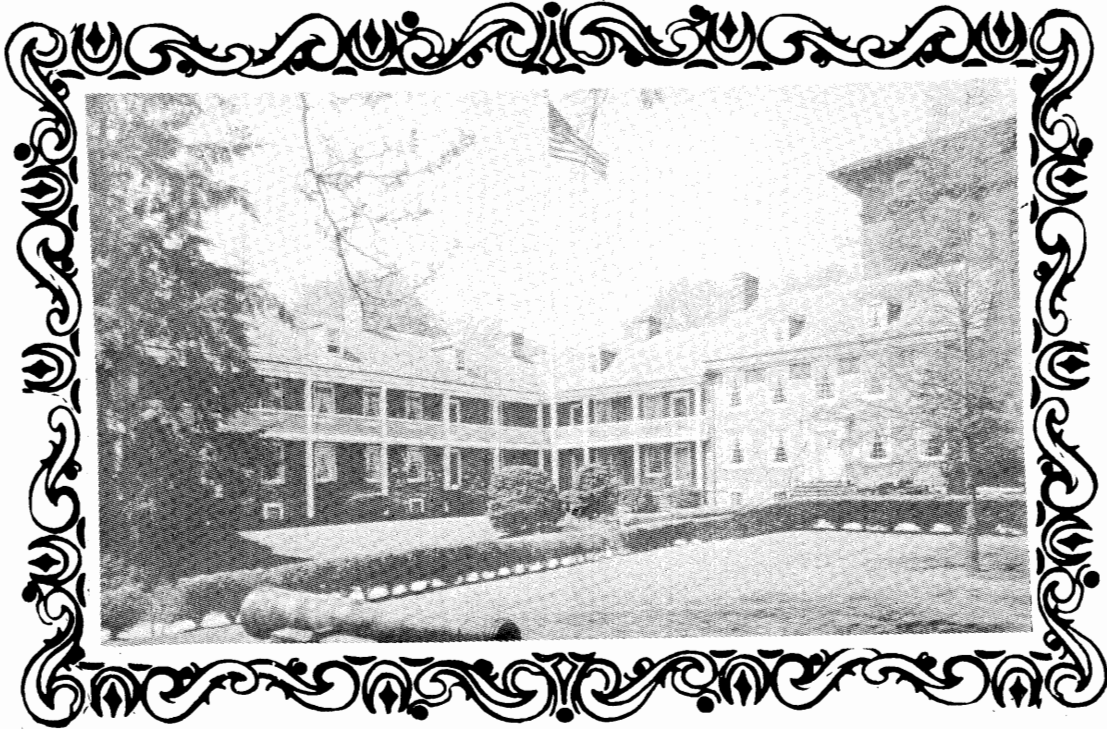


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STATE OF NEW JERSEY
ANNUAL FISCAL REPORT
FISCAL YEAR 1976-77



Brendan Byrne
Governor

Clifford A. Goldman
State Treasurer

Edward G. Hofgesang
Director & Comptroller

DESCRIPTION OF COVER

The picture on the front of the Report is the Old Barracks in Trenton. The Old Barracks was built by the British in 1758 during the French and Indian Wars. On separate occasions, British and American troops occupied the Barracks during the Revolutionary War. The British were garrisoned at the Old Barracks when General George Washington and Revolutionary troops attacked Trenton on December 26, 1776.

The restoration of the Old Barracks was completed in 1917. Noteworthy in its exhibits are: furniture, silver and china of the colonial and federal periods, and many pieces associated with important people in New Jersey history. There are mementos of George Washington. An excellent collection of firearms shows a blunderbuss, a huge duck gun, early muskets, and Committee of Safety and Charleville rifles. Dioramas illustrate both the Battle of Trenton and the interior appearance of the Barracks when it housed British troops two centuries ago.

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1977 FISCAL REPORT

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December 31, 1977

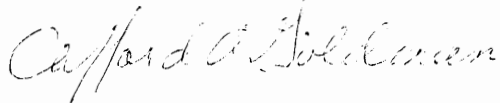
To the Honorable:
Governor
Legislature
People of New Jersey

We are pleased to present this Annual Report for the year ending June 30, 1977. Our detailed volume of financial statistics, published in November, 1977, contains the traditional schedules on revenues, appropriations and expenditures, balance sheet and analysis of surplus.

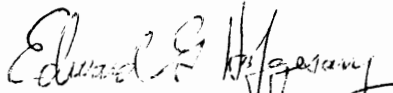
This Annual Report offers financial information in a non-technical style.

Fiscal year 1977 was one of the most eventful in New Jersey history. The Tax Reform Program which was enacted on July 8, 1976 has been a success. The Income Tax now supports a constitutional system of school finance. The Income Tax is constitutionally dedicated to property tax relief and has been used only for that purpose. Government spending at all levels has been controlled. New Jersey has earned a triple A bond rating--the only urban State in the Northeast to be so highly regarded.

Respectfully submitted,



Clifford A. Goldman
State Treasurer



Edward G. Hofgesang, Director
Division of Budget and Accounting

1977 HIGHLIGHTS

1. The State regained its Aaa credit rating from Moody's Investment Service. New Jersey is the only urban State in the Northeast with a triple A credit rating from both Moody's and Standard and Poor.
2. Budgeted expenditures for the General State Fund and the Property Tax Relief Fund totaled \$3,340 million. Expenditures, exclusive of the Property Tax Relief Fund, increased by 4%. The proceeds from the Income Tax are deposited in the Property Tax Relief Fund and appropriated as State Aid which reduces local property taxes. Fifty percent of the combined expenditures was for State Aid.
3. The Gross Income Tax yielded \$656 million for fiscal year 1977.
4. Property tax levies have gone down in New Jersey for the first time since 1943. Property taxes had increased by 10% a year during the past decade. In 1977, statewide property tax reductions and rebates led to a decrease of \$570 million, or 17%.
5. The administration of the newly enacted Income Tax and rebate programs was implemented efficiently, inexpensively and on time. Divisions within the Treasury Department, for example, processed 2.4 million income tax returns for 1976; provided income tax refunds to 1.7 million citizens and homestead rebates to 1.4 million homeowners; and during fiscal year 1977 handled over 4 million employer and employee monthly and quarterly income tax filings.
6. Proceeds from the Lottery provided \$78.2 million to the General State Fund in fiscal year 1977, an increase of 18% from the \$66 million realized in fiscal year 1976, and more than double the amount realized in 1975. New games and an intensified effort has increased the effectiveness of the Lottery.
7. The repeal of several onerous business taxes has improved the competitive position and the economic climate of New Jersey. These business tax reductions, including the repeal of the Gross Receipts Tax, the Business Personal Property Tax, the Sales Tax on new equipment and machinery, and the Unincorporated Business Tax, are the first business tax reductions since 1966. Additionally, property tax reductions accruing to business amounted to \$75 million in 1977.
8. State agencies, particularly the Division of Taxation, administered and collected taxes and fees totaling \$3,449 million, an increase of \$775 million from the prior year.
9. New Jersey continued to improve in terms of Federal dollars received, in both absolute terms and per capita ranking. New Jersey received \$1.9 billion in fiscal year 1976, an increase of \$260 million from the prior year. In addition, New Jersey increased its per capita aid from \$223 million to \$254 million--an increase of 14%, the national increase was approximately 10%.
10. The State issued \$225 million of new bonds and retired \$52.1 million in debt during 1977.
11. The Division of Investment managed assets with a book value of \$5.4 billion, an increase of \$754 million from the prior fiscal year. During 1977, the funds supervised by the Division produced investment earnings in excess of \$290 million, an increase of \$29 million from fiscal year 1976. In addition, the value of bond exchanges in the investment portfolio increased significantly. These "bond exchanges" resulted in an increase in annual cash income of \$481,000.

12. During 1977 legislation was enacted to establish the New Jersey Cash Management Fund. Municipalities, counties and school districts may now invest short-term cash with the benefit of the State's financial and managerial leverage.
13. In 1977, the permanent Commission on Capital Planning and Budgeting recommended that two bond referenda be placed before the voters. On November 8, 1977, the public approved the bonds, namely: \$30 million for Beaches and Harbors, and \$120 million for Medical Facilities, including the refinancing of the Teaching Hospital at the College of Medicine and Dentistry. The \$120 million Medical and Education Bonds were sold on December 20, 1977 at an average interest of 5.1%, a savings of 3.2%, or \$47 million in debt service and \$25 million in cash for new medical school facilities.
14. The New Jersey Housing Finance Agency had dramatically reduced its short-term debt from \$247 million to \$12.7 million. The final phase of the refinancing program was executed with the sale of \$74.4 million in Section 236 assisted bonds in May, 1977. Additionally, in January, 1977 and September, 1977 the Agency sold \$72 million and \$144 million, respectively, in Federal Section 8 assisted bonds which has brought New Jersey to the number one position among all State housing agencies.
15. The Sports and Exposition Authority continues to operate and maintain its facilities on a positive financial basis. In December, 1977 the Authority adopted its 1978 budget under which anticipated resources are expected to equal approximately 1.87 times the aggregate debt service for the year. In addition, the budget for calendar year 1978 estimates a surplus of approximately \$7 million payable to the General State Fund.
16. Other authorities of the State also were instrumental in improving the overall viability of the State. The New Jersey Mortgage Finance Agency, for example, sold \$100 million in bonds in 1977 to initiate the nation's first anti-redlining neighborhood loan program. The New Jersey Economic Development Authority continues to expand job opportunities and to attract private investment. For 1977, the Authority will have arranged financing for more than 187 projects totaling over \$218 million in low-interest financing, which will spark almost one-half billion of industrial and commercial investments in the State's economy.
17. The Qualified Bond Program continues to grow. To date, two municipalities and seven school districts have sold bonds under the program. On December 14, 1977, for example, the City of Newark sold \$19 million of school, municipal and water bonds at a net interest rate of 5.96%, the lowest rate accorded the City since 1972.
18. The State's pension system continues to be strengthened actuarially. The accrued benefit liability is 75% or more funded for the three major pension plans administered by the State, up from 70% in 1976.
19. Comparisons with other states indicate that New Jersey State government is below the national average in many categories of expenditures and taxes, and, in fact, is at the bottom of the scale in some of the more significant categories. For example, New Jersey ranks 45th in per capita State tax collections, 41st in per capita State government expenditures, and 49th in State employees per 10,000 population.

NEW JERSEY'S EFFORTS TO IMPROVE FISCAL MANAGEMENT

In the past two Annual Fiscal Reports, we have commented upon various efforts to improve the financial management practices in State government. Some of our most significant improvements or policy developments included:

- .. Development and implementation of the Qualified Bond Law for local governments;
- .. Preparation of Summary Monthly Fiscal Reports on the status of the General State Fund;
- .. Improved management techniques and organizational changes in such areas as cash management, accounts receivable, and indirect cost recovery;
- .. Full disclosure reporting--new format for Bond Prospectus; and,
- .. Preparation of new financial reports for the taxpayer.

Fiscal 1977 has provided some additional evidence as to the strength of New Jersey's financial management practices and some examples for further improvements.

NEW JERSEY REGAINS AAA

In May of 1977, Moody's Investment Service restored New Jersey's triple A bond rating, the highest possible standing for any government unit that issues bonds.

New Jersey is the only urban northeastern State with a triple A rating from both Standard and Poor and Moody's, the rating agencies. Restoration of the triple A results in more desirable interest rates on State bonds.

Upgrading the State's credit rating also filters down to local and school district housing, and enhances their position in the bond market.

STATE ESTABLISHES CASH MANAGEMENT FUND FOR LOCAL GOVERNMENTS

During fiscal year 1977 legislation was developed to allow the State to invest short-term cash for local governments. The legislation was signed into law on November 2, 1977. The purpose of the law is to obtain higher rates of interest for municipalities, counties and school districts. The State, through the Treasury Department's Division of Investment, invests funds which the local governments do not immediately need, and which are wire transferred from the bank where the municipality has its funds to the State accounts.

The principal advantages of the Cash Management Fund are that (1) many small municipalities have neither the investment expertise nor the ability to invest significant amounts of money; (2) a larger money pool will result in a higher unit return; and (3) the State fund can invest monies in commercial instruments, not otherwise available to local governments.

REFINANCING OF MEDICAL SCHOOL

During fiscal year 1977 legislation was developed to refinance the Teaching Hospital of the College of Medicine and Dentistry. The refinancing program was approved by the Legislature in September, 1977 and endorsed by the voters at the General Election in November, 1977.

The \$120 million bond authorization will enable the State to refinance existing debt of the College of Medicine and Dentistry by retiring \$109.3 million revenue bonds sold at an interest cost of 8.37% in December, 1974 by the New Jersey Health Care Facilities Financing Authority, and refinancing them with lower cost State general obligation bonds.

The triple A rating of the State will insure the sale of bonds at a reduction in debt service costs to the State--these debt service savings will support \$25 million of additional medical school facilities as well as result in lower debt service payments than the existing debt structure. This financing not only will enable the State to construct new facilities but it will also save \$47 million in debt service. The bonds were sold at a net interest rate of 5.1%.

HOUSING FINANCE AGENCY REDUCES SHORT-TERM DEBT

By the end of fiscal year 1977 the New Jersey Housing Finance Agency had dramatically reduced its short-term debt from \$247 million to only \$12,700,000 culminating an eighteen-month financial turnaround.

The final phase of the Agency's financing program, which began in November, 1975, was executed with the sale of \$74,370,000 in Section 236 assisted bonds in April, 1977. This sale alone enabled the Agency to retire \$67,952,000 in outstanding bond anticipation notes.

The Agency retained its Aa and A-1 ratings from Standard and Poor and Moody's Investor Service rating agencies respectively for the issue, which was sold at an effective interest cost of 6.436%.

The rate represents a vast improvement over the 9% interest rate the Agency received when it sold its first in the series of five bond issues it has marketed since November, 1975.

The Agency's sharply improved financial posture is also accentuated by the fact that it is returning \$4.9 million in legislatively appropriated funds to the State Treasury. The Legislature had appropriated the money to be used by the Agency to establish special reserve funds as needed in marketing its bonds. The Agency had the special pledge feature in its first two sales as an extra security device to generate wider investor's interest in its bonds during a period of bad market conditions. The Agency now feels that such funds will not be needed in the foreseeable future.

In addition, the Agency is one of two State agencies credited with helping the State of New Jersey regain its Aaa rating from Moody's Investor Service in May, 1977.

The proceeds from the recent \$74.3 million sale were used to permanently finance eleven housing developments representing 1,721 units of low and moderate income housing in East Orange, Hoboken, Montclair, Newark, Paterson, Plainfield, Newton, Penns Grove and Princeton Township. The developments, eight of which are being rented and three of which are under construction, have all qualified for annual interest reduction subsidies under the Federal Section 236 program which helps reduce rents for eligible tenants.

NEW JERSEY STATE GOVERNMENT WITHIN THE FEDERAL-STATE-LOCAL TAX SYSTEM

FEDERAL AID

Federal aid is returned to State and Local governments based upon various formulae and under various grant-in-aid programs. During the past three years, New Jersey has raised its ranking in per capita receipts, percentage gains, and its total receipts.

- (1) New Jersey's total of \$1.9 billion, the eighth highest among the states, is an increase of \$260 over the previous year.
- (2) New Jersey has increased its per capita aid from \$223.0 to \$254.0, improving its ranking from thirty-eighth to thirty-fourth among the states. This 14% increase compares with the national average of about 10%.

STATE TAX STRUCTURE

On July 8, 1976, Governor Brendan Byrne signed legislation establishing the Gross Income Tax. The tax is calculated at the rate of 2% on the first \$20,000 and 2.5% on amounts over \$20,000 of taxable income. The proceeds are dedicated to property tax relief. Income taxes may not be used to support State operations.

Exclusive of the Property Tax Relief Fund, over 77% of the revenue which supported the State's budget in fiscal year 1977 came from six sources, namely: the Sales Tax, Motor Vehicle and Fuel Taxes, the Cigarette Tax, Corporation Taxes, and the Inheritance Tax. The Income Tax for fiscal year 1977 yielded \$656.1 million for property tax relief and represents 19% of the General State Fund and the Property Tax Relief Fund (see Exhibit III).

The Division of Taxation administers most of the taxes collected by the State--the exception being boxing and wrestling, pari-mutuel racing, motor vehicle licenses and fees, outdoor advertising and motor fuels use tax.

In addition, the Division of Taxation is responsible for assessing and certifying over \$363 million of public utility and insurance taxes to municipalities and counties.

Also, the State, through the Division of Taxation, supervises and coordinates local property tax procedures for the twenty-one county boards of taxation and the 567 local taxing districts. The State does not collect the Local Property Tax or use any of its revenues.

LOCAL TAX STRUCTURE

The largest revenue source at the local level is the Property Tax. Other major revenue sources include: taxes from public utilities, State Aid Assistance, Federal Aid Assistance, and various miscellaneous revenues, such as licenses, fees, and permits.

Thus, the Property Tax in New Jersey is a local tax. This means that the tax is assessed and collected at the municipal level for the support of local schools, municipal government and county government. The State receives no portion of these taxes, and, in fact, in 1977 paid out approximately 50% of the tax revenue it collected to counties, municipalities and school districts in some form of State Aid.

The Property Tax in New Jersey is a residual tax, that is, it is the tax levied to raise the amount of money required to meet budgeted expenditures not covered by monies available from all other sources.

The Local Property Tax is an ad valorem tax in that each taxpayer shares in the total tax burden of his municipality in direct proportion as the value of his property bears to the total value of all property in his town.

Thus, the amount of an individual's property tax bill is determined by the dollars needed to support the local schools, the county and the municipal government, and by the proportionate value that one's property bears to the total value of all property in the municipality.

Any increase in the cost of municipal, county or school district services or any decrease in the amount of State Aid or Federal Aid, without offsetting increases in new ratables, will cause an increase in the amount of property taxes a homeowner must pay.

In tax year 1977, local property tax levies decreased by \$88 million (3%). In addition, when direct payments are included, such as homestead rebates and unbudgeted school aid, the property taxes in the State decreased by approximately \$570 million, or a reduction of 17%. In the prior fifteen years, property taxes had been increasing at the average of 10% per year. Between 1976 and 1975, for example, the average was 10.7%.

The following is a summary tabulation of the State and Local tax structure in New Jersey utilizing 1977 data:

EXHIBIT I

THE NEW JERSEY STATE AND LOCAL TAX STRUCTURE

. ANTICIPATED STATE REVENUES REALIZED.....	\$3,449.1 million
. APPROPRIATED STATE REVENUE REALIZED, INCLUDING FEDERAL AID.....	1,587.8 million
. TAXES APPORTIONED BY THE STATE FOR LOCAL COLLECTION (Public Utility Gross Receipts and Franchise Taxes, and Insurance Taxes).....	363.9 million
. TAXES ADMINISTERED BY COUNTIES (Bank Stock Tax for 1976 and Realty Transfer Fees).....	19.2 million
. TAXES ADMINISTERED BY MUNICIPALITIES (Property Taxes).....	<u>3,257.1 million</u>
	<u>\$8,677.1 million</u>

THE STATE'S FINANCIAL SYSTEM

THE BUDGET AND APPROPRIATION SYSTEM

The State operates on a fiscal year beginning July 1 and ending June 30. Article VIII, Section 2 of the New Jersey Constitution requires that appropriations be made by law before any money can be drawn from the State Treasury. In addition, all monies for the support of State government and all State purposes must be provided for in one general appropriation law covering one and the same fiscal year. The Constitution prohibits the Legislature from making appropriations in any fiscal year in excess of the total amount of the revenue on hand and anticipated as certified by the Governor.

In addition to the constitutional provisions, the New Jersey Statutes contain provisions concerning the budget and appropriation system. Each Department, Board, Commission and Agency of the State must file with the Director, Division of Budget and Accounting, by October 1 a request for appropriation. The Director, Division of Budget and Accounting examines each request and determines the necessity or advisability of the request. The Director holds public hearings during the months of October, November and December, and reviews the budget requests with the Agency Heads. After review and examination, the Director submits the requests together with his findings, comments and recommendations to the Governor. It is then the responsibility of the Governor to examine and consider all requests and formulate his budget recommendations.

The Governor's Budget is then transmitted as a Budget Message on or before the third Tuesday following the first meeting of the Legislature, except in the year when a Governor is inaugurated when it must be transmitted on or before February 15. The Governor's Message must embody the proposed complete financial program of the State government and must set forth in detail each source of anticipated revenue and the purpose of recommended expenditures.

The Budget is then examined by the Joint Appropriations Committee composed of members of both Houses of the Legislature. The Committee reviews all aspects of the Budget and makes changes by majority vote. The Budget, in the form of an Appropriation Act, must then be approved by the Senate and Assembly, and must be approved and signed by the Governor on or before July 1.

Any requests for supplemental appropriations not included in the Budget Message must be made to the Director, Division of Budget and Accounting, who certifies and transmits the request to the Governor. The Governor transmits each application in whole or in part with his recommendations to the Chairman of the Joint Appropriations Committee of the Legislature.

During the course of the year the Governor may prohibit and enjoin the expenditure of any appropriation (R.S. 52:27B-3) when he determines that it is not in the best interest of the State or if revenue collections should fall below the certified amount. This provision is an additional tool which the Governor can exercise to insure economy in government and to insure that the State does not incur any deficits.

In addition to the Constitutional and statutory provisions concerning budget-making, the New Jersey budget process during the past decade has evolved from line-item budgeting--where numbers of positions and objects of expenditures constitute the primary area of concern, to program budgeting--where the budget is formulated directly to the program objectives of governmental activities, to a zero-base budgeting system--where the costs and benefits of the programs of each agency are justified at various alternative funding levels.

THE FUND STRUCTURE

The financial transactions of the State are accounted for in several funds. For governmental accounting, a "fund" is defined as an independent fiscal and accounting entity with a self-balancing set of accounts recording cash and/or other resources together with all related liabilities, obligations, reserves, and equities, segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations.

GENERAL STATE FUND

Virtually all of the revenues received from taxes, most Federal revenue and certain miscellaneous revenue items are recorded in the General State Fund. The General Fund is thus defined as: The Fund into which all State revenues, not otherwise restricted by statute, are deposited and from which appropriations for any lawful purpose may be made. The General State Fund includes special accounts known as the Property Tax Relief Fund, the Casino Control Fund, and the Gubernatorial General Elections Fund. A Constitutional amendment was adopted in 1976 requiring that all receipts from taxes levied on personal income of individuals, estates, and trusts be appropriated exclusively for the purpose of reducing or offsetting property taxes. The amendment stipulates that the receipts from such taxes be placed in a perpetual fund, the Property Tax Relief Fund, which is an account within the General State Fund, and annually appropriated pursuant to formulae established from time to time by the Legislature, to the several counties, municipalities and school districts. All of the transactions relating to the "Governor's Budget" are handled through the General State Fund.

DEDICATED AND TRUST FUNDS

In addition to the General State Fund, the State of New Jersey also maintains a number of Dedicated Funds. These special funds are described as: Funds which consist of resources owned by the State and specifically designated by statute, the use of which is restricted by statutory specification or dedication, to a particular purpose or program by the Annual Appropriations Act or other legislation.

In fiscal year 1977, the State of New Jersey maintained approximately 59 Dedicated and Trust Funds. Several of the funds (19) were established to maintain the transactions of the various bond issues authorized by the voters.

The proceeds of some of the Trust and Dedicated Funds were transferred to the General State Budget by means of Interfund Transfers, and utilized as revenues for General State operations. The four most significant Trust Funds in this category were: The Federal General Revenue Sharing Fund, the State Lottery Fund, the Transportation Benefit Fund, and the Transportation Fund--the latter two are commonly referred to as the "Commuter Tax Funds".

Some of the largest Trust Funds were established to administer the income replacement programs funded by the Federal government, or by employers and employees. These funds include: State Disability Benefits Fund, Unemployment Compensation Auxiliary Fund, and the Unemployment Compensation Tax Fund.

THE ACCOUNTING SYSTEM

The Director of the Division of Budget and Accounting prescribes and approves the accounting policies of the State and directs their implementation. At his discretion, policies may be amended and revised in accordance with changing conditions.

The two primary bases for the recognition of revenues and expenditures are: (1) cash basis--revenues are recognized when actually received and expenditures are recognized upon payment of the obligation, and (2) accrual basis--revenues are recognized when earned (regardless of actual date of receipt) and expenditures recorded when cost is incurred (regardless of the date of payment). New Jersey has adopted the modified accrual basis of accounting. (See notes to Comparative Balance Sheet and Significant Accounting Policies)

WHERE THE MONEY COMES FROM

The operations of the State are financed primarily from New Jersey tax revenue. Revenues are also obtained from Federal Aid, bond proceeds, and miscellaneous sources such as investment income and lottery ticket sales.

The revenues applied to the General State Fund are principally divided into three major categories; namely, (1) Anticipated and Realized Revenues, including the Income Tax, (2) Revenues Dedicated and Appropriated (Not Budgeted), and (3) Federal Aid Appropriated (Not Budgeted).

REVENUES ANTICIPATED AND REALIZED

These revenues support what is normally referred to as the Governor's Budget. For fiscal year 1977, these revenues totaled \$3,449 million. This compares to \$2,674 million reported in 1976 and shows an increase of \$775 million, or 33%. \$656.1 million of the increase relates to proceeds from the Income Tax, which was instituted July 8, 1976, and which is dedicated by constitutional amendment for property tax relief.

Over 81% of the revenue was supplied from the Income Tax, the Sales Tax, Motor Vehicle and Fuel Taxes, the Cigarette Tax, Corporation Taxes, and the Inheritance Tax. Exhibit II shows comparative statistics between 1976 and 1977 of Realized Budgeted Revenues.

MAJOR REVENUES are composed of consumption taxes which are generated from the sale and use of goods and services; general business taxes, which are received from various corporation and public utility taxes; and various mutual taxes. These taxes increased by \$111 million over 1976 totals of \$2,231 million--an increase of 5%. Some of the major revenues are explained below:

The Sales Tax Act imposes a tax at the rate of 5% on receipts from (a) retail sale, rental or use of tangible personal property, (b) retail sale of producing, fabricating, processing, installing, maintaining, repairing, storage and certain advertising services, (c) sales of restaurant meals, (d) rental of hotel and motel rooms, and (e) certain admission charges. Sales of food, clothing and other specified items are exempt from collection of the tax.

Cigarette Tax is imposed at the rate of \$.09 per package of twenty cigarettes. The tax is collected primarily from licensed distributors who receive the cigarettes directly from out-of-state manufacturers.

Alcoholic Beverage Tax is levied upon the first sale or delivery of alcoholic beverages to retailers in New Jersey. The rate is applied to the number of gallons sold. The tax on liquor is \$2.80 per gallon, \$.30 per gallon on wine, and \$.03 1/3 on beer.

Motor Fuels Tax applies to sales of gasoline, diesel fuel or liquefied petroleum gas and compressed natural gas used in motor vehicles on public highways. The tax is \$.08 per gallon.

Motor Vehicle Fees include automobile and truck registrations, drivers licenses and miscellaneous fees collected by the Division of Motor Vehicles.

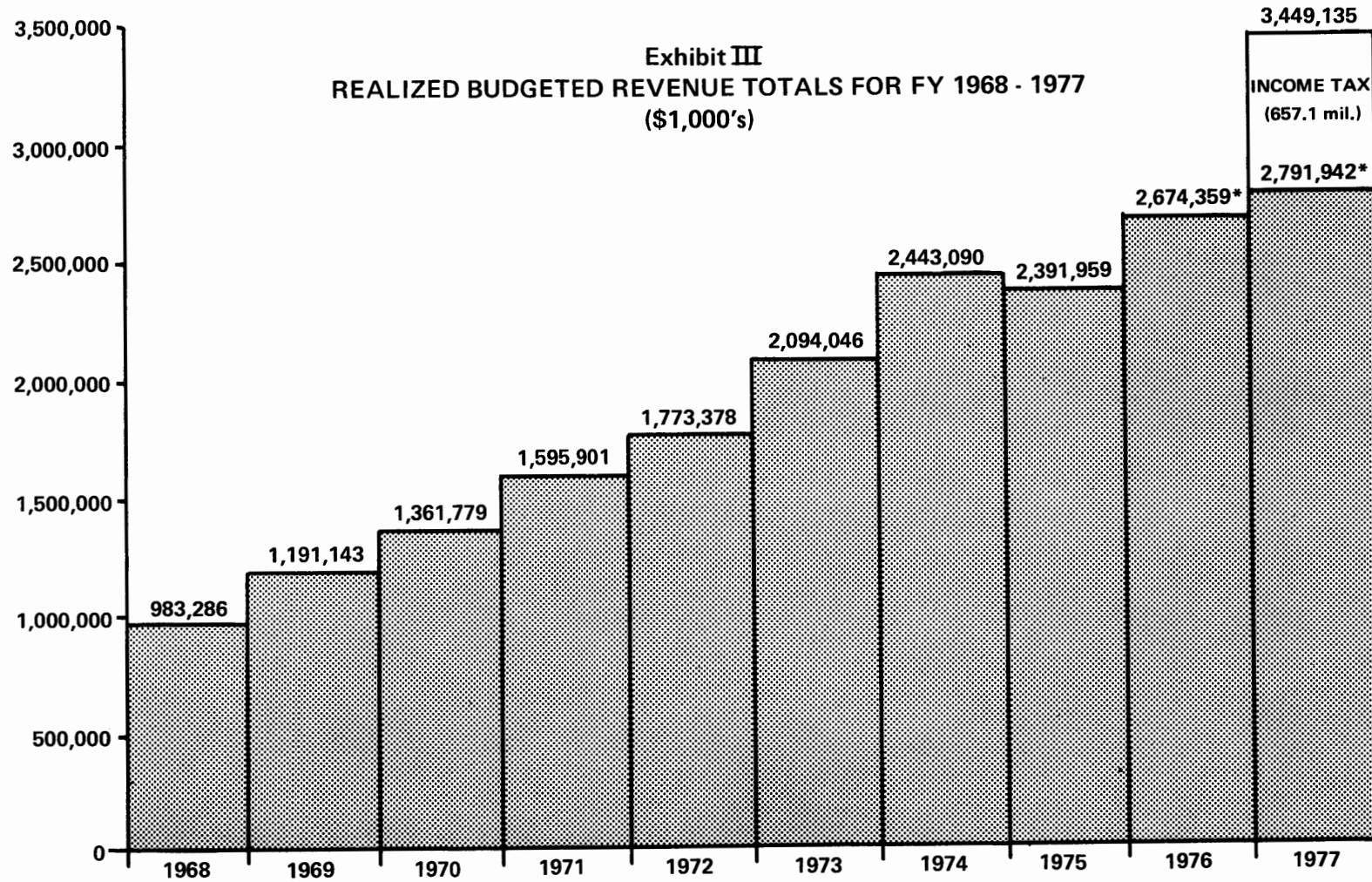
EXHIBIT II

COMPARISON OF ANTICIPATED REVENUE REALIZED

(in thousands of dollars)

	Realized To June 30, 1977	Increase (Decrease)	Realized To June 30, 1976
MAJOR TAXES:			
Sales	\$ 905,149	\$ 75,653	\$ 829,496
Motor Fuels	288,818	7,301	281,517
Corporation	485,457	53,582	431,875
Cigarette	168,780	1,064	167,716
Transfer Inheritance	86,619	7,258	79,361
Alcoholic Beverage	53,825	(1,531)	55,356
Public Utilities-Surtax	50,008	5,961	44,047
Motor Vehicle Fees	223,059	27,727	195,332
Pari-Mutuel	29,208	(5,128)	34,336
Unearned Income	28,969	(22,607)	51,576
Other Major Taxes	22,323	(38,395)	60,718
Total Major Taxes	<u>\$2,342,215</u>	<u>\$110,885</u>	<u>\$2,231,330</u>
MISCELLANEOUS TAXES AND LICENSES:			
Interest on Investments and Deposits	\$ 10,756	\$ (970)	\$ 11,726
Institutional Fees and Reimbursements	94,327	(402)	94,729
Other Licenses and Fees	<u>150,340</u>	<u>23,795</u>	<u>126,545</u>
Total Miscellaneous Taxes and Licenses	<u>\$ 255,423</u>	<u>\$ 22,423</u>	<u>\$ 233,000</u>
INTERFUND TRANSFERS:			
State Lottery Fund	\$ 81,872	\$ 11,906	\$ 69,966
General Revenue Sharing Fund	69,473	2,371	67,102
All Other	<u>42,959</u>	<u>(30,002)</u>	<u>72,961</u>
Total Interfund Transfers	<u>\$ 194,304</u>	<u>\$(15,725)</u>	<u>\$ 210,029</u>
Sub-Total	<u>\$2,791,942</u>	<u>\$117,583</u>	<u>\$2,674,359</u>
GROSS INCOME TAX:			
Property Tax Relief Fund	\$ 656,099	\$656,099	\$ --
Gubernatorial General Elections Fund	1,094	1,094	--
TOTAL ANTICIPATED REVENUE REALIZED	<u>\$3,449,135</u>	<u>\$774,776</u>	<u>\$2,674,359</u>

Exhibit III
REALIZED BUDGETED REVENUE TOTALS FOR FY 1968 - 1977
(\$1,000's)



**Figures do not include Budgeted Federal Aid.*

Corporation Business Tax imposes a franchise tax for the privilege of having or exercising a corporate charter or doing business, employing or owning capital or property, or maintaining an office in New Jersey. The tax is applicable to every corporation not expressly exempted. The rate is 7 1/2% of net income. In addition, a net worth tax is levied on business at various rates ranging from 2/10 of a mill to 2 mills per dollar.

Transfer Inheritance Tax imposes a tax on the transfer of all personal property and New Jersey real property having a value of \$500 or more in estates of resident decedents and on real property and tangible personal property on non-resident decedents located within the State of New Jersey. Rates range from 1% to 16%.

Pari-Mutuel Taxes are levied upon the system of pari-mutuel betting in thoroughbred and harness meetings by supervising the conduct of such meetings and persons connected therewith.

Unearned Income Tax was imposed on specified kinds of unearned income, such as net capital gains, dividends, interest, royalties, income from estates, etc. The law did not apply to any individual with adjusted gross income under \$15,000. The law was repealed July 1, 1976.

MISCELLANEOUS TAXES, LICENSES, AND OTHER DEPARTMENTAL REVENUE include revenues received by the various State agencies, such as tuition from students at the State colleges, recreation and boating fees, institutional and patient fees, investment earnings, and the like. For the year 1977 these revenues increased from \$233 million to \$255 million--an increase of 9.0%.

INTERFUND TRANSFERS include monies which were received by various Trust Funds, and transferred into the General State Fund as anticipated revenue. Included in these types of revenues are the monies received by the State Lottery, monies received under the Federal General Revenue Sharing Program, and the monies received from taxes levied on New York and Pennsylvania residents working in New Jersey. The latter taxes are commonly referred to as "Commuter Taxes".

THE INCOME TAX-PROPERTY TAX RELIEF FUND. All proceeds from the Gross Income Tax are deposited in a separate account known as the Property Tax Relief Fund. All monies in the fund must be appropriated exclusively for reducing or offsetting property taxes. The tax is calculated at 2% on the first \$20,000 of taxable income and 2.5% on amounts in excess of \$20,000. For fiscal year 1977 this tax yielded \$656.1 million for property tax relief.

REVENUES APPROPRIATED--GENERAL

These revenues include monies collected by the State and directly utilized by either a State agency, or disbursed to a local government for a specific purpose enumerated by statute. An offsetting appropriation is not requested in the Budget, but the expenditure is made by means of specific language in the Appropriations Act.

Over \$171 million of this revenue was received from four tax sources, namely; Business Personal Property Tax, 1.25% of the corporation net income base, Retail Gross Receipts Tax, and the Unincorporated Business Tax. Under the provisions of the Business Personal Property Tax Replacement Program, Chapter 136, P.L. 1966, this revenue was returned directly to local governments. As part of the Income Tax Program of 1976, Chapter 4, P.L. 1977 will

EXHIBIT IV

COMPARISON OF TOTAL GENERAL FUND REVENUES REALIZED
(in thousands of dollars)

	Realized To June 30, 1977	Increase (Decrease)	Realized To June 30, 1976
ANTICIPATED REVENUE:			
Major Taxes	\$2,342,215	\$ 110,885	\$2,231,330
Miscellaneous Taxes and Licenses	255,423	22,423	233,000
Interfund Transfers	194,304	(15,725)	210,029
Property Tax Relief Fund	656,099	656,099	--
Gubernatorial General Elections Fund	<u>1,094</u>	<u>1,094</u>	<u>--</u>
Sub-Total	<u>\$3,449,135</u>	<u>\$ 774,776</u>	<u>\$2,674,359</u>
APPROPRIATED REVENUE-GENERAL:			
Business Personal Property Tax, etal	\$ 171,834	\$ 41,456	\$ 130,378
Financial Business Tax	846	(4,164)	5,010
Non-Contributory Group Insurance	10,526	2,032	8,494
All Other	<u>105,641</u>	<u>15,179</u>	<u>90,462</u>
Sub-Total	<u>\$ 288,847</u>	<u>\$ 54,503</u>	<u>\$ 234,344</u>
APPROPRIATED REVENUE-FEDERAL:			
Elementary and Secondary Education	\$ 81,021	\$ 5,086	\$ 75,935
Child Nutrition	90,043	47,317	42,726
Transportation Highway and Mass Transit	203,255	149,712	53,543
Medicaid	254,298	40,405	213,893
Dependent Child Assistance	228,687	(20,289)	248,976
All Others	<u>441,697</u>	<u>60,163</u>	<u>381,534</u>
Sub-Total	<u>\$1,299,001</u>	<u>\$ 282,394</u>	<u>\$1,016,607</u>
APPROPRIATED REVENUE-REVOLVING FUNDS:	<u>\$ 59,960</u>	<u>\$ 10,460</u>	<u>\$ 49,500</u>
APPROPRIATED REVENUE-INTERFUND TRANSFERS:	<u>\$ --</u>	<u>\$ (1,406)</u>	<u>\$ 1,406</u>
TOTAL REVENUES	<u>\$5,096,943</u>	<u>\$1,120,727</u>	<u>\$3,976,216</u>

exempt from the Business Personal Property Tax machinery and equipment acquired on or after January 1, 1977, and other legislation repealed the Retail Gross Receipts Tax and the Unincorporated Business Tax. A companion law, however, provides that the Legislature will appropriate in 1978 and subsequent years amounts sufficient to maintain the distribution level to municipalities at the level certified in 1976.

Some of the other kinds of dedicated revenues received by State agencies for specific purposes include: Second Injury Workmen's Compensation Insurance Tax, revenue from sale of water at State reservoirs, and auxiliary services and extension and public service income at the State colleges.

REVENUES APPROPRIATED--FEDERAL

Most of the Federal funds received by the State in fiscal year 1977 are classified under this category. Expenditures in respect to appropriated (not budgeted) Federal revenues are made only after receipt of an approved Federal grant award. During 1977, Federal Aid Not Budgeted amounted to \$1,299 million. Of the amount received, over 59% represents Federal Aid for Medical Assistance (Medicaid), \$254 million; Dependent Children Assistance, \$228 million; Elementary and Secondary Education Aid, \$81 million; and Transportation Aid, \$203 million.

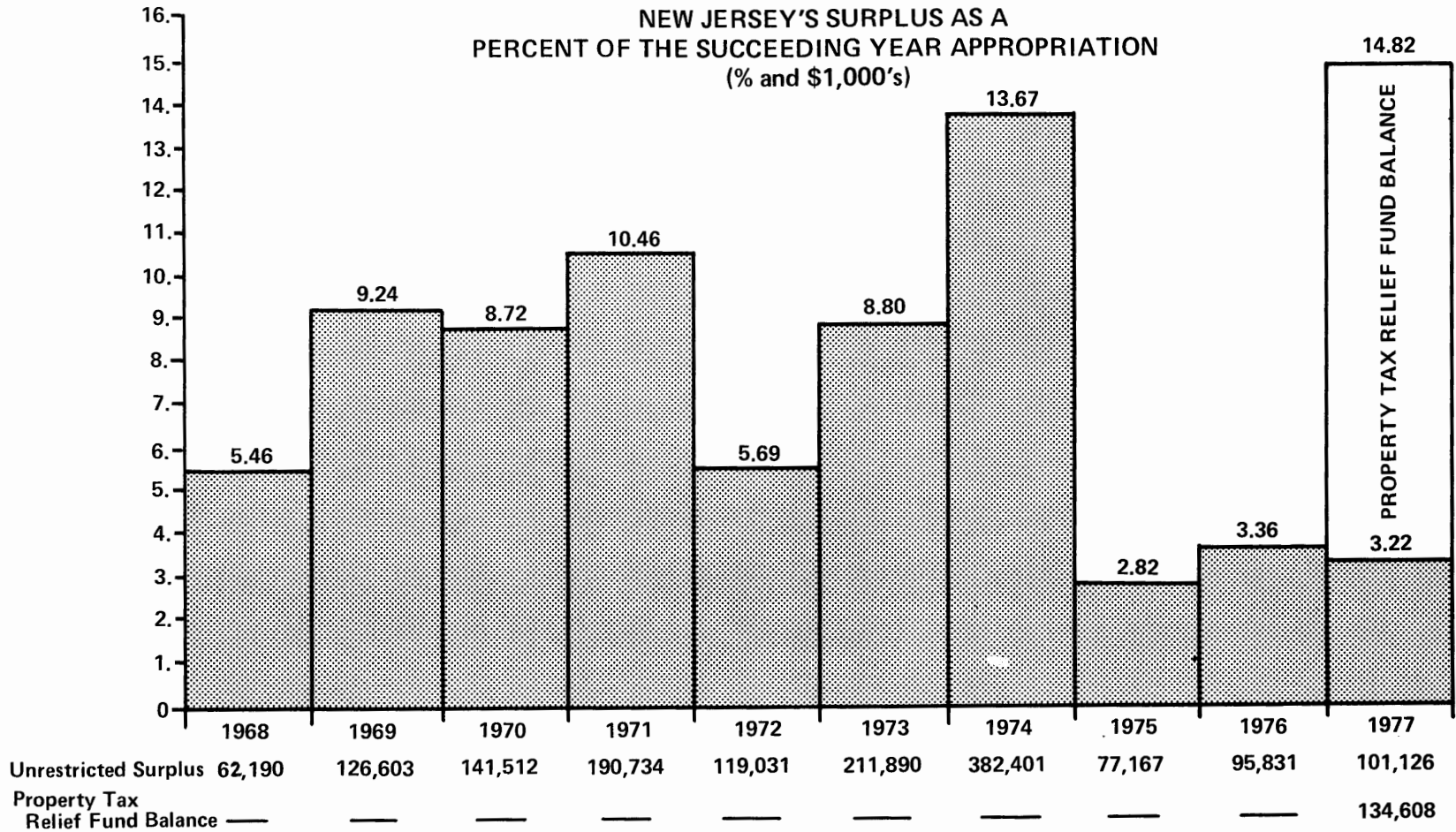
Exhibit IV indicates the total amount of money realized by the General State Fund in fiscal year 1977--it includes Realized Anticipated Revenues (as shown in Exhibit II) as well as all Federal Aid and Dedicated Revenues.

SURPLUS

In addition to the revenue collected in any fiscal year, the State also has available for appropriation any unrestricted surplus. Surplus is the unexpended balance remaining in a fund at the close of a fiscal year. Surplus is generated principally by the realization of revenue in excess of that anticipated, or by expending less than what was budgeted. The unrestricted surplus as of June 30, 1977 was \$101 million compared to \$96 million on June 30, 1976. Surplus at the end of June 30, 1977 in the Property Tax Relief Fund (Income Tax) was \$135 million. Exhibit V shows a ten-year trend of surplus, and compares the year-end unrestricted surplus to the appropriation for the following year. In addition, the Exhibit reflects the balance in the Property Tax Relief Fund and compares its balance to the appropriation for 1978.

PERCENT

Exhibit V
 NEW JERSEY'S SURPLUS AS A
 PERCENT OF THE SUCCEEDING YEAR APPROPRIATION
 (% and \$1,000's)



WHERE THE MONEY IS EXPENDED

Expenditures can be divided into State Budgeted Expenditures, including expenditures from the Property Tax Relief Fund; and those expenditures which are appropriated and not anticipated--identical to the manner in which revenues are treated. Total expenditures from the General State Fund, including all non-budgeted expenditures amounted to \$4,888.9 million in 1977, as compared to \$4,060.3 million in 1976.

Budgeted Expenditures, that is, the number commonly associated with the "State Budget" for 1977 from the General State Fund were \$3,340 million. Of this amount, \$521.4 million came from the Property Tax Relief Fund. Budgeted Expenditures, exclusive of the Property Tax Relief Fund, increased by 4%.

Exhibit VI shows State Budgeted Expenditures by major State program, and Exhibit VII reflects Budgeted Expenditures by Department.

STATE AID TO LOCAL GOVERNMENTS

State Aid to local governments was the largest expenditure of the State Budget. In fiscal 1977, over 50% of the State's expenditures consisted of funds which were distributed to homeowners, municipalities, counties and school districts. The total dollars expended was \$1,690 million.

The largest State Aid expenditure, \$1,115 million, was provided for local elementary and secondary education programs. Of this amount, \$629 million was provided as Formula Aid to each school district by formula based upon the number of students and the ability of the school district to raise taxes from its own base. In addition, the State provided aid for special education programs for the mentally retarded and visually handicapped. The State also expended \$209 million of the \$1,115 million on behalf of local governments as the employer share of the teachers' pension and benefits programs, and \$69 million to pay 100% of all approved pupil transportation costs. Additional State Aid provided for a portion of the cost of building construction, school lunches, vocational education, adult and continuing education and local library aid. State support of school budgets increased from 29.1% in 1976 to 40% in 1977.

Expenditures by the Treasury Department totaled \$191 million in State Aid monies for fiscal 1977. The principal programs funded were homestead rebates to homeowners to provide property tax relief; one-half the cost of senior citizens property tax deductions; Revenue Sharing to municipalities to reduce property taxes; replacement tax revenues for taxes previously paid by railroads; and Consolidated Police and Firemen's Pension Fund.

Other expenditures of State Aid in fiscal 1977 included welfare programs (\$219 million); aid to county colleges (\$36 million); Municipal Aid to 28 urban communities to maintain and upgrade municipal services (\$40 million); youth and family social services (\$25 million); aid to county mental hospitals and community mental health facilities (\$23 million); and local transportation aid (\$15 million).

GENERAL STATE OPERATIONS

The second largest portion of expenditures in fiscal 1977 was applied to General State Operations--the operation of State government's nineteen Departments, the Executive Office, several Commissions, the Legislature and the Judiciary. In fiscal 1977, expenditures for General State Operations aggregated \$1,459 million and represented approximately 44% of expenditures. Some of the major expenditures for General State Operations during fiscal 1977 are described as follows:

EXHIBIT VI

COMPARATIVE BUDGETED EXPENDITURES BY PROGRAM

(in millions of dollars)

PROGRAM	GENERAL STATE OPERATIONS		STATE AID		CAPITAL CONSTRUCTION		DEBT SERVICE		TOTAL	
	1977	1976	1977	1976	1977	1976	1977	1976	1977	1976
Protection of Persons and Property	\$ 173.5	\$ 154.2	\$.5	\$.8	\$ 1.8	\$ 1.5	\$ 3.6	\$ 3.6	\$ 179.4	\$ 160.1
Physical and Mental Health	189.6	166.8	26.0	35.2	3.9	2.4	.5	.5	220.0	204.9
Education and Intellectual Development	326.3	302.9	798.9	841.3	2.9	3.9	34.3	32.3	1,162.4	1,180.4
Community Development and Environmental Management	36.5	32.0	56.1	53.3	2.0	1.4	27.8	22.5	122.4	109.2
Economic Development and Income Protection	326.8	277.3	247.6	235.4	.2	.1	--	--	574.6	512.8
Transportation	140.1	137.9	15.3	25.4	57.5*	45.1*	45.3	42.6	258.2	251.0
General Governmental Affairs	<u>261.4</u>	<u>246.9</u>	<u>28.6</u>	<u>27.9</u>	<u>.3</u>	<u>.1</u>	<u>11.0</u>	<u>10.8</u>	<u>301.3</u>	<u>285.7</u>
Sub-Total	\$1,454.2	\$1,318.0	\$1,173.0	\$1,219.3	\$68.6	\$54.5	\$122.5	\$112.3	\$2,818.3	\$2,704.1
<u>PROPERTY TAX RELIEF FUND</u>										
Education	\$ --	\$ --	\$ 352.5	\$ --	\$ --	\$ --	\$ --	\$ --	\$ 352.5	\$ --
General Government	<u>4.9</u>	<u>--</u>	<u>164.0</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>168.9</u>	<u>--</u>
Sub-Total	\$ 4.9	\$ --	\$ 516.5	\$ --	\$ --	\$ --	\$ --	\$ --	\$ 521.4	\$ --
GRAND TOTAL	<u>\$1,459.1</u>	<u>\$1,318.0</u>	<u>\$1,689.5</u>	<u>\$1,219.3</u>	<u>\$68.6</u>	<u>\$54.5</u>	<u>\$122.5</u>	<u>\$112.3</u>	<u>\$3,339.7</u>	<u>\$2,704.1</u>

*Includes Federal dollars for construction engineering.

EXHIBIT VII

COMPARATIVE BUDGETED EXPENDITURES BY DEPARTMENT

(in millions of dollars)

DEPARTMENT	GENERAL STATE OPERATIONS		STATE AID		CAPITAL CONSTRUCTION		DEBT SERVICE		TOTAL	
	1977	1976	1977	1976	1977	1976	1977	1976	1977	1976
Legislative	\$ 10.4	\$ 9.4	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --	\$ 10.4	\$ 9.4
Chief Executive Office	.8	.8	--	--	--	--	--	--	.8	.8
Law and Public Safety	93.3	85.0	.5	.8	.2	.1	--	--	94.0	85.9
Treasury	47.5	43.1	27.0	26.4	.3	.1	--	--	74.8	69.6
State	3.0	2.5	--	--	--	--	--	--	3.0	2.5
Civil Service	6.3	5.5	--	--	--	--	--	--	6.3	5.5
Banking	2.7	2.5	--	--	--	--	--	--	2.7	2.5
Insurance	3.2	2.9	--	--	--	--	--	--	3.2	2.9
Agriculture	3.9	3.6	--	--	--	--	--	--	3.9	3.6
Defense	4.9	4.6	--	--	.2	.8	--	--	5.1	5.4
Energy	7.8	7.3	--	--	--	--	.6	.6	8.4	7.9
Health	18.7	16.1	3.2	2.5	--	--	.5	.5	22.4	19.1
Labor and Industry	21.5	19.8	--	--	--	--	--	--	21.5	19.8
Environmental Protection	27.2	22.7	1.6	3.0	2.0	1.4	27.8	22.5	58.6	49.6
Education	18.8	16.3	762.8	806.5	.1	.1	3.4	2.4	785.1	825.3
Higher Education	302.6	282.0	36.1	34.7	2.9	3.8	30.3	29.3	371.9	349.8
Transportation	139.2	137.0	15.3	25.5	57.5*	45.1*	45.3	42.6	257.3	250.2
Human Services	466.9	400.0	266.5	263.2	4.0	2.5	9.8	9.6	747.2	675.3
Community Affairs	7.2	7.5	58.4	55.2	--	--	1.2	1.3	66.8	64.0
Public Advocate	13.5	11.9	--	--	--	--	--	--	13.5	11.9
Corrections	64.2	54.1	--	--	1.4	.6	3.6	3.5	69.2	58.2
Executive Commissions	3.0	3.1	--	--	--	--	--	--	3.0	3.1
Inter-Departmental Accounts	171.3	165.2	--	--	--	--	--	--	171.3	165.2
Judiciary	16.3	15.1	1.6	1.5	--	--	--	--	17.9	16.6
Sub-Total	\$1,454.2	\$1,318.0	\$1,173.0	\$1,219.3	\$68.6	\$54.5	\$122.5	\$112.3	\$2,818.3	\$2,704.1
<u>PROPERTY TAX RELIEF FUND</u>										
Treasury	\$ 4.9	\$ --	\$ 164.0	\$ --	\$ --	\$ --	\$ --	\$ --	\$ 168.9	\$ --
Education	--	--	352.5	--	--	--	--	--	352.5	--
Sub-Total	\$ 4.9	\$ --	\$ 516.5	\$ --	\$ --	\$ --	\$ --	\$ --	\$ 521.4	\$ --
GRAND TOTAL	<u>\$1,459.1</u>	<u>\$1,318.0</u>	<u>\$1,689.5</u>	<u>\$1,219.3</u>	<u>\$68.6</u>	<u>\$54.5</u>	<u>\$122.5</u>	<u>\$112.3</u>	<u>\$3,339.7</u>	<u>\$2,704.1</u>

*Includes Federal dollars for construction engineering.

A total of \$467 million was expended for programs administered by the Department of Human Services. Of that amount, \$264 million was expended as the State's share of Medicaid, which provides hospital, nursing home, medical and pharmacist services to the medically indigent. Further expenditures were made to provide support for day care centers, homemaker services, child abuse prevention, juvenile reform programs, and mental health and mental retardation programs, including the operation of seven psychiatric institutions and seven schools for the retarded.

A total of \$303 million was expended by the Department of Higher Education for the support of the State colleges, Rutgers University, the New Jersey Institute of Technology and the College of Medicine and Dentistry.

A total of \$158 million was expended by the Departments of Law and Public Safety and Corrections. Among the programs supported by this expenditure were the administration of the State's correctional facilities and parole activities, the registration and regulation of motor vehicles and licensed drivers, and the investigative and enforcement activities of the State Police.

A total of \$139 million was expended by the Department of Transportation for the various programs it administers, such as the maintenance and improvement of the State's highway systems of 10,087 land miles, and operating subsidies for railroads and bus companies.

DEBT SERVICE

The primary method of State financing of capital projects is through the sale of general obligation bonds of the State of New Jersey. These bonds are backed by the full faith and credit of the State. State tax revenues are pledged to meet the principal and interest payments required to fully pay the debt. When the State sells bonds, it commits itself to repay the borrowed amount in full and with interest. Debt Service refers to these annual principal and interest payments. The total of principal and interest paid in fiscal year 1977 was \$122 million, as compared to \$112 million in fiscal year 1976. Debt Service represents 4% of the total State Budget.

CAPITAL CONSTRUCTION

In 1977, \$69 million, or 2% of the State Budget, was expended for Capital Construction, as compared to \$55 million in 1976. Monies expended for Capital Construction represent the State's effort on a pay-as-you-go basis as contrasted to issuing bonds.

The largest pay-as-you-go capital expenditures was in the area of highway construction. Some of these monies were utilized to match Federal monies provided for highway construction under one of several Federal programs, namely, Interstate Highway Projects, Urban Highway Projects, Rural Highway Projects and Highway Safety Projects. Other capital monies were used to finance highway projects which were not eligible for Federal highway aid. Most of the remaining capital expenditures were for renovations and improvements at State institutions, primarily to meet life safety standards.

Capital expenditures are subject to the review and recommendation of the New Jersey Commission on Capital Budgeting and Planning. This permanent Commission was established in November, 1975 and is charged with the preparation of the State Capital Improvement Plan, which contains proposals for State spending for capital projects. The Capital Improvement Plan must be submitted to the Governor and the Legislature by December 1 of each year.

STATE DEBT

CONSTITUTIONAL PROVISIONS

The State Constitution provides that the Legislature may not create a debt (where total outstanding debt would exceed one percent of total appropriations for the year) unless such law shall have been submitted to the people at a general election and approved by a majority of the legally qualified voters. Furthermore, such debt must be authorized by law for some single object or work distinctly specified therein and any funds raised under this authorization must be applied only to the specific object stated therein, and the State Constitution provides as to any law authorizing such debt: "Regardless of any limitation relating to taxation in this Constitution, such law shall provide the ways and means, exclusive of loans, to pay the interest of such debt or liability as it falls due, and also to pay and discharge the principal thereof within thirty-five years from the time it is contracted; and the law shall not be repealed until such debt or liability and the interest thereon are fully paid and discharged."

FULL FAITH AND CREDIT DEBT

As shown in Exhibit VIII the citizens of New Jersey have authorized \$2,240 million in bonded debt--all of which is guaranteed by the full faith and credit of the State. Of this total authorization, \$1,533 million is issued and outstanding, \$433.5 million remained unissued, and \$273.2 million has been retired as of June 30, 1977.

The \$640.0 million State Transportation Bond Issue of 1968 represents the largest single voter approved authorization. At June 30, 1977, \$535.5 million of these bonds were outstanding and \$48 million remained unissued. The entire \$337.5 million Public Building Construction Issue of 1968 has been sold and \$300.5 million remains outstanding. Of the \$271.0 million Water Conservation Bonds approved in 1969, \$206.6 million is outstanding and \$50 million remains unissued. The largest single unissued bond authorization is the 1974 Recreation and Conservation Land Acquisition and Development Bond. Of the \$200 million authorized, \$135 million remains unissued.

In addition, the State guarantees payments on \$132,108,000 bonds of the New Jersey Highway Authority due 1978-88. At the present time, it is believed that the revenues of this Authority will be sufficient to provide for payment of debt service on their obligations without recourse to the State's guarantee.

DEBT SERVICE

Exhibit IX shows the schedule for repayment of principal and interest on outstanding State debt. The total repayment of \$2,376 million consists of \$1,533 million of principal and \$843 million in interest. These monies will be raised by future annual appropriations.

EXHIBIT IX

STATE OF NEW JERSEY

DEBT SERVICE SCHEDULE

(000's)

<u>Fiscal Year</u>	<u>Total Principal and Interest</u>	<u>Fiscal Year</u>	<u>Total Principal and Interest</u>
1978	\$141,360	1991	\$93,066
1979	150,227	1992	85,034
1980	147,144	1993	82,359
1981	143,221	1994	79,065
1982	137,936	1995	75,578
1983	133,768	1996	59,604
1984	130,168	1997	57,072
1985	127,560	1998	39,844
1986	125,039	1999	35,215
1987	119,516	2000	32,113
1988	116,467	2001	29,743
1989	110,495	2002	15,784
1990	102,841	2003	6,642

TOTAL \$2,376,861

DEBT OF PUBLIC AUTHORITIES

Historically, public authorities were initially established to finance, construct and operate, on a self-sustaining basis, revenue producing facilities of a public benefit, such as bridges and roads.

Later, authorities were used to finance types of construction traditionally financed by the State itself, such as State university and health facilities. More recently, public authorities have served as financing vehicles to undertake services once provided by private enterprise, such as stadiums, housing and capitalization for business development or expansion.

AUTHORITY DEBT VS. GENERAL OBLIGATION DEBT

General obligation bonds are supported by the full faith and credit of the governmental unit. Risk of financial loss is borne totally by the taxpayers who have, through their government, pledged to assume any future liabilities of the government. Debt issued by the State government is general obligation debt.

In contrast, public authorities issue revenue bonds, that is, bonds that are payable from revenues secured from a project which pays its way by charging rentals to the users, such as toll bridges or toll highways, or from revenues from another source which are used for a public purpose.

The principal document of any revenue bond issue is the bond resolution or an indenture. The trustee administers the funds of a project in accordance with this resolution or indenture. This resolution, for example, might require that a certain sum of money be maintained in a reserve fund. A term usually connected with the viability of a revenue bond is "coverage". Coverage indicates the margin of safety for payment of debt service, reflecting the relationship between earnings for a period and debt service payable in the period. The coverage for the Sports and Exposition Authority bonds, for example, is 1.87.

BOND-ISSUING AUTHORITIES IN NEW JERSEY

There are twelve State authorities within New Jersey which have the legislative power to issue bonds. In addition, there are four regional, or bi-State, authorities which provide facilities for the use of New Jersey residents, but which do not operate solely within the boundaries of New Jersey.

A short description of the twelve authorities within New Jersey follows, only the Hackensack Meadowlands Commission has not issued debt.

New Jersey Housing Finance Agency

The New Jersey Housing Finance Agency, created in 1967 as a body corporate and politic established within the Department of Community Affairs, is authorized to finance the construction and rehabilitation of housing projects in certain areas for families of low and moderate income by providing mortgage loans to qualified housing sponsors for the purpose of such construction and rehabilitation.

The Agency has utilized two methods of financing: (1) the issuing of bond anticipation notes to provide interim financing of mortgage loans granted to qualified housing sponsors; and, (2) the issuing of long-term obligations for permanent financing of certain housing projects. Since December, 1975 the Agency has succeeded in reducing its short-term debt from \$247 million to \$12.7 million, and has sold seven bond issues totaling \$527 million.

In its first nine years of production, the Agency has closed over \$451 million in loans for the construction and rehabilitation of 76 developments containing 16,097 units of housing. In January, 1977 and September, 1977 the Agency became the nation's leading financier of Section 8 assisted housing. It assumed this foremost position through the sale of Section 8 assisted bond issues totaling \$71,690,000 and \$144,000,000, respectively.

New Jersey Sports and Exposition Authority

The New Jersey Sports and Exposition Authority, created in 1971 as a public body corporate and politic with corporate succession, is designed to provide for stadiums and other buildings and facilities in the Hackensack Meadows, for athletic contests, horse racing, and other spectator sporting events and for trade shows and other expositions. The Authority is authorized to issue bonds and notes and provides the terms and security thereof.

The Authority's initial project consisted of the acquisition of a 588-acre site for construction of a Sports Complex including a 35,000 spectator racetrack for thoroughbred and harness racing and a 76,500 seat stadium to be leased by the New York Football Giants, Inc. The Authority's revenues are derived principally from racetrack proceeds, but also from other admission income and certain grants.

In December, 1977 the Sports and Exposition Authority adopted its budget for calendar year 1978, under which anticipated resources are expected to equal approximately 1.87 times the aggregate debt service for the year. In addition, the budget for calendar year 1978 estimates a surplus of approximately \$7 million payable to the General State Fund.

South Jersey Port Corporation

The South Jersey Port Corporation, an entity of the State's Department of Labor and Industry, was created in 1970 by the South Jersey Port Corporation Act. The act conferred upon the Corporation the powers to establish, acquire, construct, rehabilitate, improve, operate, and maintain marine terminals in the South Jersey Port District, including Mercer, Burlington, Camden, Gloucester, Salem, Cumberland, and Cape May counties. To this end, the Corporation may issue tax-exempt revenue bonds subject to the provisions and restrictions of the Marine Terminal Revenue Bond Resolution adopted November 30, 1970, which dedicates funds to several commission funds.

The Corporation operates two marine terminals in the Camden area--the Becket Street Terminal acquired from the now defund New York Shipbuilding Corporation and the Broadway Terminal for which the Corporation utilized a portion of the 16,000,000 of Marine Terminal Revenue Bonds in 1970--for the importing and exporting of goods and materials and cargo handling. In the past three years, the Corporation's facilities have generated over 1,000,000 tons of cargo which translates into millions of dollars of economic benefits to the South Jersey area. Revenues from this project have not been sufficient to cover debt service in calendar years 1972-1977 and the State has provided the necessary funds by appropriations equal to the certified deficiencies in the bond reserve fund.

New Jersey Mortgage Finance Agency

The New Jersey Mortgage Finance Agency was created by the Legislature in 1970 as an independent public body to increase the availability of mortgage and home improvement lending to residents of the State. The Agency is specifically authorized to issue bonds and notes and provide funds to private lenders for direct permanent mortgage loans and to create a secondary market for the purchase of residential mortgages and home improvement loans. Since its inception the Agency's major focus of activity has been the operation of its Loan to

Lenders Program, the first such program in the country. Designed to increase the availability of mortgage loans, the Agency as of December 31, 1976 has sold eight bond issues totaling \$456,450,000 resulting in the financing of more than 20,000 housing units throughout New Jersey. In 1974, an urban focus (the Neighborhood Loan Program) was introduced into the Program. A portion of funds was directed solely to the urban aid municipalities in the State, resulting in the financing of 2,955 housing units. In 1977, the Agency has undertaken another novel program, selling \$100 million in anti-redlining neighborhood loan bond issues as well as instituting a new energy conservation loan program for homeowners wishing to install insulation.

New Jersey Health Care Facilities Financing Authority

The New Jersey Health Care Facilities Financing Authority, established in 1972 as a public body corporate of the State, provides low-cost capital financing for the public and non-profit private health care institutions of the State.

As of June 30, 1977, the Authority has issued bonds totaling over \$278 million, the proceeds of which were utilized to construct and/or modernize 18 hospitals and other health care facilities.

New Jersey Educational Facilities Authority

The New Jersey Educational Facilities Authority, established in 1966 as a public body corporate of the State now within the Department of Higher Education, provides a means for New Jersey public and independent colleges and universities to construct additional facilities through the financial resources of a public authority empowered to sell tax-exempt notes and bonds. While the Authority may finance only revenue producing facilities on public college campuses, it is not so restricted for the independent institutions and may finance academic buildings as well.

Since its inception, the Authority has financed the construction of 29 projects (six of the projects being private colleges and 22 projects at public colleges) that comprise 90 different buildings for 16 colleges and universities, including academic buildings, student centers, dormitories and the like.

New Jersey Economic Development Authority

The New Jersey Economic Development Authority, created in 1974 as a public body corporate and politic, is designed to provide long-term, low-interest financing to private firms and companies for the purpose of maintaining and expanding employment opportunities in the State of New Jersey. The Authority is empowered to issue tax-exempt industrial development bonds to accomplish its objectives and to provide funds raised from its bond issues to such firms for eligible development projects. The Authority is also authorized to guarantee loans, to enter into contracts, to buy and sell land, buildings and other property, to conduct studies related to its legislative mandate to stimulate employment and investment. In 1977, the Authority will have arranged financing for more than 187 projects totaling over \$218 million in low-interest financing, which will spark almost one-half billion of industrial and commercial investments in the State's economy.

New Jersey Turnpike Authority

The New Jersey Turnpike Authority, created as a body corporate and politic by the New Jersey Turnpike Authority Act of 1948, is authorized to construct, maintain, repair, and operate turnpike projects at locations established by law. Furthermore, the Authority may issue turnpike revenue bonds or notes of the Authority, subject to prior approval by the Governor and of either or both the State Treasurer and the Comptroller of the Treasury, payable solely from tolls and other revenues of the Authority. Recent construction projects have included the construction of access roads to and from the Meadowland Sports

Complex, while recent operations projects such as the Automatic Traffic Surveillance and Control System have made the State's turnpike among the safest of the heavily-trafficked roads in the country.

New Jersey Expressway Authority

The New Jersey Expressway Authority, created in 1962 as a body corporate and politic, is authorized and empowered to acquire, construct, maintain, repair, and operate Atlantic City Expressway projects at lawfully established locations and to issue its bonds for such purposes. The existing roadway serves as a link between the Philadelphia metropolitan area and the seashore counties bordering the Atlantic Ocean. The principal source of revenue for the Authority is the money received from Expressway tolls, the rate schedules of which are set by independent traffic consultants, representing the bond holders.

New Jersey Highway Authority

The New Jersey Highway Authority, created in 1952 as a body corporate and politic, is authorized to acquire, construct, operate, and maintain highway projects with the provision that the Governor shall have the right to veto any action, except collective bargaining, and that the approval of the Governor and State Treasurer or Comptroller shall be required prior to adoption of any bond resolution or revision of tolls. Since its establishment, the Authority has been responsible for construction and maintenance of the Garden State Parkway as well as for the creation and maintenance of the Garden State Arts Center.

The Highway Authority is the number one toll road in the nation for vehicular use. The State of New Jersey guarantees payment on \$132,108,000 worth of bonds due 1978-88, however, it is believed that revenue from the Authority will be sufficient to provide for payment of debt service without recourse to the State's guarantee.

Rutgers, The State University

Rutgers, the State University, entered into an open-end indenture dated May 1, 1967, to provide a means of financing construction of auxiliary enterprise facilities such as student apartments, dormitories, and student centers and to consolidate previously outstanding bond indebtedness. Under the terms of the indenture, all bonds issued are direct and general obligations of the University and are in no way obligations of the State. All revenues from auxiliary enterprise facilities constructed from the proceeds of the bonds together with revenues from certain other such facilities are pledged to secure the indebtedness. The excess of funds, after satisfying certain requirements, is available to the University.

Hackensack Meadowlands Development Commission

The Hackensack Meadowlands Development Commission is a body corporate and politic established within the Department of Community Affairs under the provisions of the Hackensack Meadowlands Reclamation and Development Act of 1969. Pursuant to the Act, the Commission is authorized and empowered to finance the reclaiming, planning, development, and redevelopment of the Hackensack Meadowlands (19,730 acres of waterway, tidal flow lands, and small portions of woodlands, marsh, and meadows contained within parts of fourteen municipalities and two counties, Bergen and Hudson) by issuing tax-exempt bonds and notes. The bonds are to be redeemed with the revenues derived by the Commission from special assessments on benefited property. In addition, the Commission is entitled to 40% of the excess revenue funds generated by the Meadowlands' Sports Complex.

To date, the Commission has issued no bonds and relies primarily on private investment and State-appropriated monies. Since mid-1970, more than \$138 million in new buildings and expansion of established firms has been pumped into the economy of the District. One of the Commission's largest projects has

been the creation of a 2,000 acre park and wildlife preserve. In addition, during the last year the Commission has received a \$6.9 million Public Works grant for the construction of a 1,000 ton per day baling facility, an advanced technique for handling large volumes of solid waste.

REGIONAL BOND-ISSUING AUTHORITIES

The four regional or bi-State authorities serving New Jersey are:

Delaware River Joint Toll Bridge Commission

The Delaware River Joint Toll Bridge Commission is a body corporate and politic, created in 1934 by a compact between the Commonwealth of Pennsylvania and the State of New Jersey with approval of the United States Congress. The Commission is authorized and empowered, in certain cases with the requirement of Federal governmental approval, to acquire, construct, administer, operate, and maintain such bridges as the Commission deems necessary to advance the interests of the two States, and to issue bonds and other obligations. The compact provides that Commission indebtedness shall not be deemed to constitute a debt or liability of the two States.

The Commission has authority over six toll-supported bridges, Trenton-Morrisville, New Hope-Lambertville, Easton-Phillipsburg, Portland-Columbia, Delaware Water Gap, Melford-Montague, from which excess revenues goes toward bridge improvements and bond redemptions; plus 13 State-owned and tax-supported bridges whose source of revenue for operation and maintenance comes from the States of Pennsylvania and New Jersey.

Delaware River and Bay Authority

The Delaware River and Bay Authority, created in 1962 with the consent of the United States Congress, is a body politic and an agency of the government of the States of Delaware and New Jersey. The Authority is authorized to plan, finance, develop, construct, purchase, lease, maintain, improve and operate crossings, including bridges, tunnels, and ferries between the State of Delaware and the State of New Jersey across the Delaware River and Bay. To this end, the Authority may issue revenue bonds payable from operations of the Authority's facilities.

The Authority operates twin bridges, the Delaware Memorial Bridge (1951) and a second bridge which opened in 1968 financed by a \$103,000,000 revenue bond issued in 1964. In addition, the Authority operates the Cape May-Lewes Ferry.

Delaware River Port Authority

The Delaware River Port Authority, originally created in the 1920's as a bi-State Commission authorized to construct the Benjamin Franklin Bridge between Camden and Philadelphia, is a self-sustaining agency, operating without tax funds and getting most of its revenues from Authority operations. Since changing from a Bridge Commission to a Port Authority, the Authority has undertaken construction of three additional bridges--the Walt Whitman Bridge (1957), the Commodore John Barry Bridge (1976), and the Betsey Ross Bridge (1976)--and expanded its responsibilities for regional mass transit--the Lindenwald Highspeed Line opened in 1969--and promotion of ports on the Delaware River, collectively known as Ameriport. The Authority's World Trade Division, in particular, is responsible for solicitation of maritime trade making Ameriport number one among North Atlantic ports in the amount of international waterborne cargo handled.

Port Authority of New York and New Jersey

The Port Authority of New York and New Jersey, created in 1921 by compact between the two States, is a semi-public body with authority to plan, develop, and operate terminals and other facilities of transportation and commerce, and to advance projects in the general fields of transportation and world trade that contribute to promoting and protecting the commerce of the New York-New Jersey Port District. The compact envisions the Port Authority as financially self-sustaining, with no power to pledge the credit of either State nor to levy taxes or assessments; however, the agency is empowered to issue general revenue bonds.

Over the years, more than \$4 billion of Port Authority obligations have been purchased by investors, resulting in the construction and maintenance of six trans-Hudson bridges and tunnels, four major metropolitan airports, a heliport, the World Trade Center, the PATH system of rapid transit as well as numerous marine, passenger ship, motor truck, and bus terminals. At the present time, the State is negotiating with the Authority and other interested parties to utilize some portion of Port Authority revenue for various mass transit projects, including the proposed PATH extension from Newark to Plainfield.

OUTSTANDING DEBT OF NEW JERSEY STATE AUTHORITIES AS OF NOVEMBER, 1977Moral Obligation Financing

The authorizing legislation for various State entities provides for specific budgetary procedures with respect to certain obligations. Pursuant to such legislation, a designated official is required to certify any deficiency in a debt reserve fund maintained to meet payments of principal and interest on the obligations, and an appropriation in the amount of the deficiency is to be made. However, the Legislature is not legally bound to make such an appropriation. Bonds issued pursuant to authorizing legislation of this type are sometimes referred to as "moral obligation" bonds. The following Exhibit sets forth the "moral obligation" debt issued by State authorities and agencies as of November 1, 1977:

EXHIBIT X

MORAL OBLIGATION DEBT

	<u>Outstanding*</u>	<u>Maximum Annual Debt Service</u>
New Jersey Housing Finance Agency.....	\$612,430,000	\$41,524,828
New Jersey Sports and Exposition Authority.....	317,015,000	26,145,875
South Jersey Port Corporation.....	<u>15,805,000</u>	<u>1,291,000</u>
	<u>\$945,250,000</u>	<u>\$68,961,703</u>

*There is no statutory limitation on the amount of moral obligation bonds which may be issued by these entities.

Other State Agency and Authority Financing

Other State created entities have statutory authority to incur debt which is not "moral obligation" debt as previously defined and is incurred without any legislation providing for State appropriations to pay debt service thereon. This debt is supported by revenues derived from or assets of the various projects financed by these entities. A portion of this debt is supported by lease payments to the issuing entity. Such entities and their outstanding bonds as of November 1, 1977 are as follows:

EXHIBIT XI

AUTHORITY AND AGENCY DEBT

	<u>Bonds</u>
New Jersey Mortgage Finance Agency.....	\$ 427,431,000
New Jersey Health Care Facilities Financing Authority.....	279,897,282*
New Jersey Educational Facilities Financing Authority.....	117,622,000
New Jersey Economic Development Authority....	271,188,000
New Jersey Turnpike Authority.....	830,250,000
New Jersey Expressway Authority.....	43,880,000
New Jersey Highway Authority.....	272,960,000
Rutgers, The State University.....	<u>67,870,000</u>
	<u>\$2,311,098,282</u>

*Includes \$112,900,000 of obligations issued by the Authority on behalf of the College of Medicine and Dentistry of New Jersey of which \$109,300,000 issued to finance the Newark Teaching Hospital will be paid from the proceeds of bonds approved by the voters in November, 1977.

Obligations Similar to Moral Obligation Debt

Legislation of similar import to the "moral obligation" provisions described above provides for the future appropriation for debt service on a maximum principal amount of \$180,000,000 of bonds issued by local school districts (P.L. 1968, c. 177 and P.L. 1971, c. 10) and for the payment of up to one-half the debt service on a maximum of \$40,000,000 county college bonds (P.L. 1971, c. 12). The Legislature is not legally bound to make such future appropriations. A total of \$179,409,000 school district bonds has been approved for State support pursuant to P.L. 1968, c. 177 and P.L. 1971, c. 10. The State is paying one-half of the debt service on a total of \$35,669,500 of county college bonds issued pursuant to P.L. 1971, c. 12. Appropriations to pay for such debt service is included in the State Aid section of the Budget.

THE COMPARATIVE BALANCE SHEET

BALANCE SHEET

The Balance Sheet is a statement of resources available to New Jersey to meet its present and future needs and of present and future liabilities. This Balance Sheet compares the financial condition of the State for the years ending June 30, 1977 and June 30, 1976.

ASSETS

Assets comprise the fiscal resources of the State which, together with revenues raised through the taxing system, are used to satisfy principally the current year's obligations.

Receivables represent funds due to the State. Taxes and Patient Accounts are presented as net figures with the estimated amount of uncollectible accounts deducted.

Other assets are those accounts which are not immediately available for expenditure. The State Purchase Revolving Fund is a fund through which State agencies acquire materials and supplies needed for their operations. The fund replenishes itself through a system of user charges; it retains \$2,000,000 from the General State Fund as an operating base.

LIABILITIES

The State incurs liabilities in a number of ways. The major way is the result of acquiring goods and services necessary to enable agencies to perform their functions. Accounts Payable represent payments due vendors for goods and services already received by agencies. Encumbrances are funds reserved to meet formal commitments for goods and services expected to be delivered. These two types of obligations are combined in Accounts Payable and Encumbrances and comprised the major portion of liabilities as of June 30, 1977. Of this total, \$715.8 million represents charges incurred in the General State Fund, and \$21.5 million relates to the Property Tax Relief Fund.

Other categories of liabilities which appear on the June 30, 1977 Balance Sheet include Revenue Refunds Payable, Advanced Funds Returnable, and Motor Fuels Tax Refundable, which relate to items the State has an obligation to repay to the Federal government and taxpayers.

EXHIBIT XII

COMPARATIVE BALANCE SHEET AS OF JUNE 30, 1977 AND JUNE 30, 1976
 GENERAL STATE FUND*
 (in thousands of dollars)

<u>ASSETS</u>	<u>June 30, 1977</u>	<u>June 30, 1976</u>
CASH		
Demand Accounts (Note 1)	\$ (25,169)	\$ (6,425)
Time Accounts	17,600	635
INVESTMENTS AT BOOK VALUE (Note 2)	535,566	352,444
RECEIVABLES		
Taxes (Net) (Note 3)	211,860	138,501
Patients Accounts-State Institutions (Net)	19,871	16,814
Departmental Accounts (Note 4)	355,230	270,741
Federal Government Highway Construction	444,220	349,655
Public Authorities	20,087	11,076
Miscellaneous Receivables (Net)	9,254	4,279
OTHER ASSETS		
State Purchase Revolving Fund	2,000	2,000
Due from Dedicated and Trust Funds	<u>50,467</u>	<u>42,441</u>
TOTAL	<u>\$1,640,986</u>	<u>\$1,182,161</u>

LIABILITIES, APPROPRIATIONS AND SURPLUS

LIABILITIES

Accounts Payable and Encumbrances:			
General State Fund	\$715,813		\$545,955
Property Tax Relief Fund	<u>21,497</u>	\$ 737,310	<u>--</u> \$ 545,955
Revenue Refunds Payable		7,418	3,465
Advanced Funds Returnable		--	1,950
Motor Fuels Tax Refundable		1,800	1,800
Deferred Revenues (Note 5)		<u>38,051</u>	<u>22,087</u>
Total Liabilities		784,579	575,257

APPROPRIATION BALANCES

General State Fund	593,754		469,759
Property Tax Relief Fund (Note 6)	111		--
Casino Control Fund (Note 7)	<u>4,100</u>		<u>--</u>
Total		597,965	469,759

SURPLUS

General State Fund:			
Unrestricted	101,126		95,832
Restricted	<u>21,613</u>	122,739	<u>41,313</u> 137,145
Property Tax Relief Fund (Note 6)		134,609	--
Gubernatorial General Elections Fund (Note 8)		<u>1,094</u>	<u>--</u>
TOTAL		<u>\$1,640,986</u>	<u>\$1,182,161</u>

*Does not include Dedicated and Trust Funds or Bonded Indebtedness.

NOTES TO COMPARATIVE BALANCE SHEET AS OF JUNE 30, 1977 AND 1976

1. Cash-Demand Accounts

The cash balance was in a managed overdraft position. Available cash is invested until checks issued are presented to the bank for payment.

2. Investments

Marketable securities are stated at amortized cost.

3. Receivables - Taxes

The June 30, 1977 balance includes the following items: Sales, \$96.1 million; Gross Income, \$47.7 million; Motor Fuels, \$39.4 million; Cigarette, \$11.5 million; Alcoholic Beverage, \$10.3 million; Inheritance, \$5.3 million; and Realty Transfer, \$1.5 million.

4. Receivables - Departmental Accounts

The figures shown consist principally of funds due from the Federal government.

5. Deferred Revenues

Amounts received but unearned, applicable to future periods as of June 30, 1977 include: Motor Vehicle License Fees, \$12.0 million; Antirecession Receipts, \$12.5 million; Advanced Tuition, \$6.9 million; and All Other Fees, \$6.6 million.

6. Property Tax Relief Fund

New Jersey Gross Income Tax Act (Chapter 47, P.L. 1977) approved July 8, 1976 established the Property Tax Relief Fund.

7. Casino Control Fund

Chapter 110, P.L. 1977 approved June 2, 1977 established the Casino Control Fund.

8. Gubernatorial General Elections Fund

New Jersey Gross Income Tax Act (Chapter 47, P.L. 1977) approved July 8, 1976 established the Gubernatorial General Elections Fund.

RELATED FINANCIAL ACTIVITIES

FINANCING OF PENSIONS

Virtually all of the public employees of the State and its counties, municipalities and political subdivisions are members of pension plans administered by the State. The State operates seven retirement plans. Public Employees' Retirement System ("PERS") and Teachers' Pension and Annuity Fund ("TPAF"), created by acts of the State Legislature in 1920 and 1919, respectively, are the principal plans, together covering 292,000 out of the total 321,000 members covered by all State administered plans. The other systems are Police and Firemen's Retirement System (25,000 members), Consolidated Police and Firemen's Pension Fund (340 members), State Police Retirement System (1,800 members), Judicial Retirement System (270 members), and Prison Officers' Pension Fund (200 members).

State law regulates the administration of the pension fund systems. State law requires that all systems (except the Prison Officers' Pension Fund, which is closed to new members and whose obligations are funded from current appropriations) are subject to actuarial valuation every year and actuarial investigation every three years. Such valuations and reviews insure that these programs adequately recognize the additional costs resulting from experience or legislative changes in the benefits to be paid.

State law also provides that any changes in pension fund benefits must be approved by the Legislature, and that each bill submitted to the Legislature must be accompanied by a fiscal note stating the cost of the proposal. State law provides that pension fund benefits are not subject to negotiations between the State and other public employers and the employee members of the plan.

Nearly all employees are members of contributory plans, with fifteen years of employment required before the benefits become vested. Upon retirement, after thirty years of service (twenty-five years for policemen and firemen), employees are eligible for annual pension benefits equal to one half of the employee's average contractual or base salary for the employee's three final or highest paid fiscal years of service. After an employee has been retired for three years, he is eligible for the pension increase program, which provides for an adjustment in benefits equal to one half of the change in the consumer price index. All members of State administered plans, except policemen and firemen, qualify for social security benefits in addition to the benefits of the retirement plans.

The accrued benefit liability (including anticipated salary increases for active members) is 74.9% or more funded for PERS, TPAF and Police and Firemen's, the three major pension plans administered by the State. Specifically, the percentage of funding, is denoted for the systems as follows:

<u>System</u>	<u>Funding Began</u>	<u>Accrued Liability</u>	<u>Assets</u>	<u>Percentage of Funding</u>
PERS	1920	\$1,745,273,777	\$1,307,032,021	74.9%
TPAF	1919	2,510,812,521	2,000,147,046	79.7
Police and Fire	1944	1,069,569,803	814,150,414	76.1
Consolidated	1953	245,294,811	82,546,943	33.7
State Police	1965	113,997,498	83,318,214	73.1
Judicial	1973	39,761,786	11,049,071	27.8

The Division of Investment of the Department of the Treasury invests the assets of the State administered pension plans. The book value of the aggregate investments of the pension funds was \$4,424.7 million at June 30, 1977. The net investment earnings of pension fund assets was \$257.4 million for the fiscal year ended June 30, 1977.

In PERS, the State pays the liability for State employees while counties, municipalities, school districts and local public agencies pay the cost for their employee members. The State pays the employer's cost of the TPAF, including the employer's share of the Social Security tax. The other retirement systems administered by the State include the Police and Firemen's Retirement System, which is primarily established for municipal policemen and firemen. The State's participation is limited to those State-employed law enforcement officers who have been permitted to enroll therein.

The State also administers the Consolidated Police and Firemen's Pension Fund, which is a system composed entirely of municipal policemen and firemen who were first employed prior to 1944. The system was established on a funded basis in 1953 with its debt to be amortized over a period of 30 years. The State pays one-third of the accrued liability of that system although there are no State employees who are members.

There are only State employees in the Prison Officers' Pension Fund, a system which has been closed to new members since 1960 and which now contains a few hundred remaining members. Because of its nature, the system does not lend itself to a reserve program; as such its obligations are being met out of current appropriations. The State maintains a State Police Retirement System which was placed on a reserve basis in 1965. The State also administers the Judicial Retirement System, which was placed on a funded basis in 1973.

In addition to these defined benefit programs, the State also maintains the Alternate Benefit Program, which is a defined contribution plan for full-time members of the faculties at Rutgers, the State University, the New Jersey Institute of Technology, the College of Medicine and Dentistry, and State and county colleges. This plan is underwritten by the Teacher's Insurance and Annuity Association and the College Retirement Equities Fund. The State pays a fixed rate of contribution comparable to the normal contribution which would be required in a defined benefit program.

EMPLOYEE RELATIONS

The State of New Jersey, as a public employer, is covered by the New Jersey Public Employer-Employee Relations Act, P.L. 1941, c. 100 as amended, which guarantees to public employees the right to negotiate collectively through employee organizations certified or recognized as the exclusive collective negotiations representative for a unit of public employees found to be appropriate for collective negotiations purposes. Of the State's approximately 70,000 employees, approximately 55,000 are represented by certified or recognized exclusive majority representatives and are organized into 23 negotiating units, e.g. Health Care and Rehabilitation Services Unit, represented by the American Federation of State, County and Municipal Employees, includes about 8,000 employees, and the Administrative and Clerical Services Unit, represented by a combination of the New Jersey Civil Service Association and the New Jersey State Employees Association (CSA/SEA), includes about 11,000 employees.

The Act specifies a negotiations process which includes mediation and advisory fact finding in the event of a negotiations impasse. This process is geared to the public employer's budget submission process. Thus, unless there is a multi-year agreement in effect, negotiations begin in October and the entire process, including mediation and fact finding, should be completed prior to the

Governor's submission of a budget to the Legislature in February of each year, so that the budget process can reflect the results of negotiations. In the event that negotiations are not completed by the February budget submission date, a later supplemental appropriations request is made. The economic provisions of negotiated agreements generally take effect at the beginning of each fiscal year.

In fiscal year 1977, State employees received an across-the-board increase of 7%, amounting to approximately \$49 million. All qualified employees also received merit increments in accordance with the Compensation Plan. On the average, these increments amounted to 4% per eligible employee and totaled approximately \$15 million.

INVESTMENTS

The Investment Division in the Department of the Treasury has the responsibility for investing approximately fifty-six funds, including six pension and annuity funds. The statutes provide for an Investment Council and a Director. The Council consists of ten members, five appointed for staggered five-year terms by the Governor and five appointed for one-year terms by five of the pension systems.

Prior to 1950, investment was limited by law to United States Government and Municipal obligations. Over the years several amendments have been made to the law which have materially increased the scope of potential investment opportunities and provided a foundation for achieving a better portfolio balance and diversification. At the present time the pension fund systems are permitted to invest in property of every nature, including common stocks. Present regulations of the State Investment Council limit the authority of the Director to investment of not more than 25% of the book value of any one fund in common stock.

The book value of all securities held by the State's investments funds as of June 30, 1977 was \$5.4 billion, an increase of 16% over \$754 million from fiscal year 1976. Of the \$5.5 billion book value, the six pension funds represent \$4.4 billion, while the remainder is in trust funds and other Treasurer's funds.

The total income produced by the investments in fiscal year 1977 was in excess of \$290.3 million, an increase of \$29.1 million from the prior year. The General State Fund's share of the income was \$10.6 million, while the largest portion, \$257.5 million, was earned on securities held by the State-managed pension funds. The remaining \$22.2 million was earned on State trust funds.

The investment earnings, for example, in the case of the pension funds, enable the State to appropriate less tax dollars in order to fund the accrued liability of the State's pension obligations.

LEASE AGREEMENTS

The administration of the State's office space is the responsibility of the Director, Division of Purchase and Property, Department of the Treasury. Each lease over twelve months in duration must be approved in advance by the State Treasurer, the Director, Division of Budget and Accounting, the President of the Senate, and the Speaker of the General Assembly.

As of June 30, 1976 there were 156 long-term realty lease agreements with expirations ranging from over a period of three to twenty-five years. These lease obligations amounted to \$80,000,000 and fiscal year 1977 annual rental payments approximated \$11 million.

During fiscal year 1977 the State entered into a lease agreement with the Mercer County Improvement Authority whereby the Authority agreed to acquire and make improvements on certain property and lease the property to the State for use as a State Tax Processing Building. In July, 1977 the Authority issued \$2.5 million of its revenue bonds, payable from rentals to be received by the State. The rentals are equal to the debt service on the bonds plus payment due in lieu of real estate taxes. The Authority obtained a Aa rating and sold bonds for 4.7% over fifteen years--the State's fifteen-year lease has a purchase option after the tenth year.

During fiscal year 1977, the State also began planning to alleviate the overcrowded condition and improve the functional efficiency of the Judicial Branch, the Legislative Branch and the Executive Branch, particularly the Department of Law and Public Safety. The State began negotiating a lease similar to the State Tax Processing Building with the Mercer County Improvement Authority for the construction and rental of a State Justice Complex. The project cost has not been finally determined.

THE PROPERTY TAX RELIEF FUND--FIRST YEAR OF THE INCOME TAX

GENERAL

The Property Tax Relief Fund is used to support those governmental programs commonly associated with the 1976 Income Tax Reform Program. The Program, precipitated by the decisions of the New Jersey Supreme Court in the early 1970s' school financing case of Robinson v. Cahill, is intended to reorient the State's tax structure away from its traditional dependence upon nuisance and local property tax revenue sources and, in so doing, generally improve the State's fiscal position. The 1976 Program not only supports a constitutional system of school finance, eliminating certain disparities in the ability of school districts to support locally determined school budgets, but has introduced a needed element of equity, sufficiency, and stability into the State's tax structure. The Program includes the imposition of a State personal income tax, various property tax relief measures, controls (caps) on spending at all levels of government, and repeal of the more onerous business tax laws including the Gross Receipts and Unincorporated Business Taxes, Sales Taxes on business machinery and equipment and certain business services, and the Business Personal Property Tax on purchases made as of January 1, 1977. In addition, the tax on Capital Gains and Unearned Income was repealed with income-related items included under the individual income tax.

TAX BASE, EXEMPTIONS, DEDUCTIONS

All monies in the Property Tax Relief Fund come from those revenues generated by the newly imposed State Gross Income Tax. The tax, which is imposed upon all State residents and those out-of-State residents employed in New Jersey, is applied to an income definition consisting of fourteen categories including salaries, wages, tips, fees, commissions, net profits from business, interest (except on State issued bonds), dividends, etc. From this adjusted gross income figure (which is somewhat broader than the Federal Adjusted Gross Income), a limited number of personal exemptions and deductions can be subtracted. These include: a \$1,000 personal exemption for the tax filer, a spouse not filing separately, and each dependent; a \$1,000 exemption for each child attending a private elementary or secondary school or any eligible child attending an institution of higher learning; and, a \$1,000 additional exemption for those 65 years of age or older or those blind or disabled; deductions for alimony or separate maintenance payments but not child support; and, for unreimbursed medical expenses in excess of 2% gross income. To the resulting income figure, a rate of 2% is applied up to \$20,000; taxpayers with incomes over \$20,000 pay a tax of \$400 plus 2.5% of any income over \$20,000. The law also provides two tax credits: \$65 for a tenant, and full credit for the amount of any income tax paid to another state. In fiscal year 1977, the Gross Income Tax yielded \$656.1 million. This figure, however, represents a half-year's income since the Gross Income Tax Law, in the first year of its existence, only affected income received from July 1 to December 31, 1976.

SCHOOL FINANCING

The largest portion of the Fund's revenues goes toward financing Chapter 212 of the Public Laws of 1975 or "Thorough and Efficient" as it is more commonly known. The main element of "T&E" is a shared-cost school financing plan which has raised the overall portion of State support of the total annual cost of public elementary and secondary education in New Jersey from 29 to 40% and enabled certain localities, with inordinately high local tax burdens, to reduce taxes as a result. Furthermore, in 1977 additional property tax relief, totaling \$207 million Statewide, came in the form of unbudgeted school aid rebates. This, however, is expected to be a one-time phenomenon, as future school funds will be used directly by the school district as they deem appropriate.

HOMESTEAD REBATES

The second greatest allocation of money (\$274 million on an annual basis) from the Fund supports the Homestead Rebate Program, a property tax relief program enabling a taxpayer to receive an annual cash rebate for property taxes paid on the house or condominium he occupies as his principal place of residence. The rebate is calculated according to a formula based upon the home's equalized valuation and the particular municipal tax rate of the community in which the house is located. An additional \$50 rebate is provided to those 65 or older, permanently or totally disabled, etc.

In 1977, there were 1,400,966 homestead rebates claimed and 94.2% of all homesteads qualified for the maximum rebate. The average rebate was \$187 for the regular filer and \$227 for those filing for an additional rebate.

REVENUE SHARING AND SENIOR CITIZENS' AND VETERANS' DEDUCTIONS

Additional forms of property tax relief came in the form of direct aid to municipalities. A Municipal Revenue Sharing Program annually apportions a sum of \$50 million from the Fund on a per capita basis to those municipalities with an effective tax rate in excess of \$1 per \$100 true valuation. Also, as of 1976, the State has assumed full cost of Senior Citizens' and Veterans' Property Tax Deductions, requiring an annual allocation of about \$58 million from the Fund.

TENANT REBATE PROGRAM AND TENANT CREDITS

A Tenant Rebate Program requires landlords to pass on 65% of any property tax relief they experience to tenants. This program requires no allocation of additional State funds; however, tenants as described above are entitled to a \$65 credit against their income tax liability and an additional \$35 if 65 or older or otherwise qualified. The tenant credit was claimed by 545,000 tenants and reduced the Income Tax yield by about \$17.6 million.

In general, the Tax Reform has been a success, producing major gains in many key areas of public life in New Jersey.

- . School Finance--The tax now supports a constitutional system of school finance.
- . Property Tax Relief--Property tax levies have gone down for the first time since 1943. Property Taxes for 1977 (defined as a combination of local property tax reductions and homestead rebates) declined by \$570 million or 17% from the prior year. A constitutional amendment dedicates all proceeds from the Income Tax for property tax relief.
- . Business Tax Relief--Not only has business realized a savings of \$78.7 million from the repeal of certain business taxes, but business also has benefited from property tax reductions by some \$75 million in 1977.
- . Controlled Government Spending--County appropriations in 1977 increased by less than 2%, municipal appropriations by less than 6%.
- . Tax Equity--The tax program has been more progressive than expected.
 - . 50% of all homeowners receive more money from the homestead rebate than they pay in income taxes.
 - . 90% of all senior citizen and disabled homeowners receive more in homestead rebates than they pay in income taxes.

- . Taxpayers with annualized incomes less than \$10,000 filed 37% of the returns and paid 7% of the tax, while taxpayers with incomes over \$40,000 filed 4% of the returns and paid 23% of the tax.
- . The overall effective tax rate was actually 1.34%; for taxpayers under \$10,000 annualized income, the rate was .76%; for taxpayers over \$200,000, it was 2.18%.

NEW JERSEY'S PERFORMANCE IN PERSPECTIVE

A REVIEW OF THE FISCAL YEAR 1977 ECONOMY

THE NATIONAL ECONOMY IN 1977

The State's Economic Policy Council believes that a robust national economy is an essential prerequisite to improved economic health in our State. The momentum behind the nation's business upswing, after the deepest recession since the 1930's is considerable. The economic comeback after two years of expansion is showing few signs of running out of steam as real Gross National Product increased at annual rates of 7.5% and 6.1% for the first two quarters of 1977. The rate of growth of nominal Gross National Product was 10.5% during the 1976-77 fiscal year. After adjusting for inflation, real Gross National Product grew at a 5% annual rate during that period.

During 1976 and the beginning of 1977 the business expansion was fueled mainly by the greater incomes and willingness to spend of consumers. Sales of durables, particularly automobiles, were at record levels. In addition, consumer expenditures for housing have soared after the dry spell of 1974 and 1975. Outlays for residential construction rose by \$19.6 billion in fiscal year 1977 compared to fiscal year 1976.

More recently, and as was widely predicted, consumer spending has increased more slowly. Retail sales, after reaching an adjusted \$59.9 billion in March, have remained at that level up to June. At the same time the ratio of savings over disposable income rose to 5.5% in the second quarter from 4.1% in the first.

As we enter the third year of the economic recovery, the lopsidedness of the expansion so far has to be recognized. There has not been a previous business upswing so dependent on the consumer and so lackluster on the side of business. Indeed, the sluggishness of business capital outlays gives ground for concern. By the standards of earlier business cycles, capital investment for new plant and equipment should now be booming. As best we can measure, the nation is using about 83.5% of its manufacturing capacity. That is a long way below 100%, which is the absolute maximum capacity utilization rate. But it is known from the past that business does not operate efficiently anywhere near that absolute peak. It is inefficient and costly to do so. The preferred rate of operation lies somewhere between 85% and 90% capacity.

Capital spending is absolutely essential to combat inflation, to raise productivity, to avoid the excesses of a consumer spending boom, to sustain a solid stable rate of growth, to provide jobs for the rising labor force, and to sustain a rising standard of living.

Fortunately, there have been signs of a strengthening of business confidence and capital spending intentions. These should be encouraged by national policies.

Business capital spending has a lot of ground to make up and could become the source sustaining the economic recovery for a considerable time to come. There is reason for optimism that the long awaited upturn in capital spending is finally on the horizon. As a matter of fact, most recent information suggests that investment is increasing in the national economy. Nominal investment in producers' durable equipment grew by 18.3% from the first quarter 1976 to the first quarter 1977 and by 18.4% from the second quarter 1976 to the second quarter 1977.

THE NEW JERSEY ECONOMY IN 1977

The State's economy improved considerably during the last fiscal year. Job gains are evident in all the State's major industries. Employment for the past twelve months (June 1976-May 1977) was 1.7% above that of the previous year. Slower growth of the State's labor force (0.6%) over the same period has pushed the unemployment rate downward.

Even the State's troublesome manufacturing sector has begun to rehire displaced workers, albeit at a painfully slow 0.7% rate of growth over the past year. In absolute terms, an additional 25,000 manufacturing employees have been added to the payrolls since the end of the recession. The broadly defined service sector (trade, transportation, communication, utilities, health, education and other services and government) has grown somewhat faster, 2.4% over the same period.

The construction sector remained the sore spot of the State's employment picture despite a relatively strong year for new housing which is matching the national rate of recovery. Authorizations for new dwelling units are up 38.1% above permits issued a year earlier. Reflecting the spirit of new residential construction is the value of mortgage loans acquired by New Jersey Savings and Loan Associations which have grown 25.4% during the past year. Despite these growth trends, the number of employed construction workers during the entire year has actually declined by 3.7%. Overall, the industry has lost 34,000 jobs, or more than 25% of its employed work force since the onset of the 1973-75 recession. Other, nonresidential building, such as highways, industrial expansion, public facilities construction, etc. has not responded to the cyclical upswing in the economy.

The level of output of goods and services can be inferred from the amount of energy consumption by commercial and industrial users. Energy use over our frame of reference increased 4.4%, well beyond the growth in manufacturing (.7%). Some of the increase can be explained by a lengthening of the manufacturing work-week (to 41.7 hours in June 1977) but most importantly, energy use reflects increased productivity of New Jersey businesses, a necessary prerequisite for maintaining a competitive position for New Jersey business. Other business indicators such as new business incorporations and the number of business telephones are increasing and reinforce our optimism for a continuing economic recovery.

Additional bright spots for the New Jersey economy included personal income which increased at the rate of 10.5% in nominal terms, or 4.3% in price adjusted terms to closely parallel the national trend. Higher incomes have boosted this year's retail sales which are up 6.7% in current dollars, or 2.7%, in constant dollars. A major contributor to increased trade are new car sales which were 9.3% higher than in a similar period a year ago. The slower rate of sales compared to personal income growth can be explained by relatively higher expenditures on housing, utilities, and services.

Recently, unemployment in the State has responded to the cyclical upturn in business as indicated by the second segment of the trend line. Current estimates place New Jersey unemployment close to 8.5%. Although this reflects an improvement in labor market conditions, it still means an unemployment rate more than one and a half percentage points above the national average.

Since New Jersey shares its employment problems with its neighbors, a regional comparison provides an interesting perspective. Expected employment growth in Connecticut, a close regional competitor, fell short by 24.1 thousand jobs, Massachusetts by 22.8 thousand, and Pennsylvania by 105.0 thousand. Thus, given the economic troubles of the entire Northeast region, the job growth performance of New Jersey is encouraging vis-a-vis surrounding states.

THE ECONOMIC OUTLOOK FOR FISCAL YEAR 1978

THE NATIONAL ECONOMY

The nation's Gross National Product is expected to grow by 4 to 5% in real terms over the next twelve months.

Essentially, we expect a more balanced growth in the future. In particular, investment in structures should rise to catch up with the other components of Gross National Product. A survey by the Department of Commerce indicates businesses' intentions to invest heavily in the coming year. It concludes that overall planned investment for 1977 is 12% above the level of investment of 1976. In the next fiscal year the rate of growth of investment should exceed that rate.

Unfortunately, inflation will continue to be troublesome, hovering around the 6% level. This is a rate which appears to be close to the irreducible minimum for the United States economy. Inflation used to be able to be reduced to the 2% or 3% level during recessions but the institutionalization of wage and price rigidities seems to make that level now unattainable. On the other hand, we do not expect the double digit inflation which plagued us in 1973 to recur. That devastating rate of inflation was brought about by a combination of adverse factors not now on the horizon, including a quadrupling of oil prices, a worldwide economic boom, and widespread severe agricultural shortages.

THE NEW JERSEY ECONOMY

During the next twelve months we expect nominal State product in New Jersey to rise about 12%, with about half the result of inflation and the other half constituting an improvement in real output. Thus, New Jersey's rate of recovery will approximate the rate nationwide. Correspondingly, the State's unemployment rate is forecast to decline 1.5 percent points, while the United States' rate is expected to fall by only 1/2 percent.

A closer examination of future events is needed to assess the source(s) of New Jersey's economic growth next year. One major reason for short-term optimism is based on new national economic programs and policies. Federal administrators are now focusing increased attention and concern over regional growth issues. Many Federal funding formulae once explicitly designed to encourage development of the rural South are now being restudied and may aid the Northeast/Midwest regions. Continued Federal funding for public works and other subsidized capital investments will create more new jobs in the State's construction industry. The \$900 million recently allotted to New Jersey for clean water projects is one example.

Innumerable economic and social problems reside in New Jersey's deteriorating urban areas. In 1978, we expect the establishment of a new Federal urban program to target significant contributions at the core of New Jersey's economic problems.

Although images are for the most part intangible, there are a number of tangible elements at work improving New Jersey's image as a place to live and work. The obstacles and long delays in offshore oil drilling have been overcome and operations should start early in 1978. Although this energy source will not mean cheaper prices, it will, however, provide the State with an image of energy certainty to existing residents and businesses and to those potential firms who might locate here. In many manufacturing industries reliable supplies of resources (energy) are a major factor in the location decision.

The business tax climate will continue to improve when the Sales Tax on machinery and equipment is abolished on January 1, 1978. If the analyses are correct, many firms have delayed capital investments this year to take advantage of a tax-free expenditure in 1978. We are hopeful for a surge of business capital spending to stimulate the non-residential construction industries.

To the benefit of residents and tourists alike, 1978 will mark the inaugural of casino gambling in Atlantic City. Building projects are creating jobs in construction and related activities. As the tourist season gets underway, we expect increased employment opportunities over a wide range of service-producing activities. In short, as the image of Atlantic City as a convenient tourist center spreads, we expect to see noticeable improvements in the economic statistics one year from now.

The rapid improvement in unemployment rates that we have observed recently in part reflects the fact that many economic indicators in New Jersey continued to decline after the trough of the national recession in the second quarter of 1975. New Jersey's economy began to turn upward after the nation's and hence we are to some extent still experiencing the rapid phase of the recovery cycle compared to the United States as a whole, which went through this period earlier.

Next year, the Economic Policy Council is forecasting another rather dramatic fall in unemployment from 8.5% to 7%. This precipitous rate of decline exceeds that projected for the United States economy. A contributing cause of this optimism will be continued moderation in the growth rate of the State's labor force. This means fewer workers will have to be absorbed into the employment pool. Simultaneously, steady economic growth as related to the above elements will expand job opportunities.

FINANCIAL COMPARISONS WITH OTHER STATES

STATE GOVERNMENT

Comparisons with other states indicate that New Jersey State government is below the national average in many categories of expenditures and taxes, and, in fact, is at the bottom of the scale in some of the more significant categories.

EXHIBIT XIII

DATA COMPARISON OF NEW JERSEY STATE GOVERNMENT WITH OTHER STATES (1976).

<u>Statistic</u>	<u>New Jersey</u>		<u>All States Average</u>	<u>High</u>		<u>Low</u>	
	<u>Amount</u>	<u>Rank</u>		<u>State</u>	<u>Amount</u>	<u>State</u>	<u>Amount</u>
Per Capita Personal Income	\$7,381	2nd	\$6,399	Alaska	\$10,415	Miss.	\$4,529
Per Capita State Government Tax Collections	\$ 313	45th	\$ 420	Alaska	\$ 1,701	N. H.	\$ 225
Per Capita State Government Expenditures	\$ 615	41st	\$ 718	Alaska	\$ 2,506	Missouri	\$ 502
Number of State Government Employees Per 10,000 population	97	49th	130	Alaska	280	Ohio	90

STATE AND LOCAL DATA

When all levels of government in the State are considered, that is, State government, local governments and school districts, the State is still below the average or near the bottom of the scale, except in local education costs. The following comparative statements can be made relative to revenues, expenditures, employees, and education.

. New Jersey ranks 26th in tax collections per \$1,000 of personal income (\$118.20 per \$1,000), the national average is \$124.70.

. New Jersey ranks 43rd in total expenditures per \$1,000 of personal income (\$178.95 per \$1,000), the national average is \$203.25.

. New Jersey ranks 38th in total employees as a proportion of its population (462 per 10,000 population), the national average is 475.

. New Jersey ranks 4th in total expenditures per pupil for elementary education (\$1,892 per pupil), the national average is \$1,388.

. New Jersey ranks 49th in dollars expended per \$1,000 income for higher education (\$6.41 per \$1,000 of income), the national average is \$11.05.

The sections on National and State Economic Trends was obtained from the 10th Annual Report of the Economic Policy Council, and the New Jersey Economy prepared by the Office of Economic Policy.



