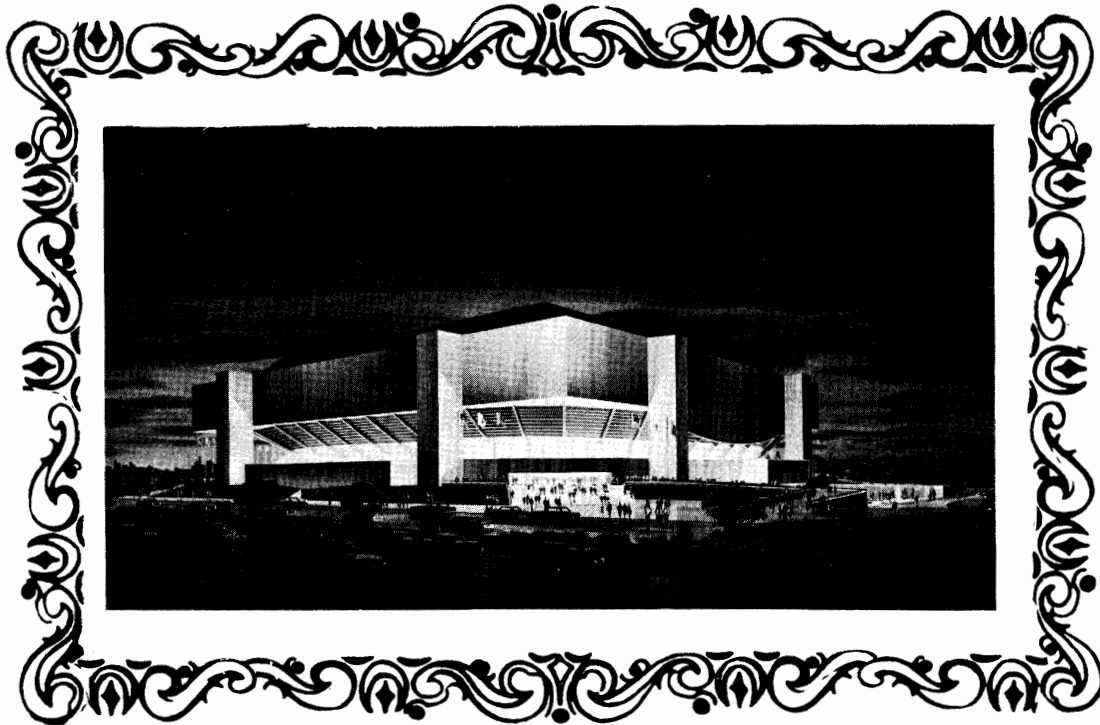


STATE OF NEW JERSEY

ANNUAL FISCAL REPORT

FISCAL YEAR 1977-1978



Brendan Byrne
Governor

Clifford A. Goldman
State Treasurer

Edward G. Hofgesang
Director & Comptroller

DESCRIPTION OF COVER

On the cover is the architect's drawing of the Arena under construction in the Meadowlands by the New Jersey Sports and Exposition Authority.

The Arena will seat approximately 20,000 people, and will be suitable for basketball, hockey, and other sports and entertainment.

The Arena will be financed with revenue bonds of the New Jersey Sports and Exposition Authority. Under the new financial structure of the Sports Authority, brought about by the refinancing of its bonds on December 14, 1978, as authorized by the voters on November 7, 1978, the Authority will save an estimated \$42 million in debt service costs.

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1978 FISCAL REPORT

Table of Contents

Letter of Transmittal

1978 Highlights

I. NEW JERSEY EFFORTS TO IMPROVE FISCAL MANAGEMENT

| | |
|--|---|
| A. Refinancing of Sports Authority Bonds | 1 |
| B. Productivity Program | 2 |
| C. Productivity Investment Fund | 2 |
| D. Capital Planning Process | 3 |
| E. Monitoring of Federal Cash Flow | 4 |
| F. Third Party Contract Monitoring | 4 |

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

| | |
|---------------------------------------|---|
| A. General Framework | 5 |
| B. Money Flow Within the System | 5 |
| C. Federal Aid | 5 |
| D. State Tax Structure | 7 |
| E. Local Tax Structure | 7 |

III. THE STATE'S FINANCIAL SYSTEM

| | |
|--|----|
| A. The Budget and Appropriation System | 9 |
| B. The Fund Structure | 9 |
| C. General State Fund | 10 |
| D. Dedicated and Trust Funds | 10 |
| E. The Accounting System | 10 |

IV. WHERE THE MONEY COMES FROM

| | |
|---|----|
| A. Anticipated (Budgeted) Revenue | 12 |
| B. Revenues Appropriated-General | 15 |
| C. Revenues Appropriated-Federal | 17 |
| D. Surplus | 17 |

V. WHERE THE MONEY IS EXPENDED

| | |
|---|----|
| A. State Aid to Local Governments | 19 |
| B. General State Operations | 20 |
| C. Debt Service | 20 |
| D. Capital Construction | 23 |

| | | |
|-------|---|----|
| VI. | STATE DEBT | |
| A. | Overview | 24 |
| B. | Full Faith and Credit Debt | 24 |
| C. | Outstanding Bonded Debt | 25 |
| D. | Lease Agreements | 25 |
| VII. | DEBT OF STATE PUBLIC AUTHORITIES AND AGENCIES | |
| A. | Bond-Issuing State Authorities and Agencies in New Jersey . | 28 |
| B. | Regional Bond-Issuing Authorities | 32 |
| C. | Outstanding Debt of New Jersey State Authorities | 34 |
| VIII. | THE COMPARATIVE BALANCE SHEET | |
| A. | The Comparative Balance Sheet | 37 |
| B. | Comparative Balance Sheet as of June 30, 1978 and June 30, 1977 | 38 |
| C. | Notes to Comparative Balance Sheet | 40 |
| IX. | RELATED FINANCIAL ACTIVITIES | |
| A. | Financing of Pensions | 41 |
| B. | Employee Relations | 42 |
| C. | Investments | 43 |
| X. | NEW JERSEY'S PERFORMANCE IN PERSPECTIVE | |
| A. | A Review of the Fiscal Year 1978 Economy | 45 |
| B. | The Economic Outlook for Fiscal Year 1979 | 47 |
| C. | Financial Comparisons With Other States | 48 |

LIST OF EXHIBITS

| | | |
|--------------|--|----|
| Exhibit I | - FLOW OF GOVERNMENTAL REVENUES--NATIONWIDE | 6 |
| Exhibit II | - THE NEW JERSEY STATE AND LOCAL TAX STRUCTURE | 8 |
| Exhibit III | - COMPARISON OF BUDGETED REVENUE | 13 |
| Exhibit IV | - REALIZED BUDGETED REVENUE TOTALS FOR FY 1969-1978 .. | 14 |
| Exhibit V | - COMPARISON OF TOTAL GENERAL FUND REVENUES | 16 |
| Exhibit VI | - NEW JERSEY'S SURPLUS AS A PERCENT OF TOTAL APPROPRIATION | 18 |
| Exhibit VII | - COMPARATIVE BUDGETED EXPENDITURES BY PROGRAM | 21 |
| Exhibit VIII | - COMPARATIVE BUDGETED EXPENDITURES BY DEPARTMENT | 22 |
| Exhibit IX | - DEBT SERVICE SCHEDULE | 26 |
| Exhibit X | - OUTSTANDING BONDED DEBT OF STATE | 27 |
| Exhibit XI | - MORAL OBLIGATION DEBT | 34 |
| Exhibit XII | - AUTHORITY AND AGENCY DEBT | 35 |
| Exhibit XIII | - SUMMARY--STATE AUTHORITIES AND OUTSTANDING DEBT | 36 |
| Exhibit XIV | - COMPARATIVE BALANCE SHEET | 38 |
| Exhibit XV | - DATA COMPARISON OF NEW JERSEY STATE GOVERNMENT WITH OTHER STATES (1977) | 48 |

To the Honorable:
Governor
Legislature
People of New Jersey

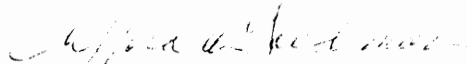
We are pleased to submit this Annual Report for the fiscal year ending June 30, 1978 presenting financial information in a non-technical style. Our detailed accountants' report, published in November, 1978, contains the traditional detailed schedules relating to revenues, appropriations and expenditures, the balance sheet and the analysis of surplus.

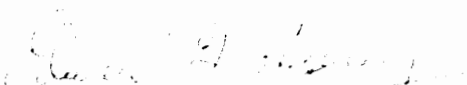
During fiscal year 1978 the State maintained its strong financial and management posture. The State continued:

- . to be rated triple A by both major rating agencies;
- . to maintain actuarially sound pension funds;
- . to invest monies in accordance with prudent fiduciary standards of yield and security;
- . to issue debt obligations only for long-term capital purposes;
- . to be guided by a regular and on-going capital improvement planning process;
- . to monitor its Authorities on a periodic and careful basis;
- . to initiate productivity improvement projects;
- . to administer and regulate a sound State-local intergovernmental fiscal system;
- . to appropriate and expend monies based upon a system of sound budgetary priority analyses;
- . to support local public entities with over 52% of its own resources; and,
- . to maintain its position as a State with a low rate of spending compared to other states.

In this period of controlled government spending, we believe that New Jersey can take pride in its record of sound financial management.

Respectfully submitted,


Clifford A. Goldman
State Treasurer


Edward G. Hofgesang, Director
Division of Budget and Accounting
and State Comptroller /

1978 HIGHLIGHTS

1. New Jersey continues to be rated triple A by both Moody's and Standard and Poors.
2. The State ended fiscal year 1978 with a surplus of \$164.1 million in the General State Fund and \$117.4 million in the Property Tax Relief Fund.
3. Budgeted expenditures in 1978 for the General State Fund and the Property Tax Relief Fund totaled \$3,962 million. The State Constitution provides that the proceeds from the Income Tax be deposited in the Property Tax Relief Fund and appropriated as State Aid which reduces local property taxes. Of the \$3,962 million, \$766.4 million was from the Property Tax Relief Fund.
4. Fifty-two percent of all State expenditures was in the form of State Aid to local governments.
5. Proceeds from the lottery totaled \$96.0 million, an increase of 23% from the \$78.2 million realized in 1977, and almost three times the amount realized in 1975. The Constitution provides that these monies be applied to the costs of maintaining the State's institutions and for education.
6. State agencies, particularly the Division of Taxation, administered and collected taxes and fees totaling \$3,919 million, an increase of \$329 million.
7. In tax year 1978 the property taxes in the State increased by only 2%, or \$71 million, over 1977 levels; however, when homestead rebates are included, the property taxes in the State are still less than in 1976 by over \$288 million, or a decrease of 8.7%.
8. During 1978, the State refinanced the outstanding bonds of the New Jersey College of Medicine and Dentistry. The refinancing, at a savings of more than 3%, provided a \$47 million reduction in costs over the length of the bonds and provided an extra \$25 million for the construction of new medical facilities.
9. The State issued \$120 million in refinancing bonds and retired \$64 million in debt during 1978.
10. The refinancing of the Sports and Exposition Authority was completed on December 14, 1978. The sale of \$299.5 million of bonds at an interest rate of 5.82% will be used to refund presently outstanding Sports Authority bonds which have an interest rate of 7.5%. The resulting savings in debt service costs on the life of the bonds will be \$107.6 million. In addition to the interest cost savings, the refunding will generate a one-time cash adjustment of \$7.5 million which will be transferred to the State during fiscal year 1979. By law, all surplus funds of the Authority are paid to the State Treasury. These savings are in addition to the other surpluses which the Authority anticipates. The State received \$6.1 million in surplus funds from the Authority's 1977 budget and expects to receive in excess of \$7 million from the 1978 budget.
11. The Sports and Exposition Authority issued \$76,260,000 in bonds (at an interest rate of 6.5%) on December 14, 1978 to finance the construction of a 20,000 seat multi-purpose arena and additional dining and wagering facilities on the fourth floor the racetrack. Because of the "senior lien position" of these bonds and the AA rating brought about by the refinancing of the stadium bonds, the Authority will save \$42 million in debt service costs.

12. In 1978, the permanent Commission on Capital Planning and Budgeting recommended that four bond referenda be placed before the voters. On November 7, 1978 (fiscal year 1978), the public approved the bonds, namely: \$100 million for Institutional Construction (presently under litigation); \$200 million for Green Acres; \$25 million for Flood Control; and \$317 million to refinance the outstanding debt of the Sports and Exposition Authority.
13. The Division of Investment managed assets with a book value of \$6.0 billion, an increase of \$526 million from the prior year. During 1978, the funds supervised by the Division produced investment earnings in excess of \$341 million, an increase of \$51.4 million or almost 18% over fiscal year 1977. The total portfolio managed by the Division rose from 44th to 39th among all institutional investors, public and private, in the United States and the State was 20th in growth of assets among institutional investors.
14. New Jersey continued to improve in terms of Federal dollars received in both absolute terms and per capita ranking. New Jersey (State and local governments) received \$2.2 billion in fiscal year 1977, the latest year of published comparative data, an increase of almost \$300 million from the prior year. In addition, New Jersey increased its per capita aid from \$254 million to \$300 million--an increase of 18%, the 11th largest increase in the nation.
15. During the State's fiscal year 1978, the Housing Finance Agency completed ten years of existence. During this period, the Housing Finance Agency has placed 52,000 low and moderate income tenants in affordable housing, has initiated or completed over 20,800 units of housing creating 12,500 on-site job opportunities, and has generated \$52.4 million in annual Federal rent assistance payments for New Jersey citizens.
16. During fiscal year 1978, the Housing Finance Agency succeeded in completing its financing plan, began in December, 1975, to eliminate all short-term debt of the Agency.
17. In October 1978, the Housing Finance Agency issued \$158 million in Section 8 assisted bonds. This was the Housing Finance Agency's largest bond issue, and also represents the fourth issue sold by the Housing Finance Agency with Section 8 backing. The others totaling \$283 million were issued in 1976 and 1977. The Housing Finance Agency is the national leader among State agencies in securing Section 8 subsidies having received \$27 million in annual subsidies in fiscal year 1977 alone.
18. A Statewide home improvement loan program was initiated by the Mortgage Finance Agency in March, 1978, to provide such loans at a below-market interest rate to homeowners of modest income. A bond issue of \$11.1 million was sold to finance the purchase of loans from participating lenders.
19. In 1978, the Economic Development Authority will have arranged financing for more than 230 projects, totaling over \$236 million in low-interest financing, which will assist almost one-half billion dollars of industrial and commercial investments in New Jersey.
20. During 1978, the State initiated a formal Productivity Program. The Productivity Program emphasizes three administrative changes for increasing State government efficiency: (1) the designation by each Cabinet Head of a productivity coordinator for each Department; (2) the submission from each Department of a quarterly productivity report which lists improvements, identifies obstacles to productivity beyond the Department's control, and facilitates the exchange of information and ideas; and (3) the establishment of a productivity investment fund to support productivity reforms.

21. During 1978, a Productivity Investment Fund was proposed by the Governor. The purpose of the fund is to provide seed money to State agencies for implementing cost-saving processes. To date, twelve proposals totaling \$317,000 have been approved with an estimated \$2.4 million budget savings over the next three years, and \$800,000 per year thereafter.
22. The State's pension system continues to be strengthened actuarially. The accrued benefit liability is 76% or more funded for the three major pension plans administered by the State.
23. The New Jersey Cash Management Fund continues to grow. The fund is an investment pool made up of the assets of a number of State funds together with deposits from counties, municipalities and school districts. The assets grew from \$150 million at the beginning of fiscal year 1978 to \$193 million at the end of the fiscal year. At the end of fiscal 1978, there were forty-four municipalities participating in the fund.
24. In January, 1978, the State entered into an agreement with the Mercer County Improvement Authority for the lease of a State Justice Complex to house the State Supreme Court, the Department of Law and Public Safety, and the Public Advocate. Based on this lease, the Mercer County Improvement Authority issued \$50 million of bonds at a favorable interest rate of 5.80%. The estimated cost of the project is \$76 million. The State's Division of Building and Construction is the construction manager for the project.
25. 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 revenue raised per \$1,000 of personal income, 44th in State government expenditures per \$1,000 of income, and 49th in State employees per 10,000 population.

NEW JERSEY'S EFFORTS TO IMPROVE FISCAL MANAGEMENT

In the past three 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:

- .. Restoration of the State's triple A bond rating;
- .. Development and implementation of the Qualified Bond Law for local governments.
- .. Establishment of a Cash Management Fund 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;
- .. Preparation of new financial and budget reports for the taxpayer; and,
- .. Refinancing of the Medical School.

Fiscal 1978 has provided some additional evidence as to the strength of New Jersey's financial management practices and some examples for further improvements.

REFINANCING OF SPORTS AUTHORITY BONDS

During fiscal year 1978 legislation was developed to refinance the outstanding debt of the New Jersey Sports and Exposition Authority. The refinancing program was approved by the Legislature during the summer of 1978 and endorsed by the voters at the General Election in November, 1978.

Under the program, the outstanding debt of the Authority with an average interest cost of approximately 7½% was refunded by the proceeds of a new issue of Authority bonds, secured by a State guarantee and by racetrack and stadium revenue. Because of the State's triple A credit rating, the interest rate (5.82%) was substantially lower, and it is estimated that the reduced debt service costs and other first year adjustments will result in a savings of \$115 million over the life of the bonds. In addition, under a new lien structure made possible by the refinancing, the debt service costs for the new indoor sports arena will be reduced by \$42 million compared with the original financing plan for the arena.

By law all surplus funds of the Authority are paid to the State Treasury. The combined value of this plan, therefore, will provide an additional \$157 million to the State over the life of the bonds.

PRODUCTIVITY PROGRAM

During fiscal year 1978 the State initiated a formal Productivity Program. The State's productivity effort has followed a basic design which states that:

- . Productivity improvement must be a continuing long-term effort;
- . Productivity can be improved by special projects but the most effective results are produced by an accumulation of many smaller efforts; and,
- . The Productivity Program itself must be efficient.

The Productivity Program emphasizes three administrative changes for increasing State government efficiency: (1) the designation by each Cabinet Head of a productivity coordinator for each Department; (2) the submission from each Department of a quarterly productivity report which lists improvements, identifies obstacles to productivity beyond the Department's control, and facilitates the exchange of information and ideas; and (3) the establishment of a productivity investment fund to support productivity reforms.

The program recognizes that drastic improvements in productivity cannot be accomplished overnight. Impressive gains will result from the accumulation of small-scale program reforms. Changing a filing system, routing out unnecessary procedural steps, shifting from handwork to computers, eliminating low priority programs, reorganizing to eliminate duplication, consolidating services and streamlining schedules add up to significantly better service at lower cost, and are the kinds of improvements that the State's Productivity Program stresses.

To date, three productivity reports covering nine months have been submitted to the Governor and valuable productivity improvements have been documented and circulated to all agencies for applications within their organization.

The Program is supervised by the State Treasurer and administered by the Division of Budget and Accounting's Management Improvement Unit.

PRODUCTIVITY INVESTMENT FUND

One key ingredient of the State's new Productivity Program is the Productivity Investment Fund. The Productivity Account was proposed by the Governor in his 1979 Budget Message and supported by the Legislature with an appropriation of \$400,000. The purpose of the fund is to provide seed money to State agencies for implementing cost-savings processes or productivity improvements. During the first four months, eighty-four productivity improvement proposals were submitted for possible funding. To date, twelve proposals, totaling \$317,000 have been approved, with an estimated \$2.4 million budget savings over the next three years. Some examples of projects funded include:

- . A word processing system to reduce clerical workload in the Criminal Justice Division;
- . An energy conservation system to reduce fuel consumption costs at two Rutgers University buildings;
- . Equipment to speed-up license applications and the deposit of fee checks at the Division of Motor Vehicles;
- . A procedure for conducting "out-of-state" tax audits of corporations;

- . A model system to streamline the preparation of unemployment checks at local unemployment insurance offices;
- . Thermal insulating films for the Labor and Industry Office Building to reduce energy costs and improve the working environment;
- . Food freezers for Trenton Psychiatric Hospital to reduce the cost of food preparation.
- . A refrigerator truck for the State's Distribution Center to reduce the cost of delivering meat and frozen foods.
- . A desktop bankproof machine to reduce costs and speed up the processing of fees paid to the Department of Environmental Protection;
- . The purchase rather than a more expensive leasing arrangement of radio paging devices for the New Jersey College of Medicine and Dentistry;
- . A mechanical surveillance unit in lieu of additional patrol personnel at Glassboro State College; and,
- . A machine to diagnose engine problems and reduce repair time at the Central Motor Pool.

CAPITAL PLANNING PROCESS

Fiscal year 1978 was the first year in which the newly established Annual Seven-Year State Capital Improvement Plan was developed.

The Capital Improvement Plan by law is prepared by the Commission on Capital Budgeting and Planning. The Commission consists of four public members, four legislative members and four members from the Executive Branch, including the State Treasurer and the State Budget Director. The Commission is staffed by the Capital Planning Unit of the Division of Budget and Accounting.

The capital planning process ensures that: (1) short and long-range capital spending plans for the State are developed and maintained on an on-going basis; (2) capital spending plans are analyzed for their impact on future operating budgets; and (3) the proper financing mechanism is utilized.

The Capital Plan is divided into several major groupings; namely: recommendations for pay-as-you-go financing in the upcoming annual Budget Message; recommendations for appropriations during the upcoming budget year from the various existing bond funds; three and four-year plans prepared by the various State agencies and representing their capital needs; and recommendations for new bond issues.

Since the initiation of the new capital planning process, two Seven-Year Plans (1978 and 1979) have been submitted. Almost without variation, the capital plans recommended by the Commission have been endorsed by the Governor, the Legislature and the people. Such capital budgets have recommended the use of over \$300 million in capital appropriations from the General State Fund and bond accounts in 1978 and 1979. In addition, the Commission has recommended and the people have approved eight new bond issues totaling \$700 million for needed State projects, plus a \$300,000,000 State guarantee for the refinancing of the Sports and Exposition Authority.

MONITORING OF FEDERAL CASH FLOW

The Bureau of Accounting developed a monthly Federal revenue aging schedule to indicate the amount of money disbursed from an account, how much has been reimbursed by the Federal government, how much is still owed, and how long the remaining receivable is overdue. The maximization of Federal reimbursement is essential if the State is to minimize the use of State cash being advanced for projects which are payable with Federal funds. This procedure is the keystone of a system of review and monitoring of all Federal accounts Statewide.

In conjunction with the monthly Federal revenue aging schedule, the Internal Audit Unit has performed a series of analyses of Federal recovery activity at those State agencies receiving the majority of Federal funds granted to New Jersey. These reviews have affected substantial savings for the State as a whole. By eliminating unnecessary delays in recovering Federal revenues, State monies formerly advanced to operate Federal programs are now made available for investment to the benefit of the State Treasury.

THIRD PARTY CONTRACT MONITORING

The Bureau of Accounting has also developed a Standard Third Party Contract for use by all State agencies. A comprehensive examination of third party contract administration presently employed by those Departments which represent the bulk of such activity, together with input from prospective user agencies, resulted in the formulation of a document intended to serve as a uniform and comprehensive contract. This model contract is designed to provide for standardized control to insure that the State's interests are protected as well as to insure compliance with Federal requirements, when Federal monies are involved. The promulgation and implementation of the Standard Third Party Contract is expected to result in the greatest degree of control yet available to the State of New Jersey in such operations.

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

GENERAL FRAMEWORK

The people of New Jersey receive services from the three levels of government--the Federal, State, and Local. On any given day a citizen might: receive a social security check; drive on a State road or visit a son and daughter in a State college; receive police protection or have a street cleaned.

Our intergovernmental system is such that the money needed to finance these services may come from one or more of these levels of government. The transfer of this money from one level of government to another comes in the form of governmental aid.

In New Jersey, as in most states, the cost of these services may vary from one jurisdiction to another. Such factors as the ability of a local government to raise taxes, the level of services requested by the people, the efficiency of the governmental units involved, and the prevailing wages in the area all influence the final cost of government services.

Thus, in order to have a complete picture of the State's financial operation, an understanding of the Federal-State-Local fiscal system is presented.

MONEY FLOW WITHIN THE SYSTEM

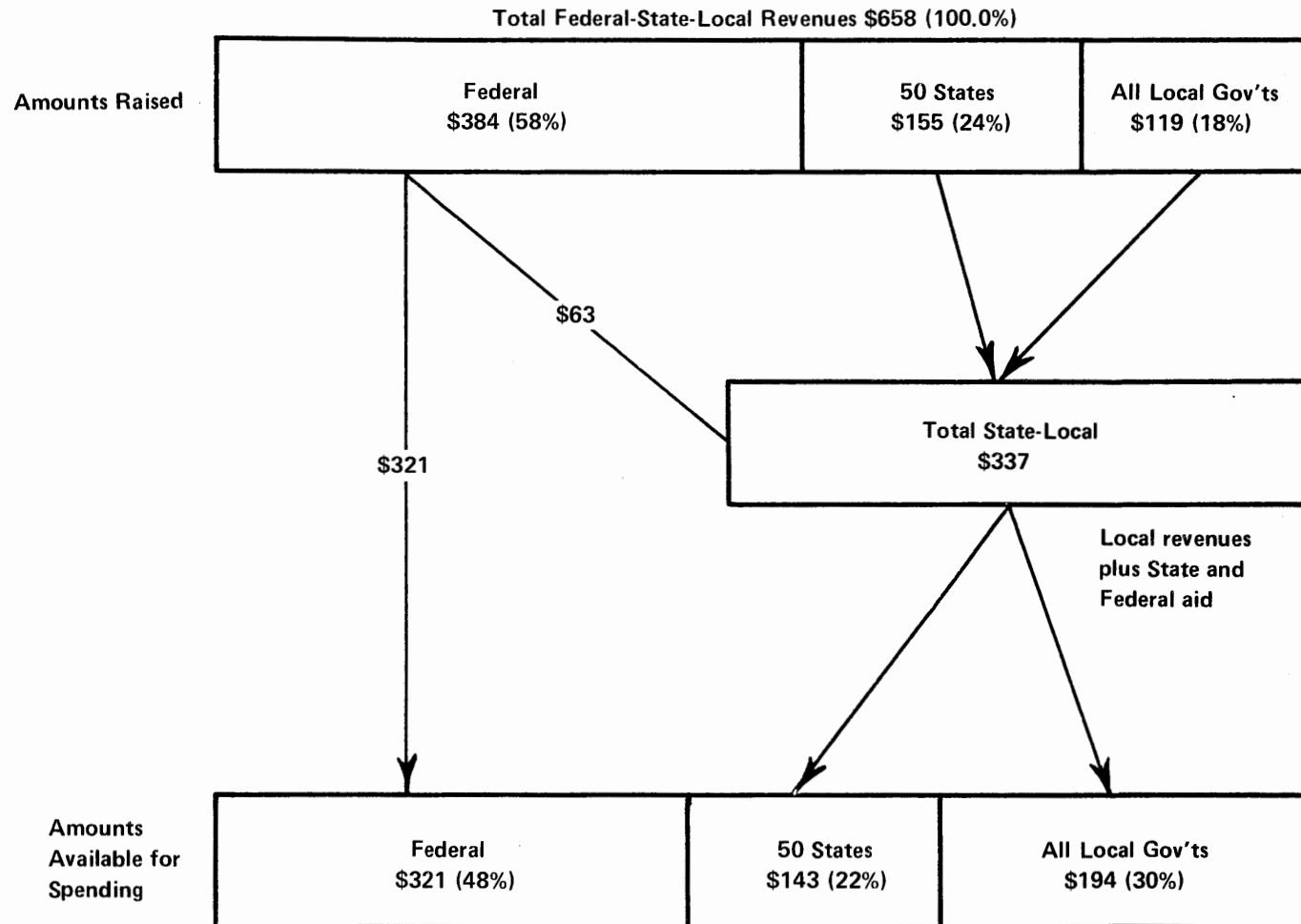
For purposes of illustration, Exhibit I shows the flow of money during 1977. The chart indicates that the Federal government, as well as all State and local governments, raised \$658 billion during 1977 of which \$274 billion was collected by the fifty State-local governmental systems (\$155 billion by the States and \$119 billion by local governments). The remaining \$384 billion or 58% was raised by the Federal government which in turn funneled \$63 billion (17% of total Federal revenues) back to State and local governments. When State Aid to local governments is added to the Federal Aid "passed through" by the States, the combined effect is to increase the amount available to local governments for spending by \$75 billion to \$194 billion.

Similar flows of money take place within the State of New Jersey. Taxes are paid by the residents to Federal, State and local governments. The Federal government returns some portion of the dollars to the State and to the local governments by means of grant-in-aid programs, and the State of New Jersey, in similar fashion, returns tax dollars to local municipalities, counties and school districts by means of "State Aid" allocations (52% of 1978 State appropriations). Comments pertaining to Federal Aid and the State and local tax structure in New Jersey follows:

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 total receipts. For 1977, the latest year of published statistics, the following data is applicable to New Jersey:

Exhibit I
FLOW OF GOVERNMENTAL REVENUES: NATIONWIDE 1976 - 1977
(in billions of dollars)



Source: Governmental Finances in 1976-77 - U.S. Department of Commerce,
Bureau of Census

- (1) New Jersey's total of \$2.2 billion is the eighth highest among the states, and represents an increase of \$338 over the previous year.
- (2) New Jersey has increased its per capita aid from \$254.0 to \$300.0, improving its ranking from thirty-fifth to thirty-first among the states. This 18% increase was the eleventh highest in the nation.

STATE TAX STRUCTURE

Over 61% of the revenue, from traditional sources, which supported the State's Budget in fiscal year 1978 came from six sources, namely: the Sales Tax, Motor Vehicle and Fuel Taxes, the Cigarette Tax, Corporation Taxes, and the Inheritance Tax. On July 6, 1976, Governor Bryne 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. The Income Tax for fiscal year 1978 yielded \$748.9 million for property tax relief and represented 19% of total State revenue. Thus, total own-source revenues in fiscal year 1978 aggregated \$3.2 billion from traditional sources and \$749 million raised from the Income Tax.

The Division of Taxation administers most of the taxes collected by the State--the exception being primarily pari-mutuel racing, motor vehicle licenses and fees, and the motor fuels use tax. In addition, the Division of Taxation is responsible for assessing and certifying over \$406 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 1978 paid out approximately 52% of the State's tax revenue 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 1978, local property tax levies increased by \$71 million, only 2%, over 1977 levels; however, when homestead rebates are included, the property taxes in the State are still less than they were in 1976 by over \$288 million, or a decrease of 8.7%. In the prior fifteen years, property taxes had been increasing at the average of 10% per year.

The following is a summary tabulation of the State and local tax structure in New Jersey utilizing 1978 data:

EXHIBIT II

THE NEW JERSEY STATE AND LOCAL TAX STRUCTURE

| | |
|---|--------------------------|
| . BUDGETED STATE REVENUE COLLECTED..... | \$3,919.8 million |
| . NON-BUDGETED STATE REVENUE, INCLUDING FEDERAL AID TO STATE GOVERNMENT..... | 1,445.6 million |
| . TAXES APPORTIONED BY THE STATE FOR LOCAL COLLECTION (Public Utility Gross Receipts and Franchise Taxes, and Insurance Taxes)..... | 406.5 million |
| . TAXES ADMINISTERED BY COUNTIES (Realty Transfer Fees, etc.)..... | 23.9 million |
| . TAXES ADMINISTERED BY MUNICIPALITIES (Property Taxes)..... | <u>3,327.5 million</u> |
| | <u>\$9,123.3 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. 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 State agency must file with the Director, Division of Budget and Accounting, by October 1 a request for appropriation. The Director 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 General Assembly, and must be approved and signed by the Governor on or before July 1.

During the course of the year the Governor may prohibit and enjoin the expenditure of any appropriation 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, the Casino Revenue 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 1978, the State of New Jersey maintained approximately 61 Dedicated and Trust Funds. Several of the funds (18) 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 are transferred to the General State Budget by means of Interfund Transfers, and utilized as revenues for General State operations. The two most significant Trust Funds in this category are: The Federal General Revenue Sharing Fund and the State Lottery.

Some of the largest Trust Funds are established to administer the income replacement programs funded by the Federal government, or by employers and employees. These funds include: the State Disability Benefits Fund, the 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 or Budgeted Revenues, including the Income Tax; (2) State Revenues Dedicated and Appropriated (Not Budgeted); and (3) Federal Aid Appropriated (Not Budgeted).

ANTICIPATED (BUDGETED) REVENUE

These revenues support what is normally referred to as the Governor's Budget. For fiscal year 1978, these revenues totaled \$3,920 million. This compares to \$3,590 million reported in 1977 and shows an increase of \$329 million, or 9%. \$93 million (a 14% increase) 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; and \$98 million (an 11% increase) relates to proceeds from the Sales Tax.

Over 78% 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 III shows comparative statistics between 1977 and 1978 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 \$140 million over 1977 totals of \$2,484 million--an increase of 6%. 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 \$.19 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 for gasoline and diesel fuel, and half the rate for the other gases.

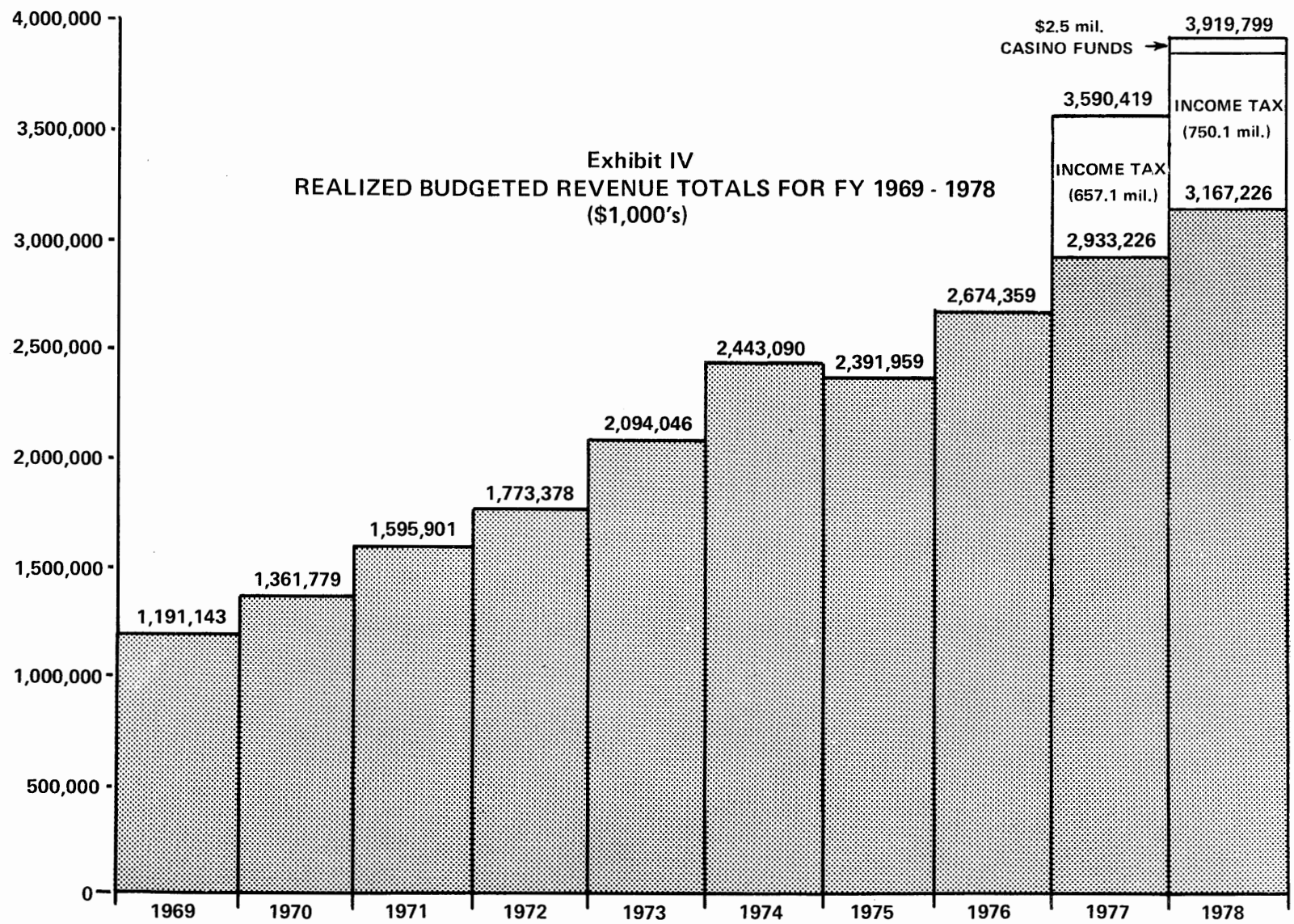
Motor Vehicle Fees include automobile and truck registrations, drivers licenses and miscellaneous fees collected by the Division of Motor Vehicles.

EXHIBIT III

COMPARISON OF BUDGETED REVENUE*
(in thousands of dollars)

| | Realized To June 30, 1978 | Increase (Decrease) | Realized To June 30, 1977 |
|--|---------------------------------|------------------------|---------------------------------|
| MAJOR TAXES: | | | |
| Sales | \$1,003,034 | \$ 97,885 | \$ 905,149 |
| Motor Fuels | 295,747 | 6,929 | 288,818 |
| Corporation | 586,961 | 40,711 | 546,250 |
| Cigarette | 170,088 | 1,308 | 168,780 |
| Transfer Inheritance | 96,315 | 9,696 | 86,619 |
| Alcoholic Beverage | 54,951 | 1,126 | 53,825 |
| Public Utilities-Surtax | 55,315 | 5,307 | 50,008 |
| Motor Vehicle Fees | 233,538 | 10,479 | 223,059 |
| Pari-Mutuel | 21,589 | (7,619) | 29,208 |
| Business Personal Property | 81,176 | 685 | 80,491 |
| Unearned Income | -- | (28,969) | 28,969 |
| Other Major Taxes | <u>24,321</u> | <u>1,998</u> | <u>22,323</u> |
| Total Major Taxes | <u>\$2,623,035</u> | <u>\$139,536</u> | <u>\$2,483,499</u> |
| MISCELLANEOUS TAXES AND LICENSES AND OTHER REVENUE: | | | |
| Antirecession Fiscal Assistance | \$ 31,256 | \$ 22,243 | \$ 9,013 |
| Interest on Investments and Deposits | 21,178 | 10,422 | 10,756 |
| Institutional Fees and Reimbursements | 107,206 | 12,879 | 94,327 |
| Other Licenses and Fees | <u>158,468</u> | <u>17,141</u> | <u>141,327</u> |
| Total Miscellaneous Taxes and Licenses | <u>\$ 318,108</u> | <u>\$ 62,685</u> | <u>\$ 255,423</u> |
| INTERFUND TRANSFERS: | | | |
| State Lottery Fund | \$ 96,041 | \$ 17,886 | \$ 78,155 |
| General Revenue Sharing Fund | 71,307 | 1,834 | 69,473 |
| All Other | <u>58,735</u> | <u>12,059</u> | <u>46,676</u> |
| Total Interfund Transfers | <u>\$ 226,083</u> | <u>\$ 31,779</u> | <u>\$ 194,304</u> |
| Sub-Total | <u>\$3,167,226</u> | <u>\$234,000</u> | <u>\$2,933,226</u> |
| GROSS INCOME TAX: | | | |
| Property Tax Relief Fund | \$ 748,903 | \$ 92,804 | \$ 656,099 |
| Gubernatorial General Elections Fund | 1,166 | 72 | 1,094 |
| CASINO REVENUES: | | | |
| Casino Control Fund | \$ 991 | \$ 991 | \$ -- |
| Casino Revenue Fund | 1,513 | 1,513 | -- |
| TOTAL ANTICIPATED REVENUE | \$3,919,799 | \$329,380 | \$3,590,419 |

*Includes three sources of Federal funds--General Revenue Sharing (\$71.3 million in 1978); Antirecession Fiscal Assistance (\$31.3 million in 1978); and Indirect Cost Recovery (\$4.3 million in 1978). All other Federal revenue is treated as non-budgeted Federal Aid (see Exhibit V).



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 7½% 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.

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 1978 these revenues increased from \$255 million to \$318 million--an increase of 24%. The largest single increase was \$22 million in Federal Antirecession Aid.

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 revenue 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 residents working in New Jersey. The latter tax is commonly referred to as "Commuter Tax". These revenues increased by almost \$32 million with the largest increase being \$17.8 million from the Lottery.

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 1978 this tax yielded \$749 million for property tax relief.

CASINO REVENUE-CASINO CONTROL FUND/CASINO REVENUE FUND. The Casino Control Act of 1977 established two separate funds. Annual fees for the issuance or renewal of casino licenses are deposited into the Casino Control Fund as are other revenue such as application fees for various licenses. Monies in this fund are used to finance the operations of the Casino Control Commission and the Division of Gaming Enforcement. Annual taxes in the amount of 8% on gross revenue from gaming operations are deposited into the Casino Revenue Fund. Monies in this fund must be used for reductions in property taxes, utility charges and other expenses of eligible senior citizens. For fiscal year 1978 casino revenue in both funds amounted to \$2.5 million.

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.

EXHIBIT V

COMPARISON OF TOTAL GENERAL FUND REVENUES

(in thousands of dollars)

| | Realized To June 30, 1978 | Increase (Decrease) | Realized To June 30, 1977 |
|---|---------------------------------|------------------------|---------------------------------|
| ANTICIPATED (BUDGETED) REVENUE:* | | | |
| Major Taxes (except Income Tax) | \$2,623,035 | \$139,536 | \$2,483,499 |
| Miscellaneous Taxes and Licenses | 318,108 | 62,685 | 255,423 |
| Interfund Transfers | 226,083 | 31,779 | 194,304 |
| Property Tax Relief Fund (Income Tax) | 748,903 | 92,804 | 656,099 |
| Gubernatorial General Elections Fund (Inc. Tax) | 1,166 | 72 | 1,094 |
| Casino Control Fund | 991 | 991 | -- |
| Casino Revenue Fund | <u>1,513</u> | <u>1,513</u> | <u>--</u> |
| Sub-Total | <u>\$3,919,799</u> | <u>\$329,380</u> | <u>\$3,590,419</u> |
| APPROPRIATED REVENUE-GENERAL: | | | |
| Unincorporated Business and Retail | | | |
| Gross Receipts Taxes | \$ -- | \$(30,550) | \$ 30,550 |
| Financial Business Tax | 2,655 | 1,809 | 846 |
| Non-Contributory Group Insurance | 7,850 | (2,676) | 10,526 |
| All Other | <u>127,729</u> | <u>22,088</u> | <u>105,641</u> |
| Sub-Total | <u>\$ 138,234</u> | <u>\$ (9,329)</u> | <u>\$ 147,563</u> |
| APPROPRIATED REVENUE-FEDERAL: | | | |
| Elementary and Secondary Education | \$ 77,958 | \$(3,063) | \$ 81,021 |
| Child Nutrition | 61,972 | (28,071) | 90,043 |
| Transportation Highway and Mass Transit | 98,219 | (105,036) | 203,255 |
| Medicaid | 286,433 | 32,135 | 254,298 |
| Dependent Child Assistance | 259,164 | 30,477 | 228,687 |
| All Others | <u>454,502</u> | <u>12,805</u> | <u>441,697</u> |
| Sub-Total | <u>\$1,238,248</u> | <u>\$(60,753)</u> | <u>\$1,299,001</u> |
| APPROPRIATED REVENUE-REVOLVING FUNDS: | <u>\$ 69,074</u> | <u>\$ 9,114</u> | <u>\$ 59,960</u> |
| TOTAL REVENUES | <u>\$5,365,355</u> | <u>\$268,412</u> | <u>\$5,096,943</u> |

*For details of anticipated revenue---see Exhibit III.

Some of the kinds of 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.

Revenue in this category decreased by almost \$10 million compared to 1977. This decrease was the result of the elimination of two taxes, the Gross Receipts Tax and the Unincorporated Business Tax. These taxes were repealed at the same time the Income Tax was adopted. In fiscal year 1977 these taxes provided \$30.5 million in revenue.

REVENUES APPROPRIATED--FEDERAL

Most of the Federal funds received by the State in fiscal year 1978 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 1978, Federal Aid Not Budgeted amounted to \$1,238 million. Of the amount received, over 63% represents Federal Aid for Medical Assistance (Medicaid), \$286 million; Dependent Children Assistance, \$259 million; Elementary and Secondary Education Aid, \$78 million; Transportation Aid, \$98 million; and Child Nutrition, \$62 million.

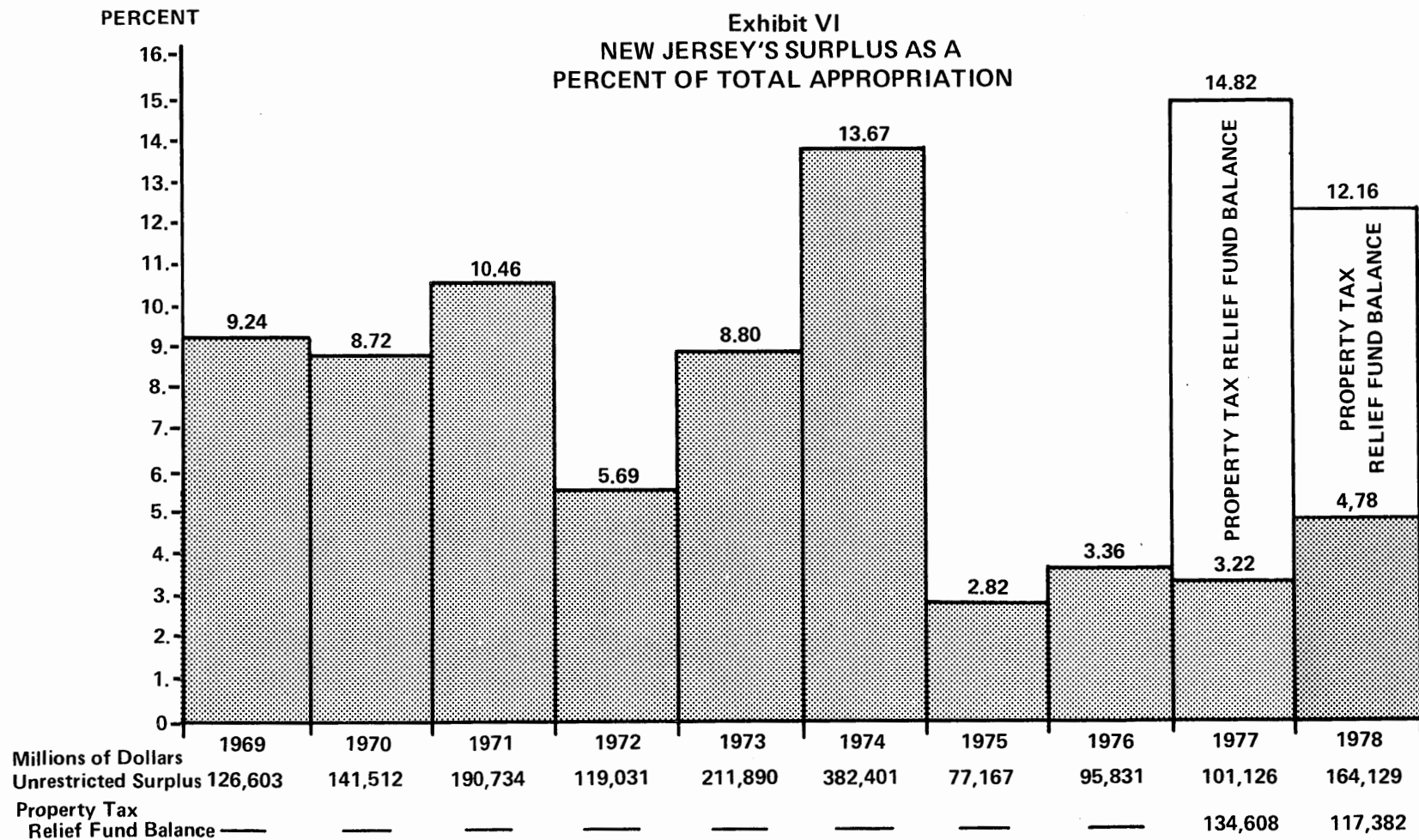
Exhibit V indicates the total amount of money realized by the General State Fund in fiscal year 1978--it includes Realized Anticipated Revenues (as shown in Exhibit III) as well as all Federal Aid and Dedicated Revenues.

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 in the General State Fund as of June 30, 1978 was \$164 million compared to \$101 million on June 30, 1977. Surplus at the end of June 30, 1978 in the Property Tax Relief Fund (Income Tax) was \$117 million, compared to \$135 million on June 30, 1977. The realization of the \$117 million balance in the Property Tax Relief Fund at the end of fiscal year 1978 was due in part to legislation which permitted payments of the Homestead Rebate on an annual basis rather than semi-annually. The effect of this legislation was to defer approximately \$137 million of Homestead Rebates from fiscal 1978 into fiscal, 1979, and thus obtain a one-time savings in expenditure.

Exhibit VI 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 the following year.



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 budgeted--identical to the manner in which revenues are treated. Total expenditures from the General State Fund, including all non-budgeted expenditures amounted to \$5,438.5 million in 1978, as compared to \$4,888.9 million in 1977, or an increase of 11%--in the prior year the increase was 20%.

Budgeted Expenditures, that is, the number commonly associated with the "State Budget," and supported principally from State revenue sources, for 1978 were \$3,962 million. Of this amount, \$766.4 million was expended from the Property Tax Relief Fund Account. Budgeted Expenditures, exclusive of the Property Tax Relief Fund, increased by 13%.

Exhibit VII shows State Budgeted Expenditures by major State program, and Exhibit VIII 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 1978, over 52% of the State's expenditures consisted of funds which were distributed to homeowners, municipalities, counties and school districts. The total dollars expended was \$2,070 million.

The largest State Aid expenditure, \$1,253 million, was provided for local elementary and secondary education programs. Of this amount, \$680 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 \$243 million of the \$1,253 million on behalf of local governments as the employer share of the teachers' pension and benefits programs, and \$81 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. The State supported 40% of the total school district expenditures in the State during 1978.

Expenditures by the Treasury Department totaled \$385 million in State Aid monies for fiscal 1978. The principal programs funded were homestead rebates to homeowners to provide property tax relief (\$139 million); the cost of senior citizens' and veterans' property tax deductions (\$50.4 million); Revenue Sharing to municipalities to reduce property taxes (\$50 million); replacement revenues for taxes previously paid by railroads, and for taxes previously paid on business personal property (\$127 million); and in lieu of tax payments (\$5.5 million).

Other expenditures of State Aid in fiscal 1978 included welfare programs (\$231 million); aid to county colleges (\$51 million); Municipal Aid to 28 urban communities to maintain and upgrade municipal services (\$40 million); youth and family social services (\$22.5 million); aid to county mental hospitals and community mental health facilities (\$27 million); and local transportation aid (\$20 million).

GENERAL STATE OPERATIONS

The second largest portion of expenditures in fiscal 1978 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 1978, expenditures for General State Operations aggregated \$1,660 million and represented approximately 42% of expenditures. Some of the major expenditures for General State Operations during fiscal 1978 are described as follows:

A total of \$524 million was expended for programs administered by the Department of Human Services. Of that amount, \$292 million was expended as the State's share of Medicaid, which provides hospital, nursing home, medical and pharmacist services for those people eligible for a variety of welfare programs. 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 \$352 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 \$177 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 fourteen 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.

A total of \$44 million was expended for community development and environmental protection programs, principally for the protection of air, land, forest, wild life, shellfish resources and for the provision of outdoor recreation.

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 1978 was \$144 million, as compared to \$122 million in fiscal year 1977. Debt Service represents 4% of the total State Budget.

Exhibit IX shows the schedule for repayment of principal and interest on outstanding State debt as of June 30, 1978. The total repayment of \$2,629 million consists of \$1,689 million in principal and \$940 million in interest. These monies are raised by future annual appropriations.

EXHIBIT VII

COMPARATIVE BUDGETED EXPENDITURES BY PROGRAM

(in millions of dollars)

| PROGRAM | GENERAL STATE OPERATIONS | | STATE AID | | CAPITAL CONSTRUCTION | | DEBT SERVICE | | TOTAL | |
|--|--------------------------|------------------|------------------|------------------|----------------------|---------------|----------------|----------------|------------------|------------------|
| | 1978 | 1977 | 1978 | 1977 | 1978 | 1977 | 1978 | 1977 | 1978 | 1977 |
| Protection of Persons and Property | \$ 195.0 | \$ 173.5 | \$.6 | \$.5 | \$ 2.6 | \$ 1.8 | \$ 4.0 | \$ 3.6 | \$ 202.2 | \$ 179.4 |
| Physical and Mental Health | 210.9 | 189.7 | 39.0 | 26.0 | 2.6 | 3.9 | .2 | .5 | 252.7 | 220.1 |
| Education and Intellectual Development | 377.0 | 328.3 | 804.8 | 798.9 | 6.9 | 3.5 | 40.2 | 34.3 | 1,228.9 | 1,165.0 |
| Community Development and Environmental Management | 44.3 | 36.5 | 60.4 | 56.1 | 1.1 | 2.0 | 38.3 | 27.8 | 144.1 | 122.4 |
| Economic Development and Income Protection | 372.4 | 328.8 | 257.6 | 246.2 | .1 | .2 | -- | -- | 630.1 | 575.2 |
| Transportation | 139.1 | 136.7 | 19.9 | 15.1 | 73.1 | 37.8 | 49.5 | 45.3 | 281.6 | 234.9 |
| General Governmental Affairs | <u>310.3</u> | <u>268.2</u> | <u>128.4</u> | <u>28.7</u> | <u>.5</u> | <u>.3</u> | <u>12.2</u> | <u>11.0</u> | <u>451.4</u> | <u>308.2</u> |
| Sub-Total | \$1,649.0 | \$1,461.7 | \$1,310.7 | \$1,171.5 | \$86.9 | \$49.5 | \$144.4 | \$122.5 | \$3,191.0 | \$2,805.2 |
| <u>PROPERTY TAX RELIEF FUND</u> | | | | | | | | | | |
| Education | \$ -- | \$ -- | \$ 500.7 | \$ 352.5 | \$ -- | \$ -- | \$ -- | \$ -- | \$ 500.7 | \$ 352.5 |
| General Government | <u>7.0</u> | <u>6.7</u> | <u>258.7</u> | <u>162.2</u> | <u>--</u> | <u>--</u> | <u>--</u> | <u>--</u> | <u>265.7</u> | <u>168.9</u> |
| Sub-Total | \$ 7.0 | \$ 6.7 | \$ 759.4 | \$ 514.7 | \$ -- | \$ -- | \$ -- | \$ -- | \$ 766.4 | \$ 521.4 |
| <u>CASINO CONTROL FUND</u> | \$ 4.2 | \$ -- | \$ -- | \$ -- | \$ -- | \$ -- | \$ -- | \$ -- | \$ 4.2 | \$ -- |
| GRAND TOTAL | <u>\$1,660.2</u> | <u>\$1,468.4</u> | <u>\$2,070.1</u> | <u>\$1,686.2</u> | <u>\$86.9</u> | <u>\$49.5</u> | <u>\$144.4</u> | <u>\$122.5</u> | <u>\$3,961.6</u> | <u>\$3,326.6</u> |

*Includes Federal dollars for construction engineering.

EXHIBIT VIII
COMPARATIVE BUDGETED EXPENDITURES BY DEPARTMENT
(in millions of dollars)

| DEPARTMENT | GENERAL STATE OPERATIONS | | STATE AID | | CAPITAL CONSTRUCTION | | DEBT SERVICE | | TOTAL | |
|---------------------------------|--------------------------|------------------|------------------|------------------|----------------------|---------------|----------------|----------------|------------------|------------------|
| | 1978 | 1977 | 1978 | 1977 | 1978 | 1977 | 1978 | 1977 | 1978 | 1977 |
| Legislative | \$ 11.5 | \$ 10.4 | \$ -- | \$ -- | \$ -- | \$ -- | \$ -- | \$ -- | \$ 11.5 | \$ 10.4 |
| Chief Executive Office | 1.0 | 1.0 | -- | -- | -- | -- | -- | -- | 1.0 | 1.0 |
| Law and Public Safety | 105.0 | 93.2 | .7 | .5 | .6 | .2 | -- | -- | 106.3 | 93.9 |
| Treasury | 53.0 | 47.5 | 126.7 | 27.1 | .5 | .3 | -- | -- | 180.2 | 74.9 |
| State | 3.1 | 3.0 | -- | -- | -- | -- | -- | -- | 3.1 | 3.0 |
| Civil Service | 7.5 | 6.3 | -- | -- | -- | -- | -- | -- | 7.5 | 6.3 |
| Banking | 3.1 | 2.7 | -- | -- | -- | -- | -- | -- | 3.1 | 2.7 |
| Insurance | 3.6 | 3.2 | -- | -- | -- | -- | -- | -- | 3.6 | 3.2 |
| Agriculture | 4.3 | 3.9 | -- | -- | -- | -- | -- | -- | 4.3 | 3.9 |
| Defense | 5.4 | 4.9 | -- | -- | .5 | .2 | -- | -- | 5.9 | 5.1 |
| Energy | 9.2 | 7.8 | -- | -- | -- | -- | .7 | .6 | 9.9 | 8.4 |
| Health | 20.5 | 18.7 | 12.3 | 3.2 | .8 | -- | .2 | .5 | 33.8 | 22.4 |
| Labor and Industry | 23.1 | 21.5 | -- | -- | -- | -- | -- | -- | 23.1 | 21.5 |
| Environmental Protection | 33.2 | 27.2 | 5.8 | 1.6 | 1.1 | 2.1 | 38.3 | 27.8 | 78.4 | 58.7 |
| Education | 20.5 | 18.8 | 753.4 | 762.8 | .1 | .1 | 3.6 | 3.4 | 777.6 | 785.1 |
| Higher Education | 351.1 | 304.6 | 51.4 | 36.1 | 6.8 | 3.4 | 35.9 | 30.3 | 445.2 | 374.4 |
| Transportation | 139.1 | 135.7 | 19.9 | 15.1 | 73.1 | 37.8 | 49.5 | 45.3 | 281.6 | 233.9 |
| Human Services | 524.0 | 469.0 | 280.2 | 265.0 | 1.9 | 4.0 | 10.4 | 9.8 | 816.5 | 747.8 |
| Community Affairs | 12.1 | 7.2 | 58.7 | 58.5 | -- | -- | 1.8 | 1.2 | 72.6 | 66.9 |
| Public Advocate | 15.8 | 13.5 | -- | -- | -- | -- | -- | -- | 15.8 | 13.5 |
| Corrections | 71.5 | 64.2 | -- | -- | 1.5 | 1.4 | 4.0 | 3.6 | 77.0 | 69.2 |
| Executive Commissions | 3.4 | 3.0 | -- | -- | -- | -- | -- | -- | 3.4 | 3.0 |
| Inter-Departmental Accounts | 208.2 | 178.1 | -- | -- | -- | -- | -- | -- | 208.2 | 178.1 |
| Judiciary | 19.8 | 16.3 | 1.6 | 1.6 | -- | -- | -- | -- | 21.4 | 17.9 |
| Sub-Total | \$1,649.0 | \$1,461.7 | \$1,310.7 | \$1,171.5 | \$86.9 | \$49.5 | \$144.4 | \$122.5 | \$3,191.0 | \$2,805.2 |
| <u>PROPERTY TAX RELIEF FUND</u> | | | | | | | | | | |
| Treasury | \$ 7.0 | \$ 6.7 | \$ 258.7 | \$ 162.2 | \$ -- | \$ -- | \$ -- | \$ -- | \$ 265.7 | \$ 168.9 |
| Education | -- | -- | 500.7 | 352.5 | -- | -- | -- | -- | 500.7 | 352.5 |
| Sub-Total | \$ 7.0 | \$ 6.7 | \$ 759.4 | \$ 514.7 | \$ -- | \$ -- | \$ -- | \$ -- | \$ 766.4 | \$ 521.4 |
| <u>CASINO CONTROL FUND</u> | | | | | | | | | | |
| Law and Public Safety | \$ 3.2 | \$ -- | \$ -- | \$ -- | \$ -- | \$ -- | \$ -- | \$ -- | \$ 3.2 | \$ -- |
| Treasury | 1.0 | -- | -- | -- | -- | -- | -- | -- | 1.0 | -- |
| Sub-Total | \$ 4.2 | \$ -- | \$ -- | \$ -- | \$ -- | \$ -- | \$ -- | \$ -- | \$ 4.2 | \$ -- |
| GRAND TOTAL | <u>\$1,660.2</u> | <u>\$1,468.4</u> | <u>\$2,070.1</u> | <u>\$1,686.2</u> | <u>\$86.9</u> | <u>\$49.5</u> | <u>\$144.4</u> | <u>\$122.5</u> | <u>\$3,961.6</u> | <u>\$3,326.6</u> |

*Includes Federal dollars for construction engineering.

CAPITAL CONSTRUCTION

In 1978, \$87 million, or 2% of the State Budget, was expended for Capital Construction, as compared to \$49 million in 1977. 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 expenditure 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. The recommendations for expenditure from both the General State Fund and bond fund accounts made by the Commission to the Governor and the Legislature were fully recognized in both the 1977 and 1978 State Budget.

STATE DEBT

OVERVIEW

Bonds (the term "municipal bond" is generic and refers to all government financings, including State debt) are debt obligations issued to obtain funds for various public purposes, including the construction of a wide range of facilities such as highways, housing, mass transportation, sewer works, parks, etc.

The two principal classifications of bonds are "general obligation" and "revenue" bonds. General obligation bonds are secured by the issuer's pledge of its faith, credit and taxing power for the payment of principal and interest. Risk of financial loss is borne totally by the taxpayers. Debt issued by the State government is general obligation debt.

In contrast, revenue bonds are payable only from the revenues derived from a particular facility or class of facilities or, in some cases, from the proceeds of a special excise or other specific revenue source. In New Jersey, revenue bonds are issued by authorities.

There are three types of public purpose capital financings through borrowing which are done by the State of New Jersey: (1) full faith and credit or direct debt; (2) authority financing; and (3) lease agreements or indirect debt. Because of their special characteristics and the difference in the extent to which the State government is liable for the related debt service, each type of debt is discussed separately. State debt and lease agreements are discussed in this section--authorities are discussed in the following chapter.

FULL FAITH AND CREDIT DEBT

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 a referendum is submitted to the people at a general election and approved by a majority of the legally qualified voters. Furthermore, the debt must be authorized by law for some single object or work distinctly specified and any funds raised under the authorization must be applied only to the specific object. The authorizing law must also 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 within thirty-five years from the time it is contracted. In addition, the law shall not be repealed until such debt is fully paid and discharged.

The bonds authorized by the Legislature and by the people also provide for the payment of principal and interest from revenue derived from various sources; namely, the Motor Fuels Tax, the Emergency Transportation Taxes, the Alcoholic Beverage Tax, the Inheritance Tax, the Cigarette Tax, Corporation Business Taxes, the Sales Tax, and water supply facility revenues. In effect, the payment of principal and interest on the authorized State debt has first lien on the above mentioned revenue sources.

As a further guarantee on the State bonds, the bond acts also state that in the event that funds appropriated are not sufficient or not available, a tax shall be levied on all real and personal property in the State to insure principal and interest payments on the bonds. Such a tax has never had to be levied.

OUTSTANDING BONDED DEBT

As shown in Exhibit X, the citizens of New Jersey have authorized \$2,390 million in bonded debt--all of which is guaranteed by the full faith and credit of the State. Of this total authorization, \$1,589 million is issued and outstanding, \$463.5 million remained unissued, and \$337.3 million has been retired as of June 30, 1978. During fiscal year 1978 the State sold \$120 million in bonds and retired \$ 64 million in debt.

The \$640.0 million State Transportation Bond Issue of 1968 represents the largest single voter approved authorization. At June 30, 1978, \$514.9 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 \$286.6 million remains outstanding. Of the \$271.0 million Water Conservation Bonds approved in 1969, \$199.4 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 \$118,590,000 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. (See pages 1 and 34 for discussion on debt of Sports Authority.)

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, 1977 there were 211 long-term realty lease agreements with expirations ranging from over a period of three to twenty-three years. These lease obligations amounted to \$94,381,000 and fiscal year 1978 annual rental payments approximated \$14 million.

On October 8, 1976, the State entered a lease agreement with the Mercer County Improvement Authority whereby the Authority agreed to acquire certain property, make improvements and lease the property to the State for use as a State Tax Processing Building. On July 26, 1977, the Mercer County Improvement Authority issued \$2.5 million of its revenue bonds, payable from the rentals to be received from the State and secured also by a guarantee of the prompt payment of interest and principal by Mercer County. Under the lease agreement, the State has agreed to pay the Authority a rental equal to the debt service on the bonds while the bonds remain outstanding, plus payments due in lieu of real estate taxes. The bonds will mature 1978 through 1992, inclusive.

On January 1, 1978, the State entered a similar lease agreement with the Mercer County Improvement Authority for the construction and rental of a State Justice Complex to house the State Supreme Court, the Department of Law and Public Safety, and other State agencies. On February 22, 1978, the Mercer County Improvement Authority issued \$50 million of its revenue bonds, payable from the rentals to be received from the State. It is expected that approximately \$26 million of additional bonds will be issued by the Mercer County Improvement Authority at a later date to provide for completion of construction by mid-1981. Under the lease agreement, the State has agreed to pay the Authority a rental equal to the debt service on the bonds while the bonds remain outstanding, plus payments due in lieu of real estate taxes. The bonds will mature 1982 through 2018, inclusive.

EXHIBIT IX

STATE OF NEW JERSEY

DEBT SERVICE SCHEDULE*

(000's)

| <u>Fiscal Year</u> | <u>Interest</u> | <u>Principal</u> | <u>Total Interest and Principal</u> |
|------------------------|------------------|--------------------|---|
| 1979 | \$ 79,972 | \$ 76,380 | \$ 156,352 |
| 1980 | 76,074 | 77,195 | 153,269 |
| 1981 | 72,035 | 81,210 | 153,245 |
| 1982 | 67,880 | 79,875 | 147,755 |
| 1983 | 63,793 | 79,590 | 143,383 |
| 1984 | 59,684 | 79,895 | 139,579 |
| 1985 | 55,517 | 81,250 | 136,767 |
| 1986 | 51,288 | 82,755 | 134,043 |
| 1987 | 47,305 | 81,010 | 128,315 |
| 1988 | 43,147 | 81,915 | 125,062 |
| 1989 | 39,015 | 79,870 | 118,885 |
| 1990 | 34,899 | 76,130 | 111,029 |
| 1991 | 31,094 | 69,955 | 101,049 |
| 1992 | 27,438 | 65,375 | 92,813 |
| 1993 | 24,059 | 65,875 | 89,934 |
| 1994 | 20,489 | 68,675 | 89,164 |
| 1995 | 16,981 | 68,350 | 85,331 |
| 1996 | 13,710 | 55,300 | 69,010 |
| 1997 | 10,831 | 55,300 | 66,131 |
| 1998 | 8,256 | 40,300 | 48,556 |
| 1999 | 6,281 | 37,300 | 43,581 |
| 2000 | 4,382 | 35,750 | 40,132 |
| 2001 | 2,665 | 34,750 | 37,415 |
| 2002 | 1,307 | 21,800 | 23,107 |
| 2003 | 316 | 13,300 | 13,616 |
| <hr/> | | | |
| Total | <u>\$858,418</u> | <u>\$1,589,105</u> | <u>\$2,447,523</u> |

*On July 1, 1978, the State issued \$100 million in bonds. The effect of this bond issue was to increase the total interest and principal payments to \$2,628,885.

EXHIBIT X

OUTSTANDING BONDED DEBT OF STATE*

(in thousands of dollars)

| | <u>ACT OF</u> | <u>TYPE</u> | <u>AUTHORIZED</u> | <u>UNISSUED</u> | <u>RETIRED</u> | <u>6/30/78 OUTSTANDING</u> | <u>6/30/77 OUTSTANDING</u> |
|---|---------------|------------------|--------------------|------------------|------------------|--------------------------------|--------------------------------|
| State Transportation | 1968 | Serial (to 2003) | \$ 640,000 | \$ 48,000 | \$ 77,050 | \$ 514,950 | \$ 535,450 |
| Highway Improvement and Grade Crossing Elimination | 1930 | Serial (to 1990) | 58,000 | -- | 52,985 | 5,015 | 5,675 |
| Public Building Construction | 1968 | Serial (to 2003) | 337,500 | -- | 50,900 | 286,600 | 300,500 |
| Institution Construction | 1960 | Serial (to 1992) | 40,000 | -- | 23,900 | 16,100 | 17,900 |
| Institution Construction | 1964 | Serial (to 1989) | 50,000 | -- | 15,800 | 34,200 | 36,200 |
| Institution Construction | 1976 | Serial (to 2002) | 80,000 | 74,000 | 240 | 5,760 | 6,000 |
| State Facilities for Handicapped | 1973 | Serial (to 1991) | 25,000 | 14,500 | 1,200 | 9,300 | 10,000 |
| Higher Education Construction | 1964 | Serial (to 1989) | 40,100 | -- | 11,200 | 28,900 | 30,900 |
| Higher Education Construction | 1971 | Serial (to 2003) | 155,000 | -- | 9,800 | 145,200 | 149,600 |
| Recreation and Conservation Land Acquisition | 1961 | Serial (to 1992) | 60,000 | -- | 34,800 | 25,200 | 27,800 |
| Recreation and Conservation Land Acquisition | 1971 | Serial (to 2002) | 80,000 | -- | 3,800 | 76,200 | 77,600 |
| Recreation and Conservation Land Acquisition | 1974 | Serial (to 2002) | 200,000 | 135,000 | 3,360 | 61,640 | 64,000 |
| Water Conservation | 1969 | Serial (to 2002) | 271,000 | 50,000 | 21,560 | 199,440 | 206,595 |
| Water Development | 1958 | Serial (to 1988) | 45,850 | -- | 26,850 | 19,000 | 21,500 |
| Clean Waters | 1976 | Serial (to 2002) | 120,000 | 94,000 | 1,020 | 24,980 | 26,000 |
| Housing Assistance | 1968 | Serial (to 1997) | 12,500 | -- | 2,600 | 9,900 | 10,500 |
| Mortgage Assistance | 1976 | Serial (to 2002) | 25,000 | 18,000 | 280 | 6,720 | 7,000 |
| Medical Education Facilities | 1977 | Serial (to 2003) | 120,000 | -- | -- | 120,000 | -- |
| Beaches and Harbors | 1977 | | 30,000 | 30,000 | -- | -- | -- |
| TOTAL BONDED DEBT | | | <u>\$2,389,950</u> | <u>\$463,500</u> | <u>\$337,345</u> | <u>\$1,589,105</u> | <u>\$1,533,220</u> |

*Outstanding debt as of June 30, 1978. It does not reflect the approval by the voters at the General Election held on November 7, 1978 of \$325 million. This consists of \$200 million for Green Acres; \$100 million for Institutional Construction; and \$25 million for Emergency Flood Control. The \$100 million Institutional issue is presently under litigation.

DEBT OF STATE PUBLIC AUTHORITIES AND AGENCIES

Authorities are public, corporate entities, organized by the State under enabling legislation to carry on a specific function outside the regular structure of government. They are legal entities which may incur debt, own property, and have the power to finance their activities by means of user charges.

Historically, public authorities were 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.

The principal document of any revenue bond issue is the bond resolution of 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 approximately 1.73 for 1977.

BOND-ISSUING STATE AUTHORITIES AND AGENCIES 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. See Exhibit XIII--for a summary listing of State authorities.

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 is a quasi-public corporate body which acts as a financing institution. It makes low interest mortgage loans to qualified nonprofit or limited dividend housing sponsors to finance the construction or rehabilitation of housing for rental or cooperative ownership by low and moderate income families.

Loans made by the Agency can cover construction and permanent financing of housing developments and related facilities. There is no legal limit to the size or number of developments the Agency can finance. Both limited-dividend and nonprofit sponsors are eligible to receive loans.

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 eliminating all of its \$247 million of short-term debt, and has sold eight bond issues totaling \$589 million.

In its first ten years of production which passed during the State 1978 fiscal year, the Housing Finance Agency has placed 52,000 low and moderate income tenants in affordable housing, has initiated or completed over 20,800 units of housing creating 12,500 on-site job opportunities, and has generated \$52.4 million in annual Federal rent assistance payments for New Jersey citizens. In October, 1978, the Housing Finance Agency issued \$157.8 million in Section 8 assisted bonds. This was the Housing Finance Agency's largest bond issue, and also represents the fourth issue sold with Section 8 backing. The Housing Finance Agency is the national leader among state agencies in securing Section 8 subsidies having secured \$26.8 million in annual subsidies in 1977 fiscal year alone.

New Jersey Sports and Exposition Authority

The New Jersey Sports and Exposition Authority established in 1971 as a public body corporate and politic with corporate succession has been responsible for the financing, construction and management of Meadowlands Racetrack and Giants Stadium, both of which opened in 1976. The Authority is charged with the responsibility for providing facilities in the Hackensack Meadowlands for athletic and entertainment events, trade shows and other expositions and is authorized to issue bonds and notes and provides the terms and security thereof.

The Stadium-Racetrack project, including parking facilities and land on which a new arena is under construction (scheduled completion date, late 1980), is on a 588-acre site. The track accommodates approximately 35,000 spectators and averages 18,000 patrons nightly for thoroughbred and standardbred racing. The Stadium has a capacity of 76,800 and is the home of the Giants of the National Football League and the Cosmos of the North American Soccer League. The arena, to be the home of the New Jersey Nets basketball team and eventually a hockey franchise, will seat approximately 20,000 spectators.

The Authority's revenues are derived from the operations of the Racetrack and the Stadium. Debt service coverage for the year ending December 31, 1977, the last annual audit, approximated 1.73 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 defunct New York Shipbuilding Corporation and the Broadway Terminal for which the Corporation utilized a portion of the \$16 million of Marine Terminal Revenue Bonds in 1970--for the importing and exporting of goods and materials and cargo handling. Since 1970 gross revenues of the Port have increased from \$1.9 million to \$5.7 million in 1977. This figure should exceed \$6.0 million in 1978. There has been a commensurate increase in Port tonnage, with over one million tons

being handled in each of the last five years. This activity has been translated into millions of dollars of economic benefit to the South Jersey area. While net revenues from this project were not sufficient to fully cover debt service in calendar years 1972-77, the State provided the necessary funds by appropriations equal to the certified deficiencies in the Bond Reserve Fund. For calendar year 1978, based on eight months actual and four months projected revenues, the Port Corporation will cover debt service requirements from operating revenues. The 1979 calendar year budget approved in September 1978 anticipates debt service coverage of 1.62.

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 both to 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. Established to finance single family housing, all of the Agency's programs to date are directed toward the one to four unit homeownership market.

In March, 1977 the Agency launched its innovative Neighborhood Loan Program--the first State mortgage purchase program in the country to be targeted to urban neighborhoods. One hundred seventy-five million dollars in bonds has been sold to finance the purchase of lower interest rate first mortgage loans from participating lending institutions. Designed to encourage homeownership in urban areas by increasing the flow of mortgage lending there on affordable terms, the Neighborhood Loan Program is available in thirty-nine urban municipalities and will finance the purchase of approximately 3,000 homes each year as an ongoing program.

A Statewide home improvement loan program was initiated by the Agency in March, 1978 to provide such loans at a below-market interest rate to homeowners of modest income. A bond issue of \$11,105,000 was sold to finance the purchase of loans from participating lenders.

The Agency's initial focus to activity from 1971 to 1976 was the operation of its Loan to Lenders Program, the first such program in the country. The program was financed by eight bond issues totaling \$456,450,000 resulting in the financing of more than 20,000 housing units throughout the State.

New Jersey Health Care Facilities Financing Authority

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

As of June 30, 1978, the Authority has issued bonds totaling over \$320 million, the proceeds of which were utilized for the construction, modernization and/or new equipment as well as for the refinancing of existing debt of twenty-six hospitals and other health care facilities.

New Jersey Educational Facilities Authority

The New Jersey Educational Facilities Authority was established in 1966 to provide 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 provided financing for the construction of twenty-nine projects (seven of the projects for private colleges and twenty-two at public colleges) that comprise ninety different buildings for sixteen colleges and universities. The projects include academic buildings, student centers, dormitories, apartments and parking facilities.

During its life the Authority has issued bond anticipation notes (temporary financing) in the amount of \$284,192,000 and bonds in the amount of \$134,429,000. As of June 30, 1978, the Authority had no note obligations outstanding and it had bonds payable at \$109,644,000.

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. To accomplish its objectives, the Authority has developed the following programs: tax-exempt industrial development bonding, which provides low-interest financing for companies seeking to expand in or relocate to New Jersey; loan guarantees, which may be provided for both fixed asset and working capital loans as part of a company's financings for the purpose of expanding or maintaining employment in New Jersey; development of urban industrial parks, in which the Authority will purchase large parcels of vacant industrial property located within urban municipalities, and will act as developer of those parcels for the benefit of an ultimate user who will provide increased employment and tax ratables for the project municipality. In 1978, the Authority will have arranged financing for more than 230 projects, totaling over \$236 million in low-interest financing, which will spark almost one-half billion dollars 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 Meadowlands 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. Its fatality and accident records have been the best in New Jersey and have contributed to the State's record as the safest in the nation.

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 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 \$118,363,000 of bonds due 1979-88, however, the State believes 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 construction 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 provision 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.

To date, the Commission has issued no bonds and relies primarily on private investment and State-appropriated monies. Since mid-1970, more than \$270 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, the Hackensack Meadowlands Development Commission has almost completed construction of the world's largest garbage baler in North Arlington. This machine is the first step in the Commission's plan to handle more than 8,000 tons of garbage which are trucked into the district each and every day. The baler will initially handle 1,000 tons of garbage per day, but has the capability of being expanded to 2,000. The baler is being built under a \$6.9 million public works grant administered by the Federal Department of Commerce.

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 State 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 thirteen 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 High-speed 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.

In August, 1978 legislation was passed by New York and New Jersey to enable the Port Authority to develop industrial parks in the inner cities of the Port District. The legislation is aimed at reversing the loss of manufacturing plants and jobs and to stimulate the economy of the entire region.

OUTSTANDING DEBT OF NEW JERSEY STATE AUTHORITIES AS OF MAY, 1978

Moral Obligation Debt

The authorizing legislation for three State agencies and authorities provides for specific budgetary procedures with respect to certain obligations. According to the legislation, a designated official is required to certify any deficiency in the 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. The Legislature, however, is not legally bound to make such an appropriation. Bonds issued pursuant to authorizing legislation of this type are usually referred to as "moral obligation" bonds. The following Exhibit sets forth the "moral obligation" debt issued by State authorities and agencies as of May, 1978:

EXHIBIT XI

MORAL OBLIGATION DEBT

| | <u>Outstanding*</u> | <u>Maximum Annual Debt Service</u> |
|--|---------------------------|--|
| New Jersey Housing Finance Agency**..... | \$ 737,605,000 | \$45,978,478 |
| New Jersey Sports and Exposition Authority..... | 317,015,000 | 26,145,875 |
| South Jersey Port Corporation..... | <u>15,695,000</u> | <u>1,291,163</u> |
| | <u>\$1,070,315,000***</u> | <u>\$73,415,516***</u> |

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

**The Housing Finance Agency also has \$64,425,000 of special pledge revenue obligations outstanding which are not "moral obligations".

***With the re-financing of the Sports Authority debt, the outstanding "moral obligation" debt will be reduced in fiscal year 1979. This debt will then be reflected as State guaranteed debt.

Other State Agency and Authority Debt

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 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 May 1, 1978 are as follows:

EXHIBIT XII

AUTHORITY AND AGENCY DEBT

| | |
|---|------------------------|
| New Jersey Mortgage Finance Agency..... | \$ 437,838,000 |
| New Jersey Health Care Facilities Financing Authority..... | 203,833,443 |
| New Jersey Educational Facilities Authority.. | 109,644,000 |
| New Jersey Economic Development Authority.... | 326,105,550 |
| New Jersey Turnpike Authority..... | 826,795,000 |
| New Jersey Expressway Authority..... | 43,455,000 |
| New Jersey Highway Authority..... | 257,967,000* |
| Rutgers, The State University..... | 67,185,000 |
| | <u>\$2,272,822,993</u> |

*Includes \$118,958,000 guaranteed by the State.

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 \$280,000,000 of bonds issued by local school districts (P.L. 1968, c. 177; P.L. 1971, c. 10; and P.L. 1978, c. 74) 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; no bonds have been approved under P.L. 1978, c. 74 which was signed into law on July 13, 1978. 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.

EXHIBIT XIII

SUMMARY
STATE PUBLIC AUTHORITIES/AGENCIES*

| <u>Agency</u> | <u>Debt Outstanding</u> | <u>Purpose of Agency</u> |
|---|-------------------------|--|
| New Jersey Finance Agency | \$ 802,030,000 | .. Finance the construction of low and moderate income projects |
| New Jersey Sports and Exposition Authority | 317,015,000 | .. Provide for stadiums and other facilities in the Hackensack Meadowlands |
| South Jersey Port Corporation | 15,695,000 | .. Operate marine terminals |
| New Jersey Mortgage Finance Agency | 437,838,000 | .. Increase availability of home mortgage money |
| New Jersey Health Care Facilities Financing Authority | 203,833,443 | .. Provide financing for public and nonprofit health care institutions |
| New Jersey Educational Facilities Authority | 109,644,000 | .. Provide financing for public and independent colleges |
| New Jersey Economic Development Authority | 326,105,550 | .. Provide financing for private firms |
| New Jersey Turnpike Authority | 826,795,000 | .. Construct, maintain and operate the New Jersey Turnpike |
| New Jersey Expressway Authority | 43,455,000 | .. Construct, maintain and operate the Atlantic City Expressway |
| New Jersey Highway Authority | 257,967,000 | .. Construct, maintain and operate the Garden State Parkway |
| Rutgers University | 67,185,000 | .. Finance auxiliary enterprise facilities such as dormitories, etc. at the State University |
| Hackensack Meadowlands Development Commission | 0 | .. Plan and develop the Hackensack Meadowlands |
| | <u>\$3,407,562,993</u> | |

*Debt as of May 1, 1978. Does not reflect refinancing of Sports and Exposition debt in December, 1978.

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, 1978 and June 30, 1977.

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, 1978. Of this total, \$802.4 million represents charges incurred in the General State Fund, and \$9.9 million relates to the Property Tax Relief Fund.

Other categories of liabilities which appear on the June 30, 1978 Balance Sheet include Revenue Refunds Payable and Motor Fuels Tax Refundable, which relate to items the State has an obligation to repay to the Federal government and taxpayers.

EXHIBIT XIV

COMPARATIVE BALANCE SHEET AS OF JUNE 30, 1978 AND JUNE 30, 1977

GENERAL STATE FUND*

(in thousands of dollars)

| | <u>ASSETS</u> | <u>June 30, 1978</u> | <u>June 30, 1977</u> |
|--|---------------|----------------------|----------------------|
| CASH | | | |
| Demand Accounts (Note 1) | | \$ (12,144) | \$ (25,169) |
| Time Accounts | | 22,500 | 17,600 |
| INVESTMENTS AT BOOK VALUE (Note 2) | | 527,045 | 535,566 |
| RECEIVABLES | | | |
| Taxes (Net) (Note 3) | | 244,241 | 211,860 |
| Patients Accounts-State Institutions (Net) | | 22,070 | 19,871 |
| Departmental Accounts (Note 4) | | 376,255 | 355,230 |
| Federal Government Highway Construction | | 402,226 | 444,220 |
| Public Authorities | | 18,733 | 20,087 |
| Miscellaneous Receivables (Net) | | 8,746 | 9,254 |
| OTHER ASSETS | | | |
| State Purchase Revolving Fund | | 2,000 | 2,000 |
| Due from Dedicated and Trust Funds | | <u>63,144</u> | <u>50,467</u> |
| TOTAL | | <u>\$1,674,816</u> | <u>\$1,640,986</u> |

LIABILITIES, APPROPRIATIONS AND SURPLUS

LIABILITIES

| | | | | |
|------------------------------------|--------------|---------------|-----------|---------------|
| Accounts Payable and Encumbrances: | | | | |
| General State Fund | \$802,479 | | \$715,813 | |
| Property Tax Relief Fund | 9,873 | | 21,497 | |
| Casino Control Fund | <u>2,378</u> | \$ 814,730 | <u>--</u> | \$ 737,310 |
| Revenue Refunds Payable | | 5,245 | | 7,418 |
| Motor Fuels Tax Refundable | | 1,800 | | 1,800 |
| Deferred Revenues (Note 5) | | <u>42,176</u> | | <u>38,051</u> |
| Total Liabilities | | 863,951 | | 784,579 |

APPROPRIATION BALANCES

| | | | | |
|-----------------------------------|-----------|---------|--------------|---------|
| General State Fund | 483,930 | | 593,754 | |
| Property Tax Relief Fund (Note 6) | 146 | | 111 | |
| Casino Control Fund (Note 7) | <u>--</u> | | <u>4,100</u> | |
| Total | | 484,076 | | 597,965 |

SURPLUS

| | | | | |
|---|---------------|--------------------|---------------|--------------------|
| General State Fund: | | | | |
| Unrestricted | 164,128 | | 101,126 | |
| Restricted | <u>43,577</u> | 207,705 | <u>21,613</u> | 122,739 |
| Property Tax Relief Fund (Note 6) | | 117,382 | | 134,609 |
| Gubernatorial General Elections Fund (Note 8) | | 189 | | 1,094 |
| Casino Revenue Fund (Note 9) | | <u>1,513</u> | | <u>--</u> |
| TOTAL | | <u>\$1,674,816</u> | | <u>\$1,640,986</u> |

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

NOTES TO COMPARATIVE BALANCE SHEET AS OF JUNE 30, 1978 AND 1977

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, 1978 balance includes the following items: Sales, \$107.5 million; Gross Income, \$60.8 million; Motor Fuels, \$44.8 million; Cigarette, \$13.0 million; Alcoholic Beverage, \$10.5 million; Inheritance, \$5.8 million; and Realty Transfer, \$1.7 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, 1978 include: Motor Vehicle License Fees, \$11.5 million; Antirecession Receipts, \$15.2 million; Advanced Tuition, \$2.5 million; and All Other Fees, \$13.0 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.

9. Casino Revenue Fund

Chapter 110, P.L. 1977 approved June 2, 1977 established the Casino Revenue 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 297,000 out of the total 325,500 members covered by all State administered plans. The other systems are Police and Firemen's Retirement System (26,000 members), Consolidated Police and Firemen's Pension Fund (245 members), State Police Retirement System (1,800 members), Judicial Retirement System (275 members), and Prison Officers' Pension Fund (170 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 76.0% 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 | \$1,970,440,178 | \$1,498,491,232 | 76.0% |
| TPAF | 1919 | 2,747,800,759 | 2,202,241,400 | 80.1 |
| Police and Firemen's | 1944 | 1,203,383,245 | 937,422,216 | 77.9 |
| Consolidated Police and Firemen's | 1953 | 245,294,811 | 82,546,943 | 33.7 |
| State Police | 1965 | 124,423,722 | 94,019,749 | 75.6 |
| Judicial | 1973 | 41,755,997 | 13,268,890 | 31.8 |

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 \$4,985.4 million at June 30, 1978. The net investment earnings of pension fund assets was \$294.5 million for the fiscal year ended June 30, 1978.

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, rather than the local school boards, 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. In 1978, the State expended approximately \$79 million to fund pension obligations for State employees, and an additional \$153 million for pension obligations of school district employees.

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 thirty 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 funded 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 Alternative 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 78,000 (including personnel at Rutgers University and the College of Medicine and Dentistry) employees, approximately 50,000 are represented by certified or recognized exclusive majority representatives and are organized into 26 negotiating units.

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 1978, State employees received an across-the-board increase of 5%, amounting to approximately \$40 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. All but two of the 1978 agreements (amounting to less than 2,500 employees) also covered fiscal year 1979.

INVESTMENTS

The Investment Division in the Department of the Treasury has the responsibility for investing approximately sixty-five 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, 1978 was \$6.0 billion, an increase of 10%, or \$526 million from fiscal year 1977. Of the \$6.0 billion book value of funds, the assets of the six pension funds represent \$5.0 billion, while the remainder is in trust funds and other State funds.

The total income produced by the investments in fiscal year 1978 was in excess of \$341 million, an increase of \$51.5 million, or almost 18%, from the prior year. The State share of the income was \$34.3 million, while the largest portion, \$294.5 million, was earned on securities held by the State-managed pension funds. The remaining \$12.4 million was earned on State trust funds, the earnings of which are retained by the individual fund. The investment earnings, for example, in the case of the pension funds, enable the State to reduce its obligation to appropriate less tax dollars to fund the accrued liability of the State's pension obligations.

The New Jersey Cash Management fund is an investment pool made up of the assets of a number of State funds together with deposits from counties, municipalities, school boards, and other eligible public entities. The book value of units of participation in the fund grew from \$149.6 million at the beginning of fiscal 1978 to \$192.5 million at the end of the fiscal year. Municipal participation began in January, 1978, and by the end of the fiscal year seventy applications had been received and approved. At the end of fiscal 1978, forty-four municipalities were participating in the fund. At June 30, 1978, total municipal participation aggregated \$7.7 million.

The fund provides that eligible participants can deposit and withdraw funds at any time and earn daily interest at a rate which reflects interest and amortization income and market changes in the prices of the securities in the fund. The gross average daily return for the fund on an annualized basis was 6.21% in fiscal 1978. The monthly average daily rate ranged from 4.68% in July 1977 to 6.93% in June 1978. The principal advantages of the Cash Management Fund are the ease of investing idle funds for indeterminate periods of time and a rate of return which compares favorably with other day-of-deposit/day-of-withdrawal investment alternatives.

NEW JERSEY'S PERFORMANCE IN PERSPECTIVE

A REVIEW OF THE FISCAL YEAR 1978 ECONOMY

THE NATIONAL ECONOMY IN 1978

A strong national economy has always been an essential prerequisite to a healthy State economy. The optimism reflected in the State's economic statistics can be traced back to strong performances in their National counterparts. For the past twelve months for which statistics are available, the Gross National Product grew by 10.2%. Increases in prices accounted for approximately 6.4% of the rise in the value of final foods and services; thus, the real or inflation adjusted increase in GNP was 3.8%, a growth rate which is very close to the long-run annual increase in the Nation's output. Employment growth was the strongest within the Nation's goods-producing industries, (4.6%), while employment in the service sector lagged slightly behind at 4.2%. Normally a 4% growth rate is just sufficient to absorb new employees entering the labor force. But, during the past year total non-agricultural employment increased by 4.3%, or by 3.5 million persons, while the Nation's labor force grew by only 3.1%. The net result was a decline in the unemployment rate from 7.1% in May 1977 to 6.1% in May 1978.

For some months now economic indicators have been signaling the possibility of tight labor market conditions in the next fiscal year (1978-79). Full employment was once defined as 4% of the labor force; but because of changes in the makeup of the labor force, full employment today is variously estimated around 5 to 5½%.

Labor productivity has not increased as much as expected over the past year. The less than one percent increase recorded last year (fiscal year 1978) has created concern not only because lagging productivity retards real growth but because it generates inflation. With compensation per employee rising considerably faster than productivity, unit labor costs have risen 8.3%. This rate of growth exceeds last year's 6.1% and is the largest increase since 1973-74.

Corporations fared well in fiscal year 1978. After tax profits rose 11.3% which provided substantial internal funds for investment spending.

Investment in private housing has continued to grow since the trough of the 1973-75 recession. Last year (1977), 1.9 million housing units were added to the Nation's housing stock. At the current growth rate (May 1978) approximately 2.1 million units will be built. This would be a 10½% increase over last year's performance. However, the current tightening of mortgage credit may lower the total to an estimated 1.9 million units for the full year.

Retail sales cooled a bit over the past twelve months (May 1977 - May 1978), growing by almost 10%. However, there seemed to be a pattern of "catch up" retail buying during the early summer months of 1978 to satisfy pent-up consumer demands from the harsh winter of 1978 and to anticipate price increases. Recent sales statistics have shown a marked drop in inventories which now stand at a historically low level. The inventory-sales ratio fell from 1.47 in January 1978 to 1.40 in May 1978. Businesses are expected to boost output modestly in the months ahead to restore a more normal 1.48-1.50 inventory-sales ratio.

So far, consumers have been spending freely on automobiles and other goods. Last year American consumers cut back on their savings rate and went heavily into debt to finance their purchases. In fact the average savings rate in 1977 was the lowest in fourteen years.

The real villain in the current economic scenario is inflation. In early 1978, consumer prices were climbing, with January at 7.2% per annum, February 7.7%, March 8.9% and April 10.8%. Contributing to the inflation push were two other factors: (1) the very slow rate of increase in productivity, or a very slow decline in unit labor costs; and (2) the disappearance of slack in labor markets, as unemployment fell toward 6% nationwide.

THE NEW JERSEY ECONOMY IN 1978

During fiscal year 1978 the New Jersey economy returned to pre-recession levels of economic growth. Personal income, a standard proxy for the State's gross product, increased by 11.4%. With approximately a six percent rate of inflation during fiscal year 1978, the real personal income growth rate in New Jersey was over five percent.

Even more encouraging was the increase in the number of people working in New Jersey. Nearly 97,000 new jobs were added in fiscal year 1978 to the nonagricultural sectors of the State's economy; this amounts to a 3.4% growth. For the first time since the 1960's the manufacturing and construction industries contributed significantly to the growth in employment. In the manufacturing sector employment increased by 1.9%, and in the contract construction industry by 11.9%.

The average workweek of manufacturing production workers is high in New Jersey. Over the years, it stayed below 41.0 hours, only rarely exceeding that norm. However, during 1977 and in the first half of 1978, the average workweek approached 42.0 hours. If present economic conditions are sustained a reduction in the average workweek may be expected as employers will soon have to add new employees.

During fiscal year 1978, the average hourly gross earnings in the United States manufacturing sector increased by 8.4% while in New Jersey the increase was only 6.8%. This 1.6% growth differential in wages may be translated into approximately 0.5 to 0.6% lower production costs. Judging from previous years, when labor productivity was higher in New Jersey than in the nation, it can be inferred that the State's manufacturers achieved significant improvements in their competitive position vis-a-vis their national counterparts. This achievement, along with improvements in the State tax structure and other incentives offered to New Jersey producers, should contribute significantly to continued growth of the manufacturing sector. An increased industrial base, in turn, will contribute to the growth of tax revenues. The service sector continued to contribute to increased employment opportunities. The 3.9% employment growth rate in fiscal year 1978 is in line with the steady expansion of the State's service industry in recent years.

Unemployment rates have dropped considerably during the last year. The national jobless rate declined from 7.1% of the total labor force in May 1977 to 6.1% in May 1978. During the same period the unemployment rate in New Jersey dropped from 9.5% to 7.4%. The decline in New Jersey is much steeper than in the national economy. Hence, the gap between the two unemployment rates has narrowed considerably from a differential of 2.4 percentage points last year to 1.3 percentage points this year.

In fiscal year 1978, for the first time since the trough of the recession, aggregate economic activity in New Jersey grew faster than the United States.

In the past, the Economic Policy Council has stated that it would be a remarkable achievement for an advanced industrialized state, like New Jersey, to continue to grow as fast as the United States average. Indeed, the average is inflated by rapid growth in less developed or newly developing states in the Southeast, Southwest and Western regions. A clearer perspective can be gained, however, by comparing New Jersey's economy to other industrialized states within the Northeast corridor.

At the present time the most accurate indicator of interstate economic differentials is a measure of employment growth.

Most striking is that employment growth in New Jersey, Pennsylvania, New York, and Massachusetts remains below the United States average since the start of economic recovery in 1975. Among these states, New Jersey has emerged as an exception to the relative decline in total nonagricultural employment. New Jersey reversed the downward pattern in 1977, and employment is now growing at rates commensurate with, or slightly greater than the United States. By the end of the first quarter of 1978, employment growth in New Jersey is within 90% of the national average. Also encouraging is the widespread nature of employment growth. Preliminary analysis finds all the major sectors of the State's economy to be contributing, especially the mining, manufacturing and construction industries.

The United States Department of Commerce provides quarterly totals of personal income by states. For the most part, New Jersey declined relative to the United States as did the other Northeastern states. The sharp improvement in New Jersey's personal income in the first quarter of 1978 diverges from the downward trend experienced by the other Northeastern states and reflects relative improvements in the State's employment situation.

THE ECONOMIC OUTLOOK FOR FISCAL YEAR 1979

THE NATIONAL ECONOMY

The economy is probably headed for a slowdown.

At present, there are few reasons to be pessimistic for the next fiscal year, but the statistics do suggest a distinct slowdown in the Nation's economy leading to what some economists call a "growth recession". That is, an economy which is growing at a rate considerably slower than its long run average rate of increase.

The Economic Policy Council expects the real rate of economic growth to be about 3½% to 4% per annum by the fourth quarter of 1978. This is a reduction from the 8.0% increase in GNP recorded in the second quarter of this year.

Slow growth in the economy will prevent further improvement in the rate of unemployment, since new jobs are required just to keep pace with the growth of the labor force. One key factor suggesting only moderate expansion for the remainder of this year is the continuing sluggish pattern of growth that prevails in a number of other industrial countries at this time. This, of course, reduces the demand for United States produced goods and services.

The rise in interest rates is resulting in tougher lending terms such as higher down payments on mortgage loans. This will dampen housing activity over the course of the next several months. However, slower growth later this year or early next may ease the credit crunch currently being forecasted by several economists. Inflation is likely to prove rather stubborn, especially with beef and other farm prices continuing to rise. But we do look for some easing in price pressures by mid-1979 after the economy has slowed in real growth. By then, inflation may decelerate to a 6-7% range.

THE NEW JERSEY ECONOMY

So far in 1978, the New Jersey economy fared at least as well as the National economy. Strenuous efforts will be required to keep New Jersey on a reasonably fast growth track in the next fiscal year--especially if national economic growth slows down sharply as we expect. Obviously, New Jersey will not be able to counter the national trend, but there is a fair chance of a 4% (rather than a 3½%) real growth rate in Gross State Product in 1979. Overall, in nominal terms, the value of the State's output of goods and services should reach 10½%. Such a growth rate would not further reduce the State's unemployment rate which is expected to remain at 1 percentage point above the National average. On the other hand a combination of factors including a stabilizing population, a slower growing labor force, and out-migration should moderate any upward pressure on the jobless rate.

Overall, the New Jersey economy cannot rely heavily on the National economy for widespread improvements during the next fiscal year. The business cycle will simply not be favorable. But while the State cannot change the national economic outlook, it can act vigorously to deal with its own structural problems--teenage unemployment, low skilled unemployment and urban revitalization.

Recently new attitudes, new priorities, and a new pro-business climate have improved the economic climate and outlook for New Jersey. The Economic Policy Council has stressed the stability and predictability of these elements as crucial ingredients in the State's fight to avoid industrial and economic decline.

FINANCIAL COMPARISONS WITH OTHER STATES

STATE GOVERNMENT

Comparisons with other states indicate that New Jersey State government despite its high personal income is at the low-end of the spectrum in some of the more significant expenditure and revenue categories:

EXHIBIT XV

DATA COMPARISON OF NEW JERSEY STATE GOVERNMENT WITH OTHER STATES (1977)

| <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 | \$7.994 | 3rd | \$7.019 | Alaska | \$10,586 | Miss. | \$5,030 |
| Taxes and Revenue per \$1,000 of Income | \$ 99.17 | 45th | \$124.18 | Alaska | \$306.68 | Ohio | \$88.44 |
| Total Expendi- tures per \$1,000 of Income | \$100.69 | 44th | \$121.35 | Alaska | \$258.58 | Missouri | \$86.57 |
| Number of Govern- ment Employees per 10,000 population | 103 | 49th | 135 | Alaska | 285 | Ohio | 92 |

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 near the bottom of the scale. The following comparative statements can be made relative to revenues, expenditures, and employees.

. New Jersey ranks 41st in revenues and taxes per \$1,000 of personal income (\$188 per \$1,000), the national average is \$208 with Ohio being the lowest (\$165).

. New Jersey ranks 43rd in total expenditures per \$1,000 of personal income (\$180 per \$1,000), the national average is \$199 with Indiana being the lowest (\$154).

. New Jersey ranks 38th in total employees as a proportion of its population (\$477 per 10,000 population), the national average is \$485 with Pennsylvania being the lowest (\$402).

The sections on National and State Economic Trends were obtained from the 11th Annual Report of the Economic Policy Council.

