences for individuals who are to be relocated. This process relies heavily on the needs and preferences of the developmentally

Human Services

disabled individual and of their family. When individual preference and community involvement are factors in placement selection, satisfaction and success levels are increased.

This Budget recommends funding for the continued placement of 588 individuals in private institutions. The conversion of the Vineland Training School from a private institutional facility to community based residential programs is a positive development and in large part responsible for the decline of the private institutional census by 220 individuals.

INSTITUTIONAL CARE

Psychiatric Hospital Care—The State maintains seven psychiatric hospitals to serve voluntarily admitted or legally committed persons with mental illness. The facilities include one geropsychiatric facility for those who have an additional need for nursing and medical care and one facility for pre-adolescent school age children and adolescents who have been legally committed.

New Jersey counties operate a total of six psychiatric hospitals. State aid to counties provides funds for 90 per cent of the maintenance costs of county patients. The total billable average daily population of patients residing in these facilities is estimated to be 730 for fiscal 1998. The largest population is at Essex, averaging 304 and the smallest at Union, averaging 14.

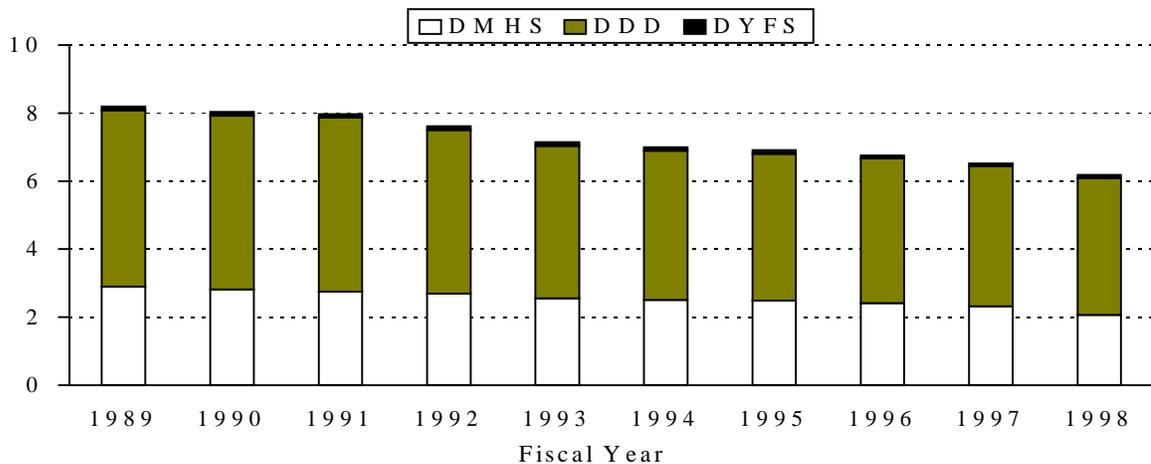
A new forensic hospital has been constructed on the grounds of Trenton Psychiatric Hospital. The Forensic Hospital will now be able to attain certification, making it eligible for \$10 million in cost reimbursements under the federal Medicare and Medicaid programs.

In fiscal 1998, the number of patients at the mental health institutions is anticipated to average 2,068. The largest facility, Ancora Psychiatric Hospital, is anticipated to average 587 patients a day. The smallest facility, Arthur Brisbane Child Treatment Center, is anticipated to average 40 patients per day. When Marlboro closes toward the end of fiscal 1998, the psychiatric hospital population will change from 2,068 to 1,834.

The psychiatric hospitals provide medical intervention, a protective therapeutic environment, and various rehabilitative, vocational, and treatment services. The goal of treatment is to prevent acute illness or to limit its duration so that patients can return to the community as rapidly as possible, with community care support if necessary.

A total of \$16.2 million is included in the fiscal 1998 recommendation which will provide "Bridge" funds to develop community placement programs for patients prior to being discharged to the community.

Average Daily Population Institutions



	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
DMHS	2.9	2.814	2.752	2.696	2.556	2.512	2.488	2.415	2.316	2.068
DDD	5.178	5.109	5.11	4.8	4.478	4.383	4.316	4.259	4.123	4.025
DYFS	0.121	0.112	0.107	0.115	0.113	0.105	0.105	0.08	0.08	0.089

Developmental Centers—New Jersey’s eight developmental centers provide residential, habilitation, and educational services for the developmentally disabled. These facilities traditionally have been viewed, by the public, as places that provide food, shelter, and basic care for their residents.

In fiscal 1998, when North Princeton Developmental Center is closed, an estimated 3,729 individuals will reside in the remaining centers, a reduction of 1,449 from the 5,178 residents living in institutional facilities in fiscal 1989. New Jersey is committed to

reducing the populations in developmental centers while providing a wide variety of residential and support services in the community.

Efforts have been made to reduce the number of beds that do not meet federal certification standards. Certified beds provide for federal cost sharing on a 50-50 basis. Overall, New Jersey will have reduced the number of non-certified beds, those that do not provide for active client treatment, from 1,464 in fiscal 1989 to 224 in fiscal 1998 through the expansion of community care alternatives and the conversion of bedspace to certified status.

**COMMUNITY CARE PROGRAMS
APPROPRIATED DOLLARS**

(\$ in Thousands)

Program	State	Federal and All Other	Total
Division of Mental Health Services	\$ 164,906	\$ 12,720	\$ 177,626
Division of Developmental Disabilities	190,200	192,418	382,618
Division of Youth and Family Services	223,011	85,647	308,658
TOTAL	\$ 578,117	\$ 290,785	\$ 868,902

**INSTITUTIONAL PROGRAMS
APPROPRIATION DOLLARS**

(\$ in Thousands)

Program	State	Federal and All Other	Total
Division of Mental Health Services	\$ 213,787	\$ 1,611	\$ 215,398
Mental Health Services - County	76,000	---	76,000
Division of Developmental Disabilities	197,109	117,456	314,565
TOTAL	\$ 486,896	\$ 119,067	\$ 605,963

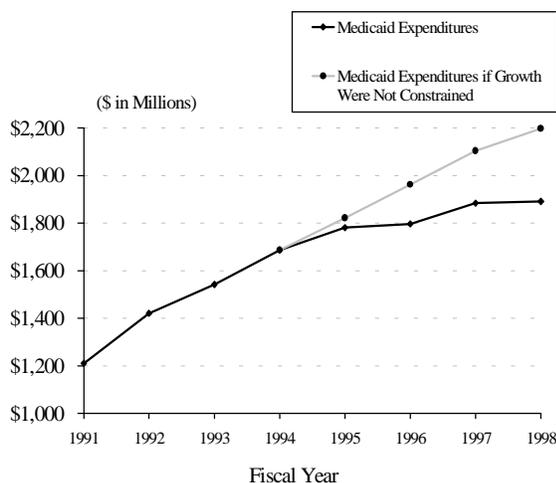
Medicaid

Medicaid is the State's principal health care program for the needy. It is administered by the Department of Human Services (DHS) in cooperation with the Department of Health and Senior Services. Medicaid covers a full range of inpatient and outpatient hospitalization services, physician visits, dental care, prescription drugs, medical supplies, medical transportation, home health services, and long-term care.

The State is undertaking a major managed care initiative. Managed care provides the full scope of traditional medical services, with a special emphasis on preventive medicine and early detection and treatment of medical conditions. Medicaid Managed care is currently being provided under contract with fourteen health maintenance organizations (HMOs) licensed to operate in the State.

State expenditures for Medicaid Grants-in-Aid in fiscal 1998 will be \$1.304 billion in the DHS Division of Medical Assistance and Health Services and \$594 million in the Department of Health and Senior Services, for a total of \$1.898 billion. Over the last four years, New Jersey has aggressively constrained the growth of Medicaid through the implementation of cost efficiencies, recoveries, innovative initiatives and managed care, thereby saving taxpayers nearly \$300 million per year compared to previous spending trends.

ACTUAL STATE MEDICAID EXPENDITURES COMPARED TO EXPENDITURES IF GROWTH WERE NOT CONSTRAINED



The central policy dilemma of Medicaid is to balance the goals of controlling expenditures, providing access to quality care, and maintaining or extending programs to meet the health care needs of the needy and uninsured.

Many Medicaid beneficiaries gain eligibility through participation in various federal and State cash assistance programs. The largest group of eligible persons are families and children, formerly eligible through the Aid to Families with Dependent Children (AFDC) program. This program will soon be replaced by the Work First New Jersey (WFNJ) program. Families and children will be eligible by meeting income and resource eligibility criteria. Although WFNJ participants are the largest group of Medicaid eligibles, comprising 65% of all eligibles, the group's size has been declining in recent years. Expenses paid for health services utilized by this group account for only 23% of Medicaid expenditures.

The second largest group of recipients are the aged, the blind, and people with disabilities, who have been increasing in size in recent years. The medical and health needs of this group tends to require a more intensive and costly level of service such as hospitalization, nursing home care, and intensive community care. Aged persons comprise 11% of all Medicaid beneficiaries and account for 28% of all expenditures. Individuals with disabilities and the blind comprise 20% of all Medicaid beneficiaries and account for 32% of expenditures.

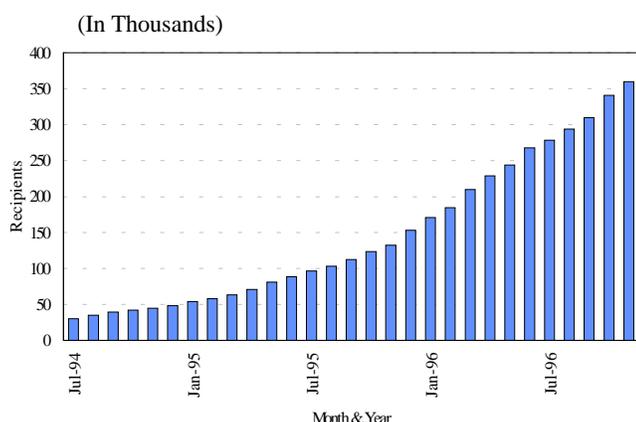
Medicaid beneficiaries in government institutions represent less than 1% of Medicaid beneficiaries but account for an additional 8% of Medicaid expenditures. The remaining 9% of expenditures include services provided to the developmentally disabled and other services offered by the Division of Youth and Family Services.

MANAGED CARE

Beginning in June 1995, the State began phasing in mandatory managed care for AFDC clients. Total Medicaid managed care enrollment (AFDC and other related categories) has reached 410,000 with 90% of all enrollees voluntarily selecting the participating HMO of their choice. By the conclusion of Fiscal 1997, 430,000 Medicaid clients will be in managed care thereby covering 94% of all potential beneficiaries.

The cost efficiencies of the Medicaid managed care system have resulted in annual savings of \$33 million to the State, and provides many beneficiaries with their first continuous primary care provider. Further savings will be realized in Fiscal 1998 as the managed care industry matures and new efficiencies and economies of scale are realized. Current projections indicate that long-term savings in the Medicaid program can be attained from an emphasis on preventive health care to avoid other more costly medical care.

Medicaid Beneficiaries Receiving Managed Care Services July 1994 to November 1996



MANAGED CARE FOR BEHAVIORAL HEALTH

The Department of Human Services will be implementing a Medicaid, mental health, managed care program on a phased-in basis, scheduled to begin in March 1998. The program introduces a new concept in the delivery of behavioral health services for Medicaid beneficiaries. The goal is to better manage behavioral health care to reduce duplicative or fragmented service coverage to individuals with mental illness or substance abuse problems. This initiative complements the Department's Programs of Assertive Community Treatment (PACT) team initiative to more aggressively treat individuals who, without community intervention will cycle in and out of the State psychiatric hospital system. This method of service management is expected to reduce expenditures through market competition and promote administrative consolidated efficiencies.

MEDICAID INITIATIVES

Medicaid is developing strategies which promote administrative efficiencies and payment economies.

New initiatives include additional fraud and abuse detection and prevention measures, and claiming federal matching funds for HMO-provided family planning activities. Through aggressive measures to fight Medicaid fraud and abuse, and to close unintended loopholes, the State of New Jersey will save \$30 million in Fiscal 1998.

MEDICAID EXPANSIONS

The Medicaid program serves those who would otherwise be part of the growing pool of persons who have no resources for health care. Individuals without health care insurance tend to receive limited health care, particularly preventive health care, reducing the overall well-being of the State's population. The expansion of Medicaid programs reduces the level of uncompensated care in the State and provides services to persons before a health crisis develops.

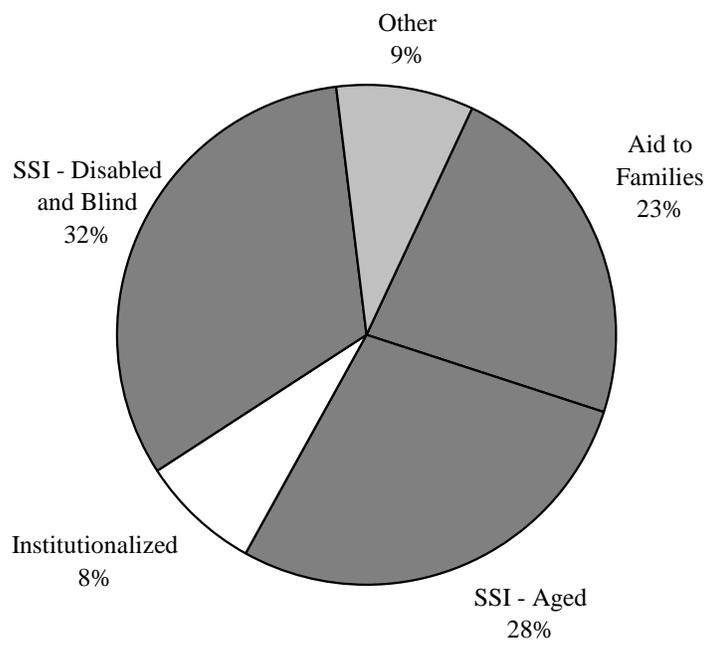
To better serve New Jersey, Medicaid services have been made available to New Jersey residents with incomes above cash assistance eligibility limits up to and beyond the Federally set poverty level.

The first expansion of Medicaid beneficiaries included pregnant women, children up to age two, and the aged, blind, and disabled persons with incomes up to 100% of the poverty level. A subsequent expansion allowed Medicaid coverage for pregnant women and infants with family income up to 185% of the poverty level. Additional Federal legislation has allowed Medicaid coverage for children under the age of 6 up to 133% of the poverty level. The State is phasing in coverage for children born after September 30, 1983 up to 100% of the poverty level. Presently, children as old as 13 years of age can qualify for Medicaid, and coverage will continue to expand to cover children up to age 19.

LONG-TERM CARE

Medicaid has long utilized home health and community care programs to forestall the need for elderly and disabled Medicaid beneficiaries to enter nursing homes. This practice enables Medicaid clients to remain in their own homes and costs less than traditional nursing homes. Recognizing that there should be a wider range of more appropriate and less costly alternatives for frail and incapacitated persons than just traditional nursing homes, the Department of Health and Senior Services is also beginning to develop new modes of long-term care.

Percentage Expenditure by Category of Eligibility



The Department of Labor is at the center of the State's assertive efforts to develop a State based and locally delivered "Workforce Readiness System." It provides employment, training and education services that meet the needs of all citizens and are cost effective and efficient. The Department also provides accountability and promotes sustainable economic growth into the 21st century. The State's Workforce Readiness System is part of a nationwide effort to establish a world-class workforce that can compete in the global marketplace.

Major departmental responsibilities include:

- providing employment opportunities and marketable skills training to the state's workers, job seekers and students;
- encouraging and supporting businesses to create workplaces where high skill adds value to goods and services;
- overseeing income maintenance to the unemployed and disabled during employment search or temporary disability; and
- ensuring safety in the workplace.

The Department has worked closely with the Departments of Commerce and Economic Development, Community Affairs, Education, and Human Services, and the Commission on Higher Education to develop policies which will help the State to deliver its programs and services in a more cohesive and efficient manner. These policies have been formalized in a report by the Department's State Employment and Training Commission entitled "A Unified State Plan for New Jersey's Workforce Readiness System." The Plan is the State's blueprint for delivery of workforce readiness services at the local level.

Major initiatives being pursued during fiscal 1998 that will have a long term, positive impact on New Jersey's work places and its current and future workforce include the One-Stop Career Center System and Workforce Investment Boards.

One-Stop Career Centers will be strategically located throughout the state as a core component in providing high quality comprehensive employment, training and education services in the Workforce Readiness System. Local Workforce Investment Boards are partnerships of private and public sector members established to transform federal, State and local workforce policies, programs and services into a single local labor market system that is closely

linked to New Jersey's Unified State Plan objectives, overall economic development and job creation strategy.

The Department's operating budget totals \$387 million (excluding the Public Employment Relations Commission). Of this amount, \$330 million are federal funds, \$28 million are Trust funds and \$29 million are direct State appropriations.

Within State appropriations, increased funding in the amount of \$248,000 will be provided to expand vocational rehabilitation services to an additional 706 clients and to provide a cost of living increase. It will also serve individuals participating in the Independent Living Program, which is designed to teach independent living skills beyond employment assistance. Funding for areas such as Planning and Research and the Board of Mediation is provided through penalties collected within the Unemployment Insurance Auxiliary Fund.

TRUST FUNDS

Trust funds comprise \$28 million of State funds. Administrative costs associated with several trust and special revenue funds such as Special Compensation and Workers' Compensation are supported entirely through funding dedicated for specific purposes. These funds provide income maintenance benefits to individuals. In addition, Workforce Development is supported primarily through a Trust fund which provides an income maintenance extension of up to 13 weeks if required for an individual to complete training.

Workforce Development

The Workforce Development Partnership Program is funded through an assessment on workers and their employers. In January 1996 the program was made permanent. A model program for other states, Workforce Development grants are awarded to individuals seeking to enhance existing job skills or to retrain for new skills and to private companies under the customized training component of the program. Customized training grants encourage companies to be more competitive and productive and are a key incentive for retaining and attracting businesses. Since January 1, 1994, the program has encouraged New Jersey's economic development efforts through:

- \$56.8 million in grants to individual companies and consortia;

Labor

- 604 companies served;
- 61,588 workers trained.

78% of customized training grants awarded have gone to the manufacturing sector to encourage the retention of high technology, high wage manufacturing jobs. The service and transportation industries comprise the majority of the remainder of employer grants awarded to date. Most grant recipients are companies with fewer than 250 employees (67%). Approximately 50% of grant recipients are unionized.

CUSTOMIZED TRAINING PROGRAM				
January 1, 1994 to December 31, 1996				
	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>Total</u>
Grant				
Awarded	\$14.0 m	\$19.8 m	\$23.0 m	\$56.8 m
Matching				
Dollars by				
Companies	\$24.2 m	\$36.7 m	\$45.3 m	\$106.2 m
Number of				
Companies	144	132	328	604
Number of				
Individuals				
Trained	13,140	23,478	24,970	61,588

Unemployment Insurance

The Unemployment Insurance (UI) Program is a State-administered, federally-funded program. In New Jersey, benefits are financed through employer and employee taxes.

Currently, there are 35 local offices statewide where citizens may register for unemployment benefits. Claimant traffic in local offices has been reduced during the past year through a telephone voice certification process which allows eligible UI claimants to certify weekly benefits over the telephone and to receive benefit checks via the mail rather than revisiting the local office.

Special Compensation and Workers Compensation

The Special Compensation Fund provides benefit payments to totally and permanently disabled workers to encourage employment of individuals with disabilities. This fund is financed by an annual assessment on insurance carriers and self-insurers

based on the amount of compensation paid during the preceding calendar year.

The Department is also responsible for administering the separate Workers' Compensation law, including the payment of benefits. There are eighteen Workers' Compensation branch offices located throughout the state. The program is supported with annual assessments imposed upon insurance carriers and self-insured employers. For 1997, worker compensation rates dropped for the second consecutive year, which was the first time in a decade that rates have gone down two years in a row. For 1996, rates were reduced by 3.8 percent, the first decrease since 1989. For 1997, rates dropped by an average of 11.2 percent. At the same time, benefits to injured workers increase to a maximum benefit of \$496 a week. The minimum benefit increases to \$132 a week.

In an effort to control costs, plans are ongoing to consolidate and upgrade several of the workers' compensation hearing facilities, many of which are utilized on a part-time basis. This fiscal year, the Mount Arlington office opened serving the counties of Morris, Sussex and the northern half of Warren. As a result of this consolidated facility, the facilities in Newton and Morristown were closed. Future plans call for the consolidation of county facilities in Hunterdon, Somerset and the rest of Warren into one facility located in the Clinton area. The consolidation and upgrade of district offices will improve service delivery to the public and increase efficiency by eliminating partially-staffed and underutilized offices.

In fiscal 1997, the Workers Compensation Program will shift from costly mainframe computing to a client-server personal computer based system. The new PC system will meet the future administrative, operational and technical needs of employers, insurance carriers, and legal practitioners. One of its important features will be the ability to capture statistical data and to cross-match information with databases of other systems throughout State government. This statistical data will be used to help employers identify operational areas where they can improve safety and control costs.

ONE-STOP CAREER CENTERS AND WORKFORCE INVESTMENT BOARDS

The creation of New Jersey's One-Stop Career Centers, the core of the State's Workforce Readiness System, will provide customers -- workers, employers, job seekers and those seeking to upgrade their skills -- with access to high quality

comprehensive workforce readiness services. Beginning in 1995, New Jersey received a \$12.9 million three year federal grant to integrate all training related programs to improve service delivery for job seekers and employers. Known as Workforce New Jersey, the State's one-stop implementation plan focuses on the use of technology and staff training.

One-stop will create a seamless integration of programs to ensure that customers are provided with all the information and necessary services they may require. A successful One-Stop Career Center will provide the customer a full range of employment, training, educational and social services. The One-Stop Career model represents systemic change, not simply rearranging existing programs. There are four operating one-stop centers located in Middlesex/Somerset/Hunterdon, Camden, Bergen, and Cumberland/Salem Counties. Their key achievement was uniting service providers from the Departments of Commerce and Economic Development, Community Affairs, Education, Human Services, Labor and Military and Veterans' Affairs to implement One-Stop systems at the local level. Experiences of the four counties will be used to guide the statewide implementation of these services. It is anticipated that an additional 11 centers will be operating in fiscal 1998.

The Work First New Jersey Program (Human Services) will be an integral part of the one-stop network. Work First is the bridge to employment for welfare recipients, with emphasis on employment while providing support services. Beginning later in fiscal 1997, increased assistance will be provided to clients in job preparation, placement activities and work supports as program priorities shift from education and long-term training to immediate job placement.

Executive Order #36 established Workforce Investment Boards (WIBs) at the county level to plan and coordinate delivery of these workforce readiness services at the local level based on a framework established by the State in the Unified State Plan.

These local WIB partnerships of private and public sector participants give employers a prominent role in the organization and delivery of workforce readiness services at the county or multi-county level. Each Workforce Investment Board follows a long-term strategic plan developed for their area; these written plans are updated annually to identify critical areas of need for both employers and individuals and communicated to the State for

review. These changing needs will create a continuum of Unified State Plan policy reforms designed to ensure ongoing improvements in employment, training and education throughout the State.

PUBLIC EMPLOYMENT RELATIONS COMMISSION

The Public Employment Relations Commission (PERC) is an independent agency within the Department of Labor which resolves disputes between public employees and their employers. PERC, along with the PERC Appeal Board, has a combined budget of \$2.6 million.

The New Jersey Employer-Employee Relations Act of 1968 established PERC's authority. The Act has been amended several times, with the most recent being the Police and Fire Public Interest Arbitration Reform Act of 1996. This Act significantly broadened PERC's responsibilities by amending the process of resolving negotiation impasses between public employers and local organizing units. The major responsibility given to PERC is the review of appeals of interest arbitration which was previously the responsibility of the Superior Court. Also, PERC must collect and analyze data and provide arbitrators with statistics and information. The Commission is required to prepare biennial reports to the Governor and Legislature detailing the effects of the Act on negotiations and settlements between local governments and their police and public fire departments.

PERC's budget includes funding for computer upgrades to carry out new responsibilities of the Police and Fire Public Interest Arbitration Reform Act. Technology upgrades are estimated at about \$700,000; a first year appropriation will be approximately \$163,000. With a master lease agreement, costs will be spread over a five year period, decreasing the amount of up front costs required to do a massive computer upgrade.

Computer upgrades will allow better work flow and will ensure timely case management updates, thus increasing productivity and efficiency. Technology upgrades will also allow interface with clients, State agencies, and shorthand reporter services that are fundamental to the PERC carrying out their responsibilities of the Interest Arbitration Law.

Law and Public Safety

The Department of Law and Public Safety, under the direction of the Attorney General, is the State's primary civil and criminal law enforcement agency. The Department's fiscal 1998 recommended budget, including operating, State Aid and Grant-in-Aid funding, totals \$353.3 million.

In addition to law enforcement, the Department is also responsible for protecting consumers and civil rights; providing legal services to state agencies; and regulating the alcoholic beverage, boxing, and racing industries. The Office of Highway Traffic Safety manages a variety of federally funded programs that reduce and prevent traffic accidents and fatalities.

In addition, four agencies are administratively located "in but not of" the Department of Law and Public Safety: the Election Law Enforcement Commission; the Executive Commission on Ethical Standards; the Violent Crimes Compensation Board; and the new Juvenile Justice Commission.

LAW ENFORCEMENT

The recommendation for the Division of State Police is \$162.1 million to continue providing services including investigation, arrest, and prosecution related to organized crime, racketeering, narcotics, and white-collar crime; ongoing patrol functions that deter criminal and traffic violations; response to toxic and hazardous materials accidents; and assistance in statewide efforts to provide a clean environment for the citizens of the State.

Efforts made by the State Police to keep the State's highways safe and to deter criminal activity through regular patrol activities and criminal investigations will be further enhanced by the addition of the 117th State Police Class, which is expected to graduate in October of 1997. This is the fourth class of State Police officers to graduate during this administration, bringing the total number of graduates to 379. The presence of a highly trained and well staffed State Police force ensures the protection of citizens.

The Division of State Police is also recommended to receive an additional \$4.0 million appropriation for the purchase of marked and unmarked pursuit vehicles bringing the total State Police funding for vehicle purchases to more than \$22.3 million since fiscal year 1995.

The Division of Criminal Justice and Office of the State Medical Examiner and Medical Examiner Services provide less visible but equally important

functions, such as investigating all violent and suspicious deaths, enforcing the State's antitrust laws, prosecuting criminal activities in the state, and disrupting and eradicating organized crime groups and related illicit enterprises. Medical examiner services including pathology and toxicology will again be contracted with each of the 21 counties. In order to complete the phase-in of the new Health Insurance Fraud Unit, which will begin operating in early 1997, an additional \$.9 million will be added in fiscal 1998 to bring full year funding for the program to \$1.5 million.

The recommended appropriation for the Safe and Secure Communities program is \$3.6 million for fiscal 1998. This program will continue to keep approximately 370 police officers on the street. To date, over \$45.6 million has been passed on to municipalities for police personnel and equipment grants.

JUVENILE JUSTICE COMMISSION

With the creation of the Juvenile Justice Commission in 1996, New Jersey's juvenile justice system has one agency which combines and coordinates programs previously operated in the Departments of Law and Public Safety, Corrections, and Human Services. The recommended fiscal 1998 funding level for the Commission totals \$87.6 million, including federal funds.

The operating budget for the administration of the Commission, two juvenile correctional institutions, and community residential and day programs totals \$54 million. The two juvenile correctional institutions, the New Jersey Training School for Boys in Jamesburg, the Juvenile Medium Security Center in Bordentown and their satellite units, house approximately 770 juvenile offenders.

Fiscal 1997 initiatives improving the quality of drug counseling, case management, and crisis intervention services at the Jamesburg institution are recommended to continue.

Since its inception in fiscal year 1996, approximately 100 offenders have graduated from the juvenile boot camp program which provides a daily routine of discipline, physical exercise, work, education, as well as counseling in various areas including substance abuse, vocational training, and self improvement, followed by an intensive aftercare phase.

More than 800 juveniles are provided treatment and educational services in State-operated and

contracted community residential and day treatment programs. These programs will continue to provide an alternative to incarceration for those juveniles who respond more effectively to less restrictive, community-based programs and provide a transition to enable juveniles to integrate into society after a term of incarceration. The Juvenile Justice Commission is exploring contracting out the operations of three of its community programs on a pilot basis.

The need to further develop local community alternatives remains the impetus behind the State/Community Partnership Program. Funding for this innovative initiative is recommended at \$6.9 million in fiscal 1998. This will permit counties to continue designing and implementing early intervention programs, such as drug treatment counseling and community mentoring, as well as alternatives to incarceration, thereby reducing the reliance on State institutions and county detention centers. This program is part of a total of \$12.9 million Grant-in-Aid funding recommended for juvenile services.

CITIZENS' RIGHTS

A total of \$39.1 million is recommended in fiscal 1998 to ensure the fair, equitable and competent treatment of New Jersey consumers, as well as to protect the civil rights of individuals and to assist the victims of crime. Included in this recommendation is funding for consumer-oriented programs like the statewide inspection of weight and measuring devices, regulation of charitable organizations, and monitoring of the State's legalized games of chance laws.

The Division on Civil Rights investigates complaints or disputes related to equal opportunity in employment, housing, public accommodations and the extension of credit or making of loans. Complaints are either resolved or recommended for prosecution. The Division also promotes equal opportunity through educational outreach programs. The fiscal 1998 budget recommends an additional \$600,000 to expand investigative staff in order to eliminate a substantial backlog of cases.

The State professional boards regulate the practices of the regulated professions, occupations and trades,

including architects, medical doctors, dentists, engineers, as well as plumbers.

LEGAL SERVICES

The Division of Law has a fiscal 1998 recommendation of \$13.7 million. The Division provides legal services to all officers, departments, agencies and instrumentalities of State government, as well as County Boards of Election and Taxation. In addition to providing day-to-day counseling and advice, the Division renders written legal opinions on questions concerning constitutional and statutory authority and operations, makes appearances at State hearings, and represents the State in litigation and appeals in both State and Federal courts. Its services also include representing the State in all claims brought against the State and its employees for personal injury, property damage and contract claims. The Division also prosecutes all claims for property damage on behalf of the State.

Funding for this agency has been reduced in the past two years due to ongoing Division initiatives that improve its ability to manage its caseload and meet client demands more efficiently and effectively.

GAMING ENFORCEMENT

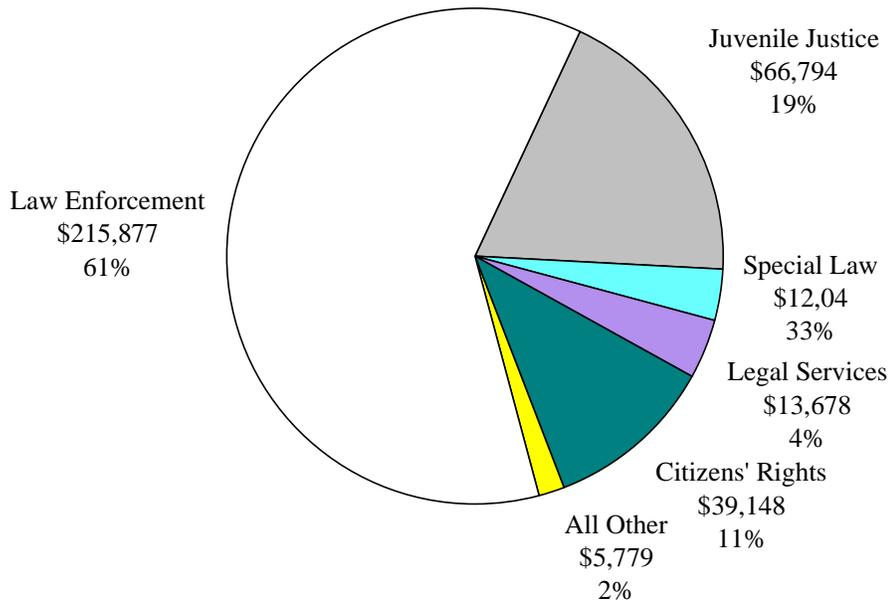
Funded from the receipts of New Jersey's casino industry, \$32.3 million is recommended for the Division of Gaming Enforcement to continue to meet its responsibilities as defined by the Casino Control Act. This includes additional funding of \$1.6 million in order to meet the increased workload that will be encountered by the Division in the near future as new casinos will begin operations. The addition of these two new casinos is further evidence that regulatory changes in the gaming laws and regulations implemented in fiscal 1996 have resulted in a more cost-effective and attractive gaming environment in New Jersey.

GUBERNATORIAL ELECTIONS

The fiscal 1998 Budget recommends an appropriation of \$8.1 million to the Gubernatorial Elections Fund to provide public financing to qualifying candidates in the 1997 gubernatorial general election.

**NEW JERSEY
DEPARTMENT OF LAW AND PUBLIC SAFETY
TOTAL FISCAL 1998 RECOMMENDED
BUDGET**

(\$ in Thousands)



The fiscal 1998 Budget for the Department of Military and Veterans' Affairs, totaling \$53 million, continues the trend of lowering costs at New Jersey's three veterans' nursing homes, without reducing services to the State's veterans. The trend of an increasing resident population and lowering costs is expected to continue as the Department manages the operations of the homes in a more efficient manner while pursuing a more aggressive collection of federal revenues.

Since fiscal 1995, management efficiency initiatives have reduced operating costs by \$1.2 million. The Department worked collaboratively with the unions to avert layoffs by reducing the employee workweek from 40 to 35 hours. The reduced workweek along with other management initiatives to control overtime costs have decreased salary costs at the three homes by over \$1 million.

While there has been a slight reduction in the resident population at Menlo Park due to the construction of a new home on that site, the daily census for the three homes has continued to increase to an estimated 856 in fiscal 1998. At the same time, the upward trend in cost was reversed from a high of \$42 million in fiscal 1995, to an estimated \$39 million in fiscal 1998. Additional cost reductions will occur when the Menlo Park facility is completed in 1998. The new home will have a capacity of 332 residents; because of its state-of-the-art design, it will be operated at a lower cost.

This Budget recommends \$25 million to fund New Jersey National Guard initiatives and programs.

The National Guard is an invaluable component of New Jersey's emergency management and planning operations. In fiscal 1997, the National Guard was called to State active duty to help preserve life and property during winter storms, flooding, and forest fires. During the Blizzard of 1996, the National Guard responded to requests from the Office of Emergency Management to transport medical personnel and patients to health care facilities, and assisted during the Delaware River flooding, providing sandbag barriers against floodwaters to safeguard the State House complex and assist in personnel evacuation.

The National Guard's continuing efforts to preserve order and public safety have developed programs that work for New Jersey. The conversion of armories into interactive community resource centers (ICRCs) has resulted in increased lease revenue, enhanced community relations, and has had positive effects on recruiting and retaining National Guard Soldiers. Over the past five years, federal funds have supported operations resulting in the seizure of over one billion dollars in illegal drugs and contraband.

In its third year of operation, the New Jersey ChalleNge Youth Program has given at-risk youths age sixteen through eighteen a chance to obtain their GED, develop a positive self-image and discipline, and achieve the skills necessary to function as contributing members of society. Since the inception of this federally-funded program, 259 students have graduated from four separate classes.

Personnel

The Department of Personnel is responsible for administering a comprehensive personnel system based on merit (the Merit System), training the State workforce, and administering the State's Equal Employment Opportunity and Affirmative Action Programs. The Department annually oversees the testing, selection and promotions for 75,000 State government employees and 112,000 local government employees. The Department's recommended budget for fiscal 1998 is \$25.4 million, a reduction of \$543,000 from the fiscal 1997 adjusted appropriation.

While certain lower priority training functions will be reduced, the Human Resource Development Institute (HRDI) will continue to provide employee training programs required to maintain certifications of State hospitals, development centers, day care centers, and case workers, enabling the State to qualify for hundreds of millions of dollars in federal reimbursement funding. HRDI training will be augmented by adjunct faculty and other contracted services.

To achieve additional savings, the Department will invest in new alternative training methods and technologies. The traditional classroom training will be replaced by converting the most commonly requested programs to CD ROM or video based format for use at individual work stations.

The Department of Personnel has begun a number of initiatives which will generate significant long term savings and result in better service. Pilot projects

are under way in 11 counties, 39 municipalities and two state agencies to reengineer the Merit System and give government agencies more choice and greater ability to evaluate and hire new employees. Instead of taking as long as 18 to 24 months to hire a new employee, Merit System reforms, instituted on a pilot basis, have reduced the time to 4 to 8 weeks or less. Reforms include a Rapid Recruitment process and the replacement of tests with a licensing and certification process.

In May 1996, the Governor directed the Department of Personnel's Commissioner to hold discussions with the State's public employee unions to see if innovative ways could be found to avert or reduce layoffs. The result was the Displaced Worker Pool, a demonstration program which is designed to save State employees from the unemployment line and pays them to work. Under the Displaced Workers Pool, employees laid off from high turnover jobs are paid their full salaries and benefits to fill jobs that would otherwise be filled by temporary employees. The program is funded by money budgeted for temporary staff and the equivalent of the amount of unemployment insurance that the State would have had to pay had the employees been laid off. Enrollment in the Pool is limited to six months, the target date by which all employees must be placed back into full time positions. After less than three months, 22 of the 26 participants have been placed back in full time jobs which is the goal of the program.

The Department of State is a core participant in developing, supporting and coordinating diverse services and programs which impact the entire State. These services and programs range from those that affect the legal and business community to voter registration, the arts, museums, and libraries. The Office of the Secretary of State develops and coordinates several programs having statewide community and business impact.

Major departmental responsibilities include:

- Supporting the arts, museum services, and the development of historical resources;
- Providing funding for general government services such as management of the State's archives and commercial records and for statewide voter registration and elections coordination;
- Adjudicating contested matters in the Executive Branch through the Office of Administrative Law, which also promulgates rules and regulations governing administrative practices and procedures;
- Providing legal and appellate services to indigent defendants in criminal cases through the Office of the Public Defender;
- Planning and coordinating the State's higher education system through the Commission on Higher Education; and
- Maintaining the New Jersey State Library.

Excluding Higher Education, the Department's operating budget totals \$94 million.

Cultural and Intellectual Development

Cultural and intellectual activities comprise \$30.4 million of the Department's \$94 million operating budget. \$15.6 million of the \$30.4 million in State funds are dedicated to library services provided through the New Jersey State Library.

The State Library, now associated with Thomas Edison College, collects and maintains library resources, providing information and other library services to the State government and the general public. Additionally, the Library provides consulting and technical assistance to institutional, public, school and special libraries.

The New Jersey State Council on the Arts, which serves as the focal point for the promotion of the arts and culture, will fund over \$10.1 million in cultural projects grants. In fiscal 1997, the State Council on the Arts awarded grants to more than 350 arts organizations. In fiscal 1998, grants will be awarded to approximately 391 organizations in an effort to involve more segments of the public in new, dynamic arts programs in New Jersey.

One of the many exciting and very successful programs spearheaded by the State Council is the cultural diversity program. With support from the National Endowment for the Arts (NEA), this initiative has funded emerging arts groups who focus on artistic productions in minority cultures and communities.

The New Jersey State Museum, which celebrated its 100th birthday in 1995, houses a collection of fine art objects (paintings, sculptures, prints, drawings), decorative art objects (furniture, ceramics, metals, glass), and ethnological and archaeological materials which focus not only on New Jersey but other cultures and regions.

In fiscal 1997, the Museum contracted with the Monash Science Centre and the Queen Victoria Museum of Tasmania, Australia to exhibit the Great Russian Dinosaur Exhibition. This is only one example of the innovative partnerships that the New Jersey State Museum has initiated and will continue in the future.

The fiscal 1998 recommendation provides \$343,000 to the New Jersey Historical Commission. Within the Historical Commission a Task Force on New Jersey History has been charged to examine, evaluate and assess the state's public and private historical resources and will fulfill its mission with the delivery of final recommendations at the end of fiscal 1997. Consequently, State funding for the Task Force is not required in fiscal 1998. The Task Force report will outline the most efficient methods for coordinating New Jersey's public history programming, preservation, research, and publications.

Many-Faces, One Family

The Governor's Many-Faces, One family program unites business leaders and communities and encourages understanding, tolerance, and appreciation of the diversity which enriches our state. As a culmination of the ongoing activities aimed at bridging our differences, Many Faces, One

Family week was celebrated throughout the State from September 28, 1996 to October 5, 1996.

Since 1984, the Martin Luther King Commemorative Commission has sponsored and coordinated state-wide programs and events that honor the slain civil rights leader who earned a Nobel Peace Prize. The Commission also provides educational information on the civil rights movement and its impact on the nation and the state. The fiscal 1998 recommendation provides \$193,000 to ensure that this program continues.

Administrative Law and Criminal Law

The Office of the Public Defender is “in but not of” the Department of State. This Office, whose State funds total \$57.2 million for fiscal 1998, provides representation for the citizens of New Jersey in their dealings with government and regulated agencies. Representation includes constitutionally guaranteed legal and appellate services to indigent defendants in criminal cases, as well as representation for indigent individuals who are involuntarily committed to mental hospitals.

The Office of Administrative Law (OAL), which is also “in but not of”, the Department of State adjudicates contested matters in the Executive Branch and promulgates rules and regulations governing administrative practices and procedures. This Office is funded through a State appropriation of \$2.7 million for fiscal 1998.

Voter Registration

The Department of State’s successful implementation of the National Voter Registration Act of 1993, commonly called the Motor Voter law, halted a declining trend in the number of registered

voters. Due to the widespread availability of voter registration services and forms at various state and county agencies, through citizens’ interest groups, and at motor vehicle agencies, the number of registered voters stands at 4.3 million, up from 3.9 million in 1994. This is estimated to be 84% of the eligible citizens of the State, based upon United States Census Bureau population projections.

Business Community Support

The Division of Commercial Recording implemented a fax-on-demand system that permits businesses to obtain frequently used forms and filing instructions via facsimile transmission, 24 hours a day, 7 days a week. In fiscal 1998, through enhancements to the Automated Information System (AIS), same-day filing of corporate documents will become a reality. As recently as 1990, document turnaround time had been as high as 5 days. In January 1997, the Division of Commercial Recording opened the Department’s World Wide Web site so that new and existing companies could access immediately the business forms they need to file with the Secretary of State. These initiatives highlight the department’s strategic plan to automate and streamline all commercial recording services.

In fiscal 1998, the Office of the Business Ombudsman will be shifted to the Department of Commerce to complement its new Accounts Management System which assigns an account manager to each of the state’s major industry sectors to facilitate all interactions with State government.

Higher Education Services

Higher Education services are “in but not of” the Department of State and is discussed separately in another area of this document.

The transportation system of New Jersey is one of the critical success factors for our economic well-being. Situated at the geographic center of the largest continuous metropolitan region in the country, New Jersey has developed an extensive network of highways and feeder roads. Investment in the State's transportation infrastructure not only stimulates the economy in the short term, with each \$100 million investment in transportation infrastructure creating over 3,800 jobs, but also makes our region an attractive business location for the production and distribution of goods. The fiscal 1998 budget recommendation for the Department of Transportation (DOT), which totals \$527.5 million (including operating, Grants-in-Aid and capital funding), positions New Jersey favorably for continuing economic growth.

Transportation Trust Fund

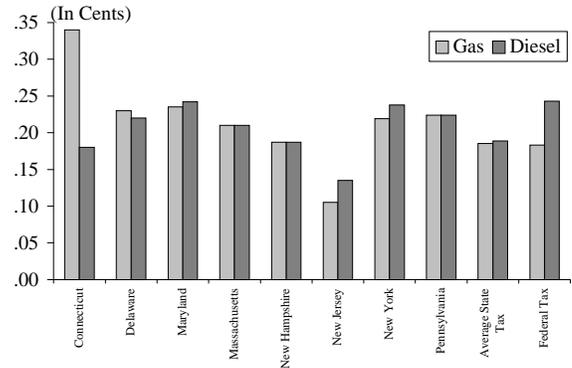
Since its inception in 1984, the Transportation Trust Fund has financed \$6.3 billion of highway construction and mass transit infrastructure projects. Of this, the Trust Fund has provided over \$1 billion to fund county and municipal transportation projects.

Because of the Governor's commitment to transportation, in fiscal 1996 the Transportation Trust Fund was reauthorized for an additional five year period. Highlights of the reauthorization were:

- a \$700 million annual program which is a \$135 million (24 percent) increase in transportation-related capital spending from the previous level of \$565 million.
- this spending increase was achieved without the need for any new taxes.
- over the five year reauthorization period, the Trust Fund will provide an additional \$3.5 billion of State monies for transportation projects.
- when federal funds are included, the total five year capital program will exceed \$6.6 billion supporting 250,000 jobs.
- \$130 million per year in Local Aid funding, a 30% increase from the previous allocation of \$100 million. This additional allocation provided local property tax relief by allowing counties and municipalities to fund more projects without having to raise taxes.
- during the 5 year reauthorization period, the amount of motor fuels tax constitutionally dedicated to the Trust Fund will increase from 2.5 cents to 9 cents. Since the Trust Fund reauthorization did not require an increase in the gas tax, New Jersey still has the lowest gas tax

in the Northeast and the fourth lowest in the nation.

COMPARATIVE MOTOR FUELS TAX RATES



In addition to the Transportation Trust Fund providing increased Local Aid, over the past three years the State has provided county and local governments with \$35 million to repair potholes and resurface roads caused by severe winter weather.

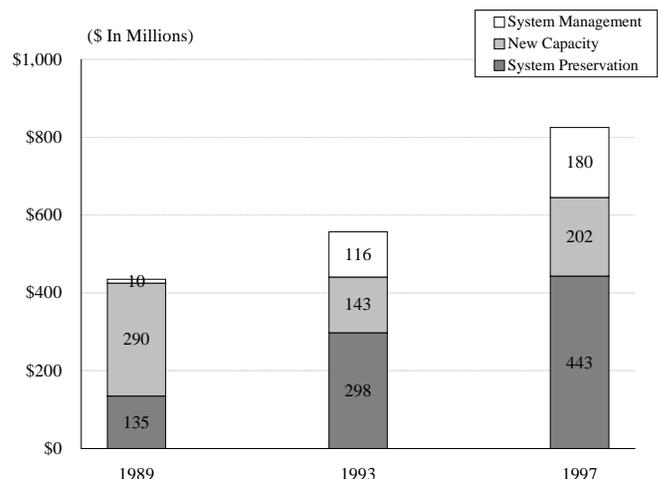
Over the past four years, DOT's capital program has been in transition from the construction of highways to maintaining and preserving roads.

The reauthorized Trust Fund has enabled DOT to fund more projects which preserve and maintain the State's highway system and to maximize existing highway capacity as a low cost alternative to traditional highway expansion.

Highlights of these types of projects are listed below:

SHIFT IN FUNDING EMPHASIS WITHIN MAJOR PROGRAMS

(Department of Transportation)



Transportation

System Maintenance:

- bridge painting and deck patching
- widening connection ramps to accommodate heavy traffic locations
- resurfacing and drainage management

Maximize Highway Capacity:

- electronic road signs to inform travelers of current traffic conditions
- synchronized traffic signals to improve traffic flow
- a new highway signage program to upgrade the quality and “user friendliness” of the State’s roadway signs

Streamlining the Capital Process:

DOT has implemented a series of internal changes to guide investment priorities for the State’s transportation system and to accelerate the delivery of capital projects. DOT now assigns all phases of a project to a single manager who is responsible for overseeing the project from design through construction. As a result, DOT has been able to:

- double its construction output and reduce non-construction related “soft” costs to industry standards.
- dramatically compress the time required for project development and implementation.
- streamline Department operations.
- virtually eliminate any unobligated State or federal dollars.

NEW JERSEY TRANSIT

The New Jersey Transit Corporation is the nation's third largest provider of bus and commuter rail service moving approximately 334,800 riders per day. To serve its riders, NJ Transit runs 787 rail cars over 12 lines and operates 2,095 buses over 174 routes throughout the entire State.

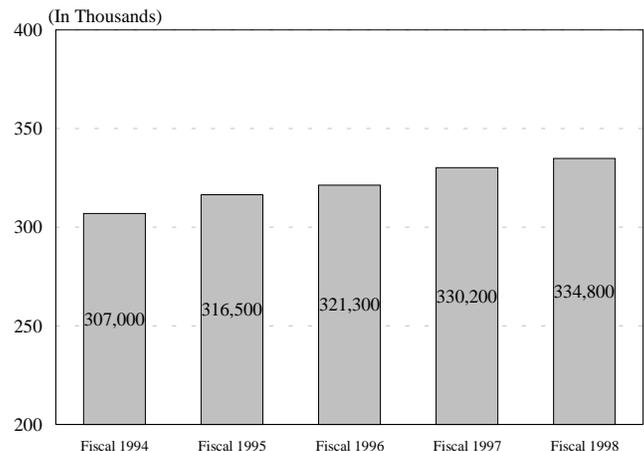
As testimony to its efficiency, NJ Transit has operated six years without a fare increase. This is the longest continuous period the agency has gone in its history without raising fares. Over the past four years, State appropriations to NJ Transit have decreased by more than 27% or \$67.7 million, from \$248.5 million in fiscal 1994 to a recommendation of \$180.8 million in fiscal 1998.

NJ Transit has absorbed normal growth in operating costs, as well reductions to their taxpayer subsidy, through a series of cost reductions and revenue growth. For example, since 1994 systemwide

ridership has increased 9%, while other regional transit systems have experienced significant ridership decreases. Also since 1994, the degree to which farebox and other revenue is used to cover operating costs (a key measure of efficiency) has increased from 51.5% to 54.8%. This trend has been attributable to improvements in on-time performance, (94.5% in fiscal 1996 despite the blizzard), better service quality, and an effective marketing program.

An Eagleton Public opinion poll conducted in 1995 revealed that 55% of the people surveyed had a favorable impression of NJ Transit, a five-percentage point increase since 1993.

**AVERAGE DAILY RIDERSHIP
NJ Transit Buses and Trains**



In addition to operating trains and buses, NJ Transit also administers a transportation assistance program for senior citizens and disabled residents of the State. This program, which is financed through the Casino Revenue Fund, will provide a total of \$22.2 million in fiscal 1998 for the development of accessible feeder and local transportation services. Over the past four years, appropriations to this program have grown by \$3 million, from \$19.2 million in fiscal 1994 to \$22.2 million in fiscal 1998.

NJ Transit has also developed innovative financing strategies. Non-governmental sources of revenue are leveraged through the sale and lease-back of rail cars, locomotives, buses and facilities. NJ Transit has used cross-border and domestic-leveraged leases to generate a total of \$48 million since 1994.

NJ Transit has also been a pioneer in creative capital financing. The \$1.2 billion Hudson Bergen Light Rail Transit System is being developed under a procurement approach known as DBOM, in which a single private vendor designs, builds, operates and maintains this rail system. The major benefits of this approach are reduced construction times and lower overall construction costs.

Even with the State budget reductions and no fare increases, NJ Transit continues to increase its service levels. The following are examples of new services that have been or will be added in the future.

- Midtown Direct, a \$70 million rail link that provides a one-seat ride into Manhattan, was completed in June, 1996. Due to unexpected demand for this service, additional cars and weekend service have been added.
- Secaucus Transfer, which will allow Manhattan-bound riders on the Main, Bergen County, Pascack Valley and Port Jervis lines to trim 15 minutes from their current commute, is a \$470 million project. It will be completed in 2002.

Over the past four years, Transit has been the recipient of many achievement awards including:

- the American Public Transportation Management Innovation Award (1996) for state-of-the-art technology introduced to enhance bus training.
- the E.H. Harriman Memorial Medal (1996), presented to the safest transit agency.
- the prestigious Public Transportation System Outstanding Achievement Award (1995) which honors public transit agencies which demonstrate extraordinary achievement and effectiveness.
- the Corporation of the Year Award (1995) presented by the U.S. Department of Commerce. This award honored NJ Transit's Disadvantaged Business Enterprise Program (DBE) for consistently exceeding goals set by the federal government in awarding construction and design work to DBE firms.

DIVISION OF MOTOR VEHICLES

The Division of Motor Vehicles (DMV) will implement several service improvements in fiscal 1998 to improve efficiency and increase customer satisfaction. To make its services more convenient, DMV will offer kiosks in public areas, as well as telephone and computer service. These initiatives will provide quick alternatives for basic transactions

such as registration renewals. DMV is also planning an optional driver's license Smart Card. The Smart Card will consist of a computerized photograph and signature to prevent the fraudulent issuance of driver's licenses.

The decision in fiscal 1996 to provide agency services (registration, license, title, etc.) entirely by contract instead of with state employees has provided considerable cost savings. State spending on all agency services decreased by \$3.7 million (20%, excluding fringe benefits) from a high of \$18.5 million in fiscal 1994 to a low of \$14.8 million in fiscal 1996. The per item cost of agency processing dropped from \$1.83 in fiscal 1994 to \$1.51 in fiscal 1996. The savings primarily relate to flexibility and efficiency improvements reflected in the increase in average number of items processed per employee. However, mail-in processing is still less than half the cost of agency processing.

As required by the Federal Clean Air Act, the Division of Motor Vehicles will implement Enhanced Inspection and Maintenance (I&M) in fiscal 1998. I&M currently represents the most cost effective strategy for reducing emissions among mobile sources. The Governor directed NJDOT and NJDEP to take advantage of the additional flexibility provided by the National Highway System Designation Act (NHS Act) which provided for an 18-month demonstration and evaluation period. DEP will test the viability of its proposed I&M design in a demonstration program in selected DMV inspection lanes. This test will be done on a voluntary basis. The last six months of the 18-month period will be used to collect actual data from the fully implemented system for EPA's review. After implementation of I&M, passenger motor vehicles will be inspected every two years, not every year.

To fund this federal mandate, the State may choose from a variety of potential sources. The alternatives for capital funding include federal highway funds made available under the Congestion Mitigation and Air Quality (CMAQ) category, the Transportation Trust Fund, a new bond issue, or dedication of \$11.50 of the existing revenue from motor vehicle registrations, as provided by law. Ultimately, the State may use a combination of these funding sources. A final decision on the funding mechanism will be made later in fiscal 1997.

The Legislature provided flexibility to the Treasurer to determine whether inspection by contract or by state employees or a combination thereof is in the

Transportation

best interests of the citizens of New Jersey. Regardless of the operating decisions related to State-owned inspection facilities, the State will continue to support motor vehicle inspections by private inspection facilities.

The Division of Motor Vehicles has also initiated a pilot roadside diesel emission inspection program to detect emissions violations among heavy duty vehicles. This inspection program should result in a reduction of diesel emissions, thereby contributing to cleaner air and a cleaner environment for the citizens of New Jersey. Approximately 73,000 vehicles have been inspected since the pilot started. Enforcement of civil penalties is expected to begin in April 1997.

The Department of the Treasury is responsible for collecting taxes, managing the State's assets including revenue from all State departments, and investing and managing 145 funds including the various pension funds. The Department is also charged with providing statewide support services for all State agencies and managing the State lottery system which will provide \$675.5 million in fiscal 1998 to support education programs and State institutions. Organizationally within the Department of Treasury, but autonomous in their operations, are the Board of Public Utilities, the Casino Control Commission and the Office of Student Assistance which is discussed in the section on Higher Education.

The Department's fiscal 1998 operating budget, excluding Higher Education Services, is recommended at \$168.2 million. This is a reduction of \$22.8 million below the fiscal 1997 adjusted appropriation of \$191 million. Although 12% less than the previous year, the fiscal 1998 Budget will allow the Department to continue to effectively fulfill its responsibilities effectively.

In fiscal 1998, the Department will continue to implement efficiency initiatives begun in fiscal 1997. These initiatives include: consolidating Data Centers in the Office of Telecommunications and Information Systems (OTIS), Central Motor Pool cost savings, securing corporate sponsorship for the State Lottery drawings, expanding the Lottery sales network, utilizing enhanced technology departmentwide, eliminating the General Services Administration (GSA) Central Office, and consolidating revenue collection statewide.

RE-ENGINEERING OF OPERATIONS

- **Data Center Consolidations (OTIS).** A recently completed consultant study of the Office of Telecommunications and Information Systems (OTIS) concluded that economies of scale can be achieved through consolidation, increased automation and modernization. It is anticipated that improved automation and reduction of current OTIS staff and restructuring of current staff assignments will decrease the State's information processing costs by \$1.8 million in fiscal 1998.
- **Improved Operations in the Central Motor Pool.** A consultant study is being conducted of the State Central Motor Pool, which oversees and operates maintenance and repair facilities for the bulk of the State vehicle fleet. This study will examine operating policies and procedures and issue a formal report in early fiscal 1998.

Operating cost reductions of \$2 million in fiscal 1998 are projected.

- **Improved Operations in the State Lottery.** State lottery revenues support education programs and State institutions, award prizes and cover operating costs. Decreased expenses in fiscal 1998 will increase the amount of revenue available for supported programs and lottery prizes. For example, corporate sponsorship of New Jersey Network televised lottery drawings is expected to generate \$1.4 million in savings.

The State Lottery's long awaited contract for new on-line vendor services was awarded in June 1996. This new contract allows the Lottery to expand its agent network from 5,300 to 6,000. This contract will enable the State Lottery to maintain geo-demographical data pertaining to its client base, which will ultimately lead to improved use of advertising dollars.

- **Technology Advances.** The Office of Management and Budget, in partnership with the Division of Taxation, is implementing a check imaging system which will eliminate a significant amount of manual effort to microfilm and retrieve check data.

The Office of Management and Budget will begin using a new software system in cash management to improve the State's investment of resources and management of cash flow. A similar software upgrade has allowed the Office of Management and Budget to develop a budget and planning data base in order to better manage the State budget process.

- **Elimination of the General Services Administration's Central Office.** The General Services Administration (GSA) Central Office will be eliminated. Many of the functions of this office have become duplicative of functions currently performed by the Treasurer's Office or by the various GSA agencies such as the Purchase Bureau, Office of Property Management, Distribution Center, Central Motor Pool, Print Shop, Capitol Post Office and the Division of Building and Construction.
- **Division of Revenue.** Executive Reorganization Plan 001-97 centralized the automated revenue collection and processing for taxes, motor vehicle transactions and environmental protection laws and regulations. In addition, delinquent debt owed to the State by motorists,

taxpayers, licensed professionals, and certain statutory and regulatory violators will be pursued by one central agency, thus achieving statewide economies of scale.

OFFICE OF STATE PLANNING

As part of a concerted effort to improve development prospects in urban areas, the Office of State Planning will conduct inventories of vacant "brownfield" sites in the State's cities during fiscal 1998. These inventories will compile information on the availability of infrastructure, proximity to modes of transportation, and where applicable, a determination of the level of contamination. The Office of State Planning is receiving a new appropriation of \$225,000 to fund this undertaking.

Also during fiscal 1998, the Office of State Planning will be providing \$40,000 in funding to each county for cross-acceptance costs associated with the statutorily required review and revision of the State Development and Redevelopment Plan. Cross acceptance is the process of comparing the provisions and maps of local, county and regional plans and regulations with those of the State Development and Redevelopment Plan. State funding of this program is consistent with the State mandate/State pay requirement.

BOARD OF PUBLIC UTILITIES

The Board of Public Utilities (BPU) regulates the rates for such essential services as natural gas, electricity, water, sewer, and telecommunications including cable television. In recent years the thrust of the BPU's activities have centered on transitioning utilities to new types of business and competition resulting from federal deregulation. The BPU continues to oversee utilities with an emphasis on consumer safety and satisfaction.

The BPU's fiscal 1998 operating budget is recommended at \$19.9 million, equal to the fiscal 1997 adjusted appropriation. The BPU's budget is supported by assessments to the various utilities licensed to do business in New Jersey.

The federal Telecommunications Act of 1996 coupled with actions taken by the BPU have opened the state's local telephone markets to competition. These new regulations also enable cable television companies to enter the local phone service market and local telephone companies to enter cable television markets, thus giving New Jersey's consumers more choices for these utility services.

The BPU is continuing to manage the deregulation of gas and electric companies. The proposed

timetable for the introduction of full wholesale competition in New Jersey's electric power industry, as well as a timetable and method for the introduction of retail competition to all New Jersey electric customers, was recently announced. Additionally, pilot programs will allow a certain number of customers to choose their supplier of natural gas.

Other BPU rule-making initiatives, requiring natural gas companies to install remote control or automatic valves at strategic points in their intrastate gas transmission lines, and bolstering the "One Call" information clearinghouse system to better prevent excavators from inadvertently severing utility lines, will keep New Jersey a leader in providing pipeline safety measures.

CASINO CONTROL COMMISSION

The Casino Control Commission's fiscal 1998 budget is recommended at \$22.5 million, equal to the fiscal 1997 adjusted appropriation. The Commission's entire budget is supported by billings to the casino industry in Atlantic City.

The Commission is responsible for the regulation of casino gaming in Atlantic City including the licensure of facilities, employees, and ancillary industries. The Commission's continual regulatory efforts have helped to legitimize gaming as an investment and as entertainment and has helped to instill both public and investor confidence in the integrity of the industry.

During the past year the Commission approved licensing for Atlantic City's 13th casino hotel facility: Trump's World's Fair. Presently, the Commission is reviewing proposals and applications that would expand both existing gaming facilities as well as add new casinos to Atlantic City.

The Commission has the added responsibility of ensuring that casino gaming is used as an effective tool in revitalizing the economy of Atlantic City. Pursuant to Chapter 18 of the Public Laws of 1995, the Atlantic City Fund was established to provide funds for economic development projects of a revenue producing nature (other than casino hotels). The Atlantic City Fund receives its funding from the difference between the Commission and the Division of Gaming Enforcement's fiscal 1995 budget authorization and the actual expenses of these agencies in the subsequent fiscal years of 1996, 1997 and 1998. In fiscal 1996 the amount contributed to the Atlantic City Fund exceeded \$9.5 million.

New Jersey's higher education system includes 12 four-year public colleges and universities, 19 community colleges, and 14 private institutions that receive aid under the Independent College and University Assistance Act. State funding is provided to these 45 institutions to help ensure that the State's citizens are educated to participate in civic and cultural life and to ensure that New Jersey's work force has the knowledge and skills to compete in today's global economy. New Jersey's higher education institutions provide job training and other career advancement opportunities for New Jersey residents. The colleges also foster economic development initiatives that benefit the State's businesses and industries, such as developing new technologies through university research or devising new partnerships with private enterprises.

For fiscal 1998, the State will support New Jersey's higher education system with over \$1.1 billion in direct appropriations, including over \$732 million for the autonomous, senior public (4 year) institutions: Rutgers, the State University; the University of Medicine and Dentistry of New Jersey (UMDNJ); the New Jersey Institute of Technology (NJIT); and eight state colleges and one state teaching university. Approximately \$181.5 million in direct assistance to students is provided from several sources, primarily the Tuition Aid Grant and the Educational Opportunity Fund programs. Aid for the county colleges will total over \$132 million, including \$100.2 million for operational costs. The independent colleges and universities are recommended to receive \$18.6 million in direct aid in fiscal 1998.

In addition to these direct appropriations, the State will provide an estimated \$258 million in support of employee fringe benefits at the four-year public colleges and universities and \$5.8 million for facility renewal projects at the state colleges, excluding Edison. As was the case in fiscal 1997, the fiscal 1998 budget will not fund employee salary increases at the senior public institutions.

ACCESSIBILITY AND AFFORDABILITY

In order to ensure that higher education is accessible and affordable for New Jersey residents, the State provides financial assistance through a number of grant, scholarship, and loan programs. In fiscal 1998, New Jersey will develop a new college savings program to help families finance the cost of higher education: the New Jersey Better Educational Savings Trust (NJ BEST). Recent changes in the IRS tax code permit states to develop college savings programs in which federal taxes are

deferred on the interest earned until such time as the funds are used to pay for college. New Jersey's program will provide an additional benefit to families by exempting these funds from state taxes.

The State also provides direct aid to financially needy students through the Tuition Aid Grant (TAG) program. In fiscal 1998, TAG grants, which cover a major share of tuition costs for students at public colleges and universities and up to half of the average tuition costs at independent colleges and universities, will keep college accessible and affordable for over 60,000 New Jersey students. TAG provides grants based on financial need, with maximum awards granted to the neediest students. With a state appropriation of \$137.7 million plus \$1.3 million in federal resources, the fiscal 1998 TAG program will be able to provide grant increases of 3.5% over fiscal 1997 award levels. Many of New Jersey's neediest TAG recipients will also benefit from an increase of 9.3% in the maximum grant awarded under the federal Pell Grant program. Pell Grants may be used to pay for both tuition and non-tuition costs, including books, laboratory materials, fees, transportation, or room and board.

New Jersey's Equal Opportunity Fund (EOF) program provides direct grants and support services, including special counseling and tutoring, to educationally and economically disadvantaged students from across the state. The fiscal 1998 funding of \$32.2 million will provide grants and support services to nearly 18,000 disadvantaged students.

Finally, the New Jersey College Loans to Assist State Students (NJCLASS) program, a supplemental loan program, also helps finance college costs for middle-income families. The program is funded from the proceeds of tax-exempt bonds issued by the New Jersey Higher Education Assistance Authority. NJCLASS loans are available for undergraduate and graduate students regardless of family income. Since the program's inception in 1991, \$113 million in bonds have been sold, providing over 16,500 affordable college loans to New Jersey students. The NJHEAA will issue up to \$30 million in bonds to provide student loans during fiscal 1998.

New Jersey is committed to providing an array of loan and grant programs to its citizens to ensure that a college education is accessible to anyone who seeks it.

Higher Education

HELPING STUDENTS SUCCEED IN COLLEGE

The State's commitment to New Jersey students has historically exceeded the issues of access and affordability addressed by its student financial assistance programs. For many years, the State has also recognized and supported the unique requirements of special student populations. For example, the Program for the Education of Language Minority Students provides academic and support programs for students with limited English proficiency, while the Higher Education for Special Needs Students program provides support services and adaptive assistance to students with learning disabilities, as well as those with auditory or visual impairments. The College Bound program seeks to improve the academic preparation, motivation, and aspirations of minority students who reside in New Jersey's urban areas and are educationally disadvantaged.

In fiscal 1998, the State will increase its efforts to help students succeed in college through a new \$1.0 million program designed to improve minority graduation rates. This program will provide incentive grants to New Jersey higher education institutions to encourage the development of innovative programs that address this issue.

COMMUNITY COLLEGES

The community college system, comprising 19 institutions, is funded by the State, the individual counties, and student tuition and fees. These institutions provide access to higher education for a broad range of New Jersey residents who might otherwise be denied the benefits of a college education. Most of the State aid directly supports the operational costs of these institutions. In addition, the State pays one half of the debt service cost for eligible bonds sold by counties to acquire, construct, and renovate community college facilities. In fiscal 1998, the State's contribution to this debt service will increase nearly \$4.8 million, for a total of \$15.4 million, and will permit counties to fully utilize the \$160 million in bond funding authorized by the program legislation. The State also pays a portion of the employee benefits provided to community college faculty and staff.

INDEPENDENT COLLEGES AND UNIVERSITIES

There are 14 independent institutions in New Jersey receiving funding through the Independent College and University Assistance Act. These colleges will enroll an estimated 20,525 full-time equivalent New

Jersey students in fiscal 1998. In addition to direct State aid, these institutions are eligible to receive support through other State-funded programs, including facilities bond funds, programs for special student populations, and student grant, scholarship, and loan programs.

KEEPING PACE WITH TECHNOLOGY

To assist New Jersey's institutions of higher education, both public and private, in keeping pace with technological changes, this budget continues funding for two key programs, the \$100 million Equipment Leasing Fund (ELF) and the \$220 million Higher Education Facilities Trust Fund (HEFT), and creates a new program, the \$50 million Higher Education Technology Bond fund.

The Higher Education Technology Bond fund will provide support for critical technological needs and will complement existing facility and equipment bond programs. Colleges and universities will be required to match the funding provided under this program through either institutional funds or corporate support.

State support of \$19.3 million pays three-quarters of the debt service on ELF bonds, with the colleges paying the remaining share. The Equipment Leasing Fund provides an ongoing financing mechanism to support the purchase of scientific, engineering, technical, computer, communications, and instructional equipment at our colleges and universities.

State funding of \$21.0 million pays the entire cost of debt service on HEFT bonds, which support the cost of construction, renovation, or improvement of instructional, laboratory, communication, and research facilities related to future industry and work force needs. For example, one HEFT project that is being undertaken by a consortium of seven colleges will develop a state-of-the-art video conferencing facility at Burlington County College's Mount Laurel campus. This facility will enable the seven colleges to provide teacher education, work force training, and other economic development initiatives in South Jersey. Some colleges have coordinated the utilization of ELF and HEFT funds to purchase equipment and upgrade campus infrastructures to provide high-speed Internet access to students, faculty, and researchers.

These three programs will help to keep New Jersey competitive in today's global economy by ensuring that our college students, faculty, and researchers have access to up-to-date equipment and facilities.

As the result of a constitutional amendment approved by New Jersey's voters, on January 1, 1995, approximately 7,700 county judicial and probation services employees became State employees and their salary, health benefits, and pension costs became part of the State Budget. The Judiciary's budget increased from \$107.7 million in fiscal 1994, prior to court unification, to \$353.4 million in fiscal 1996, the first full year of State funding. Since then, the Judiciary has worked to achieve economies in its budget through consolidation of activities and streamlining court operations, such as centralizing some purchasing contracts and using video technology in courtrooms.

The fiscal 1998 Budget recommendation for the Judiciary is \$347.5 million, which represents a continuation budget with a \$1.7 million expansion for the Intensive Supervision Program in Probation Services. This, combined with federal funding and dedicated revenue will support 420 judgeships and 8,454 support and administrative personnel.

Included in these position counts are ten judgeships and thirty support staff funded by \$3 million through the Legal Services Trust Fund established pursuant to P.L. 1996, c. 52.

The Budget anticipates federal funding for the child support program and other grants at \$49.6 million for fiscal 1998 which represents continuation level funding. Dedicated funding totals \$16.6 million for programs supported by fees and receipts.

The \$1.7 million expansion of the Intensive Supervision Program will achieve savings of \$4.3 million in the Department of Corrections budget and alleviate overcrowding in the county jails. This program ensures the public safety through rigorous supervision and oversight of the participants in the community while helping to control overcrowding in State and county facilities. Participant level will increase by 200 for a total program capacity of 1,200 in fiscal 1998.

Cap Law

IMPACT OF STATE APPROPRIATION LIMITATIONS LAW ON APPROPRIATIONS FOR FISCAL 1998

The State Appropriations Limitation Act (P.L. 1990, c.94), commonly called the CAP law, limits the growth of appropriations in the Direct State Services sections of the Budget, which encompasses the operations of state government. Exempt from the limitation are Grants-in-Aid; State Aid to counties, municipalities, local school districts, and other instrumentalities; federal funds appropriations; Capital Construction and Debt Service; and monies deposited in and expended from the Property Tax Relief Fund, the Casino Control Fund, the Casino Revenue Fund, and the Gubernatorial Elections Fund.

The law provides that the CAP may be exceeded upon passage of a bill making an appropriation approved by a two-thirds vote of all members of each legislative body.

Under the formula in the law, the maximum appropriation for fiscal 1998 is computed by multiplying the base year appropriation (fiscal 1997) subject to the percentage limitation by the average three year growth rate in per capita personal income calculated on a fiscal basis. This percentage is 3.8 for calculating the fiscal 1998 CAP.

The calculation results in a maximum increase of \$191.7 million over the fiscal 1997 Adjusted Appropriation, or a maximum appropriation of \$5,236.3 million for Direct State Services for fiscal 1998. The Governor's recommendation for fiscal 1998 is \$4,993.7 billion or \$242.6 million under the CAP limit.

Data used to compute the appropriation limit are presented in the accompanying tables.

According to the U.S. Department of Commerce, Bureau of Economic Analysis, the total income^(a) for the State for the last five fiscal years is:

(\$ in Millions)

Fiscal Year 1992.....	\$202,539
Fiscal Year 1993.....	\$213,253
Fiscal Year 1994.....	\$220,451
Fiscal Year 1995.....	\$231,724
Fiscal Year 1996.....	\$242,350

According to the U.S. Census Bureau, the population for the State for the last four fiscal years^(b) is:

Fiscal Year 1992.....	7,811,316
Fiscal Year 1993.....	7,859,761
Fiscal Year 1994.....	7,905,880
Fiscal Year 1995.....	7,949,506
Fiscal Year 1996.....	7,987,933

The average per capita person income^(c) for the State and the average percentage change for the last three fiscal years is:

	Average Per Capita Personal Income	Percentage Change
Fiscal Year 1992.....	\$25,929	--
Fiscal Year 1993.....	\$27,132	4.64%
Fiscal Year 1994.....	\$28,048	3.38%
Fiscal Year 1995.....	\$29,149	3.93%
Fiscal Year 1996.....	\$30,340	4.09%

**Computation of 1997 Appropriation Subject to Expenditure Limitation Law Percentage
(\$ in Millions)**

Appropriation and Adjustments for Fiscal Year 1997	\$15,977.8
Less Statutory Exemptions:	
Grants-in-Aid.....	(\$3,749.3)
State Aid.....	(\$1,394.0)
Capital Construction.....	(\$352.6)
Debt Service	(\$446.9)
Property Tax Relief Fund	(\$4,599.1)
Casino Control Fund	(\$51.7)
Casino Revenue Fund.....	(\$339.6)
Amount subject to limitation	\$5,044.6

Fiscal year 1997 base subject to percentage limitation.....	\$5,044.6
Per capita personal income rate	x 3.80%
Maximum increase in appropriation for fiscal year 1998	\$191.7
Maximum appropriation for fiscal year 1998	\$5,236.3
Fiscal year 1998 recommendation	\$5,006.0
Amount Over/(Under) the CAP limitation.....	(\$230.3)

Note:

- (a) Seasonally adjusted quarterly personal income is provided by the U.S. Department of Commerce, Bureau of Economic Analysis. Fiscal year calculations are performed by the New Jersey Department of the Treasury, Office of Management and Budget. Each fiscal year was calculated by summing the 3rd and 4th quarters of the previous calendar year with the 1st and 2nd quarters of the year being calculated. The summation is divided by four to estimate the fiscal year's number. For example:

$$FY96 = \frac{\Sigma(3Qcy94+4Qcy94+1Qcy95+2Qcy95)}{4}$$
 Personal income statistics were completely revised as of September 1996.
- (b) The FY96 population figure is an estimate based on U.S. Census Bureau data as adjusted by the New Jersey Department of the Treasury, Office of Management and Budget.
- (c) The average per capita personal income is found by taking the total personal income and dividing by the population, as determined by the U. S. Census Bureau.