Commission Meeting

of

NEW JERSEY COMMISSION ON CAPITAL BUDGETING AND PLANNING

LOCATION: Committee Room 16
State House Annex
Trenton, New Jersey

DATE: February 26, 2016
10:00 a.m.

MEMBERS OF COMMISSION PRESENT:

B. Carol Molnar, Esq., Chair
Anthony F. Annese, Vice Chair
Senator Paul A. Sarlo
Senator Samuel D. Thompson
Assemblyman Declan J. O'Scanlon Jr.
Thomas H. Neff
Steven Petrecca
James M. Rutala
Beth Schermerhorn
Jerry Traino

ALSO PRESENT:

Brian E. Francz
Executive Director

David F. Patella
Assistant Executive Director

Brian Onda
Budget Specialist

Meeting Recorded and Transcribed by
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Hearing Unit, State House Annex, PO 068, Trenton, New Jersey

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Chris Christie
Governor

B. Carol Molnar
Chair

Kim Guadagno
Lt Governor

Commission Meeting

In compliance with the Open Public Meeting Act, P. L. 1975, Chapter 231, please be advised that the next meeting of the New Jersey Commission on Capital Budgeting and Planning is scheduled for:

February 26, 2016
Friday at 10 a.m.
State House Annex, 4th Floor, Room 16
Trenton, New Jersey

For Commission Members Attending via Conference Call:
Phone Number: 1-888-273-3658
Access Code: 8590177

Agenda

1. Call to Order
2. Open Public Meeting Act Notice
3. Roll Call
4. Approval of the Minutes of November 20, 2015 - **Action**
5. Debt Report Presentation for Fiscal Year 2015 - **Action**
6. Fiscal 2017 Capital Recommendations - **Action**
   - Department of Agriculture
   - Department of Children and Families
   - Department of Corrections
   - Department of Education
   - Department of Environmental Protection
   - Department of Human Services
   - Department of Law and Public Safety
   - Juvenile Justice Commission
   - Department of Military and Veterans Affairs
   - Department of Transportation
   - Office of Information Technology (OIT)
   - Interdepartmental Accounts
   - The Judiciary
7. Other Business ---- **Action may be taken**
8. Adjournment

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(The New Jersey Commission on Capital Budgeting and Planning held a meeting on February 26, 2016, at 10:00 a.m. Members of the Commission present via teleconference were Senator Paul A. Sarlo, Senator Samuel D. Thompson, Assemblyman Declan J. O'Scanlon Jr., and James Rutala.)

B. CAROL MOLNAR, Esq. (Chair): I would like to call the meeting of the Capital Planning Commission to order.

In accordance with the Open Public Meetings Act, the Commission has provided adequate notice of this meeting by giving written notice of the time, date, and location. The notice of the meeting has been filed at least 48 hours in advance by mail and/or fax to the Trenton *Times* and the *Star-Ledger*, and filed with the Secretary of State.

We will now take a roll call.

MR. FRANCZ (Commission Executive Director): Senator Sarlo.

SENATOR SARLO: Present.

MR. FRANCZ: Senator Thompson.

SENATOR THOMPSON: Here.

MR. FRANCZ: Assemblywoman Sumter. (no response)

Assemblyman O'Scanlon.

ASSEMBLYMAN O'SCANLON: Here.

MR. FRANCZ: Mr. Neff.

MR. NEFF: Here.

MR. FRANCZ: Mr. Petrecca.

MR. PETRECCA: Here.

MR. FRANCZ: Ms. Schermerhorn.

MS. SCHERMERHORN: Here.

MR. FRANCZ: Mr. Traino.

MR. TRAINO: Here.

MR. FRANCZ: Ms. Cimiluca. (no response)

Mr. Rutala.

MR. RUTALA: Here.

MR. FRANCZ: Mr. Annese.

ANTHONY ANNESE (Vice Chair): Here.

MR. FRANCZ: And Chair Molnar.

MS. MOLNAR: Here.

MR. FRANCZ: Madam, we have a quorum.

MS. MOLNAR: Thank you.

Our first item is to approve the minutes of November 20, 2015.

Do I hear a motion to approve?

MR. PETRECCA: So moved.

ASSEMBLYMAN O'SCANLON: So moved.

MS. MOLNAR: Who seconded it?

MS. SCHERMERHORN: Second.

MS. MOLNAR: Thank you.

MR. FRANCZ: Would you like a roll call?

MS. MOLNAR: Yes, please.

MR. FRANCZ: On the motion to approve the minutes, Senator Sarlo.

SENATOR SARLO: Yes.

MR. FRANCZ: Senator Thompson.

SENATOR THOMPSON: I would note in the minutes that there were several questions that I raised in that meeting; and I was promised more information, and I still do not have it. So if staff could take a look at that and get the information to me, I'll vote "yes" on the minutes.

MR. PATELLA (Commission Assistant Executive Director): Senator Thompson, this is Dave Patella. We had sent an e-mail out with the responses to some of your questions. If you could check the e-mail -- check your e-mails; otherwise, I'll forward that e-mail to you.

SENATOR THOMPSON: Okay. I don't know when you sent them, but if I look back, I don't know where I have to look. So I would suggest forwarding them to me again, because I do not recall seeing them.

MR. PATELLA: I will do that.

MR. FRANCZ: Assemblyman O'Scanlon.

ASSEMBLYMAN O'SCANLON: Yes.

MR. FRANCZ: Mr. Neff.

MR. NEFF: Yes.

MR. FRANCZ: Mr. Petrecca.

MR. PETRECCA: Yes.

MR. FRANCZ: Ms. Schermerhorn.

MS. SCHERMERHORN: Yes.

MR. FRANCZ: Mr. Traino.

MR. TRAINO: Yes.

MR. FRANCZ: Mr. Rutala.

MR. RUTALA: Abstain.

MR. FRANCZ: Mr. Annese.

MR. ANNESE: Yes.

MR. FRANCZ: And Ms. Molnar.

MS. MOLNAR: Yes.

MR. FRANCZ: The motion moves.

MS. MOLNAR: Thank you.

Okay, our next item of business is the Debt Report presentation for Fiscal Year 2015. I'd like to welcome James Petrino, Director.

Good morning.

J A M E S M. P E T R I N O: Good morning.

MS. MOLNAR: Could you give the names of your staff?

MR. PETRINO: Yes.

Good morning, Chairwoman Molnar and Commission members. My name is Jim Petrino, Director. And alongside me is Anthony Longo, Manager, in the Office of Public Finance in the Department of the Treasury.

We're here today to present to the Commission a report on the debt of the State of New Jersey for the Fiscal Year ended June 30, 2015.

The Office of the Public Finance is the Treasury agency responsible for managing the process of borrowing funds for capital purposes, primarily through the issuance of bonds, notes and other obligations in the capital markets.

The purpose of the report is to assist the Commission, by its acceptance of this report, in meeting its legislative mandate to include a report on the State's overall debt in its State Capital Improvement Plan, as well as to provide a data resource document to the finance and investment communities.

This year's report is generally consistent in its format with that of prior years -- that is, the report comprises eight sections: an introduction with a discussion of the types of obligations that are covered and not covered by the report; a copy of the legislative requirement for the report; a section on outstanding obligations, which include summary tables and charts; changes in long-term obligations; a 10-year history of outstanding obligations; and a listing of Legislatively Authorized but Unissued Debt.

Section 4 provides data on the annual debt service associated with the outstanding obligations, with summary tables and charts, followed by more detailed data.

In Section 5 we provide obligation profiles for each bond issuer, and further for each major bond issue or program funded with bonds. This is followed by selected debt statistics, which compare New Jersey's standing relative to other states.

Section 7 contains a glossary of terms and headings used throughout this report and in the bond community generally.

And finally, we include a section containing supplemental information, including certain pension and benefits data.

While this general report format follows that of prior years, evolving governmental accounting standards -- particularly as they relate to the reporting obligations for pension and other post-employment benefits -- have necessitated a couple of changes that I'll point out when we begin to review the content of this report.

The inclusion of such non-bonded obligations in the overall report on the State's debt inflates the numbers we typically think of as debt in the context of capital budgeting and financing. As a result of the changes in accounting standards that I mentioned, you will see that the amount of non-bonded obligations we report now greatly exceed -- in fact, they more than double the reported amount of bonded obligations.

Additionally, I'd like to remind the Commission that some of the data contained in the report is taken directly from the State's Comprehensive Annual Financial Report, or CAFR. As we clearly note in the Debt Report, the FY 2015 CAFR has not yet been issued, pending completion of the audit. We presently expect that the CAFR will be approved and released within the next couple of weeks; however, rather than delay the presentation of this Debt Report to coincide with the release of the CAFR, Treasury's Office of Management and Budget has provided us the necessary FY 2015 year-end debt data that will appear in the CAFR. While it is Treasury's belief that the data provided here is accurate and not expected to change, it must be noted that such data is still subject to final confirmation via the audit process.

At this point, I can begin a brief dive into the numbers, focusing on some of the major totals and subtotals; or we can pause here for any questions or comments from the Commission.

MS. MOLNAR: Any questions before we go into detail? (no response)

If not, thank you for continuing.

MR. PETRINO: Okay.

If I could ask the Commission members to turn to page 8 of the report, which is Section 3 -- the *Outstanding Obligations.* And the first chart in here is really an aggregation of all the information to follow -- it's at the top of the page, so I'll -- I think I'll just read across and it should help you understand what the numbers are.

General Obligations, which we show in more detail on page 10; the outstanding number, as of June 30, 2015, is $2.372 billion -- an increase of $215 million from the prior year. That is followed by *Obligations Subject to Appropriation*, which the details appears on page 11. The total outstanding, as of June 30, 2015, $33.9 billion, an increase from the prior year of $956.8 million. That's followed by the *CAFR Reconciliation* -- which I will explain when we get to that on page 13; these are adjustments -- adjustments and other reporting adjustments that appear on the beginning of page 13. That amount is shown as $6.95 billion, an increase of $227 million from last year.

So the total CAFR reconciled *Bonded Obligations*, as of June 30, 2015, amount to $43,234,881,000; an increase of approximately $1.4 billion from the prior year.

We next then go to *Non-Bonded Obligations*, which appear beginning on page 14. And here you'll see the large number that I was talking about: $110,283.9 billion, as of June 30, 2015, an increase of about $8.5 billion.

So the total numbers in the report will show an outstanding obligation of bonded and non-bonded of $153.5 billion as of June 30, 2015 -- an increase of approximately $9.9 billion from the prior year.

The percentages on the right-hand side just show the percentage of the total of $153 billion. *General Obligations* comprises 1.5 percent of that amount of obligations; *Subject to Appropriations*, 22.1 percent;

CAFR accounting adjustments, 4.5 percent; the *Non-Bonded Obligations*, 71.8 percent.

So as I mentioned, those are the most significant numbers in here; however, what I'd like to begin with is an explanation of the *Bonded Obligations* that the Office of Public Finance, and that Anthony and myself, are most familiar with, and the Commission is most familiar with -- because those are the obligations that fund the capital purchases of the State of New Jersey.

So if it's okay with the Chair, I will just try to go over some of the summary numbers and point out a couple of things in here; and then I'll pause for questions.

MS. MOLNAR: Thank you.

MR. PETRINO: If I could refer to page 10; this is where we present some more of the details behind each of the numbers. Page 10 represents the *General Obligations* of the State. These are bonds authorized by the Legislature and approved by the voters in State referendums. So here we will see, again, those outstanding numbers. We show you the amount outstanding as of last year: the additions, the dedications, and then the amount outstanding and the change from the prior year.

Looking down the additions column, you can easily see where bonds were issued. During the fiscal year, we issued $525 million of General Obligation bonds -- most of that -- $450 million of that was the Building Our Future bonds that were approved by the voters in 2012 for higher education construction purposes.

The deductions generally represent the regular amortization of prior bond issues -- so that paying down the debt. So we issued $525 million in new debt, paid down $310 million of the same debt, for a net increase of $215 million.

Similarly, on the following page, we provide the same level of detail for those *Bonded Obligations* subject to annual appropriation by the Legislature. These are bonds issued by the various State authorities, and you can see again -- I'll go point you down to the subtotal at the bottom -- outstanding as of June 30, 2014, approximately $15.3 billion; issues of $1.5 billion during the year; reductions or deductions of $1 million; for a net increase of $519 million.

It's probably important to note that some of those additions represent refunding bonds, where we issue new bonds at lower interest rates to retire or redeem old bonds. We show the numbers on a gross basis here; for instance, in the School Facilities Construction line of $1.3 billion, most of that was refunding bonds, and the deductions represent not only the amortization of -- the regular amortization of bonds, but also amounts that were redeemed with proceeds of the refunding bonds.

The subsequent page is-- Oh, so what I just described on page 11 -- these are obligations subject to appropriations supported by the General Fund of the State. There are *Obligations Subject to Appropriation* by the Legislature that are supported by dedicated State revenues. And those include the Garden State Preservation Trust, Transportation Trust Fund -- which has the dedications of sales tax, in the case of Transportation Motor Fuels taxes, and others that you can see: cigarette taxes, motor vehicle surcharges. So those totals show an increase of $437 million over the prior year.

When you add those three -- and that's the larger numbers at the bottom, the subtotals *A*, *B,* and *C*, which is the *General Obligations*, *Obligations Subject to Appropriation* paid from the General Fund, *Obligations Subject to Appropriation* from dedicated revenues -- that's really the core bonded debt outstanding: securities that people own and have invested in the State by their purchasing.

So the outstanding, on June 30, 2014, was $35.1 billion; additions of $3.4 billion, deductions of $2.25 billion, for an amount outstanding, on June 30, 2015, of $36.284 billion -- an increase of $1.17 billion.

If we turn to the following page -- as I mentioned, there are what we call a *CAFR Reconciliation*. The CAFR follows certain governmental accounting standards that require the reporting of certain obligations that we don't treat as debt or consider as debt. And I'll explain what I mean by that. And then there are other obligations that we do count as the debt of the State in this report; but for accounting reasons, I'll explain, they do not carry the CAFR. So we have to reconcile the amounts that will carry the CAFR, plus what appears in this book. So that is what page 13 does. The Obligations Not Supported by State Revenues -- or the Tobacco Settlement bonds and the Federal Grant Anticipation Bonds of the Transportation Trust Fund -- they are not secured in any way by State revenues; but for accounting purposes, they have to be depicted in the State's annual financial statement. That's a total outstanding, as of June 30, 2015, of about $3.2 billion.

Subsequently, there are the obligations recorded on other entities' books that therefore could not also be double-counted and shown on the State's books. And this includes some of the obligations we issued for the Educational Facilities Authority, for example; colleges and universities that are recipients of the funding have to cover a portion of the debt. So they report a portion of the debt on their books, so we remove them from their account. For CAFR purposes, they remove it from the State's financial statements, and you see those deductions there.

There are other accounting adjustments, such as Bond Accretion and the Unamortized Bond Accretion having to do with capital appreciation bonds. We depict, in the debt service tables in here, the accretion of those bonds; those are bonds that don't pay interest over time, but they pay at the maturity of the bond. We show that as an interest payment at that time; for accounting purposes, they show that as an increase in the amount outstanding. So there we see some changes there.

So the net of all of that adds another $6.95 billion, as of June 30, 2015, to the amounts we've recorded, for a total of $43.2 billion -- an increase of approximately $1.4 billion from the prior year.

And lastly, at the top of page 14, are what we call the *Non-Bonded Obligations*. These are obligations reported on the financial statements that do not have any bearing to municipal securities that we issued for capital purposes. These include Accumulated Sick and Vacation Payable; Capital Leases; Loans Payable; and, of course, the largest items on here -- the Net Pension Liability, at $78.9 billion, approximately; and Other Post-Employment Benefits at $27.9 billion -- or actually $28 billion, if you round it a billion dollars.

Adding all those up, it comes to $110.283 billion as of June 30, 2015. And that represents an increase of approximately $8.5 billion from the prior year.

The items shaded in blue then, for the benefit of the Commission -- we aggregate *Bonded* and *Non-Bonded Obligations*; all of the subtotals that I referred to just now: the *General Obligations*; *Obligations Subject to Appropriation*; *CAFR* accounting adjustments, and the reporting of *Non-Bonded Obligations*. And that's where we see the totals again -- $153.5 billion as of June 30, 2015, a net increase of $9.8 billion from the prior year.

So at this point, I would also like you to take note of the footnote as it relates to the Net Pension Liability. In my opening remarks, I mentioned there were some evolving accounting standards, and this reflects that. GASB 68 has changed the way the pension obligations are to be recorded in an entity such as the State's accounting statements. In the past, it was formulated much differently.

And if you see me struggling here a little bit -- I'm starting to get out of my area of comfort and expertise. So we do have my colleagues from both the Division of Pensions and Benefits to help, if needed; as well as the Financial Reporting section of the Office of Management and Budget.

But if we were to turn to the next page, which shows the 10-year *History of Outstanding Obligations*, you may see this a little more clearly -- what I'm referring to.

If you look about halfway down, or a little more -- on the *Non-Bonded Obligations*, you will see two pension line items: one called the *Net Pension Liability* and one called the *Net Pension Obligation*. Prior to Fiscal

Year 2015, the Net Pension Obligation was reported on the line as such. And you could see it was $14.5 billion as of 2014.

Beginning in the past fiscal year, the new way to calculate under the GASB 68 is what's known as the Net Pension Liability, and that is a much greater number. This is the first year it has to be reported this way, but we also then show it for Fiscal Year 2014 to provide some comparison. So you can see there's a -- it's about a $60 billion difference in the amount reported. So in simple man's term, a way to explain this might be to show that this includes the effects of an actuarial type liability, as opposed to just the accounting liability as of the date. But I think I would rather stop right there in my explanation of these matters. And if you have any questions, turn that over to my colleagues.

Having said that, the other area that we provide is the *Legislatively Authorized but Unissued Debt*, which appears on page 17. And the rest of the report goes to the Annual Debt Service and other items, as I've mentioned.

Section 8 does include additional data on the pension and benefits, from both the GASB and an actuarial perspective. So I invite you to look at that as well.

But I'll stop here and open it up to any questions you may have.

MS. MOLNAR: Thank you.

I had one question on page 14. Net Pension Liability -- it's obvious what that is; it's actuarially determined. What is it -- Other Post-Employment Benefits? Is that vacation pay? What is in that line item?

MR. PETRINO: That would be-- Yes, mostly medical benefits. Am I right on that?

ANTHONY LONGO: Yes, post employment.

MR. PETRINO: Post-employment medical benefits. That's the health care for retirees.

MS. MOLNAR: So we-- When people retire, we pay 100 percent of their post-employment medical benefits?

MR. PETRINO: That I don't know. I don't know the percentages. I don't know if it's 100 percent.

MS. MOLNAR: Okay. Page 12 -- so our total bonding increased $1 billion over last year, correct?

MR. PETRINO: Our total bonding-- Yes, our total bonds outstanding.

MS. MOLNAR: Is that in keeping with prior years? I didn't bring my prior year's book. Have we been going up $1 billion every year for the past five years?

MR. PETRINO: No, it varies. I think you can look at the 10-year history, if you refer to page 15, and then just look at the upper portion. We do include, there, the CAFR adjustments as well. But you can follow along year-to-year. Including the CAFR adjustments, we provide an annual percentage change. This year that increase was 3.3 million *(sic)*; last year, under 1 percent; the year before, over 4 percent; 2 percent the year prior; and 4 percent the year-- So I think we are consistent.

And if you go even further back, I think we're consistently lower than we have been in years past.

MS. MOLNAR: It seems we're alternating. It's 4 percent, then we go back down, then the next year we go back to 4.

Based on this $1 billion increase, our legislative mandate -- which you've nicely put in our Report on page 6 -- you know I ask this question every year. It says the report is also to provide, "An assessment of the State's ability to increase its overall debt and a recommendation on the amount of any such increase. The Commission shall consider criteria used by municipal securities ratings."

Do you have any comment on -- as far as future bonding?

MR. PETRINO: The information that will help the Commission in that capacity is the *Authorized but Unissued Debt* table, for one; and that's page 17, where we can't say at this point exactly how much of additional bonding we would incur and when. The way that Treasury manages the ongoing programs -- such as the School Facilities Construction, which still has over $2 billion in legislative bonding authority to issue -- we follow-- Those proceeds are turned over to the Schools Development Authority, that manages the School Facilities Construction projects. We monitor their spending and we issue the bonds as they spend, to make sure that they don't run out of cash. So I work closely with the financial team at the Schools Development Authority.

One might anticipate additional funding this year; but we did issue $525 million for them this past year. They're still beginning to spend those funds. As those become depleted on school construction projects, I'll work with them to develop the timing for another tranche of funds to keep the program up and running. That's one example.

But there's no firm calendar for those issues. It's as needed; you know, as the programs spend it.

Similarly, with the General Obligation bonds. This past year we issued a sizable chunk -- $450 million -- for the Building Our Future Bond Act. That's the higher ed construction. We also issued bonds through the Educational Facilities Authority, also for higher education capital construction. So, therefore, you did see a bit of an increase this year for those programs.

There is -- of that Building Our Future, still $200 million to issue under that bond act. I don't know when they will need that; again, we follow their spending patterns -- how quickly they move the proceeds of the bond issues out to spending, and then we'll issue the next piece of that when needed. It could be this coming fiscal year; it might be the year after. It's hard to say at this point.

MS. MOLNAR: As far as processes, does Treasury meet with a joint committee of the Assembly and Senate to discuss these bonds, since the revenue has to come from the Legislature and their appropriations?

MR. PETRINO: The appropriations for Debt Service run through the normal budgetary processes, through the Office of Management and Budget and the Legislature. Debt Service appropriations appear throughout the budget, depending on what program is supported. Certain bond issues do require the approval by the Joint Budget Oversight Committee; and we do go and appear before them, soliciting their approval when needed. But that's more limited, with limited circumstances.

MS. MOLNAR: Okay, thank you.

Any questions or comments? (no response)

Any questions from our gentlemen on the telephone?

SENATOR SARLO: I just -- a quick question.

MS. MOLNAR: Yes; thank you, Senator.

SENATOR SARLO: Okay. It was a little hard for me to hear, but the question to Treasury on the Transportation Trust Fund: In the Debt Report -- and I apologize, I had a hard time hearing -- what is the actual dollars -- the debt on Transportation Trust funding? And is there any borrowing capacity, or bonding capacity left in the TTF?

MR. PETRINO: Senator, thank you.

The Transportation Trust Fund Authority allocations appear on page 12 of the Report. The combined total we show -- we break it up into Transportation System Bonds and Transportation Program Bonds. The Program Bonds were under the most recent authorization of TTFA. Total outstanding is there, as of June 30 -- was about $15.3 million, if I do the arithmetic right. And there was-- We are showing, on the *Legislatively Authorized but Unissued* -- we are showing a balance as of June 30 of $626.8 million. But those bonds have been issued in Fiscal Year 2016. And that's reported in the Section 8 supplemental information; there is a table of events subsequent to June 30, 2015, and you'll see that we did issue the $626.8 million. So as of today, there is no additional bonding capacity for the TTFA.

SENATOR SARLO: Thank you.

MS. MOLNAR: So it's maxed.

SENATOR THOMPSON: A couple of questions.

Our G.O. bonds -- the two most significant changes in the last request were the increased -- under Building Our Future of $446 million;

and the decrease, actually, that we had as a result of Refunding (1985) -- decrease of $259 million. What do we mean *Refunding (1985)*? How do we achieve a $259 million reduction?

MR. PETRINO: Thank you, Senator.

The refunding line there refers to the Refunding Bond Act, which was passed in 1985. And that enabled the State to issue General Obligation bonds to refund any of the prior bond acts. Prior to enactment of that Act, I think if we wanted to refund bonds to avail ourselves of lower interest rates, you had to refund the individual bond act. This was more of an omnibus legislation; it went to the voters, it was approved by the voters in 1985. That enabled us to refund any bonds issued under any bond act.

SENATOR THOMPSON: So when we say *refund*, we're saying *refinance,* right?

MR. PETRINO: Refinance, yes. Yes, refund has its own--

SENATOR THOMPSON: In essence, we floated the bonds at lower interest rates, and we're able to affect that size savings.

MR. PETRINO: Actually, this deduction-- We didn't issue any refunding bonds during Fiscal Year 2015. The $259.1 million is simply the amortization of outstanding bonds. We paid off $259.1 million of outstanding refunds.

SENATOR THOMPSON: Oh, so it was not merely refinancing, but it's a combination of paying off and refinancing. Is that correct?

MR. PETRINO: It is-- In this fiscal year, it was solely the amortization or paying off of outstanding debt. We did not issue any new Refunding Bonds this year.

The word *Refunding* on that line simply refers to the name of the act, being the Refunding Bond Act. Had we issued any Refunding Bonds, you would have seen the additions on the one side, and then deductions on the other.

So I hope -- does that clarify that for you, sir?

SENATOR THOMPSON: Yes, thank you.

On page 11, we have State Pension Obligation Bonds. What are State Pension Obligation Bonds?

MR. PETRINO: Those bonds were issued, I want to say, 1997. And they were issued through the Economic Development Authority; they are supported by a contract with the State; and they simply funded what was, at that time, the unfunded liability of the pension fund. In other words, the pension fund had accrued -- had an unfunded liability of about $2.8 billion, is my recollection.

SENATOR THOMPSON: Basically, you're saying these are bonds that were issued to cover some unfunded liability in the pension fund.

MR. PETRINO: That's correct.

SENATOR THOMPSON: Okay, thank you.

Now, of course, we also have there the School Facilities Construction, $755 million. And we have Building Our Future, which is $525 million. Both of these are related to school construction, is that correct? One through EDA and one by some other means?

MR. PETRINO: The School Facilities Construction -- the bonds issued by EDA, and then administered by the SDA -- or School Development Authority -- those are K-12 construction projects. So those are local school construction; as well as, I think, county vo-tech gets some of that funding.

SENATOR THOMPSON: Building Our Future?

MR. PETRINO: Building Our Future is higher education -- colleges and universities.

SENATOR THOMPSON: It's for higher ed.

MR. PETRINO: Yes.

SENATOR THOMPSON: Okay.

Let's see, next item here -- Installment Obligations, on page 12, from EDA. These things are basically funded from cigarette taxes and Motor Vehicle Commission revenues?

MR. PETRINO: That's correct.

SENATOR THOMPSON: What are they funding there, through EDA, from those sources?

MR. PETRINO: Those bonds were originally issued in 2004. And those were bonds that were -- the proceeds of which were drawn into the General Fund to balance the budgets in those years.

SENATOR THOMPSON: Okay.

MR. PETRINO: I think it was Fiscal Year 2004.

SENATOR THOMPSON: And the EDA couldn't figure out quite how it was going there.

MR. PETRINO: Not all of them. I should point out the Motor Vehicle Surcharges Revenue Bonds-Special Needs Housing Project. Those were bonds that were issued later, and they were for, as indicated, special needs housing projects administered through the Housing and Mortgage Finance Agency. But the larger figure there, the $779 million figure, Motor

Vehicle Surcharges Revenue Bonds -- those were the bonds issued for the budget that year.

SENATOR THOMPSON: Page 14, *Non-Bonded Obligations* -- Other Post-Employment Benefits. Thus we see a $4 billion change from the previous year for Other Post-Employment Benefits. What were the Other Post-Employment Benefits that increased by that amount?

MR. PETRINO: Senator, my understanding is that those are the medical benefits for retirees. (turns to colleague) Is there anything else in that? No? That is medical benefits for retirees; yes.

SENATOR THOMPSON: They went up a billion dollars *(sic)*? Okay.

Under Net Pension Liability -- again, on page 1 you indicated that as of this date, actuarial reports for the Fiscal Year ended June 30, 2015, have not been completed; only 2014 data is available. So is this accurate for the outstanding 2015 for Pension Liability, contrary to what was said on page 1?

MR. PETRINO: Yes; yes that's right, Senator. Those are accurate; those are the figures that we expect in the CAFR to be released, as I said, in the next couple of weeks.

SENATOR THOMPSON: Okay. So you just didn't change your statement on page 1.

But the net is we see that there was a change of about $4 billion increase in our Pension Liability in the past year. Would that be accurate to say?

MR. PETRINO: Yes, sir.

SENATOR THOMPSON: Okay. Thank you very much.

ASSEMBLYMAN O'SCANLON: Quick question.

MS. MOLNAR: Yes; go ahead.

ASSEMBLYMAN O'SCANLON: Can you guys hear me okay?

MS. MOLNAR: Yes; yes, Assemblyman.

ASSEMBLYMAN O'SCANLON: Are we starting to recognize and anticipate here the impact of the Cadillac Tax -- which I think starts to kick in in 2020? Is that reflected here somewhere?

MR. PETRINO: I'm not -- I'm seeing some heads nodding, but I'm not familiar with that.

MR. NEFF: I believe the last actuarial reports for OPEB include about a $6 billion figure for the impact, the present value of the Cadillac Tax.

ASSEMBLYMAN O'SCANLON: Six billion, with a *B*?

MR. NEFF: With a *B*.

MS. MOLNAR: That's right.

ASSEMBLYMAN O'SCANLON: When will that start to impact us -- I think 2020? And how much are we anticipating?

MR. NEFF: I can't answer; if John Megariotis was here, he might be able to. I think it starts in 2020, and it's approximately $200 million or above, and escalates thereafter.

ASSEMBLYMAN O'SCANLON: Thank you.

MS. MOLNAR: Could you explain what the Cadillac Tax is?

MR. NEFF: It's an assessment on healthcare plans that are deemed to be rich in benefits to the point of being excessive, and necessitating a, I guess you would call it, *penalty* under the Affordable Care Act.

MS. MOLNAR: That's paid to the Federal government, correct?

MR. NEFF: Correct.

MS. MOLNAR: So you're factoring a cost for us in our numbers -- because our plans are so rich, we will pay this Cadillac Tax. So that's put into the budget? Is that what you're saying?

MR. NEFF: Correct. It's something that would be a future cost, with respect to post-employment retirement benefits. And, as such, it's included within the actuarial value of what the benefits are.

MS. MOLNAR: So we would not adjust benefits to make them non-Cadillac, is that what you're saying? We would have to live with the--

MR. NEFF: The Governor has proposed that; but until such time as the plans are brought into a level of spending that is reflective of not being required to make those payments, the auditors would be required to prepare their statements as though those payments will have to be made. So until such time as there are acts to bring the healthcare plans under control, then that $6 billion in debt will remain on our books -- or thereabouts.

MS. MOLNAR: It's been pushed down the road by the Federal government once or twice already, right? It was originally going to kick in next year, or--

MR. NEFF: It was originally going to kick in, in Calendar Year 2018; and now it's scheduled to phase in, in Calendar Year 2020.

MS. MOLNAR: Okay, good. Thank you.

Any other questions or comments?

MR. NEFF: And if I misstated anything, John Megariotis can feel free to correct me. He is far more knowledgeable about this than I am.

SENATOR THOMPSON: I do have one or two other things I want to ask about.

On page 15, I note that Net Other Post-Employment Benefits Obligations, in the last five years, has more than doubled: $13.5 billion to $27, almost $28 billion. Now, is this basically, again, because of health care that has almost doubled in five years?

MR. PETRINO: Senator, I'm going to bring up John Megariotis, Deputy Director of the Division of Pensions and Benefits, to respond to that question.

JOHN D. MEGARIOTIS: Senator, this number is the effect of the growing liabilities associated with the number of either retirees or active members accruing benefits for their post-retirement medical benefits in retirement. So it's not only reflective of cost increases, it's reflective of more individuals being deemed eligible for the benefit.

SENATOR THOMPSON: Yes, but a doubling in five years -- boy, that's very substantial. So I don't know how many additional we got in, but we hear we have supposedly less employees today, etc.; the number here is down. So that we would have that many additional employees going in there and becoming eligible--

MR. MEGARIOTIS: Well, there--

SENATOR THOMPSON: Can you give me a -- if there is a way to get a little more information on that, I would appreciate it. Because, as I say, that's a very major change there.

And same with -- if we also see, over the last five years, the Accumulated Sick and Vacation Payable has decreased; that's a positive. I wonder how we came there, with that; if you can later supply us with some information on it.

And a final comment here is something I just never see, and it doesn't require a lot of explanation. But under Loans Payable -- $1.279358 billion. That number hasn't changed one iota in 10 years. I've never seen anything in State government that didn't change in 10 years. Is there any explanation?

MR. PETRINO: Senator, I'm looking around on that one as well. I could try my own feeble explanation, but I think I'm going to ask Jim Kelly, Manager of Financial Reporting in Management and Budget, to respond to that one. I should know what that is, but I always trip on this one.

SENATOR THOMPSON: Perhaps it's fixed by statute that that's a maximum, or something. But again, I don't recall anything that's never changed in 10 years.

ASSEMBLYMAN O'SCANLON: Except you, Sam. You haven't changed in 10 years, either, Sam. (laughter)

SENATOR THOMPSON: Oh, yes. My hair has gotten whiter. (laughter)

J A M E S F. K E L L Y: Hello, Senator.

SENATOR THOMPSON: (Indiscernible) later.

Go ahead; I don't want to delay things.

MR. KELLY: Senator, this is Jim Kelly from the Office of Management and Budget, Financial Reporting.

Basically, this is a loan that was given to the State on approximately $1.3 billion from the New Jersey Property-Liability Insurance Guaranty Association. This loan is an accounting liability on the books of the State, but will not change until the Legislature decides to appropriate money to repay that loan.

SENATOR THOMPSON: Oh, okay.

MR. KELLY: And at this point, they've chosen not to.

SENATOR THOMPSON: Okay. Is it a debt we have outstanding that we've never paid, and we aren't doing anything about it? It just stands there. Is that what you're saying?

MR. KELLY: That is correct, Senator.

SENATOR THOMPSON: (laughter) Okay. It's nice of them to let us keep a debt for 10 years and never complain about it.

MS. MOLNAR: Any other questions or comments? (no response)

All right; if not, I'd like to hear a motion to accept the Debt Report for Fiscal Year 2015.

MR. ANNESE: So moved.

MS. MOLNAR: Do I hear a second?

ASSEMBLYMAN O'SCANLON: Second.

SENATOR SARLO: Second.

MS. MOLNAR: Okay. We'll take a roll call.

MR. FRANCZ: Okay.

Senator Sarlo. (no response)

On the motion to accept the Debt Report, Senator Sarlo. (no response)

Senator Thompson.

SENATOR THOMPSON: Yes.

MR. FRANCZ: Assemblyman O'Scanlon.

ASSEMBLYMAN O'SCANLON: Yes.

MR. FRANCZ: Mr. Neff.

MR. NEFF: Yes.

MR. FRANCZ: Mr. Petrecca.

MR. PETRECCA: Yes.

MR. FRANCZ: Ms. Schermerhorn.

MS. SCHERMERHORN: Yes.

MR. FRANCZ: Mr. Traino.

MR. TRAINO: Yes.

MR. FRANCZ: Mr. Rutala.

MR. RUTALA: Yes.

MR. FRANCZ: Mr. Annese.

MR. ANNESE: Yes.

MR. FRANCZ: And Ms. Molnar.

MS. MOLNAR: Yes.

MR. FRANCZ: The motion moves.

SENATOR SARLO: I guess I missed my--

MR. FRANCZ: Yes; Senator Sarlo, on the motion to accept the Debt report, is that a "yes" or a "no"?

SENATOR SARLO: To accept the Debt Report--

And I just want to note that-- To accept the Debt Report, and that clearly the Legislature, in conjunction with the Administration, has some significant decisions to make in the coming months on the reissuance and the reauthorization of the Transportation Trust Fund, as well as continuing on a path to make the annual pension payments in the reset of 10 annual tenths payments.

So I vote to accept; yes.

MR. FRANCZ: Thank you.

MR. PETRINO: Thank you very much.

MS. MOLNAR: Okay, thank you.

Our next order of business is to approve the Capital Commission recommendations for each of the agencies and departments.

Rather than go through each department, we're going to just ask if there are questions on any of the recommendations by Commission members.

I'll just go quickly through each department -- the recommendations -- and then we'll vote in total, if that's okay with Commission members.

For Agriculture, there are no recommendations; Children and Families, $180,000; Department of Corrections, $4.22 million; Education, $4.6 million; DEP, $107 million; Human Services, no recommendation; Department of Law and Public Safety, $800,000. Now, that -- I recall the material mentioned -- that there are trees growing on the roof; it seemed pretty bad. So are there any alternate funds available? I'll have to address this to our staff.

MR. PATELLA: There are no alternate funds available at this time. But right now, the roofing contractor-- There were some issues about whether the warranty was voided. And the roofing contractor has come out to review the roof and it's still an unsettled issue. So right now there's some discussion within DPMC, the contractors, as well as Law and Public Safety regarding the warranty. So as soon as that issue becomes settled, we'll forward you some information.

MS. MOLNAR: Wonderful; thank you.

Okay, Juvenile Justice, $1.166 million; Military Affairs, $3.466 million, with some matching from the Federal government, which is good news. All right, the Transportation Trust Fund, $1.3 billion -- that's for debt service; OIT, Office of Information Technology, no funding; Interdepartmental, $213,000; Judiciary, no funding.

Any questions or comments? (no response)

If not, we'll take a roll call vote on those items.

SENATOR THOMPSON: I do have one comment.

MS. MOLNAR: Yes; yes, Senator.

SENATOR THOMPSON: As I (indiscernible) the overall requests and the part where we recommend, I note that aside from DOT and the Transportation Trust Fund, the requests amount to $1.16 billion. The recommendations are a third of a billion dollars -- which is pretty small. How does this compare with last year or previous years, and so on? Are we coming down very tight this year on what we're approving?

MR. FRANCZ: I believe the recommendations in the current year for the discretionary-type items are very close to what they've been in the last several years.

MS. MOLNAR: Any other questions or comments? (no response)

If not, we'll take a roll call vote.

MR. FRANCZ: On approval of the recommendation of the 2017 capital projects, Senator Sarlo.

SENATOR SARLO: Yes.

MR. FRANCZ: Senator Thompson.

SENATOR THOMPSON: Yes.

MR. FRANCZ: Assemblyman O'Scanlon.

ASSEMBLYMAN O'SCANLON: Yes.

MR. FRANCZ: Mr. Neff.

MR. NEFF: Yes.

MR. FRANCZ: Mr. Petrecca.

MR. PETRECCA: Yes.

MR. FRANCZ: Ms. Schermerhorn.

MS. SCHERMERHORN: Yes.

MR. FRANCZ: Mr. Traino.

MR. TRAINO: Yes.

MR. FRANCZ: Mr. Rutala.

MR. RUTALA: Yes.

MR. FRANCZ: Mr. Annese.

MR. ANNESE: Yes.

MR. FRANCZ: And Ms. Molnar.

MS. MOLNAR: Yes.

MR. FRANCZ: The motion moves.

MS. MOLNAR: Thank you.

Under "Other Business," did you have something?

MR. ANNESE: Yes.

MS. MOLNAR: Yes, Mr. Annese would like to--

MR. ANNESE: Yes, Madam Chair, it seems like we're getting these recommendations out a little bit late. In the past, we always did it before the budget was sent to the Assembly. Is it possible that we could, perhaps, adjust our schedule a little bit next fall so that we can make our recommendations prior to the submission of the budget?

MR. FRANCZ: Understood. We can look at that and schedule earlier next year, if possible.

MR. ANNESE: Thank you.

MS. MOLNAR: When does CAFR come out, though? Is that part of the issue also? That's for the Debt Report anyway.

MR. FRANCZ: Right. I believe that will be a Debt Report issue, but not the recommendations of the upcoming year.

MS. MOLNAR: Okay; good.

Mr. Annese.

MR. ANNESE: One other issue I did want to address -- and maybe this is not the year, but I've been here long enough. I've seen lots of changes in our ability to fund different requests.

Now, at times when we do have more -- perhaps more funds available, it may be advantageous to meet in person more than on the phone. I know I'm one of the people who spent most of the time on the phone this year, as well as last year. But I think we've lost something in the process. I think being able to sit here and talk to the various department heads greatly facilitates our ability to make the judgements we have to make. And if it's going to be another year where we have very little discretionary money to spend, I could see doing it expeditiously over the phone. But at times when we do have more funding available, I think it might be to the State's advantage if we meet in person.

Thank you.

MR. FRANCZ: Understood. We'll discuss it with the Chair; and if that's the direction we want to go, OMB will facilitate that.

MS. MOLNAR: Thank you.

All right. It's my understanding this referendum that may go on in November -- we do not have to approve, is that correct?

MR. FRANCZ: That's correct.

MS. MOLNAR: Okay. Because it's not bonding per se, is that it?

MR. FRANCZ: That's correct. I believe it would increase the amount of borrowing that would need to occur within the fiscal year because the payments occur sooner; but it would not increase year-to-year debt.

MS. MOLNAR: Okay; perfect.

Thank you.

So our next meeting hopefully is next fall, unless something else comes up.

Any other questions or comments? (no response)

If not, meeting adjourned.

(MEETING CONCLUDED)