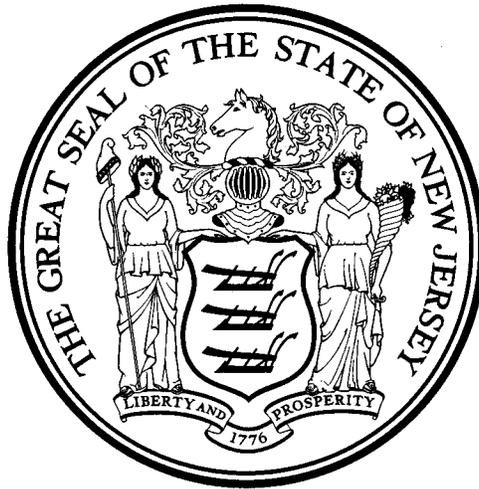


Fiscal Year 1999

*Budget
in
Brief*



Christine Todd Whitman, Governor

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FEBRUARY 10, 1998



State of New Jersey

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CHRISTINE TODD WHITMAN
Governor

February 10, 1998

Dear Fellow New Jerseyans:

I am pleased to submit my administration's State budget proposal for Fiscal Year 1999. This budget invests in making New Jersey more affordable, our streets safer, our schools and cities stronger, and our quality of life higher. It is a sound, balanced budget that maintains our commitment to provide smarter, more efficient state government to the people of New Jersey.

With this \$17.9 billion budget, New Jersey achieves for the second straight year the school funding parity called for by the State Supreme Court. This budget also funds a new State Trooper class, provides millions of dollars of additional direct property tax relief for our citizens, supports new urban initiatives, and begins our quest to preserve record amounts of open space and farmland.

While attending to the needs of our communities, this budget treats each taxpayer dollar with the utmost care. My proposal adds \$100 million to the State's budget surplus to better protect against an economic downturn. It also reduces the State's reliance on one-time revenue sources, advancing my goal of achieving a structurally balanced State budget before the end of my tenure. And this budget allows for the 18th tax cut of my administration - the elimination of the sales tax on phone calls across regional calling areas.

I am proud that over the past four years we have held average State budget increases to the lowest level in over fifty years while providing the services New Jerseyans deserve and expect. You have my promise that the Legislature and I will work together to enact, by June 30, a budget that continues to make New Jersey government more efficient and more responsive to the people we serve. In that spirit, I encourage you to review the budget I have prepared and to share your comments and concerns with me and with your State legislators.

Let's work together to forge a budget that helps us achieve our greatest hopes for the Garden State - one that helps New Jersey become truly the best place to live in America.

Yours sincerely,

A handwritten signature in black ink, appearing to read "C.T. Whitman".

Christine Todd Whitman
Governor

TABLE OF CONTENTS

	Page
New Jersey and You	1
Economic Forecast and Revenue Projections.....	9
Financial Summary of the Fiscal 1999 Budget.....	16
Appropriations.....	21
State Aid and Local Taxpayer Relief	22
Public Infrastructure.....	29
Casino Revenue Fund	35
Workforce	40
Interdepartmental Accounts	42
State Departments	
Agriculture	47
Banking & Insurance	49
Community Affairs	51
Corrections.....	53
Education.....	56
Environmental Protection	58
Health and Senior Services	64
Human Services	70
Work First.....	70
Community, Social, and Institutional Services.....	73
Medicaid	78
Labor	81
Law & Public Safety	85
Military and Veterans' Affairs	88
Personnel.....	90
State	92
Transportation.....	94
Treasury	100
Higher Education	106
Commerce & Economic Growth	111
Judiciary	114
Appendix	115
Distinguished Budget Presentation Award.....	117
Demographics	119
CAP Law.....	123
Rainy Day Fund	125

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

OVERVIEW

The fiscal 1999 Budget -- the fifth submitted by Governor Christie Whitman -- continues the Whitman administration's efforts to provide smarter, more efficient State government. In doing so, it also supports the goals announced by Governor Whitman in her major speeches to the Legislature this year.

In her State of the State Address, Governor Whitman declared her intention to continue making New Jersey more affordable, its schools stronger, and its streets safer.

- This Budget anticipates the 18th tax cut of the Whitman administration -- which will save New Jerseyans another \$24 million -- and provides over \$100 million more in additional relief to property taxpayers and another \$100 million more in property tax relief to local government.
- The Budget enables New Jersey, for the second year in a row, to meet the State Supreme Court's call for parity in school funding.
- The Budget funds the fifth State Trooper class in five years.

In her Inaugural Address, Governor Whitman pledged to preserve 300,000 acres of open space and farmland, strengthen cities, and keep community colleges affordable.

- This Budget provides \$50 million to match existing municipal and county open space preservation programs while the State establishes a permanent, stable source of preservation funding.
- This Budget provides \$30 million in new funding to help cities acquire and redevelop abandoned properties and spark community development with help from churches, synagogues, and mosques.
- The Governor's pledge to raise community college aid is reflected in a \$12 million increase in operating aid for fiscal 1999. Community colleges have responded to this pledge by promising to freeze tuition for the 1998-99 academic year.

With this Budget, the Whitman administration also maintains its commitment to increased efficiency,

greater attention to consumer needs, and more accountable State services.

This Budget provides for a small number of new privatization initiatives in non-core functions such as food services and support at State institutions. This Budget reflects a savings to taxpayers of \$4.7 million from these initiatives.

Governor Whitman is also proposing new projects that will provide greater convenience for New Jersey citizens, including a 10-year driver license, "smart card" technology for licenses, and on-line filing of campaign finance reports.

In fiscal 1999, the State will also establish performance standards to measure the effectiveness of State support for services such as higher education and pupil transportation. Future funding levels will be based on the achievement of these objective standards.

BUDGET HIGHLIGHTS

The total Budget recommended by the Governor for fiscal 1999 is \$17.953 billion, an increase of \$914.2 million or 5.4% over the current year. Over the five budgets of the Whitman Administration, the annual growth in appropriations has averaged 2.9%. This compares to 6.3% in the prior administration. The recommended operating budget for executive departments in fiscal 1999 is reduced, for the third straight year, by \$85 million.

THE FISCAL 1999 BUDGET COMPARED TO FISCAL 1994

The Budget that the Whitman Administration inherited when it took office in fiscal 1994 was \$15.530 billion. The fiscal 1999 Budget is \$17.953 billion, an increase of \$2.423 billion or 15%. This represents an average annual increase of 2.9%.

Program areas that have increased the most include:

- Improving Public Safety has increased \$431 million or 35%. Judicial Services have increased \$258 million which reflects the state takeover of the court system. Programs for the detention and rehabilitation of criminals have increased \$105 million as a result of the increase in the number of prisoners. A strong commitment to treating juvenile offenders has resulted in a \$37 million, or 93%, increase in Juvenile Services.

New Jersey and You

- Direct Aid to School Districts has increased \$874 million or 21.5%.
- Higher Education Support has increased by \$243 million or 19.2%.
- Programs that provide health services to citizens of New Jersey as well as other services to senior citizens and veterans have increased \$164 million or 5.9%.

The most significant programmatic decrease has occurred in the area of Public Assistance (Welfare). Funding has decreased \$205 million or 43%; the number of people on public assistance has dropped as the economy has improved and the impact of mandated work activity requirements and client sanctions have been implemented. Increased federal funds have allowed New Jersey to reduce its share of assistance payments, while providing the opportunity to increase training, child care and other support services to this population.

The structural deficit has been reduced from \$1.586 billion in fiscal 1994 to a proposed \$371 million in fiscal 1999, a reduction of \$1.215 billion or 76.7%. The Fiscal 1994 Budget relied upon \$1.135 billion in one time adjustments and the draw down of \$451 million of surplus. The fiscal 1999 recommendation has no one time adjustments but does draw down \$371 million of surplus.

FISCAL 1999 IMPACT OF THE BUDGET

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

Improving Education

New Jersey schools maintain the distinction of the highest per-pupil expenditures of any state in America. During the Whitman Administration, direct State Aid to schools has increased by 21.5%. Equally important, State Aid is now tied to student achievement of rigorous standards in seven core academic subject areas.

To help students reach these standards, the Whitman Administration has made a commitment to educational technology that will ensure that every public school classroom has computers by the start of the 2001-2002 school year. To better monitor students' progress, the State has instituted a new statewide "early warning test" for all public school fourth graders. And to challenge public schools to reach for excellence, Governor Whitman signed

legislation to permit charter schools and has called for a public school choice program throughout the state.

This Budget reflects the Governor's efforts to provide a first-class education for every student in every public school in New Jersey. It also maintains the Whitman Administration's commitment to keep higher education affordable. During the past four years, the average annual increase in tuition at the senior public colleges and universities was 6.3% compared to 8.1% in the previous administration, in part because of increases in State support to higher education.

To be specific:

- In funding the Comprehensive Educational Improvement and Financing Act, direct school aid is increased \$195.9 million. Included in this increase is \$63.3 million for special education, \$50 million for school facilities, and \$18.7 million for transportation aid.
- An increase of \$321.3 million is included to fund the cost of teachers' pensions and an increase of \$22.3 million is included to fund the cost of teachers' social security payments.
- An increase of \$4.7 million is included to implement the long range plan for full implementation of the statewide assessment program by fiscal year 2002. These funds will support field testing of certain components and the implementation of other components of the Grade 4 Elementary School Proficiency Assessment, the Grade 8 Early Warning Test and the Grade 11 High School Proficiency Test.
- Included in the Budget for Higher Education is an increase of \$26.3 million to the senior public colleges and universities; a \$19.7 million increase in aid to county colleges, including a \$12 million increase for operational costs and a \$6 million increase for Chapter 12 debt service; a \$6.2 million increase for debt service on technology bonds, a \$4.2 million increase for the outstanding scholars recruitment program, which attracts New Jersey's best and brightest students to pursue higher education at New Jersey's colleges and universities; and a \$4 million increase for tuition aid grants.

Improving Public Safety

In calendar 1996, crime rates in New Jersey reached a 23-year low. Statistics for the first half of calendar 1997 suggest that the trend of lower crime -- especially violent crime -- will continue.

The Whitman Administration has promoted safer communities by enacting a series of new laws that mandate longer sentences for violent criminals and better protections for law abiding families. These include Megan's Law, Three Strikes and You're In, the Law Enforcement Officers Protection Act, the No Early Release Act, and a package of parole reforms to keep dangerous criminals behind bars longer.

During the Whitman Administration, prison populations have increased by 17 percent, and convicts are serving longer sentences. This Budget will enable the State to continue its commitment to punishing criminals, protecting law-abiding citizens, and providing for the public safety.

- A \$10.3 million increase is included for South Woods State Prison to provide full funding for phases two and three, which are partially funded in fiscal year 1998. Both of these units will be fully operational in fiscal year 1999.
- A \$9 million increase is included to increase the number of community beds contracted by the Department of Corrections by 470 to a total of 2,147.
- An \$8.1 million increase for new police vehicles is included.
- A \$5 million increase is included for a new computer system for the Department of Corrections.
- A \$3 million increase is included to increase, from 300 to 700, the number of participants in the High Impact Diversion program, which provides an intensive level of supervision to parole violators.
- A \$2 million increase is included to increase, from 950 to 1,425, the number of participants in the Intensive Supervision/Surveillance program for certain parolees who need an intensive level of supervision.
- A \$2 million increase is included for start up funding to operate a facility for 150 civilly committed sex offenders.

- A \$2.7 million increase is included for salary and training of the 118th State Police Class.
- A \$2.2 million increase is included to link state law enforcement agencies with the Federal National Criminal Information Center (NCIC) system.
- A \$1.5 million increase is included to provide additional funding for the maintenance of State Police vehicles.
- A \$4.5 million increase for the Judiciary is included for the full year costs to support 150 new employees in the Family Division and 50 new probation officers in the Probation Division that were added in fiscal 1998 and to support 50 additional probation officers that will be added in fiscal 1999.

Improving the Environment

The federal government has acknowledged the State's innovative commitment to protecting the environment by choosing New Jersey as one of only six original states to participate in the National Environmental Performance Partnership System. This system will use objective indicators to monitor each state's progress toward national goals.

New Jersey has already made progress toward these goals during the Whitman Administration. Air and water quality have improved. The state's recycling rate continues to increase, more waters have been declared open for shellfish harvesting.

This Budget will continue the State's environmental progress and begin the quest for one million new acres of open space and farmland within the next decade.

- Funding in the amount of \$50 million is included for an Open Space Local Matching Program. Counties and municipalities with open space taxes and funding programs will be eligible to receive state matching funds. These funds will support the purchase of open space and the preservation of farmland. The goal is to save 300,000 acres of open space during the next four years and one million acres over the next decade. A second goal is to create a stable funding source for New Jersey's natural resources and farmland preservation efforts.

New Jersey and You

Developing a Strong Economy

Working with the Legislature, the Whitman Administration has pursued an aggressive strategy to spark job growth. Several business taxes have been reduced or eliminated, new urban enterprise zones have been designated, a business incentive program has been launched, the State Transportation Trust Fund has been renewed at record funding levels, and new financing programs have been created to support economic development.

Since the recession, during which New Jersey lost 262,000 jobs, the New Jersey economy has expanded by 302,000 jobs, recovering every job lost plus an additional 40,000. Nearly 80% of this expansion, or 237,000 jobs, have been added since January 1994, the beginning of the Whitman Administration. New Jersey now leads the region in job growth, and a recent survey of business leaders suggests that this expansion will continue in 1998.

Governor Whitman has proposed improving the State's ability to work with the business community in creating jobs by replacing the Department of Commerce and Economic Development with a new autonomous independent commission to be named the New Jersey Commerce and Economic Growth Commission. In her Budget proposal, the Governor also calls for an increase in transportation funding to support the first phase of a new strategic transportation plan to be issued in the coming weeks.

To be specific:

- An \$83.4 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 increase represents a portion of the funding that supports an annual \$1.6 billion transportation related capital program for the State's highways and New Jersey Transit Corporation's capital maintenance.
- A \$4.4 million increase is included to significantly expand the Commission on Science and Technology's matching grant program that underwrites individual companies and their academic partners in technology transfer and product development projects. This program is a critical component of New Jersey's strategy to promote technology-based, economic development and create high paying jobs.

- A \$28.8 million grant increase is included for New Jersey Transit Corporation to meet inflationary increases and to offset the loss of one-time surplus funds. This increase is a net amount after deducting for additional passenger revenue and efficiencies being implemented. Over 250,000 commuters ride the buses daily and nearly 95,000 commuters ride the trains, most of whom are commuting to and from the workplace.

Meeting Human Services Needs

Since 1994, the state's welfare rolls have been reduced by nearly one-third, including a drop of 41,500 welfare clients since the inception of the welfare reform program Work First New Jersey.

The State has also doubled the community placement rate of any previous administration, attending to every person with developmental disabilities who was on the urgent waiting list for community placement when Governor Whitman first took office.

Welfare reform and community placement exemplify the Whitman administration's success in establishing innovative programs to address urgent human services needs. Governor Whitman has also placed an emphasis on prevention and early intervention, which has led to initiatives in areas such as child care, juvenile justice, and drug treatment.

This Budget furthers the Whitman administration's efforts to enhance the quality of life for all New Jerseyans through strategic, innovative investments in helping those who are in special need.

To be specific:

- Community programs for the mentally ill and developmentally disabled are significantly expanded by the closing of Marlboro Psychiatric Hospital and North Princeton Developmental Center. These closures enable \$70.9 million to be reallocated from these institutions to community programs.
- Federal funding for child care and early childhood initiatives will increase by \$50.1 million as part of welfare reform begun in fiscal 1998 in the Department of Human Services. Of this increase, \$10 million will match local school district funding for the Family and

Children Early Education Services (FACES) program designed to further promote quality child care, prenatal and health services, parental education and literacy. Funding is also included to provide an additional 1,000 child care slots for the working poor and increase child care provider rates by 8%.

- Funding in the amount of \$25 million is included to redevelop abandoned urban properties. Under this program, the Economic Development Authority (EDA) will issue bonds to purchase tax liens on privately held properties. Municipalities will be eligible to obtain construction financing through the Housing and Mortgage Financing Authority's (HMFA's) Urban Homeownership Recovery Program to redevelop the properties.
- An \$18.8 million reallocation is included to provide substance abuse treatment services to welfare recipients for which drugs and alcohol are a barrier to successful employment. The Department of Human Services, in conjunction with the Department of Health and Senior Services, will provide screening, case management and treatment services to eligible individuals who need treatment to succeed in a work environment.
- A community services waiting list reduction initiative of \$18.8 million is included to provide residential services for an additional 500 people and day programs for an additional 400 people as well as additional family support services to assist families that care for developmentally disabled persons at home. Funding will be provided by increasing federal Medicaid reimbursements on certified beds in developmental centers. A \$6.2 million increase in State funds is also included to meet the full year costs of the fiscal 1997 and 1998 community services waiting list initiatives for people with developmental disabilities.
- A \$9.7 million increase is included for a cost of living (COLA) increase to be granted mid-year in fiscal 1999 to community providers contracted by the Department of Health and Senior Services and the Department of Human Services and a \$10.8 million increase is included for the full year cost of the current year COLA, granted January 1, 1998.
- An \$8.7 million increase is provided for grants to the Division of Youth and Family Service's (DYFS) community programs, such as group homes and other residential placements.
- A \$6.2 million increase is included to meet the General Fund commitment to fund the charity care and the ACCESS programs.
- A \$4.8 million increase in state and federal funds is included for the comprehensive system of HIV/AIDS prevention, surveillance, counseling and testing, and health and supportive services.
- A \$3.7 million increase is included to eliminate the waiting list for early childhood intervention services for developmentally delayed children.
- A \$2.5 million increase is included for Friendly Family Centers, a program that provides greater use of existing school facilities for after school youth activities and adult education, such as parent training, adult literacy and computer training.
- A \$1.3 million increase is included to fund recent legislation dealing with enhanced surveillance activities at psychiatric hospitals and increased efforts regarding finger printing and criminal background checks.
- A \$1.2 million increase is included to meet the annualized costs of the DYFS child protection initiative begun in fiscal 1998.
- A \$1.2 million increase is included to fund the additional costs for the new Menlo Park Veterans' Memorial Home, which increases the capacity of the facility from 240 to 340.
- A \$900,000 increase is included to fund background checks as part of the certification process for nurse's aides, home health aides and personal care assistants.
- A new \$500,000 program initiative, the Public Awareness Campaign for Black Infant Mortality, will focus on the significantly higher death rate among African American infants.
- A \$350,000 increase is included to provide \$35,000 increases to each of the ten HIV Early Intervention programs to combat the spread of AIDS.
- A \$348,000 increase is included to expand the Commission for the Blind's technology initiative to provide adaptive computer

New Jersey and You

equipment and technology training to the Commission's clients.

THE FISCAL 1999 BUDGET COMPARED TO FISCAL 1998

State Aid (Increase of \$590 million or 8.7%)

The recommendation for State Aid is \$7.411 billion, an increase of \$590 million or 8.7%.

The State's contribution to support New Jersey's schools in fiscal 1999 is \$5.863 billion, a net increase of \$539.5 million. This increase includes a \$195.9 million increase in direct aid and a \$343.6 million increase for pension and social security costs for school teachers. 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. The new law will allow the State to measure the quality of our educational system by how much our children learn, not by how much we spend. New Jersey continues to rank number one in the nation in the amount spent per pupil.

County college aid is increased \$19.7 million to support operating costs (\$12 million), debt service costs (\$6 million) and health benefit and pension costs (\$1.7 million).

The only significant reduction in State Aid funding is an \$18.1 million reduction in welfare payments, reflecting the continuing reduction in welfare clients.

Grants-In-Aid (Increase of \$184 million or 3.7%)

The recommendation for Grants-In-Aid is \$5.139 billion, an increase of \$184.4 million or 3.7%. This net change is the result of significant policy decisions or changes in entitlement programs that either increase or decrease grant programs. The major increases in grant programs (\$ in millions) are:

Mental Health Community Programs	40.8
Developmentally Disabled Community Programs	39.3
New Jersey Transit	28.8
Higher Education Institutions	26.3
Substance Abuse Initiatives	18.8
Medical Services for the Aged	12.9
Youth and Family Services	
Community Programs	8.7

The only significant reduction in grant programs is \$38.8 million for the purchase of beds from county correctional facilities, due in large part from the impact of the new South Woods State Prison on reducing the reliance on county facilities.

State Operations (Increase of \$74 million or 1.8%)

The recommendation for State operations for the Executive Departments and Agencies is \$2.581 billion, a decrease of \$85.4 million or 3.2%. This is the third 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 increased by \$1.9 million, or 3.5%, to \$56.4 million and the Judicial Branch is decreased by \$500,000, or 0.1%, to \$366.2 million.

The Interdepartmental accounts reflect a net increase of \$157.8 million to \$1.276 billion. Included in the Budget is \$96.1 million to fund salary increases for fiscal 1999.

Other significant changes in the Interdepartmental accounts (\$ in millions) are:

Building Authority Debt Service	21.7
Employee Benefits	21.7
Year 2000 Data Processing Initiatives	18.9

The net decrease in the Executive Departments' operating budgets reflect a mix of increases and decreases. Some of the significant increases (\$ in millions) are:

Fleet Renewal	14.0
South Woods State Prison	10.3
Parole Initiatives	5.0

Some of the significant decreases (\$ in millions) are:

Closure of Marlboro Psychiatric Hospital	(58.7)
Closure of North Princeton Developmental Center	(32.4)
Corrections' Overtime Initiatives	(18.7)
Essex I and II Settlement	(16.5)
Gubernatorial Elections Funding	(10.4)

Offsetting program growth in the Work First New Jersey program in fiscal 1999 are recommended decreases of \$7.6 million in State funds for information technology investments as major system enhancements are made, and \$6 million associated

with the one time investment in providing citizenship assistance for legal aliens.

Capital Construction (Increase of \$44 million or 7.5%)

The recommendation for Capital Construction is \$617.9 million, an increase of \$43.5 million or 7.5%. The recommendation for the appropriation to the Transportation Trust Fund is increased by \$83.4 million to \$463.7 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 shows a decrease of \$26.4 million to \$71.2 million due to the fact that the fiscal 1998 Adjusted Appropriation includes funding from both the fiscal 1997 and fiscal 1998 dedication of the Corporation Business Tax. Included in this recommendation is \$31.2

million for cleanup projects and \$20.9 million for underground storage tanks. In addition, \$15 million, representing the dedication of a portion of the Realty Transfer Tax, is recommended for shore protection. Most of the remaining capital funds support the maintenance of state facilities in the Departments of Corrections (\$11.8 million), Human Services (\$11.4 million), Law and Public Safety (\$17.7 million, of which \$12.4 million is for juvenile facilities) and the Higher Education institutions (\$8.3 million).

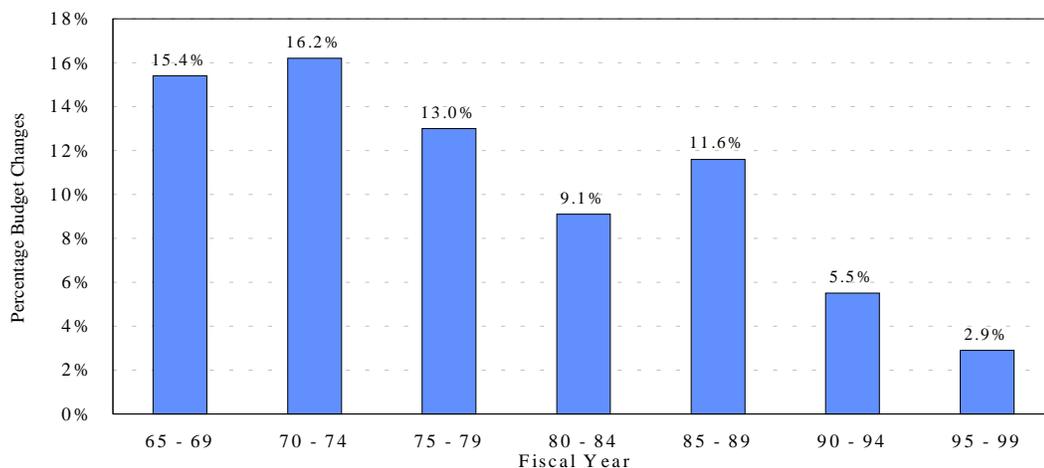
Debt Service (Increase of \$22 million or 4.6%)

The recommendation for Debt Service is \$506.1 million, an increase of \$22.4 million or 4.6%. This reflects the need for \$462.7 million for principal and interest due on bonds outstanding and \$43.4 million for anticipated bond sales.

FISCAL YEAR 1965 TO 1999 APPROPRIATION CHANGES . . .

The fiscal 1999 Budget continues to hold down growth in State government spending. Over the last five years, the rate of growth in the State's annual budgets has been held to an annual average of 2.9%.

Average Annual Growth Rate

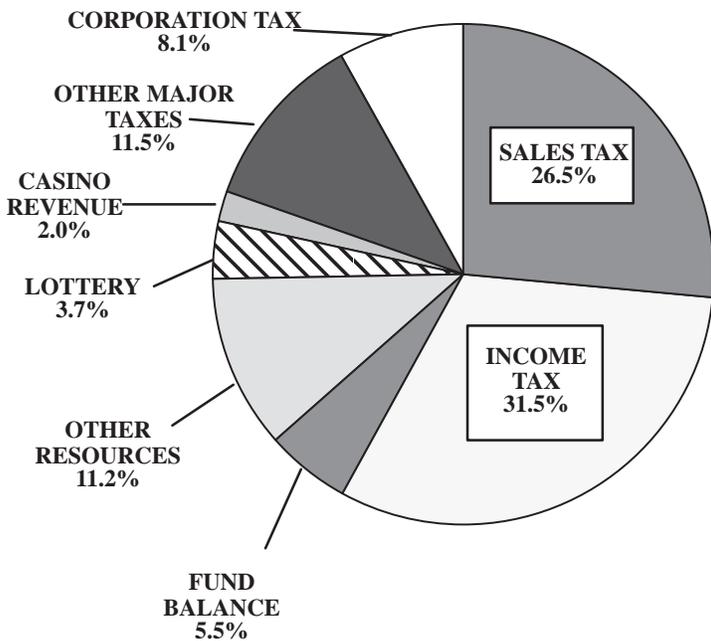


NEW JERSEY BUDGET

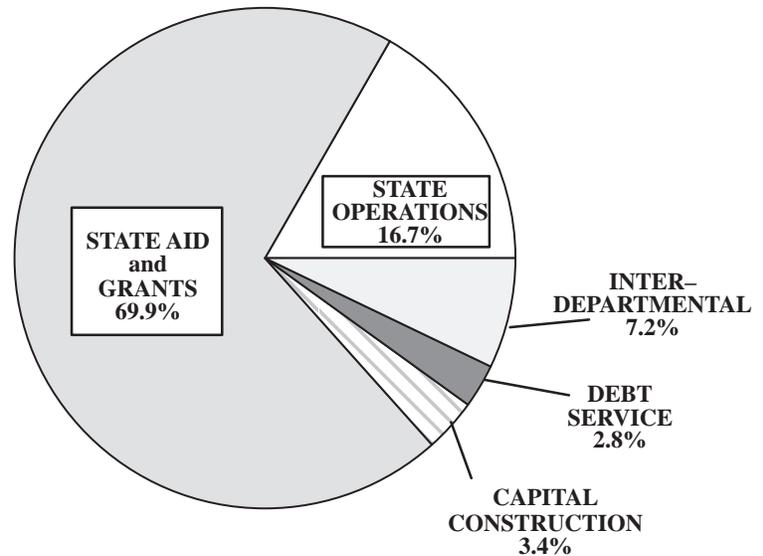
RESOURCES AND RECOMMENDATIONS FOR FISCAL YEAR 1999

ALL STATE FUNDS

Resources



Recommendations



RESOURCES

	(\$000)	
INCOME TAX	\$5,860,000	
SALES TAX	4,928,000	
CORPORATION and BANK TAX	1,510,000	
LOTTERY REVENUE	680,000	
CASINO REVENUE	372,665	
OTHER MAJOR TAXES:		
Motor Fuels and Motor Carriers	478,241	
Motor Vehicle Fees	360,840	
Transfer Inheritance	380,000	
Insurance Premium	280,000	
Cigarette	269,000	
Petroleum Products Gross Receipts	209,459	
Alcoholic Beverage Excise	70,000	
Realty Transfer	60,000	
Savings Institutions	18,000	
Tobacco Products Wholesale Sales	13,000	
Public Utility Excise	7,000	
OTHER RESOURCES	2,085,805	
SUB-TOTAL RESOURCES	17,582,010	
ESTIMATED FUND BALANCE, JULY 1, 1998		
General Fund	268,715	
Surplus Revenue Fund	504,472	
Property Tax Relief Fund	248,117	
Casino Revenue Fund	—	
Casino Control Fund	—	
Gubernatorial Elections Fund	—	
TOTAL	\$18,603,314	

RECOMMENDATIONS

	(\$000)	
Education	\$5,906,278	
Human Services	2,997,968	
Higher Ed.	1,513,385	
Interdepartmental	1,296,796	
Health and Senior Services	1,084,240	
Community Affairs	890,277	
Transportation	846,808	
Corrections	769,206	
Treasury	755,016	
Debt Service	506,142	
Law and Public Safety	385,096	
Judiciary	366,181	
Environmental Protection	304,668	
Labor	74,608	
Military and Veterans' Affairs	60,957	
Legislature	56,433	
State	45,315	
Banking and Insurance	40,625	
Other Departments	53,315	
SUB-TOTAL RECOMMENDATIONS	17,953,314	
ESTIMATED FUND BALANCE, JUNE 30, 1999		
General Fund	144,028	
Surplus Revenue Fund	504,472	
Property Tax Relief Fund	—	
Casino Revenue Fund	—	
Casino Control Fund	—	
Gubernatorial Elections Fund	1,500	
TOTAL	\$18,603,314	

Economic Forecast and Revenue Projections

NATIONAL ECONOMY - OVERVIEW

The performance of the national economy in 1997 was, by almost any measure, extraordinary. Real Gross Domestic Product (GDP) grew at 3.7%, the fastest annual growth since 1986. The expansion continued into its 82nd month with both strong employment growth (2.3%) and low inflation (1.8% over the last 12 months). Strong profits growth combined with falling interest rates helped propel Wall Street to another record year with the Standard & Poor's 500 Index of equity prices up 31.7%.

This is a mature economic expansion, and growth cannot continue to exceed long-run trends. The problems of the Asian economies, are expected to help slow the U.S. growth in 1998, perhaps enough to forestall any action by the Federal Reserve to raise interest rates. Most forecasters expect the Asian problems to have a limited impact on the U.S. economy, reducing GDP growth by about 0.5%. More widespread deterioration of the Asian economies, which could spill over into U.S. financial markets, and consumer confidence are the primary threats to our stable growth.

The 1998 GDP growth is anticipated to slow to a more moderate level of 2.5% and settle into a sustainable 2.2% range in the 1999-2003 period. Consumer spending is expected to remain high in 1998 at 2.9%, just slightly behind the 3.3% pace of 1997. Concern over high consumer debt levels is beginning to wane. Income growth is anticipated to remain strong, reflecting continued growth in employment levels. Business investment in durable equipment is expected to remain steady in 1998 at a real growth rate of just over 13%.

NEW JERSEY ECONOMY -- OVERVIEW

The New Jersey economy enjoyed its most balanced and overall best year since the current expansion began in 1993. Strong employment growth of 1.7% drove employment to a level of 3.7 million, more than 40,000 jobs above the 1989 pre-recession high. Personal income grew 5.2%, the third year of better than 4.7% growth. Gross State Product (GSP) continued to gain momentum, growing 5% in 1997, an increase from 3.6% and 4.8% in 1995 and 1996, respectively.

Employment growth has been strong since mid-1996 with growth for the past six quarters ranging between 1.5% and 2.0%. This is the best growth in

the mid-Atlantic region. Although the New Jersey employment growth rate has been below the national rate since 1987, the gap substantially narrowed in 1997. Construction jobs started growing again after two weak years and manufacturing declines shrunk from 2-3% rates in 1995-1996 to 0.6% in 1997. Aggregate growth in the service sector remained strong at 2.6% but that masks growth rates in some business service sectors that are above the comparable national rates.

The strong employment and income picture, supplemented by the three year boom in the financial markets, fueled a resurgence in consumer spending. Vehicle registrations grew steadily through the first three quarters of the year and should generate the fastest annual pace since 1994.

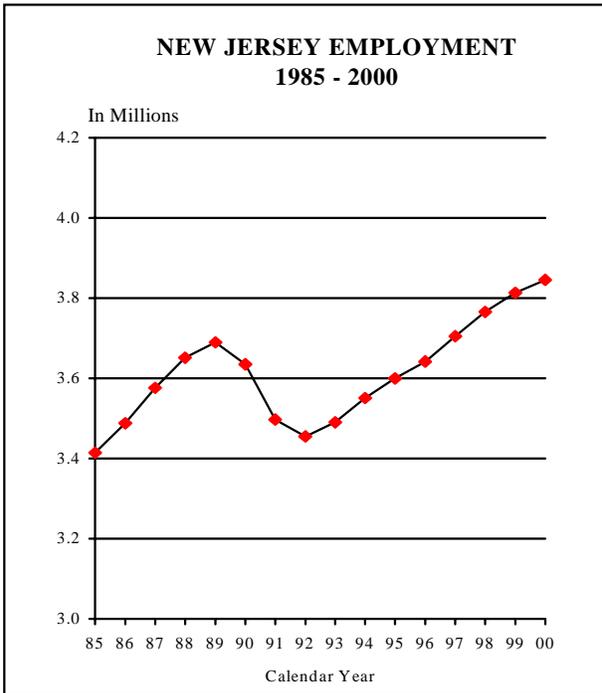
ECONOMIC FORECAST

National economic growth will continue in 1998 and beyond at a more moderate but sustainable pace, with GDP growth in the range of 2.5% to 2.2%. The economic problems of Asia carry a 20-25% probability that they could worsen and reduce GDP growth to 2.0%. Inflationary pressures are expected to remain in check as the impact of tightening labor markets is offset by the impact of softer export demand and cheaper imports. The Consumer Price Index is anticipated to increase 2.3% in 1998 and 2.7% in 1999.

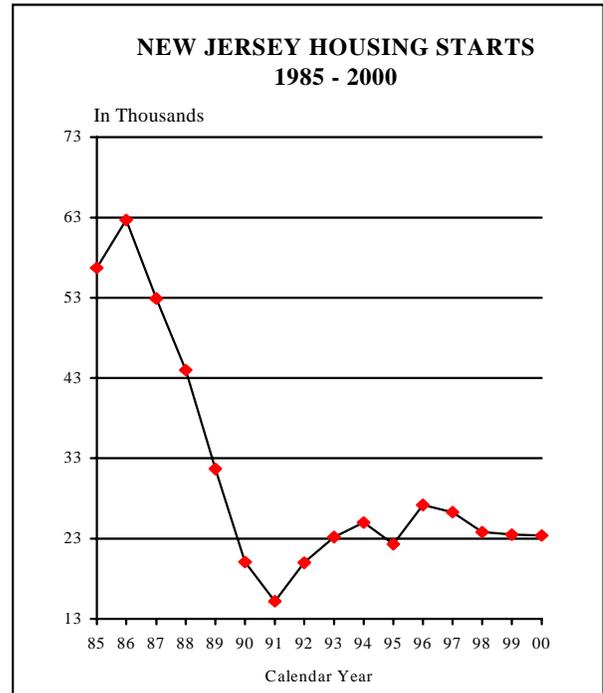
Continuing high levels of employment, steady income growth, and low interest rates will continue to support strong consumer and business spending. The national employment growth is expected to moderate slightly to 2.1% in 1998 and then gradually slow to 1% by 2000. Personal income growth is projected to also moderate in 1998 to 5.0% and then remain in that range thereafter. Consumer durable expenditures are projected to increase in 1998 and remain in the 4-5% range thereafter.

The New Jersey economy is expected to track the national trend to slightly less vigorous growth in 1998 and more moderate sustainable growth in 1999. Employment growth is projected to remain virtually unchanged in 1998 at 1.5% before easing to 0.9% in 1999. Personal income growth is expected to remain in the 4.7% range for the next two years. Housing starts are expected to ease back from 1997 levels and to stabilize in the 23,000 to 23,700 unit range. Automobile sales are projected to remain close to the 1997 levels of 340,000 units.

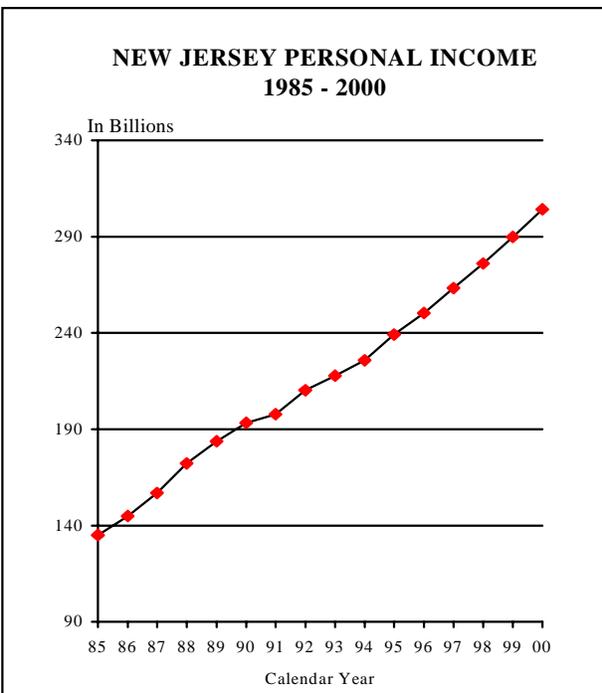
Economic Forecast and Revenue Projections



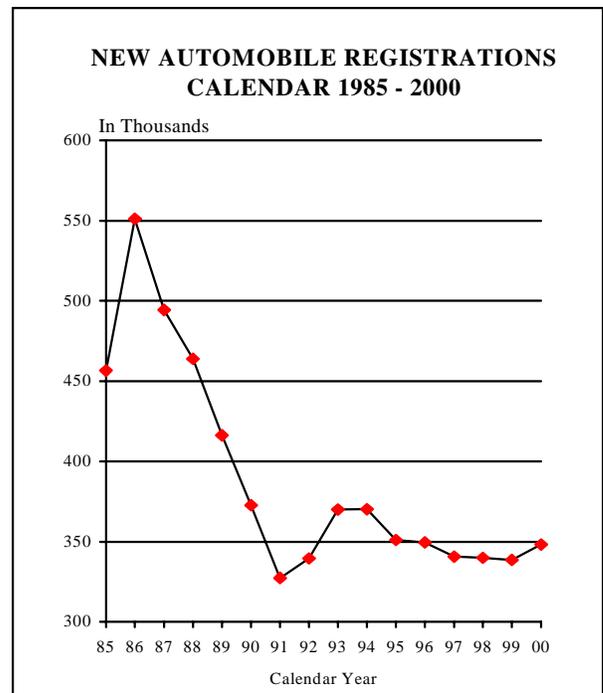
Source: New Jersey Division of Taxation (98 - 00 Projected)



Source: New Jersey Division of Taxation (98 - 00 Projected)



Source: New Jersey Division of Taxation (98 - 00 Projected)



Source: New Jersey Division of Taxation (98 - 00 Projected)

Economic Forecast and Revenue Projections

REVENUE FORECAST

REVISIONS TO THE FISCAL 1998 ANTICIPATED REVENUE

The current estimate of \$16.9 billion in total fiscal 1998 revenue is \$610 million more than when revenues were certified by the Governor in June 1997.

The three largest taxes, gross income, sales and use, and corporate business, account for 67% of total revenues and are now forecast to yield \$11.4 billion. This is an increase of \$507 million and primarily reflects an upward revision in the income tax and the sales tax estimates. The total revenues from other major taxes are revised upward by \$103 million primarily to incorporate the impact of increasing the cigarette excise tax and the year-to-date collection patterns of the estate tax and the corporate business tax on banks and financial institutions.

The sales tax is estimated to generate \$4.7 billion, a 6.9% rate of growth rather than the 3.0% originally projected. This reflects the strong employment and income growth experienced in 1997 which has left consumers more optimistic and willing to purchase durable goods. Sales tax collections for the first three quarters of 1997, which show strong growth in the auto, construction, and home furnishings sectors, underscore this change.

The gross income tax forecast is revised to \$5.3 billion, an increase of \$304 million. Stronger than anticipated income and employment growth in 1997 accounts for part of the change. Personal income is now projected to grow 5.2%, compared to the 4.8% estimated in June. Employment growth of 1.7% compares to the 1.3% originally projected. The Budget estimate assumed that capital gains realizations would remain at their historic high level. The revised estimate assumes that the volatility of the financial markets in the last half of 1997, combined with the new reduced federal tax rate on long-term capital gains income, will result in continued strong growth in capital gains income.

The property tax deduction/credit program, which was phased-in during the 1996 tax year, was originally expected to reduce collections by \$120 million in fiscal 1997 and another \$80 million in fiscal 1998. Recently available data from the 1996 tax year indicates that the fiscal 1997 cost is \$100 million, leading to a revised fiscal 1998 cost

increase of \$67 million, for a total cost of \$167 million in fiscal 1998.

FISCAL 1999 REVENUE PROJECTIONS

Revenues for fiscal 1999 are expected to increase more modestly as the national economy slows to more sustainable long-run growth levels.

Sales Tax:

The forecast of \$4.9 billion for fiscal 1999 sales tax revenue is an increase of \$208 million, or 4.4%, compared to fiscal 1998. This reflects an expectation of continued growth but a moderation of the underlying economic forces compared to fiscal 1998. Spending in the two key consumer sectors of housing and autos is expected to pull back somewhat from the 1997 levels and to remain fairly flat for the next two years.

The reform of the gross receipts and franchise tax will subject energy sales to the sales tax starting in 1998. This additional revenue is not included in the estimate.

Corporate Business Tax:

The forecast of \$1.4 billion for fiscal 1999 Corporate Business Tax (CBT) revenue is an increase of \$116 million, or 8.8%, compared to fiscal 1998. This includes \$81 million from the energy tax reform and \$35 million in base growth. The base increase assumes that the growth of U.S. corporate before-tax profits, which is a proxy for New Jersey business profitability, will slow significantly to about 3% in 1998. This reflects the continued cyclical slowing of the national economy from the strong 16% profit growth in 1995 to more moderate levels of 9% and 8% in 1996 and 1997, respectively. Profit growth is anticipated to remain in the low single digits through the year 2000.

Gross Income Tax:

The forecast of \$5.9 billion for fiscal 1999 is an increase of \$520 million, or 9.7%, over fiscal 1998 revenue. This represents a moderation of the 5.2% growth in New Jersey personal income forecast for 1997 to about 4.7% in both 1998 and 1999. Growth in wage income and proprietors' (business) income is expected to continue strong in 1998, but start to ease back in 1999 and beyond. Capital gains income, which has been growing at about 21% per year from 1991-1996, is projected to reach that trend level in 1998 and then grow slightly faster in the out-years.

All the major tax policy changes are now phased in with one exception. The 1998 property tax deduction will increase to \$10,000, or a \$50 credit.

Economic Forecast and Revenue Projections

This is expected to reduce the fiscal 1999 collections by about \$67 million compared to fiscal 1998.

Other Revenues

The cigarette excise tax and the wholesale tax on other tobacco products were doubled, effective

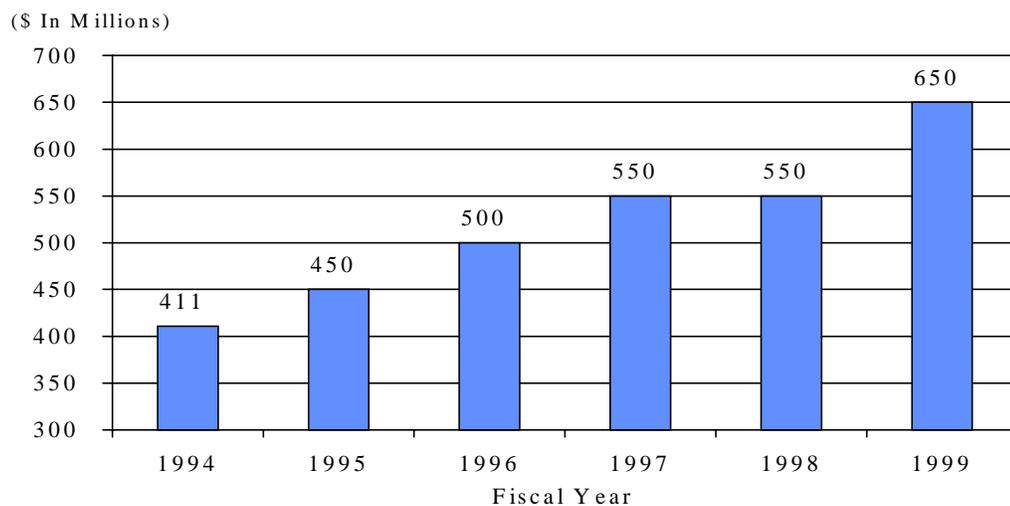
January 1, 1998. The cigarette excise tax is anticipated to generate an additional \$200 million in net revenue in fiscal 1999. It is projected to generate an additional \$77 million during the last half of fiscal 1998. The other tobacco products tax is anticipated to increase revenues by at least 50%. The fiscal 1998 and 1999 estimates are increased by \$2 and \$4 million, respectively.

The Economy Is Strong . . .

The New Jersey economy has continued to grow during the past four years:

- Employment has **grown by 273,000, or 5.9%**.
- The unemployment rate has **dropped from 7.5% to 5.3%**.
- The number of new business incorporations has grown every year since 1993, from 2,467 in 1993 to 2,951 in 1996, an **increase of 20%**.
- Per capita personal income has grown from \$27,689 in 1993 to \$32,677 in 1996, an **increase of 18%**.
- The gross state product has grown from \$244.8 billion in 1993 to an estimated \$290.7 billion in 1997, an **increase of 18.8%**.

The Fiscal 1999 Budget increases the Targeted Fund Balance to \$650 Million:



Economic Forecast and Revenue Projections

<p style="text-align: center;">FISCAL 1994 TO FISCAL 1999 MAJOR TAX CUTS ENACTED BY THE WHITMAN ADMINISTRATION TOTAL SAVINGS \$1,898 MILLION</p>

PUBLIC LAWS OF 1994

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

PUBLIC LAWS OF 1995

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

PUBLIC LAWS OF 1996

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

Public Laws OF 1997

- **Cut the corporate business tax on S corporations** (Senate Bill No. 231)
- **Eliminated \$100,000 media tax on professional wrestling events** (Assembly Bill No 2213)
- **Lowered the alcoholic beverage tax rate on cider from 70 cents to 12 cents per gallon, making the rate consistent with the tax rate on beer** (Senate Bill No. 1946)
- **Reformed the gross receipts and franchise tax on utilities** (Assembly Bill No. 2825)
- **Froze property taxes for Senior Citizens and the disabled** (Assembly Bill No. 3)
- **Established tax credits and carry forward extensions for high-tech firms** (Senate Bill No. 445,447,449)
- **Excluded military pensions and survivor's benefits from the gross income tax** (Assembly Bill No. 229)

PROPOSED - Eliminate sales tax on phone calls across regional calling areas
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Economic Forecast and Revenue Projections

STATE REVENUES FISCAL YEAR 1998 PROJECTIONS

(\$ In Thousands)

	APPROP 07/01/97	REVISED FY 1998	CHANGE DOLLARS	PERCENTAGE CHANGE
Major Taxes				
Sales	\$4,550,000	\$4,720,000	\$170,000	3.7%
Corporation Business	1,282,000	1,315,120	33,120	2.6%
Motor Fuels	470,000	467,241	(2,759)	(0.6%)
Motor Vehicle Fees	419,000	357,793	(61,207)	(14.6%)
Transfer Inheritance	305,000	360,000	55,000	18.0%
Insurance Premium	261,000	270,000	9,000	3.4%
Cigarette	243,000	320,000	77,000	31.7%
Petroleum Products Gross Receipts	198,000	199,459	1,459	0.7%
Public Utility Excise	7,000	7,000	-	
Corporation Banks and Financial Institutions	100,000	60,000	(40,000)	(40.0%)
Alcoholic Beverage Excise	75,000	70,000	(5,000)	(6.7%)
Realty Transfer	51,000	59,000	8,000	15.7%
Savings Institution	18,000	18,000	-	
Tobacco Products Wholesale Sales	7,000	11,000	4,000	57.1%
Total Major Taxes	7,986,000	8,234,613	248,613	3.1%
Miscellaneous Taxes, Fees, Revenues				
Federal Revenues Initiatives	20,000	55,000	35,000	175.0%
Medicaid Uncompensated Care - Acute	160,000	163,915	3,915	2.4%
Medicaid Uncompensated Care-Psychiatric	169,562	166,563	(2,999)	(1.8%)
Good Driver	123,000	120,005	(2,995)	(2.4%)
Motor Vehicle Inspection Fund	-	64,400	64,400	
Investment Earnings	8,000	15,000	7,000	87.5%
Public Utility GRFT	38,710	39,230	520	1.3%
TEFA	361,000	346,000	(15,000)	(4.2%)
Fringe Benefit Recoveries	146,861	122,300	(24,561)	(16.7%)
Court Unification County Reimbursement	59,656	59,656	-	
Other Miscellaneous Revenue	843,944	845,098	1,154	0.1%
Total Miscellaneous Taxes, Fees, Revenues	1,930,733	1,997,167	66,434	3.4%
Interfund Transfers				
State Lottery Fund	670,000	655,000	(15,000)	(2.2%)
All Other Funds	252,115	261,257	9,142	3.6%
Total Interfund Transfers	922,115	916,257	(5,858)	(0.6%)
TOTAL STATE REVENUES GENERAL FUND	10,838,848	11,148,037	309,189	2.9%
Property Tax Relief Fund	5,036,000	5,340,000	304,000	6.0%
Casino Revenue Fund	330,700	325,500	(5,200)	(1.6%)
Casino Control Fund	54,761	56,317	1,556	2.8%
Gubernatorial Election Fund	1,500	1,500	-	
TOTAL STATE REVENUES	\$16,261,809	\$16,871,354	\$609,545	3.7%

Economic Forecast and Revenue Projections

STATE REVENUES FISCAL YEAR 1999 PROJECTIONS

(\$ In Thousands)

	REVISED FY 1998	BUDGET FY 1999	CHANGE FY98 TO FY99	PERCENTAGE CHANGE
Major Taxes				
Sales	\$4,720,000	\$4,928,000	\$208,000	4.4%
Corporation Business	1,315,120	1,431,000	115,880	8.8%
Motor Fuels	467,241	478,241	11,000	2.4%
Motor Vehicle Fees	357,793	360,840	3,047	0.9%
Transfer Inheritance	360,000	380,000	20,000	5.6%
Insurance Premium	270,000	280,000	10,000	3.7%
Cigarette	320,000	269,000	(51,000)	(15.9%)
Petroleum Products Gross Receipts	199,459	209,459	10,000	5.0%
Public Utility Excise	7,000	7,000	-	
Corporation Banks and Financial Institutions	60,000	79,000	19,000	31.7%
Alcoholic Beverage Excise	70,000	70,000	-	
Realty Transfer	59,000	60,000	1,000	1.7%
Savings Institution	18,000	18,000	-	
Tobacco Products Wholesale Sales	11,000	13,000	2,000	18.2%
Total Major Taxes	8,234,613	8,583,540	348,927	4.2%
Miscellaneous Taxes, Fees, Revenues				
Federal Revenues Initiatives	55,000	-	(55,000)	(100.0%)
Medicaid Uncompensated Care - Acute	163,915	171,111	7,196	4.4%
Medicaid Uncompensated Care-Psychiatric	166,563	149,849	(16,714)	(10.0%)
Good Driver	120,005	96,270	(23,735)	(19.8%)
Motor Vehicle Inspection Fund	64,400	64,400	-	
Investment Earnings	15,000	15,000	-	
Public Utility GRFT	39,230	60,550	21,320	54.3%
TEFA	346,000	282,000	(64,000)	(18.5%)
Fringe Benefit Recoveries	122,300	95,000	(27,300)	(22.3%)
Court Unification County Reimbursement	59,656	-	(59,656)	(100.0%)
Other Miscellaneous Revenue	845,098	856,802	11,704	1.4%
Total Miscellaneous Taxes, Fees, Revenues	1,997,167	1,790,982	(206,185)	(10.3%)
Interfund Transfers				
State Lottery Fund	655,000	680,000	25,000	3.8%
All Other Funds	261,257	238,562	(22,695)	(8.7%)
Total Interfund Transfers	916,257	918,562	2,305	0.3%
TOTAL STATE REVENUES GENERAL FUND	11,148,037	11,293,084	145,047	1.3%
Property Tax Relief Fund	5,340,000	5,860,000	520,000	9.7%
Casino Revenue Fund	325,500	372,665	47,165	14.5%
Casino Control Fund	56,317	54,761	(1,556)	(2.8%)
Gubernatorial Election Fund	1,500	1,500	-	
TOTAL STATE REVENUES	\$16,871,354	\$17,582,010	\$710,656	4.2%

Financial Summary of the Fiscal 1999 Budget

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

	Fiscal Year Ending June 30	
	1998 Estimated	1999 Estimated
Beginning Balances July 1		
Undesignated Fund Balances		
General Fund	\$280,577	\$268,715
Surplus Revenue Fund	388,377	504,472
Property Tax Relief Fund	439,042	248,117
Gubernatorial Elections Fund	-	-
Casino Control Fund	(1,556)	-
Casino Revenue Fund	-	-
<i>Total Undesignated Fund Balances</i>	<i>1,106,440</i>	<i>1,021,304</i>
State Revenues		
General Fund	11,148,037	11,293,084
Property Tax Relief Fund	5,340,000	5,860,000
Gubernatorial Elections Fund	1,500	1,500
Casino Control Fund	56,317	54,761
Casino Revenue Fund	325,500	372,665
<i>Total State Revenues</i>	<i>16,871,354</i>	<i>17,582,010</i>
Other Adjustments		
General Fund		
Balances lapsed	50,651	-
To Gubernatorial Elections Fund	(8,896)	-
To Surplus Revenue Fund	(116,095)	-
4% CBT Adjustment	31,927	-
Surplus Revenue Fund		
From General Fund	116,095	-
Gubernatorial Elections Fund		
From General Fund	8,896	-
<i>Total Other Adjustments</i>	<i>82,578</i>	<i>-</i>
<i>Total Available</i>	<i>18,060,372</i>	<i>18,603,314</i>
Appropriations		
General Fund	11,117,486	11,417,771
Property Tax Relief Fund	5,530,925	6,108,117
Gubernatorial Elections Fund	10,396	-
Casino Control Fund	54,761	54,761
Casino Revenue Fund	325,500	372,665
<i>Total Appropriations</i>	<i>17,039,068</i>	<i>17,953,314</i>
Ending Balances June 30		
Undesignated Fund Balances		
General Fund	268,715	144,028
Surplus Revenue Fund	504,472	504,472
Property Tax Relief Fund	248,117	-
Gubernatorial Elections Fund	-	1,500
Casino Control Fund	-	-
Casino Revenue Fund	-	-
<i>Total Undesignated Fund Balances</i>	<i>\$1,021,304</i>	<i>\$650,000</i>

Financial Summary of the Fiscal 1999 Budget

SUMMARY OF FISCAL YEAR 1998-99 APPROPRIATION RECOMMENDATIONS BY FUND (thousands of dollars)

-----Year Ending June 30, 1997-----					Year Ending ----June 30, 1999----			
Orig. & (S)Supple- mental	Reapp. & (R)Recpts.	Transfers & (E)Emer- gencies	Total Available	Expended		1998 Adjusted Approp.	Requested	Recom- mended
General Fund								
4,087,343	267,829	20,624	4,375,796	4,055,844	Direct State Services	4,139,837	4,231,588	4,223,819
4,232,413	207,244	5,501	4,445,158	4,365,464	Grants-in-Aid	4,344,330	4,553,908	4,483,469
2,116,638	38,134	-21,331	2,133,441	2,077,035	State Aid	1,575,234	1,588,983	1,586,448
357,129	91,127	-2,277	445,979	373,320	Capital Construction	574,375	821,411	617,893
446,922	---	---	446,922	446,901	Debt Service	483,710	506,142	506,142
11,240,445	604,334	2,517	11,847,296	11,318,564	Total General Fund	11,117,486	11,702,032	11,417,771
4,602,115	58	---	4,602,173	4,539,340	Property Tax Relief Fund	5,530,925	6,108,117	6,108,117
53,161	2,331	---	55,492	53,997	Casino Control Fund	54,761	54,761	54,761
354,019	33,190	---	387,209	385,567	Casino Revenue Fund	325,500	372,665	372,665
7,000	---	---	7,000	6,998	Gubernatorial Elections Fund	10,396	---	---
16,256,740	639,913	2,517	16,899,170	16,304,466	GRAND TOTAL STATE APPROPRIATIONS	17,039,068	18,237,575	17,953,314

SUMMARY OF FISCAL YEAR 1998-99 APPROPRIATION RECOMMENDATION (thousands of dollars)

	Fiscal Year 1998 Adjusted Appropriations	Fiscal Year 1999 Recommendations	----Change----	
			Dollar	Percent
GENERAL FUND AND PROPERTY TAX RELIEF FUND				
State Aid and Grants	\$ 11,450,489	\$ 12,178,034	\$ 727,545	6.4%
State Operations				
Executive Departments	2,600,563	2,525,324	(75,239)	(2.9%)
Legislature	54,532	56,433	1,901	3.5%
Judiciary	366,685	366,181	(504)	(0.1%)
Interdepartmental	1,118,057	1,275,881	157,824	14.1%
Total State Operations	4,139,837	4,223,819	83,982	2.0%
Capital Construction	574,375	617,893	43,518	7.6%
Debt Service	483,710	506,142	22,432	4.6%
TOTAL GENERAL FUND AND PROPERTY TAX RELIEF FUND	16,648,411	17,525,888	877,477	5.3%
CASINO REVENUE FUND	325,500	372,665	47,165	14.5%
CASINO CONTROL FUND	54,761	54,761	---	0.0%
GUBERNATORIAL ELECTION FUND	10,396	---	(10,396)	(100.0%)
GRAND TOTAL STATE APPROPRIATIONS	\$ 17,039,068	\$ 17,953,314	\$ 914,246	5.4%

Financial Summary of the Fiscal 1999 Budget

SUMMARY OF APPROPRIATIONS MAJOR INCREASES AND DECREASES

This table summarizes the major increases and decreases in the fiscal 1999 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. The largest single component is for the salary and benefits of State employees. 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 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, public transportation aid, and funding for State Colleges and Universities 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 general obligation bonds.

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

APPROPRIATIONS MAJOR INCREASES AND DECREASES (\$ In Millions)

	<u>Increases</u>	<u>Decreases</u>	<u>Net Change Dollars</u>
State Operations			
Salary Increases	\$ 96.3		
Building Authority Debt Service	21.7		
State Employees -- Fringe Benefits	20.1		
Year 2000 Data Processing	18.9		
Treasury -- Fleet Renewal	14.0		
South Woods State Prison	10.3		
Child Support Consolidation	10.2		
DMV -- Inspection and Maintenance	6.2		
Corrections -- New Computer System	5.0		
Comprehensive Revenue Management Administration System	5.0		
Other Property Rentals	5.0		
Education -- Statewide Assessment Program	4.7		
Employee Data Base -- Human Resource Management System	4.0		
Corrections -- High Impact Diversion Expansion	3.0		
Corrections -- Medical Contract Increases	2.8		
Public Defender -- Pool Attorney Rates	2.7		
State Police -- 118th Class	2.7		
State Police -- National Crime Information Center (NCIC) Year 2000	2.2		
EDA -- Debt Service for South Jersey Port Corporation	2.1		
Corrections -- Secure Facility for Sex Offenders	2.0		
Corrections -- Intensive Supervision/Surveillance Expansion	2.0		
Statewide Telecommunications Environment Study	2.0		

Financial Summary of the Fiscal 1999 Budget

APPROPRIATIONS MAJOR INCREASES AND DECREASES (\$ In Millions)

	<u>Increases</u>	<u>Decreases</u>	<u>Net Change Dollars</u>
Corrections -- Increased Bedspaces at Vroom Reception Center	1.9		
Legislature	1.9		
DMV -- Bus Inspection Program	1.5		
State Police -- Vehicle Maintenance	1.5		
Menlo Park Veterans' Home	1.2		
Corrections -- Increased Bayside Custody Staffing	1.2		
Human Services -- Contract Reform Initiative	1.0		
Human Services -- Eligibility Determination	1.0		
Other (Net)	<u>32.1</u>		
<i>Subtotal State Operations Increases</i>	<u>\$ 286.2</u>		
Marlboro Psychiatric Hospital Closure		\$ (58.7)	
North Princeton Developmental Center Closure		(32.4)	
Interest on Interfund Borrowing		(19.0)	
Corrections -- Overtime Initiatives		(18.7)	
Essex I and II Settlements		(16.5)	
Treasury -- Collections Contracts		(11.6)	
Gubernatorial Elections Funding		(10.4)	
Environmental Protection -- Two year supplemental		(7.6)	
Workfirst New Jersey -- Technology Investment		(7.6)	
Legal Alien Citizenship Assistance		(6.0)	
Procurement Savings		(5.0)	
Corrections -- Realign Facilities with Prisoner Classification		(3.8)	
911 Emergency Telephone System		(3.4)	
Corrections -- Vacate Non-Housing Units		(2.6)	
Environmental Protection -- Management Efficiencies		(2.2)	
Corrections -- Privatize Food Service Operations		(2.1)	
Workers' Compensation		(2.1)	
Vehicle Claims Liability Fund		(1.5)	
Treasury -- Attrition Savings		<u>(1.2)</u>	
<i>Subtotal State Operations Decreases</i>		<u>\$ (212.4)</u>	
<i>Net Change (State Operations)</i>			<u><u>\$ 73.8</u></u>
Grants-in-Aid			
Medicaid -- Cost and Caseload Growth	\$ 68.2		
Mental Health -- Community Services	40.8		
Developmentally Disabled -- Community Programs	39.3		
Medical Services for the Aged -- Cost and Caseload Growth	36.9		
New Jersey Transit Corporation	28.8		
Higher Education Institutions	26.3		
Redeveloping Abandoned Urban Properties	25.0		
Work First New Jersey -- Substance Abuse Initiatives	18.8		
Pharmaceutical Assistance to the Aged and Disabled -- Cost and Caseload Growth	12.4		
Corrections -- Purchase of Community Services	9.0		
DYFS -- Grant Programs	8.7		
Charity Care Hospital Payments/ACCESS Program	6.2		
Higher Education Technology Bond Debt Service	6.2		
Community Affairs -- Faith Based Initiative	5.0		
Science and Technology Commission -- Technology Transfer	4.4		
Outstanding Scholar Recruitment Program	4.2		

Financial Summary of the Fiscal 1999 Budget

APPROPRIATIONS MAJOR INCREASES AND DECREASES (\$ In Millions)

	<u>Increases</u>	<u>Decreases</u>	<u>Net Change Dollars</u>
Tuition Aid Grants	4.0		
Agriculture -- Conservation Cost Share Program	2.0		
Work First New Jersey -- Training Related Expenses	1.2		
Medicaid Extension -- Second Year	1.1		
Subtotal Grants-in-Aid Increases	\$ 348.5		
Medicaid Savings Initiatives		\$ (64.2)	
Corrections -- Purchase of Service from County Penal Facilities		(38.8)	
Nursing Facility Savings Initiatives		(24.0)	
PAAD Savings Initiatives		(17.0)	
Hudson River Waterfront Walkway		(2.0)	
New Hope Discovery Foundation/Relocation		(2.0)	
Lifeline		(1.4)	
Homestead Property Tax Rebates		(1.4)	
Production Efficiency and Agricultural Business Incentive		(1.0)	
Other (Net)		(12.3)	
Subtotal Grants-in-Aid Decreases		\$ (164.1)	
Net Change			\$ 184.4
State Aid			
Teachers' Pensions	\$ 343.6		
School Aid	195.9		
Open Space -- Local Matching	50.0		
Teachers' Social Security	22.3		
Aid to County Colleges	19.7		
General Assistance -- County Administration	6.1		
Early Childhood Intervention Program	3.7		
Support of Patients in County Psychiatric Hospitals	2.8		
Consolidated Police and Firemen's Pension Fund	2.2		
Subtotal State Aid Increases	\$ 646.3		
Work First New Jersey -- Client Benefits		\$ (18.6)	
New Jersey Firemen's Home		(4.3)	
Food Stamps for Legal Aliens		(2.8)	
Watershed Moratorium Offset Aid		(2.0)	
Other		(28.5)	
Subtotal State Aid Decreases		\$ (56.2)	
Net Change			\$ 590.1
Capital Construction (Increase)	\$ 43.5		\$ 43.5
Debt Service (Increase)	\$ 22.4		\$ 22.4
GRAND TOTALS	\$ 1,346.9	\$ (432.7)	\$ 914.2

Appropriations

RECOMMENDATIONS BY DEPARTMENT STATE FUNDS (thousands of dollars)

	State Operations	Grants- In-Aid	State Aid	Capital Construction	Debt Service	Total Recommended
Legislature	\$ 56,433	\$ -	\$ -	\$ -	\$ -	\$ 56,433
Chief Executive	5,250	-	-	-	-	5,250
Agriculture	8,592	2,354	7,004	156	-	18,106
Banking and Insurance	40,625	-	-	-	-	40,625
Community Affairs	26,872	26,815	836,590	-	-	890,277
Corrections	695,868	61,514	-	11,824	-	769,206
Education	39,953	1,513	5,863,002	1,810	-	5,906,278
Environmental Protection	175,012	350	58,062	71,244	78,697	383,365
Health and Senior Services	48,592	1,011,056	24,592	-	-	1,084,240
Human Services	562,808	2,072,246	351,515	11,399	-	2,997,968
Labor	53,534	21,074	-	-	-	74,608
Law and Public Safety	349,296	14,474	3,600	17,726	-	385,096
Military and Veterans' Affairs	57,538	969	-	2,450	-	60,957
Personnel	26,882	-	-	-	-	26,882
State	17,697	1,127,277	15,112	9,146	-	1,169,232
Transportation	166,352	194,250	22,506	463,700	-	846,808
Treasury	303,102	605,193	228,668	7,521	427,445	1,571,929
Miscellaneous Commissions	3,075	-	-	2	-	3,077
Inter-Departmental Accts	1,275,881	-	-	20,915	-	1,296,796
The Judiciary	366,181	-	-	-	-	366,181
TOTAL RECOMMENDATION	\$ 4,279,543	\$ 5,139,085	\$ 7,410,651	\$ 617,893	\$ 506,142	\$ 17,953,314

DEPARTMENT OPERATING BUDGETS (thousands of dollars)

	Adjusted Approp. FY 1998	Recom- mended FY 1999	Difference 1998-1999	% Change 1998-1999
EXECUTIVE AGENCIES:				
Legislature	\$ 54,532	\$ 56,433	\$ 1,901	3.5%
Chief Executive	5,250	5,250	0	0.0%
Department of Agriculture	9,080	8,592	(488)	(5.4%)
Department of Banking and Insurance	40,633	40,625	(8)	(0.0%)
Department of Community Affairs	27,114	26,872	(242)	(0.9%)
Department of Corrections	690,951	695,868	4,917	0.7%
Department of Education	35,761	39,953	4,192	11.7%
Department of Environmental Protection	184,886	175,012	(9,874)	(5.3%)
Department of Health and Senior Services	45,148	48,592	3,444	7.6%
Department of Human Services	653,140	562,808	(90,332)	(13.8%)
Department of Labor	53,883	53,534	(349)	(0.6%)
Department of Law and Public Safety	352,608	349,296	(3,312)	(0.9%)
Department of Military and Veterans' Affairs	55,646	57,538	1,892	3.4%
Department of Personnel	26,251	26,882	631	2.4%
Department of State	18,177	17,697	(480)	(2.6%)
Department of Transportation	165,633	166,352	719	0.4%
Department of the Treasury	299,434	303,102	3,668	1.2%
Miscellaneous Commissions	2,829	3,075	246	8.7%
Inter-Departmental Accounts	1,118,057	1,275,881	157,824	14.1%
The Judiciary	366,685	366,181	(504)	(0.1%)
Total Executive Departments	\$ 4,205,698	\$ 4,279,543	\$ 73,845	1.8%

State Aid and Local Taxpayer Relief

OVERVIEW

The allocation of State fiscal resources for the support of local governments -- school districts, municipalities and counties -- continues in fiscal 1999 as one of the most important aspects of the State Budget. The total amount of State Aid and related budget savings available to local governments in fiscal 1999 will be \$9.102 billion, an increase of \$851 million over fiscal 1998. School Aid and related budget savings passed on to local school districts total \$5.925 billion. Aid to municipalities combined with budget savings initiatives will total \$1.722 billion in fiscal 1999. Other local aid programs such as transportation projects, mental health services, and county college aid, combined with additional budget savings initiatives to local governments, will provide an additional \$833 million. An additional \$574 million in relief from local tax burdens will be provided through direct tax rebates and reductions to taxpayers.

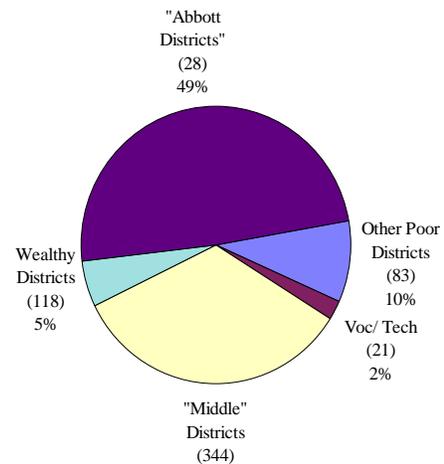
SCHOOL AID

State Aid for local school districts is the single largest purpose to which State funds are devoted. Pursuant to the provisions of the Comprehensive Educational Improvement and Financing Act (CEIFA), the fiscal 1999 State Budget includes \$4.946 billion in direct formula aid to local school districts, an increase of approximately \$196 million. Teachers' Pension and Social Security payments made by the State on behalf of local districts add \$917 million to the direct aid amount, raising the total aid figure for fiscal 1999 to \$5.863 billion. The total aid amount includes \$50 million in additional school facilities aid, dedicated from cigarette tax revenues as part of the Charity Care legislation.

The largest single aid increase in the area of Formula Aid is Core Curriculum Standards Aid, which increases by approximately \$129.1 million to \$2.749 billion in fiscal 1999. Other significant aid increases include: Special Education Aid, up \$53.3 million; Early Childhood Aid, up \$15.1 million; Pupil Transportation Aid, up \$18.7 million, the first increase in this aid category since fiscal 1994; Demonstrably Effective Program Aid, up \$12.3 million; and Stabilization Aid, up \$8.3 million. Two new items, \$10 million for extraordinary Special Education Costs and \$2.5 million for County Special Services Tuition Stabilization, are also included in the fiscal 1999 School Aid recommendation.

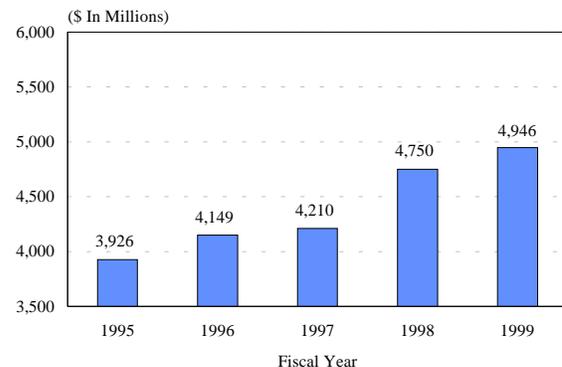
The Comprehensive Educational Improvement and Financing Act requires a consideration of each school district's wealth and income so that the poorest districts will receive the greatest percentage of aid. In fact, the 28 Abbott districts, with less than 25% of the State's students, would receive 49% of the aid provided. In contrast, the State's 118 wealthiest districts would receive only 5% of the total aid distributed.

FY99 RECOMMENDED EDUCATION FORMULA AID DISTRIBUTION



The fiscal 1999 school aid amounts for each local district reflect the use of updated income and enrollment data. Previously, local district income data had been based on 1989 U.S. Census data. In fiscal 1999, information derived from the Division of Taxation's Gross Income Tax files, supplemented by other data on local district per capita income was used to calculate the local fair share amounts. Fiscal 1999 also represents the first school aid distribution since fiscal 1992 that reflects new school district enrollment data. This new information, which is required by CEIFA, forms the basis for a more equitable distribution of resources, the fairest method to allocate State Aid to schools to help them to successfully meet the challenges they face.

TOTAL DIRECT SCHOOL AID BY FISCAL YEAR



State Aid and Local Taxpayer Relief

Abbott v. Burke Parity Remedy Aid will increase by \$39.0 million for school year 1998-1999. This increase reflects a growth in direct state appropriations in fiscal 1999 of \$9.1 million and a carry forward balance of \$29.9 million from the appropriation for this program in fiscal 1998. The \$29.9 million carryforward amount is the result of enrollment adjustments.

In fiscal 1998, the \$246.2 million appropriation for parity remedy aid was based on enrollment data which was subsequently revised per language in the fiscal 1998 Appropriations Act. When new enrollment data became available, the change in enrollments in the I-J districts reduced the average per pupil expenditure for these districts, thus lowering the amount required for the Abbott districts to achieve per pupil spending parity as required by the Supreme Court. This resulted in a downward adjustment in the amount of parity funding necessary in fiscal 1998. The net reduction, \$29.9 million, will be carried forward in fiscal 1999 and used to supplement the direct appropriation for parity remedy aid.

The fiscal 1999 recommendation reflects 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 Early Childhood Program, recommended at \$302.7 million for fiscal 1999, an increase of \$15.1 million, targets the creation of full-day kindergarten and pre-school programs in districts with high concentrations of disadvantaged students. The \$187.7 million recommended in fiscal 1999 for Demonstrably Effective Program aid, an increase of \$12.3 million, also targets funds to districts with high concentrations of low income students. It recognizes that 184 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.

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. Stabilization Aid programs included

in the fiscal 1999 recommendation guarantee that property taxpayers in districts with high concentrations of low income students as well as certain other districts will not experience significantly higher property tax rates.

Consistent with CEIFA, the fiscal 1999 budget includes continued funding for an important new technology initiative. In fiscal 1997, a program of technology aid was initiated at a level of \$10 million. In fiscal 1998, that program was fully developed into a Distance Learning Network program in the amount of \$50 million. The fiscal 1999 budget includes \$52.3 million for this program. This program combines 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 continued in fiscal 1999 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 \$61.6 million in savings passed on to local school districts in fiscal 1999 related to local PERS pension costs. Of the total amount, \$41.2 million reflects savings related to State-initiated pension reforms and \$20.4 million reflects savings attributable to the Pension Security Plan.

School Aid and Budget Savings	
(\$ In Millions)	
	FY 1999
Direct Aid	\$4,945.8
Teachers' Pension & Social Security	917.2
Pension Security Plan Savings	20.4
State Initiated Budget Savings	41.2
School Aid And Budget Savings	<u>\$5,924.6</u>

MUNICIPAL AID

The fiscal 1999 Budget continues each major municipal aid program at last year's funding level, with the exception of municipal aid from utility taxes which increases by \$5 million. The recommended amount of \$1.772 billion will continue to provide municipal governments with a stable base of revenue to address their needs for

State Aid and Local Taxpayer Relief

local public services. The total recommendation includes \$894 million funded from major tax and revenue sources and \$745 million from taxes levied against energy, telecommunications, and water and sewer utilities, pursuant to the Energy Utility Property Tax Relief Act. In addition, pension related savings passed on to municipalities total \$132.5 million.

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 566 municipalities. The fiscal 1998 funding level of \$740 million will be increased in fiscal 1999 to \$745 million as a part of the newly adopted restructuring of the utility taxes for energy, telecommunications, and water and sewer utilities.

Prior to January 1998, the State was responsible for the collection of the Public Utility Franchise and Gross Receipts taxes. These funds were distributed to municipalities on the basis of utility personal property valuations. P.L. 1997, Chapter 162, signed into law in July of 1997, replaced the previous method of taxation with a new tax structure effective January 1, 1998. The new law is centered on the corporation business tax, the sales and use tax, and a temporary energy facility assessment tax. Energy utilities are subject to all three new taxes, while telecommunications utilities are subject only to the corporation business tax because they were made subject to the sales and use tax in 1990. Water and sewer utilities will remain subject to the franchise and gross receipts taxes.

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 \$25 million in funding for the Urban Community Development initiative will be used to

purchase tax liens on abandoned, privately held properties. This will allow municipalities to recapture development rights, restore formerly abandoned buildings to the tax rolls, revitalize urban neighborhoods, and increase public safety by removing havens for drug dealers. An additional \$50 million will be available to localities that have established open space trust funds. These funds are reserved for open space and farmland preservation.

The savings passed on to municipalities reflect \$103 million in continuing pension reform savings and an additional savings of \$29.5 million in PERS savings related to the Pension Security Plan.

MUNICIPAL AID AND BUDGET SAVINGS		
(\$ In Millions)		
	FY 1998	FY 1999
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
Municipal Aid From Utility Taxes - Restructuring Proposal	740.0	745.0
Subtotal Direct Aid	1,559.0	1,564.0
State-Initiated Budget Savings:		
Urban Community		
Development Initiative	0.0	25.0
DEP - Open Space Preservation	0.0	50.0
Pension Security Plan Savings	10.8	29.5
Municipal Pension Cost Savings	103.0	103.0
Subtotal Budget Savings	113.8	207.5
Total Municipal Aid and Budget Savings	\$1,672.8	\$1,771.5

OTHER LOCAL AID AND BUDGET SAVINGS

The fiscal 1999 budget provides \$833 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 1999, \$130 million will be allocated among local governments to enable continued improvement in the State's transportation network for which they are responsible.

State Aid and Local Taxpayer Relief

Aid provided directly to county colleges increases by \$19.7 million to a total of \$160 million in fiscal 1999. This reflects the State's increased commitment to the educational programs and services offered by these schools.

The final phase-in of Judicial Unification, which gradually shifted certain funding of the State judicial system from the counties to the State, provides \$210 million in county budget savings, an increase of \$90 million over the previous year. This policy is instrumental in holding down the growth of county property taxes.

The State continues to provide substantial funds to three county operated psychiatric hospitals. It is recommended that \$78.9 million in State Aid be allocated for this purpose, 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 1999 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 \$53.6 million for fiscal 1999.

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, at \$2.75 million, supports multi-year grants to selected municipalities to rejuvenate older neighborhoods.

State aid to support New Jersey's vast public library system totals \$13.1 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.

Also included in this category are contributions for pensions and related health benefits for Police and Firemen's Retirement System (PFRS) and the Consolidated Police and Firemen's Pension Fund totaling \$14.3 million, an increase of \$4.6 million over fiscal 1998.

Savings from the Pension Security Plan attributable to other local government entities increase by \$44.2 million, from \$34.4 million in fiscal 1998 to \$78.6 million in fiscal 1999. These savings represent a reduction in the liability of local governments for existing pension costs based on savings realized through the pension security proposal.

OTHER LOCAL AID PROGRAMS AND BUDGET SAVINGS INITIATIVES FISCAL 1999 FUNDING	
(\$ in Millions)	
Transportation Trust Fund - Aid For Local Projects	\$130.0
County College Aid	159.8
Judicial Unification	210.0
Aid to County Psychiatric Hospitals	78.9
Urban Enterprise Zones - Sales Tax Dedication	60.0
Veterans and Senior/Disabled Citizens Property Tax Deductions	53.6
Department of Community Affairs - Housing and Neighborhood Assistance	16.6
Library Aid	13.1
Pension Contributions on Behalf of Local Governments	14.3
Pension Security Plan Savings	78.6
Miscellaneous Programs	18.0
TOTAL	\$832.8

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 1999, the State Budget provides \$573.6 million in direct taxpayer relief.

State Aid and Local Taxpayer Relief

The Homestead Rebate Program provides property tax relief by direct payment to individual households. By the close of fiscal 1998, about 1.3 million households will have received rebates totaling \$321.7 million. In fiscal 1998, the average rebate increased to \$243 per household, up from last year's average of \$237.

Rebates totaling \$286.4 million were awarded to approximately 629,000 senior and disabled households, each receiving an average rebate of \$456.

All other households whose income does not exceed \$40,000 received a fixed amount of either \$90 for homeowners or \$30 for tenants. Rebates for 695,000 of these households totaled \$35.3 million. The fiscal 1999 Budget provides \$323.6 million for the program, continuing it on the same scale as fiscal 1998.

The enactment of the Property Tax Deduction Act in June 1996 enabled taxpayers to obtain property tax relief through State income tax deductions. This new program provided \$120 million in tax relief in 1997. When filing State tax returns this year, all homeowners and tenants will receive added

tax relief by deducting up to 75% of the first \$7,500 in property tax payments, which is expected to translate into \$167 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 \$250 million.

With the passage of A-3 in January 1998, the stage has been set for additional property tax relief for qualified senior and disabled citizens. Beginning in fiscal 2000, an estimated \$22 million in direct property tax relief will be passed on to eligible senior and disabled residents.

DIRECT TAXPAYER RELIEF		
(\$ in Millions)		
	Fiscal Year 1998	Fiscal Year 1999
Homestead Rebates	\$ 325	\$ 324
Property Tax Deduction Act	167	250
TOTAL	\$ 492	\$ 574

Pension Security Plan Cost Avoidance . . .

The State successfully completed the refinancing of its pension obligations at the end of fiscal 1997. This was accomplished through the issuance of pension obligation bonds that were used to finance the former unfunded accrued liability. The Pension Security Plan of 1997 resulted in significant cost avoidance for Direct State Services, State Aid, and PERS and PFRS local employers. The following chart reflects combined State savings of normal and unfunded accrued liability contributions for these three groups from fiscal 1997 through 1999. The total cost avoidance for this period is in excess of \$1.0 billion.

**Pension Security Plan Cost Avoidance
for Direct State Services, State Aid and Local Employers
(\$ in millions)**

	Fiscal 1997	Fiscal 1998	Fiscal 1999	Total 97-99
Direct State Services and State Aid:				
Normal Contributions	\$193	\$348	\$218	\$759
Unfunded Accrued Liability Contributions	60			60
Direct State Services and State Aid Cost Avoidance	253	348	218	819
Local Pension Contribution Savings		66	129	195
Total Pension Security Plan Cost Avoidance	\$253	\$414	\$347	\$1,014

State Aid and Local Taxpayer Relief

PROPERTY TAX RELIEF PROGRAMS & INITIATIVES (\$ In Millions)

Program	FY 1998	FY 1999	\$Change
School Aid and Budget Savings			
Direct Aid	\$4,749.9	\$4,945.8	\$195.9
Teachers' Pension & Social Security	573.6	917.2	343.6
Pension Security Plan Savings	20.4	20.4	0.0
State Initiated Pension Reform	41.2	41.2	0.0
Subtotal School Aid and Budget Savings	<u>5,385.1</u>	<u>5,924.6</u>	<u>539.5</u>
Municipal Aid And Budget Savings			
Consolidated Municipal Property Tax Relief Aid	756.0	756.0	0.0
Legislative Initiative Block Grant Program	33.0	33.0	0.0
SMPTR Discretionary Aid	30.0	30.0	0.0
Aid to Densely Populated Municipalities	0.0	0.0	0.0
Municipal Aid From Utility Taxes	740.0	745.0	5.0
Urban Community Development Initiative	0.0	25.0	25.0
DEP - Open Space Preservation	0.0	50.0	50.0
Pension Security Plan Savings	10.8	29.5	18.7
Municipal Pension Cost Savings	103.0	103.0	0.0
Subtotal Municipal Aid And Budget Savings	<u>1,672.8</u>	<u>1,771.5</u>	<u>98.7</u>
Other Local Aid And Budget Savings			
Transportation Trust Fund - Aid For Local Projects	130.0	130.0	0.0
County College Aid	140.1	159.8	19.7
Health Benefit Cost Relief	29.7	0.0	-29.7
Judicial Unification	120.0	210.0	90.0
Aid to County Psychiatric Hospitals	76.0	78.9	2.9
Urban Enterprise Zones - Sales Tax Dedication	60.0	60.0	0.0
Veterans and Senior/Disabled Citizens Property Tax Deductions	54.1	53.6	-0.5
Department of Community Affairs - Housing and Neighborhood Assistance	16.6	16.6	0.0
Library Aid	13.1	13.1	0.0
Pension Contributions on Behalf of Local Governments	9.7	14.3	4.6
Pension Security Plan Savings	34.4	78.6	44.2
Miscellaneous Programs:	18.0	18.0	0.0
Subtotal Other Local Aid And Budget Savings	<u>701.7</u>	<u>832.8</u>	<u>131.1</u>
Direct Taxpayer Relief			
Homestead Rebates	325.0	323.6	-1.4
Property Tax Deduction Act	167.0	250.0	83.0
Subtotal Direct Taxpayer Relief	<u>492.0</u>	<u>573.6</u>	<u>81.6</u>
GRAND TOTAL	<u><u>\$8,251.6</u></u>	<u><u>\$9,102.5</u></u>	<u><u>\$850.9</u></u>

State Aid and Local Taxpayer Relief

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

	Appropriated Fiscal 1998	Requested Fiscal 1999	Increase (Decrease)
Formula Aid Programs:			
Restoration of Penalties for Excessive Administrative Expenditures	\$6,602	\$0	(\$6,602)
Core Curriculum Standards Aid	2,620,200	2,749,335	129,135
Abbott v. Burke Parity Remedy	246,193	255,339	9,146
Supplemental Core Curriculum Standards Aid	208,794	158,792	(50,002)
Additional Supplemental Core Curriculum Standards Aid	32,952	32,952	0
Early Childhood Aid	287,575	302,698	15,123
Instructional Supplement	17,000	16,896	(104)
Demonstrably Effective Program Aid	175,420	187,736	12,316
Rewards and Recognition	10,060	10,000	(60)
Stabilization Aid	52,685	61,023	8,338
Supplemental Stabilization Aid	53,026	53,026	0
Additional Supplemental Stabilization Aid:			
Large Efficient Districts	3,000	3,000	0
County Special Services District Placements	10,994	0	(10,994)
High Senior Citizen Concentrations	921	921	0
Additional Senior Citizen Stabilization Aid	288	0	(288)
Supplemental School Tax Reduction Aid	10,687	10,331	(356)
Categorical Aids:			
Distance Learning Network	50,378	52,271	1,893
Adult Education Grants	25,000	25,343	343
Bilingual Education	57,428	52,998	(4,430)
Special Education	585,589	638,883	53,294
Extraordinary Special Education Costs Aid	0	10,000	10,000
County Special Services Tuition Stabilization	0	2,500	2,500
County Vocational Education	22,564	32,486	9,922
Pupil Transportation Aid	243,916	262,597	18,681
Debt Service Aid	95,248	94,945	(303)
School Construction and Renovation Fund	0	50,000	50,000
Hold Harmless Aid - Hoboken, Plainfield	1,418	0	(1,418)
Less:			
Abbott District Excess Surplus Reduction		(10,043)	(10,043)
Stabilization Aid Growth Limitation	(173,800)	(210,609)	(36,809)
Subtotal, Formula Aid Programs	<u>4,644,138</u>	<u>4,843,420</u>	<u>199,282</u>
Other Aid to Education:			
Nonpublic School Aid	73,747	74,095	348
State-operated School District			
Additional School Building Aid (Debt Service)	9,204	7,655	(1,549)
Other Aid	22,863	20,645	(2,218)
Subtotal, Other Aid to Education	<u>105,814</u>	<u>102,395</u>	<u>(3,419)</u>
Subtotal, Department of Education	<u>4,749,952</u>	<u>4,945,815</u>	<u>195,863</u>
Direct State Payments for Education:			
Teachers' Pension Assistance	97,650	371,316	273,666
Debt Service on Pension Obligation Bonds	24,095	68,297	44,202
Pension and Annuity Assistance - Other	13,545	17,006	3,461
Teachers' Social Security Assistance	438,268	460,568	22,300
TOTAL	<u><u>\$5,323,510</u></u>	<u><u>\$5,863,002</u></u>	<u><u>\$539,492</u></u>

CAPITAL FUNDING OVERVIEW

Capital needs of the state are primarily funded through three mechanisms which may be used singularly or in combination. The three mechanisms are pay-as-you-go capital construction, general obligation bond funds, and lease or lease-purchase of facilities for State operations.

Pay-as-you-go capital is used primarily for repairs, renovations, preservation of state properties, transportation improvements, and environmental projects. This ensures protection of lives and property and serves to maintain programmatic goals and objectives. Pay-as-you-go capital projects are often small and less costly and are funded through annual appropriations from the General Fund. General obligation bond funds are authorized by the state's voters and used to finance more expensive capital construction projects such as new facilities. The projects are expected to have a useful life equal to the time required to retire the bonds and must yield substantial benefits, not only in the present but to future generations as well. Lease or lease-purchase of facilities postpones or eliminates the cost associated with state ownership of facilities and is normally structured to coincide with the useful life expectancy of a facility. This funding mechanism provides budget flexibility and is an accepted alternative method of financing capital construction.

ANNUAL CAPITAL RECOMMENDATION REVIEW PROCESS

The annual review process for capital recommendations goes through several stages to ensure that only the most vital and necessary requests are recommended for funding. All State departments requesting capital funding must submit a seven-year capital improvement plan to the New Jersey Commission on Capital Budgeting and Planning. The Commission analyzes the capital requests, schedules public hearings for each agency, and recommends projects to the Governor. The Governor, in turn, selects projects to be funded in the annual Budget.

In addition to the Commission on Capital Budgeting and Planning, the capital recommendation process includes the Office of Management and Budget, the New Jersey State Planning Commission, the Council of Economic Advisors, and the Office of Public Finance. This ensures a comprehensive and exhaustive review of the capital requests necessary to meet the most crucial needs of the State.

OPERATING IMPACT OF CAPITAL PROJECTS

A mandatory provision for each capital project request requires departments to submit an operating impact statement. Departments must identify whether a project will result in an increase or decrease or have no effect on operating budgets, and document and quantify such information. Because both the requested and the recommended projects for fiscal 1999 capital emphasize preservation of investments rather than new construction, impact on operating budgets is in many cases marginal.

JOBS THROUGH PUBLIC INFRASTRUCTURE IMPROVEMENTS

For fiscal 1999, the State's estimated expenditure for public infrastructure improvements from all sources totals over \$2 billion. This investment of State, federal, independent authority, and bond dollars is targeted for highway and public transportation programs, hazardous substance abatement projects, shore protection, safe drinking water projects, wastewater treatment programs, and public health and safety improvements. Consequently, the \$2 billion will support approximately 55,000 private sector jobs in fiscal 1999, an increase of 2,000 jobs over fiscal 1998. Of these, 34,000 jobs are directly related to the construction industry. These jobs, in turn, will generate an additional 21,000 jobs in manufacturing, retail, services, finance, real estate, and other employment categories. The State's investment in its infrastructure has a direct and positive impact on economic growth and development, jobs, and the environment and is consistent with the goals and objectives of the State Development and Redevelopment Plan.

INFRASTRUCTURE IMPROVEMENT JOBS		
Programs FY 99	Estimated Expenditures (in Millions)	Total Jobs
Transportation	\$1,522	45,660
Environmental	256	4,377
Local School Facility Aid	125	2,137
Higher Ed.	89	1,521
Other Capital	94	1,607
Totals	\$2,086	55,302

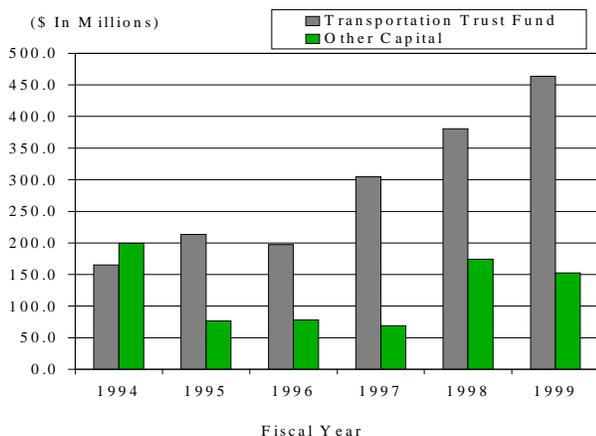
Public Infrastructure

FISCAL 1999 RECOMMENDATION

For fiscal 1999, \$617.9 million is recommended for capital construction programs. This is an increase of \$43.5 million over fiscal 1998. Of this amount: \$463.7 million is to improve and maintain our transportation infrastructure and provide debt service for the Transportation Trust Fund, \$52.1 million is for hazardous waste cleanup and replacement of privately owned underground storage tanks, and \$15 million is for shore protection. The balance of \$87.1 million will provide for needed repair and preservation projects at Human Services, Corrections, Juvenile Justice, and other State departments and agencies.

Additionally, funds derived from proceeds of the sale of surplus State property will supplement capital appropriations and will be used to renovate facilities, in order to comply with building codes, environmental regulations, and the Americans with Disabilities Act (ADA). Major construction projects in the seven-year Annual Capital Improvement Plan will be funded through other sources such as existing general obligation bond funds, the New Jersey Building Authority, or the New Jersey Economic Development Authority.

CAPITAL CONSTRUCTION EXPENDITURES



Environmental Protection

New Jersey has developed one of the most comprehensive and effective solid waste management programs in the United States. The State has placed into operation 14 lined landfills and five state-of-the-art energy recovery incinerators with long-term disposal capacity, while posting the highest recycling rate (60%) in the country. Despite these achievements, the federal courts ruled that the

State's ability to direct municipalities to specific solid waste disposal facilities, or "flow control", was unconstitutional. The federal court decision has threatened the ability of the counties to retire the \$1.5 billion in outstanding debt associated with implementation of their solid waste programs under the provisions of the New Jersey Solid Waste Management Act.

The State's initial response to the demise of flow control has been the "Partnership Agreement Program." Twenty million dollars were appropriated during fiscal 1998 for county and authority "stranded investment relief". An additional \$20 million is recommended for fiscal 1999. To be eligible, counties must undergo detailed audits supervised by the State Treasurer. These audits will be utilized, on a case-by-case basis, to determine definitive actions that can be taken to reduce disposal rates, and to assess the need for State financial assistance in satisfying debt obligations. The audit reports also will be used to develop partnership agreements which will address both short and long term needs of the counties and authorities. As of the end of 1997, eleven counties had requested audits in order to participate in this program.

Constitutional dedication of 4% of revenues from the Corporation Business Tax (CBT) continues to provide a stable source of capital funding for hazardous discharge cleanups, underground storage tank upgrades and cleanups, and water quality preservation and monitoring. In fiscal 1999, \$31.2 million will be available for hazardous discharge projects and \$20.9 million will provide loans and grants to both citizens and private businesses to facilitate underground storage tank cleanups. In addition to these capital funds, \$5 million is included for water quality monitoring, planning, and management, and \$5.7 million is allocated to support the Site Remediation Program's administrative costs. A program which provides for alternative sources of public or private water supplies when a water supply is suspected of contamination by hazardous substance is also funded.

The \$52.1 million capital portion of the fiscal 1999 CBT dedication decreased \$21.7 million from the fiscal 1998 adjusted appropriation of \$73.9 million. This is because the fiscal 1997 capital CBT dedication of \$22 million was not applied until fiscal 1998 as a supplemental appropriation to the base amount of \$51.8 million. For fiscal 1999, the

CBT base amount for capital increased by \$300,000 compared to fiscal 1998.

Shore protection projects continue to revitalize and preserve the State's most valuable tourist attraction. The fiscal 1999 Budget recommends \$15 million from the dedication of the Realty Transfer Tax. This should leverage up to \$37 million of federal and \$5 million of local funds. In addition to the \$15 million appropriation, during fiscal 1998 urgent shore protection projects received \$4 million from publicly approved bond funds.

Dredging, clearing, and deepening of navigation channels will be supported by \$6.8 million from the Port of New Jersey Revitalization, Dredging, Environmental Cleanup, Lake Restoration, and Delaware Bay Area Economic Development Bond Act of 1996. It is expected that this will generate an additional \$9.8 million in federal funds. Flood control projects and State park renovations and improvement projects are recommended at \$1.1 million and \$3 million, respectively.

Altogether, these measures will preserve the State's environment, protect lives and property, provide economic development and recreational opportunities, and sustain both commerce and jobs.

Overall, when compared to fiscal 1998, the Department's recommended capital has decreased \$26.4 million from \$97.6 million to \$71.2 million. However, because the fiscal 1998 adjusted appropriation from the Corporation Business Tax included supplemental appropriations of \$22 million, the actual reduction was only \$4.4 million.

Transportation Trust Fund

The fiscal 1999 Budget provides \$463.7 million for the Department of Transportation. These funds will be used to pay debt service for bonds issued by the Transportation Trust Fund Authority, to fund pay-as-you-go capital to improve the State's highways, and to support capital maintenance assistance for the New Jersey Transit Corporation. The funds are derived from a Constitutional dedication of eight 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 have approximately \$1.6 billion available for transportation improvement projects. The majority, more than \$1.5 billion, is anticipated to be spent in fiscal 1999.

Correctional Facilities

The fiscal 1999 Budget recommends \$11.8 million for various construction projects at adult correctional facilities, with an increased emphasis on security improvements. These projects will maintain prison bed spaces, support facilities, rectify code compliance issues, and address safety concerns. 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.

Colleges and Universities

For the State colleges and universities, this Budget recommends \$8.3 million in capital funds to help preserve critical equipment and building systems and thus reduce annual operating costs related to facility maintenance by \$300,000.

A major research initiative, proposed for funding in fiscal 1998 and expected to be under construction in fiscal 1999, is the University Heights Science Park in Newark. This international center for public health and research will be staffed by distinguished scientists and researchers from the Public Health Research Institute, the University of Medicine and Dentistry's National Tuberculosis Center, and New Jersey Medical School's Department of Microbiology. The total estimated cost for the initial phase of the project is \$77.9 million, including the State's contribution of \$18 million. The Science Park will solidify New Jersey's position as a major contributor to medical and public health research and underscores Governor Whitman's commitment to revitalize the urban areas of the state.

Human Services

The fiscal 1999 Budget includes \$11.4 million for the Department of Human Services for 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 \$11.4 million will supplement the \$88 million appropriated to date from the \$160 million Developmental Disabilities Waiting List Reduction and Human Services Facility Bond Act of 1994. Such funds will provide for major projects at State and community-based facilities.

Department of Law and Public Safety

For fiscal 1999, \$5.3 million is recommended for the Department of Law and Public Safety. In addition

Public Infrastructure

to funding renovations and rehabilitation of roofs, generators and other building systems, \$2.4 million is recommended for a Computer Aided Dispatch and Records Management System, and \$1 million is provided to replace police radios. This will enable the State Police to function more efficiently and effectively in their efforts to reduce crime and provide for a secure environment for the citizens of New Jersey.

The Juvenile Justice Commission

The fiscal 1999 Budget recommends \$12.5 million to address critical capital needs at juvenile facilities. Such funds, combined with the designated allocation of \$5 million from the Human Services Facilities Bond Funds, will address construction of housing units, renovation of food service facilities, replacement of roofs, and upgrades to utilities at critical juvenile justice sites. This will maintain and preserve the existing bed space and provide for continuation of rehabilitation programs for juvenile offenders.

Office of Telecommunications and Information Services (OTIS)

The fiscal 1999 Budget recommends a total of \$7.5 million to OTIS. The funds will be used for data-processing equipment acquisition and facility upgrades to improve operations. Included in the \$7.5 million is \$1 million for a unified, statewide radio communications network and \$4.9 million to facilitate the consolidation of two data centers into a single location.

Compliance Mandates

The fiscal 1999 Budget includes \$16.5 million for compliance with federal and State statutory mandates. Of this amount, \$3.5 million is recommended for Americans with Disabilities Act projects. These projects will continue the program of removing physical barriers that prevent access to State facilities by individuals with disabilities. In addition, \$10 million is provided for removal of State-owned leaking underground storage tanks and for consolidation and upgrade of the State's fueling sites. Such funds, combined with the \$22.2 million recommended for private underground storage tank replacements administered by Department of Environmental Protection (DEP), will ensure that New Jersey ranks first in protecting its environment. Also, \$3 million is recommended to mitigate hazardous conditions, such as asbestos and polychlorinated bi-phenyls (PCB) contamination.

GENERAL OBLIGATION DEBT SERVICE

The State funds most large-scale capital construction 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 appropriates the money authorized by the bond and, as the funds are needed, the State sells bonds, thus incurring debt service obligations -- principal and interest -- to bondholders.

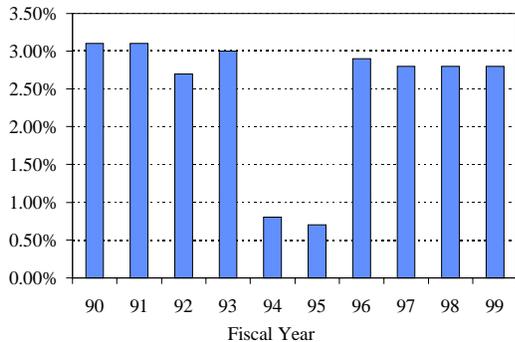
The State has carefully used its debt capacity to fund projects that are of economic, social, and environmental importance. Projects supported by general obligation bonds include correctional facilities, human services facilities, transportation projects, higher education facilities (including advanced technology centers), and environmental projects.

The State Constitution limits the amount of debt that the Legislature can create to 1% 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 if the refinancing produces savings. The outstanding general obligation bonded indebtedness for New Jersey as of June 30, 1997 was \$3.4 billion. There is \$1.9 billion of additional long-term debt authorized, but not issued, to support future capital projects. This \$1.9 billion includes bonds approved by the voters as of November 1997.

The fiscal 1999 debt service payments on all outstanding general obligation bonds total \$506.1 million. This is an increase of \$22.4 million from fiscal 1998. The projected level of debt service is \$462.7 million for principal and interest due on bonds outstanding on July 1, 1998, and additional funding of \$43.4 million for proposed bond sales in fiscal 1998 and fiscal 1999.

The State manages its debt judiciously. For the last four fiscal years there has been no increase in the percentage of debt relative to the overall State budget. The sharp decline in debt service appropriations for fiscal 1994 and 1995 was the result of the general obligation debt refinancing that occurred in fiscal 1993. The debt level has been maintained below 3% since 1992 as indicated on the chart on the next page:

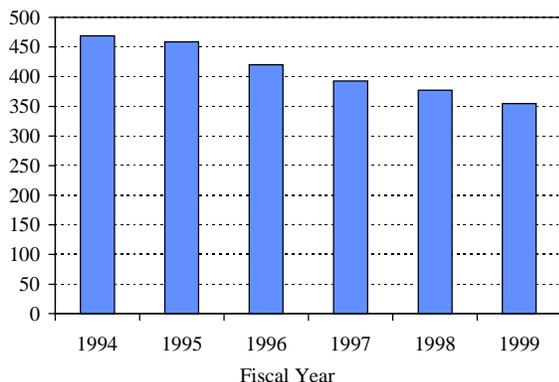
**GENERAL OBLIGATION DEBT AS A PERCENTAGE OF STATE APPROPRIATIONS
FY 1990 - 1999**



PROPERTY RENTALS (MAJOR)

The State continues to follow the recommendations of the state-wide facilities master plan regarding current and future office space requirements (excluding institutional facilities). The plan provides achievable targets for eliminating excess space and recommends geographic consolidations to produce immediate and future year savings. It also includes recommendations for the State's policy of leased versus owned space that is based on comparisons of New Jersey to other states. Consequently, a major reduction in leased facilities

**NUMBER OF LEASED FACILITIES
FY 1994 - 1999**



occurred between fiscal 1994 and 1999.

For fiscal 1999, \$245.3 million is recommended for office space and other rentals for State agency operations. 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 provides for an increase of \$31.9 million from fiscal 1998. Cost-cutting actions to reduce rents in fiscal 1999 have been offset by improvements in the real estate market, and the associated increases in the cost of leased space, and demands by client agencies for additional space. An additional \$5.4 million is recommended to provide essential new program space for the Department of Labor, the Juvenile Justice Commission, the Division of Youth and Family Services, the Judiciary, the Department of Education, and the Office of the Public Defender. Another \$2.2 million is necessary to support lease consolidation efforts and to eliminate 24 month-to-month leases.

Other increases include \$21.7 million for the New Jersey Building Authority for debt service costs, and a \$28 million increase in debt service for the Economic Development Authority. Offsetting these increases is a \$898,000 decrease in other debt service leases and tax payments.

The lease-purchase agreements continue to be an important and positive means for obtaining office space. Under such agreements, independent authorities issue bonds and construct facilities. The State occupies such facilities, funds the debt service and, over a defined period of time, secures ownership.

New Jersey Building Authority

For the New Jersey Building Authority, the State provides debt service of \$58.1 million for lease-purchase agreements for buildings constructed in and around Trenton. On September 1, 1997 the Authority issued \$224 million in refunding and new State revenue bonds. The funds were applied for the restoration of the State House Complex, construction of the South Woods State Prison (the first State prison project financed by Authority bonds), Capitol Complex historic projects, as well as the State Office Building and Labor Building renovations. Other projects funded through the Building Authority include the Old Barracks, the War Memorial Building, the Taxation Building, and the Education Building.

Included in the New Jersey Building Authority debt service is funding for the Garden State Savings Bonds program. The Garden State Savings Act of

Public Infrastructure

1991 authorized State authorities to issue Garden State Savings Bonds. The purpose of the program is to assist families trying to save for college by offering tax free bonds which also can be used for a reduction in State college tuition costs.

The State is also responsible for the Richard J. Hughes Justice Complex debt service. This facility was financed by the Mercer County Improvement Authority and is under a lease-purchase agreement, with a \$7.3 million payment due in fiscal 1999.

Economic Development Authority

For fiscal 1999, the Economic Development Authority (EDA) will receive \$25.6 million, an increase of \$3 million over fiscal 1998. Funding for the Economic Development Authority will finance expenditures for the Trenton Office Complex, other lease-purchase agreements such as construction of the New Jersey Performing Arts Center in Newark, purchase of the Riverview Building, the Green Lights Energy Program, and refunding of outstanding bonds of the South Jersey Port Corporation.

The world class New Jersey Performing Arts Center (NJPAC) opened in October 1997. The NJPAC is the culmination of a public-private initiative started ten years ago to establish a performing arts center in New Jersey. The \$180 million facility was funded through contributions by corporations, foundations, and private donations, as well as the State, the City of Newark, and the federal government. The 250,000 square-foot building includes the 2,750 seat Prudential Hall, the 514 seat Victoria Theater, and 3,000 square feet of rehearsal space that is convertible for banquets and special events, as well as an outdoor theater, restaurant, and office space. In addition to representing New Jersey's commitment to the performing arts, the Center provided 1,000 jobs in construction and created 75 permanent jobs.

The Green Lights Energy Program, funded by the Economic Development Authority, provides for

installation of energy efficient lighting, fans, and motors in State-owned and lease-purchase facilities. The State will continue to reap savings from energy efficiencies from this effort and will receive incentive payments for energy consumption reductions from utility companies amounting to \$630,000 annually.

Included in Economic Development Authority funding is \$7.5 million for refunding outstanding bonds of the South Jersey Port Corporation. Legislation signed June 30, 1997 (P.L. 1997, c.150) directed the EDA to "refund or defease" the outstanding debt of the South Jersey Port Corporation. Thus, the State of New Jersey will fulfill its obligation to unify the ports of the Delaware River with the Commonwealth of Pennsylvania. Port facilities, along with all assets, liabilities, and obligations will be transferred to the EDA. A subsidiary corporation will be created to operate and maintain all or a portion of the facilities.

Sports and Exposition Authority

For the Sports and Exposition Authority, \$33.9 million in debt service is recommended for fiscal 1999. This is an increase of \$2.2 million over fiscal 1998 and is due to increased debt service costs for new bonds to finance a capital renewal program. The balance of the funds are required to support projects throughout the state, including Rutgers Stadium, the Meadowlands Complex, and the Monmouth Racetrack.

At present, the Sports and Exposition Authority is in the process of undertaking the design, construction and operation of a new convention center in Wildwood. The center will be funded from three sources: an existing 2% Wildwood tourism tax, proceeds from the issuance of contract bonds by the Sports and Exposition Authority, and a \$10 million low-interest loan from the New Jersey Economic Development Authority.

SECURING SENIOR SERVICES

An amendment to the State Constitution in 1976 permitted the establishment and operation of casino gambling in Atlantic City, along with the provision that state revenues derived from casino gambling would 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 8% 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.”

Because programs supported by the Casino Revenue Fund have grown faster than the revenues, the General Fund has had to subsidize program spending. Appropriations will exceed available revenues by \$204.6 million in fiscal 1998. A principal cause is the fact that costs for the Pharmaceutical Assistance to the Elderly and Disabled (PAAD) program continue to outpace revenues and are “crowding out” other programs supported by the Casino Revenue Fund.

Programs supported by the Casino Revenue Fund other than PAAD averaged slightly more than \$200 million per year in expenditures between fiscal 1990 and fiscal 1997. The Casino Revenue Fund can only provide \$159.4 million towards funding programs in fiscal 1998. Moreover, projected PAAD annual growth over the next five years is 9% while revenues are expected to grow by only 3% annually.

The General Fund has been absorbing increasing amounts of Casino Revenue Fund expenditures annually and PAAD costs are growing at a faster rate than supporting revenues. The fiscal 1999 Budget will include a proposal intended to provide long-term structural balance in the Casino Revenue Fund to secure services for seniors and the disabled.

DESCRIPTION OF MAJOR PROGRAMS

Pharmaceutical Assistance to the Elderly and Disabled (PAAD) \$170.7 million

- Number of clients projected: 148,084 elderly and 22,572 disabled individuals (average monthly eligibles)
- Other funding: General Fund \$25.9 million provides pharmaceutical benefits for 36,884 additional lower-income elderly persons per month.
- Administrative costs are assumed by 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 is indexed to Social Security cost-of-living increases. The current eligibility limits are \$17,918 for single persons and \$21,970 for married couples. PAAD income eligibility is also used as the basis for eligibility in the Lifeline Programs discussed below.

Lifeline Programs \$74.8 million

Number of clients served: 334,260 households

- Administrative costs have been assumed by the General Fund.

Casino Revenue Fund

- PAAD recipients are entitled to Lifeline home energy payments of \$225 annually per household. Participants in the Supplemental Security Income (SSI) program are also eligible for Lifeline. For fiscal 1999 the Social Security Administration projects fewer SSI participants in the Lifeline program. Lifeline program benefits are extended to both tenants and homeowners. The Lifeline Tenant Assistance Program is expected to help pay home energy costs for 159,560 renter-occupied households. The Lifeline Credit Program will assist 174,700 owner-occupied households.

Community Care Alternatives \$27.7 million

- Number of Clients Served: 4,367
- Other funding sources:
 - Health Care Subsidy Fund \$1.5 million
 - Federal \$33.5 million
- The fiscal 1999 Budget reflects 350 additional openings in the Community Care Program for the Elderly and Disabled, enabling that program to provide over 400 persons long-term care outside of an institution.
- 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: case management, home health, homemaker services, medical day care, non-emergency medical transportation, respite care, and social day care. In fiscal 1999, prescription drugs will be added as a program benefit.
- Community care alternatives receive approximately 50% federal matching funds.

Residential Care Developmental Disabilities \$24.5 million

- Number of clients served: 15,182 recipients
- Other funding source(s):
 - General Fund - \$208.6 million
 - Federal - \$195.7 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.

Transportation Assistance \$22.5 million

- The New Jersey Transit Corporation administers transportation assistance for senior and disabled citizens. Of the amount available, 85% is allocated to support county development of accessible local transportation services. The remaining 15% 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.

Property Tax Reduction \$17.2 million

- Number of clients served: 68,800 recipients funded by Casino Revenue Fund
- Other funding source: Property Tax Relief Fund - \$18.4 million
- This appropriation partially supports the cost of property tax reductions for senior and disabled citizens. The Constitution provides a \$250 annual property tax reduction 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 calendar 1997 municipal tax obligations was last certified at \$35.6 million. This liability is funded by \$17.2 million from the Casino Revenue Fund and

Casino Revenue Fund

\$18.4 million from the Property Tax Relief Fund.

SOBRA-Medicaid Expansion \$15.5 million

- This program was established in the Casino Revenue Fund. The Sixth Omnibus Reconciliation Act (SOBRA) is part of the voluntary State expansion of the Medicaid program to elderly and disabled persons who are considered medically needy: those individuals whose income level is too high to qualify for the regular Medicaid program, but who have excessive medical bills. The overwhelming bulk of aged and disabled SOBRA (\$123.4 million) is subsidized by the General Fund.

Respite Care \$3.8 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 1992 at the conclusion of the program's demonstration period. Respite care is cumulatively capped at \$3,000 per case.

Sheltered Workshop Transportation \$2.4 million

- Number of clients served: 2,900 eligible recipients
- During fiscal 1998, 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 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.

Home Care Expansion Program \$1 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. This program is entirely state-funded, and is available to individuals who have income and assets that exceed Medicaid eligibility thresholds.
- 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 level of benefits. HCEP beneficiaries who were ineligible for the Community Care Program remain in the 100% state-funded HCEP.

All Others \$12.7 million

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

- A. Personal Assistance Service Program \$3.7 million
 - Number of clients served: 550
 - Other funding source(s): General Fund - \$2.6 million

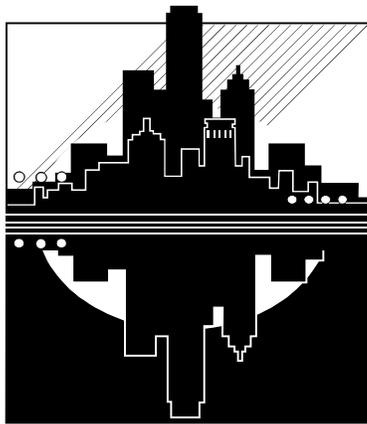
\$3.7 million is designated to provide attendant care services to approximately 550 physically disabled clients in all twenty-one counties. Personal attendants are individuals with training or experience in providing home services, who directly assist a physically disabled person in carrying out routine 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 1,800 clients.
- C. Senior Citizen Safe Housing and Transportation, \$1.6 million, affords senior citizens living in congregate housing sites to remain active by providing tenants shuttle services for food and clothes shopping. In addition, these funds provide increased security at senior citizen housing sites. Approximately 4,115 clients are assisted with these services.
- D. Home Delivered Meals, \$1 million, supplements the federally supported home delivery meal program for elderly residents throughout the State. State funds augment this program to allow for the delivery of meals on weekends and holidays. A total of 2,639,000 meals are provided to 23,700 clients.

Casino Revenue Fund

- E. Adult Protective Services, \$1.7 million, is used to develop a coordinated system of services for the protection of 3,500 elderly and disabled adults from abuse. The program, 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 (\$250,000), Health Department administration (\$871,000), and home health aid certification (\$100,000).

CASINO GAMBLING AND ATLANTIC CITY . . .



Last year over thirty-seven million people visited Atlantic City casinos. The city's 12 casinos feature a wide array of games and slots offering players the chance to hit the jackpot.

But the jackpot does not only go to the winner. New Jersey also benefits from a share of the gross revenues from Atlantic City casinos which are dedicated to funding programs that assist senior citizens and the disabled.

These revenues support programs such as: Pharmaceutical Assistance to the Aged and Disabled (PAAD), real estate property tax reimbursements, utility payments (Lifeline Program), transportation aid, boarding home assistance, senior citizen housing, meals on wheels, and community health services.

Casino Revenue Fund

CASINO REVENUE FUND SUMMARY AND PROJECTION

(\$ In Millions)

	FISCAL 1992	FISCAL 1993	FISCAL 1994	FISCAL 1995	FISCAL 1996	FISCAL 1997	FISCAL 1998	REC 1999
Opening surplus	\$116.3	\$0.0	\$38.8	\$24.0	\$0.0	\$12.8	\$0.0	\$0.0
Revenues	256.5	259.8	264.9	301.8	305.7	313.7	325.5	372.7
Lapses and adjustments	4.2	33.2	17.3	4.4	6.8	0.0	0.0	0.0
TOTAL RESOURCES	\$377.0	\$293.0	\$321.0	\$330.2	\$312.5	\$326.5	\$325.5	\$372.7
PROPERTY TAX ASSESSMENT								
Property tax deduction	\$17.2	\$17.2	\$17.2	\$17.2	\$17.2	\$17.2	\$17.2	\$17.2
MEDICAL ASSISTANCE								
Personal attendant	3.2	3.3	3.4	3.5	3.6	3.7	3.7	3.7
Home care expansion	8.0	8.0	8.0	8.0	8.0	2.4	0.0	1.0
PAAD -- expanded	122.6	88.3	116.8	122.5	121.3	147.4	166.1 ¹	170.7
Community care/SOBRA	91.5	36.2	43.2	71.7	48.6	18.5	0.8	43.2
Respite care	2.0	3.5	3.7	4.0	4.0	4.0	2.8	3.8
Hearing aid assistance	1.2	0.4	0.4	0.4	0.3	0.3	0.3	0.3
Statewide birth defects registry	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Health and Senior Services Admin.	4.5	4.0	4.0	3.6	0.2	0.6	0.6	0.9
LIFELINE CREDITS	69.5	36.5	43.1	43.2	41.9	76.3	76.3	74.8
TRANSPORTATION ASSISTANCE								
Senior citizens and disabled residents	18.6	18.6	19.2	19.4	19.8	21.1	22.2	22.5
Sheltered workshop transportation	1.4	1.4	1.4	1.7	1.7	2.4	2.4	2.4
HOUSING PROGRAMS								
Congregate housing support	1.7	1.9	1.9	1.9	1.9	1.9	1.9	1.9
Safe housing and transportation	3.0	3.0	2.8	2.8	2.5	2.0	2.0	1.6
Developmental Disabilities	24.5	24.5	24.5	24.5	24.5	24.5	24.5	24.5
OTHER	7.6	6.9	6.9	5.3	3.7	3.7	4.2	3.7
TOTAL APPROPRIATIONS	\$377.0	\$254.2	\$97.0	\$330.2	\$299.7	\$326.5	\$325.5	\$372.7
ENDING SURPLUS	\$0.0	\$38.8	\$24.0	\$0.0	\$12.8	\$0.0	\$0.0	\$0.0
VALUE OF PROGRAMS SHIFTED TO THE GENERAL FUND	\$0.0	\$107.7	\$119.3	\$111.4	\$152.7	\$180.8	\$204.6	\$197.6

Notes:

¹ Includes supplemental appropriation of \$14 million.

² \$19.5 million of appropriations have been shifted to the General Fund due to a lack of resources in the Casino Revenue Fund.

Workforce

OVERVIEW

This Administration has a continuing commitment to develop a more efficient and streamlined State government. Efforts to downsize the workforce have been balanced with the desire to minimize disruption to State programs and to individual employees. The number of employees on the State payroll has decreased by 3,272 from January 1994 to December 1997. Excluding the increase in correctional employees necessitated by the opening of the new South Woods State Prison, the number of State employees has decreased by more than 4,000.

This has been accomplished through (1) a controlled attrition program which requires agency heads to manage with reduced salary budgets and limits replacement of staff who leave, and (2) implementation of various programmatic changes that result in layoffs. Such changes may involve contracting for certain services determined to be more efficiently provided by the private sector and/or a variety of agency re-engineering initiatives.

FISCAL 1999 POSITION IMPACTS

The fiscal 1999 Budget reflects growth of 412 positions and program and privatization initiatives which would eliminate 1,097 positions.

The 412 new positions include: 102 in the Department of Corrections related to the expansion of programs which provide alternatives to incarceration, increased prison bedspace capacity and the hiring of additional custody staff to reduce overtime; 110 in the Department of Human Services, 54 for the NJ KidCare subsidized children's health initiative and 46 for additional staff for the Work First New Jersey initiative; 69 for additional custody staff in the Juvenile Justice Commission; 53 in the Department of Transportation for the establishment of an in-terminal school bus inspection program; and 50 additional probation officers in the Judiciary.

Of the 1,097 positions targeted for elimination in fiscal 1999, an estimated 995 are subject to layoff. Based on historical experience, actual layoffs due to these initiatives are projected to be significantly lower, approximately 650 employees. The remaining position reductions are to be accomplished through a combination of attrition and/or the reassignment of staff to funded vacant positions that must be refilled to meet critical program needs.

In addition, the closure of North Princeton Developmental Center and Marlboro Psychiatric Hospital is scheduled to be completed by June 30, 1998 resulting in the elimination of approximately 2,000 positions since the phase down of these facilities began in November 1996.

PRIVATIZATION

The fiscal 1999 Budget recommends several privatization initiatives which would eliminate 843 positions.

- **Corrections** -- The privatization of food services at northern correctional facilities in the State is estimated to save \$2.1 million annually and will affect 155 positions. The Department is implementing "best practices" in the new kitchen facility of South Woods State Prison. This facility also will provide food service to other institutions in the southern portion of the state. The Department of Corrections already successfully privatized health care services in 1996. Food services is another non-custody function that would be performed more efficiently by the private sector.
- **Transportation** -- The Department of Transportation (DOT) has identified a number of functions in its operations which are currently performed in the private sector at a lower cost and which could yield significant savings to the State. It is proposed that the data entry and data output functions in the Division of Motor Vehicle Services be outsourced which would eliminate 138 positions and save nearly \$1 million annually. Another major initiative is privatization of design field surveys associated with major highway capital improvement projects which would eliminate 80 positions and result in savings to free up Transportation Trust Fund monies for use on projects rather than salaries. Other DOT privatization initiatives involve right of way appraisals and heating and air conditioning maintenance at DOT headquarters.
- **Human Services** -- Privatization of all support services at the Department's institutions, including food services, maintenance, plant operations, laundry and housekeeping is proposed to be implemented on a pilot basis at two institutions which will eliminate an estimated 452 positions.

FULL-TIME PAID EMPLOYEE COUNT COMPARISON
(ALL FUND SOURCES)

DEPARTMENT/AGENCY	WHITMAN TERM BEGINS 1/21/94	DECEMBER 1995	DECEMBER 1996	DECEMBER 1997	DECEMBER, 1997 vs JANUARY 21, 1994	
					DIFFER- ENCE	% DIFFER- ENCE
AGRICULTURE	240	241	242	240	-	0%
BANKING & INSURANCE	641	613	562	560	(81)	(12.6%)
CHIEF EXECUTIVE'S OFFICE	144	134	124	113	(31)	(21.5%)
COMMERCE	94	90	95	110	16	17.0%
- PUBLIC BROADCASTING AUTHORITY	169	153	145	135	(34)	(20.1%)
- COMMISSION ON SCIENCE & TECHNOLOGY	6	6	6	6	-	0%
COMMUNITY AFFAIRS	900	871	876	922	22	2.4%
CORRECTIONS	8,213	8,171	8,107	9,038	825	10.1%
- PAROLE BOARD	137	147	155	158	21	15.3%
EDUCATION	898	900	800	826	(72)	(8.0%)
ENVIRONMENTAL PROTECTION	3,658	3,364	3,103	3,054	(604)	(16.5%)
HEALTH	1,802	1,823	1,811	1,791	(11)	(0.6%)
HIGHER EDUCATION (CHANCELLOR'S OFFICE)	75	-	-	-	(58)	(100.0%)
HUMAN SERVICES	19,608	18,218	17,760	17,991	(1,617)	(8.3%)
LABOR	3,758	3,853	3,692	3,736	(22)	(0.6%)
- PUBLIC EMPLOYEES RELATIONS COMMISSION	35	36	37	39	4	11.4%
LAW & PUBLIC SAFETY	6,059	6,117	6,017	6,111	52	0.9%
- ELECTION LAW ENFORCEMENT COMMISSION	31	29	35	39	8	25.8%
- VICTIM OF CRIMES COMPENSATION BOARD	58	55	51	50	(8)	(13.8%)
- EXECUTIVE COMM. ON ETHICAL STANDARDS	7	7	6	7	-	0%
- JUVENILE JUSTICE	1,059	1,094	1,181	1,318	259	24.5%
MILITARY AND VETERANS' AFFAIRS	1,470	1,458	1,370	1,357	(113)	(7.7%)
PERSONNEL	634	564	495	434	(200)	(31.6%)
STATE	257	258	248	234	(23)	(9.0%)
- OFFICE OF ADMINISTRATIVE LAW	153	136	129	115	(38)	(24.8%)
- PUBLIC DEFENDER	900	826	832	835	(65)	(7.2%)
- COMMISSION ON HIGHER EDUCATION	N/A	19	19	20	3	17.7%
TRANSPORTATION	4,531	4,278	4,161	3,961	(570)	(12.6%)
- DIVISION OF MOTOR VEHICLES	2,321	1,586	1,563	1,675	(646)	(27.8%)
TREASURY	4,669	4,551	4,466	4,368	(301)	(6.5%)
- CASINO CONTROL COMMISSION	369	343	343	336	(33)	(8.9%)
- STUDENT ASSISTANCE	178	190	192	193	15	8.4%
- BOARD OF PUBLIC UTILITIES	303	302	303	307	4	1.3%
MISCELLANEOUS EXECUTIVE COMMISSIONS	-	-	-	1	1	100.0%
SUBTOTAL EXECUTIVE BRANCH	63,377	60,433	58,926	60,080	(3,297)	(5.2%)
LEGISLATURE	479	470	473	469	(10)	(2.1%)
JUDICIARY (ADM. OFFICE OF THE COURTS)	1,655	1,678	1,685	1,690	35	2.1%
STATEWIDE TOTAL	65,511	62,581	61,084	62,239	(3,272)	(5.0%)
JUDICIARY (COUNTY COURTS)*	N/A	7,449	7,226	7,027	N/A	N/A
COLLEGES AND UNIVERSITIES	25,053	25,116	24,936	25,332	(1,274)	(4.9%)

* NOTE:

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

Interdepartmental Accounts

OVERVIEW

The Interdepartmental Accounts provide funds for the cost of certain services which are administered centrally on behalf of all agencies of State government. The fiscal 1999 recommendation for all Interdepartmental Accounts totals \$1.3 billion. The focus of this section is on interdepartmental salary contract funding, employee benefits, and contingency reserves, with a recommended budget of \$945.8 million. Highlights of interdepartmental property rentals, utilities, and insurance, with a recommended budget of \$330 million, are discussed in the Public Infrastructure section of this document.

SALARY INCREASES AND RELATED BENEFITS FOR STATE EMPLOYEES

In fiscal 1999, \$96.3 million is recommended for employee increments and cost of living adjustments in accordance with contractual agreements with the various State employee unions. The funding in this central account is allocated each year to the departments where it becomes part of each agency's adjusted appropriation. This recommendation does not include funding for higher education senior public institutions.

In addition to salary increases, this section of the Budget provides \$4.5 million for payment of unused accumulated sick leave. Employees are permitted to accumulate earned sick days. Upon retirement, the retiree is paid for unused sick days at 50% of the

normal pay rate, up to a maximum payout of \$15,000.

The fiscal 1999 Budget includes savings initiatives comprising overtime policy changes, smarter procurement through increased use of volume discounting and more effective use of Direct Purchase Authority by the agencies, and elimination of duplicative benefits for sick leave. The resulting recommended appropriation is therefore \$88.6 million for salary increases and related benefits for fiscal 1999.

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 1997, there are approximately 69,000 full time employees, excluding employees at the senior public higher education institutions. Of these, 63,700 are represented by unions.

Employee Compensation

From fiscal 1991 to fiscal 1995, union employees received cost-of-living increases averaging approximately 4% per year and have been eligible for annual performance increments which range between 3.7% and 5% of salary.

STATE EMPLOYEE UNION AFFILIATION

<u>Unions</u>	<u>Full-time Employees</u>
Communications Workers of America (CWA)	31,900
Judicial Employee Unions	8,900
American Federation of State, County and Municipal Employees (AFSCME)	8,200
Policemen's Benevolent Association (PBA)	7,100
International Federation of Professional and Technical Engineers (IFPTE)	5,000
State Troopers Fraternal Association (STFA)	2,600
Total	63,700

Interdepartmental Accounts

EMPLOYEE CONTRACT FINANCIAL TERMS (CWA, AFSCME, IFPTE)

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

The State negotiated 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 45,100 union employees. Spurred by the goal of containing the cost of government, this Administration negotiated four-year contracts covering fiscal 1996 to 1999, which provided for an unprecedented two year salary freeze during fiscal 1996 and fiscal 1997. The traditional length of agreements prior to these negotiations had been three years.

Eligible employees represented by these unions continue to receive annual performance increments. From fiscal 1996 through fiscal 1999 these employees will also receive contractual wage increases as outlined at the top of this page.

In fiscal 1997 a four year contract with the Policemen's Benevolent Association (PBA) was reached as a result of interest arbitration. The PBA contract provides a two year salary freeze during fiscal 1996 and fiscal 1997, and across the board salary increases of 3.5% in fiscal 1998 and fiscal 1999.

Negotiations are also under way with two units of State Police whose contracts expired June 30, 1996.

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 employee groups. Members of the State workforce contribute toward some of their benefits, either directly through payroll deductions or through copayments or deductibles. For fiscal 1999, a total of \$786.4 million is included to provide fringe

benefits to employees of State government, an increase of \$21.7 million, or 2.8%, compared to fiscal 1998. This funding represents costs in several benefit categories including pensions, Social Security, health benefits, unemployment insurance, and temporary disability insurance.

For fiscal 1999, the State proposes to make a block grant available to New Jersey public colleges and universities. This grant will provide continued funding for all employee benefits previously paid for by the State, including retirement programs, health insurance and payroll taxes.

The fiscal 1999 Budget for Interdepartmental Accounts has been reduced to eliminate the costs related to this block grant. In addition, fiscal 1997 and 1998 financial information has been adjusted to reflect the impact this grant would have had if it had been in place during these years and to allow for comparability.

The major components of the Direct State Services appropriation for employee fringe benefits for fiscal 1998 and 1999, after adjustments for the block grant, are as follows:

	Adjusted Approp. Fiscal 1998	Recom. Fiscal 1999
	(\$ in millions)	
Employee Retirement	\$ 198.9	\$ 122.8
Health Benefits	292.3	405.1
Employer Payroll Taxes	273.5	257.0
Initiative Fringe Costs	_____	1.5
Total Direct State Services- Employee Benefits	<u>\$ 764.7</u>	<u>\$ 786.4</u>

Interdepartmental Accounts

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.

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.

The State annually contributes millions of dollars to its retirement systems. There are generally two components which affect 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 State's total contribution for fiscal 1999, including normal costs, post retirement medical costs (PRM) for PERS and TPAF State employees, and debt service payments on the pension obligation bonds is projected at \$313.9 million. However, the State proposes to apply \$191.1 million of surplus pension assets made available as result of the Pension Security Plan against the actuarially determined normal contribution for the current year. The net result is a fiscal 1999 contribution of \$122.8 million, a decrease of \$76 million compared to fiscal 1998.

This recommendation of \$122.8 million includes \$42.3 million for the Public Employees' Retirement System, \$23.8 million for the Police and Firemen's Retirement System, and \$1.9 million for the Teachers' Pension and Annuity Fund. State pension recommendations of \$2.4 million represent appropriations to smaller pension funds and other specially legislated retirement provisions. Scheduled debt service payments on the pension obligation bonds covering State employees total \$52.4 million in fiscal 1999.

The second part of the pension contribution, referred to as the "unfunded accrued liability contribution," is for pension benefits earned in prior years which,

based on standard actuarial practices, are generally not fully funded. Prior to the Pension Security Plan, the unfunded liability of the State under the State retirement system was \$3.4 billion. The State's unfunded accrued liability (UAL) was subsequently funded 100% through the provisions of the Pension Security Plan. As a result, unfunded liabilities no longer exist in the State's retirement systems, thereby eliminating the need for UAL contributions in fiscal 1999.

The full funding of the retirement systems as well as the availability of significant asset surpluses will translate to lower pension contribution rates for many State employees in fiscal 1999. Contributions for members of TPAF and PERS will decrease by 1/2%, reducing payroll contributions from 5% to 4.5% of their salaries. This lower pension contribution rate will result in fiscal 1999 savings of \$26.5 million and \$15.3 million, respectively, for members of TPAF and PERS.

State Employee Health Benefits

The cost for health benefits, including medical, prescription drug, dental and vision, for State employees in fiscal 1999 is projected at \$405.1 million. This is an increase of \$112.8 million above the fiscal 1998 adjusted appropriation of \$292.3 million. However, this increase is largely attributable to surpluses that were used to offset costs in fiscal 1998 which will not be available in fiscal 1999. The actual growth in fiscal 1999, after eliminating the effect of the prior year surplus, is \$25.2 million or 8.6%. This growth is a result of anticipated rate increases for all State health plans, except NJ Plus, which is expected to decrease by 7%.

The 1999 Budget proposes several initiatives that are intended to reduce growth in health care costs while simultaneously maintaining or improving the quality of the services provided. These initiatives are primarily focused on prescription drug expenses because this category of medical costs has the highest anticipated rate of increase for fiscal 1999. These initiatives, outlined below, are expected to reduce the fiscal 1999 Budget by \$10 million.

- **Rebid of Prescription Drug Plan** - The administration of the State's prescription drug plan is accomplished through a contract with an outside vendor. The fiscal 1999 Budget proposes obtaining bids from various prescription drug plan administrators in order to insure that the State receives the most cost-

Interdepartmental Accounts

effective and best quality services currently available in the market. This initiative is expected to create savings of \$1.1 million in fiscal 1999.

- **Retiree Drug Card** - This initiative, with projected first year savings of \$5.4 million, involves issuing prescription drug cards to all State retirees and discontinuing the current practice of having them claim pharmaceutical expenses against their State-sponsored medical health plans. The prescription drug card offers retirees greater convenience by eliminating the requirement to submit reimbursement claims following each prescription drug purchase. This new approach is also beneficial from a cashflow standpoint because retirees' out-of-pocket expenses are limited to small copayments at the time of purchase rather than pre-paying the full cost of the drugs. The Retiree Drug Card program is also advantageous for the State because drugs purchased with the card are processed through the State's existing discount pharmaceutical network, providing significant and continuing savings to the State.
- **Mail Order for Prescription Drugs** - An attractive benefit already available to State employees is a mail order program for prescription drugs. Employees who take advantage of this program receive their prescription drugs with no copayment. This is an especially convenient alternative for employees who take prescribed drugs on a frequent or long-term basis. The mail order program is also beneficial to the State because the costs for dispensing drugs are much lower using this approach than through more traditional alternatives. In order to increase savings for both employee and employer in fiscal 1999, the State plans to promote the mail order program more aggressively to the workforce and retirees in the coming year. The expected savings from increased use of the mail order prescription drug program are \$3.5 million in fiscal 1999.

Managed Care Trends -- On July 1, 1996, the State initiated a premium sharing program for those employees who selected the traditional indemnity plan coverage. At that time, as well as today, the NJ Plus and HMO coverage continue to be free for both employees and dependents.

From fiscal 1995 through fiscal 1998, the percentage of all State employees enrolled in managed care

increased from 64.3% to 79% while the percentage in the traditional plan decreased from 35.7% to 21%. This trend is expected to continue due to the implementation of premium sharing for traditional coverage.

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

<u><i>Health Benefits Enrollment Trends *</i></u>					
Fiscal Year	<u>1995</u>	<u>1996**</u>	<u>1997</u>	<u>1998</u>	<u>1999***</u>
Traditional	35.7%	32.7%	23.7%	21.0%	18.9%
Managed Care	<u>64.3%</u>	<u>67.3%</u>	<u>76.3%</u>	<u>79.0%</u>	<u>81.1%</u>
Total	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>
<p><i>* Does not include State College and University employees</i> <i>** Includes County Court personnel (State employees), beginning 1/1/95.</i> <i>***Projected enrollment</i></p>					

Employer Payroll Taxes

The fiscal 1999 recommendation of \$257 million for employer payroll taxes includes \$243.8 million for the State's portion of the Social Security tax, \$5.8 million for Temporary Disability Insurance (TDI) and \$7.4 million for Unemployment Insurance (UI) liability. The taxable wage base for Social Security is expected to increase from \$65,400 to \$68,400 in calendar year 1998. The taxable wage base for TDI and UI is expected to increase from \$18,600 to \$19,300, however, this is offset by a reduction of 0.1% in the TDI employer rate.

OTHER INTERDEPARTMENTAL

The other interdepartmental accounts appropriate funds for several additional interdepartmental needs. \$70.8 million is needed in fiscal 1999 to cover these costs. One of the major services included in this amount is \$33.9 million for the Year 2000 data processing initiative. The Year 2000 initiative affects six areas: hardware, software, network, applications, telecommunications, and facilities.

Another \$5 million is needed to begin the procurement process for the implementation of a centralized automated revenue interface system.

Interdepartmental Accounts

Funding of \$4 million will begin the process to implement a seamless solution to provide for the statewide efficient and effective management of all human resource information.

Funding of \$2 million will allow the State to conduct a comprehensive analysis of the current telecommunications environment which supports statewide government operations and activities. Included in the analysis will be: local area and wide area networks handling voice, data, text, image graphic and video information for all levels of

government including State, county and local. The study will also address schools, colleges, universities, authorities, commissions, and other quasi-governmental agencies.

The remaining interdepartmental needs for fiscal 1999 include \$6 million for interest on interfund borrowing, \$15.3 million for the 911 emergency phone system, and \$4.6 million for several smaller programs that cross interdepartmental areas.

YEAR 2000 . . .



The State of New Jersey must engage in its single, largest computer based technology project ever-- to ensure that not only software, hardware, applications and networks but building security systems, heating and air conditioning systems, and telecommunications systems continue to function properly beyond the turn of the century.

This Year 2000 problem poses a serious threat to computer-aided operations, not only in New Jersey but throughout the world.

Historically, the Year 2000 problem arose from the practice of using two-digit date fields to identify years in computer systems in order to preserve valuable memory space.

For example, a computer application would recognize 85 as 1985 and would recognize only one century, the 1900's. Therefore, 00 in a year field is read by the computer only as 1900. When doing arithmetical operations, a program used to compute ages would subtract the ending year from 00 and get erroneous information -- a person born in 1950 would be a negative 50 years old in the year 2000.

Considering the extensive use of dates by computers to make calculations tied to financial investments, payroll, license renewals, building fire systems, telephones and timed security systems, the scope of Year 2000 impact becomes apparent.

Estimates indicate that approximately, \$118.5 million will be needed to address all Year 2000 impacts statewide. State funding in the fiscal 1998 Budget of \$15 million and \$33.9 million in the fiscal 1999 Budget, in addition to about \$70 million in other identified funds, will allow the departments to perform critical renovations and repairs to systems affected by this problem.

**AGRICULTURE
FY 99 RECOMMENDED BUDGET
(In Thousands)**

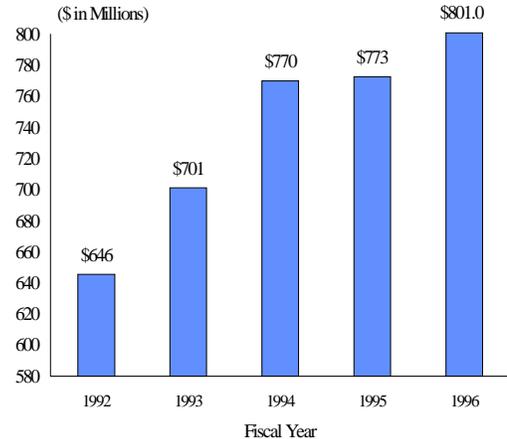
General Fund

Direct State Services	\$ 8,592
Grants-in-Aid	2,354
State Aid	7,004
Capital Construction	156

Total General Fund \$ 18,106

GRAND TOTAL
STATE APPROPRIATIONS \$ 18,106

**CASH RECEIPTS FROM
NEW JERSEY FARM COMMODITIES**



OVERVIEW

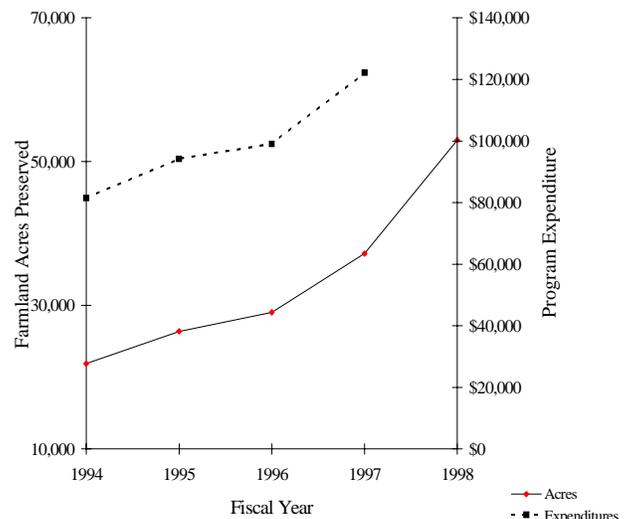
The Department of Agriculture monitors foodstuffs and plant products for quality, develops agricultural markets through regional advertising and promotion campaigns, controls agricultural runoff to reduce nonpoint source pollution, and preserves existing farmland as open space. The recommended appropriation for the Department of Agriculture in fiscal 1999 is \$18.1 million (including grants), an increase of \$64,000 from fiscal 1998.

In fiscal 1997, the state's 9,400 farms covered 830,000 acres of land. From fiscal 1992 to fiscal 1996, cash receipts from New Jersey farm commodities increased \$155 million or 24% to a level of \$801 million. The nursery, greenhouse and sod industry remained the leading commodity group in New Jersey agriculture with cash receipts of \$257 million. Cash receipts for vegetables totaled \$177 million, followed by the horse industry at \$108 million and fruit at \$102 million. Field crops generated nearly \$69 million while cash receipts for the state's dairy industry were \$45 million and poultry and eggs totaled \$31 million. The animal health industry value was \$1.15 billion in fiscal 1996.

The Farmland Preservation Program passed the 40,000-acre mark in fiscal 1998, preserving a total of 41,147 acres on 268 farms by mid-year. With the completion of all easement acquisitions already approved for fiscal 1998, it is anticipated that the program will have permanently preserved 53,000 acres of farmland on more than 350 farms by the close of the fiscal year. Recent research indicates that by preserving farmland for agricultural use instead of residential construction, a municipality

will save more in infrastructure development costs than is lost in property tax revenues.

**FARMLAND PRESERVATION
ACRES PRESERVED AND EXPENDITURES
(CUMULATIVE)**



In fiscal 1998, the State Agriculture Development Committee, which also administers the Farmland Preservation Program, initiated a new program to link both deed restricted and non-deed restricted farmland owners with those interested in leasing or purchasing farmland. This Farm Link program will be especially useful in finding buyers who wish to continue using farmland for agricultural purposes.

Agriculture

The Transfer of Development Rights (TDR) Bank became fully operational this year. The TDR Bank facilitates the transfer of development rights between owners of open space and developers provided that a municipality has adopted a viable development transfer ordinance.

The Department of Agriculture's \$1.2 million appropriation for Promotion/Market Development promotes all New Jersey agricultural products, primarily through the Jersey Fresh Campaign. The Department further supports the Jersey Fresh promotional activities of commodity groups with a \$150,000 matching grant program.

In order to consolidate the State's efforts to distribute both food commodities and cash reimbursements, the Bureau of Child Nutrition Programs moved to the Department of Agriculture from the Department of Education in fiscal 1998. The Department of Agriculture already administers the Commodity Food Distribution Program, which distributes federally donated food to an almost identical constituent base as the Child Nutrition Program. In fiscal 1999, Child Nutrition includes the National School Lunch Program (\$118 million), Child and Adult Day Care (\$35 million), School Breakfast (\$20 million), Summer Food Service (\$7.4 million) and Special Milk (\$1.3 million). The number of participants receiving benefits through all programs increased 6% between calendar 1996 and 1997 to 528,000 students.

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. The Department oversees the development of the Horse Park with grand stand improvements under construction. 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.

FISCAL 1999 BUDGET

The new Conservation Cost Share program will provide \$2 million for technical and financial assistance to farmers who develop and implement conservation plans incorporating best management practices to control nonpoint source pollution (i.e., surface runoff). This means of controlling nonpoint source pollution complies with the management measures prescribed by the 1990 amendments to the federal Coastal Zone Management Act. According to the Environmental Protection Agency's most recent national water quality inventory, polluted runoff from all sources continues to prevent almost 40% of our waters from meeting water quality standards. Agriculture is responsible for a portion of all polluted runoff. This new program will complement the similar federal Environmental Quality Improvement Program (\$650,000) and is a criterion in determining federal support.

When regarded in terms of total financial assistance to farmers, the addition of the Conservation Cost Share program more than compensates for the proposed elimination of the Department's Production Efficiency and Business Incentive grant (PEG/BIG) program, which is presently funded at \$1 million. The original goal of the PEG/BIG program was to assist farmers during an economic downturn. In recent years, however, the economic condition of the State's farmers has improved significantly. Total net farm income as a percent of gross farm income increased from 22% in 1991 to 27% in 1995. In fiscal 1998, the PEG/BIG program is funding the entire backlog of requests by farmers for deer fence. In addition, the program is providing grants for energy saving technologies.

A new \$50,000 appropriation and an increase in fees is recommended to fund two initiatives in fiscal 1999: testing sludge for use as a fertilizer and evaluating feed, fertilizer, and lime for other dangerous waste materials.

BANKING & INSURANCE FY 99 RECOMMENDED BUDGET

(In Thousands)

General Fund	
Direct State Services	\$ 40,625
Total General Fund	\$ 40,625
GRAND TOTAL	
STATE APPROPRIATIONS	\$ 40,625

OVERVIEW

Pursuant to 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 more similar 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, to eliminate duplicative regulatory demands on New Jersey's banking and insurance industries, and to streamline the provision of consumer related financial services.

FISCAL 1999 BUDGET

The fiscal 1999 budget recommendation for the Department of Banking and Insurance totals \$40.6 million, representing continuation funding for the Department. Continuing the policy of the

Administration in fiscal 1999, fees charged to both industries cover the entire cost of their regulation.

INSURANCE RESPONSIBILITIES

As part of its insurance related responsibilities, the Department: provides effective monitoring and regulation of the insurance industry; assures fair markets and rates for all authorized lines of insurance; and monitors the real estate industry to ensure that professional standards are observed and maintained.

Fraud Prevention

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 for 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 not only to those cases reported by property and casualty companies, but also to those cases reported by life and health companies, investigations of fraud within insurance companies, and rate evaders.

The fiscal 1999 Budget provides a continuation of a fiscal 1998 initiative in the amount of \$2.3 million to support 50 additional fraud investigators in an effort by the State to expand its insurance fraud prevention program. Insurance fraud prevention activity will be enhanced in fiscal 1999 by charging insurance companies not reporting suspicious claims a \$25,000 fine per occurrence, while doctors and professionals will lose their professional licenses if they cheat the system.

Auto Insurance

Since New Jersey has the most expensive auto insurance rates in the nation, reduction of automobile insurance premiums has become a major objective of this administration. In addition, a joint bipartisan legislative committee has been formed to address auto insurance reform. During the past year, automatic rate increases were eliminated which saved New Jersey drivers \$150 million. High insurance costs will continue to be addressed during fiscal 1999 by curtailing the number of unfair surcharges that punish good drivers for minor infractions and halting the practice by insurance companies of dropping good drivers without adequate reason.

CUTTING INSURANCE COSTS . . .

Why are car insurance rates so high in New Jersey?

- New Jersey is the most densely populated state in the nation
- New Jersey has more registered cars and trucks per highway mile than any other state
- Insurance fraud
- Insurance in New Jersey covers some of the highest costs and wages in the nation
- New Jersey is one of the most litigious states in the nation

What are the goals of insurance reform?

The Governor and the Legislature have agreed upon four goals for reform:

- Guaranteed real savings
- Affordable car insurance for good drivers
- Minimized cost shifts to health insurance
- Reform without encouraging additional lawsuits

What has been started to accomplish insurance reform?

- Eliminate insurance company surcharges
- End automatic yearly rate increases granted to insurance companies -- a savings to New Jersey drivers of nearly \$150 million in higher rates
- Institute a program to add 50 fraud investigators to reduce the high cost of fake claims to the insurance system
- Levy a \$25,000 fine per instance to insurance companies that do not report fraud

BANKING RESPONSIBILITIES

The banking regulation of financial services also falls within the Department's supervisory authority. Financial service providers range from mortgage bankers, mortgage brokers, check cashing and check selling companies, and 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 ensures institutional compliance with the federal Community Reinvestment Act. This 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.

COMMUNITY AFFAIRS	
FY 99 RECOMMENDED BUDGET	
(In Thousands)	
General Fund	
Direct State Services	\$ 26,872
Grants-in-Aid	26,815
State Aid	50,536
	<hr/>
Total General Fund	\$ 104,223
	<hr/>
Property Tax Relief Fund	786,054
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GRAND TOTAL	
STATE APPROPRIATIONS	\$ 890,277
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OVERVIEW

The Department of Community Affairs embodies a synergy between community involvement and government action concerned with providing technical, advisory, and financial assistance to communities and individuals. The Department continues to provide service to the people and communities of New Jersey through enlisting partners in the public, private, and non-profit sectors in an effort to better the quality of life in New Jersey. The life blood of New Jersey flows through her communities, and part of the Department's core mission concerns laying a strong foundation for the success of local government. The Department has been at the forefront in finding solutions to the challenges of municipalities, from community development to financial stability.

During the current fiscal year, the Department has expanded neighborhood revitalization and development projects through the Urban Coordinating Council (UCC) and Main Street New Jersey programs. Those efforts will be continued in fiscal 1999 with the addition of eight new municipalities to the Neighborhood Preservation program, and the establishment of the Trenton Main Street Urban Demonstration program, the first urban application of the Main Street program.

The Department serves as a conduit through which advocacy for and representation of local government and community groups is provided. Through a broad range of functions and programs, the Department responds to the common needs of New Jersey's diverse citizenry for such services as housing assistance, building safety, local government financial assistance and oversight, and

other programs which benefit traditionally underrepresented groups.

COMMUNITY DEVELOPMENT

The Community Development component of the Department's budget provides for community housing needs, and enforces safety codes and standards for buildings and other structures. This budget recommends \$38 million to maintain the current level of services and programs.

The Department continues to provide a record level of affordable housing opportunities through the New Jersey Housing and Mortgage Finance Agency, the Division on Housing and Community Resources, and the Council on Affordable Housing. The Urban Home Ownership Recovery Program (UHORP) provides opportunities and incentives for home ownership in the state's urban areas. Through UHORP, the UCC, and various affordable housing rental initiatives, the Department is furnishing the tools necessary to create self-sufficient urban neighborhoods.

This Budget maintains resources for housing assistance programs at current levels, furthering efforts to put more units of safe, decent housing within the financial grasp of low and moderate income households. These programs serve to prevent homelessness, to fund shelters for the homeless, and to preserve neighborhoods.

The Department recently adopted a new set of rules pertaining to the rehabilitation of existing structures. Sensible building standards that remove costly disincentives to rehabilitating existing structures will provide a boost to economic development and affordable housing activity in the state's older areas. New Jersey is the first state in the nation to develop a code of standards that specifically focuses on the rehabilitation of existing buildings.

In a continuing effort to respond to the pleas of New Jersey's residents to make government smarter, the proposed fiscal 1999 Budget reflects the consolidation of building safety and inspection programs under the Department's authority. While other building inspection programs were transferred to DCA in fiscal 1997, Department of Labor's inspection programs for ski lifts, asbestos, boilers, liquefied petroleum gas, and carnival rides were not. Consolidating these programs into DCA will eliminate duplicate inspections and create a more efficient operation. Using the same level of

Community Affairs

resources, the number of inspections will be increased, in part by cross-training existing inspection staff. Additional efforts to fully integrate building safety and inspection programs into DCA include transferring the Division of Building Code Review from the Department of the Treasury.

The Office of Neighborhood Empowerment serves in concert with the Urban Coordinating Council to reverse the trend of divestiture which has plagued New Jersey's urban centers. This office is defined by its collaborative work with community leaders to rebuild New Jersey's cities, one neighborhood at a time.

FINANCIAL ASSISTANCE

The proposed fiscal 1999 Budget continues to convey substantial amounts of State aid to municipalities, and recommends \$837 million to provide state aid which funds public safety and other critical service needs.

The fiscal 1999 Budget continues each major municipal aid program at last year's funding level, with the exception of municipal aid from utility taxes, which increases by \$5 million. This Budget recommends the continuation of the Consolidated Municipal Property Tax Relief Aid program. Level funding of \$756 million maintains the appropriation for the single largest municipal aid program in the State Budget. In addition, this budget continues the Discretionary Aid program to provide resources to municipalities to contain property tax growth. The State Aid recommendation will continue to provide municipal governments with a stable base of revenue to address their needs for local public services.

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 1999 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 \$11 million in state funds in the form of payments to community organizations and local governments to help deliver these services. The Budget recommends the transfer of the legal services grant program to the Department of the Treasury. This initiative will consolidate legal

representation matters into one state agency. In recognizing that New Jersey's urban landscape must change to meet the challenges of the future, the Department is working in partnership with private industry to support a faith-based community development initiative. This program will provide \$5 million in funding to expand the efforts of New Jersey's urban houses of worship to revitalize urban neighborhoods. Faith-based groups have demonstrated their ability to serve as harbingers of change with the success of model programs in Camden and New Brunswick. This new funding will provide flexible financing to support community economic development initiatives in New Jersey's urban centers.

STATE PLANNING

The fiscal 1999 Budget recommends the transfer of the Office of State Planning from the Department of Treasury to the Department of Community Affairs. This proposal will align the work of the Office of State Planning and the State Planning Commission with a variety of planning programs and services currently provided by DCA. The Office of State Planning serves as staff to the State Planning Commission.

The State Planning Commission is charged with preparing the State Development and Redevelopment Plan. The Plan addresses such vital issues as protecting and improving water quality, urban revitalization, affordable housing, congested highways, and vanishing farmlands, forests, and open space by encouraging state agencies, local and county governments to work together from a common strategic plan. The State Plan is also an important mechanism for fostering coordinated and efficient state infrastructure investments, wise land-use governance, and regulatory streamlining at all levels of government.

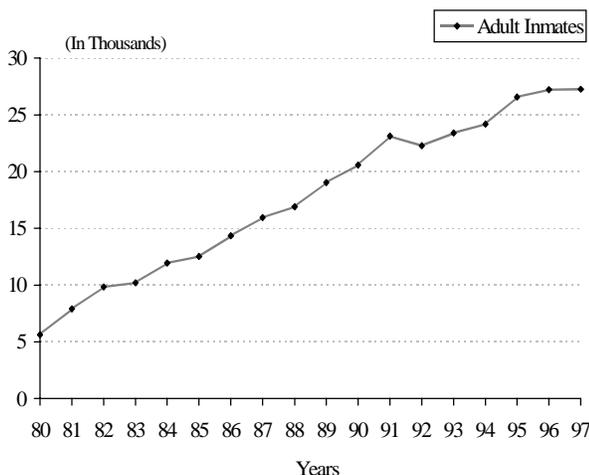
As part of a concerted effort to improve development prospects in urban areas, the Office of State Planning is also providing technical assistance to cities interested in developing plans for the redevelopment of "brownfields" sites in the State's urban areas. The Office of State Planning is also working with representatives of the Departments of Environmental Protection, Commerce, and Transportation, the New Jersey Economic Development Authority, the New Jersey Redevelopment Authority, the Office of Neighborhood Empowerment, and the Governor's Office to develop solutions on how to support the redevelopment potential of brownfields.

CORRECTIONS	
FY 99 RECOMMENDED BUDGET	
(In Thousands)	
General Fund	
Direct State Services	\$ 687,194
Grants-in-Aid	61,514
Capital Construction	<u>11,824</u>
Total General Fund	\$ 760,532
Direct State Services - State Parole Board	<u>8,674</u>
GRAND TOTAL STATE APPROPRIATIONS	<u><u>\$ 769,206</u></u>

OVERVIEW

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 committed to State corrections is projected to be about 27,000 by the end of fiscal 1999. The

NUMBER OF ADULT INMATES
An Increase of More than Five-Fold Since 1980



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 four years and for fiscal 1999, 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. Additionally, the Department provides an array of programs including halfway houses, drug treatment, and high supervision electronic monitoring/home confinement and parole programs designed to reduce offender recidivism and enhance public protection.

FISCAL 1999 BUDGET

The Department's recommended operating and Grants-in-Aid budget of \$748.7 million for fiscal 1999 represents a net decrease of \$25 million from fiscal 1998 adjusted appropriations. It will provide for expansion of State prison bed capacity and alternative programs; this means more secure facility space for inmates and greater parole supervision for parolees which will allow for a more effective reintegration back into the community.

The Department's operating budget will increase by \$4.8 million to \$687.2 million. The operating budget contains \$5 million for the fiscal 1999 portion of the cost to purchase and install a new department-wide computer system that will provide increased capability for departmental operations and improve the collection of fines and penalties from inmates and parolees.

Grants-in-aid spending, which includes the payments to counties for State inmates, is projected to decline by \$29.8 million to \$61.5 million in fiscal 1999. The opening of the 3,200 bed South Woods State Prison and the expansion of community supervision programs will contribute to fewer State inmates being housed in county facilities. A recommendation of \$20 million, which reflects a reduction of \$38.9 million, will provide funding to reimburse counties for the cost of housing State inmates. An additional \$9.1 million is included in the Purchase of Community Services account for an additional 470 halfway house beds in fiscal 1999.

Corrections

PRISONS

A total recommendation of \$630.5 million in fiscal 1999 for the State prison facilities and system-wide program support, a decrease of \$1.3 million from fiscal 1998, will provide custody, supervision, education, treatment, and other programs for more than 22,000 adult inmates. This includes almost \$77 million (an increase of \$10 million over fiscal 1998) for the new South Woods State Prison in Bridgeton, which began operations in late fiscal 1997 when the first 960 beds opened. Another 960 beds opened in the Fall of 1997 and the remaining 1,280 beds will be operational in the Spring of 1998.

Additional guard posts were established at Bayside State Prison to increase security. These posts will now be made permanent and 18 officers will be hired to provide this needed coverage at a cost of \$1.2 million.

In an effort to protect children and families, \$2 million has been added to the Department's budget for startup and partial year funding to operate a secure facility to house civilly committed sex offenders at the point of their release from prison. The Task Force for the Review of the Treatment of the Criminally Insane has recommended legislation be enacted which is generally similar to the Kansas Sexually Violent Predator Act. This Act, which has been upheld by the U.S. Supreme Court, allows Kansas to civilly commit sexually violent predators who have completed their term of incarceration.

Several institutional cost savings initiatives will be implemented in fiscal 1999. An estimated savings of \$2.1 million will result from the privatization of a part of food service operations. Installation of state-of-the-art security enhancements is expected to result in an overtime saving of \$6.4 million, and better alignment of security staff relative to prisoner classification is estimated to produce overtime savings of \$3.8 million.

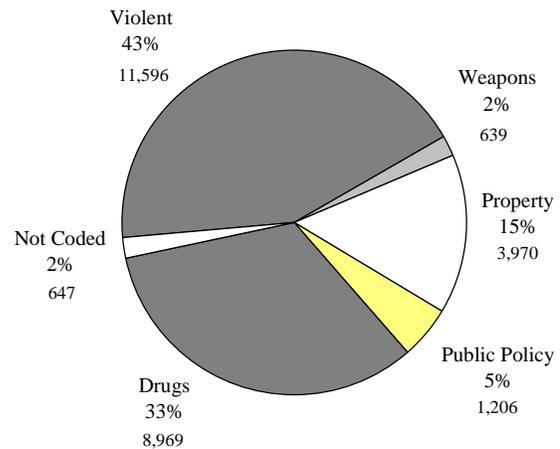
CAPITAL RECOMMENDATIONS

The fiscal 1999 Capital recommendation for the Department of Corrections totals \$11.8 million. This recommendation represents an increase of \$2.3 million from fiscal 1998. This funding will be utilized for preservation and life/safety projects including the replacement of essential building components, upgrading facility infrastructure, expanding food service facilities, repairing and installing fire suppression and alarm systems and repairing and replacing roofs. Because Corrections

capital recommendations emphasize preservation there are no expected operating budget impacts.

NON-VIOLENT OFFENDERS MAKE UP MORE THAN 50% OF ADULT INMATES

FISCAL 1997



PAROLE AND COMMUNITY PROGRAMS

The fiscal 1999 recommendation of \$39.8 million in the operating budget, an increase of \$6 million over fiscal 1998, will support the supervision of approximately 19,000 parolees. Included in this recommendation is funding for several special parole programs that provide enhanced public protection by incorporating high levels of supervision, monitoring, and random drug testing to small, carefully screened, specialized caseloads.

The Intensive Supervision/Surveillance Program (ISSP) provides 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 will be increased by an additional 475 participants, at an additional cost of \$2 million, for a total program of 1,425 participants. 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 High Impact Diversion Program provides intensive supervision for those parolees that are in danger of being returned to prison; this highly structured supervision program will be increased by 400 slots, at an additional cost of \$3 million in fiscal 1999, for a total program of 700 participants.

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, implemented in fiscal 1998, will be continued and evaluated for possible expansion. This pilot project involves the Judiciary in overseeing intensive drug treatment for carefully screened non-violent, addicted offenders. A rigorous residential drug treatment program for selected offenders is operated by the Department of Health and Senior Services' network of private community drug treatment providers. Subsequent community supervision is provided by the Judiciary's Probation Division.

Recent increases in community based programs are targeted at successfully reintegrating the increasing number of inmates and parolees back into the community as their sentences are served. Inherent in these program expansions is the heightened need for contracting and monitoring oversight. An increase of \$381,000 and nine staff for Community Program Management within the Department's

Division of Parole and Community Programs will ensure proper monitoring of alternative and community programs. This will include on-site monitoring for contract compliance and processing and screening of inmates for program participation.

COMMUNITY PROGRAMS

The Purchase of Community Services programs, in the Grants-In-Aid budget, are recommended at \$39.9 million, an increase of \$9.1 million. This will support 2,147 contracted community bed spaces, an increase of 470 bedspaces over fiscal 1998. All halfway house programs are privately operated.

STATE PAROLE BOARD

The Parole Board's budget is recommended at \$8.7 million, an increase of \$.1 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.

NEW JERSEY CRIME STATISTICS . . .

Over the past three calendar years, the number of major crimes in New Jersey dropped from 378,000 in 1993 to 346,000 in 1996, a **drop of 8.5%**. The worst crimes showed even greater reductions.

- Murder - **Down 19.6%**
- Robbery - **Down 19.1%**
- Burglary - **Down 17.7%**
- Rape & Attempted Rape - **Down 10.9%**
- Aggravated Assault - **Down 9.4%**

Education

EDUCATION	
FY 99 RECOMMENDED BUDGET	
(In Thousands)	
General Fund	
Direct State Services	\$ 39,953
Grants-in-Aid	1,513
State Aid	900,954
Capital Construction	1,810
Total General Fund	\$ 944,230
Property Tax Relief Fund	4,962,048
GRAND TOTAL	
STATE APPROPRIATIONS	\$5,906,278

OVERVIEW

The primary mission of the Department of Education is to create educational opportunities for all New Jersey students. In support of this goal, the Department is charged with the distribution of State Aid, the review and audit of local public school district budgets, and the regulation of their operations. The Department provides technical assistance to districts in designing and implementing new educational programs, and seeks to ensure accountability for public funds by motivating schools to provide quality programs in an efficient manner. The Department supports pre-school, vocational, and adult educational programs, as well as providing appropriate educational opportunities for students with disabilities. The Department is responsible for the operation of the Marie H. Katzenbach School for the Deaf and Regional Day Schools for the Handicapped. The Department encourages diversity and multi-culturalism in all its pursuits.

CORE CURRICULUM STANDARDS

With the adoption of the Core Curriculum Content Standards in May 1996, the Department is poised to achieve its objectives. Unlike other states in the nation, New Jersey students will be expected to attain proficiency in a very specific set of skills covering a broad range of disciplines. The curriculum covers traditional subjects including mathematics, science, social studies, visual and performing arts, health and physical education, language arts, and world literacy, as well as workplace readiness skills such as critical thinking and decision making. The mastery of these

standards will uniquely prepare New Jersey students for success in higher education and in the workplace.

In accordance with the guidelines laid out in the Comprehensive Educational Improvement and Financing Act, the Department is now working to develop an extensive testing system that will measure a student's success in attaining proficiency in the Core Curriculum Content Standards. This Statewide Assessment Program will examine student performance at three grade levels: a basic skills test will be administered to Grade 4 pupils; an early warning test in Grade 8 will identify students in danger of not meeting expected standards; and a high school proficiency test will be given to those in Grade 11. The implementation of this testing program empowers the Department to assess the effectiveness of New Jersey schools, thus ensuring accountability of public funds. To this end, the fiscal 1999 budget includes an appropriation of \$11.3 million to support this program. This represents an increase of \$4.7 million from the fiscal 1998 appropriation.

The Department will act as a catalyst for improvements in districts where pupils are not achieving the Core Curriculum Content Standards. In cases where school performance is found to be lacking, the Commissioner of Education is given broad powers to ensure that performance is improved. For districts where pupils are performing at high standards, the Department will continue to foster a climate that stimulates excellence and innovation. The Administration is firmly committed to offering all the state's children an equal opportunity for success in education.

FISCAL 1999 BUDGET

Aside from the increase in the Statewide Assessment Program, the fiscal 1999 operating budget continues to support the Department's mission with a recommended appropriation of \$39.9 million.

School Aid for fiscal 1999 totals \$5.863 billion, which includes \$4.946 billion in direct aid awards and \$917 million in Teachers' Pension and Social Security payments made by the State on behalf of local school districts. The increase in direct aid is driven by two factors: enrollment growth and the annual increase in the Consumer Price Index (C.P.I.). Most of the direct aid formula programs incorporate these factors in determining annual funding amounts.

The fiscal 1999 Budget increases Core Curriculum Standards Aid by \$129.1 million to \$2.749 billion. This is the largest single component of the direct aid programs. Parity Remedy Aid will grow by \$39 million to \$285.2 million. Of this amount, \$29.9 million, reflects a carryforward of surplus funds budgeted in fiscal 1998 for this purpose. The Budget also includes a \$15.1 million increase in Early Childhood Aid, bringing the recommended appropriation to \$302.7 million. This additional funding is earmarked for the creation of full-day kindergarten and pre-school programs in districts with high concentrations of disadvantaged students. The Budget recommends funding of \$52.3 million for the Distance Learning Network, a statewide network delivering voice, data, and video communications directly to the classroom. Once the network is fully implemented, New Jersey students will have access to expanded course offerings and other unique learning opportunities.

In keeping with the Department's goal of promoting efficient and effective practices, Rewards and Recognition aid continues to be supported in fiscal 1999 with funding of \$10.1 million. This program

provides monetary incentives to districts that achieve superior academic results. In addition, the program highlights their performance as a model for other districts to emulate. Demonstrably Effective Program aid will grow 7% to \$187.7 million in fiscal 1999. This appropriation will support the implementation of proven programs and services designed to increase success rates in low achieving districts.

In addition to previous aid awards, the recommended amount for school aid in fiscal 1999 includes an anticipated \$50 million from the recent cigarette tax increase for Charity Care, which is dedicated to school facilities.

The fiscal 1999 capital recommendation for the Department of Education totals \$1.8 million. This recommendation represents a decrease of \$338,000 from fiscal 1998. This funding will be utilized for roof and HVAC work at the Katzenbach and Regional Day Schools. There is a projected operating budget savings for maintenance of \$20,000 related to these roof replacement projects.

DISTANCE LEARNING NETWORK AID . . .

What is a Distance Learning Network?

- A Distance Learning Network, a provision of the *Comprehensive Educational Improvement and Financing Act of 1996*, is an electronic environment where teachers and students communicate with each other and with teachers and students in other school districts without regard to geographic distance and time constraints.
- School districts are linked with each other and to the outside world, with the potential of bringing high quality curricula and programs to all students.

What Will the Money be Used for?

- Funding of \$52 million will be used to establish a statewide distance learning network among participating school districts by the 2001-2002 school year.
- Activities supported by the funds will include: development of distance learning network plans; equipment purchases such as computers, cameras, satellite dishes, and modems; network wiring; software purchases; and maintenance of the network.
- Districts will receive aid on a per pupil basis (funds available on July 1, 1997).

What are the Requirements of School Districts to Qualify for Distance Learning Network Aid?

- School districts must develop a five year distance learning network plan that demonstrates how services provided with the Distance Learning Network Aid will contribute to county and state learning activities.
- School districts must contribute to the development of county-based activities that support implementation of distance learning networks.

Environmental Protection

ENVIRONMENTAL PROTECTION FY 99 RECOMMENDED BUDGET

(In Thousands)

General Fund	
Direct State Services	\$ 175,012
Grants-in-Aid	350
State Aid	58,062
Capital Construction	71,244
Debt Service	78,697
Total General Fund	\$ 383,365
GRAND TOTAL	
STATE APPROPRIATIONS	\$ 383,365

OVERVIEW

The Department of Environmental Protection is responsible for ensuring New Jersey's air, land, and water quality. To this end, the Department administers programs in land use regulation, facility permitting and compliance, open space preservation, water supply, site remediation, community forestry, wastewater treatment financing, and solid waste management.

Budget Highlights

- *No layoffs*
- *Total budget increase of nearly \$12 million*
- *No program or service reductions*
- *Additional \$50 million for a new local match program to encourage open space acquisition*
- *\$62.8 million Corporate Business Tax dedication for hazardous discharge cleanup and water monitoring*

Throughout the Whitman Administration, the Department has recognized that the most effective environmental protection activities are those that engage a broad spectrum of partners, including local governments, private industry, other states, and the federal Environmental Protection Agency (EPA). The Department has worked with industry to develop permit standards that are understandable to the regulated community and are applied uniformly. Through its Green Acres program, the Department

has worked with conservation organizations and private and corporate land owners to acquire over 18,000 acres of open space in New Jersey in 1997. In 1997, the Department also entered into an historic agreement with New York and the EPA to restore habitats and to control and mitigate nonpoint source pollution in the New Jersey/New York Harbor.

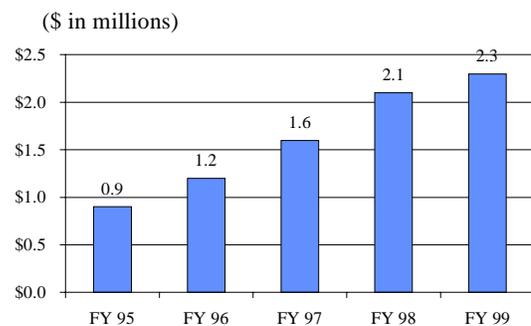
In fiscal 1999, the Department will continue to establish partnerships to accomplish a variety of environmental goals. Priorities include watershed-based management of water quality, open space preservation, wise land-use planning, and implementation of the multi-state agreement to reduce ozone transport to Northeast states. The Department will also continue to identify indicators of New Jersey's environmental performance and to put systems in place to track and measure its performance.

FISCAL 1999 BUDGET

The fiscal 1999 Budget recommends \$304.7 million for the Department's operations, grants, State aid, and capital projects — a \$11.7 million (4%) increase over the fiscal 1998 level.

The defining increase in the Department's budget is a \$50 million new initiative to encourage New Jersey localities to preserve open space. The Open Space Local Match Program will provide \$50 million in match funding to localities that have established open space trust funds. These trust funds are used for open space and farmland preservation. With this new opportunity for State matching funds, those communities that have pursued open space policies will be rewarded, and communities which have not yet considered an open space funding mechanism would be encouraged to do so and thus become partners in the Administration's effort to create one million acres of open space.

OPEN SPACE PRESERVATION: IN-LIEU-OF-TAX PAYMENTS TO MUNICIPALITIES



Funding is also increased to compensate localities for the loss of taxable land as a result of State open space acquisitions. An additional \$220,000 is recommended for In Lieu of Tax Payments. Since coming into office, the Whitman Administration has increased annual in-lieu-of-tax funding by 165%, providing over \$8 million during this time-frame.

The Direct State Services, Grants-in-Aid, and Capital budget recommendations for DEP decline by a total of \$38.3 million, of which \$36 million (93%) is attributable to adjustments made for one-time infusions of funds in fiscal 1998. The capital budget drops by \$26.4 million, largely due to the fact that the fiscal 1998 appropriation included capital funds dedicated from the Corporate Business Tax for both fiscal 1997 and fiscal 1998. Another Corporate Business Tax adjustment is made for the \$7.5 million in operating funds due from fiscal 1997 but appropriated in fiscal 1998. The fiscal 1999 Budget is also decreased by \$2 million for the one-time Hudson River Walkway grant appropriated in fiscal 1998.

Exclusive of one-time adjustments, actual reductions to the Department's Direct State Services budget total \$2.4 million. Major components of this reduction include:

- *Industrial Site Recovery Act* -- responsible party billings have increased, allowing the State contribution to the Hazardous Discharge Site Cleanup Fund to decrease by \$400,000.
- *Vehicle Leasing* -- by leasing new vehicles instead of paying for them up-front, the Department reduces its costs by \$300,000.
- *Technology Procurement* -- financing costs have been adjusted, allowing savings of approximately \$0.9 million in fiscal 1999.
- *Office of Telecommunications and Information Systems (OTIS)* -- the Department's need for centralized OTIS services has dropped by \$200,000.

These budget reductions will not have a negative impact on the Department's level of service and will not force any layoffs.

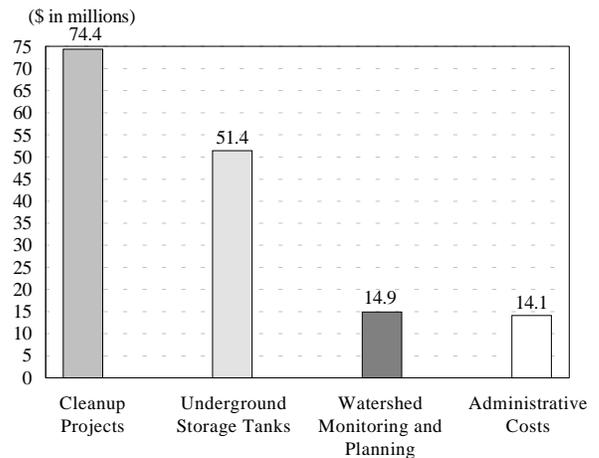
The Department's capital budget is funded at a level of \$71.2 million. Major capital initiatives in fiscal 1999 include shore protection and flood control projects (\$16.1 million) and renovations of recreational facilities at state parks (\$3 million). The \$52.1 million balance of the capital budget will be funded by the Corporate Business Tax and used for hazardous site remediation programs.

SITE REMEDIATION - DEDICATION OF CORPORATE BUSINESS TAX

According to current Corporate Business Tax projections, in fiscal 1999 the Department will receive \$62.8 million from the 4% constitutional dedication of Corporate Business Tax revenue. As approved by voter referendum in November 1996, these funds are dedicated to finance the cleanup of privately-owned underground storage tanks, remediation of contaminated sites, watershed monitoring and planning, and Department administrative costs.

Including the fiscal 1999 recommendation, the dedication has added a total of \$154.8 million to the Department since fiscal 1997. In fiscal 1998, the Department received both a regular appropriation of \$62.4 million and a supplemental appropriation of \$29.6 million, which was due from fiscal 1997. Since the regular appropriation included \$3 million in funds due from fiscal 1997, the actual increase between the Corporate Business Tax dedication for fiscal 1998 and that which is recommended for fiscal 1999 is \$3.4 million. The accompanying chart outlines the programmatic distribution of these monies.

THE CORPORATE BUSINESS TAX DEDICATION HAS ADDED \$154.8 MILLION FOR SITE REMEDIATION AND WATER MONITORING FY 1997 - FY 1999



Environmental Protection

In fiscal 1999, the Department will use proceeds from the Corporate Business Tax to benefit businesses and homeowners through the Petroleum Underground Storage Tank Remediation, Upgrade, and Closure Fund. Businesses which operate regulated tanks will be able to apply for funds to upgrade or close old tanks. Homeowners may apply for funding to clean up spills from home heating oil tanks. Assistance will take the form of grants and loans.

ONGOING DEP INITIATIVES

The fiscal 1999 Budget supports the following DEP operating program initiatives:

- The State parks system receives \$1.1 million to support existing salaries and a small staff expansion in critical areas such as maintenance and security.
- New staff will be hired in key programs such as Watershed Monitoring and Planning (11 positions) and the new Safe Drinking Water Revolving Fund (16 positions), the latter of which will receive a fiscal 1999 increase of approximately \$46 million in federal funds (\$28 million due from 1997, \$18 million from 1998) for construction of local water supply facilities.
- New technology systems, for which the State has provided approximately \$16 million in funding, will be fully implemented in fiscal 1999. DEP's new air pollution system (AIMS), which will enable DEP programs to share and process data more efficiently, will come on-line in March of 1998. AIMS will accelerate the permitting process and improve the effectiveness of DEP's regulatory staff. Data collection will also become more efficient, as DEP will train 450 industry representatives on the electronic submission of permit applications. Major elements of the new Management and Budget system, including a new electronic timekeeping system and data warehouse capabilities, will be implemented by the end of fiscal 1998. Finally, a new Water Pollution system, patterned after AIMS, is expected to be in place by the end of fiscal 1999.
- The Right to Know, Toxic Catastrophe Prevention, and Oil Spill Prevention programs, as well as the basic Pesticides program, are shifted organizationally from DEP's Environmental Policy and Planning area to Enforcement. This shift will enable DEP to integrate the compliance aspects of these programs with other enforcement efforts and will improve program coordination.
- Budget language which provides assistance to counties for solid-waste related debt service is continued. As a result of the U.S. Supreme Court's decision which invalidated several aspects of the State's waste flow control system, certain New Jersey counties may be in need of the State's assistance to meet debt service payments on their solid waste investments.
- No significant reductions in critical DEP programs such as Enforcement, Science and Research, Air Pollution, and Water Monitoring have been taken.
- The New Jersey Pollutant Discharge Elimination System (NJPDES) billing process will be improved by accelerating the collection of fee revenues, thereby providing a one-time benefit to the General Fund of approximately \$4 million without adversely affecting fee-payers. By moving the billing date earlier in the fiscal year, revenue collections due in fiscal 1999 will be realized before June 1999.
- Bond fund administrative costs in Site Remediation are eliminated. Shifting this \$5.4 million cost to dedicated funds preserves existing Hazardous Waste bonds for construction costs associated with cleanup projects.
- DEP's Pollution Prevention effort continues to show results. A report issued by national environmental groups ranked New Jersey sixth among states that reduced toxic waste production during the 1990's. During the same period of time that New Jersey industries decreased their production of toxins by half, the nation as a whole experienced an increase of 6%.
- Working through the Ozone Transport Commission, an organization comprised of environmental commissioners from 37 states, DEP brokered a key multi-state agreement to tighten emission controls and reduce ozone on a regional basis. This pact will reduce air pollution that drifts into New Jersey from midwestern states, and thus assist in the State's efforts to comply with the Federal Clean Air Act.

ENVIRONMENTAL IMPROVEMENTS

The Department of Environmental Protection is developing a comprehensive system of managing for environmental results through its participation in the National Environmental Performance Partnership System (NEPPS). This management system involves a shift from relying primarily on activity-based measures of performance (e.g., number of permits issued or penalty fines collected) to more outcome-based measures of progress (e.g., air quality trends).

A primary vehicle by which this management shift is accomplished will be through the use of environmental indicators. Environmental indicators are measures of current environmental conditions and trends over time. Like economic indicators, environmental indicators are used to convey complex information in a readily understandable format. Reliance on environmental indicators as measures of environmental quality and progress requires increased data collection, analysis, and interpretation efforts throughout the agency. The Department is developing both technical and summary reports on indicators of the quality of New Jersey's environment. Examples of these types of environmental indicators follow.

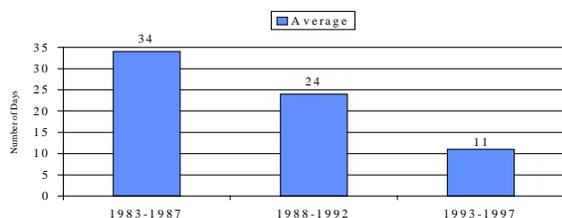
Air Quality Goal:

To ensure a high quality of life for the residents of New Jersey by preserving, sustaining, protecting, and enhancing the air environment. Air quality across the state should be healthful for all New Jerseyans and of sufficient purity so as not to degrade the quality of life or cause undue economic loss.

Indicator 1: Number of days the ozone standard was exceeded

The ozone concentration at 16 sites in New Jersey is used to determine the number of days on which the ozone standard was exceeded and to establish the number of people who may have been exposed to high concentrations of ozone. For the past 17 years, the number of days exceeding the standard has generally decreased. For the five-year period 1993-1997, the number of exceedances was 68% lower than the five-year period 1983-1987.

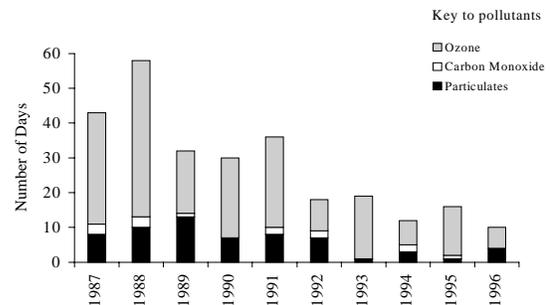
DAYS OZONE EXCEEDED THE HEALTH STANDARD IN NEW JERSEY 1983 - 1997



Indicator 2: Air pollution levels converted to pollutant standards index (PSI)

Daily air quality ratings, based on measurements of five major air pollutants, are compiled in a composite indicator called the Pollutant Standards Index, which is based on a national system. Depending on the score, the air quality in the region represented by air monitors is declared good, moderate, or unhealthy. Ten days had unhealthy air quality ratings in 1996. The number of days with unhealthy air quality ratings since 1987 has generally been reduced.

NUMBER OF PSI UNHEALTHFUL DAYS BY YEAR AND POLLUTANT



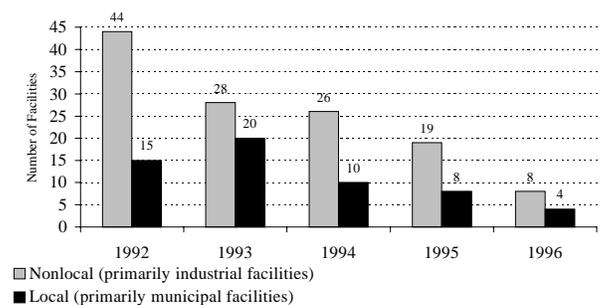
Water Quality Goal:

New Jersey waters (tidal and non-tidal) will support human and ecosystem health and applicable uses, such as recreation, fishing, drinking water supply, agriculture, and industry.

Indicator 1: Status and trends of industrial and municipal facilities in significant noncompliance (SNC) with Surface Water Discharge regulations

Between 1992 and 1996, the number of facilities in significant noncompliance with their discharge permit requirements decreased from 44 to 15 nonlocal (typically industrial) facilities and from 15 to 4 local (typically municipal) facilities.

DISCHARGES TO SURFACE WATER NUMBER OF FACILITIES IN SIGNIFICANT NONCOMPLIANCE

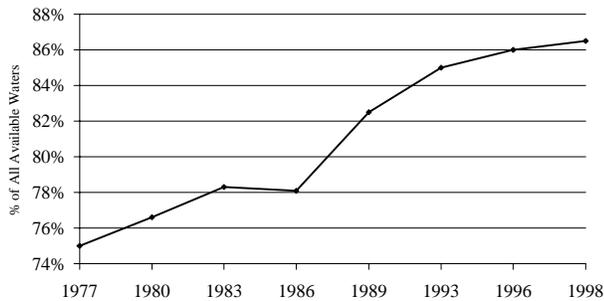


Environmental Protection

Indicator 2: Status and trends of shellfish harvest classification as percentage of all available waters

New Jersey has opened additional water for shellfish harvesting each year since 1988. Over the past 20 years, the overall availability of ocean waters for shellfish harvesting has increased from 76% to over 86%.

SHELLFISH HARVESTABLE WATERS HAVE REBOUNDED



Drinking Water Goal:

Every person in New Jersey will have safe drinking water.

Indicator: Percent of community water systems providing drinking water that meets all microbiological and chemical drinking water standards throughout the year

Over 97% of community water systems that sampled for total coliform bacteria met the microbiological drinking water standard. Over 89% of community water systems that sampled for chemical parameters met all chemical drinking water standards in 1995.

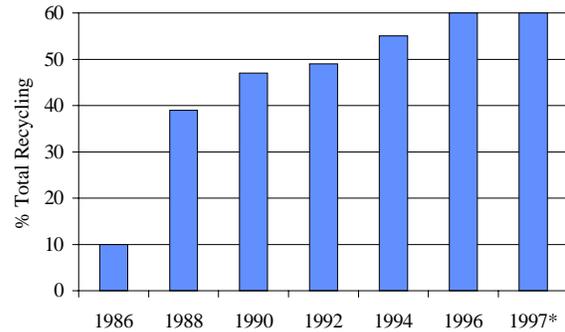
Waste Management Goal:

Maintain an integrated waste management system that ensures minimized waste generation and disposal; maximizes reuse and recycling; guards against future contaminated sites; and provides long-term capacity assurance that is protective of human health and the environment.

Indicator: Percent of total and municipal waste streams recycled

Preliminary data for 1996 indicates that New Jersey has maintained its previous record of 60% of waste materials recycled. As such, New Jersey has increased its recycling goals to 65% of the total solid waste stream and 50% of the municipal waste stream by the end of the year 2000.

NEW JERSEY'S RECYCLING RATE



* estimated

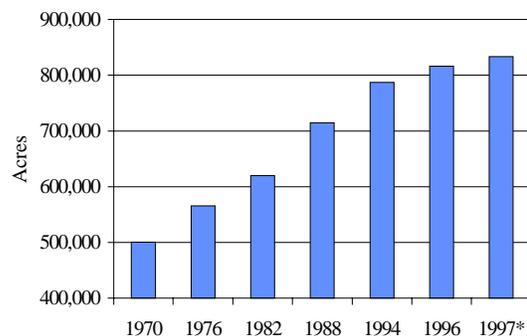
Open Space Goal:

Maintain, enhance, and restore functioning ecosystems and sustainable communities.

Indicator: Acres of Public Recreation Open Space

More than 830,000 acres of New Jersey's open space have been preserved for public recreation as of November 1997, bringing the state closer to meeting the need for 1.05 million acres for that purpose, identified in DEP's open space and recreation plan. Of the approximately 332,000 acre increase in open space since 1970, the Green Acres Program assisted in the acquisition of more than 258,000 acres, including more than 60,000 acres over the past three years.

PUBLIC RECREATION OPEN SPACE (Cumulative)



* 1997 information is through 11/30/97

OPEN SPACE PRESERVATION . . .

Goals for the Next Four Years

- Preserve 300,000 acres of open space during the next 4 years, with the ultimate goal of preserving 1 million acres over the next decade
- Create a stable source of funding for New Jersey's natural resource and farmland preservation efforts

Accomplishments of the Past Four Years

- Preservation of **93,822 acres** of open space through Green Acres
- Preservation of **over 20,000 acres** of farmland through the Farmland Preservation Program

Other Facts

- Two New Jersey programs that acquire open space and farmland are **Green Acres** and **Farmland Preservation**
- **Green Acres** was established in 1961 -- \$1.4 billion has been used to preserve 391,800 acres of conservation and recreation land, of which 93,800 acres have been preserved since 1994
- **Farmland Preservation** was established in 1985 -- \$200 million has been used to preserve 42,600 acres for private farm ownership, of which 22,500 acres have been preserved since 1994
- **Governor's Council on New Jersey Outdoors** was established by the Governor in 1996 -- charged with reviewing open space and recreational needs of New Jersey and identifying **stable sources of funding** to *keep the State green and vital*

Health and Senior Services

HEALTH & SENIOR SERVICES

FY 99 RECOMMENDED BUDGET

(In Thousands)

General Fund

Direct State Services	\$ 47,721
Grants-in-Aid	709,701
State Aid	24,592

Total General Fund \$ 782,014

Casino Revenue Fund 302,226

GRAND TOTAL

STATE APPROPRIATIONS \$ 1,084,240

OVERVIEW

During fiscal 1997, the Governor created a new Department of Health and Senior Services. Under this gubernatorial mandate, the Department effectively consolidated more than 20 State and federal programs for senior citizens that were once administered by four departments: Health, Human Services, Community Affairs, and Banking and Insurance. The expanded department has the budgetary and policy responsibility to administer the range of programs for older adults now housed within it. Consequently, the redesigned department combines the traditional mission of public health with a 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 telephone 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. The convenience of one-stop shopping for services will reduce 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 1999 Budget continues funding the expansion of home and community based forms of long-term care, including alternative family care, in-home care, and assisted living. This Budget includes \$8.9 million for an additional 850 potential placements over the existing 1000 potential placements 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. These long-term care options provide privacy and independence for the beneficiary in a cost-effective manner.

Additionally, Community Choice will continue in fiscal 1999. Throughout fiscal 1999, this initiative is anticipated to serve over 200 people and save the state about \$600,000. This is a statewide effort to offer institutional 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 1999, the Department will continue working with the Robert Wood Johnson Foundation in a first-in-the-nation partnership to improve the quality of care in nursing home facilities. The pilot program involves 20 facilities and aims to develop an outcome-oriented approach to nursing home regulation while simultaneously promoting better overall care for residents. Enhanced audits supported by the fiscal 1999 Budget will ensure taxpayer funds are being used appropriately for care of the elderly and disabled.

The fiscal 1999 Budget also reflects nursing facility growth of over \$30.7 million, including \$2.8 million in the Casino Revenue Fund. The Department is proposing several regulations that will provide reimbursement nearer to the average costs of economic and efficient nursing facilities. Proposed regulations include one change that reduces payment for nursing facility beds that are underutilized and another that adjusts reimbursement based on occupancy levels. Another proposed regulation will enhance identification and monitoring of direct patient care and indirect patient care costs. These regulations and enhanced estate recoveries will reduce the need for General Fund appropriations in fiscal 1999 by \$24.1 million on a base of over \$521 million.

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. The fiscal 1999 Budget includes a new cost-of-living increase of \$440,000 for community service providers currently under contract with the Department as well as \$555,000 to fully fund the fiscal 1998 cost-of-living increase. NJ EASE--the single entry system facilitating access to comprehensive information for seniors on benefits, services, and long-term care options--will be operational in eight counties by February 1998 with six more scheduled to join the system in the same calendar year.

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 183,600 older adults and 22,300 individuals with disabilities.

The PAAD program is the most generous pharmaceutical assistance program in the nation. New Jersey's PAAD program has the 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 27 prescriptions per year at an average cost of \$41 each. The PAAD programs saves these beneficiaries about \$1,118 each year. The annual savings for a typical disabled individual is \$2,330 based on an average of 41 prescriptions per year at an average cost of \$57.

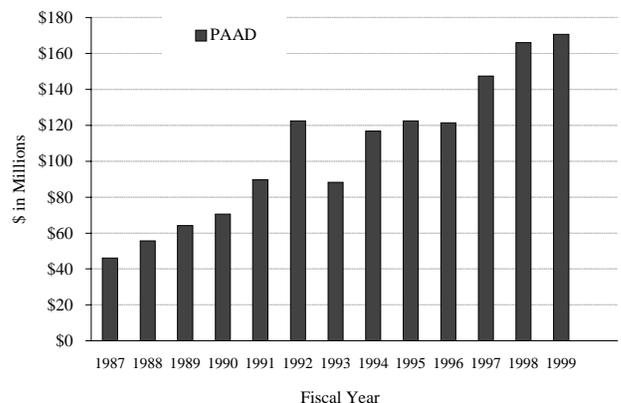
The program eligibility thresholds reflect PAAD's evolution. The original program was established in 1975 for persons aged 65 years and older with incomes under \$9,000 if single, or under \$12,000 if married. When resources were made available from the Casino Revenue Fund (CRF) in 1981, pharmaceutical 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. PAAD income eligibility is now indexed to Social Security cost-of-living increases, which raises income eligibility to \$17,918 for single persons and \$21,970 for married couples in calendar year 1998. Current beneficiaries are prevented from becoming ineligible for PAAD when their Social Security income increases by the cost-of-living.

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 chart below depicting PAAD appropriations 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.

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 1997 more than tripled: a \$44.3 million program skyrocketed to over \$147 million in expenditures. Because growth of PAAD program expenditures has far exceeded the Fund's revenue capacity, additional efforts to strengthen prudent

PAAD APPROPRIATIONS



Health and Senior Services

purchasing on behalf of recipients while retaining the same level of benefits for PAAD clients have been recommended in fiscal 1999. The recommendation for fiscal 1999 is \$170.7 million, an increase of \$4.6 million over the adjusted fiscal 1998 appropriation.

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.

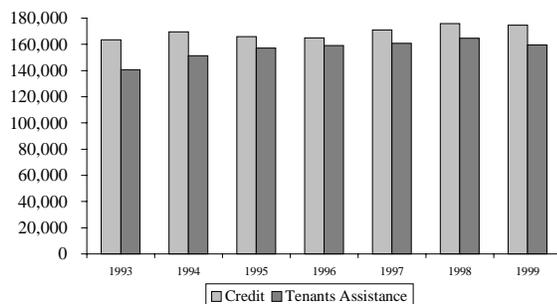
LIFELINE

In addition to pharmaceutical assistance, PAAD eligibility also confers entitlement to Lifeline home energy payments of \$225 annually per household. The Lifeline program is funded for fiscal 1999 at \$74.8 million. The slight decrease from fiscal 1998 is attributable to fiscal 1999 Social Security Administration projections that indicate fewer SSI participants in the Lifeline program. 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.

PUBLIC HEALTH

The Department of Health and Senior Services continues to be confronted with significant changes in the scope and complexity of public health challenges. Promoting public health in this context involves not only preventing disease but also promoting community awareness and action and protecting those at special risk. The Department's projected public health fiscal 1999 expenditures are \$91.3 million, an increase of \$4.4 million over fiscal 1998 estimates.

LIFELINE CREDIT AND TENANT ASSISTANCE ELIGIBLES



The fiscal 1999 Budget provides a new cost of living increase of \$1.5 million for those community service providers under contract with the Department, and \$1.9 million to fully fund the fiscal 1998 cost of living increase.

FAMILY HEALTH SERVICES

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 1992 to 7.3 in fiscal 1999 through a combination of prenatal care and neonatal screening. A new \$500,000 initiative, the Public Awareness Campaign for Black Infant Mortality, will focus on the issue of a significantly higher death rate among African American infants. The goals of the campaign are to educate the African American community and medical professionals about the differences in pregnancy outcomes between black and white women and the resultant higher black infant mortality, as well as focus on the health needs of black women.

Outreach programs such as the Healthy Mothers/Healthy Babies Program continue their attempts 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 1999, the Department's goal is to screen 115,000 newborns for neonatal deficiencies such as Phenylketonuria (PKU), galactosemia, hearing deficiencies, hypothyroidism, and sickle cell anemia.

Since the beginning of the Whitman Administration, the immunization rate for New Jersey's 2 year olds has increased from 50% to 78%, from fiscal 1994 to fiscal 1998, equaling the national average for the first time. To further improve immunization rates for the very young, the Department is developing a statewide on-line immunization registry that will link physicians, Women, Infants and Children (WIC) centers, ambulatory centers, welfare offices, etc.

New Jersey's Women, Infants and Children (WIC) Program has been nationally recognized for its innovation and effectiveness in providing supplemental nutrition services to 260,000 women, infants, and children annually. For fiscal 1999, the program anticipates receiving \$85 million in federal funds. The WIC program has secured infant formula rebates worth more than \$74 million in the last four years, allowing an additional 336,000

women, infants and children to be served during that time at no cost to New Jersey taxpayers.

The Department is developing a network of breast and cervical cancer screening programs that would target minority women age 50 or older. The goal is to screen 7,000 women annually.

Increased resources have been made available to update and maintain the State's Cancer Registry, eliminating a long-standing, multi-year backlog. All hospitals now report to the Registry electronically every six months, making the Registry one of the most up-to-date in the nation.

HEALTH PLANNING AND EVALUATION

The fiscal 1999 Budget recommends \$82.6 million in General Fund appropriations, a \$5.9 million increase over projected fiscal 1998 funding of \$76.7 million. A major reason for the growth is an increase in direct appropriations for Charity Care.

In health planning, prior emphasis focused on government regulation of the health care industry. Continuing a trend begun with the deregulation of hospital rates, this Budget proposes to minimize government's regulatory role, and instead emphasizes providing consumers with information about health care. This will give health care consumers the information needed to make informed choices in the new, deregulated hospital environment. For example, the Department changed its monitoring approach from a retrospective case review and complaint investigation to a statistically-based, epidemiological evaluation of the health status of the population served by each managed care plan. This approach allows the Department to continue to provide consumers and health benefits managers with the comparative data they need to identify the "best choices" in the managed care arena. In November 1997 the Department issued its first report on coronary artery bypass graft (CABG) surgery. This report provides important information to consumers and improves the quality of New Jersey's CABG programs. New Jersey issued its first ever Health Maintenance Organization report card which includes data on measures of health outcomes and consumer satisfaction. It is only the second of its kind in the nation. Again, the focus remains one of informed consumer choice and quality assurance.

However, the government must maintain a regulatory stance in certain areas of the health care industry. One example is Health Maintenance Organizations (HMOs). The most comprehensive set

of HMO regulations in the country was promulgated through regulations in the spring of 1997. This "consumer bill of rights" was extended to all forms of managed care when the Health Care Quality Act was adopted last summer. As a result, New Jersey is considered a national leader in regulating managed care. 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. The fiscal 1999 Budget provides an additional \$230,000 in funding that will provide for a four member hospital inspection team that will respond to the increasing number of hospital complaints.

The Department has adopted a regulatory strategy balancing the needs of providers operating in a rapidly changing health care environment, with the obligation to ensure the public's access to quality health care. The Certificate of Need Program which manages the development and expansion of health care facilities and services, was overhauled for the first time in 25 years. An expanded range of services can now be expedited for fast track review. The Department has reserved the more detailed and time consuming regulatory review process for complex services, and will increasingly require health care facilities to meet performance/outcome standards as a condition of license renewal.

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 to ensure that patient care is adequate. Staff has been reallocated to respond to all complaints at these facilities.

ACQUIRED IMMUNE DEFICIENCY SYNDROME (AIDS)

The Budget recommends \$15.9 million in State funds, and a projected \$57.4 million in federal funds to combat AIDS, an increase of \$4.8 million compared to fiscal 1998. New Jersey ranks fifth nationally in the number of confirmed cases of AIDS, and third in the number of pediatric cases. Since 1981, more than 35,400 AIDS cases have been reported in New Jersey, and more than 641,000 in the United States as of December 31, 1997.

This Budget continues a number of activities at their current levels. Education and technical assistance

Health and Senior Services

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 operated an AIDS Drug Distribution Program for a number of years 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. This program will provide about \$17.2 million in financial assistance for fiscal 1999 to 2,600 individuals for the purchase of drugs used in their treatment, compared to an estimated \$15.6 million in fiscal 1998. An important initiative of this Administration was adding a new class of anti-viral drugs called protease inhibitors to the AIDS Drug Distribution Program. These drugs work by blocking an enzyme that is important to the growth of the HIV virus. This new class of drugs assists the medical community in managing AIDS like other life-long chronic illnesses. About 1,500 of the individuals participating in the Drug Distribution Program receive protease inhibitors which will cost about \$5.5 million in fiscal 1999, compared to \$5 million in fiscal 1998.

Increased funding is being provided to all ten AIDS Early Intervention Programs throughout the state. This program currently provides outpatient prophylactic treatment to approximately 10,000 clients statewide, helping to lower the AIDS mortality rate. Specific services provided are monitoring for correct drug dosage, lab testing, and other outpatient treatment services. The increase of \$350,000 in funding will provide for an additional 1,000 to 2,000 clients to be treated statewide. This small investment will have a large impact on improving the quality of clients lives while also decreasing the need for treatment in a more expensive setting.

ADDICTION SERVICES

This Budget proposes to enhance the quality of life of New Jersey residents by reducing drug, alcohol, and tobacco abuse. The Department's plan is to stop vendors from selling cigarettes to children, and a major ad campaign has been launched to discourage teenage smoking. Also, legislation has been passed to strengthen the ability of local health departments to enforce the law prohibiting the sale of tobacco to minors. Failure to heed the "age of sale" law will result in loss of licenses and fines. A tracking system will evaluate the effectiveness of this surveillance program.

The fiscal 1999 Budget provides \$100,000 for the Middle School Survey which examines the incidence and prevalence of alcohol, tobacco, and other substance abuse among middle school students. This would allow the Department to more effectively target its prevention efforts. In addition, the "Drugs are Ugly and Uncool" Campaign has been continued for fiscal 1999. The goal of this initiative is to decrease adolescent use of drugs, alcohol, and tobacco.

Another continuing initiative is a \$1.25 million program for treatment services for the mothers of DYFS/Work First clients. The program provides 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. The Department is working closely with the Department of Human Services' Work First initiative to provide welfare recipients with substance abuse treatment services in order to remove barriers to a client's successful employment. Funding of \$18.8 million is included in the Work First New Jersey budget.

PUBLIC HEALTH LABORATORY

Laboratory Services performs a range of comprehensive analytical and diagnostic services in the identification and control of disease and environmental threats. Services, offered on a 24-hour, seven days a week basis, are provided in five primary categories: Bacteriology, Virology, Serology, Inborn Errors of Metabolism, and Environmental and Chemical. The Department has also established a national model for computerized laboratory reporting of diseases which allows for easier tracking and monitoring of diseases.

CHARITY CARE & SUBSIDIZED INSURANCE

The Charity Care legislation enacted in mid fiscal 1998 included a \$42.9 million General Fund supplemental appropriation, in addition to the existing appropriation of \$33 million. The fiscal 1999 recommendation provides \$82.1 million for Charity Care and the Access program, an increase of \$6.2 million over the fiscal 1998 adjusted appropriation.

Under the Charity Care system, hospitals are reimbursed under a formula for services provided for uninsured clients. 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. Federal approval to allow federal subsidies to finance treatment in settings other than a hospital is imminent.

ELECTRONIC TRANSMISSION OF DATA

Quick, accurate, and reliable information continues to be critical in the field of health care. The Department is engaged in four major data initiatives: an electronic birth certificate system, \$250,000 for the development and implementation of a new electronic death record system, a statewide

immunization network, and a cancer registry system. The Cancer Registry continues to be funded at a level of \$400,000 to allow the Department to remain proactive in providing prevention and screening in areas of the state where the incidence of cancer is rising. These systems will provide more reliable data, will allow health information to be shared between agencies, and will reduce paperwork and manual record keeping.

Decline in AIDS-related Death Rates . . .

In the United States:

- Nation-wide, AIDS deaths have **dropped 44%** in the first half of last year.
- Deaths from AIDS peaked in 1994 and 1995, then **progressed downward** in 1996 and 1997. According to the national Center for Disease Control and Prevention (CDC) in Atlanta, 12,040 Americans died of AIDS in the first half of 1997, compared with 21,460 in the first half of 1996.
- Experts attribute improving figures to better treatment. Prescriptions of so-called 3-drug cocktails - 2 older AIDS drugs plus protease inhibitors - have revolutionized AIDS care.

In New Jersey :

- In New Jersey, providing care to more than 9,500 people with HIV/AIDS and protease inhibitor drugs to 1,477 has resulted in **38% fewer deaths** in 1997 compared to 1996. The fiscal 1999 budget recommendation includes \$15.9 million in State funds and a projected \$57.4 million in federal funds to combat AIDS, a public health priority in the State.
- New Jersey supports prevention and education efforts to reduce the number of new HIV infections.
 - **Early Prevention Programs** - Statewide centers provide medical management of persons with HIV and regularly scheduled medical assessments on an outpatient basis. Case management, health education, and access to clinical trials are also offered.
 - **Free Medications** - AIDS Drug Distribution Program (ADDP), offered throughout the State, provides life-sustaining and life-prolonging medications to low income individuals with no other source of payment for these drugs. A wide range of FDA approved medications for the treatment of HIV and AIDS are covered.
 - **Other Services include** - New Jersey HIV counseling and testing sites, Ryan White HIV Care Consortia/Resource Centers, training in HIV prevention counseling and testing and basic facts about HIV and AIDS, and integrated networks of intervention and care services for HIV.

(D. Haney, "AIDS Death Rate Continues Decline," [The Times](#), 2/3/98:A1,A5; NJ Internet Home Page)

Human Services

HUMAN SERVICES	
FY 99 RECOMMENDED BUDGET	
(In Thousands)	
General Fund	
Direct State Services	\$ 562,808
Grants-in-Aid	2,044,025
State Aid	351,515
Capital Construction	<u>11,399</u>
Total General Fund	\$ 2,969,747
Casino Revenue Fund	<u>28,221</u>
GRAND TOTAL	
STATE APPROPRIATIONS	<u><u>\$ 2,997,968</u></u>

OVERVIEW

The Department of Human Services' fiscal 1999 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 Department of Human Services State fiscal 1999 budget, exclusive of Capital Construction, is recommended to grow from \$2.978 billion to \$2.987 billion, an increase of \$9 million. The Department is also expected to receive \$2.792 billion in federal funds in fiscal 1999. The net change reflects many increases and decreases. The State Budget increases are mostly related to maintaining current services and are, therefore, driven by inflation increases, caseload changes, and greater utilization.

This Budget contains several new initiatives, one of the most significant being an \$8 million cost of living increase effective January 1, 1999 to community providers who care for the clients of the Department. The budget for the Commission for the Blind and Visually Impaired includes a \$348,000 increase 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 also provides \$1.3 million to improve State institutions' security systems and personnel training thereby enhancing residents' safety. The Budget includes \$450,000 in new funding and consolidates existing programs for the newly created Office of Disability Services. A new initiative, Family Friendly Centers,

is funded at \$2.5 million and will provide school based after school services.

The Department's Budget continues the theme of reducing costs without reducing services. The largest reductions are a \$20 million shift of graduate medical education funding to the Hospital Relief Fund. Since fiscal 1998 represents the last year of a legal settlement with county psychiatric facilities, the related appropriations will decrease in fiscal 1999 by \$16.5 million.

WORK FIRST NEW JERSEY

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 emphasize jobs skills training in the work place rather than in the classroom. While adults are required to take personal responsibility in moving toward self-sufficiency, in most instances, a viable safety net is 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 1999 is \$484.9 million. These funds are supplemented by \$768.4 million in federal funds. The major federal funds include the Temporary Assistance to Needy Families (TANF) block grant of \$404 million for fiscal 1999 and the federal Child Care block grant of \$72 million. In addition, \$37 million of fiscal 1998 TANF funding will be transferred to the child care program to meet the increased demand for these services as the number of working recipients rise.

A major policy strategy reflected in the design of Work First New Jersey includes the re-investment of program caseload and other savings for child care and other services that support the growing number of working recipients. For example, investments in information systems technology will result in a more efficiently operated welfare program and meet federal mandates in child support. In fiscal 1998 \$53.2 million in State and federal funds was invested in information technology; in fiscal 1999, \$24.3 million is recommended.

Federally mandated client work participation rates have risen from 25% to 30% for fiscal 1999, which requires an additional \$28.3 million in State and federal funds. Clients are assisted in job preparation

and placement activities, and they are provided with transportation allowances. Food stamp clients are required to participate in work activities or lose their benefits. Eligible legal aliens who are denied federal food stamp benefits as a result of recent changes in federal law are eligible to receive State funded food stamp benefits under WFNJ. A total of \$6.7 million is recommended for these benefits.

A major initiative in fiscal 1999 to assist individuals in obtaining and maintaining employment will be achieved through an expansion of substance abuse services. In conjunction with the Department of Health and Senior Services, almost 4,000 welfare recipients will receive substance abuse treatment services statewide. The initiative is funded in the Division of Family Development at \$18.8 million and in the Department of Health and Senior Services at \$1.3 million.

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 \$201 million in State and federal funds is recommended for child care for New Jersey families, which represents an increase of \$50.1 million. Components of this increase include \$7 million for 1,000 additional slots for working poor families to keep them off welfare, an 8% increase in child care provider rates at a cost of \$11 million; and \$1.9 million to continue the early childhood initiatives begun in fiscal 1998. In addition, \$10

million will be matched with local school district funding to improve pre-school and kindergarten services to both children and families under the Family and Children Early Education Services (FACES) program. TANF funds totaling \$47.6 million will be transferred to child care services to maximize federal funding and to meet the demand for these services as more parents enter the workforce.

Personal responsibility and self-sufficiency by age 18 is the goal for teen parents under WFNJ. Teens are required to attend school in order to receive benefits. Teen parents can no longer obtain their own welfare grant by living independently but are required instead to live at home or in an adult-supervised setting.

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.

Needy single individuals and married couples without children receive \$140 per person per month if able to work and \$210 if disabled under the General Assistance program. Recipients are also eligible to receive homemaker services, pharmaceuticals, physicians' services, and employment and training services in select locations.

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

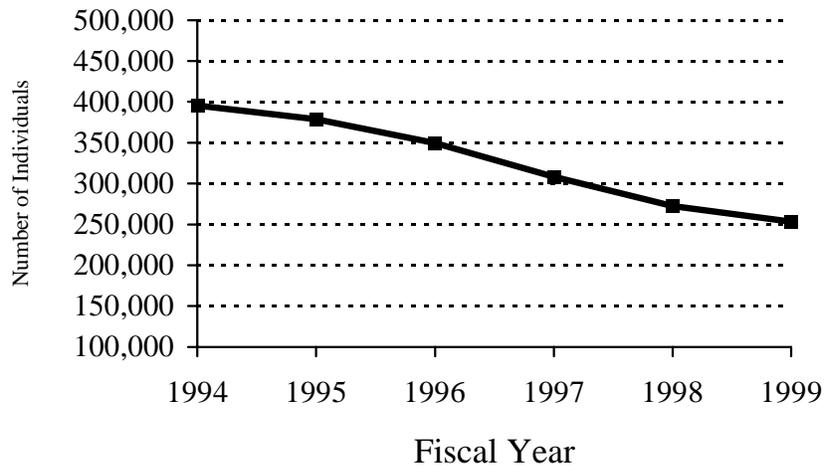
INCOME ASSISTANCE PROGRAM	STATE FUNDS	FEDERAL FUNDS (1)	LOCAL FUNDS	TOTAL FUNDS (2)
WORK FIRST NEW JERSEY (WFNJ)	\$ 339.6	\$ 393.4	\$ 13.8	\$ 746.8
CHILD CARE	74.4	127.4	-	201.8
Supplemental Security Income (SSI)	70.9	-	-	70.9
County Program Administration	-	153.9	-	153.9
Child Support Program	-	54.4	-	54.4
Other Federal Programs	-	39.3	-	39.3
TOTAL	<u>\$ 484.9</u>	<u>\$ 768.4</u>	<u>\$ 13.8</u>	<u>\$ 1,267.1</u>

(1) Federal Funds include total welfare block grant funds and exclude federal SSI funds of \$824.5 million.

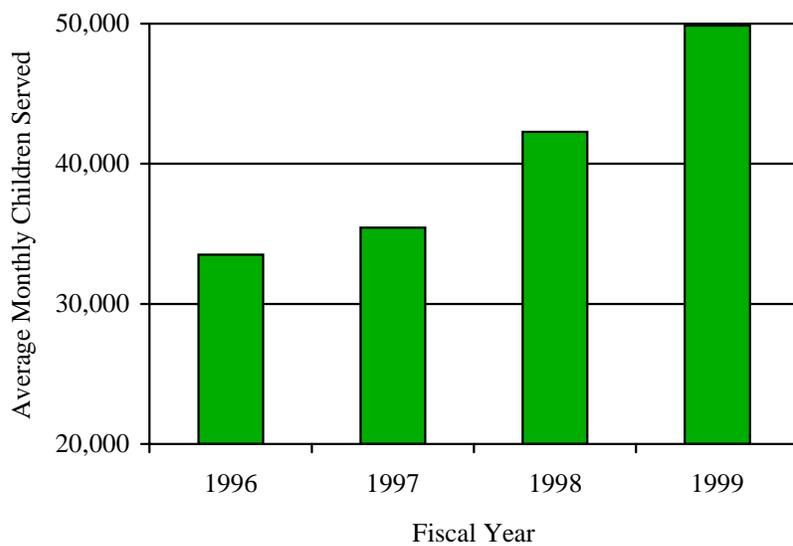
(2) Excludes \$128.3 million in WFNJ municipal, county, and Judiciary administrative funds.

WORK FIRST NEW JERSEY PROGRAMS

PUBLIC ASSISTANCE CASELOAD REDUCTIONS FROM FISCAL YEARS 1994 TO 1999



CHILD CARE SERVICES CHILDREN SERVED FISCAL YEARS 1996 - 1999



COMMUNITY, SOCIAL AND INSTITUTIONAL SERVICES

COMMUNITY AND SOCIAL SERVICES

Community Services for the Mentally Ill — The Division of Mental Health Services offers community mental health programs to treat persons afflicted with mental illness. These programs often provide alternatives to institutionalization for such adults and children. 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.

The Division maintains 142 contracts with 120 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 previously have been in psychiatric institutions, are at risk of psychiatric hospitalization, or are in need of outpatient treatment. The mental health providers will be contacted by clients nearly 256,000 times during fiscal 1999. The fiscal 1999 Budget provides a new cost of living increase of \$1.7 million for those community mental health service providers under contract with the Division and \$1.8 million to fully fund the fiscal 1998 cost of living increase.

In fiscal 1996, a significant initiative was undertaken to reduce the overall population of the major State psychiatric hospitals within three years. According to the plan, patients will have been relocated into new and expanded community mental health programs with support services to prevent re-admission to a psychiatric hospital. All of the patients to be discharged from the State hospitals will be provided with integrated case management services for at least 18 months. By the end of fiscal 1998, Marlboro Psychiatric Hospital will be closed.

By the end of fiscal 1998, a total of 324 patients who formerly resided in State psychiatric hospitals will be residing in new community residential

settings. These settings will include supervised group homes, assisted living arrangements for the elderly, clustered apartments, supportive residential health care facilities, and consumer supported housing.

Through a variety of the new hospital diversion programs designed as an alternative to admission or re-admission to the State psychiatric hospital system, mental health services will have been expanded for 3,171 clients in the community over the three years. There will be a corresponding reduction of 180 State psychiatric hospital beds.

The Program for Assertive Community Treatment (PACT), a new intensive mobile treatment program, 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. The program is available 24 hours per day, seven days per week. PACT teams are composed of seven to nine professionals and paraprofessionals from various disciplines (i.e., physicians, nurses, social workers). At the end of fiscal 1998, a total of 28 teams will be operational in 15 of the state's 21 counties.

In addition to PACT, other community mental health programs are designed to divert admission to the State psychiatric hospitals. These include drop-in centers, intensive family support services, supported housing, and crisis residence.

A total of \$36.1 million will have been spent over the three years as "bridge" funding to support the creation of the expanded community mental health service infrastructure.

In fiscal 1999, the entire Marlboro Psychiatric Hospital operating budget and fringe benefits totaling \$70.9 million will be reinvested among the community mental health service providers, other State psychiatric hospitals, and services provided by the Division of Developmental Disabilities.

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 48,500 children will be served during fiscal 1999.

Human Services

Services may be provided directly from the Division or from community agencies contracted under its supervision. The fiscal 1999 Budget provides a new cost of living increase of \$2.7 million for those community service providers under contract with the Division and \$2.8 million to fully fund the fiscal 1998 cost of living increase.

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 be approximately 6,000 in fiscal 1999.

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 in fiscal 1998, is continued in the fiscal 1999 Budget. This program includes public service announcements, grants to neighborhood and church groups, public service billboards, and 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 estimated that approximately 1,484 children (89 in state facilities and 1,395 in private centers) will be served under this program this fiscal year at a cost of \$87 million. An additional \$6 million has been added to the fiscal 1999 Budget to address increased costs and recent caseload growth

in residential placements, group homes, and treatment homes.

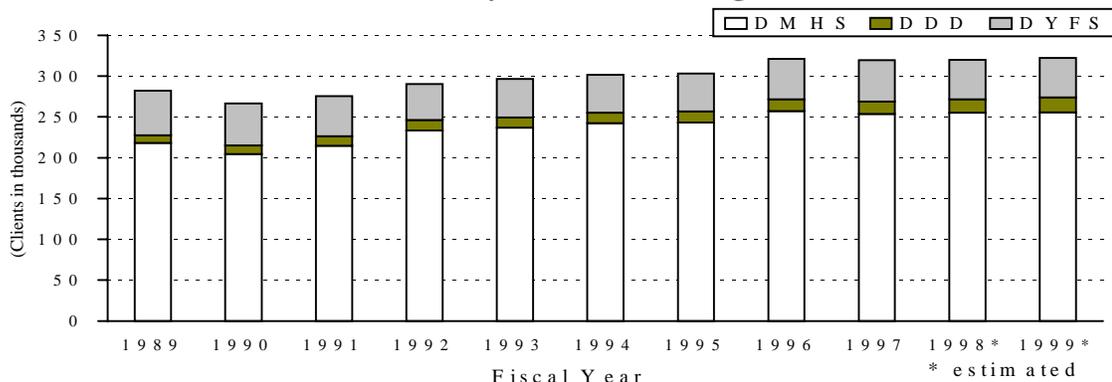
Community-based family support services are designed to assist families in crisis and to preserve and strengthen families. "Wrap-around" services provide a network of family-oriented services individually tailored around a child with serious emotional or behavioral problems. Other contracted services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

A new \$2.5 million pilot program, Family Friendly Centers, is intended to provide greater use of existing schools for after-school youth activities and provide adult education programs such as parent training, adult literacy, and computer workshops.

The Child Protection Initiative supports 369 new caseworkers and support staff by providing \$18 million in additional resources for the Division aimed at the commitment to improve the child welfare system. These resources will continue to be available in fiscal 1999, lowering the caseworker ratio to one caseworker for every 35 cases, the lowest ratio in approximately ten years. The 315 caseworkers, 54 support staff, new vehicles, mobile phones and enhanced caseworker training will enable the Division to better identify and protect abused or neglected children.

This Budget maximizes available federal funds. Enhanced eligibility determinations will increase the number of children eligible for adoption assistance, resulting in increased federal reimbursements and \$3 million in savings to the State. DYFS will also seek federal accreditation of selected private children's residential facilities to generate an additional \$500,000 in new federal reimbursements.

C l i e n t s S e r v e d
C o m m u n i t y C a r e P r o g r a m s



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 adult day programs.

Many other 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 1999 budget recommendation includes \$18.8 million to phase in services for an additional 500 people from the community services waiting list and 400 people from the day program waiting list. In an effort to avoid costly out-of-home placements and keep families together, \$2.2 million also has been allocated for expanded family support services. This initiative will grow to \$32.5 million in fiscal 2000. The State will pay for this initiative in fiscal 1999 by increasing federal Medicaid reimbursements on certified beds in developmental centers.

When fully implemented, the community waiting list reduction initiatives since fiscal 1995 will amount to \$94 million annually. A total of 1,807 individuals will have been placed in community residential programs and 975 individuals in adult day care activity programs. In total, \$4.2 million will be 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.

The fiscal 1999 Budget also provides a new cost of living increase of \$3.2 million for those community service providers under contract with the Division

and \$3.4 million to fully fund the fiscal 1998 cost of living increase.

Care for individuals with developmental disabilities continues to evolve in New Jersey. Consumers and their families are creating an individual network of services and supports which *they* have chosen to help them live in the community. Self-determination began in fiscal 1998 as the Governor's Inclusion Initiative. People with disabilities and their loved ones are being empowered to make the decisions to improve their quality of life, and reduce overall costs. Self-determination continues to be an option for individuals and their families in fiscal 1999.

Office on Disability Services—This office was established to serve as the focal point for the cross-cutting disability issues and concerns of all New Jerseyans with disabilities and their families. As a State level coordinating body, the program will work to create a comprehensive information and referral system, offering a "single point of entry" for persons with disabilities who require services but may not meet the requirements for disability-specific programs presently offered by the Department of Human Services and other departments of State government. The fiscal year 1999 budget includes \$450,000 to enable the Office on Disability Services to improve the delivery of services, help reduce duplication, and improve the efficiency of efforts to support independence for people of all ages with disabilities. This office will also administer the New Jersey Personal Assistance Services Program, funded at \$6.1 million in General and Casino Revenue fund dollars.

INSTITUTIONAL CARE

Psychiatric Hospital Care—Psychiatric hospitals in New Jersey provide medical intervention, a protective therapeutic environment, and various rehabilitative, vocational, and treatment services. The goal of treatment is to limit the duration of institutionalization so that patients can return to the community as rapidly as possible, with community care support if necessary.

Beginning on July 1, 1998, Marlboro Psychiatric Hospital will be officially closed. Former patients will be redirected to other State psychiatric hospitals, community mental health provider agencies or services of the Division of Developmental Disabilities. The State will be maintaining six instead of seven psychiatric

Human Services

institutions to serve voluntarily admitted or legally committed persons with mental illness.

Senator Garrett W. Hagedorn Gero-Psychiatric Hospital will continue to serve those who have an additional need for nursing and medical care as well as provide for other new admissions. A total of 100 new beds will open on May 4, 1998 to address the realignment of hospital admissions.

Arthur Brisbane Child Treatment Center will continue to serve pre-adolescent school age children and adolescents who have been legally committed.

The Forensic Hospital, newly constructed on the grounds of Trenton Psychiatric Hospital, currently fully accredited, was reviewed by the federal certifying agency in December 1997 and is awaiting the final decision from that agency. After having attained the certification, the hospital will be eligible for \$10 million in cost reimbursements under the federal Medicare and Medicaid programs.

Ancora Psychiatric Hospital will continue to be the largest State facility with an anticipated average of 600 patients a day. Arthur Brisbane Child Treatment Center will remain the smallest facility with an anticipated average of 40 patients per day.

In fiscal 1995, the year before the Marlboro closure initiative began, the actual total State psychiatric hospital population was 2,488. In fiscal 1999, the first fiscal year without Marlboro Psychiatric Hospital, the total State population is estimated to be 1,940. This is a reduction of 548 beds (22%) for patients who will no longer remain institutionalized but instead will be accessing mental health services in the community.

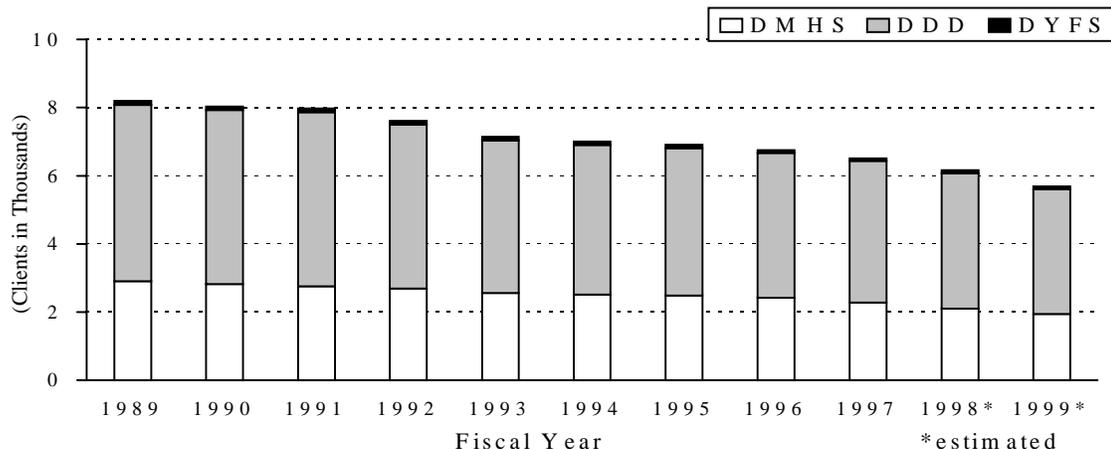
In addition to the State psychiatric hospitals, there are six county-operated psychiatric hospitals. State aid to these counties provides funds for 90% of the maintenance costs of county patients. The average daily population of patients residing in these facilities is estimated to be 715 for fiscal 1999. The largest population is at Essex, averaging 308, and the smallest at Union, averaging 11.

Developmental Centers—In fiscal 1999, New Jersey's seven developmental centers will 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 3,661 individuals will reside in the remaining centers, a reduction of 1,517 or 29% 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, such as room size, bedspace configuration, or some other physical characteristic of the building. Certified beds provide for federal cost-sharing on a 50-50 basis. Overall, New Jersey has reduced the number of non-certified beds from 1,464 in fiscal 1989 to 175 in fiscal 1998 through the expansion of community care alternatives and the conversion of non-certified bedspace to certified status.

Average Daily Population State Institutions



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

Program	State	Federal and All Other	Total
Division of Mental Health Services	\$ 206,383	\$ 12,039	\$ 218,422
Division of Developmental Disabilities	233,107	245,770	478,877
Division of Youth and Family Services	199,913	73,991	273,904
TOTAL	<u>\$ 639,403</u>	<u>\$ 331,800</u>	<u>\$ 971,203</u>

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

Program	State	Federal and All Other	Total
Division of Mental Health Services	\$ 181,269	\$ 1,611	\$ 182,880
Mental Health Services - County	78,800	---	78,800
Division of Developmental Disabilities	177,236	109,118	286,354
TOTAL	<u>\$ 437,305</u>	<u>\$ 110,729</u>	<u>\$ 548,034</u>

NEW JERSEY KIDCARE . . .

The Need :

Over 100,000 low-income children in New Jersey with little access to medical coverage:

- Many New Jersey children are **not** eligible for Medicaid
- Many families do not have access, **or** cannot afford, employer health coverage

The Solution :

New Jersey KidCare - affordable health insurance initiative for 100,000 children:

- Expand regular Medicaid to 133% of federal poverty level for 35,000 children
- For 65,000 children, above Medicaid, up to 200% of poverty level
- Personal responsibility through premiums and deductibles for children above Medicaid eligibility standard
- **Comprehensive package** of medical benefits
- **Publicly subsidized** private health insurance coverage
- \$136 million per year - 65% federal
- Long-range goal - **universal health access** for children

Medicaid

OVERVIEW

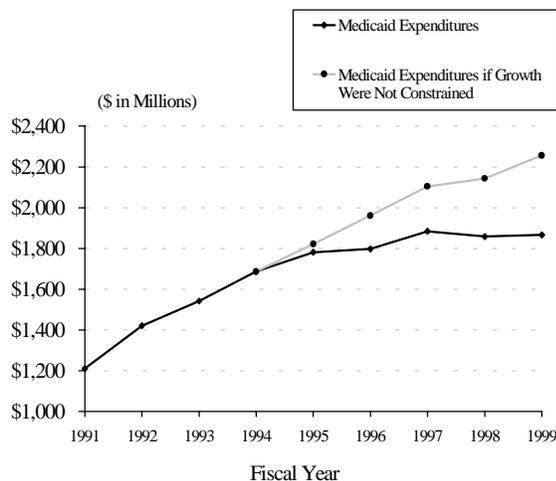
Medicaid is the State's principal health care safety net for the needy. It serves those who would otherwise be part of the growing pool of persons who have no resources for health care. Individuals without health insurance tend to receive limited medical services, particularly preventive care, reducing the overall well-being of the State's population.

Medicaid is administered by the Department of Human Services (DHS) in cooperation with the Department of Health and Senior Services. Approximately half of the total costs of Medicaid medical and health care is reimbursed by the federal government under Title XIX of the Social Security Act.

Medicaid covers a full range of inpatient and outpatient hospitalization services, physician visits, dental care, prescription drugs, medical supplies, medical transportation, home health services, personal care services, and long-term care.

The State also has made a major commitment to provide managed care through its contracted network of 11 State-licensed health maintenance organizations (HMOs). Medicaid managed care provides the full scope of traditional medical services, with a special emphasis on preventive medicine, early detection and treatment of medical conditions, and continuity of care.

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



State expenditures for Medicaid benefits in fiscal 1999 will be \$1.287 billion in the DHS Division of Medical Assistance and Health Services and \$590 million in the Department of Health and Senior Services, for a total of \$1.867 billion. In addition, the State's expenditures will be supplemented by approximately \$2 billion in federal funds.

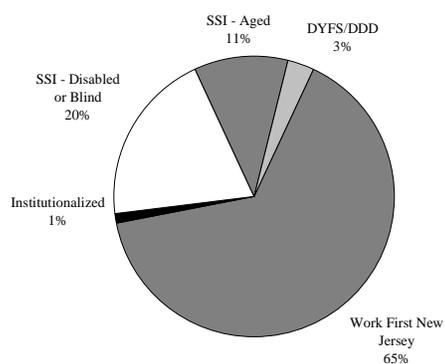
Over the last four years, New Jersey has aggressively constrained the growth of Medicaid through the implementation of cost efficiencies, recoveries, innovative initiatives, and managed care. This cost conscious approach has resulted in savings to the State Budget of approximately \$400 million per year compared to previous spending trends.

The policy goals of Medicaid are to provide access to quality care and to maintain or extend programs to meet the health care needs of the needy and uninsured, within the overall Departmental context of prudent purchasing and good fiscal management.

MEDICAID BENEFICIARIES

Six out of seven Medicaid beneficiaries gain eligibility through participation in various federal and State cash assistance programs. The largest group of eligible persons are children and adults receiving benefits through the State's Work First New Jersey program (WFNJ). Although WFNJ participants comprise 65% of all Medicaid eligibles, the size of this population has been declining in recent years due to national and State welfare reform initiatives and New Jersey's prospering economy. Payments for medical and health services utilized by this group account for only 23% of Medicaid expenditures.

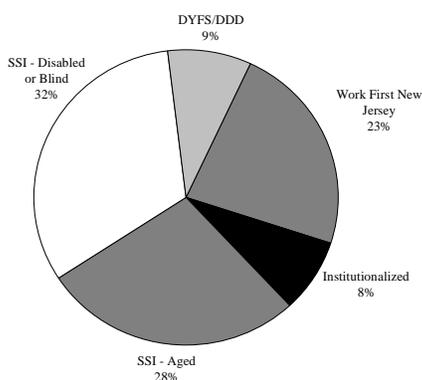
Medicaid Recipients by Category of Eligibility



The second largest group of recipients are lower-income aged or blind persons, and people with disabilities, whose numbers have been increasing in recent years. This group tends to require a more intensive and costly mix of services, such as hospitalization, nursing home care, and intensive community care. Aged persons comprise 11% of Medicaid beneficiaries and account for 28% of all expenditures. Individuals who are disabled or blind comprise 20% of Medicaid beneficiaries and account for 32% of expenditures.

Medicaid beneficiaries in institutions for the mentally ill comprise less than 1% of Medicaid beneficiaries but account for an additional 8% of Medicaid expenditures. The remaining 3% of Medicaid recipients are beneficiaries receiving services from the Division of Youth and Family Services or the Division of Developmental Disabilities. Services in their behalf comprise about 9% of Medicaid expenditures.

Medicaid Expenditures by Category of Eligibility



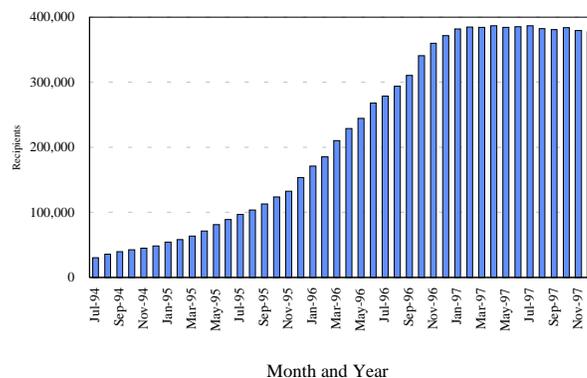
MEDICAID MANAGED CARE

Beginning in June 1995, the State began phasing in mandatory managed care for Medicaid-eligible children, pregnant women, and parents. Total managed care enrollment of WFNJ beneficiaries and other related categories is around 370,000. An additional 8,000 aged, blind, or disabled persons are voluntarily enrolled.

The cost efficiencies of the Medicaid managed care system will result in an estimated fiscal 1999 State savings of \$28 million. Medicaid managed care provides many beneficiaries with their first continuous primary care provider. Both a healthier population and long-term savings in the Medicaid

program will be attained from the emphasis on preventive health care and the avoidance of more costly types of medical care such as hospitalization and emergency room treatment.

Medicaid Beneficiaries Receiving Managed Care Services July 1994 to December 1997



MEDICAID EXPANSIONS

Eligibility in the original Medicaid program was tied to participation in either of two pre-existing cash assistance programs: the Aid-to-Families-with-Dependent Children (AFDC) for low-income children and caregivers, and the Supplemental Security Income (SSI) program for low-income aged, blind, or disabled persons. Congress has subsequently authorized a number of expansions of Medicaid eligibility to extend health care benefits to non-cash-assistance children and adults. The expansion of Medicaid programs reduces the level of uncompensated care in the State and provides services to persons before a health crisis develops.

New Jersey has demonstrated its commitment to maintaining and expanding its medical and health safety net for low-income children and vulnerable adults through its implementation of all federally-authorized, State-option Medicaid eligibility expansions. The first expansion of Medicaid beneficiaries included pregnant women, children up to age two, and SSI-related aged, blind, and disabled persons with incomes up to 100% of the federal poverty level. A subsequent expansion allowed Medicaid coverage for pregnant women and infants in families with income up to 185% of the poverty level. Additional federal legislation established Medicaid coverage for children under the age of six in families with incomes up to 133% of the federal poverty level. The State is also phasing in coverage for children born after September 30, 1983 in

Medicaid

families with incomes up to 100% of the poverty level. This expansion of coverage will continue until all children up to age 19 are covered. The fiscal 1999 Budget adds \$16 million to enable more aggressive efforts to enroll individuals who are currently eligible but not participating in the Medicaid program.

The recent enactment of legislation to provide a long term solution to Charity Care also provides State funding for the ambitious NJ KidCare Children's Health Insurance Program. This new initiative was authorized by the federal Balanced Budget Act of 1997 as Title XXI of the Social Security Act. NJ KidCare will provide a comprehensive array of publicly subsidized medical and health services to children up to 200% of the federal poverty level who are not otherwise eligible for Medicaid. This initiative to provide affordable health care insurance for an estimated 102,000 lower-income children underscores this Administration's commitment to maintain and expand the State's health care safety net.

MEDICAID SAVINGS INITIATIVES

Medicaid continues to develop strategies which promote administrative efficiencies and payment economies. As is shown in the first chart, prudent purchasing initiatives have effectively offset Medicaid caseload growth and cost inflation for the past four years. Aggressive new measures to fight Medicaid fraud and abuse are expected to save approximately \$30 million of State funds in the current year's budget through cost avoidance. These efforts will be continued and expanded in fiscal 1999.

Medicaid expenditures in the Department of Human Services are projected to grow \$68 million in fiscal 1999 in the absence of cost containment measures. Offsetting this predicted growth are \$64 million worth of cost avoidance and savings initiatives.

Savings of \$17 million will result from recent changes in federal law that permit states to utilize Medicaid rates to pay Medicare Part B copayments and deductibles for certain dually eligible low-income Medicaid beneficiaries. This re-establishes the payment system that was in force until a few years ago.

A recent federal provision prohibits Medicaid enrollment of new aliens, resulting in estimated savings of \$7.5 million.

The fiscal 1999 Budget reduces payments for graduate medical education for a State savings of \$10 million. Combined with federal matching funds, the impact to hospitals will be approximately \$20 million. Available dollars will be focused to those teaching hospitals who serve the greatest number of Medicaid recipients. However, this reduction is more than offset by increased subsidies for Charity Care and the Hospital Relief Fund. The recent enactment of a long term solution for Charity Care increases hospital subsidies by \$80 million, compared to calendar 1997. In addition, the burden of Charity Care for hospitals will be lightened by a significant margin due to the advent of managed Charity Care and NJ KidCare, funded at \$136 million, \$88 million of which represents new federal funds.

The State has engaged expert consulting services to review current payment methods for Outpatient Hospital and Home Health services to develop an improved and more cost effective reimbursement method, which is expected to save about \$4 million.

There has been a fivefold increase in the cost of Medicaid personal care services in the past eight years. The Department of Human Services has identified this as a problem of over-utilization rather than of reimbursement level, and will establish an independent assessment system that is expected to produce net savings of \$5.2 million.

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 developing new modes of long-term care.

LABOR	
FY 99 RECOMMENDED BUDGET	
(In Thousands)	
General Fund	
Direct State Services	\$ 53,534
Grants-in-Aid	18,634
	<hr/>
Total General Fund	\$ 72,168
	<hr/>
Casino Revenue Fund	2,440
	<hr/>
GRAND TOTAL	
STATE APPROPRIATIONS	\$ 74,608
	<hr/> <hr/>

OVERVIEW

The New Jersey Department of Labor (NJL) provides employment, training and education services that meet the needs of all citizens. 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 skilled jobs add value to goods and services;
- overseeing income maintenance to the unemployed and disabled during employment search or temporary disability.

Below are some highlights of Department initiatives and accomplishments:

- *State appropriations largely held flat in fiscal 1999*
- *Additional \$10 million for Customized Training*
- *UI rate lowest since 1990 -- 4.9% in December 1997*
- *Workers' Compensation rates down 24% since 1995*
- *A total of 78,100 new jobs added in 1997*
- *New Jersey workers earn higher wages than the national average*

CONSOLIDATION

In fiscal 1999, the Department of Labor's Wage Reporting functions will be consolidated into the Department of Treasury's Division of Revenue. Specifically, the revenue collection and processing functions related to Unemployment Insurance, Temporary Disability, Workers' Compensation, and Special Compensation will be transferred.

This effort will streamline business' reporting requirements by creating a central collection point for all tax collections, including corporate business taxes. By consolidating reporting requirements and eliminating duplicate forms, this initiative will improve service delivery and reduce the administrative burden for private businesses. Labor will retain, however, the traditional program functions such as the determination of benefit levels and eligibility requirements.

In addition, research economists presently located in three departments, namely Labor, Commerce, and Taxation, will be consolidated into the Department of the Treasury. Consolidating these activities into Treasury will result in more efficient production of historical data and economic projections.

Several of Labor's workplace safety programs are shifted to the Department of Community Affairs (DCA) to eliminate duplicate inspections and create a more efficient operation. Using the same level of resources, the number of inspections will be increased, in part by cross-training existing inspection staff. Labor's five inspection activities, including Ski Lifts, Asbestos, Boilers, Liquefied Petroleum Gas, and Carnival Rides will shift to DCA.

FISCAL 1999 BUDGET

The Department of Labor's fiscal 1999 Direct State Services budget includes \$7.9 million in direct State appropriations (excluding the Public Employment Relations Commission). Labor also receives \$43.3 million in trust funds (e.g., Temporary Disability Insurance) and \$333 million in federal funds.

In addition, grants-in-aid funding for Vocational Rehabilitation Services is increased from \$18.2 million to \$18.6 million, an increase of \$412,000 for the Basic Support Services programs. This includes an increase of \$200,000 for the basic Vocational Rehabilitation program, enabling Labor to serve an additional 43 clients (an increase in clients of 2%). The remaining \$212,000 represents cost of living increases for community service providers in fiscal

Labor

1999 (\$94,000), as well as full funding for the fiscal 1998 cost of living adjustment or COLA (\$118,000).

NEW JERSEY'S ECONOMIC PERFORMANCE

The Department of Labor is the State's primary source to finding jobs. In 1997, 78,100 new jobs were created. This represents the best growth since 1988. Since January 1994, New Jersey has realized a net increase of 237,100 jobs.

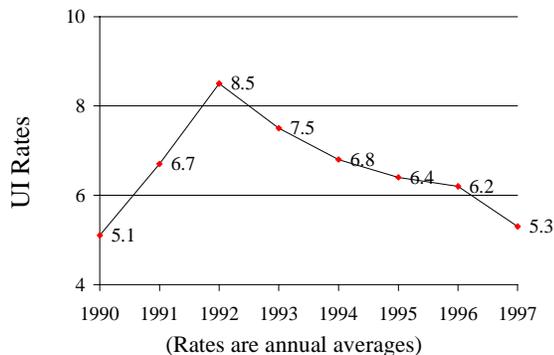
NEW JERSEY'S JOB GROWTH JANUARY 1994 - DECEMBER 1997

January 1994 - December 1994	78,100
December 1994 - December 1995	21,200
December 1995 - December 1996	59,700
December 1996 - December 1997	<u>78,100</u>
Total:	237,100

The State's unemployment rate is steadily declining. In December 1997, the unemployment rate was 4.9%, the lowest level since 1990.

A survey performed by the USDOL Bureau of Labor

NEW JERSEY'S UNEMPLOYMENT RATE (1990 - 1997)



Statistics and the NJDOL shows that workers in New Jersey are paid higher wages than the national average. The top ten highest paid occupations in the State are either professional or managerial. Nine of the State's top ten highest paid occupations received higher wages than the national average. Based on the average hourly wage, computer engineers, systems analysts and programmers, and home health aides are the top three fastest growing occupations. Home health aides and systems

analysts and programmers are paid higher wages than the national average.

ONE-STOP CAREER CENTER SYSTEM

One of the Department's major initiatives during fiscal 1998 was the creation of a fully operational One-Stop Career Center System. The New Jersey Department of Labor (NJDOL), in collaboration with other State departments, successfully secured a three-year federal grant, totaling over \$12 million, to implement the One-Stop Career Center System. The system provides access to all training, career counseling, and job placement services needed by job seekers and assists employers in finding workers. The New Jersey Public Information Network (WNJPIN), an internal Internet website, is key to the success of the One-Stop Career Center System. WNJPIN permits anyone with Internet capability to access information on jobs, careers, training, transportation, day care, and other services twenty-four hours a day. The WNJPIN Internet address is [HTTP://WWW.WNJPIN.STATE.NJ.US/](http://www.wnjp.state.nj.us/).

Over 800 personal computers with software and Internet access have been placed in all NJDOL offices, county welfare offices, community-based organizations, public libraries and other locations to provide public access to WNJPIN. WNJPIN provides vast amounts of information enabling individuals to quickly identify available jobs and to make informed career choices. Also, by installing computers in the different public offices, the One-Stop Career Center System will be especially useful for individuals affected by Welfare Reform (Labor's role in Welfare Reform is noted below).

The locations of the one-stop sites are determined by local Workforce Investment Boards (WIBS), a public and private partnership which gives employers a prominent role in determining workforce readiness services at the 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 are communicated to the NJDOL for review.

Recently, America's Talent Bank was added to the WNJPIN. This national service allows individuals looking for work to enter a resume on-line which then becomes part of a database for New Jersey employers. Employers are able to browse for resumes of prospective employees who meet their search criteria.

Workforce Development

The Workforce Development Partnership Program, which is funded through a dedicated assessment on workers and their employers, is a key component in the State's effort to train workers to meet employers' needs and to move people from welfare to work. A model program for other states, Workforce Development grants are awarded to individuals seeking to enhance existing job skills or to acquire 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 businesses and attracting new businesses to New Jersey. Since January 1, 1994, the program has encouraged New Jersey's economic development efforts through:

- \$78.8 million in grants to individual companies and consortia;
- 774 companies served;
- 102,708 workers trained.

Seventy-six percent 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 (70%). Approximately 58% of grant recipients are unionized.

For fiscal 1999, the Customized Training Program will receive an increase of up to \$10 million from the uncommitted balances in the Workforce Development Partnership Fund. This is in addition to the regular allotment received from the Fund. In fiscal 1998, the Customized Training program, which is administered in close cooperation with Commerce, was allotted \$22.5 million.

In addition, \$24 million of the balances in the Workforce Development Fund will be used to offset the cost of services in the New Jersey Work First program. The Work First program is geared toward helping welfare recipients transition from public assistance to self-sufficiency. In an interagency agreement between the Department of Labor and Human Services signed in 1997, the Department of Labor was identified as the lead agency to provide job training. Labor's job training efforts for the disadvantaged are concentrated at the local county welfare agency offices, where participants gain immediate access to all NJDOL One-Stop Career Center services.

To provide Work First participants with work experience before transitioning into the labor market, Labor works with employers to develop on-the-job training opportunities. Other training services include basic skills, English as a second language, and life skills. Occupational training is also offered to those individuals who have chosen these career paths.

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 in-person for unemployment benefits. In response to the US Department of Labor's request that states begin filing claims remotely, the Department expects to have the first of several regional sites in operation by the spring of 1998. Through the Remote Initial Claims process, clients will be able to file initial unemployment insurance claims by telephone. In fiscal 1997, the Department was awarded a \$1 million federal grant for a pilot project.

CUSTOMIZED TRAINING PROGRAM					
January 1, 1994 to December 31, 1997					
(\$ in thousands)					
	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>Total</u>
Grants					
Awarded	\$14.0	\$19.8	\$23.0	\$22.0	\$78.8
Matching					
Dollars by					
Companies	\$24.2	\$36.7	\$45.3	\$45.8	\$152.0
Number of					
Companies	144	132	328	170	774
Number of					
Individuals					
Trained	13,140	23,478	24,970	40,490	102,078

Labor

The Remote Initial Claim project is in addition to the existing Interactive Voice Response (IVR) system, which allows a claimant to file for continued claims. The voice response system will prompt the caller to answer basic questions and enter simple data, such as social security number and date of birth. The new system will reduce the new claim process (which now takes up to 30 minutes to complete) to an estimated 15 minutes on average. The new system will also allow for the claimant to resolve problems and obtain more specific information by telephone.

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 18 Workers' Compensation branch offices located throughout the state. The program is supported with annual assessments imposed upon insurance carriers and self-insured employers.

Since fiscal 1995, Workers' Compensation rates have declined significantly. In fiscal 1998, the third consecutive year of rate decreases, the workers' compensation rates declined by an average of 9.3 percent. Workers' Compensation costs are a key factor in business decisions, and this downward trend has helped fuel the state's economic recovery. Services to claimants have also improved, as Workers' Compensation benefits to injured workers increased for the second consecutive year. In fiscal 1998, weekly benefits will increase to a maximum of \$516 from \$496 in fiscal 1997 and a minimum of \$138 from \$132 per week.

WORKERS' COMPENSATION RATE DECREASES 1996 - 1998

<u>Fiscal Year</u>	<u>Percentage Decrease</u>
1996	3.80%
1997	11.20%
1998	9.30%

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. The New Jersey Employer-Employee Relations Act of 1968 established PERC's Authority. PERC, along with the PERC Appeal Board, has a combined budget of \$2.6 million in fiscal 1999.

PERC's budget includes continuation funding for computer upgrades to carry out new responsibilities of the Police and Fire Public Interest Arbitration Reform Act. The funding will be used to migrate from an antiquated computer system to a more state-of-the-art system. The system should be fully operational in year 2000.

Computer upgrades will allow better work flow and timely case management updates, thus increasing productivity and efficiency. The technology upgrades will allow PERC to respond practically and efficiently to local governments and school districts.

LAW & PUBLIC SAFETY	
FY 99 RECOMMENDED BUDGET	
(In Thousands)	
General Fund	
Direct State Services	\$ 316,953
Grants-in-Aid	14,474
State Aid	3,600
Capital Construction	17,726
Total General Fund	\$ 352,753
Casino Control Fund	32,251
Casino Revenue Fund	92
GRAND TOTAL	
STATE APPROPRIATIONS	\$ 385,096

OVERVIEW

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 1999 recommended budget, including operating, State Aid, Grants-in-Aid, and Capital funding, totals \$385.1 million, an increase of \$9.1 million over the fiscal 1998 adjusted appropriation.

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, five 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 Victims of Crime Compensation Board; the Juvenile Justice Commission; and Election Management and Coordination, a new agency in the Department, formerly the Division of Elections in the Department of State. The Election Law Enforcement Commission is recommended for an increase of \$1 million for data processing enhancements.

LAW ENFORCEMENT

The recommendation for the Division of State Police is \$176.7 million including Capital funding,

an increase of \$10.9 over the fiscal 1998 adjusted appropriation, 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. Included in this recommendation is \$1.5 million in new funding for vehicle maintenance, repairs, and operating costs. In addition, as the proprietary agency for the State’s millions of criminal records, histories, and profiles, the Division will receive \$2.2 million in new funding for the National Crime Information Center data processing project or NCIC 2000. The funding will provide a new data processing infrastructure designed to be compatible with the FBI’s system that is expected to be operational in July 1999. This is the first of a three phase project being done in cooperation with the FBI.

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 118th State Police Class. The class is expected to graduate about 80 new troopers at an additional cost of \$2.7 million which allows for a December 1998 graduation, six months earlier than would have occurred without additional funding. This will be the fifth class of State Police officers to graduate during this administration, bringing the total number of graduates to approximately 491.

The Department of Treasury, as part of its comprehensive vehicle purchase plan, has allocated \$8.1 million from central accounts to the Division of State Police for vehicle purchases. When combined with the \$5.4 million in the State Police budget, funding totaling \$13.5 million will be available for the purchase of approximately 550 new State Police vehicles. This purchase will permit State Police to reduce the number of vehicles now operating at over 100,000 miles and provide for a safer and more cost effective operation.

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.

Law and Public Safety

The Health Insurance Fraud Unit, which began operating in early 1997, is recommended for continued funding at \$1.5 million.

It is projected that from fiscal 1994 through the end of fiscal 1999, the Safe and Secure Communities program will have provided approximately \$65.5 million in law enforcement personnel and equipment grants to over 170 municipalities throughout the State of New Jersey. The Safe and Secure Communities program is recommended for \$3.6 million in fiscal 1999 and when combined with fine and penalty receipts, will continue to support the salaries of approximately 370 local police officers.

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. Funds from all sources, including Capital funding, that will be available to the continue the Commission's efforts are recommended at \$117.6 million for fiscal 1999. The operating budget for the administration of the Commission, two juvenile correctional institutions, the female secure facility, and community residential and day programs totals \$61.5 million. The three juvenile correctional institutions, the New Jersey Training School for Boys in Monroe, the Juvenile Medium Security Center in Bordentown, the Female Secure unit, and their satellite units, house approximately 707 male offenders and 23 female offenders. In addition, the 31 community and residential programs support another 700 juveniles.

The fiscal 1999 budget includes funding for the training and hiring of 60 new correctional officers and 9 senior youth workers. These additional custody staff will be assigned to the two juvenile correctional facilities while the youth workers will be assigned to community residential programs. The cost of this new staffing, including one time training related expenses and overtime, totals \$4 million in fiscal 1999. In fiscal 2000, a savings of \$1.1 million can be expected due to elimination of the one-time training expenses and reduced overtime.

Since its inception in fiscal 1996, approximately 219 offenders have graduated from the juvenile boot camp program. The program is structured to include 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 700 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.

In addition to more generic services, some offenders require more specialized services through the Sex Offender Treatment program. Funding totaling \$770,000 is recommended for programs to provide a comprehensive system of prevention, assessment, counseling, and treatment for juvenile sex offenders.

Intensive supervision or aftercare for youth returning to communities is integral to having them become part of the community rather than returning to the ways that brought them into the system in the first place. This program is recommended at \$3.6 million for fiscal 1999. In addition, the Commission has received federal funding to begin two new programs under contract that will target the special needs of certain juvenile offenders. These funds will eliminate a small gap in services for offenders not suited for long term or community placement, who are nearing completion of sentence, but who are not ready for release from custody, or for offenders who have had difficulty adjusting to the conditions of their parole.

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 1999. This appropriation 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 \$14.2 million Grants-in-Aid funding recommended for the Commission.

CITIZENS' RIGHTS

A continuation budget of \$39.6 million is recommended in fiscal 1999 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 by the Division or recommended for prosecution. The Division also promotes equal opportunity through educational outreach programs.

The State professional boards regulate the practices of the various professions, occupations and trades, including architects, medical doctors, dentists, engineers, as well as plumbers.

LEGAL SERVICES

The Division of Law fiscal 1999 recommendation of \$14.7 million provides continuation funding for the provision of 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.

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 including the increased workload that is anticipated with new casinos beginning operations in the near future. The addition of these 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.

CAPITAL RECOMMENDATIONS

The fiscal 1999 Capital recommendation for the Department of Law and Public Safety totals \$17.7 million. This recommendation represents an increase of \$13.6 million over the fiscal 1998 appropriation of \$4.1 million. This amount includes \$12.4 million for the Juvenile Justice Commission for preservation and fire/safety projects. The remaining amount, or \$5.3 million will be used for critical emergency and preservation projects at State Police facilities.

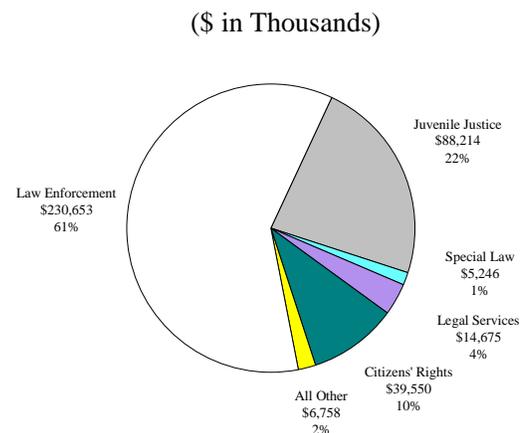
GUBERNATORIAL ELECTIONS

The Gubernatorial Elections Fund, which requires funding only during gubernatorial primary and electoral years does not require funding in fiscal 1999.

VOTER REGISTRATION

The administration'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 4.4 million, up from 3.9 million in 1994. This is estimated to be 80% of the eligible citizens of the State, based upon United States Census Bureau population projections.

NEW JERSEY DEPARTMENT OF LAW AND PUBLIC SAFETY TOTAL FISCAL 1999 RECOMMENDED BUDGET



Military and Veterans' Affairs

MILITARY AND VETERANS' AFFAIRS	
FY 99 RECOMMENDED BUDGET	
(In Thousands)	
General Fund	
Direct State Services	\$ 57,538
Grants-in-Aid	969
Capital Construction	2,450
<hr/>	
Total General Fund	\$ 60,957
<hr/>	
GRAND TOTAL	
STATE APPROPRIATIONS	\$ 60,957
<hr/>	

OVERVIEW

The fiscal 1999 Budget for the Department of Military and Veterans' Affairs excluding Capital Construction totals \$58.5 million, an increase of \$1.9 million.

This Budget provides the additional resources of \$1.1 million needed to open and operate the newly constructed Menlo Park Veterans Memorial Home scheduled for completion in the fall of 1998. This state-of-the-art nursing home will increase bed capacity at this site to 332 residents. Once fully occupied, the daily resident population or census for all three veterans' homes in New Jersey will be 948; an 11% increase from current occupancy levels.

This Budget also reflects an increase in the level of services currently being provided to New Jersey's veterans. The number of New Jersey veterans receiving services from this department is projected to expand from 35,000 in fiscal 1996 to almost 41,000 in fiscal 1999; an increase of more than 17%. The Veterans Transitional Housing Program will increase its population and operate at full capacity of 50 residents. The number of annual interments at the Brigadier General Doyle Memorial Cemetery is again projected to exceed the previous year.

NATIONAL GUARD

The New Jersey National Guard is an integral component of New Jersey's emergency management and planning operation. The Guard has both the manpower and equipment resources and can respond within hours to requests for assistance in weather or civil emergencies. Examples of such assistance are the transport of medical personnel and patients to

health care facilities, protection and security of property, evacuation of citizens during coastal flooding or snow storms, and the operation of emergency essential equipment such as electric generators and water tankers.

The National Guard has made significant progress in stabilizing its force structure through an aggressive recruiting and retention program; appropriately named "You Can". The Department has achieved 24 consecutive months of 100 plus enlistments in the New Jersey Army National Guard ensuring that 95% of all available positions are filled. Through an aggressive community outreach program and the expanded use of armories as interactive community resource centers (ICRCs), there has been a significant increase in both the level and type of activity occurring at these facilities. This has resulted in enhanced community relations and directly contributed to a successful recruiting and retention program. Additionally, increased revenues from leases has enabled the department to apply for over \$1 million in additional matching federal funds that will be used to upgrade fire and life safety standards in these facilities.

NJ CHALLENGE YOUTH PROGRAM

This budget provides over \$600,000 as the required state matching share for the federally funded New Jersey Challenge Youth Program. This program, designed specifically for at-risk youths sixteen to eighteen years of age, is a residential, twenty-two week intense program aimed at developing self discipline and a positive self image, and those skills necessary to be successful and contributing citizens of New Jersey. When the current class graduates in February 1998, over 330 students will have successfully completed the program since its inception in 1993.

DEFENSE INSTALLATIONS

Continued in this budget is \$150,000 to ensure that New Jersey's interests are properly represented before the federal government's Base Realignment and Closure Commission, (BRAC). BRAC is the commission that will make recommendations on the economic and military viability of existing Department of Defense installations within New Jersey and whether these facilities should continue to operate or close. It is important New Jersey develop the proper strategic plan and is adequately represented before the Commission to ensure fair and equitable consideration in all deliberations.

CAPITAL BUDGET

The capital recommendation for the Department of Military and Veterans' Affairs totals \$2,450,000. This recommendation represents an increase of \$450,000 from fiscal 1998. Funding will allow for

life safety and preservation projects at various armories and an electrical upgrade at DMAVA Headquarters. No operating budget impacts are projected as a result of these projects.

HONORING OUR COMMITMENT TO VETERANS . . .

Proposal

- Increase the number of veterans cared for in our State Veterans Memorial Homes while continuing to provide the highest quality of care possible.

Plan

- Increase funding for the Menlo Park Memorial Home by \$1.1 million to:

Open the new \$42 million replacement facility.

Increase the number of residents cared for from 240 to 332.

Increase staffing to care for the additional veterans.

- Provide funding and staffing at Paramus and Vineland Memorial Homes in order to maintain 100% occupancy.
- Reduce the waiting time for admittance to the Veterans Memorial Homes.

Goal

Continue to recognize the sacrifices of New Jersey's veterans in defense of our country by keeping the State's long standing commitment to provide for those veterans who are no longer able to care for themselves.

Personnel

PERSONNEL	
FY 99 RECOMMENDED BUDGET	
(In Thousands)	
General Fund	
Direct State Services	\$ 26,882
Total General Fund	\$ 26,882
GRAND TOTAL	
STATE APPROPRIATIONS	\$ 26,882

OVERVIEW

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 over 70,000 State government employees and 112,000 local government employees.

FISCAL 1999 BUDGET

The fiscal 1999 recommended budget for the Department of Personnel is \$26.9 million, an increase of \$631,000 over the fiscal 1998 adjusted appropriation.

The fiscal 1999 recommendation reflects an increase of \$800,000 for a classification and compensation redesign study. It is anticipated that the new classification and compensation system will provide for: a significant reduction in the number of titles from 10,000 to 1,500; a direct link for public sector pay to the marketplace; an integration of State and local government classification methodologies; and employee growth and development and performance based pay.

The fiscal 1999 Budget also provides additional funding of \$1 million, as part of the realignment of departmental costs for central information processing systems, which are administered by the Office of Telecommunications and Information Systems (OTIS).

These increases have been offset by a reduction of \$1.2 million in anticipation of the approval of legislation which will allow fees collected from police and fire examination applications, estimated

at \$1.2 million, to be retained by the Department of Personnel.

NEW INITIATIVES

In fiscal 1999, the Department will undertake four new initiatives that will require regulatory changes.

First, the employee compensation system will be reviewed for restructuring and realignment with modern management practices. The current system of automatic increments will be replaced by one that rewards employees based on merit, not just seniority.

Secondly, the current reduction-in-force rules governing "bumping" will be revised. In the past, when fiscal or operational necessity dictated the elimination of positions, the practice of exercising individual position and title rights resulted in more senior employees displacing less senior ones. Revisions will include seniority and performance as factors in determining the bumping process and will limit disruption to agency operations.

The third initiative in fiscal 1999 will seek to limit the amount of accumulated sick leave that county or municipal employees will be eligible to receive upon retirement. While State employees are limited to a maximum of \$15,000 in unused sick leave at retirement, there is no similar provision in local government service.

The fourth major initiative that will impact the operations of the Department of Personnel is proposed legislation to allow municipalities to opt out of civil service. The flexibility given to appointing authorities, to choose to reject the Merit System in preference of other alternatives, will put more local officials back in charge of their local workforces. Accordingly, the services currently provided by the Department of Personnel will evolve to better serve the needs of remaining agency customers.

BUILDING ON OUR SUCCESS

The Human Resource Development Institute (HRDI) will continue to employ innovative, cost-saving methods to provide employee training programs. Many of these programs are required to maintain certifications of State hospitals, development centers, day care centers, and case workers. These programs enable the State to qualify for hundreds of millions of dollars in federal reimbursement funding.

HRDI training will also continue to be provided by adjunct faculty, other contracted services and alternative training methods such as CD-ROM and video-based learning.

Under the Displaced Worker Pool, State employees laid off from high turnover jobs are paid their full salaries and benefits when they fill jobs that, under

normal circumstances, would have been filled by temporary employees. This program is funded by money budgeted for temporary staff and the equivalent amount of unemployment insurance that the State would have paid if the State employees had been laid off. Enrollment in the Pool is limited to six months.

Profile of a State Employee

- Average Age 44
- Avg. Salary \$40,113
- Avg. length of service 12 yrs
- Education
 - High School 52.6%
 - College + 34.1%
- Gender
 - Female 54%
 - Male 46%
- Minorities 35%



STATE	
FY 99 RECOMMENDED BUDGET	
(In Thousands)	
<i>General Fund</i>	
Direct State Services	\$ 17,697
Grants-in-Aid	1,127,277
State Aid	15,112
Capital Construction	9,146

Total General Fund	\$ 1,169,232
GRAND TOTAL	
STATE APPROPRIATIONS	\$ 1,169,232

CULTURAL AND HISTORIC PROGRAMS - A SHARPENED FOCUS

In fiscal 1999, the newly configured Department of State will focus on a core mission which emphasizes cultural and historic programs consistent with the recommendations outlined in the four-volume study, "A Heritage Reclaimed: Report of the Task Force on New Jersey History." By consolidating the State's diverse cultural and historical programs in one department, the citizens of New Jersey will benefit from an improved coordination of resources and delivery of services.

In fiscal 1999, the Department of State will include its standard bearers: the New Jersey State Council on the Arts; the New Jersey State Museum; the New Jersey Historical Commission; Archives and Records Management; the Martin Luther King Commission and the Many Faces, One Family program.

It will also include other historical and cultural agencies: the Historic Trust, formerly housed in the Department of Environmental Protection (DEP); the Trenton Barracks and the War Memorial Building, formerly housed in the Department of the Treasury; Travel and Tourism, formerly located in the Department of Commerce; as well as two in, but not of, agencies, the Public Broadcasting Authority (New Jersey Network), formerly housed in the Department of Commerce and Economic Development; and the New Jersey State Library. All these programs will come under the leadership of the Secretary of State.

The Commission on Higher Education will retain its in, but not of, status in the Department of State.

(See the separate discussion on the Commission in the Higher Education section).

Other existing Department of State programs unrelated to cultural and historic affairs will be moved to State agencies with a similar core mission. The Commercial Recording program will be shifted to Treasury's Division of Revenue, helping to create a one-stop arrangement for business reporting. The Office of the Public Defender and the Office of Administrative Law will retain their in, but not of, status in the Department of the Treasury, and the Division of Elections will shift to the Department of Law and Public Safety.

FISCAL 1999 BUDGET

Excluding in, but not of, agencies, namely the State Library, Public Broadcasting Authority, and Commission on Higher Education, the Department's fiscal 1999 Budget totals \$23.4 million in State appropriations, including \$10 million in Direct State Services and \$13.4 million in Grants-In-Aid. This appropriation represents a decrease of \$525,000, primarily due to the elimination of a one-time infusion of funds in fiscal 1998 for the relocation of the New Jersey Historical Society to a new building in Newark.

Cultural and Intellectual Development

The New Jersey State Council on the Arts, which serves as the focal point for the promotion of the arts and culture, will fund approximately \$13.3 million in cultural projects grants in fiscal 1999. This appropriation preserves the \$3 million increase added by the Legislature in the fiscal 1998 Appropriations Act. In fiscal 1998, grants will be awarded to approximately 391 organizations (nearly 50 more than in fiscal 1997) 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 that focus on artistic productions in minority cultures and communities.

In fiscal 1999, the Travel and Tourism program will shift from the Department of Commerce to the Department of State, where it will increase promotion of our rich array of historical and cultural

sites. The fiscal 1999 Budget also continues New Jersey's commitment to the state's \$24 billion tourism industry with a \$100,000 increase in the Travel and Tourism Advertising and Promotion budget. The State will continue to act on the recommendations of its new Tourism Master Plan, such as last year's \$1 million advertising campaign urging tourists to "Fall for New Jersey" in the fall months. In addition, the Budget supports a new multi-cultural tourism initiative, which will highlight New Jersey's attributes to minority travelers.

The State Library, now associated with Thomas Edison State College, collects and maintains library resources, providing information and other library services to the State government and to the general public. Additionally, the Library provides consulting and technical assistance to institutional, school, public, and special libraries. The fiscal 1999 Capital recommendation provides \$450,000 to replace the existing computerized research system used by patrons and staff of the State Library.

The New Jersey State Museum, recommended for funding at \$1.7 million in fiscal 1999, celebrated its 100th birthday in 1995. It 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 on other cultures and regions.

The fiscal 1999 Budget also provides \$2 million in State Aid to the Newark Museum.

In fiscal 1998, the New Jersey Historical Society will complete its move to the newly renovated Essex Club building in Newark. The relocation is partially funded by \$500,000 in State funds, which are not required in fiscal 1999.

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 20 to September 27, 1997.

Since 1984, the Martin Luther King Commemorative Commission has sponsored and coordinated statewide 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 1999 recommendation provides \$193,000 to ensure that this program continues.

Public Broadcasting Authority

NJN is the state's only statewide, non-commercial educational television station. NJN has translated increased viewership into increased membership, and corporate and foundation support. From fiscal 1994 to fiscal 1999, PBA's non-state funding has increased by \$1.3 million, or 18% (from \$7.2 million in fiscal 1994 to a projected \$8.5 million in fiscal 1999).

The Budget recommends \$4.2 million in Direct State Service support for New Jersey Network (NJN). This represents 37% of the *total* State support of \$11.2 million, including facilities, utilities, fringe benefits and other indirect costs. The State is the biggest contributor to NJN. Other contributors include private, federal, fee-generated, and member supported resources.

The fiscal 1999 Capital recommendation of \$446,000 for NJN reflects an increase of \$121,000 over the fiscal 1998 adjusted appropriation, providing funds for preservation projects and renovations to transmission towers.

This support enables the PBA to offer educational opportunities such as distance learning, multiple delivery systems and programs specifically designed for children. NJN informs citizens about political, social, and economic issues. Innovative and original programming, such as "Lend a Hand for New Jersey's Kids," encouraged citizens of all ages to volunteer in the communities where they live or work and assist a non-profit or community-based organization serving New Jersey's children. In recognition of the quality of programming, NJN has received ten regional Emmy awards for original programming.

Transportation

TRANSPORTATION	
FY 99 RECOMMENDED BUDGET	
(In Millions)	
General Fund	
Direct State Services	\$ 161,352
Grants-in-Aid	194,250
Capital Construction	463,700
	<hr/>
Total General Fund	\$ 819,302
Casino Revenue Fund	22,506
	<hr/>
GRAND TOTAL	
STATE APPROPRIATIONS	\$ 841,808
	<hr/> <hr/>

OVERVIEW

The transportation system of New Jersey is one of the critical factors for the State's 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, feeder roads, and bus and rail lines. Through its operating and capital budgets the Department of Transportation (DOT) constructs, reconstructs and maintains the State highway and mass transit system within a complex transportation network.

The New Jersey Transit Corporation, the nation's third largest provider of bus and commuter rail service, moves approximately 345,500 commuters per day. To serve its riders, NJ Transit operates 713 rail cars on 12 lines as well as 1,974 buses on 174 routes covering the entire State.

In addition to managing the state transportation system, DOT is also responsible for motor vehicle related services such as annual vehicle inspections, processing vehicle registrations and drivers licenses, and overseeing the private network of motor vehicle agencies.

DOT'S OPERATING BUDGET

Operating Budget Highlights

Funding for DOT's operating budget (excluding the Division of Motor Vehicles) totals \$63.7 million and includes:

- \$2 million in additional funding for increased grass mowing statewide to aesthetically enhance the State's highway system;
- stable funding for the "zero-tolerance" snow removal program which utilizes 600 DOT plow trucks and up to 1,000 contractor trucks;
- stable funding for pothole repairs and other non-capital road maintenance.

To further streamline their operations in fiscal 1999, DOT will implement the following proposals at a cost savings of \$4.2 million:

- make more efficient use of resources saving \$419,000 by fully privatizing design surveys, right-of-way appraisals, and heating and air conditioning services;
- eliminate duplicative administrative services that are currently performed both centrally and in regional maintenance offices; saving \$3.4 million.
- maximize the use of federal funds and other non-State sources, saving \$428,000.

Although these efficiencies will result in the elimination of 200 positions, current levels of service provided to State residents will not be reduced.

DOT's Commitment to Safety

The Department continues to improve safety for the traveling public through initiatives such as:

- a new nighttime and wet weather accident reduction program, which includes a comprehensive program of utility pole delineation, barrier curb and guardrail delineation, and raised pavement markers;
- a new bridge fencing program to install fencing on bridges over state highways which prevent objects from being thrown onto roadways;
- the addition of five remote weather stations which generate detailed information on weather and road conditions in specific regions of the state. Data collected from these stations allows DOT to monitor road and bridge surface temperatures, determine whether the pavement is wet or dry, whether salt has been applied, and the type and intensity of precipitation;

- *increasing salt storage capacity by constructing 5 new salt storage buildings. Since 1994, DOT has more than doubled its salt storage capacity.*

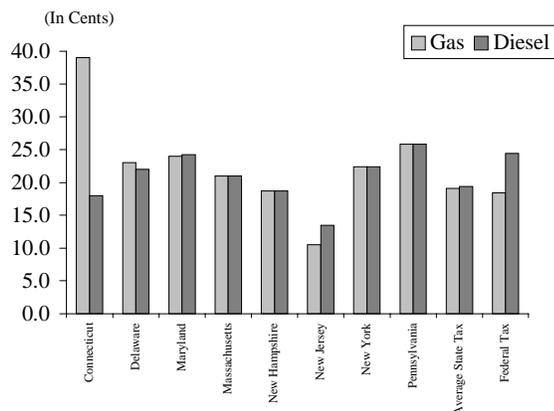
TRANSPORTATION TRUST FUND (TTF)

Capital Funding Highlights

- *In fiscal 1998, the TTF funding authorization was increased by \$200 million, from \$700 to \$900 million, to fund projects that were “ready to go”. This one-year increase was made possible by lower than anticipated financing costs, and will not affect the overall financial outlook of the TTF.*
- *In fiscal 1999, the TTF authorization will return to \$700 million. When factoring in federal dollars (including NJ Transit), available funding for this program will grow to more than \$1.6 billion.*
- *Projects promoting economic development will continue to be advanced.*
- *A major funding emphasis will be placed on replacing or rehabilitating bridges throughout the State.*

In fiscal 1999, the appropriation to the TTF will increase by \$83.4 million. Almost half of this increase is the result of a one cent increase in the amount of motor fuels tax constitutionally dedicated to the TTF (from 7 cents to 8 cents). This increase will have no impact on the State’s current motor fuels tax of 10.5 cents, which is the fourth lowest in the nation and the lowest in the Northeast.

COMPARATIVE MOTOR FUELS TAX RATES



As an economic instrument, 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 3,000 jobs, but also makes our region an attractive business location for the production and distribution of goods.

Funding highway improvements in New Jersey is a high priority within the State due to the following conditions:

- NJ’s roads are the busiest in the nation with each mile of highway carrying an average 2.6 million miles of travel annually, almost double the national average of 1.4 million.
- NJ averages more than three times the national average for licensed drivers per lane mile, second only to Hawaii.
- NJ’s mass transportation systems are used daily by 345,500 NJ Transit bus and rail customers.
- Thousands of heavy trucks use NJ’s highways, 45% of which are not registered in this state.
- 2,855 bridges within the state are in need of upgrading to meet current standards.
- 47% or 861 miles of roads within the State are considered congested.

In recognition of the linkage between economic growth and transportation funding, over the past 13 years more than \$7 billion in funding has been made available through the TTF for highway construction and mass transit projects. This has led to the creation of 165,000 jobs.

Local Aid Funding Highlights

To improve local roads, the TTF provides \$130 million per year. This amount is 30% more than localities received prior to fiscal 1996.

Overall, the TTF has provided over \$1 billion for county and municipal roadway projects, thus reducing the need for local tax dollars to finance infrastructure costs. Examples of investments in local projects include:

- reconstruction of Greentree Road in Gloucester County;

Transportation

- construction of a ramp to the Jackson Street Bridge in Newark, Essex County;
- construction of the Paulsboro Bridge over Conrail in Gloucester County;
- construction of the Pinehurst Avenue Extension in Camden County;
- replacement of the Whitehead Road Bridge over Amtrak, Mercer County.

State Highway Funding Highlights

To foster economic growth DOT will provide funding for projects such as: the Route 4 and 17 interchange in Bergen County; Route 206 dualization in Somerset County; an increase in funding of \$10 million for multi-modal freight programs; and interchange improvements on I-95 to support economic development in Mercer County's Transportation Development District.

DOT has also focused funding on New Jersey's high cost bridge needs and reducing traffic congestion. More than 15 bridges have been identified for replacement or major rehabilitation over the next seven years at a cost of over \$1.4 billion. These projects are essential to keep the basic transportation system functioning.

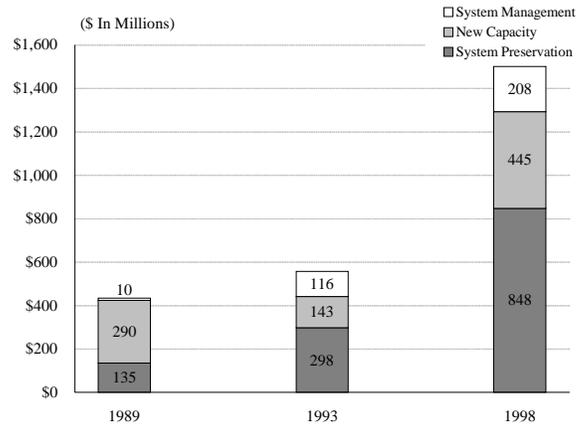
Some of the high-cost bridge projects include: replacement of the Routes 1 & 9 bridge over the Elizabeth River in Union County; replacement of the Route 7 Wittpen Bridge in Hudson County; rehabilitation of the Route 9 Edison Bridge in Middlesex County; replacement of the Route 52 Causeway in Cape May County; and replacement of the Route 35 bridges over the Shark and Raritan rivers in Monmouth County.

Regarding the issue of congestion, DOT's capital program has made a transition from simply building new highways to maintaining and preserving the State's existing highway system as a means of "squeezing out" additional capacity.

To illustrate this change, in fiscal 1989 new capacity investment totaled \$290 million compared to \$135 million for system preservation. In fiscal 1998, system preservation totaled over \$848 million compared to \$445 million for new capacity projects.

During this same time period, DOT has also increased funding for system management projects,

SHIFT IN FUNDING EMPHASIS WITHIN MAJOR PROGRAMS (Department of Transportation)



(which increase capacity by managing traffic flow from \$10 million in fiscal 1989 to over \$208 million in fiscal 1998).

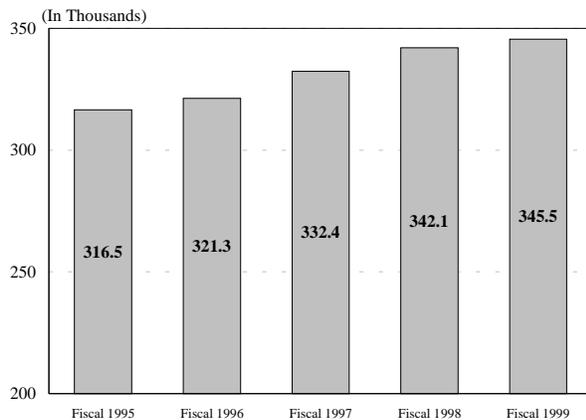
However, not all funding is focused on improving the State's highway system. Funding was made available for the publication of the Statewide Bicycle and Pedestrian Master Plan, which provides a policy and action plan for improving the bicycling and walking environment throughout the State.

NEW JERSEY TRANSIT:

Budget Highlights

- *no fare increase or bus or rail service reduction for a record eighth straight year;*
- *the strong economy, (in concert with the lack of fare increases) has led to ridership gains in 21 of the last 24 quarters, spanning a period of six years;*
- *in fiscal 1997, ridership levels were 3.5% higher than the prior year and greater than any point in NJ Transit's history;*
- *the strong New Jersey economy, as well as positive employment trends in New York City and Philadelphia, will continue to provide the impetus for additional growth throughout the system.*

AVERAGE DAILY RIDERSHIP NJ Transit Buses and Trains



NJ Transit's fiscal 1999 appropriation of \$194 million is \$24 million less than it was in fiscal 1990, the last time fares were raised. When factoring in the effects of inflation, NJ Transit's current fares cost less than they did in 1983.

NJ Transit has strived to identify operating efficiencies. In fiscal 1999, NJ Transit will absorb \$31.9 million in inflationary costs. To help balance its budget, 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. Cross-border and domestic-leveraged leases have earned NJ Transit more than \$70 million since 1994.

In fiscal 1999, NJ Transit's appropriation will increase by almost \$29 million to offset one time revenue that was used to reduce their fiscal 1998 appropriation.

NJ Transit will continue to expand mass transit opportunities throughout the state. The following are examples of new service that has been or will be added in the future.

- The award of a \$1.2 billion light rail transit project in Hudson and Bergen Counties has become a national model for the use of a "turnkey procurement" in which the private sector designs, builds, operates and maintains the project. This is the first successful use of a turnkey concept for transit purposes in the nation.
- The \$33 million Hunter Connection will be completed in 1999. This project will provide

faster access to and from the Northeast Corridor for riders on the Raritan Valley Line.

- Construction of the \$470 million Secaucus Transfer will continue in 1999. This project will allow Manhattan-bound riders on the Main, Bergen County, Pascack Valley and Port Jervis lines to trim 15 minutes from their current commute. The target completion date is 2002.
- Start-up design has begun on the Southern New Jersey Light Rail Transit System. This 33 mile initial operating corridor will serve Mercer, Burlington, and Camden Counties.
- Participation in the Work First New Jersey program to help welfare recipients return to the workforce has been initiated. Monthly transportation passes are provided to former welfare recipients when they return to the workforce.
- Two new rail technologies, Automatic Train Control and Positive Train Stop, are being implemented. Both new technologies will help retain NJ Transit's exemplary safety record. Both of these technologies will be installed by 2002, thereby making NJ Transit the first railroad in the country to use both safety features.
- Additional Ticket Vending Machines (TVM's) are being installed to provide commuters with expanded opportunities to purchase bus and rail tickets.
- Improvements are being made to rail stations and park/ride facilities including Hoboken Terminal, Newark Penn Station, and construction is ongoing at the Hamilton Intermodal Facility.
- NJ Transit has ordered four low floor hybrid electric transit buses and 50 new Compressed Natural Gas cruise buses as it continues to introduce alternative fuel technology for its bus fleet.

Finally, NJ Transit will receive a total of \$22.5 million in fiscal 1999 to continue developing accessible transportation facilities and services for elderly and disabled residents of the State. This amount is \$279,000 more than the program received in fiscal 1998. The majority of this appropriation, \$19.1 million, will be allocated to counties to

Transportation

provide local transportation for the elderly and disabled.

DIVISION OF MOTOR VEHICLES

Motor Vehicles Services (MVS) has implemented several service improvements to improve efficiency and increase customer satisfaction. A toll-free customer service number was established in fiscal 1998 and will continue in fiscal 1999. A new MVS website, www.state.nj.us/mvs, will contain information on licensing and registration requirements, locations and hours of operation of MVS facilities, and other data to address the most-frequently asked customer questions. A re-engineering study will identify additional opportunities to improve efficiency and increase customer satisfaction. The budget includes an additional \$1 million for computer system improvements to provide opportunities for operating efficiencies. Where cost effective, certain data processing functions will be performed by contract instead of state employees for a savings of \$974,000.

As required by the Federal Clean Air Act, the Division of Motor Vehicles will implement the Enhanced Inspection and Maintenance (I&M) program during fiscal 1999. I&M currently represents the most cost effective strategy for reducing emissions among mobile sources. Upon implementation of I&M, passenger vehicles will be inspected every two years, not every year.

To fund this federal mandate, the State will utilize a variety of sources. Most of the capital funding and increased operating costs will be made available from federal Congestion Mitigation and Air Quality (CMAQ) funds. The General Fund will also fund portions of the program not eligible for federal funding. The current operating budget of the inspection program will be used to fund the new Enhanced Inspection and Maintenance program. Given Federal Highway Administration guidance that CMAQ funds are available only to pay the increased cost of the Enhanced Inspection and Maintenance program, MVS's fiscal 1999 Budget includes \$6.2 million to restore a program reduction made in fiscal 1998. New fees available with the implementation of the Enhanced Inspection and Maintenance program will also be dedicated to the program.

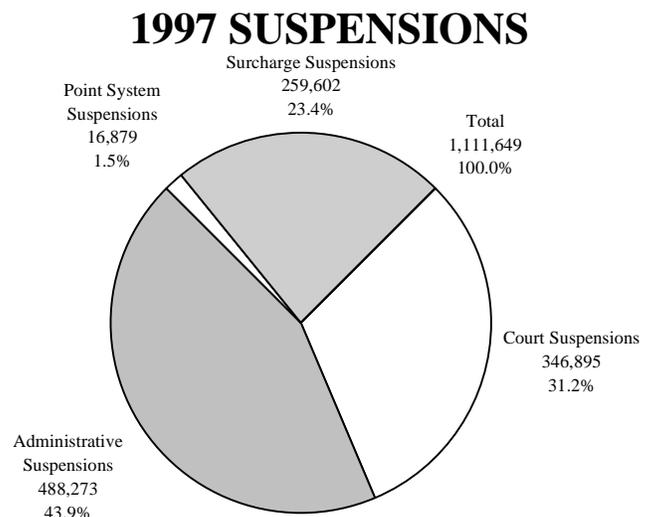
The Legislature provided flexibility to the Treasurer to determine whether inspection by contract, by state employees, or a combination thereof is in the best interests of the citizens of New Jersey.

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

In order to reduce the volume of inspections at the inspection lanes, reduce costs for school bus operators, and improve program effectiveness and convenience, the MVS will implement an In-Terminal School Bus Inspection Program. Inspection teams will travel to school bus terminals to examine operator compliance with safety requirements. Accordingly, the fiscal 1999 Budget reflects a new appropriation of \$1.5 million supported by fees. Any additional costs of the program will be funded from cost savings related to the reduced volume in the inspection lanes. Upon implementation, school bus inspection procedures will be similar to the commercial bus inspection procedures, which are already in-terminal and supported by user fees. New fines will improve operator compliance with safety requirements.

MVS is pursuing procedural methods to reduce the volume of registration renewal transactions at Motor Vehicle Agencies, since mail-in processing is less than half the cost of agency processing. The reduced volume will reduce the average wait time.

MVS will also pursue strategies to reduce the volume of transactions at Regional Service Centers. The Regional Service Centers primarily handle driver's license suspension and restoration issues, many of which involve in-person hearings, as required by law. A comprehensive analysis of the laws and procedures related to suspension activities should result in improved customer service as well as more efficient procedures. Over 1 million suspensions occur annually for poor driving or non payment of fines related to poor driving.



STATEWIDE TRANSPORTATION INITIATIVES . . .

- **Transportation Coordination Plan** - The Department of Transportation (DOT), the Department of Human Services, and New Jersey Transit (NJ Transit) have joined together in a statewide initiative to assist Work First New Jersey (WFNJ) participants, senior citizens, individuals with disabilities, low-income job-seekers, and other people needing transportation to work. The goal is to move away from fragmented transportation programs and to create coordinated *community transportation systems*. A "Transportation Innovation Fund" has been established to initiate innovative solutions addressing gaps in transportation service. To qualify for funding, counties are required to complete their Transportation Coordination Plan.
- **Work Pass Program** - NJ Transit provides training to county WFNJ staff on activities related to the transportation system such as determining fares and transit availability, ordering bus/rail passes, and research to determine transit availability of different work sites and work activities at each of the county WFNJ agencies.
- **Get a Job. Get a Ride!** - An extension of the Work Pass Program, this program offers one month of free NJ Transit public transportation to any WFNJ participant leaving WFNJ for employment accessible by public transit.
- **Transit Training Video** - DOT and NJ Transit produced a transit training video on the basics of using transit in New Jersey: how to catch and board a bus or train, fare information including discounts for children, advantages of monthly passes, and how to locate local transit services. Copies will be distributed to county WFNJ agencies, Unified Child Care Service Delivery Agencies, One Stop Career Centers, and other agencies upon request.

BIKE PATHS . . .

Governor's Proposal

Construct 2,000 miles of recreational and commuter bike paths in New Jersey over the next 10 years.

Governor's Plan

- Allocate **\$15 million in fiscal 1999** from the Department of Transportation's (DOT) capital budget to build 200 miles of bike paths.
- Funds will be set aside for State agencies, counties, and municipalities which submit grant proposals for the creation of bikeways in their jurisdictions. DOT will provide planning and technical assistance.

Governor's Goal

These bikeways will provide recreational and commuter alternatives for bicyclists and pedestrians. Increased public use will **reduce traffic congestion, cleanse the air, improve public health, and provide a valuable recreational resource.**

Treasury

TREASURY	
FY 99 RECOMMENDED BUDGET	
(In Thousands)	
General Fund	
Direct State Services	\$ 280,592
Grants-in-Aid	281,593
State Aid	175,073
Capital Construction	7,521
Debt Service	427,445

Total General Fund	\$ 1,172,224
Property Tax Relief Fund	360,015
Casino Control Fund	22,510
Casino Revenue Fund	17,180

GRAND TOTAL	
STATE APPROPRIATIONS	\$ 1,571,929

OVERVIEW

The Department of the Treasury is responsible for collecting taxes, managing the State's assets including revenue from several State departments, and investing and managing 160 funds, including various pension funds. The Department is also charged with providing statewide support services for all State agencies and managing the State lottery. Organizationally within the Department of Treasury, but autonomous in their operations, are the Board of Public Utilities, the Casino Control Commission, the Office of Student Assistance, which is discussed in the section on Higher Education, and Economic Planning and Development, which is discussed in the section on Commerce and Economic Growth.

Beginning in fiscal 1999, the Commission on Science and Technology, the Office of Administrative Law, the Office of the Public Defender, the State Legal Services Office, and the Division of Wage Reporting will be organizationally within the Department of Treasury, but autonomous in their operations. These agencies are being administratively reassigned from other departments in order to better focus on their respective missions. In particular, the coupling within the auspices of the Department of Treasury of the Office of the Public Defender, which provides legal representation in criminal matters for those unable to afford it, and the State Legal Services Office, which provides legal representation in civil matters for those unable to afford it, will place both these agencies with similar missions in the same department.

Another agency being administratively reassigned to the Department of the Treasury is the Division of Commercial Recording. By consolidating this program into Treasury's Division of Revenue, the State will provide a one-stop arrangement for much of commercial businesses' interaction with State government. This initiative will streamline businesses' reporting requirements by creating a central collection point for corporate taxes, contributions for Unemployment Insurance, Temporary Disability, and Workers Compensation as well as Commercial Recording Services such as annual reports and trade names. This initiative will also accelerate the State's Joint Tax Redesign Project. In essence, this consolidation is consistent with State Government's continuing effort to provide service to all commercial interests in New Jersey in a business friendly and less bureaucratic manner.

In fiscal 1999 the semi-autonomous Economic Development Authority (EDA) also has been administratively reassigned to the Department of the Treasury. The EDA provides long-term low interest financing to private companies for constructing, acquiring, and enlarging industrial plants and certain other business facilities. The agency will continue to work with the New Jersey Commerce and Economic Growth Commission in fiscal 1999 to promote capital investment in the State as a means of increasing the number of private sector jobs.

The Department's fiscal 1999 operating budget, excluding Higher Educational Services and Economic Planning and Development, is recommended at \$270.1 million. Inclusive of these two programmatic areas the Department's budget is \$280.6 million in fiscal 1999. This budget will allow the Department to continue to fulfill its responsibilities effectively.

In fiscal 1999, the Department will continue to implement efficiency initiatives begun in prior fiscal years. These initiatives include the continual review of local budgeting by Local Government Budget Review, the management of state prison canteens by the Distribution Center, enhanced use of the Internet by the Purchase Bureau as a means to reduce postage and printing costs, and various utilization of technology by the Office of Telecommunications and Information Systems (OTIS) as a means to improve efficiency throughout the state as well as the Department.

- **Office of Telecommunications and Information Systems (OTIS).**

Garden State Network Expansion and Intergovernmental Networking. During fiscal 1999, OTIS will continue the enhancement and expansion of the Garden State Network to support educational, employment, and county and local government needs. The enhancements to date provide network services to users of the Labor One-Stop program and the State Police Live Scan - Automated Finger Print System, as well as to County Superintendents of Education, Coroner's Offices, and Motor Vehicle agencies. The Garden State Network, co-sponsored by the Department of Community Affairs, will link all levels of New Jersey government.

Work Based Learning. OTIS assisted the Department of Education in Web-enabling its Work Based Learning, Oracle System. This system will be deployed to 500 schools across the state through the Internet. This system, which is the first in a series the Department of Education will implement over the Internet, permits schools to log and track student work experience.

Work First New Jersey. OTIS participated with the Department of Human Services in developing the information technology plan for the Work First New Jersey project. In order to support this initiative, 3,000 personal computers were deployed to county welfare sites, and 1,100 personal computers were deployed to Administrative Office of the Courts sites. In addition, 80 of the planned 100 servers have been installed at these sites.

Over the course of the next 18 months, OTIS will be procuring a major upgrade to its Bull Mainframe computer environment, including additional disk storage devices to accommodate Work First New Jersey and other Department of Human Services information and computing needs. In addition to the personal computers that have been distributed throughout the State, wide area network lines, routers, and processors are being installed, tested, and put into operation. OTIS with outside consultant assistance will translate the identified new programmatic needs of Work First New Jersey into new file layouts, screen designs, and performance tracking reports.

- **Central Motor Pool.**

Fleet Renewal Program. Presently, more than 1,800 of the cars in the State vehicle fleet have more than 100,000 miles. As these vehicles continue to age, the time and cost to maintain them continues to increase, thus decreasing their actual service utilization. Additionally, the safety of State employees and their clients who use these cars is a concern.

As a means of getting older, potentially unsafe cars off the road and replacing them with fewer vehicles that would have the same utilization, the fiscal 1999 Budget appropriates \$14 million for the purchase of 1,200 vehicles. In order to participate in this program, departments would receive two new cars for every three cars taken "off-line." Thus, this fleet renewal program will result in a leaner, safer, and better utilized vehicle fleet. Finally, the program will include the acquisition of alternative fuel vehicles as required by federal mandate.

Integrated Fleet Management Information System. The fiscal 1999 Budget appropriates \$1 million for an Integrated Fleet Management Information System. Once in place, this system will replace three mainframe systems currently being used by the three main components of the State Fleet: the State Police, the Department of Transportation, and the Central Motor Pool.

These aging systems are neither integrated nor Year 2000 capable. The proposed replacement system will provide to fleet managers the pertinent information required to manage the fleet efficiently.

- **Purchase Bureau.** Beginning in fiscal 1998, the Purchase Bureau utilized the Internet and the State's internal Infobank system as a means to distribute State Contract information to vendors and to State and local government agencies. This method of information dissemination has helped to reduce postage and printing costs. Increased uses of the Internet and Infobank will continue to further reduce such costs in fiscal 1999.

The Purchase Bureau recently began to use an Internet Bulletin Board to announce bidding opportunities, thus making access to bid information more available to businesses. In fiscal 1999, vendors will be able to download a copy of any State issued "Request for

Proposals” directly from the Internet. The implementation of the “new way to buy” initiative in fiscal 1999 will institute electronic cataloging and order placement directly with vendors utilizing Electronic Data Interchange.

- **Distribution Center.** In a further effort to streamline government costs, the Distribution Center, the primary provider of goods to State and local government agencies, recently initiated a program with the Department of Corrections to supply the goods needed for inmate canteens located at 14 correctional institutions statewide. Presently, correctional staff is managing these operations. However, by consolidating the entire management of this function under the auspices of the Distribution Center, the Department of Corrections’ operating costs will diminish and so will the cost of goods and services sold through the canteens.
- **Local Government Budget Review.** In order to assist local governments and school boards to minimize their operating costs, the Governor established the Local Government Budget Review group in Treasury. The agency’s staff reviews municipal and school district budgets and submits reports suggesting ways in which costs and the revenue necessary to support these costs (primarily property taxes) can be reduced.

To date, 40 such reports have been completed and 12 are in progress. Due to the success of the initial reports, 226 additional local entities have requested reviews of their respective budgets. The agency is committed to serving all of the local entities requesting these reviews. To cope with this increased demand for services, the agency recently underwent a reorganization and expansion from four to 12 review teams.

In addition to regular review work, agency staff has made available a best practices guide for local government budgeting to interested local officials.

ADMINISTRATION OF STATE REVENUES

The Division of Revenue was created for the purpose of consolidating revenue collections statewide. Since the creation of the Division in the latter half of fiscal 1997, the revenue portions of the Division of Taxation, the Division of Motor

Vehicles, and the Department of Environmental Protection have been consolidated. The Division of Revenue has also assumed responsibility for debt collection, including third party contracts with PAYCO for tax delinquencies and Lockheed-Martin IMS for motor vehicle surcharges.

In fiscal 1997, PAYCO collected \$27.4 million in deficient taxes, Lockheed-Martin collected \$112.4 million in motor vehicle surcharges, and the Set-off of Individual Liability (SOIL) unit collected \$13 million for various State agencies. Initially, the SOIL program was established to capture income tax overpayments and homestead rebates for applications toward delinquent child support accounts, but currently there are 49 State agencies, 24 county agencies, 10 State colleges, the Internal Revenue Service, and 566 municipal tax collector offices participating in this program.

In fiscal 1999, the Division will continue the initiatives to further automate tax processing operations and expand upon the proven technologies to improve revenue processing. As part of the State’s Interdepartmental Data Processing Initiatives, \$5 million has been recommended in fiscal 1999 for the development of a centralized automated revenue management, accounts receivable, billing, licensing, revenue accounting, and tax administration system.

NEW JERSEY LOTTERY

The New Jersey Lottery continues to be a national leader in lottery administration. In 1996 (the last complete year for which data are available), the New Jersey Lottery, for the third time in four years, ranked highest among state lotteries in Government Revenue as a Percent of Sales with 41.8%. In other words, almost 42 cents of every dollar used to purchase a New Jersey Lottery ticket goes to support education in the state and State institutions.

The New Jersey Lottery has been able to generate this exceptional rate of revenue to the State at an administrative rate well below other states. In 1996, it cost New Jersey only 20.1 cents to generate each dollar of state revenue. Pennsylvania, the next closest state, spent 25.5 cents to generate each dollar of State revenue.

Also, the New Jersey Lottery has been quite adept at identifying and maintaining its market. The continual expansion and success of instant games is

just one example of how the State Lottery has adapted to changing market tastes.

In fiscal 1999, the State Lottery will continue to introduce periodic high-end instant ticket games. These games, with ticket prices beginning at \$10, have proven very successful in recent years. Not only do such games generate increased sales, but, more importantly, they attract new players who normally would not participate in the traditional lottery games of PICK-3, PICK-4, and PICK-6.

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 1999 operating budget is recommended at \$20.3 million, equal to the fiscal 1998 adjusted appropriation, and is supported by assessments to the various utilities licensed to do business in New Jersey.

In fiscal 1999, the BPU will continue its efforts to ensure Universal Telecommunications Services so that all citizens will have access to basic telecommunications services at affordable rates. The BPU is investigating the need for a Universal Service Fund to support low income and other needy citizens, and to provide discounts on telecommunications services to schools and libraries which will further the Governor's objective of connecting schools and libraries to the information superhighway.

The BPU is continuing to manage the deregulation of gas and electric companies, and is developing the legislation necessary to open the state's markets to competition. This legislation will address many issues including the level of rate reductions that customers will receive, consumer protection standards, environmental protections, and stranded cost recoveries.

Also, the BPU is establishing the rules to bring meaningful competition to the State's electric power industry. These efforts are intended to lead to a thriving, active marketplace which will bring to all

consumers (residential, commercial, and industrial) a wide variety of new products, and lead to reductions in the costs of electricity.

To further ensure consumer protection and safety, the BPU has formed the Consumer Protection Task Force. The Task Force will develop recommendations on new consumer protections that will be needed as the state's energy and telecommunications arenas are transformed from monopolies to competitive markets. The Task Force is examining licensing and registration requirements for potential suppliers and environmental disclosure standards. Finally, the Task Force is preparing a consumer education program to ensure that customers are aware of the pending changes in order to maximize the benefits of competition.

CASINO CONTROL COMMISSION

The Casino Control Commission's fiscal 1999 budget is recommended at \$22.5 million, equal to the fiscal 1998 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. That has translated into hundreds of millions of dollars in tax revenues for the state, billions of dollars of investments in New Jersey, and more than 50,000 jobs just in the casinos alone.

The Commission is engaged in an ongoing effort to modernize all of its regulations. The result of that effort is that the Commission is no longer involved in many of the business decisions made by the casinos. Instead, the Commission focuses on areas involving integrity and on ensuring the proper accounting of all casino revenues.

As a result of such deregulatory measures, 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 annual funding based on the difference between the Commission and the Division of Gaming Enforcement's fiscal 1995 budget authorization and the actual expenses of these agencies in fiscal years 1996, 1997, 1998, and 1999. To date, the amount contributed to the Atlantic City Fund exceeds \$16.5 million.

COMMISSION ON SCIENCE AND TECHNOLOGY

In fiscal 1999, the Commission on Science and Technology has been reassigned as an in, but not of, agency within the Department of the Treasury. However, it will continue to work closely with the Commerce Commission to accelerate economic development in the State.

The Commission provides support for research and development in critical science fields, including advanced materials, biotechnology, environmental technologies, and information technologies. It also fosters technology transfer in key business sectors through the Technology Transfer Program. The fiscal 1999 Budget for the Commission on Science and Technology is recommended at \$19.5 million, a 29% increase over fiscal 1998.

One of most significant initiatives presented in the fiscal 1999 Budget is a \$4.4 million increase for the Commission's Technology Transfer Program. This program supports the acquisition and exploitation of new technologies by New Jersey companies, thereby improving their competitiveness and helping to strengthen the state's economy. The critical need for new technology transfer funding was identified by the influential high-tech industry/government group, the Edison Partnership. This Administration has responded with an eightfold increase in the size of the Technology Transfer Program. This initiative

is expected to assist 30-50 New Jersey companies in technology transfer projects and create thousands of high-tech, high-paying jobs over the next five years.

ADMINISTRATIVE LAW AND CRIMINAL LAW

The Office of Administrative Law (OAL), which is "in but not of" the Department of the Treasury, adjudicates contested matters in the Executive Branch and promulgates rules and regulations governing administrative practices and procedures. State funding for OAL has been held constant in fiscal 1999 at \$2.7 million.

The Office of the Public Defender is also "in but not of" the Department of the Treasury. The agency provides representation for the citizens of New Jersey in their dealings with government and regulated agencies. The fiscal 1999 budget of \$62.3 million represents an increase of \$2.9 million over the fiscal 1998 adjusted appropriation. This increase is attributable to the addition of \$2.7 million which was added to support an increase in the pool attorney hourly rate, and \$175,000 which was added to cover Public Defender costs associated with the Judiciary's Intensive Supervision Program.

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 and victims of child abuse and neglect.

The Office of Dispute Settlement is in the Office of the Public Defender. It serves as court-appointed mediator in cases involving millions of dollars. This effort in resolving complex civil litigation and public disputes produces numerous benefits, which include reducing litigation costs for New Jersey businesses by saving valuable time. It also helps to alleviate the civil case backlog in the courts.

BLOCK GRANTS . . .



Block grants are becoming increasingly common as a way to consolidate funding for several programs into a single source. Most block grants are federally initiated, allowing Congress to pursue national goals and shift responsibility for the details of programs and services to state governments. As a result, states and localities have flexibility to attack social and economic problems in the most cost effective manner.

Under welfare reform, the *Personal Responsibility and Work Opportunity Reconciliation Act*, passed in 1996, provides states with unprecedented flexibility to assist individuals in making the transition from welfare to work and self-sufficiency. This new law directly affects a range of human services programs such as child care, Medicaid, and Supplemental Security Income. It also has implications for child welfare, economic development, education, transportation, and workforce development.

Current Federal Block Grants in New Jersey

Program	Fiscal 1999 Funding
• Welfare Reform	\$404,000,000*
• Community Services	13,200,000
• Small Cities Community Development	11,500,000
• Low Income Home Energy Assistance	40,090,000
• Social Services	69,127,000

* New Jersey will appropriate \$440,976,000 in fiscal 1999 which includes carryover of \$37,000,000 from fiscal 1998.

Current State Block Grant

Program	Fiscal 1999 Funding
• Legislative Municipal Program	\$ 33,000,000
• Consolidated Municipal Property Tax Relief Aid (CMPTRA)	756,000,000

Proposed State Block Grant

- Fiscal 1999 Budget creates block granting to the senior public colleges and universities by appropriating State funds for fringe benefit costs directly to the institutions.
- **Benefits -**
 - Colleges manage and control their operational and personnel costs
 - Institutions develop cost saving measures related to fringe costs
 - Institutions have “up front” funds to pay costs such as FICA, and Division of Pensions and Benefits bills institutions for other employee benefit costs

Higher Education

HIGHER EDUCATION FY 99 RECOMMENDED BUDGET

(In Thousands)

General Fund

Senior Public Institutions	\$ 1,077,188
County Colleges	159,772
Independent Colleges & Universities	20,245
Student Assistance Programs	189,907

Capital Construction (Senior Publics) 8,250

Other Programs 57,573

Total General Fund \$ 1,512,935

GRAND TOTAL

STATE APPROPRIATIONS \$ 1,512,935

about higher education and advising the Commission, the Legislature, and the Administration.

SENIOR PUBLIC COLLEGES AND UNIVERSITIES

New Jersey's 12 four-year public colleges and universities enroll nearly 40% of the total higher education student population. Approximately 80% of resident new freshmen choose to enroll in a public two- or four-year institution. For fiscal 1999, senior public institutions will confer more than 24,000 undergraduate and graduate degrees, including 1,200 degrees in the medical professions. While traditionally the public colleges have been major centers for undergraduate education and advanced professional training, many of these colleges have recently attained university status in recognition of their expanded academic offerings at the graduate level. The public institutions now account for 75% of the graduate enrollment in the state. Further, these institutions serve as an economic engine for the state's future prosperity through applied research, data dissemination/distribution centers, small business development centers, technology centers, and industrial extension centers.

For fiscal 1999, this Budget reflects two major changes in the way in which State funds are budgeted for the 12 senior public colleges and universities. The changes will add \$26.3 million to the budgets of these institutions, or a 2.5% increase. Total funding for fiscal 1999 equals \$1.077 billion. The first change, reflected in this Budget, involves removing funds appropriated for college and university fringe benefit costs from the State's Interdepartmental accounts and placing them directly into institutional budgets. This proposal is consistent with the goal of functional autonomy envisioned in the Higher Education Restructuring Act of 1994. This action will give institutions greater control over spending for personnel costs. Additionally, by assuming full responsibility for their entire operating budgets, institutions will be encouraged to increase their cost saving efforts and will be able to reap the benefits of their efficiencies.

The second component of this new approach to funding public higher education involves the development of a four-year vision that includes modest annual funding increases coupled with funding for increased institutional accountability as evidenced by key performance measures. Full funding will be appropriated in fiscal 1999, but implementation of the performance standards

OVERVIEW

During the past fiscal year, several external evaluations which examined various aspects of higher education in New Jersey were completed. The most wide-ranging study was by the Blue Ribbon Task Force on the Capacity of New Jersey's Higher Education System. The Task Force found that, overall, New Jersey has been successful both in addressing participation in higher education and in promoting educational attainment in the state. Both factors are positive indicators of future economic growth given that the greatest proportion of the projected growth in jobs statewide through 2005 will be in occupations requiring some form of higher education. This Budget seeks to address issues raised by these external evaluators and to take important steps towards maximizing the efficiency of the State's higher education institutions.

The New Jersey system of higher education is guided by a tripartite governance structure. The governing boards of the public higher education institutions are accountable to the public for the fulfillment of each institution's mission, the furtherance of statewide goals, and the effective management of the institutions. The New Jersey Commission on Higher Education has statewide responsibility for planning, coordination, and advocacy of higher education to the public, the Legislature, and the Administration. The New Jersey President's Council is responsible for program review and the nurturing of collegiality and cooperation among its members to achieve statewide goals, while providing information and research

funding will begin in fiscal 2000. This announcement is included in the fiscal 1999 Budget to stimulate the desired outcomes as well as to provide an opportunity for the colleges and universities to participate in a dialogue concerning the full implementation of performance funding. This vision reflects the expressed desire of the institutions for funding predictability and for performance-based incentive funding.

Four performance measures will be targeted: improving graduation rates by graduating at least 65% of students within six years of entering higher education, while striving to ensure that the average time to complete a degree is no more than five years; improving transfer and articulation rates between two- and four-year institutions by encouraging senior public institutions to accept community college transfer students as at least 10% of their new students; improving institutional efficiency and effectiveness by limiting the number of programs with extremely low enrollments through joint or collaborative efforts among institutions, and by assessing how well graduates are prepared academically; and, finally, developing more diversified revenues by rewarding institutions that keep tuition and fee increases at minimal levels while increasing funding from non-student based sources. Institutions will be measured against their own performance, not against each other, so that they may potentially receive 100% of their performance funding allotments. If performance budgeting were to be implemented in fiscal 1999, the senior public institutions would receive between 40% and 79% of their performance funding allotments (excludes Thomas Edison State College and the University of Medicine and Dentistry of New Jersey for which different measures will be required).

In order to help the institutions maximize the useful life of facilities and operate at an optimal level of utilization, this Budget recommends \$8.3 million (\$750,000 for each institution except Thomas Edison State College) in capital funds for building maintenance and renovation, an increase of \$2.4 million from fiscal 1998. These projects will result in annual maintenance savings of \$300,000.

COMMUNITY COLLEGES

The community college system, comprising 19 institutions, is funded by the State, 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. The community colleges are also heavily involved in training/retraining programs, particularly customized training for businesses, and offer continuing education/professional development courses. Small business development is another area of economic development where community colleges play a major role. Sixteen of the 19 community colleges have specific development centers reaching out to assist local businesses through counseling, seminars on topics of interest to business owners, and referral services to banks and government agencies. A variety of State and federally sponsored programs are involved, including Job Training Partnership Act (JTPA), the Workforce Development Partnership Program, Work First New Jersey, and the Network of Occupational Training and Education. These programs are intended to assist individuals and companies to meet their needs for occupational training and basic literacy instruction.

In recognition of the role that county colleges play in providing job training for the State's urban citizens, the State is making a long term commitment to keeping county colleges affordable. A multi-year plan has been implemented that will see the State's share of the cost of county colleges increase to one third. In fiscal 1999 and in each of the three successive fiscal years, direct State operating aid will increase by \$12 million, for a four year total of \$48 million. The individual counties will also be expected to maintain their efforts to support financially these institutions as part of the overall goals of affordability and accessibility. The county colleges have pledged not to increase tuition for the 1998-1999 academic year.

A portion of the increase in direct State operating aid will be earmarked for performance based funding. Target areas will be similar to those of the senior public colleges and universities, with different measures to be set. As is the case for the four-year public colleges and universities, full funding will be appropriated to the community colleges in fiscal 1999, but implementation of the performance standards funding will begin in fiscal 2000. If these measures were in effect for fiscal 1999, the community colleges would receive between 22% and 79% of their performance funding allotments.

Also included in fiscal 1999 are funds to expand the State's share of Chapter 12 bond funds to \$140 million, which will nearly double the size of this program. These funds will provide significant

Higher Education

additional resources to community colleges for facilities construction and renovation. This Budget also provides an additional \$1.7 million to support increased costs of fringe benefits for community college employees.

Community colleges are an important link in our higher education system. This Budget increases funding by 14.1%, bringing the total appropriation to \$160 million. Funding at this expanded level will permit the institutions to continue their high level of service.

ACCESSIBILITY AND AFFORDABILITY

Full-time students at New Jersey colleges and universities have an extraordinary array of opportunities to help them meet the costs of their education. New Jersey ranks near the top nationwide in several key areas: State-funded grant aid to full-time undergraduate students; percentage of full-time undergraduates receiving such aid; and total State grants for student aid as a percentage of total State operating support for higher education institutions.

The keystone of the State's financial aid to students is the Tuition Aid Grant (TAG) program. These grants 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. These grants are a fundamental ingredient in maintaining access and affordability. More than 60,000 students participate in this program. This Budget provides for TAG expenditures of more than \$10 million above those projected for fiscal 1998. The funding increase will result in 1,100 additional grants and will permit an increase of up to 5% in the size of the grants. Most of the neediest TAG recipients will also benefit from an 11.1% increase in their federal Pell Grants in fiscal 1999.

This Budget also provides \$4.2 million in additional funds to support the second year of the pilot program that not only recruits New Jersey's highest-achieving high school students to attend colleges and universities in the state, but seeks to recognize, value, and support their commitment to achievement. For too long, New Jersey has been known as a leading "exporter" of students. While this "brain drain" is offset by the fact that the state is a leading "importer" of individuals with college degrees, New Jersey should not continue to allow its best and brightest to leave the State. The Outstanding Scholar Recruitment Program has successfully kept nearly 200 of these talented

students in the state and this number will grow with the funding recommended for fiscal 1999.

Fiscal 1999 marks the 30th Anniversary of the New Jersey Educational Opportunity Fund (EOF), which was created by law to ensure meaningful access to higher education for those who are both economically and educationally challenged. EOF provides direct grants and support services, including special campus-based counseling and tutoring programs. All of the State's institutions participate in the program, with the exception of two community colleges and one independent institution. The program is increasingly successful in achieving its freshmen enrollment goals, accounting for approximately 12% of all first-time, full-time New Jersey freshmen who attend college in the state. Further, retention has steadily increased as remarkable numbers of EOF students perform at credible and even distinguished levels. The fiscal 1999 funding will provide 12,500 students with grants and support services.

The fiscal 1999 Budget will increase the appropriation for Part-time TAG for EOF students by 55% to \$620,000. These funds permit expansion of the program to one additional four-year institution as well as to all five community colleges with EOF programs that do not currently participate in Part-Time TAG/EOF. More students will be able to realize their academic potential as a result of this funding increase.

Fiscal 1999 will be the first full year that the New Jersey Better Educational Savings Trust (NJBEST) program will be in operation, and the response to this program is expected to be excellent. 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 higher education. NJBEST provides three important additional State-based incentives, including interest earnings free from New Jersey's Gross Income Tax, \$25,000 in savings excluded from consideration of eligibility for State need based aid, and a \$500 scholarship to individuals who save through the program at a minimum amount for at least four years and then enroll in a New Jersey college or university.

Reliance on the New Jersey College Loans to Assist State Students (NJCLASS), a program that keeps higher education accessible and affordable, continues to grow. For fiscal 1999, the New Jersey Higher Education Assistance Authority expects to issue up to \$80 million in bonds to make loans. This follows a 75% increase in loan volume in fiscal 1998. NJCLASS assists families in meeting college

costs by providing some of the lowest cost student loan financing available in the nation. Loans are available to both undergraduate and graduate students attending an eligible school anywhere in the United States and are not capped by family income.

HELPING STUDENTS SUCCEED IN COLLEGE

New Jersey has long been a leader in recognizing and supporting the unique requirements of special student populations. These efforts are becoming increasingly important as higher education institutions look to maintain diversity in the face of a growing number of economically and academically challenged students. Demographics also point to a large number of students coming from households where English is used as a second language. This Budget continues to address these and other specialized needs both through proposed funding levels and through implementation of various enhancements to programs which will strengthen their effectiveness in fiscal 1999 and beyond.

One such program is Education of Language Minority Students (ELMS). Several administrative enhancements, suggested by a recent external evaluation, will provide for better accountability and performance tracking. The continued funding support in this Budget for ELMS will ensure that the program effectively serves identified students and fosters their success in higher education.

Improvements in the College Bound program will require better tracking, more collaborative activities, and more emphasis on mathematics, science, and technology. A two-tiered funding policy will be introduced whereby grant moneys will be set aside for both large and small programs which will allow the State to increase the number of funded projects. New Jersey's College Bound program is one of only three in the nation of such size and duration.

INDEPENDENT COLLEGES AND UNIVERSITIES

There are 14 independent institutions in New Jersey receiving funding through the Independent College and University Assistance Act. These institutions will enroll nearly 21,000 full-time equivalent New Jersey students in fiscal 1999. While direct State aid for fiscal 1999 is level at \$20.2 million, these institutions remain eligible to receive additional support through other State-funded programs,

including facilities bond funds, programs for special student populations, and student grant, scholarship, and loan programs.

PARTNERSHIPS FOR THE FUTURE

This Budget seeks to recognize the contributions which the state's colleges and universities could make to urban revitalization. Initial funding of \$450,000 is included in the Budget for the Urban Revitalization Incentive Grants. These grants will be used to encourage increased collaboration among higher education institutions and private enterprise in order to attract jobs and capital investments, assist and support redevelopment efforts, and provide educational programs, research, and public service for the revitalization of local urban economies. The eight targeted urban areas are Camden, Elizabeth, Jersey City, Vineland/Millville, Newark, Paterson, Pemberton, and Trenton. In addition to the college or university, the partnership will include participants from local government, not-for-profit organizations, private industry, and local residents. Money in this Budget would be awarded to assist collaborations which identify priority areas and strategies for further action.

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 three key programs: the \$100 million Equipment Leasing Fund (ELF); the \$220 million Higher Education Facilities Trust Fund (HEFT); and the \$55 million Higher Education Technology Infrastructure Bond fund.

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

State funding of \$21 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 workforce needs.

The fiscal 1998 Higher Education Technology Infrastructure Bond fund provides support for critical technological needs and complements

Higher Education

existing facility and equipment bond programs. Colleges and universities are required to match the funding provided under this program through either institutional funds or corporate support. This

Budget includes a funding increase of \$6.2 million to support debt service costs for this program.

Student Financial Aid In New Jersey . . .

- From fiscal 1994 through fiscal 1998, TAG awards have, on average, increased by 23%.
- Nationally, New Jersey ranks **2nd** among all states in the amount of need-based student aid per full-time college undergraduate.
- New Jersey ranks **5th** in overall need-based college student financial aid expenditures while it ranks only 13th in total population.
- Dollars made available for low cost student loans through the NJCLASS program more than doubled between fiscal 1994 and fiscal 1998, growing from \$13 million to \$30 million.

Technology and the Internet . . .

AWARDS PROCESSED MORE QUICKLY!

Educational Opportunity Fund (EOF) and Office of Student Assistance personnel have implemented delivery systems which speed processing of EOF financial aid awards to eligible students (approximately 12,300 grants worth over \$13.3 million awarded in fiscal 1998). Improvements have been accomplished by working with higher education institutions to ensure that campus-based EOF offices have access to current technology and the Internet, and by redesigning and automating the EOF student payment system workflow and process. These improvements have resulted in efficiency, responsiveness, and timeliness in state-level processing. **All campus programs are on-line.**

The Process

- participating institutions submit EOF student payment requests **electronically**
Benefit: replaces the manual paper submission process
- redesigned student payment system automatically processes continuing students when they file for student assistance

Benefit: majority of EOF awards processed earlier than in the past - 80% of awards were processed by the end of August 1997 compared to only 32% by the end of August 1996, an improvement of 150%

**COMMERCE &
ECONOMIC DEVELOPMENT
FY 99 RECOMMENDED BUDGET
(In Thousands)**

General Fund		
Direct State Services	\$	6984
Grants-in-Aid		550

Total General Fund	\$	7,534

GRAND TOTAL		
STATE APPROPRIATIONS	\$	7,534

CREATING AN ECONOMIC DEVELOPMENT ENGINE FOR THE NEW MILLENNIUM

New Jersey has had the fastest growing economy in the Mid-Atlantic region for the past three years. On a per capita basis, New Jersey's economy is now fifth largest in the country. Since the recession, during which New Jersey lost 262,000 jobs, the New Jersey economy has expanded by 302,000 jobs, recovering every job lost plus an additional 40,000. Nearly 80% of this expansion, or 237,000 jobs, were added since January 1994, the beginning of the Whitman administration.

These are just a few examples of the strong economic growth trends that have characterized New Jersey's economy of late. New growth has presented new opportunities. To ensure that New Jersey's superior economic performance continues, the State will create the **New Jersey Commerce and Economic Growth Commission** in fiscal 1999. This independent Commission will have the flexibility to tailor economic development programs to the changing needs of New Jersey's businesses.

The new Commission will be better positioned to take advantage of emerging economic growth opportunities than its predecessor, the Department of Commerce and Economic Development. Through its market-driven, results-oriented approach, the Commission will quickly respond to new opportunities by reallocating resources and finding the best people for the task.

As an autonomous entity, the Commission will have greater opportunity to bring private sector resources, leadership, and talent to bear on its efforts to encourage business investment and expansion.

Major programs of the Commission will include:

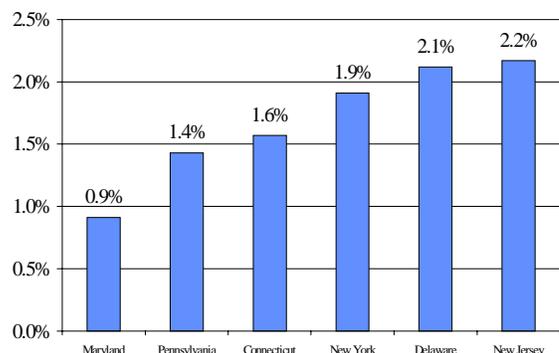
- Business Attraction
- Business Retention and Expansion (through the Accounts Management System)
- International Trade
- Small Business, and Women- and Minority-Owned Business Development
- Urban Enterprise Zones

The new Commission will work closely with the New Jersey Economic Development Authority to pursue a coherent economic development program for New Jersey. The Commission will also continue the former Department's role as contributor to and collaborator with Prosperity New Jersey, the State's public-private partnership for economic development created by the Whitman Administration. The Urban Enterprise Zone program, which was administered by the Department of Commerce and Economic Development in the past, will continue as an integral part of the Commission's activities.

Three semi-autonomous entities which formerly resided in the Department of Commerce and Economic Development will not be included in the new Commission. The Public Broadcasting Authority (New Jersey Network) will be transferred to the Department of State, and the Council of Economic Advisors will assume in, but not of, status within the Department of the Treasury. The Commission on Science and Technology also will assume in, but not of, status within the Department of the Treasury, but will continue to work closely with the new Commission to foster expansion of the technology segment of the state's economy.

GROSS STATE PRODUCT MID-ATLANTIC STATES

Average annual growth, 1992-1997



Commerce & Economic Growth

In fiscal 1999, the Division of Travel and Tourism will move to the Department of State to enhance the promotion of New Jersey's cultural and historic sites.

FISCAL 1999 BUDGET

The fiscal 1999 Budget recommends a State appropriation of \$7.5 million for the programs of the Commerce and Economic Growth Commission, including \$550,000 for Prosperity New Jersey. The \$7 million which will directly support Commission activities represents a \$174,000 increase over the Department's fiscal 1998 level of funding.

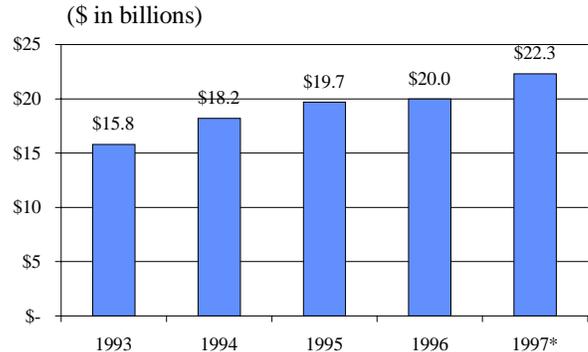
New funding of \$14.4 million has been included elsewhere in the Budget to support the goals of the Commerce and Economic Growth Commission. Funding for the Commission on Science and Technology, which total \$19.1 million in grants, includes an increase of \$4.4 million for the Technology Transfer Program. This program supports the acquisition and exploitation of new technologies by New Jersey companies, thereby improving their competitiveness and helping to strengthen the state's economy. This initiative is expected to assist 30-50 New Jersey companies in technology transfer projects and to create thousands of high-tech, high-paying jobs over the next five years.

The Budget also provides the authority to allocate an increase of up to \$10 million from the uncommitted salaries in the Department of Labor's Workforce Development Program fund for Customized Training grants. This program will continue to be administered in close cooperation with the Commerce and Economic Growth Commission. Customized Training grants encourage companies to be more competitive and productive and are a key incentive for retaining businesses and attracting new businesses to New Jersey.

International Trade

The fiscal 1999 Budget proposes an increase of \$150,000 to the International Trade program to promote agricultural exports. International trade continues to be one of New Jersey's fastest growing market sectors, and this new initiative will ensure that New Jersey's food products continue to gain prominence in the world marketplace. Since food products are the sixth most popular New Jersey export, this initiative should ensure that New Jersey is known as the Garden State throughout the world.

NEW JERSEY EXPORTS 1993-1997



* estimated

Prosperity New Jersey

This Budget recommends the continued phase-out of State funding for Prosperity New Jersey, the public-private partnership for economic development. Prosperity New Jersey has been successful in raising private sector support for its activities, thus its annual grant will be reduced by \$100,000 in fiscal 1999 to \$550,000.

CONTINUING INITIATIVES

This Budget will allow the continuation of previous economic development programs and initiatives that have led to the creation of tens of thousands of new jobs and brought hundreds of new companies to New Jersey.

The Office of Accounts Management will continue to be the cornerstone of the Business Retention and Expansion program. A funding level of \$1.5 million is recommended in fiscal 1999.

The Accounts Management System is indicative of the Administration's efforts to take the best ideas of the private sector and apply them to government. Through this innovative approach, New Jersey's businesses are now represented by industry and regional account executives who develop one-on-one relationships with companies and help shepherd their interactions with government. Industry account executives have already been designated in the following fields: pharmaceuticals; business services; telecommunications; petrochemical; finance, insurance and real estate; and food processing. In fiscal 1999, more industry executives will be added.

The Budget also continues the commitment to the Office of Sustainability, a fiscal 1998 initiative to help environmentally sustainable businesses succeed and grow in the Garden State. The Office makes loans to sustainable businesses. Through its Green Growth Initiative, it surveys New Jersey businesses in order to identify manufacturers of environmentally-friendly products. The Office also works to identify obstacles that inhibit the expansion of this industry. The Budget recommends \$600,000 to support the Office of Sustainability's work.

The Business Advocate, formerly known as the Business Ombudsman, will continue to serve as a troubleshooter for businesses that experience difficulty navigating the State's normal business regulatory channels.

One of the most successful economic development programs has been the Business Employment Incentive Program (BEIP). Since BEIP was signed into law in May 1996, grants have been awarded to more than 95 companies that are expected to create approximately 25,000 jobs over the next two years. This program is a powerful tool to help create jobs and prosperity for New Jersey's families--a tool that

is getting significant results. In 1996, of the 95 companies that either moved or announced plans to relocate to New Jersey, nearly half of them were manufacturing firms. New Jersey is now on the same playing field as any other state when it comes to creating jobs. Thanks to the Business Employment Incentive Program, we expect to continue to attract out-of-state companies.

AFFILIATED AUTHORITIES

In fiscal 1999, Economic Development Authority will be reassigned to the Department of the Treasury as an in, but not of, agency. However, it will continue to work closely with the Commerce Commission to help spur economic development in New Jersey. The Authority provides long-term, low-interest financing to private companies to build business and create jobs in the state. To expand economic activity in the state, the agency makes direct loans, issues loan and bond guarantees, serves as a conduit for tax-exempt and taxable bond financing for businesses and qualified non-profit organizations, and works with the private sector to facilitate real estate acquisitions and developments like the New Jersey Technology Centre in North Brunswick.

Motion Picture and Television Commission . . .



- Over the past year, a record number of productions were attracted to New Jersey, with a record amount of revenue generated for our economy
 - More than 550 projects including 80 feature films
 - Revenues totaled \$53.4 million
- Since the Commission's beginning in 1978, over 5,800 productions have been filmed in the state, and total direct expenditures by filmmakers have exceeded \$410 million
- Feature films have included **Chasing Amy**, **Copland**, **The Preacher's Wife**, **Ransom**, **Donnie Brasco**, and **Men In Black**
- A state-of-the-art motion picture and television studio complex will be built in Harrison, serving as a magnet for increased production work **and revenue** for New Jersey

Judiciary

JUDICIARY	
FY 99 RECOMMENDED BUDGET	
(In Thousands)	
General Fund	
Direct State Services	<u>\$ 366,181</u>
Total General Fund	<u>\$ 366,181</u>
GRAND TOTAL	
STATE APPROPRIATIONS	<u><u>\$ 366,181</u></u>

OVERVIEW

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.

FISCAL 1999 BUDGET

The fiscal 1999 Budget recommendation for the Judiciary is \$366.2 million, which represents an increase for Family Courts and Probation Services, and a reduction to the current Court Reporting program. This, combined with federal funding and dedicated revenue, will support 420 judgeships and 8,900 operations and administrative personnel.

Included in this total are 200 new positions added to the Judiciary budget as a result of a \$3 million supplemental appropriation in fiscal 1998. An additional \$3.6 million has been provided in fiscal 1999 to cover full-year costs of \$6.6 million for these staff. 150 positions totaling \$4.7 million in salaries have been added to the Family Courts, including hearing officers, counselors, calendar coordinators, report writers, and court management personnel. The remaining 50 positions, totaling \$1.9 million in salary costs, have been added to Probation Services to provide that program with additional probation officers in order to reduce case loads.

The fiscal 1999 Budget also includes funding for an additional 50 probation officers commencing January 1, 1999, at a cost of \$932,000.

In order to meet Year 2000 needs, the fiscal 1999 Budget includes \$7.1 million to be allocated to the Judiciary from central accounts for the required computer system upgrades.

Continued in fiscal 1999 are ten judgeships and 30 support staff funded by \$3 million from the Legal Services Trust Fund, established pursuant to P.L. 1996, c. 52.

The fiscal 1999 Budget recommends a reduction in the current Court Reporting program, from \$6.1 million in fiscal 1998 to a fiscal 1999 recommendation of \$2.4 million. As a result of technological advances over the past several years, each courtroom is now equipped with the necessary video and sound recording equipment to accommodate court reporting needs. These efficiencies obviate the need to maintain a fully-staffed unit. The fiscal 1999 recommendation will allow the Judiciary to maintain 25 court reporter positions in order to meet federally mandated requirements, as well as other staff and related costs associated with the operation of the recording equipment.

***DISTINGUISHED BUDGET
PRESENTATION AWARD***

DEMOGRAPHICS

CAP LAW

RAINY DAY FUND

NEW JERSEY'S CONSTITUTION . . .



50 YEARS OLD AND GOING STRONG

Alfred E. Driscoll won the governorship in 1946 on a call for a new state Constitution. His persistence and leadership led to the ratification of the State Constitution in November of 1947 -- a manuscript that to this day stands as model of a brief, streamlined state governing document.

Prior to 1947, N.J. was less a state than a collection of political and judicial fiefdoms, according to Arthur T. Vanderbilt 2nd, a Union County lawyer and constitutional historian. The governor was a figurehead, limited to a single three-year term, who did not appoint most of the cabinet. The tradition of block voting assured that county political leaders held most of the power in the State Legislature. At the core of the problem, was the court system. There were 17 courts, each with its own standards and rules, none answerable to another and judges were appointed by the Legislature.

What emerged by the September following Governor Driscoll's election was a document considered so modern that Alaska adopted most of its provisions when it joined the Union in 1959. The Governor was given broad veto and appointive powers while the number of courts was pared from 17 to 4, with judges appointed by the Governor. The number of state agencies was limited to 20 and all were answerable to the governor. The end stage of the court reform was completed last year, when the County Courts were taken over by the state. New Jersey's governor is recognized as among the strongest leaders of a well-organized executive. The state Supreme Court is known as among the top state courts in the country.



GOVERNMENT FINANCE OFFICERS ASSOCIATION

*Distinguished
Budget Presentation
Award*

PRESENTED TO

State of New Jersey

For the Fiscal Year Beginning

July 1, 1997

Linda K. Savitsky
President

Jeffrey L. Essler
Executive Director

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, 1997.

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 GFOA to determine its eligibility for another award.

Fiscal Year 1999

Michael R. Ferrara,
Associate Director

Christina P. Higgins,
Assistant Director

Russell H. Mullen, Jr.,
Assistant Director

Kathy Steepy,
Assistant Director

**Gary Brune, Economic
Development**

Sandy Davis
John Fabiano
Michael Lihvarcik
Adrienne Poulton
Elizabeth Will

**Peter Roselli, Public
Safety and Government
Oversight**

Michelle Mazotas
Mark McCaslin
John Miller
Pat Mulligan

**Robert Peden, Health and
Human Services**

Jennifer Barron
Debbie Byrne
Stephen Crescenzi
Frank Dambeck
Carmella Elmer
Stephen Gregorowicz
Dennis Jones
Max Slusher
Marc Waldinger
Barbara Welch
Joseph Zola

**Bruce Perelli, Education
and Municipal Aid
Administration**

Anthony Bullet
Annette Garcia
Jacki Stevens
Terrence Tomasello
Michael Vrancik
John White
Nicole Yates

**Diane Zompa,
Cross-Cutting and
Statewide Analysis**

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NEW JERSEY DEMOGRAPHICS

Population

The total population of New Jersey is projected to grow from 7,748,000 in the 1990 Census to 8,135,000 in the year 2000; to 8,321,000 in the year 2005 and to 8,501,500 by the year 2010. It is also projected that the state's population will continue to grow into the 21st century at a slower rate than that of the nation. The state's projected 5.3% growth from 1994 to 2005 (0.47% per annum, on average) is comparable to its 1980-1997 rate (0.5% annually). The nation's population is projected to grow 0.86% annually through 2005.

In concert with the aging of the nation's population, the state's median age is projected to increase from 35.5 years in 1994 to 37.4 years in 2000, to 38.7 years in 2005 and to 39.5 years by the year 2010. The youngest age group, newborns, is projected to shrink as the "baby boom" generation (persons born between 1946 and 1964) advance to their post-childbearing ages in the rest of the decade. The elementary school-age population (5-13), after an increase in the 1990s, will decline gradually between 2000 and 2010 due to the smaller numbers born in the last decade of this century. The high school age population (14-17) is projected to increase moderately as the children of the "baby boomers" enter this age group and then increase the numbers in the 18-24 age group after 2000. The state's elderly population (65 and over) is projected to continue to grow. However, the 1997-2010 growth rate (0.7% per year) will be substantially lower than that in the 1980-1996 period (1.6% annually). It is noteworthy that the population aged 85 and over will be the fastest growing age group in the projection period. Projections developed by the New Jersey Department of Labor, Division of Labor Market and Demographic Research indicate that between 1997 and 2010, the size of this group will increase 89% due to longer life expectancy and the increasing number of people entering this age group.

Labor Force

New Jersey's civilian labor force is projected to continue to grow faster than its population. The

civilian labor force is projected to grow from 4,051,000 in 1994 to 4,387,200 in 2005 to 4,554,700 in 2010. At the same time, the state's mature labor force (ages 40-64) is projected to grow while the young labor force (ages 25-39) will diminish through 2005.

Similar to the nation, New Jersey's employment growth over the 1994-2005 period is projected to be somewhat slower than in the past. Total nonfarm wage and salary employment in New Jersey is projected to increase to 3,944,800 by 2005, which represents growth of 10.9% or 389,300 jobs over the 1994 to 2005 projection period. This translates to an average annual growth rate of 0.9%. Comparably, national employment (as projected by the U.S. Bureau of Labor Statistics) is also expected to be somewhat slower as compared to annual growth rates recorded from 1979 to 1994.

New Jersey's nonfarm employment growth is projected to occur almost exclusively in the Service-Producing industries of the state's economy (transportation, communications, utilities; wholesale and retail trade; finance/insurance/real estate; services; and public education. Goods-producing industries include mining, construction, and manufacturing). The service-producing industries, collectively, are projected to add nearly 468,000 jobs during the projection period, an increase of 16%. Conversely, goods-producing industries are expected to continue to decline by over 12%, a loss of nearly 79,000 jobs, as gains in construction fail to offset manufacturing losses.

Occupational employment growth is projected to be dominated by professional, paraprofessional and technical occupations and service occupations.

Population and Personal Income Changes

Population and personal income changes for the state are illustrated in the tables below. Personal income data is reported on a calendar year basis (January-December) compared to fiscal year income data (July-June) previously discussed in calculating New Jersey's annual fiscal CAP.

Appendix

POPULATION CHANGES

	Population (Thousands)				Population Per Square Mile 1997	Annual Rate of Growth (Percent)			
	Census 1970	Census 1980	Census 1990	Estimates 1997		1960 to 1970	1970 to 1980	1980 to 1990	1990 to 1997
	United States	203,303	226,546	248,765		267,636	76	1.26	1.09
Northeast	49,061	49,135	50,828	51,588	318	0.94	0.02	0.34	0.2
New England	11,847	12,348	13,207	13,379	213	1.21	0.42	0.67	0.18
Middle Atlantic	37,213	36,787	37,621	38,210	384	0.86	-0.12	0.22	0.21
New York	18,241	17,558	17,991	18,137	384	0.84	-0.38	0.24	0.11
New Jersey	7,171	7,365	7,748	8,053	1,085	1.69	0.27	0.51	0.53
Pennsylvania	11,801	11,864	11,883	12,020	268	0.42	0.05	0.02	0.16

Source: U.S. Department of Commerce, Bureau of the Census

1996 PER CAPITA PERSONAL INCOME FOR THE UNITED STATES, NEW JERSEY AND MIDDLE ATLANTIC STATES

	Amount	1996 Percent of National Average	National Ranking
United States	\$24,426	---	---
District of Columbia	34,129	140	---
New Jersey	31,334	128	2
New York	29,181	119	4
Maryland	27,618	113	6
Delaware	27,724	114	5
Pennsylvania	24,803	102	17

Source: U.S. Department of Commerce, Bureau of Economic Analysis

TOTAL PERSONAL INCOME
NEW JERSEY, SELECTED NEIGHBORING STATES AND THE UNITED STATES
1982-1996
(Dollars in Millions)

<u>Calendar Years</u>	<u>Total Personal Income</u>			
	<u>New Jersey</u>	<u>New York</u>	<u>Pennsylvania</u>	<u>United States</u>
1982	\$104,166	\$232,355	\$138,350	\$2,717,124
1983	112,904	248,952	144,750	2,895,249
1984	125,541	277,515	156,177	3,204,432
1985	135,128	296,459	166,519	3,437,411
1986	144,929	317,631	175,992	3,646,346
1987	156,919	338,200	186,816	3,874,096
1988	172,263	367,133	200,836	4,171,650
1989	183,712	392,818	216,982	4,485,191
1990	193,391	416,690	230,894	4,786,293
1991	197,837	426,850	239,478	4,963,545
1992	210,258	450,245	252,224	5,260,922
1993	217,788	463,417	262,308	5,507,622
1994	225,686	479,156	270,969	5,774,806
1995	239,052	505,812	284,963	6,137,875
1996	250,295	530,655	299,031	6,479,914

<u>Calendar Years</u>	<u>Total Personal Income</u> <u>As a Percentage of 1973 Base</u>			
	<u>New Jersey</u>	<u>New York</u>	<u>Pennsylvania</u>	<u>United States</u>
1982	234.8	213.9	226.5	246.7
1983	254.5	229.2	237	262.9
1984	283	255.5	255.7	291
1985	304.6	273	272.7	312.1
1986	326.7	292.5	288.2	331.1
1987	353.7	311.4	305.9	351.8
1988	388.3	338	328.9	378.8
1989	414.1	361.7	355.3	407.3
1990	435.9	383.7	378.1	434.6
1991	445.9	393	392.1	450.7
1992	473.9	414.6	413	477.7
1993	490.9	426.7	429.5	500.1
1994	508.7	441.2	443.7	524.4
1995	538.8	465.7	466.6	557.4
1996	564.2	488.6	489.6	588.4

Source: U.S. Department of Commerce, Bureau of Economic Analysis

**PER CAPITA PERSONAL INCOME
NEW JERSEY, SELECTED NEIGHBORING STATES AND THE UNITED STATES
1982-1996**

<u>Calendar Years</u>	<u>Per Capita Personal Income</u>			
	<u>New Jersey</u>	<u>New York</u>	<u>Pennsylvania</u>	<u>United States</u>
1982	\$13,853	\$13,022	\$11,545	\$11,583
1983	14,933	13,874	12,085	12,223
1984	16,458	15,252	13,047	13,332
1985	17,546	16,253	13,971	14,155
1986	18,726	17,415	14,847	14,906
1987	19,995	18,440	15,603	15,638
1988	21,729	19,709	16,584	16,610
1989	23,114	20,983	17,844	17,690
1990	24,182	22,322	18,884	18,667
1991	25,471	23,665	20,047	19,689
1992	26,917	24,877	21,038	20,631
1993	27,709	25,504	21,799	21,365
1994	28,547	26,332	22,471	22,180
1995	30,071	27,806	23,628	23,348
1996	31,334	29,181	24,803	24,426

**Per Capita Personal Income
As a Percentage of United States**

<u>Calendar Years</u>	<u>New Jersey</u>	<u>New York</u>	<u>Pennsylvania</u>
1982	120	112	100
1983	122	114	99
1984	123	114	98
1985	124	115	99
1986	126	117	100
1987	128	118	100
1988	131	119	100
1989	131	119	101
1990	130	120	101
1991	129	119	102
1992	130	120	102
1993	129	119	102
1994	128	119	102
1995	128	119	102
1996	128	119	102

Source: U.S. Department of Commerce, Bureau of Economic Analysis

IMPACT OF STATE APPROPRIATION LIMITATIONS LAW ON APPROPRIATIONS FOR FISCAL 1999

(\$ in Millions)

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 1999 is computed by multiplying the base year appropriation (fiscal 1998) 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 4.58 for calculating the fiscal 1999 CAP.

The calculation results in a maximum increase of \$189.6 million over the fiscal 1998 Adjusted Appropriation, or a maximum appropriation of \$4,329.4million for Direct State Services for fiscal 1999. The Governor's recommendation for fiscal 1999 is \$4,223.6 billion or \$105.8 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 six fiscal years is:

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
Fiscal Year 1997.....	256,659

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

Fiscal Year 1992.....	7,823,660
Fiscal Year 1993.....	7,868,516
Fiscal Year 1994.....	7,911,066
Fiscal Year 1995.....	7,955,750
Fiscal Year 1996.....	8,001,850
Fiscal Year 1997.....	8,052,849

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.....	\$25,888	--
Fiscal Year 1993.....	27,102	4.69%
Fiscal Year 1994.....	27,866	2.82%
Fiscal Year 1995.....	29,127	4.52%
Fiscal Year 1996.....	30,287	3.98%
Fiscal Year 1997.....	31,872	5.23%

Appendix

Computation of 1998 Appropriation Subject to Expenditure Limitation Law Percentage (\$ in Millions)

Appropriation and Adjustments for Fiscal Year 1998	\$17,039,068
Less Statutory Exemptions:	
Grants-in-Aid.....	(4,344,346)
State Aid.....	(1,575,234)
Capital Construction.....	(574,375)
Debt Service	(483,710)
Property Tax Relief Fund	(5,530,925)
Casino Control Fund	(54,761)
Casino Revenue Fund.....	(325,484)
Gubernatorial Elections Fund.....	(10,396)
Amount subject to limitation.....	<u>\$ 4,139,837</u>

Fiscal Year 1998 base subject to percentage limitation.....	\$4,139,237
Per capita personal income rate	4.58%
Maximum increase in appropriation for Fiscal Year 1999	189,605
Maximum appropriation for Fiscal Year 1999	4,329,442
Fiscal Year 1999 recommendation	4,223,609
Amount Over/(Under) the CAP limitation.....	(105,833)

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:
 $FY97 = \frac{\Sigma(3Qcy96+4Qcy96+1Qcy97+2Qcy97)}{4}$. Therefore $FY97 = \frac{\Sigma(251,460+254,430+259,310+261,436)}{4}$. $FY97 = \$256,659$.
- (b) The population figures are from the U.S. Bureau of the Census; figures were revised in December 1997.
- (c) The average per capita personal income is found by taking the total personal income and dividing by the state's estimated population.

RAINY DAY FUND

The Surplus Revenue Fund Act (P.L. 1990, c. 44) requires that the Governor include in the annual budget to the Legislature, an estimate of the credit to be made to the Surplus Revenue Fund. The amount estimated by the Governor for this purpose shall not be less than 50% of the difference between the amount certified as anticipated General Fund revenue in accordance with the Appropriations Act, and the revised amount of General Fund revenue anticipated in the current year. The objective of this fund is to increase the stability of the State's revenues and expenditures. Primary benefits of this fund are: creating a cushion to cover unexpected cash flow problems, providing a reserve against unforeseen events such as natural disasters that may require an immediate response, and providing contingency assistance by setting aside surplus

revenues during times of prosperity and using them during an economic slowdown. While New Jersey's current economic picture is bright, this fund permits a more orderly response to an unanticipated shortfall in revenues or increases in expenditures due to recession or emergency. The certified General Fund revenue anticipation in the fiscal 1998 Appropriation Act was \$10.8 billion. The revised estimate for fiscal 1998 is \$11.1 billion, a \$232.2 million increase. Hence, this budget includes a new appropriation of \$116.1 million, bringing the total balance of the fund to \$504.5 million.

*The Inherited Structural Deficit Has Been Reduced by More Than \$1.2 Billion.
(in millions)*

