[Summaries of reports]

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October 5, 1983

SUMMARY

DIVISION OF MEDICAL ASSISTANCE AND HEALTH SERVICES

GOVERNOR'S MANAGEMENT IMPROVEMENT PROGRAM

The activities of the Divison of Medical Assistance and Health Services (DMAHS) account for the expenditure of more than $1 billion annually, of which over $600 million is in State funds. Moreover, the cost of services in this category has been increasing in recent years at an annual rate of about 14 percent, against an average annual increase of only 10 percent in state's resources. Accordingly, the potential in this area for escalating financial strains on the State is enormous.

The over-65 segment of the population is rapidly expanding, thus straining the health care system because older persons tend to require a greater extent of total health care service. Demographic pressures are heightened by the effect of advancing medical technology. which makes possible new types of treatment and longer life. As medical technology advances, more highly skilled and trained labor, operating at significantly higher pay, is needed to operate the system.

Trends in American social attitudes comprise an additional upward pressure on medical costs. The growing perception that the most sophisticated in health care should be available to all has helped to increase the number of malpractice suits, still another factor in the cost of health care.

Physicians have almost total control over most patients in the American health care system. The patient, often in a crises situation, is little inclined to do comparison shopping for services. The physician, confident in the limitless scope of the patient's insurance and determined to go to lengths to avoid any possible malpractice actions, has few incentives to keep costs under control. The threat of such suits promotes the use of more costly methods of testing and diagnosis.

Patients with broad health insurance coverage also have little incentive to control costs, and indeed may encourage excessive testing. Providers of health care may wish to keep their own costs down, but they have a counterincentive--- to keep reimbursement rates up.

New Jersey, along with some other state governments, has taken numerous initiatives to control costs. These include the establishment of the reimbursement system based on Diagnostic Related Groups (DRG) and a case management plan, which seeks to insure that the health service rendered correctly matches what the patient needs.

In New Jersey, all levels of government are involved in an overlapping process of setting standards for care and eligibility, the provision of the service, and funding. Within New Jersey's State government there are at least ten departments which have some responsibility for the function of the system.

There is a need for better coordination of the State's health care delivery system, and more responsiveness of the program to basic policies established by departmental managers, and enforced by the clear backing of the Governor.

This task force has identified numerous areas where better management of the the problems associated with the health care provision is possible, and has recommended numerous "Action Alternatives" which could provide the means of controlling the cost spiral and more effectively coordinating the system.

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Specific Action Alternatives are set forth in the report, along with discussion of certain key elements of the system. Some alternatives are designated by the task force as High Priority Options.

In its broad outline, the State's program includes: Medicaid, a health program for the poor; PAAD, a program for the provision of prescription drugs and supplies to aged or disabled persons of limited income; "Lifeline", thorough which aged or disabled persons are given assistance with utility payments.

Sources of funding for the State's health services programs are: State, \$440 million; federal, \$376 million; Casino revenues, \$42 million. Cost to the State of Medicaid in 1982 in 1982 was \$397 million; PAAD, \$44 million; Lifeline, \$40 million.

Medicaid is essentially the program under which government pays a large share of the cost of medical care for those of limited or low income. There is a strong interrelationship between Medicaid and Medicare, (the federal medical insurance program for the aged and disabled), with many people receiving coverage from both. The Federal government is now limiting its commitment to the coverage of Medicaid costs, thereby leaving the states with an increasing share of that expense.

The two major components of Medicaid cost are the services of nursing homes and inpatient hospitals, between which about two-thirds of Medicaid funding is absorbed.

While the largest portion of state health care expense today is attributable to hospitals and nursing homes together, the bulk of the growth which now can be projected for the future will be attributable to expenses for nursing home care.

Medicaid: Under the current New Jersey system a person can become eligible for Medicaid by acquiring eligibility status from any one of three separate levels of government. Once that eligibility is acquired, the client is eligible for all Medicaid services, not just the one applied for. In addition, anyone in New Jersey who becomes eligible for Supplemental Security Income under the federal Social Security program automatically acquires Medicaid eligibility in this state for all services.

- The task force gives priority to a recommendation that the determination of eligibility for Medicaid be centralized with the counties, and that a "bank match" system be employed to check the assets of those seeking Medicaid eligibility to identify those who would not be eligible.

Nursing Homes: The cost to New Jersey of nursing home care under Medicaid was \$247 million in 1982 and is expected to rise to about \$312 million in 1984. As the state's over-65 population soars, major additional costs are in prospect.

The system currently encourages the use of expensive nursing home care over less costly alternatives. An individual living alone cannot have income over \$331 monthly and qualify for state-funded care at home. That same individual, however, can have income of up to \$852 monthly and still qualify for State-reimbursed nursing home care. Nursing homes have little incentive to discharge patients because they incur costs in connection with patient turnover, and have a stake in keeping their beds occupied.

High priority options suggested to control this important cost area are:

* A program to prescreen all prospective new nursing home patients to determine real need and eligibility.

* A public information and education program to make the public more conscious of alternatives to nursing home care.

* Tax incentives to encourage families to provide more home care for the elderly and disabled, the establishment of adult foster homes and the establishment of more adult day care facilities.

Hospital Costs: Neither hospitals, physicians, patients, nor third party private insurers have real incentive to reduce this cost. Beyond State initiatives already undertaken, the task force urges that the development of greater competition among hospitals be given high priority. One possible element in such an effort would be to direct patients to providers of service whose costs and charges are lower, and to provide financial incentives to lower cost providers.

In the area of ambulatory or outpatient hospital care a major cost factor is the growing use of hospital emergency rooms for non-emergency health care. Incentives should be created to encourage more alternate urban health care service.

PAAD and "Lifeline": The task force recommends as high priority options for bringing the PAAD and Lifeline programs within acceptable costs limits an increase in patients' co-payment on prescriptions under PAAD and a discontinuance of the annual increases in benefits payable under the Lifeline program. (This popular program is generous already, compared with similar programs in other states.)

The physician: It is the physician who makes nearly all determinations on who needs health services, which are needed, and what must be prescribed. The physician's control over the system is not matched by incentives to keep costs under control. A patient has a similar lack of incentive to keep costs down, and is inclined to unquestioningly follow the physician's judgment and recommendations.

The task force places high priority on the need to develop such incentives, to educate the public on the issue, and to encourage the greater use of paraprofessionals in the health care process.

There also should be more provision for competitive bidding among providers of Medicaid services. Another high priority option suggested by the task force is that co-payments, in which the patient pays at least a small portion of the cost, become a larger part of the system, thereby giving patients a greater stake in cost control.

Improved coordination of the State's overall health care policies would be best achieved by the strengthening of the structure and mission of the already existing State Health Coordination Council.

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October 5, 1983

SUMMARY

CIVIL SERVICE

GOVERNOR'S MANAGEMENT IMPROVEMENT PROGRAM

The Department of Civil Service operates under a continually expanding workload. If some of the Department's functions were decentralized to give other departments and local governments around the state a greater degree of authority over personnel matters, that workload could be brought under control.

As a result the Civil Service Department would assume a stronger role in the area of monitoring and auditing of the civil service related operations of the various State Government departments.

OBSERVATIONS ON CIVIL SERVICE BY THE STUDY GROUP

Many state employees tend to view their employment as a lifetime tenure, terminable only for reprehensible conduct or layoffs caused by economic conditions. Some managers employ subterfuges to "beat the system." It is a common practice to reclassify a position with the intent of upgrading or downgrading an employee, or to redefine a position to create a new job. Consequently, there has been a proliferation of job titles. Civil service examinations are held infrequently and lists of eligible employees to fill specific positions are lacking. Consequently, it is not uncommon for provisional employees to be hired, or for positions to go unfilled.

Salaries are inadequate to retain skilled personnel. Young professionals often opt for state service to acquire experience, and then leave to assume better paying positions in the private sector. A higher pay scale would serve to retain better individuals and to lower the cost of government. The rights and privileges held under the system by employees makes it difficult or impossible for managers to initiate dismissals or suspensions for legitimate reasons. Employees are not rewarded or penalized for performance, good or bad, and receive annual salary increments based on service time only, without regard to quality of work. Sick leave policy is unjustifiably liberal, encouraging employees to view sick leave as an entitlement to be compensated. Private sector employees take five to seven sick days annually, compared to an average of ten a year by state employees.

There also is a lack of managerial training among many managers.

RECOMMENDATIONS FOR CHANGE

The primary thrust of the recommendations to alter the civil service system is the delegation of certain responsibilities from the Department of Civil Service to the personnel offices of individual departments. Each department would set personnel policy related to hiring and would monitor and audit the performance of its employees. The Civil Service Department would serve as a policy making, review and compliance authority.

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* Accountability. The Governor should be in a position to hold accountable the head of each department for the performance of each employee. The department heads and managers in turn must be given sufficient authority to quantify such accountability.

* Classification of positions. Departments and local jurisdictions would be given authority to classify positions without approval from the Department of Civil Service. Guidelines on the classification of positions however, would be established by the department, which also would approve new job titles generated by other departments or jurisdictions. All state agencies and departments would be permitted to reclassify positions where change does not result in additional operating unit costs.

* Conduct of examinations. State agencies and local jurisdictions would be authorized to prepare, hold and process examinations with the Civil Service Department monitoring these activities and investigating any complaints.

* Examination of committees. The Job Content Evaluation and Reclassification Committees would be discontinued, with the Department of Civil Service assuming the functions of these bodies. This change does not require legislative action.

* Pay increases. The salary increment system would be changed to allow only those in lower level positions to automatically receive full annual increments. Those in middle level positions would automatically receive only half an increment. Receipt of the remainder would be contingent upon the quality of work. Higher level managers only would receive salary increases for exceptional performance. Finally, a merit fund would be created to reward exemplary performance at all levels.

* Civil Service hearings. Employee hearings on suspensions and dismissals would be held at the department level and chaired by a hearing officer assigned by the Civil Service Commission. The Commission would review appeals on only those decisions involving dismissals.

* Sick leave. Employees would be accountable for time off for illness, thereby eliminating entitlement to a fixed number of sick days. Patterns of abuse would be identified and would warrant disciplinary action.

* Update of employment lists. Employment lists, now often badly outdated, would be analyzed and updated to make information more accessible and manageable.

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October 5, 1983

SUMMARY

BUDGET AND PLANNING

GOVERNOR'S MANAGEMENT IMPROVEMENT PROGRAM

The state's annual budget is an important policy-making vehicle. It should reflect the administration's spending priorities and also take into account long-term operating strategies and revenue projections. Historically, however, the budget process has not had the benefit of budget policy guidelines set in advance by the Governor's office. The process also has suffered from a lack of sufficient information regarding anticipated revenues.

The process also normally is not based on planning beyond the coming fiscal year. These shortcomings have contributed heavily to a tripling of the budget in the past ten years, from $2.09 billion for fiscal year 1973 to $6.2 billion for fiscal year 1983. This report outlines the changes that must be made to manage the state's finances more efficiently.

RECOMMENDED REFORMS TO CURRENT SYSTEM

Clear policy guidelines: The current budgeting approach, which now is agency initiated, would become a gubernatorially initiated process. The budget would thus reflect the Governor's priorities, and policy guidelines would be communicated to each department at the outset of budget preparation.

Fiscal projections: Departments would be provided with spending limits prior to formulation of budgets, thus discouraging overestimations. Budgets would be based on both short and long term planning.

Long term budget planning: At no point in New Jersey's budget process is anyone now required to look beyond the next fiscal year. Under these recommendations, long term planning would allow for the factoring in of less controllable aspects of state spending, such as debt service, state aid and increases in formula funding. Additionally, agency heads would see the rationale behind imposed spending limits, particularly when preparing a required long-term strategic planning document.

CURRENT BUDGETING PROCESS

The Division of Budget and Accounting since 1974, has used a zero-based budget. Recent changes to the zero-based budget process, however, allow departments to automatically assume at least a 75 percent level of funding for each program. Thus they only are required to evaluate additional incremental needs of programs, and not forced to reevaluate the basic program itself.

STRATEGIC PLANNING PROCESS

The practice under which each agency or department submits its budget request would be replaced by a system based on a top-down approach.

The process would begin with the issuance by the Governor's office of an overview of recent and future spending patterns, and a forecast of statewide demographic and economic trends. These elements set the broad direction for five-year projections that would be developed annually by all departments.

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The second part of the Governor's report would outline the policy and management objectives of the forthcoming annual budget. The departments in turn would be asked to prepare two or three page reports on their goals, key issues, anticipated problems and their projected solutions, and a five-year plan of expenditures and revenues.

The Governor's office would then devise a program strategy that answers the question, "What does the Governor want to deliver?" and a management strategy answering "How will the Governor deliver these services?" These would be coordinated in an implementation strategy, taking the form of the annual budget.

MAJOR REVISIONS

Two major areas in the budgeting system requiring modification are evaluations of management performance and the structure of the budget office.

Management performance: Incentives and methods of evaluating performance and rewarding managerial excellence must be devised to encourage managers to trim spending.

Structuring the budgeting office: The leading problem associated with the organizational position of the Division of Budget and Accounting is a lack of credibility. The budget is not fully understood as a reflection of the Governor's priorities.

Also the Division of Budget and Accounting does not presently have responsibility for planning and performance evaluation. It is difficult if not impossible to hold managers responsible for poorly operated programs. Accordingly, restructuring is recommended. In doing so, it is essential to combine the planning, management and budget functions into one organization.

The new organization, called the Office of Management and Budget, would be elevated in the organizational structure. The director would be appointed by the Governor. Three alternative ways to accomplish this are available:

* Office of Management and Budget as an integral component of the Governor's Office. Budgeting would be integrated with the Governor's policy and planning function and the Office of Management Services. A constitutional change would be required to place the administrative function of budgeting in the Governor's office.

* Office of Management and Budget created as a cabinet department. This alternative involves moving the Division of Budget and Accounting, the Office of Management Services and the planning function of the Governor's office into a newly created department. Legislative action and a reorganziation of the current cabinet would be required.

* Office of Management and Budget as part of the Department of Treasury with functional line authority to the Governor's office. The responsibilities of the Division of Budget and Accounting would be revised and integrated with the Office of Management Services.

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October 5, 1983

SUMMARY

DIVISION OF PURCHASE AND PROPERTY

GOVERNOR'S MANAGEMENT IMPROVEMENT PROGRAM

The mission of the state's purchasing system is to acquire goods and services in a timely and efficient manner, at the lowest possible cost and for the greatest value. Direct purchases of goods and services for New Jersey totaled $444 million in 1982. These purchases grew at a rate of nine percent between 1979 and 1982, while the total state budget grew 15 percent.

The Division's work also involves the development of product specifications with input from agencies, and the centralization of purchasing power to create a statewide savings in the cost of purchases.

The key justification for the operation of a central purchasing division lies in the savings resulting from its purchases. These savings should outweigh the cost of operating the Division. One of its objectives is the reduction of vendor unit prices, accomplished through the contract negotiation process. For example, in 1979 New Jersey let a blanket contract to purchase typewriters, without specifying a volume or delivery date. Ultimately, 1000 typewriters were purchased for $755 each. In 1980 a similar contract was awarded, specifying 1,000 typewriters and a delivery date. The winning bid from the same company was $690 each, including additional ribbons and elements.

Recent reviews of commodity purchasing data indicate that over $40 million has been spent in multiple vendor contracts. (These are contracts under which any of a number of vendors can deliver or serve under the contract terms, but none are assured of a volume).

PILOT PROCUREMENT PROGRAM

The task force recommends the initiation of a six-month (July to December) Pilot Procurement Program aimed at achieving the following objectives: reduction of multiple vendor contracts, analysis of purchase volume data, setting of cost reduction goals, and documentation of the program's cost-effectiveness.

This pilot program could be initiated effectively in the Department of Human Services; Its extent ensures a sufficient sample size to validate results.

ADVERTISED BID THRESHOLD

The current advertised bid limit is $2,500, as set by the Division of Purchase and Property in 1954. Seventy-five percent of the advertised bids fall between the $2,500 limit, and $10,000---the $2,500 figure adjusted for inflation through 1982. A recommendation is to adjust the bidding threshold to the $10,000 figure and to index it to the inflation rate.

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MANAGEMENT INFORMATION SYSTEM

The ongoing three-year effort to develop a purchasing data base (Purchasing Information Management System - PIMS) has cost $200,000 and requires considerable management attention. It would be appropriate to base the future development of PIMS on the results of the recommended pilot program. Thus, user needs could be identified and resources defined to develop the most effective information system in a minimum amount of time.

PAPERWORK REDUCTION

A significant amount of the total purchasing budget concerns paperwork processing. One example is the routing of PB-3 obligations for direct purchases, a process requiring one to two months . Central Purchasing handles these forms before and after they are processed by the Accounting Bureau, yet does not use them for any purpose that could not be met in some other manner.

The task force strongly recommends the elimination of this procedure plus the periodic auditing of other procedures to determine whether they are effective in the work of the Division.

USER SUPPORT

Numerous agencies have voiced complaints on the purchasing system's complex procedures, timeliness of purchase processing and its emphasis on controlling, not servicing agencies.

An area for improvement in communications between agencies and central purchasing concerns technical assistance. The agencies would be instructed on achieving the best combination of price and quality. This would require the development of user purchasing guides and the presentation of workshops and training sessions.

RECOMMENDATIONS FOR ADDITIONAL REVIEW

Several areas are recommended for evaluation on an ongoing basis:

Accounting and Purchasing: The interrelationships of the accounting and purchasing systems---including time-consuming sequential processing effort, multiple levels of control, delay of vendor payments, and end/beginning-of-fiscal-year dysfunctions (also related to the budget process) ---need to be altered to accommodate changes in purchasing policy.

Data Processing and Purchasing: The Division's role in purchasing data processing services needs to be re-examined in conjunction with the State's data processing needs. The responsibilities of the Purchase Bureau with respect to data processing and telecommunications should be defined to prevent overlapping authority and duplication of effort.

Cash Discounts: The aggressive utilization of cash (or early payment) discounts from suppliers would result in substantial savings. The net effect and use of these discounts should be communicated to agency purchasers.

Review Process: An agency's request should be closely examined in major purchasing decisions, and in situations where an agency's stated requirement conflicts with a lower cost alternative determined by Central Purchasing.

Municipal governments, commissions, and other authorities which are currently outside the State's purchasing system should be evaluated for potential inclusion. The decision would be based on a comparison of the cost of including these entities to the benefit of additional purchasing power.

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October 5, 1983

SUMMARY

PRESERVING NEW JERSEY'S INFRASTRUCTURE OF HIGHWAYS AND BRIDGES

GOVERNOR'S MANAGEMENT IMPROVEMENT PROGRAM

New Jersey has an investment of $42 billion in its system of bridges and highways, and it is in an advanced state of decay. Measured in constant (non-inflating) dollars, maintenance expenditures by the State Department of Transportation have declined in recent years while the factors which contribute to bridge and highway deterioration--population, miles driven, numbers of vehicles and licensed drivers--have expanded. Also, the state highway system has continued to grow.

Real unit costs incurred by the state for highway and bridge maintenance have increased (Real unit costs are the costs of measurable items of work, adjusted to eliminate the inflation factor.) There are numerous contributing factors to this increase, but one area worthy of additional study is the impact of changes in DOT policies concerning the amount of work to be done by the Department itself versus that to be contracted out.

The principal elements of the DOT's maintenance function are: Labor force management, utilization of equipment, and the procurement and handling of materials. Analysis of the costs associated with these various elements suggests that the State may not have succeeded in reducing the real unit costs of maintenance through the hiring of outside contractors. Data suggests that DOT experiences higher overhead costs than should be expected in connection with right of way purchases and construction engineering. (Note: DOT has requested additional support from the State's main management information systems to help it improve its future management of construction engineering.)

To be economically competitive, New Jersey must not only rehabilitate and maintain its existing infrastructure, but complete both its freeway and interstate highway system. To accomplish the job during the period 1985-1990, DOT reports it will need to spend about $1.6 billion. That would mean that the State would have to produce about $113 million a year during those years for its match of federal funds and to fund those projects not eligible for federal contribution.

The Rehabilitation Problem: A problem of overwhelming importance is the continuing decay of state-owned bridges and highways. The backlog of needed rehabilitation work now stands at about $1.5 billion, and the growth rate of the backlog, if unaltered, should bring us to the $5 billion level within 15 years.

The rates of projected backlog growth for highways and bridges respectively, however, differ. Highways, the surfaces of which have an average life expectancy of 13 years, will show rehabilitation backlog increase until about 1988, after which the backlog in that category will generally level off. Bridges have an expected life span of 45 years, and their rate of decay is very slow during the earlier and middle years of that span. But decline accelerates in the late years of a bridge's life. As the rate of decline accelerates, the cost of bringing a bridge up to standard skyrockets.

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Despite their shorter life spans, road surfaces have a similar late life decline acceleration, and the impact on cost is similar. Although costs to repair escalate during the latter stages of the process, they are still far more modest than the cost of fully rebuilding a road. (Average cost of rebuilding a road is $1.2 million per center-line mile. To bring a "very poor" road up to standard costs $220,000 per center-line mile.)

Status of Infrastructure: Over 80 percent of State-owned highways are in fair condition, or worse; only 15 percent of the State's bridges are so rated.

Policy Options: New Jersey has three choices. 1) To continue at present maintenance spending levels and watch the problem grow, as projected. 2) to spend what is needed in an aggressive program to eliminate the backlog, or 3) to spend what is necessary to bring the backlog under control and then to stabilize it.

The State now spends just over $100 million annually on infrastructure maintenance. (By category, $50 million on State owned bridges, $34 million on interstate highways, and $20 million on non interstate highways. The biggest problem is developing in the latter category. The $20 million being spent yearly is greatly insufficient to slow down the backlog growth. (It has reached $500 million and if unchecked will leapfrog up to about $1.5 billion by 1988 and remain generally steady thereafter.) A greater near term investment in this category can have a highly leveraged impact on the backlog before it gets out of hand.

If the second option were chosen--the aggressive elimination of the backlog--it would require a level of expenditure in the short term that is beyond feasible limits.

Choice of the third option--bringing the backlog under control and maintaining it at an acceptable level--would require pushing the expenditure on infrastructure maintenance to about $240 million by 1985 and maintaining it there indefinitely. The backlog, instead of soaring to $5 billion, would rise to $2.8 billion by 1986 and stay around that level thereafter.

Funding Resources: Several options for raising the money necessary are examined in the report. Those recommended as the most feasible call for an increase of four cents a gallon in the motor fuels tax in 1985. There are sub-options calling for leveraging of some or all of the proceeds of the increased tax through an infrastructure bank, and later commitments to higher levels of infrastructure maintenance spending in order to actually reduce the backlog. These additionally suggested options also include a second later boost in the motor fuels tax.

An increase in the motor fuels tax is focused upon as a possible revenue source because the study indicates that other transportation related revenues would not be adequate for the purpose, and because New Jersey's motor fuels tax is now at levels substantially below that of neighboring states.

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October 5, 1983

SUMMARY

STATE AID TO ELEMENTARY/SECONDARY EDUCATION

GOVERNOR'S MANAGEMENT IMPROVEMENT PROGRAM

Approximately one-third of the State budget goes to State aid to education and accounts for about 40 percent of local level education expenses. This spending segment has risen by over two percent a year from 1979 through 1983 in real terms (constant dollars) despite decline in enrollment.

The average annual increase in actual (funded) state aid to education between 1977 and 1983 was 9.8 percent (in current dollars). The breakdown in aid in 1983, by category and amount, was: General formula aid, $1.018 billion; teachers pension, $458 million ;categorical aid, $271 million; transportation, $115 million; school building, $82 million; other grants, $51 million. (Total: $1,995 billion.)

General Formula Aid has as its purpose the equalization of resources between property rich and property poor districts, in compliance with the State Constitution's "thorough and efficient" education requirement. Calculation of that aid for each district is set according to complex formulas. Despite this system, it appears that the resource gap between rich and poor districts is not significantly narrowing. One reason for this, is that spending caps apparently have not succeeded in limiting per pupil spending in high wealth districts.

Categorical Aid is aimed at such things as special education, remedial programs, bilingual and vocational education. It represents the highest area of growth in State education aid, and it is not equalized between high and low wealth districts.

There is now little control over the cost of aid allocable to teachers pensions. They are 100 percent funded by the state, and the system tends to reward districts which have higher teacher salaries and lower teacher-student ratios. Beyond that is the impact of the "pension adjustment", a cost of living adjustment, the real cost of which has grown at an annual rate of more than 17 percent, and the "social security adjustment", a costly double payment dating back to the separation of the state teacher pension system from the social security system. This works against efforts to manage the cost of teaching.

Resource Allocation: At the local level, expenses for maintenance and operations are climbing as a percent of total costs, a situation not unusual for an older business with declining plant. Higher fuel costs, and higher insurance costs attaching to older plant, have significant impact. As enrollments continue to decline, there is a tendency to allow class sizes to gradually shrink, as an alternative to laying off teachers. Accordingly, small pockets of excess capacity are created, a process which pushes per pupil costs up.

Cost management in a mature business with declining plant requires different approaches than are appropriate during growth. Failure to recognize this principle in the private sector has caused some business failures.

A review of education cost management in Connecticut, Pennsylvania and New York---all mature systems---suggests that New Jersey does not do as well in the management of per-pupil costs in a declining enrollment environment. A willingness to consolidate systems as they lose enrollment appears to be an important factor in successful cost management.

Product Quality: Testing shows New Jersey to be improving in the area of minimum basic skills, but needing further improvement. Testing also shows a clear need for real improvement in development of higher skills, such as problem solving. New Jersey students are not adequately prepared with college skills, and show declining SAT scores in keeping with nationwide results. New Jersey's product quality problems are particularly pronounced in the cities.

The Strategic Approach: State aid to education must be a result of state policy, or a strategic vision for the state, and not merely a consequence of the budget process. Such a strategic approach must focus on product quality first; funding strategy and the allocation of resources would follow.

The task force sees three choices in each of the broad areas studied. Either 1) maintain the status quo and deal with new problems on an ad hoc basis, or 2) begin limited initiatives aimed at desired goals or 3) undertake major initiatives, leading to a more direct State role in setting education policy.

The task force considers the following to be Action Alternatives realistically available to the State:

PRODUCT QUALITY IMPROVEMENT OPTIONS

- Installation of a high school graduation examination based upon higher order learning skills.
- Implementation of a local district planning model for improved student learning, based upon specific objectives.
- Provision of a curriculum delivery process by the State.
- Provision of a new local district monitoring process.
- Targeting of state resources toward major needs areas, such as handling of disruptive students, computer literacy, and writing.

(Note: There would NOT be significant cost required to implement the above alternatives because they represent initiatives already begun by Commissioner Cooperman and the State Board of Education.

- Implementation of a merit salary program on a pilot basis.
- Programs to help urban districts implement urban school research.
- Programs to enhance the quality of new teachers.
- Programs to ensure better time utilization in major subject areas.
- Programs to ensure better classroom environment.
- Greater involvement of parents in the learning process.
- Financial incentives for development of better educational approaches.
- Programs to improve the competency of teachers and administrators.

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<u>Funding and Resource Allocation Options:</u> These tend to be interrelated, as the State's control over the former can influence the latter. The notable point about these options is their magnitude, with potential cost savings in the hundreds of millions of dollars.

- Setting of objectives for such cost management indicators as pupil/teacher ratios and other staffing ratios.
- Redefinition of the State's responsibility to fund a base program (removing such corollary programs as athletics and driver education from funding formulas.)
- Use of the funding mechanism to reduce state funding for districts which exhibit cost growth greater than some cutoff level (excluding low wealth districts in order to remain in compliance with court mandates.)
- Review of cost factors for categorical aid programs.
- Replacement of 100 percent State funding of categorical aid programs with funding via the equalization aid process.
- Encouragement of early teacher retirements through bonus payments.
- Bringing the teacher pension system more in line with other states.
- Replacement of 100 percent State support of teacher pensions with State funding via the equalization aid process.
- Elimination of the 2 percent social security adjustment.
- Encouragement of regionalization through cutting of the state share of transportation aid and by standardizing the K through 12 system.

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October 5, 1983

SUMMARY

CORRECTIONAL SYSTEM

GOVERNOR'S MANAGEMENT IMPROVEMENT PROGRAM

This task force seeks to make recommendations to alleviate over-crowding in the state's prisons and reduce the cost of incarceration. This study focuses on adult rather than juvenile offenders, and does not propose any major structural changes in the current criminal code.

The problem of overcrowding in the State's eleven prisons has resulted in the housing of inmates in county facilities, filling both the State and county systems beyond capacity. Several of the State institutions are outdated.

Since 1977, the number of inmates has grown at an annual rate of 9.6 percent, and between 1977 and 1981 crime rates rose annually by 22 percent. The new criminal code requiring mandatory minimum sentences for certain crimes has contributed to a major increase in the real time served by offenders. The Speedy Trial Program has also increased the prison population. Since 1977, the annual number of offenders sentenced has increased from 13,000 to 19,000. There also has been a modest reduction in the parole release of inmates under the State's new parole act.

A side effect of overcrowding has been the appropriation of work, program and recreation spaces for living quarters. As a result inmates have been less active and have been able to accumulate fewer work credits toward parole, a situation which contributes to a disruptive prison climate.

The task force divided the passage of offenders through the correctional system into three phases: entry, custody and exit. At each of these phases the task force proposes alternatives to incarceration which, if implemented, could relieve the pressure and cost of overcrowding. At the entry level it considered what could be done to divert potential inmates from incarceration without significantly changing the current criminal code or philosophy of criminal punishment. Programs with that objective are aimed at minimum risk offenders. These programs come under two headings: Diversion and Assistance. The Diversion programs, based on pre-trial intervention, already divert an average of 4,000 offenders a year, and while governed by statute, rely on eligibility guidelines issued by the Supreme Court. The cost of program per person ($440) is cost efficient when compared to the cost of incarceration ($2,155).

For expansion of this program additional funding would be required, as well as broadening of screening to determine eligibility. The establishment of automatic guidelines for low risk offenders would be a step in this direction.

New Jersey's primary alternative to incarceration is the county funded probation service. Currently there are 25,600 adult offenders being supervised by the probation departments, with an average case load of 130 per officer. Probation costs about $225 for an initial investigation plus $650 per year per defendent for active supervision. Intensive supervision is an experimental program (ISP) scheduled for implementation during the later part of 1983. Offenders would spend no less than twelve months and no more than five years in the program. The cost per offender of intensive supervision is expected to be between $2,600 and $3,000 per year.

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Assistance programs consist of treatment alternatives for street criminals (TASC) and community work services. TASC is designed to increase the capability of pretrial and problation programs to detect and treat substance-abusing offenders. The 2,000 participants in the program are divided evenly between pre-trial intervention and probation. The state will be expected to fund this program when federal funds cease this years. The objective of Community Work Services is to probide work in order to reduce the risk of repeat offense. These work intensive programs provide car-fares and lunch, as well as on site supervision, to offenders who are generally unemployed. Despite good results during a trial period in Essex County, the program was terminated when funding was cut. Community Work officials estimate that the program can place and supervise about 200 offenders in community-related jobs at a yearly cost of $500 per person.

Cost of Incarceration: To explore how New Jersey might be more cost efficient while holding an inmate in custody, the task force conducted a survey of five other states: New York, Pennsylvania, Ohio, Massachusetts and Maryland. Due to a lack of standardized reporting policies from state to state and different operating philosophies regarding cost vs quality of incarceration, the task force did not consider the findings of the survey conclusive. This did provide the groundwork in some areas, however, which may be helpful in future studies. Overall, the cost of incarceration to New Jersey ranks in the middle of the six states surveyed. A dramatic reduction in this expense will be difficult to achieve, as much of the cost is dictated by prison architecture. Most of New Jersey's inmates are housed in institutions smaller than those of the other states in the survey. Also many of the state's prisons are more than 25 years old and have inefficient layouts that penalize the department in terms of manpower and operating costs. To reduce these costs, the state must invest capital with the understanding that returns on the investment will not show for several years.

The survey also considered the efficiency of the system in two major areas: Management-related and inmate-related issues. The primary management problems are: 1) The fact that responsibility for labor negotiation lies outside the department. 2) A shortage of training facilities. 3) A need for review of the inmate classification process. Inmate-related concerns include the need for long-term offenders and coping with inmate idleness.

The task force recommends that labor arbitration be located inside the department, and the task force proposes an investment in new training programs and facilities directed at current managers. This could reduce the turnover of custody personnel, improve morale, and make prisons safer.

The classification of prisoners determines the type of facility-maximum, medium or minimum-to which the inmate is sentenced. The Department should continually review procedures to ensure that prisoners are placed in as minimum a security status as possible, consistent with public safety, thus lowering cost.

Improvements are needed for long term inmates and in the area of health services. Programs must be developed for long term offenders that help them adapt to prison life, rather than emphasizing integration to society.

In health services, studies have indicated that it is cost-effective to establish entire wards for acute care at private hospitals. Additionally, wards will be needed at medical institutions throughout the state as the inmate population expands in the upcoming years.

The Exit Phase: The review of the exit phase of an inmate's movement through the correctional system concentrated on the parole function. The parole responsibility is divided between two agencies, the Department of Corrections and the Parole Board. The Parole Board evaluates inmates to determine eligibility for, and terms of parole. Once an inmate is paroled, the Bureau of Parole (within corrections) is responsible for his or her supervision. Limited funding has reduced the number of parole field officers while their workload has expanded. Also, the number of active parolees has increased. Additionally, the Bureau has taken responsibility for the county jail and the very young, for the collection of fines, and restitution. This increased workload has had an adverse effect upon the ability of the field officers to monitor the parolees.

The task force examined the question of what should be done with the Rahway Prison, which was built in 1896 and is in deplorable condition. By building new, properly designated facilities, rather than refurbishing those that are small and older, the state could reduce annual operating costs per prisoner.

The task force also proposes a reevaluation of the current criminal code to determine whether mandatory minimum sentences should have some provision for a highly selective reduction in an offender's term without endangering public safety. If such a policy were implemented, its benefits would be twofold: Cost reduction and relief of crowded conditions.

The task force also makes several short-term proposals to relieve over-crowding and reduce expenditure. On the over-crowding issue, the task force recommends additional funding of programs to divert offenders (pretrial intervention, TASC, intensive supervision, probation.) This would serve the dual purpose of being cost effective and reducing the risk of repeat offenses.

With regard to the parole field force, the Department of Corrections should undertake a study to identify an appropriate case load. Another recommendation aimed at relieving over-crowding is that sufficient funding be provided for programs which better integrate the offender into society. As 40 percent of the prison population are repeat offenders, such programs could have a great impact.

There also are recommendations relating to energy savings, reduction in food service costs while also enhancing food quality, improved labor relations, and improved health services to inmates.

# # #

October 5, 1983

SUMMARY

NON-TAX REVENUES

GOVERNOR'S MANAGEMENT IMPROVEMENT PROGRAM

The issue of the State's non-tax revenues is important because of its scale, and its potential for raising additional revenue. This would be done through updating fees to cover the cost of services provided where it is appropriate to do so.

The major strategic alternatives associated with generating additional non-tax revenue are these:

Updating of the Current System: This involves a review of current fees and recommendations for changes to ensure that current actual full costs (including fringe benefits, rents, and all other allocable costs) are fully recovered for areas where full recovery is the objective or the policy. The updating of this sytem would be likely to generate up to $10 million dollars in additional revenues.

Systematic Review and Update Process: A systematic, periodic review (not more than every three years) of fees to adjust at least for inflation, and also for structural changes in the cost of providing services, is a reasonable idea. However, the areas where this is currently not done represent a relatively small dollar amount in comparison to the total state budget. Therefore, the opportunity for increased revenue here is less than $5 million dollars.

Incentives: This may involve the inclusion, through the budgetary process, of an allowance to enable departments to utilize either all or a portion of fee increases to execute more effectively their mandated responsibilities or programs. Under the current system most fees are available for general state purposes. A department's ability to gain the support of groups serviced by the program will be enhanced if the population which is paying the higher fee sees a constructive result, such as quicker response time or better services provided.

Review of Significant Cost Revenue Imbalances: The areas of government where significant imbalances occur between service costs and revenues include the Departments of Human Services and Higher Education.

Appropriate opportunities exist for some new revenues (up to a maximum of about $15 million if an aggressive collection policy is pursued) to be collected from recipients of service of the Department of Human Services. Efforts are now underway in the department to accelerate these collections. Unfortunately, these service recipients are often among the least able to pay and much of the amount collected also must be shared with federal and county governments.

(more)

The Higher Education Department offers the largest single potential for revenue gain.

* There is an excess of costs over non-tax revenues for services provided exceeding $500 million;

* There is strong relative ability of the users to pay, at least on a deferred basis, if not currently, because students have rising income horizons;

* There is in place a system to collect fees (the tuition collection system);

* There is evidence that New Jersey recovers a smaller portion of higher education costs then does a comparable state such as Pennsylvania.

On the other side of the picture are arguments that affordable higher education is a key ingredient to the success of the "high tech" emphasis now being developed in the state. While the ideal tradeoff between these pressures is not clear, an opportunity exists here for as much as $100 million in additional tuition revenues, possibly on a deferred basis via loans rather than reliance on outright grants.

Overall, this study has calculated a potential total of $125 million in increased revenues from the following departments:

	(millions per year)
Higher Education	$100.0
Human Services	15.0
Agriculture	0.5
Banking	0.1
Community Affairs	1.3
Environmental Protection	7.5
Health	0.8

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October 5, 1983

SUMMARY

MASS TRANSIT

GOVERNOR'S MANAGEMENT IMPROVEMENT PROGRAM

This study looks at the range of problems facing mass transit in New Jersey and recommends possible solutions, in the form of options.

New Jersey Transit (NJT) anticipates running a system-wide operating defecit of roughly $200 million in fiscal year 1984, $45 million of which will be covered by federal operating assistance. The State's General Fund is expected to provide $149 million. NJT expects ongoing and slightly increasing annual deficits.

More aggressive cost management and labor programs have been instituted, such as the recent labor contract settlement of the 1983 rail strike. Farebox revenues are expected to increase under optimistic assumptions of increased ridership and fare adjustments, but these farebox revenues are not expected to keep up with increases in operating expenses. Hence, in spite of significant cost improvements and revenue enhancements implemented or planned by NJT's management, the extent of future state subsidies needed is expected to increase. There also is in prospect a reduction or elimination of the Federal operating subsidy. This would obviously increase the State's burden.

Mass transit in New Jersey is provided by a variety of modes, including NJT's rail and bus operations, Amtrack, PATH, PATCH, various county authorities and private bus companies. NJT is the dominant force in the industry. In 1970 mass transit served about 18 percent of the state's commuters, but that figure has dropped to 11 percent in 1981. Lost ridership in New Jersey is part of a nationwide phenomenon and there is a preference for the use of automobiles. New Jersey's continuing trend towards suburbanization, rather than urbanization, enhances this trend. Also, employment patterns more closely parallel the state's highway infrastructure, rather than its current transit network.

Evaluation of the state's privately operated bus and rail operations was accomplished by applying two standards: Dollars per bus mile (or rail car mile) and cents per passenger mile. Bus operations, reviewed from tne period of 1960-1982 increased in constant dollar terms, reflect minimal growth in unit costs. A similar trend can be shown on a passenger mile basis.

Rail operations costs were available for a shorter period (1976 to 1982) but have shown the same trend.

NJT currently serves 170 million riders per year, most of whom are bus passengers. Transit's costs and deficits, however, do not correspond to the ridership of the private bus and rail services. Although NJT's rail operations carry only one third as many people as its bus operations, its operating expenditures are roughly equal. NJT's relatively low revenue coverage of rail costs (46 percent) results in a deficit approximately equal to that of all bus operations, NJT's primary source of operational revenue is derived from a rider's purchase of a trip. The per-trip rail deficit is almost 70 percent higher than the per-trip interstate bus deficit because the comparatively small number of passengers carried by rail are transported over a relatively greater distance. Rail fares are underpriced compared to bus fares.

NJT has tried to be responsive to its customer's needs (defined as product and service attributes which influence a rider's purchase decision). In the case of transit, fare, service level, reliability, equipment and security influence the rider's purchase decision. The relative importance of these factors varies from one major segment of the population to the next.

Most organizations are geared to respond to their major market segments, and find it very difficult to be all things to all people. While NJT's design attempts to respond to all ridership segments, it devotes most of its attention to the price conscious segment. As a consequence, NJT sometimes forfeits select portions of its ridership to private operators in order to provide broad service.

* * *

The task force sees three options open for NJ Transit:

1. The continuation of NJ Transit's current operating policies, marketing practices, and capital programs represents the first option, a "status quo" option. This includes:

* Aggressive cost control;
* Selective modification of fare and service to gain ridership;
* Vigorous competition with private operators;
* Continued operation of long-distance interstate charter trips.;
* Selective pruning of routes where decreased ridership levels warrant.

2. The second option postulates the modification of NJ Transit's operating, marketing and capital program in order to hold the annual state funding requirement at 1983 levels. This option includes:

* Selective subcontracting of routes to lower-cost private operators;
* Increasing fares at rates exceeding the increases in costs to improve operating margins;
* Avoiding capital projects where the local match is provided from general state appropriations;
* No acquisition of additional bus operators;
* Additional pruning of routes where reduced ridership warrants the action.

3. The third policy option postulates fundamental changes in NJ Transit's operating, marketing, and capital strategies to reduce the annual state funding requirement from 1983 levels. This option includes:

* Substitution of private operators on existing NJ Transit routes on a broad scale;
* NJ Transit would provide only those bus services needed to preserve a "safety net" of public transportation;
* Increases in rail fares to levels which produce generally similar operating margins for both bus and rail operations;
* Discontinuance of the charter, subscription, and tour bus businesses;
* Continuing aggressive capital investments in new rolling stock, but turning over equipment to private operators as part of contracts for service;
* Avoidance of investment in facilities that would tend to reduce NJ Transit's flexibility in contracting with private operators.

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October 5, 1983

SUMMARY

UNEMPLOYMENT INSURANCE

GOVERNOR'S MANAGEMENT IMPROVEMENT PROGRAM

The Unemployment Insurance Trust Fund is designed to be a self-funding system. In 1982 the fund paid out $898 million in benefits, $23 million more than it took in from the State employer tax ($624 million), the employee tax ($99 million) and the return to the State of federal unemployment tax funds ($198 million). The fund showed no net interest earnings because of outstanding loans from the federal government.

These loans, totalling $735 million during the period between 1975 and 1978, had been reduced to an outstanding balance of $521 million by the end of 1982. However, it is expected that new borrowing will be necessary to meet all of the State's unemployment compensation obligations in 1983. The loans are repaid through increased taxes on employers only.

A new increase in the tax New Jersey employers must pay to reduce the federal loan is expected to cost them an extra $99-$112 million in 1983.

Only four states in the nation are in greater debt to the federal government for unemployment fund loans. The impact on New Jersey's employers has been heavy, as they pay a rate of tax (percent of total wages) that is 27 percent higher than the national average. Accordingly, damage to New Jersey's attractiveness as a potential location for the creation of new jobs has been profound.

According to long-accepted federal guidelines, the "solvency" level for any state's unemployment insurance trust fund is 1.5 times its highest annual benefits level. For New Jersey the solvency level, based on the all-time high 1975 payout, would be over $2 billion.

In fact, New Jersey's fund balance at the end of 1982 was minus $444 million. That is insolvency by any standard.

There is a combination of causes which account for the current condition of New Jersey's unemployment compensation system. They include:

* The general state of the economy and particular economic conditions in New Jersey.
* The effect on New Jersey of the federal government's Extended Benefits Program.
* Eligibility standards for benefits which apply in New Jersey.
* New Jersey's formulas for compensation, both as they set amounts payable weekly, and the time period over which benefits are paid.

Economic Conditions: New Jersey experienced unemployment levels between 1971 and 1980 that were well above the national average. Moreover, New Jersey felt the effect of the recession of 1974-75 longer and more severely than most other states.

There was a net loss of manufacturing jobs in the state over that same period that amounted to about 25 percent of the state's total work force. The negative impact of manufacturing job losses was offset somewhat by New Jersey's better than average statistical performance in generating service industry jobs.

(more)

Extended Benefits: New Jersey's Unemployment Trust Fund must pay 50 percent of the cost of funding added unemployment benefits under the federal Extended Benefits Program. New Jersey went further than most states in choosing options under this program, thereby placing a heavier cost burden on this state than was incurred by most others under the same program.

Eligibility: To qualify for compensation, claimants must initially meet an eligibility test which determines whether a person is "attached to the labor force." This eligibility "attachment" test in New Jersey is very lenient by national standards. Also, New Jersey is among the ten most lenient states in penalizing workers who voluntarily leave jobs and then claim benefits. New Jersey also is among the nation's most lenient in its willingness to give access to benefits to workers properly discharged for misconduct. Beyond that, New Jersey is more liberal than most states in providing benefits to those who, for proper cause, have been disqualified from eligibility.

Benefit Formulas: While average benefits paid in New Jersey generally are in line with the national average, benefits paid to low wage earners run well above the national average. This is seen by some as a disincentive for some low income workers to seek employment. (Benefits to lower income workers can come close to what their net take home pay would be, minus payroll taxes and commuting expenses.)

In fact, New Jersey's Wage Replacement Rate of two-thirds of salary (fully applicable only at the low income end of the scale) is the nation's highest.

As for the time period over which benefits are paid, New Jersey ranked first and thus incurred the heaviest cost from program duration, based on the last year for which full figures for the duration factor are available (1979). There is indication from incomplete figures for subsequent years, however, that New Jersey's position on the duration scale has moved closer to the national average, but is still well above average.

On its current course, the State's unemployment insurance program would saddle the State with enormous new debt if a new recessionary period were encountered and the program remained unchanged. To avoid this, New Jersey has two options: To increase revenues, and/or to control benefits.

If revenues were to be increased by generally increasing taxes on employers, the result could be highly negative for New Jersey's jobs picture (and a windfall boost to Sunbelt states competing for industry). Selective taxes, targeted on employers who generated the largest volume of claims, should be considered as an acceptable means of increasing revenue.

As for benefits, tightening of the initial test for eligibility and the test by which "attachment to the labor force" is determined could substantially reduce the cost to the State. An alteration of the Wage Replacement Rate of two-thirds of wage level, the nation's highest, could sharply reduce costs by eliminating an incentive for some to avoid unemployment and to collect compensation.

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