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STATE OF NEW JERSEY
ANNUAL FISCAL REPORT
FISCAL YEAR 1974 -75



Brendan Byrne
Governor

Richard C. Leone
Treasurer

Edward G. Hofgesang
Comptroller

A Report to Governor Brendan Byrne,
The Members of the New Jersey Legislature,
and The Public.

Submitted by
the State Treasurer and the State Comptroller.

ANNUAL FISCAL REPORT - 1975

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January 26, 1976

Honorable Brendan Byrne
Governor
State House
Trenton, New Jersey 08625

Dear Governor Byrne:

Herewith is submitted the Annual Fiscal Report of the Treasury Department showing the fiscal condition of the State as of June 30, 1975 and reviewing the outlook for the forthcoming fiscal year.

The detailed Fiscal Report for Fiscal Year 1975 was submitted on November 26, 1975, and provides the traditional schedules on revenues, appropriations and expenditures, comparative balance sheets of all funds, and an analysis of surplus.

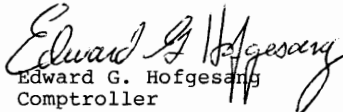
This particular Report is a first attempt to present pertinent information about the State's fiscal operations and general economic condition in a non-technical format designed to acquaint the general public.

We would like to express our appreciation to the staff of the Office of Economic Policy for their assistance in the preparation of the sections dealing with the National and State Economy.

The Comparative Balance Sheet on page 7 indicates surplus on June 30, 1975, of \$83.6 million--\$77.2 million represents the unrestricted surplus. Comparison of key fiscal data for New Jersey with neighboring states indicates that New Jersey is in a relatively strong fiscal position. Considering the high income level of the State, the overall cost of State government for New Jersey citizens is among the lowest in the country.

Respectfully submitted,


Richard C. Leone
State Treasurer


Edward G. Hofgesang
Comptroller

SUMMARY STATEMENT OF NEW JERSEY'S
FINANCIAL CONDITION

In an age when the financial prospects for many governments are bleak, the merits of the underlying principles upon which financial matters for New Jersey are based become more evident.

1. New Jersey does not borrow to finance operating expenditures.
2. The Budget must be consistent with projected resources and the Governor must certify to the reasonableness of anticipated revenues.
3. Expenditure of State funds is conservative. Proposed new programs are thoroughly scrutinized. All expenditures must be fully justified.
4. Capital investment by the State, in comparison with its income, is conservative.

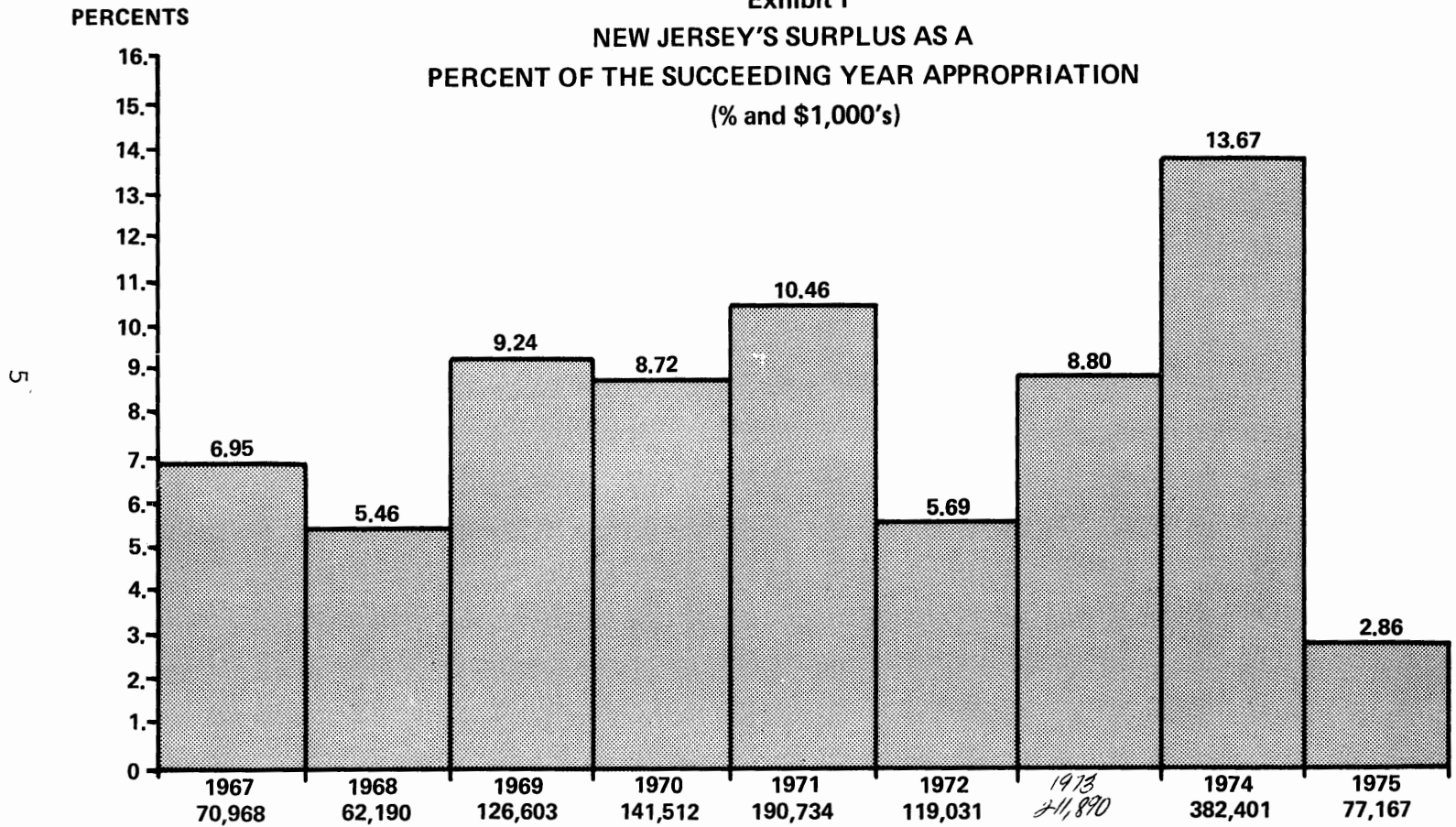
The results of adherence to these principles are reflected in comparisons of New Jersey with other states.

1. The number of State employees in New Jersey per 10,000 population is the 49th lowest in the nation.
2. The share of total State and Local revenue spent for State government in New Jersey is the lowest in the nation at 41 percent.
3. The cost of State government per dollar of disposable income is the second lowest level in the nation at 11 cents.
4. Despite its overwhelming property tax burden, the total revenue raised by New Jersey State and Local governments compared to available disposable income is 33rd in the nation.

Noteworthy also, is the fact that New Jersey maintains a AAA bond credit rating from Standard and Poor's--evidence that the investment community considers New Jersey a fiscally-sound government.

As a result of New Jersey's prudent approach to State government finances, we have often realized comfortable operating surpluses as reflected in Exhibit I. The effect of persistent inflation on New Jersey's finances has been offset by these surpluses, but surpluses have decreased. It is becoming increasingly evident that in the absence of significant amounts of new revenues, basic programs in State government will have to be cut back and the public will have to forgo the services these programs provide.

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



STATE TREASURER AND STATE COMPTROLLER

The administrator and head of the Department of the Treasury is the State Treasurer. The Treasurer is appointed by the Governor with the advice and consent of the Senate. The State Treasurer is responsible for the Divisions of Budget and Accounting, Purchase and Property, Taxation, Tax Appeals, Data Processing and Telecommunications, Pensions, Investments, Building and Construction, the State Lottery, and the Office of Economic Policy. In addition, some of the general duties of the State Treasurer are:

- "a. Receive and keep the moneys of the state, disburse the same according to law and take receipts for all moneys which he shall pay;
- b. Keep accounts of the receipts and expenditures of the public money and of the debts due to or from the state;
- c. Make reports and give information to either branch of the legislature, in person or in writing, as may be required, respecting all matters referred to him by either branch of the legislature, or which shall pertain to his office; and
- d. Perform all such services relative to finances as he shall be directed to perform."

The Director of the Division of Budget and Accounting is responsible for the preparation of the State Budget and the development and approval of accounting policies. The Director of the Division of Budget and Accounting serves also as the Comptroller of the State. Some of the general duties of the Comptroller are:

- "a. Superintend the collection of the revenue;
- b. Take general charge and supervision of all rights, interest and property of the state;
- c. Institute and direct prosecution against delinquent officers of the revenue, and for just claims and debts due to the state; and
- d. Draw all warrants on the Treasurer in favor of such public officers as receive salaries from the state and for the payment of all moneys directed by law to be paid out of the Treasury, and such warrants shall designate the purpose for which they are drawn."

NEW JERSEY'S 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 direction, policies may be amended and revised in accordance with changing conditions.

The State prepares its General State Fund financial statements on a "modified accrual" basis utilizing the fund method of accounting. 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. The General State Fund is 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."

In addition to the General State Fund, the State also maintains a number of Dedicated Funds. These special funds are also 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 by the annual Appropriations Act or other legislation to be used for some specific purpose."

The two primary bases for the recognition of receipts and expenditures are:

1. Cash basis -- revenues are recognized when actually received and expenditures are recognized upon payment of the obligation.
2. Accrual basis -- revenues are recognized when earned (regardless of actual date of receipt) and expenditures when cost is incurred (regardless of the date of payment).

New Jersey has adopted the "modified accrual" basis of accounting. This basis is widely used and, except for two departures (fixed assets and Social Security tax expense) is recognized by both the National Committee on Governmental Accounting and the American Institute of Certified Public Accountants. This basis contains the following features.

1. Revenues are recorded as received in cash except for:
 - a) Revenues susceptible to accrual (measurable and available).
 - b) Material revenues that are not received at the normal time of receipt.
 - c) Federal government apportionments for highway construction are recognized and at the same time appropriations in force are established in the same amount.
2. Expenditures are recorded on an accrual basis except for:
 - a) Disbursements for inventory-type items and for fixed assets which are considered expenditures at the time of purchase.
 - b) Prepaid expenses which are considered expenditures at the time of purchase.
 - c) The recognition of encumbrances (reservations of funds for future payment to liquidate an obligation incurred, usually by the issuance of a purchase order or the execution of a contract).
 - d) The availability of appropriation for a one-month period after the end of the fiscal year for expenditures applicable to the preceding year.
 - e) Such other modifications as may from time to time be required by statute.

HIGHLIGHTS OF 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, 1975 and June 30, 1974.

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.

At June 30, 1975, our cash balance was in a managed overdraft position. The State follows the practice of using funds for investment purposes until such time as checks issued are presented for payment to the bank.

Receivables represent funds due to the State. Taxes and Patient Accounts are presented as net figures with the estimated amount of uncollectible accounts deducted. Public Authority receivables encompass funds due to the General State Fund from the Port Authority of New York and New Jersey, \$.4 million, New Jersey Turnpike Authority, \$4.1 million, and the New Jersey Highway Authority, \$10.5 million.

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 Fund as an operating base. Amounts due from Dedicated and Trust Funds represent monies due the General Fund from accounts such as the State Lottery Commission and General Revenue Sharing.

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 total liabilities as of June 30, 1975. Of this total, \$384.6

million represents charges incurred during the current fiscal year while \$154.3 million is a result of obligations for prior fiscal years.

Other categories of liabilities which appear on the June 30, 1975 Balance Sheet include 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, respectively. Deferred Income consists of those items of revenue which have been collected in advance of the fiscal year to which they are applicable.

APPROPRIATION BALANCES IN FORCE

This section of the Balance Sheet represents the portion of appropriations for the current year which have not been expended or obligated. Since they have been established by the Appropriations Act, these appropriations represent the balances at fiscal year end which are reappropriated to a subsequent fiscal year.

SURPLUS

The surplus on the Balance Sheet indicates that total resources exceeded the level of expenditures. A portion of the surplus, \$6.5 million, is restricted for a specific reason, that is, it is not available to support State operations on an ongoing basis. Surplus is restricted when the utilization of a particular asset is questionable in terms of the exact time of collection, or the exact amount of the asset to be collected. The unrestricted portion of the surplus, \$77.2 million, is available for appropriation.

EXHIBIT II
 COMPARATIVE BALANCE SHEET AS OF JUNE 30, 1975 AND JUNE 30, 1974
 GENERAL STATE FUND*

(in thousands of dollars)

	<u>ASSETS</u>	<u>June 30, 1975</u>	<u>June 30, 1974</u>
CASH			
Demand Accounts		\$ (44,906)**	\$ (36,537)**
Time Accounts		10,655	17,830
INVESTMENTS			
Securities at Par Value	\$368,063	\$566,239	
Unamortized Premium or (Discount)	<u>26</u>	<u>(2,261)</u>	
Securities at Book Value		368,089	563,978
RECEIVABLES			
Taxes (Net)		125,568	155,165
Patients Accounts - State Institutions (Net)		8,603	9,028
Departmental Accounts		234,694	242,510
Federal Government Highway Construction		417,016	362,297
Public Authorities		14,947	18,547
Miscellaneous Receivables		3,955	4,953
OTHER ASSETS			
State Purchase Revolving Fund		2,000	2,000
Due from Dedicated and Trust Funds		<u>51,009</u>	<u>47,685</u>
TOTAL		<u>\$1,191,630</u>	<u>\$1,387,456</u>

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LIABILITIES, APPROPRIATIONS, RESERVES AND SURPLUS

LIABILITIES

Accounts Payable and Encumbrances	\$ 538,981	\$ 579,129
Advanced Funds Returnable	1,767	1,767
Motor Fuels Tax Refundable	1,800	1,800
Deferred Revenues	<u>20,824</u>	<u>16,197</u>
Total Liabilities	\$ 563,372	\$ 598,893
APPROPRIATION BALANCES IN FORCE	544,608	396,597
SURPLUS UNRESTRICTED	77,168	382,401
SURPLUS RESTRICTED	<u>6,482</u>	<u>9,565</u>
TOTAL	<u>\$1,191,630</u>	<u>\$1,387,456</u>

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*Does not include Dedicated or Trust Funds or Bonded Indebtedness
**Managed Overdraft

DETAIL OF REVENUE BY SOURCE

The operations of the State of New Jersey are financed by revenues raised from various sources. Over 75% of the revenue is supplied from the sales tax, motor vehicle and fuel taxes, cigarette taxes, corporation taxes, inheritance taxes and miscellaneous licenses and fees.

Exhibit III shows comparative statistics between 1974 and 1975 of Realized Budget Revenues. Some of the major types of revenue are briefly defined below:

I. Consumption and Use Taxes are generated from the sale and use of goods and services. These taxes increased by \$36.5 million over 1974 totals of \$1,392.9 million or an increase of 2.6 percent.

A. The Sales and Use 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.

The Act also applies to retail purchase of tangible personal property made outside the State for use in New Jersey. Sale of food, clothing and other specified items are exempt from collection of the tax.

B. The Cigarette Tax is imposed at the rate of \$.19 per package of 20 cigarettes. The tax is collected primarily from licensed distributors who receive the cigarettes directly from out-of-state manufacturers. Unless otherwise provided by law, every package of cigarettes must be stamped before being transferred from the original acquirer in New Jersey. Other tobacco products are not taxed.

C. The 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 is collected from licensed manufacturers, transporters and warehouses.

- D. The Motor Fuels Tax applies to sales of gasoline, diesel fuel or liquified petroleum gas and compressed natural gas used in motor vehicles on public highways.
 - E. Motor Vehicle Fees include automobile and truck registrations, drivers licenses and miscellaneous fees collected by the Division of Motor Vehicles.
- II. General Business Revenues are received from various corporation and public utility taxes. These taxes amounted to \$356.2 million for Fiscal Year 1975, an increase of \$36.5 million over Fiscal Year 1974 levels.
- A. The Corporation Business Tax Act 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.
 - B. Public Utilities Taxes
 - 1. The Public Utility Franchise Tax applies to persons, co-partnerships, associations and corporations, other than those specifically exempted, having lines or mains located in, on or over any street, highway or other public place. The utilities include telegraph, telephone or cable companies. Most of the revenue is apportioned to the local governments.
 - 2. The Public Utilities Gross Receipts Tax is in addition to the Franchise Tax and is in lieu of local taxes on certain properties of the following public utilities; street railway, traction, sewerage, water, gas and electric light, heat and power corporations using or occupying public streets, highways, roads or other public places in New Jersey. Most of the revenue is apportioned to the local governments.
 - 3. The Public Utilities Excise Tax is an additional tax on gross receipts of public utilities. This utility revenue is used by the State.

4. The Railroad Property Tax is a State tax on real estate used for railroad purposes other than "main stem" roadbed (not exceeding 100 feet in width).
 5. The Railroad Franchise Tax is levied upon railroads (or systems of railroads) operating within New Jersey. The tax base is that portion of the road's (or system's) net railway operating income of the preceding year allocated to New Jersey. The proportion of net railway operating income that is to be allocated to New Jersey is the ratio of the number of miles of all track over which the railroad or system operates in this State to the total number of miles of all track over which it operates.
- C. The Financial Business Tax is applicable to any domestic or foreign corporation, partnership, limited partnership, limited partnership association or any other unincorporated association or individual doing a financial business. The tax is based upon net worth at the rate of 7 1/2% for the privilege of doing a financial business in New Jersey. Businesses specifically included under this act are: industrial banks, dealers in commercial papers and acceptances, sales finance, personal finance, small loan and mortgage financing companies.
- III. All Other Taxes come from various miscellaneous sources, the major sources being Inheritance Tax, and Pari-Mutuel Tax. During Fiscal Year 1975 these taxes amounted to over \$129.6 million, a decrease of \$8.5 million from Fiscal Year 1974.
- A. The Transfer Inheritance Tax Law 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. The Estate Tax is designed to absorb any portion of the credit allowed under the Federal Estate Tax statutes which is not fully taken up by the taxes paid under the Transfer Inheritance Tax statutes of this State and all other states.

- B. 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.
- IV. Federal Grants are received by the various State departments from Federal agencies. The monies shown in Exhibit III depict those Federal funds which are budgeted as anticipated revenues. In addition, the State received in excess of \$1 billion in Federal revenue which is not budgeted.
- V. Miscellaneous Revenues include such revenue items as interest earned on investments and deposits; and a large amount of revenues accruing from miscellaneous licenses and fees such as housing inspection fees, recreation boating fees, and the like.
- VI. Interfund Transfers include monies which have been received by various funds, and have been transferred into the General Fund as anticipated revenue. Included in these types of revenues are the monies received by the State Lottery, monies received from the Federal government under the General Revenue Sharing Program, and the monies received from taxes levied on New York and Pennsylvania residents working in New Jersey.

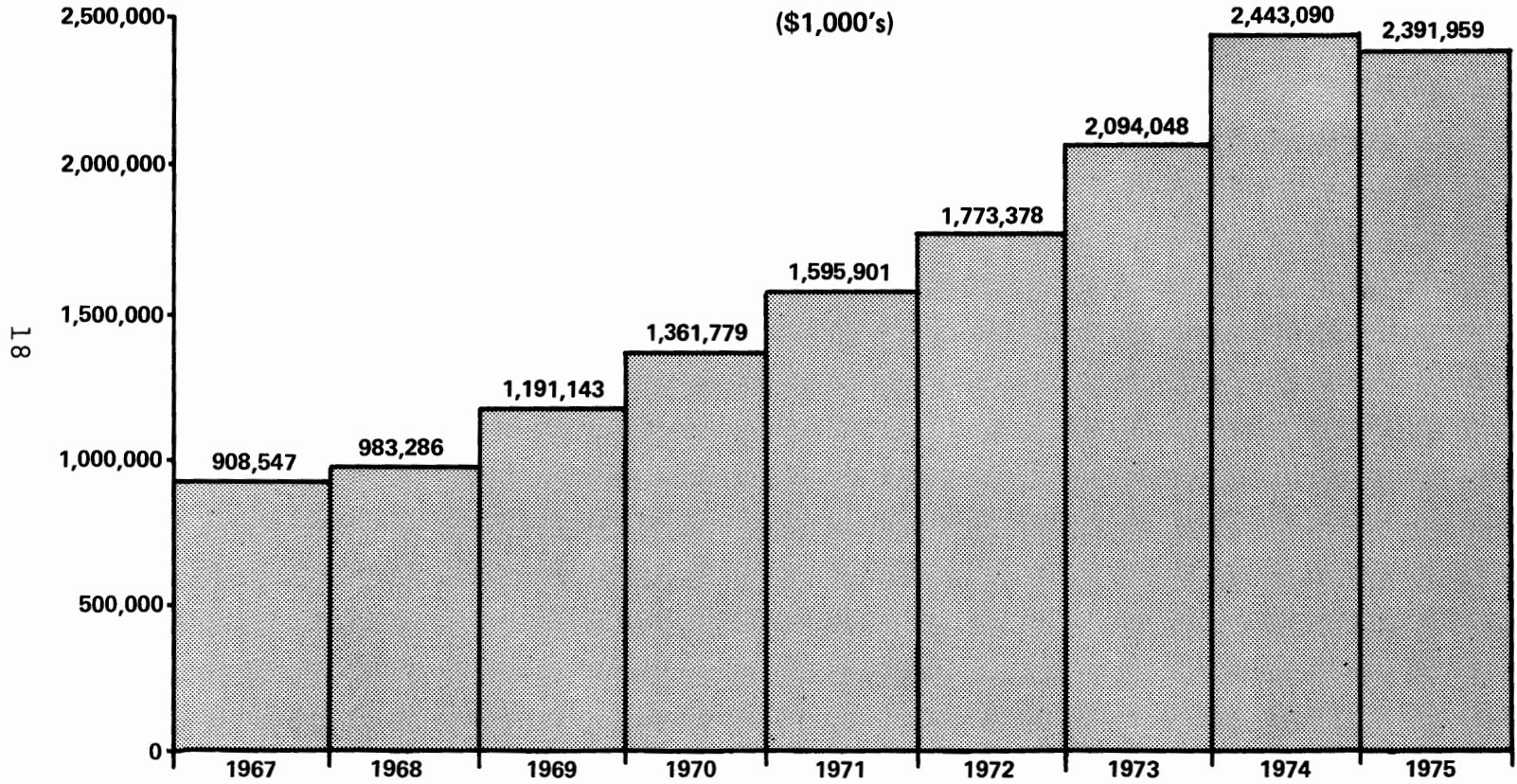
EXHIBIT III

COMPARISON OF REALIZED BUDGETED REVENUES
(in thousands of dollars)

	Realized To June 30, 1974	Increase (Decrease)	Realized To June 30, 1975
MAJOR TAXES AND LICENSES:			
Consumption and Use Taxes:			
Sales Tax	\$ 735,065		\$ 770,515
Motor Vehicle, Motor Fuels and Motor Fuel Use Taxes	432,367		437,603
Alcoholic Beverage Taxes and Licenses	56,773		54,663
Cigarette Tax	<u>168,653</u>		<u>166,603</u>
	<u>1,392,858</u>	<u>36,526</u>	<u>1,429,384</u>
General Business Taxes:			
Public Utilities Tax	30,320		37,721
Corporation Taxes	284,181		313,035
Other General Business Taxes	<u>5,280</u>		<u>5,481</u>
	<u>319,781</u>	<u>36,456</u>	<u>356,237</u>
All Other Taxes:			
Inheritance Tax	88,039		82,417
Pari-Mutuel Tax	39,103		35,644
Other Taxes	<u>10,935</u>		<u>11,539</u>
	<u>138,077</u>	<u>(8,477)</u>	<u>129,600</u>
Total Major Taxes and Licenses	<u>\$1,850,716</u>	<u>\$ 64,505</u>	<u>\$1,915,221</u>
FEDERAL GRANTS			
Operations of State Departments and Agencies	55,571		47,571
Unemployment Benefits (Adm. Cost Refund)	146		159
Indirect Cost Recovery Program	<u>1,799</u>		<u>3,694</u>
Total Federal Grants	<u>\$ 57,516</u>	<u>\$ (6,092)</u>	<u>\$ 51,424</u>
MISCELLANEOUS REVENUES			
Interest on Investments and Deposits	37,206		30,514
Licenses and Fees	122,135		121,638
Reimbursements - Mental Hygiene	<u>91,817</u>		<u>74,574</u>
Total Miscellaneous Revenues	<u>\$ 251,158</u>	<u>\$ (24,432)</u>	<u>\$ 226,726</u>
INTERFUND TRANSFERS			
State Lottery Fund	59,860		40,328
Construction Funds	7,645		4,509
Unclaimed Funds and Escheats	2,826		1,949
Other Interfund Transfers	63,765		81,862
General Revenue Sharing Fund	<u>140,604</u>		<u>69,940</u>
Total Interfund Transfers	<u>\$ 293,700</u>	<u>\$ (85,112)</u>	<u>\$ 198,588</u>
TOTAL REVENUES BY SOURCE	<u>\$2,443,030</u>	<u>\$ (51,131)</u>	<u>\$2,391,959</u>

Exhibit IV

REALIZED BUDGETED REVENUE TOTALS FOR FY 1967 - 1975*
(\$1,000's)



* Figures do not include Budgeted Surplus

STATE EXPENDITURES
BY
PROGRAM CATEGORY

The State of New Jersey expended in Fiscal Year 1975 \$2.75 billion. General State operation expenditures amounted to \$1.36 billion; State aid expenditures were \$1.26 billion; and capital expenditures were \$129.2 million. The State expenditures by program category are presented below.

Protection of Persons and Property

Program activities in this category include Law Enforcement, the Division of Correction and Parole in the Department of Institutions and Agencies, the Department of Defense, and the various regulatory agencies. A total of \$157,700,000, 6% of the State Budget, was expended in Fiscal Year 1975 for this program category. The money provided such diverse services as the regulation, licensing, and registration of the State's 4.4 million motor vehicles and its 4.6 million licensed drivers; state police services including violent and non-violent crime investigations, narcotic investigations, and organized crime investigations that amounted to 53,000 cases. Other program areas included parole and community programs; national guard and civil defense programs which provided the State with 14,000 guardsmen and approximately 80,000 citizens trained in individual and family survival in case of an emergency; the regulation of 6,000 financial and consumer credit institutions to protect the public from financial loss and the regulation of 860 insurance companies, 100,000 insurance agents, brokers, and solicitors, and 50,000 real estate brokers and salespeople to insure financial soundness and business integrity; and the regulation of public utilities plus other industries located in the State.

Physical and Mental Health

This program includes the activities of the Department of Health, and the Division of Mental Health and Hospitals and Mental Retardation in the Department of Institutions and Agencies. In Fiscal Year 1975, 7% of the State Budget, or \$200.5 million was expended in this area. Activities included the continued deinstitutionalism of retarded persons by expanding and improving community services, increases in State aid for county mental hospitals, the development of an updated State mental health plan to better coordinate and distribute mental health services throughout the State, and programs to control narcotic and drug abuse. Program expenditures were made in the areas of chronic illness which provided services to 386,000 alcoholics in New Jersey, hemodialysis support to 994 individuals, and funds to help control such chronic diseases as heart, cancer, and diabetes. Funds were provided for parental and child health services which helped keep the

maternal mortality rate at 2.3 per 10,000 live births, and the infant mortality rate at 18.3 per 1,000 live births. Funds were also provided to 420 municipalities for local health services which assisted 6 million people.

Education and Intellectual Development

This State program encompasses the activities of the Departments of Education and Higher Education, the Public Broadcasting Authority, the Bicentennial Commission and the Council on the Arts.

A total of \$1.2 billion was expended in this program category, or 44% of total State expenditures. Over \$850 million was returned to local governments in the form of State aid.

Major types of State aid provided by the Department of Education include; increased funding for the Bateman-Tanzeman program, which is the equalization aid program to the local school districts; aid for pupil transportation; funds for the Teachers' Pension and Annuity Fund, representing the total cost of the employer share of social security and pension contributions for all teachers in the local school system; and vocational education. Other educational programs included expenditures for handicapped students and pre-school children.

In the area of Higher Education, State expenditures amounted to over \$261 million, which was utilized to support eight State colleges, Rutgers University, New Jersey Institute of Technology, the College of Medicine and Dentistry and state aid to county colleges. The total student enrollment supported by these funds amounted to over 154,000 full time and part time equated students.

Community Development and Environmental Management

This program area includes the Department of Community Affairs, and divisions within the Departments of Environmental Protection and Agriculture. A total of \$122 million or 4% of the State Budget was expended in this area. Expenditures were made in program areas such as disease control and agricultural development, pollution control, recreational activities, and community development management. The largest single activity in this program included state aid disbursements to twenty-four of New Jersey's most financially pressed municipalities in the form of the Municipal Aid Program, and the Safe and Clean Neighborhood Program. By supporting the Safe and Clean Program, the State contributed toward the employment of 740 policemen, and toward the demolition of 380 unsafe buildings.

Economic Development and Income Protection

This program area includes the Divisions of Youth and Family Services, Public Welfare and Medical Assistance and Health Services in the Department of Institutions and Agencies, the Department of Labor and Industry, and the Public Defender's Office and Inmate Advocacy Division of the Public Advocate. A total of \$520 million was expended in this area, and represents 19% of all State expenditures.

The largest program expenditure was in the area of medical assistance and health services, better known as Medicaid. The Medicaid program provides health care for persons receiving Federally aided public assistance, specifically, aid to families of dependent children, aid to families of the working poor, supplementary security income (elderly, blind, disabled), medical assistance for the aged, and foster children under the care of the Division of Youth and Family Services. Some of the kinds of services provided included: general hospital--inpatient and outpatient, nursing facility care, physician services, and prescribed drugs.

The second largest area of expenditure was for welfare. These expenditures occurred largely in the areas of aid to families with dependent children, and the supplemental security income program.

The third major expenditure area was within the Division of Youth and Family Services, which provided for a wide range of social services, including day-care centers, homemaker services, child-abuse programs, and juvenile reform programs.

Expenditures within the Department of Labor and Industry included program areas such as occupational safety and health economic and medical assistance to unemployed and disabled workers, vocational rehabilitation and manpower development.

Expenditures were also made in an effort to expand the commercial and industrial base. One specific example in this area was the establishment of the Economic Development Authority.

Transportation

Program expenditures in this area amounted to \$263 million or 10% of the State Budget.

Expenditures included subsidies to the railroads providing passenger service within the State; and continuance of the bus subsidy program. Monies were also utilized to match Federal highway construction funds, and to fund State highway construction. Additionally, state aid monies were utilized to support the operation, maintenance and construction of local roads and streets.

General Governmental Affairs

In addition to the Governor's Office, this program includes the Departments of Treasury, State and Civil Service; the central administrative office of the Departments of Agriculture and Institutions and Agencies; and the Legislative and Judicial Branches.

A total of \$284 million was expended in Fiscal Year 1975 for these support services--this represents 10% of the State expenditures. Approximately \$60 million was expended for state aid, and included reimbursement to local governments for senior citizens tax reductions, contributions to Police and Firemen's Pension Funds, sales tax distribution, railroad property tax payments and inheritance tax payments.

EXHIBIT V

COMPARATIVE EXPENDITURES BY PROGRAM

(in thousands of dollars)

<u>PROGRAM</u>	<u>GENERAL STATE OPERATIONS</u>		<u>STATE AID</u>		<u>CAPITAL CONSTRUCTION</u>		<u>TOTAL</u>	
	1974	1975	1974	1975	1974	1975	1974	1975
Protection of Persons and Property	\$ 131,500	\$ 148,800	\$ 700	\$ 600	\$ 5,850	\$ 8,300	\$ 138,050	\$ 157,700
Physical and Mental Health	152,500	168,800	24,000	25,400	9,050	6,300	185,550	200,500
Education and Intellectual Development	304,600	331,800	663,600	854,000	19,450	15,200	987,650	1,201,000
Community Development and Environmental Management	42,900	48,200	48,600	57,700	14,480	16,500	105,980	122,400
Economic Development and Income Protection	250,700	287,600	193,600	232,400	220	300	444,520	520,300
Transportation	127,400	159,800	29,200	26,500	86,140	76,700	242,740	263,000
General Governmental Affairs	192,400	218,300	57,500	60,300	5,490	5,900	255,390	284,500
Total	<u>\$1,202,000</u>	<u>\$1,363,300</u>	<u>\$1,017,200</u>	<u>\$1,256,900</u>	<u>\$140,680</u>	<u>\$129,200</u>	<u>\$2,359,880</u>	<u>\$2,749,400</u>

CAPITAL CONSTRUCTION

General

The Capital Improvement Program focuses upon the long-range physical development of the State and its agencies. The program is designed to meet the need for new facilities requested by the departments, to reduce existing gaps in their programs and meet the needs of a rapidly growing population and an expanding state economy.

According to the April, 1975 report of the Governor's Commission To Evaluate the Capital Needs of New Jersey, the total state and local long-term debt as a percent of personal income is below the United State's average, and slightly above the average in per capita terms.

In comparing only the debt of the State government, New Jersey's debt burden is 12 percent higher than the national average measured relative to personal income. However, in comparison to the four eastern states of Connecticut, New York, Massachusetts, and Maryland all are higher than New Jersey.

Using another measure, debt relative to assessed property valuation, New Jersey is well below the national average. The state's ratio of 4.9 percent is only a portion of Pennsylvania's ratio of 18.2 percent and New York's 14.2 percent.

Indebtedness

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. These constitutional provisions do not apply to the creation of debts or liabilities for purposes of war, or to repel invasion, suppress insurrection or to meet emergencies caused by disaster (Article VIII, Sec. 2, par. 3). No tax anticipation notes, bond anticipation notes or revenue anticipation notes have been issued by the State of New Jersey since the State Constitution was adopted in 1947.

As shown in Exhibit VI the citizens of New Jersey have authorized over \$2 billion in bonded debt--all of

which is guaranteed by the full faith and credit of the State. Of this total authorization, \$1,354.6 billion was issued and outstanding, an additional \$483.5 million remained unissued and \$176.8 million has been retired as of June 30, 1975.

The \$640.0 million State Transportation bond issue of 1968 represents the largest single voter approved authorization. At June 30, 1975, \$514.5 million of these bonds were outstanding and \$100.5 million remained unissued. The entire \$337.5 million Public Building Construction Issue of 1968 has been sold and \$323.0 million remains outstanding. Of the \$271.0 million Water Conservation Bonds approved in 1969, \$129.8 million is outstanding and \$136.0 million remains unissued. The most recently approved bond issue, \$200.0 million for Recreation and Conservation Land Acquisition, remains unissued.

In addition to the general obligations of the State as referred to above, the State is "morally obligated" with respect to the payment of debt service on \$302,000,000 New Jersey Sports and Exposition Authority, Sports Complex Revenue Bonds (P.L. 1973, Chapter 286), \$152,816,000 New Jersey Housing Finance Agency, General Housing Loan Bonds (P.L. 1967, Chapter 81, as amended by P.L. 1967, Chapter 246) and \$16,000,000 South Jersey Port Corporation, Marine Terminal Revenue Bonds (P.L. 1968, Chapter 60). The State presently anticipates that the prospective debt service for the first two of these entities will be provided from revenues derived from the respective projects or established reserves. In the case of South Jersey Port Corporation, Marine Terminal Revenue Bonds, revenues from this project have not been sufficient to cover debt service since 1972 and the New Jersey Legislature has been providing the necessary funds under the "moral obligation."

Furthermore, the State Legislature has authorized a total of \$220,000,000 Additional State School Building Aid Bonds pursuant to P.L. 1968, Chapter 177, P.L. 1971, Chapter 10 and P.L. 1971, Chapter 12. These laws provide for the payment by the State of debt service on certain bonds issued by schools, municipalities and community colleges. Such payment is made directly to the paying agents for the various issues of bonds. A total of \$197,515,576 of Additional State School Building Aid Bonds have been approved under these authorizations.

The State also guarantees payments on \$177,340,000 bonds of the New Jersey Highway Authority due 1975-1988. An additional \$1,000,000 Emergency Housing Bonds (Act of 1946) remain authorized but are not to be issued.

EXHIBIT VI
STATEMENT OF BONDED DEBT AUTHORIZED AND OUTSTANDING AS OF JUNE 30, 1975
(in thousands of dollars)

	<u>ACT OF</u>	<u>TYPE</u>	<u>AUTHORIZED</u>	<u>UNISSUED</u>	<u>RETIRED</u>	<u>6/30/75 OUTSTANDING</u>	<u>6/30/74 OUTSTANDING</u>	<u>NET CHANGE</u>
State Transportation.....	1968	Serial (to 2003)	\$ 640,000	\$100,500	\$ 25,050	\$ 514,450	\$ 503,900	\$10,550
Highway Improvement and Grade Cross- ing Elimination.....	1930	Serial (to 1990)	58,000	.....	51,040	6,960	7,575	(615)
Public Building Construction.....	1968	Serial (to 2003)	337,500	.....	14,500	323,000	329,100	(6,100)
Institution Construction.....	1960	Serial (to 1992)	40,000	.....	18,500	21,500	23,300	(1,800)
Institution Construction.....	1964	Serial (to 1989)	50,000	.....	9,800	40,200	42,200	(2,000)
Water Development.....	1958	Serial (to 1988)	45,850	.....	19,350	26,500	29,000	(2,500)
Water Conservation.....	1969	Serial (to 2001)	271,000	136,000	5,175	129,825	96,950	32,875
26 Higher Education Bonds.....	1959	Retired	.....	.....	.....	.....	7,000	(7,000)
Higher Education Construction.....	1964	Serial (to 1989)	40,100	.....	5,600	34,500	35,500	(1,000)
Higher Education Construction.....	1971	Serial (to 2003)	155,000	10,000	.....	145,000	90,000	55,000
Recreation and Conservation Land.... Acquisition.....	1961	Serial (to 1992)	60,000	.....	27,000	33,000	35,600	(2,600)
Recreation and Conservation Land.... Acquisition.....	1971	Serial (to 1995)	80,000	15,000	.....	65,000	50,000	15,000
Recreation and Conservation Land.... Acquisition.....	1974	Serial (to)	200,000	200,000	.....	.....	.....	.....
Housing Assistance.....	1968	Serial (to 1997)	12,500	.....	800	11,700	12,300	(600)
State Facilities for Handicapped....	1973	Serial (to 1989)	25,000	22,000	.....	3,000	3,000	.....
			<u>\$2,014,950</u>	<u>\$483,500</u>	<u>\$176,815</u>	<u>\$1,354,635</u>	<u>\$1,265,425</u>	<u>\$89,210</u>

Debt Service

The following Exhibit presents the schedule for repayment of principal and interest on outstanding State debt. The total repayment of \$2,164.4 billion consists of \$1,354.6 billion of principal and \$809.8 million in interest. These monies will be raised by future annual appropriations.

EXHIBIT VII

STATE OF NEW JERSEY

DEBT SERVICE

(000's)

<u>Fiscal Year</u>	<u>Total Principal and Interest</u>	<u>Fiscal Year</u>	<u>Total Principal and Interest</u>
1976	\$112,243	1990	\$83,198
1977	114,311	1991	73,385
1978	118,015	1992	69,417
1979	122,840	1993	66,777
1980	120,466	1994	62,708
1981	117,258	1995	59,870
1982	112,688	1996	44,543
1983	109,233	1997	42,659
1984	109,346	1998	31,917
1985	107,302	1999	27,614
1986	105,346	2000	24,837
1987	101,118	2001	22,793
1988	98,598	2002	9,159
1989	90,162	2003	6,642

Total \$2,164,444

Capital Expenditures

The 1975 Total Expenditure for Capital Construction of \$129,201,000 includes annual principal payments on state debt of \$35,790,000. The net new capital expenditures financed from current appropriations during the year amounted to \$93,411,000.

Figures presented in Exhibit VIII represent expenditures from the State budget.

Federal, non-state and current bond issue funds are not included in this exhibit.

EXHIBIT VIII

CAPITAL EXPENDITURE SUMMARY

(in thousands of dollars)

<u>Capital Construction</u>	<u>1974</u>	<u>1975</u>
Protection of Persons and Property	\$ 5,854	\$ 8,273
Physical and Mental Health	9,056	6,274
Educational and Intellectual Development	19,452	15,181
Community Development and Environmental Management	14,480	16,514
Economic Development and Income Protection	220	290
Transportation	86,146	76,736
General Governmental Affairs	5,491	5,933
	<hr/>	<hr/>
Total Capital Construction	<u>\$140,699</u>	<u>\$129,201</u>

NEW JERSEY PERFORMANCE IN PERSPECTIVE

NATIONAL AND STATE ECONOMIC TRENDS

The U. S. Economy

There is little disagreement that the U. S. economy is on the road to recovery. After reaching a cyclical trough in April, 1975, the U. S. economy has continued an upward trend bolstered by six consecutive months of industrial production gains. The increase in productivity has resulted in modest employment and income gains. These, in turn, have rekindled retail sales including the sales of automobile and other durable goods.

Since major adjustments in business inventories are now behind us, the continuation of recovery hinges on the strength of final demand.

Through the end of this year, capital investment is expected to decline by roughly 14% from 1974 levels since the capital goods market normally lags the trough of a business cycle by roughly two quarters. The resurgence of real economic growth suggests an optimistic outlook for capital spending, which should be on the way up next year as corporate cash flow and profits improve. Corporate profits are expected to rise in excess of 20% next year based on productivity gains and price increases which will again inflate the book value of business inventories. While the expected profit recovery is substantial, profits will not return to their mid-1974 peak, and the rate of return to capital will remain below non-recessionary postwar periods for the near term future.

The arch enemy of economic recovery is inflation. The economy is just emerging from the bottom of recession with unemployment over 8% and industry operating 30% below capacity, yet the price spiral has still been evident during the last half of 1975. But modest increases in industrial prices will dampen the annual rise in the Consumer Price Index to 7-8%. Furthermore, productivity gains have eased the burden of labor costs and demands for wage gains have softened in the face of slack employment opportunities. Thus, there is little support for continuing inflationary pressures.

In summary, the net effects of business recovery imply real economic growth in the neighborhood of 4% for 1975 which is moderate compared to other postwar expansions. Since the recovery did not gain momentum until mid-1975, year-end growth is on the low side, but the forces for a continuing recovery extend into 1976.

The New Jersey Economy

Fiscal Year 1975 was anything but a banner year for the New Jersey economy. Key statistics have reinforced earlier indications that the State had suffered through its worst recession since the 1930's. Although there has been a measurable increase in the pace of economic activity since mid-spring 1975, the recession has highlighted fundamental weaknesses in the structure of our economy which could reduce the rate of recovery.

The New Jersey economy at present reflects encouraging similarities with the improving U. S. economy. Signs of recovery are highlighted by the recent increases in real Personal Income. These have stimulated retail spending, hopefully indicating that the long awaited rebirth of consumer confidence may have begun. The manufacturing work week has expanded but, as yet, this has not meant more jobs for the New Jersey labor force. The job vacancy and openings rate still remain at a low level.

During the year, the services industry has expanded at about the same rate as the labor force, providing some stability to the economy. In the face of job cutbacks in the cyclically sensitive goods producing industries, the service sector continued to provide additional jobs. Employment in construction, wholesale-retail, and transportation has been cyclically sensitive and remains at lower levels. Local and state governments have been net generators of employment throughout 1975.

With the manufacturing sector characterized by under-utilized capacity, the outlook for industrial construction is not good. Residential construction suffered in 1975, but the near term outlook is encouraging. Over the twelve months ending June, 1975, the yield on Federal funds dropped to 5.15%, increasing the relative attractiveness of deposits at thrift institutions and spurring record net savings inflows on the national level. This funding base, coupled with increased disposable income and employment, should provide adequate economic support for the expected housing starts recovery.

At present, New Jersey's economic indicators are painting a divergent picture. Expansion of the work week, industrial electric power sales, and trade activity point to economic recovery; but without substantial increases in employment opportunities, it cannot conclude that New Jersey is out of the shadows of recession.

The Economy, State Government, and Tax Revenues

The fiscal picture for State government is always at its worst late in a recession. Fiscal Year 1975 was no exception. State expenditures are determined by program decisions of better years. However, revenues falling short of expectations plus the added social costs of recession combine to

magnify fiscal problems. The problem lies, however, within the State tax structure which relies heavily on taxes which have not expanded as rapidly as income. As a case in point, Personal Income has increased 16% over the past two tax years while the corresponding tax yields have grown by just 10%. Fiscal Year 1975 witnessed a 7.8% increase in Personal Income but only a 3.9% rise in state tax revenues. Without new taxes the end result can only mean fiscal restraint and fewer services supplied by State government.

The major taxes levied by state government can be grouped into three somewhat distinct categories: income taxes, taxes amounting to a fixed sum per unit (excise taxes), and taxes depending on the value of the item (ad valorem). The classification scheme becomes apparent when the growth rates of each category are measured over the recent business cycle:

NEW JERSEY MAJOR TAX REVENUES

Fiscal Year 1975

	<u>1974-75 Growth Rate</u>
<u>Income Taxes:</u>	
Corporate Profits	10.1%
Commuter Income	<u>4.6%</u>
	+ 9.1%
<u>Major Ad Valorem Taxes:</u>	
Sales and Use	4.8%
Transfer Inheritance	- 6.7%
Business Personal Property	9.6%
Insurance Premiums	4.6%
Corporate Net Worth	<u>6.0%</u>
	+ 4.2%
<u>Major Excise Taxes:</u>	
Motor Fuels	1.5%
Cigarette	- 0.4%
Motor Vehicle Fees	1.3%
Alcoholic Beverages	<u>- 3.7%</u>
	+ 0.5%
Total Major State Tax Collections	+ 3.9%
Personal Income	+ 7.8%

In nominal terms, total State tax collections grew by less than 4%. Adjusting for double digit inflation implies a decline in real tax collections of 5-6%.

Income taxes, corporate net income and commuter income taxes were the only tax category to grow faster than Personal Income, 9.1% to 7.8%. Corporate profits in 1974 and 1975 were distorted by sharp price increases which inflated the value of overstocked inventories. States benefited by taxing these "inventory profits". These are paper profits which do not reflect actual earnings to corporate equity holders. Subsequent accounting changes by major manufacturers and continued inventory liquidation should prevent this situation from reoccurring next year. The near term outlook for corporate profits is favorable based on recent productivity gains and restraint in factor prices. Recent increases in the corporate income tax rate plus the addition of financial institutions to the tax base should provide an income elastic revenue source through Fiscal Year 1976. Reliance on the commuter income tax as a source of income elastic revenue is doubtful, pending the outcome of litigation in other states.

As a whole, specific excise taxes grew by less than 1%, which cannot be totally unexpected during periods of rampant inflation. Since commodities subject to excise taxation are usually not among the necessities of life, consumers purchase fewer of these items as prices rise and real incomes fall. Specific examples are the net decline in cigarette and alcoholic beverages taxes.

Although gasoline taxes and motor vehicle fees are not normally affected by business cycles, the increased cost of OPEC oil has limited the growth of these revenues to 1.5% and 1.3% respectively.

The advantage of an ad valorem tax is that it does not erode as rapidly during inflationary times and that its direct relationship to an item's value makes it somewhat more elastic. The State's major ad valorem taxes grew by 4.2%, still far short of the growth in Personal Income.

The retail sales tax, representing over 35% of New Jersey's tax revenues, grew by a disappointing 4.8%. The decline in households' economic position throughout 1975 has been reflected in limited demand for durables, especially automobiles. Consumer attitudes, blasted by price increases and rising unemployment, have resulted in a high savings rate and a decline in outstanding installment credit. If this trend continues into 1976, consumers will have a light credit burden and be in a position to step up spending if the economic environment reaches a point that can justify normal consumer confidence.

A continued trend to economic recovery will be favorable to both corporate net worth and business personal property tax revenues.

The lackluster economy in 1975 supported dismal revenue estimates made one year earlier, necessitating expenditure cuts to balance the State's budget. Rising taxes together with the worsened economic position of households has created a willingness among residents to accept fewer State services. Despite austerity campaigns, welfare costs will rise and more employees will be needed to supervise transfer payments as well as other social and health programs. Lastly, it will likely cost more to operate State government as productivity gains in the delivery of public services are difficult to achieve.

Fiscal restraint has been a by-product of economic stagnation. Yet we should consider both sides of the coin and not only ask how does the economy affect expenditures, but rather, how does State spending influence the economy? In other words, to what extent does \$1.00 of government spending, through a multiplier process, increase the level of State income? The process is, in reality, circular: Economic activity falls--lower tax revenues--less State spending--less economic activity. Thus, a tax structure that is income inelastic is, in part, responsible for the State's economic problems.

The section on National and Economic trends was prepared by the Economic Policy Council, and the Office of Economic Policy.

COMPARISON WITH NEIGHBORING STATES

General Fiscal Situation

Crisis dominates the fiscal scene for most states, especially those in the Northeast. Inflation has affected government as much as consumers and business. As business activity slowed the growth of some revenues slowed as well. In addition, the combination of inflation and considerable wage rigidity has swelled public resistance to additional taxes even beyond its generally high level. The attitude of the general public is paradoxical in that proposed reductions in services are resisted with somewhat the same vigor.

Of the eight eastern states from Maryland North, Connecticut, Massachusetts and New York have or require tax packages to meet expenditures in the current fiscal year. New York and Massachusetts anticipate the need for tax packages for Fiscal Year 1977. All but perhaps Pennsylvania expect extremely tight budget conditions and Connecticut, Massachusetts and New York have budget deficit problems.

EXHIBIT IX

FINANCIAL COMPARISON OF NEW JERSEY
WITH OTHER STATES -- 1974*

Statistic	New Jersey		All States	High		Low	
	Amount	Rank		State	Amount	State	Amount
Disposable Income	\$5491	2	\$4629	Alaska	\$5913	Miss.	\$3302
Number of State Employees Per 10,000 Population	95	49	126	Alaska	388	Ohio	90
Per Capita Government Expenditure Per Dollar Of Disposable Income	.11	49	.14	Alaska	.35	Texas Neb., Kan. Ind., Mo.	.10
	(Also Neb., Ill., Ohio, Fla., Conn.)						
Tax Revenue Per Capita	279	43	352	Hawaii	584	NH	204
State Share Of Total State and Local Tax Revenue (1973)	41.4%	50	56.2%	New Mexico	79.8%	NJ	41.4%

* Data obtained from U. S. Department of Commerce, Bureau of Census, Governmental Finances in 1974, and Public Employment in 1974.

Massachusetts borrowed \$450 million during Fiscal Year 1975 to meet its operating expenses. It has dedicated revenues for repayment of this loan and is required to provide a substantial plan for restoring fiscal order.

New Jersey in Perspective

New Jersey State government is one of the most frugal of all State governments. Despite its high level of disposable income, 2nd highest in the nation in 1974, it was 49th in the nation in number of State employees per capita and in State government expenditure per dollar of disposable income. It was 43rd in the nation in tax revenue spent by the State in 1973.

The tax potential of New Jersey remains highly significant. New Jersey ranked 33rd in the nation in 1974 in State and Local government own-source revenue per dollar of per capita disposable income. If New Jersey were to increase its own-source revenue from 15.4 cents per dollar of per capita disposable income to the national average of 17.0 cents, nearly \$650 million in additional revenue would be generated. All New Jersey's neighboring states are above the national average: Pennsylvania--17.5, Maryland--17.6, Delaware--17.9, and New York--22.6 cents. The potential tax level consistent with the region is considerably higher. If New Jersey were to increase its own-source revenue flow to the average of its neighboring states, 18.9 cents per dollar of per capita disposable income, over \$1.4 billion in additional revenue would be generated.

EXHIBIT X

FINANCIAL COMPARISON OF NEW JERSEY
WITH EIGHT EASTERN STATES*

PER CAPITA OWN SOURCE REVENUE
PER DOLLAR OF PER CAPITA DISPOSABLE INCOME

New York	.226
Massachusetts	.185
Delaware	.179
Maryland	.176
Pennsylvania	.175
Rhode Island	.159
<u>New Jersey</u>	<u>.154</u>
Connecticut	.148

COST OF STATE GOVERNMENT PER DOLLAR
OF PER CAPITA DISPOSABLE INCOME

<u>New Jersey</u>	<u>.11</u>
Connecticut	.11
Maryland	.14
Massachusetts	.15
Rhode Island	.15
Pennsylvania	.16
New York	.16
Delaware	.17

NUMBER OF STATE EMPLOYEES PER
10,000 Population - 1974

<u>New Jersey</u>	<u>95.0</u>
New York	104.0
Pennsylvania	111.0
Massachusetts	120.0
Connecticut	128.0
Maryland	149.0
Rhode Island	187.0
Delaware	288.0

STATE GOVERNMENT FORTION OF TOTAL
STATE AND LOCAL TAX REVENUE - FY 1973

<u>New Jersey</u>	<u>41.4</u>
Massachusetts	49.5
New York	50.1
Connecticut	51.1
Maryland	56.9
Rhode Island	59.3
Pennsylvania	63.1
Delaware	78.6

* Data obtained from U. S. Department of Commerce, Bureau of Census, Governmental Finances in 1974, and Public Employment in 1974.

NEW JERSEY'S EFFORT TO IMPROVE FINANCIAL MANAGEMENT

The Comptrollership function for New Jersey State government is placed, by statute, in the Director of the Division of Budget and Accounting. He carries out those duties and responsibilities primarily through the Bureau of Accounting, but portions also devolve upon the Bureau of Data Processing and the Bureau of the Budget.

ORGANIZATIONAL CHANGES

Several significant organizational changes have been effected during the past several years in order to strengthen the organizational capability to manage the State's financial affairs.

First, chronologically, was the establishment of a Management Improvement section within the Bureau of the Budget. This section directs its efforts to improving management of State government agencies. Some of the specific projects undertaken by this unit include: improvement of the cash management procedures in the State, review of the State's motor pool operations, analysis of the permit processing procedures in the Department of Environmental Protection, and data processing studies.

A second new unit, the Internal Audit Unit, was established within the Bureau of Accounting. This unit has directed its efforts primarily toward monitoring agency compliance with fiscal regulations, improving fiscal procedures and controls, and developing formal instructions and regulations in the broad area of accounting and financial management. It has also provided direct assistance in the design and implementation of improved agency accounting systems and procedures.

The Bureau of Accounting is reorganizing to regroup under the Bureau Supervisor all of the functional units under two Assistant Supervisors, one for Accounting Operations and the other for Financial Management.

IMPROVED MANAGEMENT TECHNIQUES

As the organizational changes described above evolved, they have brought with them a number of improvements in financial management techniques and procedures.

1. Cash Management -- Recognizing that bank balances in demand accounts could represent unused earning potential, significant reductions in such balances were effected progressively during 1973 and 1974, thus releasing substantial amounts for investment. In 1974, approximately \$70 million of additional investments, made possible by improved cash management procedures, increased General Treasury earnings by more than \$6 million.

While this is an impressive record, there are still additional opportunities for more precise forecasting of cash flow requirements, increased control of account balances, improved revenue processing procedures to shorten the time lag between receipts and deposit, and other improvements in cash management and reporting procedures. All of these are being followed up as expeditiously as possible.

2. Accounts Receivable -- Prior to the installation of the new Revenue Accounting System, accounts receivable were controlled almost entirely by the individual State agencies, with some oversight by the Accounting Bureau staff on an annual or semi-annual basis. Realization of revenues under that arrangement was largely dependent upon the varying perceptions of State agency personnel of the need for prompt billing and collection of reimbursements or advances from the various funding sources.

In conjunction with the activation of revised procedures concomitant with the installation of the new Revenue Accounting System, accounts receivable are now recorded in the central revenue accounting records, and Accounting Bureau personnel selectively monitor agency activity in billing and collection of revenues from those sources.

3. Fringe Benefit Recoveries -- As a regular part of the processing and monitoring of State agency applications for program/project grants-in-aid from Federal and other non-State fund sources, the Division of Budget and Accounting has required the inclusion of employee fringe benefits costs (pension and insurance, health benefits, Social Security contributions, for example) as direct program costs of the program or project. Responsibility for actual billing and collection of the applicable charges for such fringe benefits had been left to the various agencies receiving the grants. Unfortunately, this resulted in a wide range of conformity to the requirement that such costs be recovered.

Realizing this fact, the Division of Budget and Accounting developed procedures designed to insure that all appropriate charges would be recovered. Using payroll charges as a base, a unit in the Accounting Bureau now prepares billings on a current basis and follows up regularly on collections.

4. Indirect Cost Recoveries -- State government agencies have for many years been recovering from various Federal and other non-State funding sources some portion of the overhead and ancillary costs attri-

butable to the administration of programs funded from those sources. During the past two years, the Division of Budget and Accounting has systematized the recovery of such indirect cost reimbursements by developing, prescribing and enforcing uniform regulations which take maximum advantage of provisions in Federal program regulations relating to such cost recoveries. Total recoveries in Fiscal Year 1975 were \$3.6 million, compared with \$1.8 million in Fiscal Year 1974. A recently adopted regulation makes clear the requirement for recovery from all non-State funding sources.

5. Financial Reporting -- The Division of Budget and Accounting has prepared and published financial reports primarily in conformity with the statutory requirements. In addition, as an integral part of the computerized Appropriation Accounting System, which was implemented on July 1, 1973, a number of regular, periodic reports were included in the design of the system. Those reports provide tools necessary for accounting control, agency program fiscal management, management of the purchasing function, and other central and/or department or agency management purposes. Distribution of the reports varies with the purpose and the level of management affected.

This report is a first attempt to present pertinent information about the State's fiscal operations in a format designed to acquaint the general public with the wide range of programs and activities in which the State and its agencies are engaged.

At the same time, plans are under way to revise the format of the monthly fiscal report to present the data summarized in such a way that the State's fiscal operations are readily understandable to financial managers, members of the Legislature, to the representatives of public and private agencies, and to the general public.

6. Audit Conferences and Follow Up -- Until about two years ago the activities of the State Auditor's Office were concentrated on auditing revenues, trust funds, and some other special funds. Audit reports which were issued by the State Auditor were reviewed by the affected agency and by the Division of Budget and Accounting, and some attempts were made to reach agreement on adoption or implementation of the recommendations.

As the State Auditor's Office evolved, over the past two years, and assumed its statutory responsibility to "conduct post-audits of all transactions and accounts kept by or for all departments," certain procedures were adopted which require the active participation of certain staff members of the Division of Budget and Accounting. Staff of the Division now participate, along with other department or agency representatives, in the review of the entire audit report, an analysis of the recommendations, and in an audit conference, at which the recommendations are discussed and the position of the Division with respect to the adoption, modification or rejection of the auditor's recommendations is presented. Upon reaching agreement on the recommendations, the Division staff now follows up on the implementation of those recommendations which involve the functions and responsibilities of the Director of the Division of Budget and Accounting.

7. Authority Review Program -- During the past two years, the Division has strengthened its review of the financial activities of public authorities, including those created under bi-state compacts. Previously, the transactions of the State's authorities were not reviewed and analyzed on a systematic basis by the Treasury Department. Now the audits of authorities are reviewed by the Division of Budget and Accounting with an eye towards apprising the management personnel of the Treasury Department of the activities of these Authorities.

The thrust of these analyses are oriented toward preparing study reports, memoranda and financial analyses resulting from review of annual budgets, reports of outside public accountants, minutes of meetings of the Boards and Commissions, toll increase proposals, and other fiscal data.

There are presently twenty-five authorities and commissions who spend over \$750 million per year.

8. Purchase Bureau Cooperation -- In late Fiscal Year 1975, the Division of Budget and Accounting in cooperation with the Division of Purchase and Property began a review of systems and procedures which interrelate between the two organizations. During the next year, we expect to have streamlined several of the procedures with the goal of reducing delays in acquiring goods and services and paying for these goods and services.

MAJOR SYSTEMS CHANGES

In the recent past, a new computerized Appropriation Accounting System was adopted and installed as the first phase of a modern, fully automated Appropriation/Revenue Accounting System.

During the past two years, the Revenue Accounting portion was under development, and on July 1, 1975, that system became operational. This Revenue Accounting System enables the Division of Budget and Accounting to maintain a current awareness as to the status of revenue collections. Weekly and Monthly reports are produced so as to allow management to closely monitor and compare the receipt activity by revenue category or account, to compare revenue collected against budget estimates, and revenue collection performance relative to prior year collections.

As an outgrowth of this comprehensive system, some significant improvements have become possible in the annual budget preparation process. Using the financial data already in the system, along with additional data entered by budget staff members, major portions of the financial tables required for the budget document are now produced as computer printouts. Also, the "Summary of Appropriations by Organization," and the "Summary of Appropriations by Program" are now produced as computer printouts, thus eliminating a very significant amount of hand tabulating, adding, and proof reading which had previously been necessary.

The Statewide Appropriation/Revenue Accounting System centered in the Accounting Bureau is a fully automated financial information system. It incorporates advanced design and information processing concepts to provide greater flexibility, service, information and control of the financial operations for all State departments and agencies. The system is designed to operate in a sophisticated information processing environment to provide State agencies, the Division of Budget and Accounting and Management with a broader range of financial information, statistics and controls on a timely basis.

THE ECONOMIC OUTLOOK FOR 1976

The year 1976 will see further economic recovery and with it some modest improvement in unemployment. The country's Gross National Product will grow approximately 5% in real terms and another 6% because of inflation. In current dollar terms, this means a GNP of \$1,640 billion next year. By historical standards, a 5% real rate of expansion represents a slow pace for an economy coming out of deep recession. Undoubtedly, this slow growth will limit employment opportunities. For the nation the rate of unemployment will fall to about 7.5% during 1976, compared with 8.5% at present.

New Jersey's total output will also increase by something like 5% in real terms and an estimated 6% because of inflation. This will have little impact on the State's unemployment rate, which is not likely to drop below 10% during this period of economic recovery. A real growth in State output between 3 and 4% is required each year just to maintain a constant rate of unemployment. The reason is that New Jersey's labor force is growing and unless new jobs open up as fast, the unemployment rate will inevitably rise.

At present, national economic policies are designed to produce a gradual and sustainable rate of recovery rather than a surge of activity. The fear is that a real bounce upward would also trigger a new flare up of inflation, followed by fiscal and monetary restraints and a new period of stop-go economic cycles. After all, it was a 12% inflation rate which helped produce the recession of 1974-75. Although high, inflation has come down to about half that rate. To keep it at 6% per annum will require a policy of steady and slow rather than rapid and unstable recovery.

SOME NEW FINANCIAL FACTORS

Business activity soared in the third quarter of 1975 due mainly to a reversal in inventory policy by business, which had been drawing down very large amounts of previously accumulated inventories to meet final demands. With business prospects brighter, firms reversed their previous policy of inventory liquidation and brought production into line with final sales by abandoning its reliance on stored inventory. Though the inventory reduction is out of the way, the forces for inventory accumulation are weak, so other sources of expansion will have to account for further economic growth in the months ahead. But, several economic forces will restrain the growth in final demand. Among these are:

Slower State and Local Spending -- States and local communities are no longer promising an endless increase in benefits. The need to impose new measures of austerity began

with New York City and New York State and has spread rapidly to other communities. A new fiscal conservatism seems to be emerging which will mean fewer new public jobs. Even at the risk of creating serious service gaps, states and localities are laying off workers and constraining new expenditures. Like other states, New Jersey will both suffer from and contribute to this developing trend.

A New Examination of Federal Deficits -- At the national level, the notion that we can deficit finance almost without limit is disappearing. Our nation is committed to managing stable economic growth, but where it was once fashionable to aim toward 4% unemployment, it is possible today to talk about a longer run 6 to 7% rate. Thus, there is a new examination of how much slack the economy will accept to avoid surging inflation.

A New Prudence Among Borrowers -- Corporations were stung by the excessive expansion of the 1960's. Now a new attitude prevails. Firms are budgeting to conserve assets, to reduce short term debt, and to increase their equity base by retaining profits. This new climate has reduced the venturesomeness of new as well as old businesses and promises to provide a less flamboyant and more sustainable rate of economic growth.

Conservative Banking -- Must of the same shift in financial attitudes applies to commercial banks. The result is a tightening of credit standards and a massive effort to restore liquidity. Obviously, conservative banking will mean more conservative economic growth.

Consumer Caution -- Individual consumers and investors have also become infused with the new philosophy of conservatism. Although reports of commercial sales remain encouraging and auto sales appear on the rebound, there are also reports of hesitation to use excessive amounts of credit.

The results of these trends will be to repair the recent damage done to individual, corporate, and bank balance sheets by high inflation and tight money. These trends will also serve to moderate the rate of real economic growth. Unfortunately, they will leave a considerable amount of slack in manpower and plant capacity. Fortunately, they contribute toward a lessening of inflation.

It seems clear then that like the nation, New Jersey is headed for economic recovery from the serious and deep recession now behind us. In the year ahead, the recovery will continue unabated but at a slow and measured pace. That means a modest but insufficient dent in unemployment.

The section on the Economic Outlook for 1976 was prepared by the Economic Policy Council, and the Office of Economic Policy.

