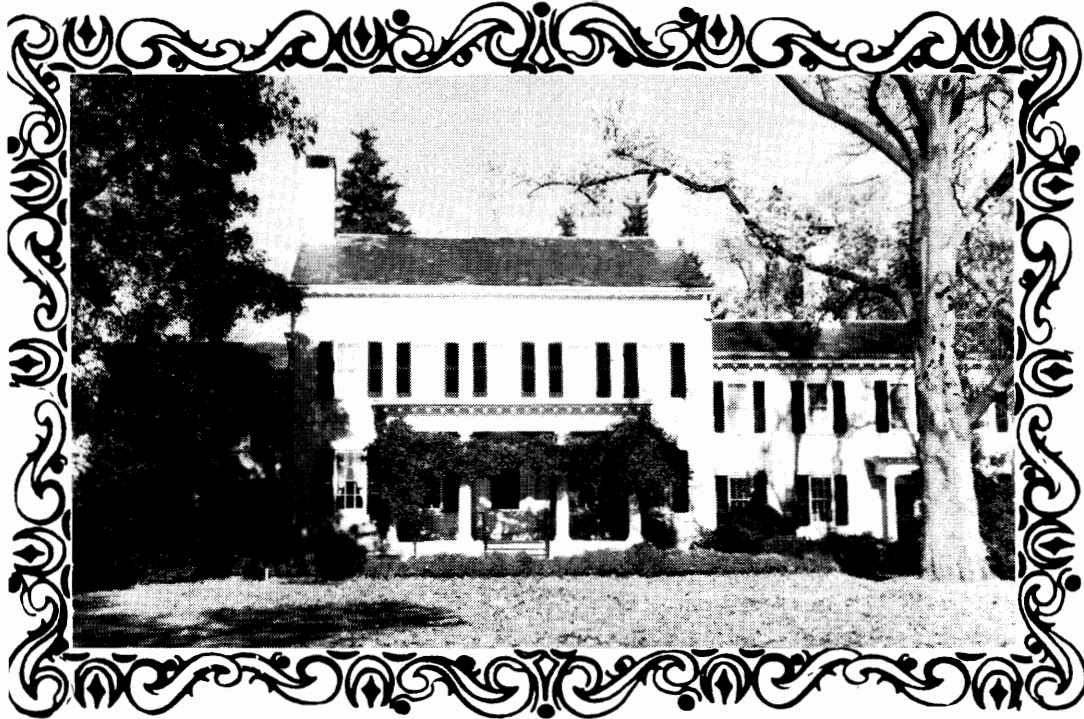


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STATE OF NEW JERSEY
ANNUAL FISCAL REPORT
FISCAL YEAR 1975-76



Brendan Byrne
Governor

Clifford A. Goldman
Acting State Treasurer

Edward G. Hofgesang
Director & Comptroller

DESCRIPTION OF COVER

The picture on the front of the Report is that of Morven, the first official executive residence maintained by the State of New Jersey. Morven has frequently been described as New Jersey's most historic home.

In 1701, the tract of land was purchased by Richard Stockton, the elder, from William Penn. On 600 acres of land was built the 18th century Georgian mansion later to be called Morven by Annis Stockton, wife of the grandson of Richard Stockton, a signer of the Declaration of Independence.

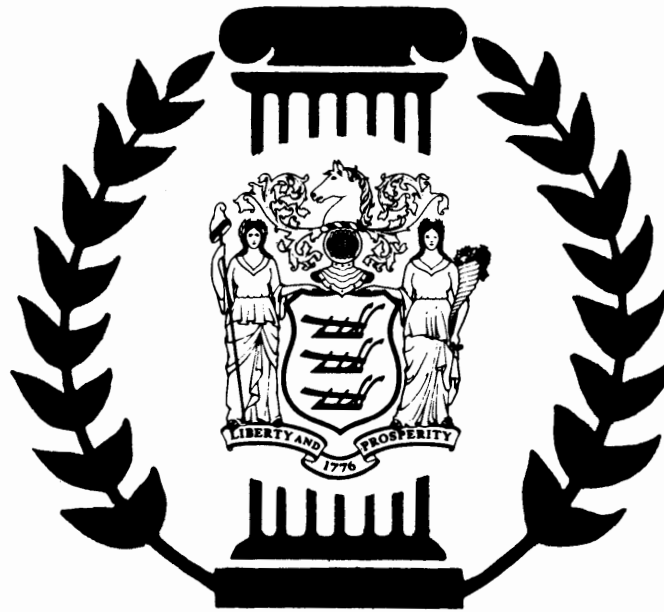
Shortly after the Revolutionary War, the Continental Congress met in Princeton in the summer of 1783 under the Presidency of Elias Boudinot. Boudinot chose Morven for his official residence, and it was there that the American leaders gathered to celebrate the signing of the peace treaty ending the war.

The ownership of the house remained in the hands of the Stockton family until 1945.

On February 4, 1945, Governor Walter Edge acquired Morven with the intention of preserving the property and placing it permanently in the custody of the State. On January 18, 1954, Governor and Mrs. Edge deeded the property to the State to be used as a Governor's residence, State museum or historic site.

A committee of private citizens was appointed by Governor Meyner to determine how Morven was to be used. The committee voted unanimously that it be used as the official Governor's residence, and declared in the report--"there is probably no other house in New Jersey that so strongly typifies the historic perspective of the State".

STATE OF NEW JERSEY
ANNUAL FISCAL REPORT
FISCAL YEAR 1975 -76



Brendan Byrne
Governor

Clifford A. Goldman
Acting State Treasurer

Edward G. Hofgesang
Director & Comptroller

1976 FISCAL REPORT

Table of Contents

Letter of Transmittal

Highlights of Past Year

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

- A. General Framework 1
- B. State Budgeting Policy vs. Federal Policies 1
- C. Federal Aid 2
- D. State Tax Structure 2
- E. Local Tax Structure 3

II. THE STATE'S FINANCIAL SYSTEM

- A. The Budget and Appropriation System 5
- B. The Fund Structure 6
- C. General State Fund 6
- D. Dedicated and Trust Funds 6
- E. The Accounting System 7

III. WHERE THE MONEY COMES FROM

- A. Revenues Budgeted and Realized 8
- B. Revenues Dedicated and Not Budgeted 12
- C. Federal Aid Not Budgeted 12
- D. Surplus 14

IV. WHERE THE MONEY IS EXPENDED

- A. General State Operations 16
- B. Aid to Local Governments 21
- C. Capital Construction 23

V. STATE DEBT

- A. Constitutional Provisions 24
- B. Full Faith and Credit Debt 24
- C. Outstanding Related Obligations 24
- D. State Debt 27

VI. COMPARATIVE FINANCIAL BALANCE SHEET

- A. The Comparative Balance Sheet 29
- B. Comparative Balance Sheet as of June 30, 1976 and June 30, 1975 . 30
- C. Summary of Significant Accounting Policies 32
- D. Notes to Comparative Balance Sheet 33

VII. RELATED FINANCIAL ACTIVITIES	
A. Financing of Pensions	34
B. Employee Relations	35
C. Investments	35
D. Lease Agreements	36
VIII. NEW JERSEY'S PERFORMANCE IN PERSPECTIVE	
A. The United States Economy in 1976	37
B. The New Jersey Economy -- 1976	38
C. The Economic Outlook for 1977	39
D. Expenditure Trends and Comparison With Other States	41
IX. NEW JERSEY'S EFFORTS TO IMPROVE FINANCIAL MANAGEMENT	
A. Qualified Bonds	44
B. Summary Monthly Report	44
C. State Auditor Examination	45
D. Full Disclosure Reporting	45
E. Financial Reporting for the Public	45
F. Capital Budgeting	46
X. NEW JERSEY BEGINS A NEW ERA -- THE INCOME TAX	47

LIST OF EXHIBITS

Exhibit I	- THE NEW JERSEY STATE AND LOCAL TAX STRUCTURE	4
Exhibit II	- DEDICATED AND TRUST FUNDS	7
Exhibit III	- COMPARISON OF REALIZED BUDGETED REVENUES (1976-1975).....	9
Exhibit IV	- COMPARISON OF REALIZED BUDGETED REVENUES FOR 1967-1976 AS A PERCENTAGE OF SUCCEEDING YEARS APPROPRIATION	10
Exhibit V	- COMPARISON OF TOTAL GENERAL FUND REVENUES	13
Exhibit VI	- NEW JERSEY SURPLUS	15
Exhibit VII	- COMPARATIVE EXPENDITURES BY PROGRAM	17
Exhibit VIII	- COMPARATIVE EXPENDITURES BY DEPARTMENT	18
Exhibit IX	- OUTSTANDING BONDED DEBT OF STATE	25
Exhibit X	- MORAL OBLIGATION DEBT	26
Exhibit XI	- AUTHORITY AND AGENCY DEBT	27
Exhibit XII	- DEBT SERVICE SCHEDULE	28
Exhibit XIII	- COMPARATIVE BALANCE SHEET	30
Exhibit XIV	- FINANCIAL COMPARISON OF NEW JERSEY WITH OTHER STATES - 1976	42

December 29, 1976

To the Honorable:
Governor;
Legislature;
People of New Jersey;

We are pleased to present this Annual Report for the year ending June 30, 1976. We have already published our detailed volume of financial statistics.

This Report is designed to: (1) provide the general public with a resource for obtaining information about the financial condition and operation of the State of New Jersey; (2) provide information about past events, decisions and programs; (3) provide information about past and future revenue sources; and (4) provide information for evaluating the effectiveness of past spending decisions.

The State of New Jersey ended the fiscal year with an unrestricted surplus of \$95.8 million.

Expenditures were \$2,774 million, an increase of less than 1% from the prior year.

The State issued \$50.0 million of new bonds during the year and retired \$44.3 million. At year-end the State had a total debt of \$1,360 million.

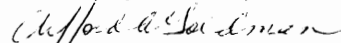
The Division of Investments managed assets with a book value of \$4.9 billion, which placed it among the fifty largest investment funds in the country. During fiscal year 1976 the funds supervised by the State Investment Council earned \$261 million.

The State continues to maintain a AAA bond credit rating from Standard and Poors, and an Aa bond credit rating from Moody's.

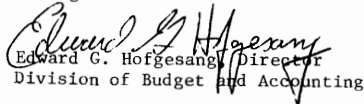
This was one of the most difficult years in public finance in the nation. New Jersey, however, made important financial improvements to adjust to these difficulties and to emerge in a strengthened position. A summary of some of these improvements is highlighted in the following section.

At a time when some states were running deficits and supporting budgets by issuing short-term debt, New Jersey can be justifiably proud of achieving a balanced budget, and maintaining a sound financial system which avoided gimmicks and bookkeeping legerdemain.

Respectfully submitted,



Clifford A. Goldman
Acting State Treasurer



Edward G. Hofgesang, Director
Division of Budget and Accounting

HIGHLIGHTS OF PAST YEAR

During the past year the State's financial position was enhanced by the following activities:

1. New Jersey has shown improvement in terms of our per capita ranking, and our percentage gains in receipt of Federal funds. New Jersey is now eighth in total number of grant dollars for a total of \$1.6 billion. This was an increase of \$314 million over the previous year.

2. State expenditures for fiscal year 1976 increased by less than 1% as compared to a 16% increase in fiscal year 1975.

3. New Jersey re-aligned its tax structure by enacting an Income Tax. Proceeds from the Income Tax are dedicated wholly for State Aid purposes, and offsetting local property taxes.

4. Companion legislation to the Income Tax Law provided for property tax relief to both homeowners and tenants, and additional exemption for each taxpayer who is a senior citizen, blind, or disabled.

5. The Tax Reform program provided for mandatory limits on spending by counties, municipalities, and the State. The Education Act of 1975 imposed similar spending limitations on local school districts.

6. The Unincorporated Business Tax and the Gross Receipts Tax on retail stores were repealed. Repeal of these business taxes should improve New Jersey's business climate to the benefit of all residents.

7. The Qualified Bond Laws were passed. These laws strengthen the security of New Jersey municipal and school bonds and reduce interest costs by providing for the allocation of sufficient State Urban Aid, Business Personal Property Tax Replacement Revenue, or State School Aid to the payment of principal and interest. To date four school districts and one municipality have sold "qualified" bonds. A recent sale by the Newark School District demonstrates the effectiveness of the procedure. The bonds were rated "A" by the two leading bond rating services--a full step higher than the city's normal Baa rating, and enabled Newark to issue at a net effective interest rate of 6.55%.

8. The Division of Taxation administered and collected 18 major taxes totaling \$2,186 million, an increase of \$284 million from the prior year.

9. A permanent Commission on Capital Budgeting and Planning was established to provide continuous planning and review of New Jersey's capital needs. The Commission makes annual recommendations to the Governor and Legislature. In fiscal year 1976, the Commission recommended that three bond referenda be placed before the voters. On November 2, 1976 the public approved all three bond referenda; namely, \$120 million for Water Resources, \$80 million for Institutional Construction, and \$25 million for Housing.

10. The facilities of the Sports and Exposition Authority opened for business. Sporting events such as harness racing and professional football are now producing revenue for the Authority. The initial financial position of the Authority has exceeded all expectations.

11. Since November, 1975, the New Jersey Housing Finance Agency has been successful in reducing its short-term debt from \$246.9 million to \$91 million. The Agency has been able to successfully market four bond issues totaling \$236 million. The last issue in August, 1976 was the first major bond sale in the country under the Federal government's new rent-subsidy program.

12. The State's Pension System continues to be actuarially sound. The accrued benefit liability is 70% funded for the three major pension plans administered by the State.

13. New Jersey State government is very economical in comparison to other state governments. The number of State employees in New Jersey per 100 residents is the next to lowest in the nation, and State expenditures per \$1,000 of personal income was 48th in the nation.

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

GENERAL FRAMEWORK

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

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

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

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

STATE BUDGETING POLICY VS. FEDERAL POLICIES

One of the basic differences between State and Local budgeting practices and that of the Federal government is the ability of the Federal government to utilize deficit financing.

The Federal government, for example, in 1976 anticipated a budgeted deficit of over \$70 billion. The Federal government utilizes deficit financing as a tool of fiscal policy particularly in terms of stimulating the economy.

In contrast to Federal deficits, a state deficit is a rarity. Since most states by constitution or statute are prohibited from spending more than available revenues, an annual surplus balance is inevitable. If a deficit is illegal and a zero balance is almost impossible to plan, the only alternative is to end with a surplus.

In the recent past, however, some State and Local governments have experienced deficits. New Jersey, however, as a result of a prudent approach to State government finance has never experienced a deficit, and has maintained operating surpluses.

Another aspect of financing which differs significantly between the Federal government and the State government is the way in which each treats debt. In most states, and this includes New Jersey, financial accounting practices clearly distinguish between operating expenditures and long-term debt. Operating budgets support ongoing programs, while long-term bonds are issued for construction and major renovation. The Federal government, however, does not budget separately for operating and capital items. State surplus, therefore, relates to operating budgets, and does not account for expenditures from funds raised through bond issues, although the interest costs and principal repayments for such debt are included in the operating budget.

FEDERAL AID

Residents of every state pay Federal income taxes, and to that extent are paying on a comparable basis for the services we receive directly from the Federal government. However, the amount of Federal taxes which are returned to New Jersey Local and State governments for their program use is not directly related to the amount of taxes the people of New Jersey have paid to the Federal government. Federal aid is returned to State and Local governments based upon various formulae, for example, population; and some funds must be applied for under various grant-in-aid programs. During the past two years, New Jersey has shown improvement in terms of our per capita ranking, our percentage gains, and our ranking in total number of Federal dollars. For fiscal year 1975, the latest year of published statistics, the following data is applicable to New Jersey in terms of contract and grant expenditures from the Federal government:

- (1) New Jersey is now eighth in total number of grant dollars for a total of \$1.6 billion. This is a \$314 million increase over the previous year.
- (2) New Jersey is eighth in percentage per capita aid gains nationally. New Jersey has increased its per capita aid from \$177.86 to \$222.86 over the last year. This is a 25.3% increase.
- (3) New Jersey has moved from forty-fifth in fiscal year 1973 to forty-second in fiscal year 1974 to thirty-eighth in fiscal year 1975, among the fifty states, in per capita Federal aid.

STATE TAX STRUCTURE

The State's ability to serve its residents effectively is dependent upon its ability to obtain tax revenues efficiently and to use these funds to provide needed services in areas where the private sector cannot fill the need. Unlike the Federal government, the State government and its units of Local government are required to balance its budget yearly. For 1976 and all previous years, New Jersey State government was supported entirely by non-property taxes.

On July 8, 1976 Governor Byrne signed legislation establishing the Gross Income Tax on the income of individuals. The Tax is calculated at the rate of 2% on the first \$20,000 and 2.5% on amounts in excess of

\$20,000 of taxable income. The proceeds of this Income Tax are for funding of the Local educational system, property tax relief, and the repeal of several business taxes -- no money will be used to support State operations.

Over 72% of the revenue which supported the State's budget in fiscal year 1976 come from six sources, namely: the Sales Tax, Motor Vehicle and Fuel Taxes, the Cigarette Tax, Corporation Taxes, and the Inheritance Tax. For the most part these taxes are inelastic, that is, they do not expand as rapidly as income. To cite an example, over the past two years, personal income in the State has increased by over 16% while the State's tax yield has grown by 10%.

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

In addition, the Division of Taxation is responsible for assessing and certifying over \$317 million of public utility and insurance taxes to municipalities and counties. These taxes are for the sole use of Local governments and are not available for State purposes.

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

LOCAL TAX STRUCTURE

Approximately 70% of all revenue at the local level comes from the Property Tax. Other major revenue sources include: taxes from public utilities, State Aid Assistance, Federal Aid Assistance, and various miscellaneous revenues, such as licenses, fees, and permits.

Thus, the Property Tax in New Jersey is a local tax. This means that the tax is assessed and collected at the municipal level for the support of local schools, municipal government and county government. The State receives no portion of these taxes, and in fact, in 1976 paid out approximately 45% of the tax revenue it collects to counties, municipalities and school districts in some form of State Aid.

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

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

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

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

The following is a summary tabulation of the State and Local tax structure in New Jersey.

EXHIBIT I

THE NEW JERSEY STATE AND
LOCAL TAX STRUCTURE

TAXES COLLECTED BY THE DIVISION OF TAXATION

Major taxes (excluding Bank Stock Tax) collected during fiscal year ended June 30, 1976 by the Division of Taxation for State use or distribution to local governments..... \$2,186.3 million

TAXES COLLECTED BY THE STATE OUTSIDE THE DIVISION OF TAXATION

These are collections during fiscal year ended June 30, 1976 from Motor Vehicles Fees, Motor Fuels Use Tax, and Pari-Mutuel Racing, etc..... \$ 234.1 million

TAXES APPORTIONED BY THE STATE FOR LOCAL COLLECTION

These are Public Utility Gross Receipts and Franchise Taxes and Insurance Taxes apportioned by the State for collection by counties and municipalities during calendar year 1976..... \$ 317.3 million

TAXES ADMINISTERED BY COUNTIES

This category includes Bank Stock Tax, for state, county and municipal use during 1976 and Realty Transfer Fee tax for county and state use..... \$ 27.3 million

TAXES ADMINISTERED BY MUNICIPALITIES

These are general property taxes upon real estate and tangible personal property of telephone and telegraph companies for municipal, school and county purposes during calendar year 1976..... \$3,309.0 million

Total State and Local Taxes..... \$6,074.0 million

THE STATE'S FINANCIAL SYSTEM

THE BUDGET AND APPROPRIATION SYSTEM

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

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

The Governor's Budget is then transmitted as a Budget Message on or before the third Tuesday following the first meeting of the Legislature, which is approximately February 1. The Governor's Message (R.S. 52:27B-20) "shall embody the proposed complete financial program of the State government...and shall set forth in columnar form detailed as to each source of anticipated revenue and the purposes to which the recommended appropriations and provisions to spend shall apply...".

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

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

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

the State does not incur any deficits.

THE FUND STRUCTURE

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

GENERAL STATE FUND

Virtually all of the revenues received from taxes, most Federal revenue and certain miscellaneous revenue items are recorded in the General State Fund. The General Fund is thus defined as: The Fund into which all State revenues, not otherwise restricted by statute, are deposited and from which appropriations for any lawful purpose may be made. All of the transactions relating to the "Governor's Budget" are handled through the General Fund.

DEDICATED AND TRUST FUNDS

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

In fiscal year 1976, the State of New Jersey maintained approximately 54 Dedicated and Trust Funds. Several of the funds (12) were established to maintain the transactions of the various Bond Issues authorized by the voters.

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

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

During fiscal year 1976, total expenditures for these Dedicated and Trust Funds amounted to \$1,976 million, of which \$213.8 million were Interfund Transfers. The chart below summarizes the consolidated transactions of the State's Dedicated and Trust Funds.

EXHIBIT II

DEDICATED AND TRUST FUNDS

	Fiscal Years Ending June 30	
	1976	1975
	<u>Actual</u>	<u>Actual</u>
Balance Available July 1.....	\$ 365,278,438	\$ 471,506,254
Less: Write-off of Uncollectibles.....	-	(51,427,198)
	<u>\$ 365,278,438</u>	<u>\$ 420,079,056</u>
Revenues.....	1,715,710,052	1,074,374,335
Interfund Transfers In.....	2,432,682	2,253,954
Other Receipts--Advance From Federal Government	<u>262,127,000</u>	<u>235,075,000</u>
Total Available.....	<u>\$2,345,548,172</u>	<u>\$1,731,782,345</u>
Expenditures.....	\$1,762,173,045	\$1,164,614,841
Interfund Transfers Out.....	213,806,486	201,889,066
Balance Available June 30.....	<u>369,568,641</u>	<u>365,278,438</u>
Totals.....	<u>\$2,345,548,172</u>	<u>\$1,731,782,345</u>

THE ACCOUNTING SYSTEM

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

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

WHERE THE MONEY COMES FROM

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

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

REVENUES BUDGETED AND REALIZED

These revenues support what is normally referred to as the Governor's Budget. For fiscal year 1976, these revenues totaled \$2,727 million. This compares to \$2,392 million reported in 1975 and shows an increase of \$335 million, or 14%. At least \$175 million is attributable to rate increases in Motor Vehicle Fees and the Corporation Net Income Tax; and the institution of an Unearned Income Tax -- all effective for fiscal year 1976.

Over 72% of the revenue was supplied from the Sales Tax, Motor Vehicle and Fuel Taxes, the Cigarette Tax, Corporation Taxes, and the Inheritance Tax. Exhibit III shows comparative statistics between 1975 and 1976 of Realized Budgeted Revenues.

- I. MAJOR REVENUES are composed of consumption taxes which are generated from the sale and use of goods and services; general business taxes, which are received from various corporation and public utility taxes; and various miscellaneous sources such as inheritance taxes and parimutual taxes. These taxes increased by \$316 million over 1975 totals of \$1,915 million -- an increase of 16%. Some of the major revenues are explained below:

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

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

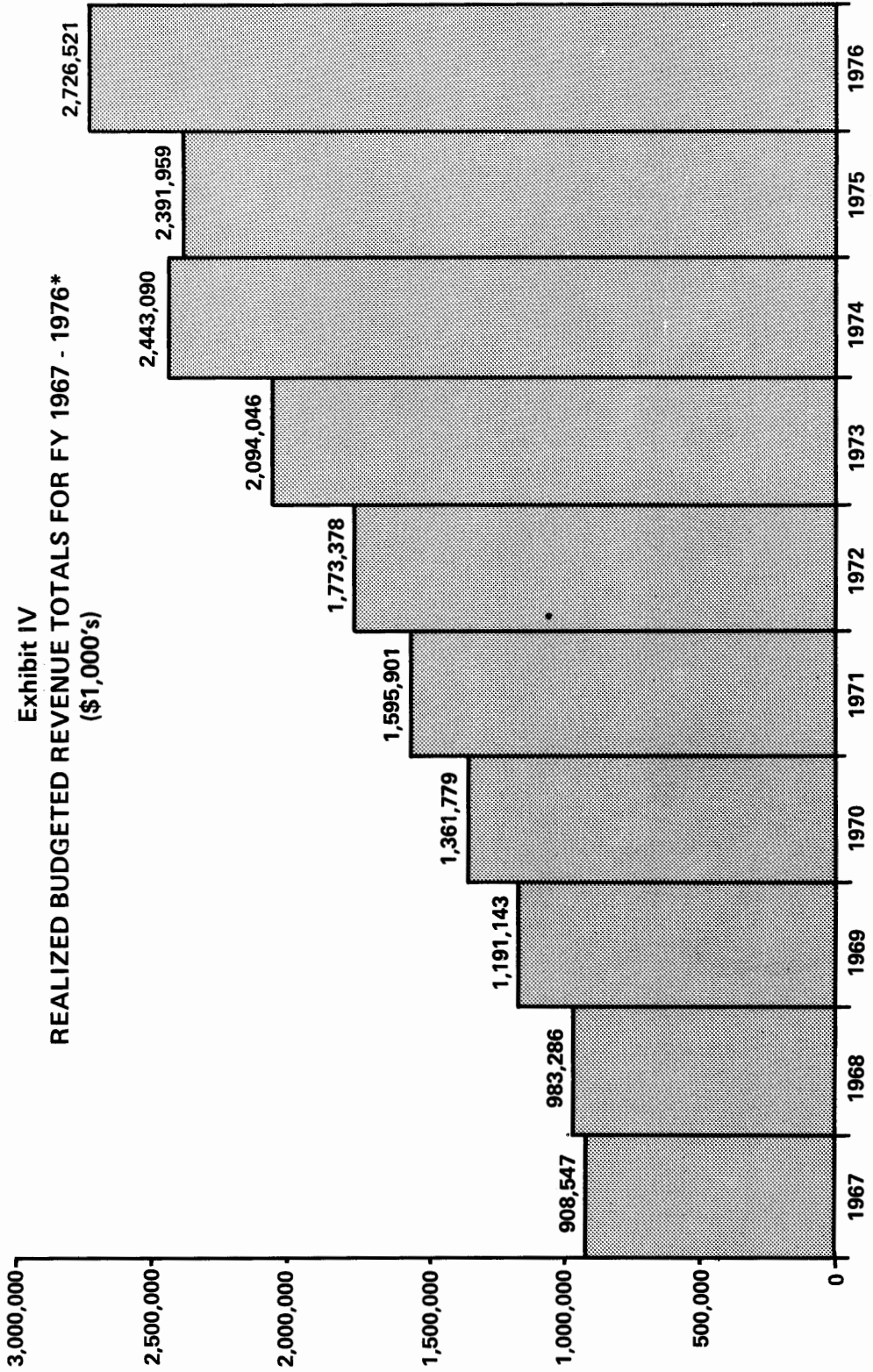
Cigarette Tax is imposed at the rate of \$.19 per package of 20 cigarettes. The tax is collected primarily from licensed distributors who receive the cigarettes directly from out-of-state manufacturers.

EXHIBIT III

COMPARISON OF REALIZED BUDGETED REVENUES
(in thousands of dollars)

	Realized To June 30, 1976	Increase (Decrease)	Realized To June 30, 1975
MAJOR TAXES:			
Sales	\$ 829,496	\$ 58,981	\$ 770,515
Motor Fuels	281,517	8,131	273,386
Corporation	431,875	118,840	313,035
Cigarette	167,716	1,113	166,603
Transfer Inheritance	79,361	(3,056)	82,417
Alcoholic Beverage	55,356	693	54,663
Public Utility - Surtax	44,047	6,326	37,721
Motor Vehicle Fees	195,332	36,061	159,271
Pari-Mutuel	34,336	(1,308)	35,644
Unearned Income	51,576	51,576	0
Other Major Taxes	60,718	38,752	21,966
Total Major Taxes	<u>\$2,231,330</u>	<u>\$316,109</u>	<u>\$1,915,221</u>
MISCELLANEOUS TAXES AND LICENSES:			
Interest on Investments and Deposits	\$ 11,726	\$(17,140)	\$ 30,513
Institutional Fees and Reimbursements	94,729	18,162	76,567
Other Licenses and Fees	126,545	5,252	119,646
Total Miscellaneous Taxes and Licenses	<u>\$ 233,000</u>	<u>\$ 6,274</u>	<u>\$ 226,726</u>
FEDERAL AID BUDGETED:	<u>\$ 52,162</u>	<u>\$ 738</u>	<u>\$ 51,424</u>
INTERFUND TRANSFERS:			
State Lottery Fund	\$ 69,966	\$ 29,638	\$ 40,328
General Revenue Sharing Fund	67,102	(2,838)	69,940
All Others	72,961	(15,359)	88,320
Total Interfund Transfers	<u>\$ 210,029</u>	<u>\$ 11,441</u>	<u>\$ 198,588</u>
GRAND TOTAL	<u>\$2,726,521</u>	<u>\$334,562</u>	<u>\$2,391,959</u>

**Exhibit IV
 REALIZED BUDGETED REVENUE TOTALS FOR FY 1967 - 1976***
 (\$1,000's)



* Figures do not include Budgeted Surplus

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

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

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

Corporation Business Tax imposes a franchise tax for the privilege of having or exercising a corporate charter or doing business, employing or owning capital or property, or maintaining an office in New Jersey. The tax is applicable to every corporation not expressly exempted. The net income rate is 7 1/2%.

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

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

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

Unincorporated Business Tax imposes an annual tax on the gross receipts of unincorporated businesses. Gross receipts are all receipts of any unincorporated trade, business, profession or occupation conducted in whole or in part in New Jersey. Rate is 3/8 of 1%.

- II. MISCELLANEOUS TAXES, LICENSES, AND OTHER DEPARTMENTAL REVENUE include revenues received by the various State agencies, such as tuition fees from students at the State colleges, recreation and boating fees, patient fees, investment earnings, and the like. For the year 1976 these revenues increased from \$226.7 million to \$233 million -- an increase of 3.0%.
- III. FEDERAL AID BUDGETED is received by the various State Departments from Federal agencies. The Federal revenue shown in Exhibit III depicts those Federal funds which were budgeted as anticipated revenues in the Governor's Budget. In addition, the State received in excess of \$964 million in Federal revenue, which is shown under the category "Federal Aid Not Budgeted".

IV. INTERFUND TRANSFERS include monies which have been received by the various Trust Funds, and have been transferred into the General Fund as anticipated revenue. Included in these types of revenues are the monies received by the State Lottery, monies received from the Federal government under the General Revenue Sharing Program, and the monies received from taxes levied on New York and Pennsylvania residents working in New Jersey. The latter taxes commonly referred to as "Commuter Taxes" had been challenged in the courts. The State continues to collect these taxes but a reserve fund has been established for any monies collected after January 1, 1976, as per advice from the Attorney General.

REVENUES DEDICATED AND NOT BUDGETED

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

Over \$130 million of this revenue was received from taxes on business personal property, corporation net income, retail gross receipts and unincorporated business. Under the provisions of the Business Personal Property Tax Replacement Program, Chapter 136, P.L. 1966, this revenue is returned directly to local governments.

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

FEDERAL AID NOT BUDGETED

Most of the Federal funds received by the State in fiscal year 1976 were classified under this category. Expenditures in respect to non-budgeted Federal revenues are made only after receipt of an approved Federal grant award. During 1976, Federal Aid Not Budgeted amounted to \$964 million. Of the amount received over 55% represents Federal Aid for Medical Assistance (Medicaid), \$214 million; Dependent Children Assistance, \$249 million; and Elementary and Secondary Education Aid, \$76 million.

Exhibit V indicates the total amount of money realized by the General State Fund in fiscal year 1976--it includes realized budgeted revenues (as shown in Exhibit III) as well as all Federal Aid Not Budgeted and Dedicated Revenues.

EXHIBIT V

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

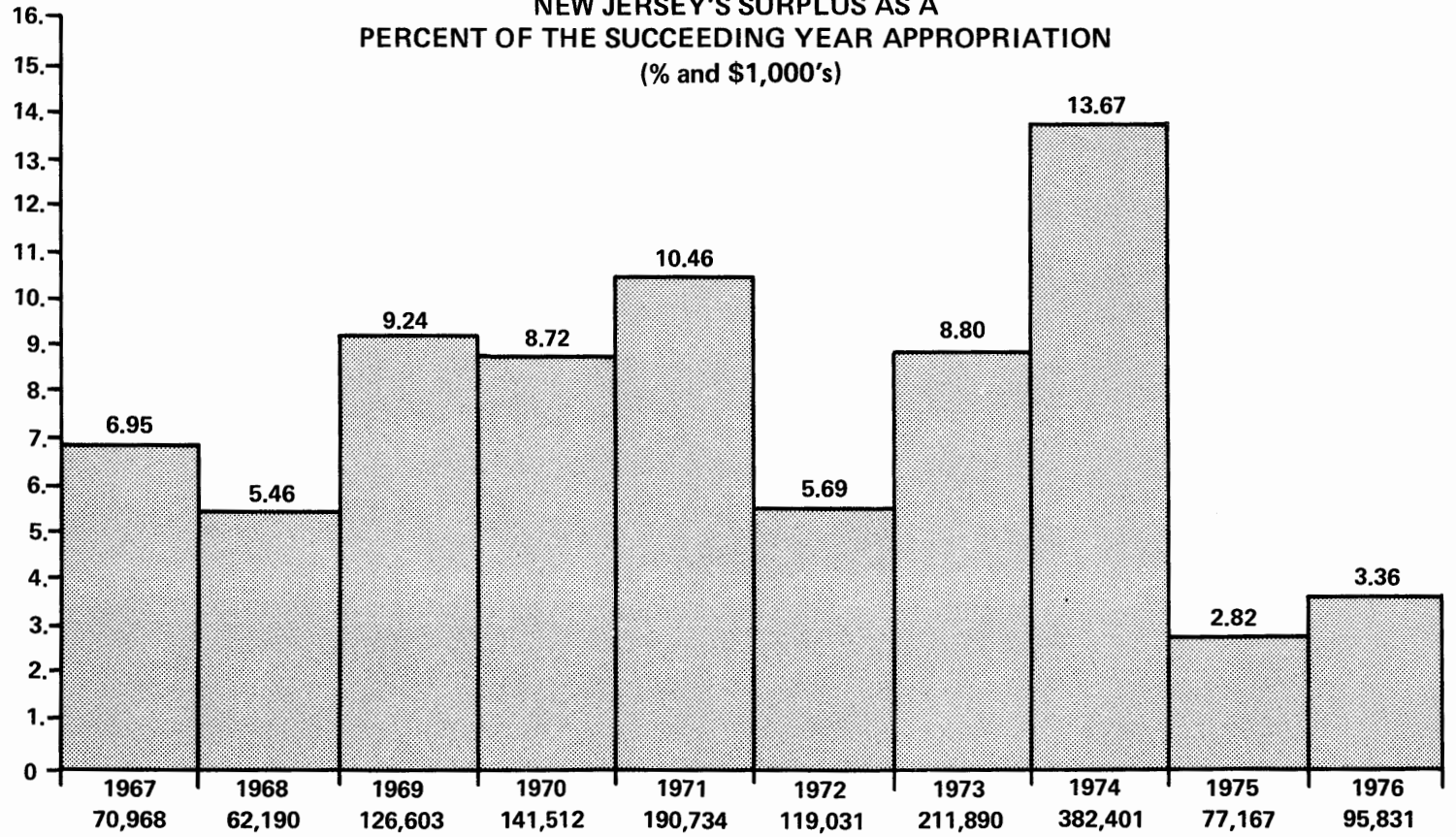
	Realized To June 30, 1976	Increase (Decrease)	Realized To June 30, 1975
REVENUES BUDGETED:			
Major Taxes	\$2,231,330	\$316,109	\$1,915,221
Miscellaneous Taxes	233,000	6,274	226,726
Federal Grants Budgeted	52,162	738	51,424
Interfund Transfers	<u>210,029</u>	<u>11,441</u>	<u>198,588</u>
Sub-Total - Revenues Budgeted	<u>\$2,726,521</u>	<u>\$334,562</u>	<u>\$2,391,959</u>
REVENUES DEDICATED AND NOT BUDGETED:			
Business Personal Property Tax	\$ 130,378	\$(17,498)	\$ 147,876
Financial Business Tax	5,010	1,849	3,161
Non-Contributory Group Insurance	8,494	(6,125)	14,619
All Other	<u>90,462</u>	<u>35,143</u>	<u>55,319</u>
Sub-Total - Revenues Dedicated and Not Budgeted	<u>\$ 234,344</u>	<u>\$ 13,369</u>	<u>\$ 220,975</u>
FEDERAL AID NOT BUDGETED:			
Elementary and Secondary Education	\$ 75,935	\$ 9,141	\$ 66,794
Child Nutrition	42,726	(413)	43,139
Transportation Highway and Mass Transit	53,543	(108,559)	162,102
Medicaid	213,893	20,779	193,114
Dependent Children Assistance	248,976	(25,586)	274,562
All Others	<u>329,372</u>	<u>66,777</u>	<u>262,595</u>
Sub-Total - Federal Aid Not Budgeted	<u>\$ 964,445</u>	<u>\$(37,861)</u>	<u>\$1,002,306</u>
REVOLVING FUNDS NOT BUDGETED:	<u>\$ 49,500</u>	<u>\$ 5,284</u>	<u>\$ 44,216</u>
INTERFUND TRANSFERS DEDICATED AND NOT BUDGETED:	<u>\$ 1,406</u>	<u>\$ (84)</u>	<u>\$ 1,490</u>
TOTAL REVENUES	<u>\$3,976,216</u>	<u>\$315,270</u>	<u>\$3,660,946</u>

SURPLUS

In addition to the revenue collected in any fiscal year, the State also has available for appropriation any unrestricted surplus. Surplus is the unexpended balance remaining in a fund at the close of a fiscal year. Surplus is generated principally by the realization of revenue in excess of that anticipated, or by expending less than what was budgeted. The unrestricted surplus as of June 30, 1976 was \$95.8 million compared to \$77.2 million on June 30, 1975. Exhibit VI shows a ten-year trend of surplus, and compares the year-end surplus to the appropriation for the following year.

PERCENTS

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



WHERE THE MONEY IS EXPENDED

Expenditures can be divided into State budgeted expenditures, and those expenditures which are dedicated and not budgeted -- identical to the manner in which revenues are treated. Total expenditures from the General State Fund, including all non-budgeted expenditures amounted to \$4,060 million in 1976, as compared to \$3,881 million in 1975.

Budgeted expenditures, that is, the number commonly associated with the "State Budget" for 1976 were \$2,774 million, as compared to \$2,758 million in 1975. These disbursements can be analyzed in terms of expenditures by Program, by Department, or by Purpose.

All activities in State government can be viewed as six major programs; namely, Protection of Persons and Property, Physical and Mental Health, Education and Intellectual Development, County Development and Environmental Management, Economic Development and Income Protection, Transportation and General State Affairs. Exhibit VII shows State budgeted expenditures by these major programs.

In addition, expenditures can be viewed in terms of which of the State's branches of government and executive agencies expended the funds. Budgeted expenditures by major Department are shown in Exhibit VIII.

Whether organized by Department or Program, State expenditures fall into three broad categories -- General State Operations, State Aid and Capital. In 1976 over 45% of the State's resources were transferred to local jurisdictions in the form of State Aid, 51% was utilized for State operations, and 4 % was expended for capital construction, which included expenditures for redemption of bonds.

GENERAL STATE OPERATIONS

The largest category of budgeted expenditures was for general State purposes. State operating expenditures during the past year were \$1,412 million, an increase of \$39 million or 3% over the previous year's expenditure of \$1,372 million. These expenditures are for the operation of the State's eighteen Departments, several Commissions, the Legislature and the Judiciary.

A summary of some of the major expenditures for General State Operations are presented below by Program category:

PROTECTION OF PERSONS AND PROPERTY

Program activities in this category include Law Enforcement, the Division of Correction and Parole in the Department of Institutions and Agencies, the Department of Defense, and the various regulatory agencies. A total of \$156 million, 11% of General State Operations, was expended in

EXHIBIT VII

COMPARATIVE EXPENDITURES BY PROGRAM
(in thousands of dollars)

PROGRAM	GENERAL STATE OPERATIONS		STATE AID		CAPITAL CONSTRUCTION		TOTAL	
	1976	1975	1976	1975	1976	1975	1976	1975
Protection of Persons and Property	\$ 156,090	\$ 148,670	\$ 800	\$ 560	\$ 3,400	\$ 8,270	\$ 160,290	\$ 157,700
Physical and Mental Health	174,800	168,820	27,800	25,440	2,600	6,270	205,200	200,530
Education and Intellectual Development	324,320	333,110	848,800	853,770	15,300	15,180	1,188,420	1,202,060
Community Development and Environmental Management	49,000	48,240	53,650	57,710	12,200	16,520	114,850	122,460
Economic Development and Income Protection	312,970	290,310	246,690	232,400	10	290	559,670	523,000
Transportation	142,400	159,840	35,690	26,490	83,770	76,750	260,860	263,080
General Governmental Affairs	252,000	223,610	28,000	60,090	4,960	5,930	284,960	289,630
TOTAL	<u>\$1,411,580</u>	<u>\$1,372,600</u>	<u>\$1,241,430</u>	<u>\$1,256,460</u>	<u>\$121,240</u>	<u>\$129,210</u>	<u>\$2,774,250</u>	<u>\$2,758,260</u>

EXHIBIT VIII

COMPARATIVE EXPENDITURES BY DEPARTMENT

(in thousands of dollars)

DEPARTMENT	GENERAL STATE OPERATIONS		STATE AID		CAPITAL CONSTRUCTION		TOTAL	
	1976	1975	1976	1975	1976	1975	1976	1975
Legislative	\$ 9,370	\$ 9,930	\$	\$	\$	\$	\$ 9,370	\$ 9,730
Chief Executive Office	770	860					770	860
Law and Public Safety	85,170	81,580	820	560	160	5,110	86,150	87,250
Treasury	42,820	41,700	26,480	57,230	80	430	69,380	99,360
State	2,490	2,620					2,490	2,620
Civil Service	5,480	5,480		40			5,480	5,520
Banking	2,500	2,200					2,500	2,200
Insurance	2,900	2,830					2,900	2,830
Agriculture	3,580	3,820					3,580	3,820
Defense	4,970	5,420			730	450	5,700	5,870
Public Utilities	7,700	7,740			220	140	7,920	7,890
Health	16,400	16,150	2,480	5,020	180	110	19,060	21,280
Labor and Industry	31,200	29,780					31,200	29,780
Environmental Protection	39,400	39,080	2,950	2,750	11,620	15,910	53,970	57,740
Education	16,300	17,400	808,050	816,800	940	880	825,290	835,080
Higher Education	302,860	310,340	40,720	36,970	14,300	14,160	357,880	361,470
Transportation	142,400	159,050	35,690	26,490	82,770	76,750	260,860	262,290
Institutions and Agencies	492,170	463,010	267,160	247,630	9,640	14,670	768,970	725,310
Community Affairs	7,500	8,610	55,600	61,440	600	600	63,700	70,650
Public Advocate	11,920	10,910					11,920	10,910
Executive Commissions	3,150	3,080					3,150	3,080
Inter-Departmental Accounts	165,420	135,880					165,420	135,880
Judiciary	15,110	15,330	1,480	1,530			16,590	16,860
TOTAL	<u>\$1,411,580</u>	<u>\$1,372,600</u>	<u>\$1,241,430</u>	<u>\$1,256,460</u>	<u>\$121,240</u>	<u>\$129,210</u>	<u>\$2,774,250</u>	<u>\$2,758,260</u>

fiscal year 1976 for this program category. The money provided for the regulation, licensing and registration of the State's 4.4 million motor vehicles and its 4.6 million licensed drivers. The State Police conducted investigations into organized crime, gambling, narcotics, official corruption and into theft. Additional money was expended by the State Police because of the State's assumption of narcotics and organized crime investigation activities which was previously funded by the Federal government. The largest expenditure in this category was for correction and parole activities. During fiscal year 1976 the State administered the four State prisons, three youth correctional institutions, one correctional institution for women, two training schools for boys, and one training school for girls. The average daily population in these institutions amounted to 5,600 inmates. Other program areas included national guard and civil defense programs; protection of the public from financial loss by regulating 6,000 financial and consumer credit institutions, 860 insurance companies, and over 150,000 insurance agents, brokers and real estate brokers; and regulation by the Public Utilities Department of industries involved in providing electricity, gas, communications, water, sewerage, solid waste management, rail and motor transportation, and the like.

PHYSICAL AND MENTAL HEALTH

This program includes the activities of the Department of Health, and the Division of Mental Health and Hospitals and Mental Retardation in the Department of Institutions and Agencies. In fiscal year 1976, 12% of General State Operations, or \$175 million was expended in this area. Expenditures were made to support programs of the Department of Health for prevention and treatment of chronic diseases such as alcoholism, respiratory diseases, heart and circulatory diseases; and communicable diseases such as influenza, tuberculosis, rubella and venereal diseases. Monies were also expended to conduct parent and child health programs including maternal and infant care, medical and dental services for 7,500 indigent crippled children, and accident prevention and poison control programs. Expenditures were made in the regulation of health care facilities, for example, the licensing of hospitals and nursing homes; enforcement of standards required by the Medicaid Program; examination of Certificate of Need Applications so as to avoid duplication in health facilities, and the administration of a rate setting system for hospitals. Over \$160 million was expended for mental health and mental retardation programs. The primary focus in fiscal year 1976 was on maintaining the current level of services in the face of sharply higher costs, and where possible, creating alternatives to institutionalization through the wider availability of community-based treatment facilities. Residential services were provided for an average daily population of 7,100 in seven State schools for the retarded, and similar services were purchased in private residential facilities for approximately 650 persons. The State also operated seven psychiatric institutions, four of them major hospitals, and treated about 19,000 mentally ill patients.

EDUCATION AND INTELLECTUAL DEVELOPMENT

This State program encompasses the activities of the Departments of Education and Higher Education, the Public Broadcasting Authority, the Bicentennial Commission and the Council on the Arts. Most of the expenditures relative to the Department of Education are reflected in the State Aid section

via the administration of several State-Aid programs to local school districts. Expenditures for General State Operations were made in such areas as curriculum evaluation, teacher education, dispute settlement, drug education, programs for the handicapped, and demonstration programs in vocational education. These expenditures totaled \$324 million in fiscal year 1976, 23% of General State Operations. In the field of Higher Education, \$302 million of expenditures were made for support of approximately 135,000 full and part-time students enrolled in State institutions of higher education, including Rutgers, eight State colleges, New Jersey Institute of Technology; and the College of Medicine and Dentistry. These expenditures represent 21% of General State Operations. Expenditures relative to the seventeen community colleges are reflected in the State Aid section of the Budget. To put the expenditure in the proper perspective, if there had been no State assistance to the State colleges, a student would have paid on the average \$1,800 in tuition and fees instead of the \$700.

COMMUNITY DEVELOPMENT AND ENVIRONMENTAL MANAGEMENT

This program area includes the Department of Community Affairs, and divisions within the Departments of Environmental Protection and Agriculture. A total of \$49 million or 4% of General State Operations was expended in this area. Expenditures were made by the Department of Agriculture for animal disease and plant pest and disease control programs to protect consumers and prevent unnecessary loss of stock and crops to farmers. By expending these monies, New Jersey's 260,000 head of cattle are now virtually free of brucellosis and tuberculosis, the State was designated hog cholera-free by the U. S. Department of Agriculture, the State has reduced the amount of acreage damaged by the gypsy moth, and crop and livestock products meet high quality control standards. Expenditures for the Department of Community Affairs in fiscal year 1976 resulted in the inspection of multiple dwellings and hotels to insure health and safety standards; assistance to senior citizens in such program areas as nutritional meals and outreach services; regulation of the financial activity of 588 local governments in the State; and for administration of various programs designed to improve the well-being of the State's indigent population. The Department of Environmental Protection expended \$41 million for the protection of the State's air, land, water, forest, wildlife, and shellfish resources, and for providing outdoor recreation opportunities in fifty-one parks and forests.

ECONOMIC DEVELOPMENT AND INCOME PROTECTION

This program area includes the Divisions of Youth and Family Services, Public Welfare and Medical Assistance and Health Services in the Department of Institutions and Agencies, the Department of Labor and Industry, and the Public Defender's Office and Inmate Advocacy Division of the Public Advocate. A total of \$312 million was expended in this area, and represents 22% of all General State Operation expenditures.

The largest single program expenditure was in the area of medical assistance and health services, better known as Medicaid. Medicaid pays hospitals, nursing homes, doctors and pharmacists for services provided to the medically indigent. The 1976 expenditures for Medicaid was \$232 million, or an increase of \$24 million over 1975 levels. In addition, these expenditures are matched with a similar amount from the Federal government.

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

The Department of Labor and Industry expended over \$31 million for the administration of programs concerning employment opportunities, conditions of work, health and safety, workmen's compensation, unemployment insurance and disability insurance, and manpower development and vocational rehabilitation programs. Expenditures were also made to expand the commercial and industrial base of the State and to provide services, research, and information for the well-being of the New Jersey business community.

In addition to the State expenditures in these program areas, the Department administers the income replacement program funded by Federal money. In fiscal year 1976, \$1,167 million was paid through the unemployment insurance program which covers over 2.5 million workers. In addition, the State processed more than 600,000 checks issued to workers covered by the State's disability insurance plan, which is financed by both employees and employers.

TRANSPORTATION

Program expenditures for the Department of Transportation amounted to \$142 million, and represented 10% of General State Operations.

Expenditures included subsidies for four railroads, and twenty-nine bus companies. These subsidies amounted to over \$64 million in fiscal year 1976. Expenditures were also made to maintain the existing highway systems in the State, and to improve and upgrade the system through resurfacing of old roads and additional floors on existing highways.

AID TO LOCAL GOVERNMENTS

State Aid to local governments is the second largest expenditure of the State Budget. In fiscal year 1976 over 44% of the State's resources were returned to municipalities, counties and school districts.

EDUCATION

The largest local assistance expenditure was aid for education which totaled \$808 million in fiscal year 1976. This represents 65% of all State Aid payments, and was expended to support local elementary and secondary educational programs. Specifically, each school district received general formula aid (Incentive and Equalization Aid) -- the total amount was \$431 million. The payment is based upon the number of students and the ability of the school district to raise taxes from its own base. In addition, the State provided aid for special education programs for the handicapped, including mentally retarded, visually handicapped, and eight other categories of handicapped children. The State also paid the employer share of the teacher's pension and benefits (\$196 million); a portion of the cost of pupil transportation; and a share of the cost of building construction. State Aid has also provided for

school lunches, vocational education, adult and continuing education, and local library aid.

HIGHER EDUCATION

The Department of Higher Education expended approximately \$39 million. This money was given in the form of aid to county colleges for operational costs to the extent of \$600 per full-time equivalent student. The State's contribution averaged approximately 34% of the operating cost of the seventeen community colleges which enrolled approximately 35,000 full-time and 96,000 part-time students.

INSTITUTIONS AND AGENCIES

The second largest expenditure in the State Aid area is in the Department of Institutions and Agencies, primarily for income maintenance programs (Welfare). Income maintenance expenditures amounted to \$215 million in fiscal year 1976, and were for such programs as assistance for old age, general disability, blind, aid to families of dependent children, families of working poor and supplemental security income payments.

\$20 million was expended for local youth and family social services; \$18 million was paid to county mental hospitals; and \$8 million was expended for community mental health services.

COMMUNITY AFFAIRS

In fiscal year 1976 the Department of Community Affairs expended \$55 million in programs for local governments. \$37 million in Municipal Aid was provided to the twenty-eight hardest pressed municipalities to maintain and upgrade municipal services. Another \$12 million was expended for the Safe and Clean Streets Programs which provided State Aid for street policemen and neighborhood improvements. The remaining \$6 million was expended for local programs in housing, planning, urban renewal, youth employment, community development, and in lieu of tax payments for State facilities.

HEALTH, ENVIRONMENTAL PROTECTION AND TRANSPORTATION

In fiscal year 1976 \$2.5 million was provided for local health projects, \$2.9 million was expended for environmental improvements, including shore protection, and \$35 million was provided for local and county road projects.

TREASURY

The Treasury Department disbursed over \$26.5 million in State Aid monies in fiscal year 1976. Payments were made for the Railroad Tax Program (\$8.1 million), which provides replacement tax revenue for taxes previously paid by railroads to the municipalities; reimbursement to municipalities for half the cost of senior citizens tax deductions (\$13.5 million); payments to municipalities for the Consolidated Police and Firemen's Pension Fund (\$4.5 million); and a portion of the cost of salaries of county judges (\$400 thousand).

CAPITAL CONSTRUCTION

Capital Construction expenditures ranked third among the General Fund categories. In 1976, \$121 million, or 4 % of the State Budget was expended.

Included in this expenditure figure is \$44 million for redemption of bonds, up \$8 million from the previous year. These funds represent amortization of principal payments due on higher education, water conservation, green acres, transportation, and State facility bonds previously approved by the voter. Interest on outstanding State debt (\$68 million) is included in the expenditure of the Operating and State Aid budgets of the relevant Departments.

The largest pay-as-you-go capital expenditure was in the area of highway construction. Some of these monies were utilized to match Federal monies provided for highway construction under one of several Federal programs, namely, Interstate Highway Projects, Urban Highway Projects, Rural Highway Projects and Highway Safety Projects. Other capital monies were used to finance highway projects which were not eligible for Federal highway aid.

Most of the remaining capital expenditures were for renovations and improvements at State institutions, primarily to meet life safety standards.

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

STATE DEBT

CONSTITUTIONAL PROVISIONS

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

FULL FAITH AND CREDIT DEBT

As shown in Exhibit IX the citizens of New Jersey have authorized over \$2 billion in bonded debt--all of which is guaranteed by the full faith and credit of the State. Of this total authorization, \$1,360.3 million was issued and outstanding, \$433.5 million remained unissued, and \$221.1 million had been retired as of June 30, 1976.

The \$640.0 million State Transportation Bond Issue of 1968 represents the largest single voter approved authorization. At June 30, 1976, \$507.5 million of these bonds were outstanding and \$93 million remained unissued. The entire \$337.5 million Public Building Construction Issue of 1968 has been sold and \$312.7 million remains outstanding. Of the \$271.0 million Water Conservation Bonds approved in 1969, \$145.9 million is outstanding and \$116.0 million remains unissued. The largest single unissued bond authorization is the 1974 Recreation and Conservation Land Acquisition and Development Bond. Of the \$200 million authorized, only \$15 million in debt has been issued.

In addition, the State guarantees payments on \$162,965,000 bonds of the New Jersey Highway Authority due 1975-1988. At the present time, it is believed that the revenue of this Authority will be sufficient to provide for payment of debt service on their obligations without recourse to the State's guarantee.

OUTSTANDING RELATED OBLIGATIONS

MORAL OBLIGATION FINANCING

The authorizing legislation for various State entities provides for specific budgetary procedures with respect to certain obligations. Pursuant to such legislation, a designated official is required to certify any deficiency in a debt reserve fund maintained to meet payments of principal

EXHIBIT IX

OUTSTANDING BONDED DEBT OF STATE*
(in thousands of dollars)

	<u>ACT OF</u>	<u>TYPE</u>	<u>AUTHORIZED</u>	<u>UNISSUED</u>	<u>RETIRED</u>	<u>6/30/76 OUTSTANDING</u>	<u>6/30/75 OUTSTANDING</u>
State Transportation	1968	Serial (to 2003)	\$ 640,000	\$ 93,000	\$ 39,500	\$ 507,500	\$ 514,450
Highway Improvement and Grade Crossing Elimination	1930	Serial (to 1990)	58,000	.....	51,680	6,320	6,960
Public Building Construction	1968	Serial (to 2003)	337,500	.....	24,800	312,700	323,000
Institution Construction	1960	Serial (to 1992)	40,000	.....	20,300	19,700	21,500
Institution Construction	1964	Serial (to 1989)	50,000	.....	11,800	38,200	40,200
Water Development	1958	Serial (to 1988)	45,850	.....	21,850	24,000	26,500
Water Conservation	1969	Serial (to 2001)	271,000	116,000	9,100	145,900	129,825
Higher Education Construction	1964	Serial (to 1989)	40,100	.....	7,200	32,900	34,500
Higher Education Construction	1971	Serial (to 2003)	155,000	10,000	2,700	142,300	145,000
Recreation and Conservation Land Acquisition	1961	Serial (to 1992)	60,000	.....	29,600	30,400	33,000
Recreation and Conservation Land Acquisition	1971	Serial (to 1996)	80,000	15,000	1,200	63,800	65,000
Recreation and Conservation Land Acquisition and Development	1974	Serial (to 1996)	200,000	185,000	.....	15,000	.....
Housing Assistance	1968	Serial (to 1997)	12,500	.....	1,400	11,100	11,700
State Facilities for Handicapped	1973	Serial (to 1991)	25,000	14,500	.....	10,500	3,000
		TOTAL BONDED DEBT	<u>\$2,014,950</u>	<u>\$433,500</u>	<u>\$221,130</u>	<u>\$1,360,320</u>	<u>\$1,354,635</u>

*Outstanding debt is as of June 30, 1976. It does not reflect (a) the issuance of \$75 million of bonds on October 6, 1976, and (b) the approval by the voters at the General Election held on November 2, 1976 of \$225 million.

and interest on the obligations, and an appropriation in the amount of the deficiency is to be made. However, the Legislature is not legally bound to make such an appropriation. Bonds issued pursuant to authorizing legislation of this type are sometimes referred to as "moral obligation" bonds. The following table sets forth the "moral obligation" debt issued by State authorities and agencies as of June 30, 1976:

EXHIBIT X

MORAL OBLIGATION DEBT

	<u>Outstanding*</u>	<u>Maximum Annual Debt Service</u>
New Jersey Housing Finance Agency.....	\$258,400,000	\$17,936,903
New Jersey Sports and Exposition Authority.....	302,000,000	24,720,000
South Jersey Port Corporation.....	<u>15,905,000</u>	<u>1,291,000</u>
	<u>\$576,305,000</u>	<u>\$43,947,903</u>

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

In the case of the South Jersey Port Corporation, Marine Terminal Revenue Bonds, revenues from this project were not sufficient to cover debt service in the fiscal years 1972 through 1976 and the State provided the necessary funds by appropriations equal to the certified deficiencies in the bond reserve fund. A deficiency has been certified in the debt service fund for fiscal year 1977. Legislation is pending to appropriate the funds.

In addition to the amount shown above, the New Jersey Housing Finance Agency has outstanding \$113,484,000 of notes and \$65,040,000 Special Pledge Revenue Obligations, due 1976 to 2022. The terms of these notes and obligations do not provide that they are "moral obligations", although outstanding notes are intended to be funded by "moral obligation" bonds.

Legislation of similar impact to the "moral obligation" provisions described above provides for the future appropriation for debt service on a maximum principal amount of \$180,000,000 of bonds issued by local school

districts (P.L. 1968, c. 177 and P.L. 1971, c. 10) and for the payment of one-half the debt service on a maximum of \$40,000,000 of county college bonds (P.L. 1971, c. 12). The Legislature is not legally bound to make such future appropriations. A total of \$179,000,000 school district bonds have been approved for State support and \$17,529,250 of county college bonds for one-half State support pursuant to all of these provisions.

OTHER STATE AGENCY AND AUTHORITY FINANCING

Other State created entities have statutory authority to incur debt which is not "moral obligation" debt as previously defined and is incurred without any legislation providing for State appropriations to pay debt service thereon. This debt is supported by revenues derived from or assets of the various projects financed by these entities. A portion of this debt is supported by lease payments to the issuing entity. Such entities and their outstanding bonds as of June 30, 1976, are as follows:

EXHIBIT XI

AUTHORITY AND AGENCY DEBT

	<u>Bonds</u>
New Jersey Mortgage Finance Agency.....	\$ 394,965,000
New Jersey Health Care Facilities Financing Authority.....	181,245,000
New Jersey Educational Facilities Financing Authority.....	98,912,000
New Jersey Economic Development Authority.....	102,848,000
New Jersey Turnpike Authority.....	843,820,000
New Jersey Expressway Authority.....	46,500,000
New Jersey Highway Authority.....	291,685,000
Rutgers, The State University.....	<u>57,310,000</u>
	<u>\$2,017,280,000</u>

DEBT SERVICE

Exhibit XII shows the schedule for repayment of principal and interest on outstanding State debt. The total repayment of \$2,247 million consists of \$1,435 million of principal and \$813 million in interest. These monies will be raised by future annual appropriations.

EXHIBIT XII

STATE OF NEW JERSEY

DEBT SERVICE SCHEDULE

(000's)

<u>Fiscal Year</u>	<u>Total Principal and Interest</u>	<u>Fiscal Year</u>	<u>Total Principal and Interest</u>
1977	\$122,500	1991	\$82,287
1978	127,967	1992	74,597
1979	136,114	1993	71,764
1980	133,366	1994	69,837
1981	129,784	1995	66,676
1982	124,839	1996	51,027
1983	121,011	1997	48,820
1984	120,750	1998	31,917
1985	118,333	1999	27,614
1986	116,002	2000	24,837
1987	110,670	2001	22,793
1988	107,813	2002	9,159
1989	99,033	2003	6,642
1990	91,721		

TOTAL \$2,247,873

THE COMPARATIVE BALANCE SHEET

BALANCE SHEET

The Balance Sheet is a statement of resources available to New Jersey to meet its present and future needs and of present and future liabilities. This Balance Sheet compares the financial condition of the State for the years ending June 30, 1976 and June 30, 1975.

ASSETS

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

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

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

LIABILITIES

The State incurs liabilities in a number of ways. The major way is the result of acquiring goods and services necessary to enable agencies to perform their functions. Accounts Payable represent payments due vendors for goods and services already received by agencies. Encumbrances are funds reserved to meet formal commitments for goods and services expected to be delivered. These two types of obligations are combined in Accounts Payable and Encumbrances and comprised the major portion of total liabilities as of June 30, 1976. Of this total, \$433.6 million represents charges incurred during the current fiscal year while \$112.4 million is a result of obligations for prior fiscal years.

Other categories of liabilities which appear on the June 30, 1976 Balance Sheet include Revenue Refunds Payable, Advanced Funds Returnable, and Motor Fuels Tax Refundable, which relate to items the State has an obligation to repay to the Federal government and taxpayers.

EXHIBIT XIII

COMPARATIVE BALANCE SHEET AS OF JUNE 30, 1976 AND JUNE 30, 1975
GENERAL STATE FUND*

(in thousands of dollars)

	<u>ASSETS</u>	<u>June 30, 1976</u>	<u>June 30, 1975</u>
CASH			
Demand Accounts (Note 1)		\$ (6,425)	\$ (44,906)
Time Accounts		635	10,655
INVESTMENTS			
Securities at Par Value	\$352,542	\$368,063	
Unamortized Premium or (Discount)	--- (98)	--- 26	
Securities at Book Value (Note 2)		352,444	368,089
RECEIVABLES			
Taxes (Net) (Note 3)		138,501	125,568
Patients Accounts - State Institutions (Net)		16,814	8,603
Departmental Accounts (Note 4)		270,741	234,694
Federal Government Highway Construction		349,655	417,016
Public Authorities (Note 5)		11,076	14,947
Miscellaneous Receivables		4,279	3,955
OTHER ASSETS			
State Purchase Revolving Fund		2,000	2,000
Due from Dedicated and Trust Funds (Note 6)		<u>42,441</u>	<u>51,009</u>
TOTAL		<u>\$1,182,161</u>	<u>\$1,191,630</u>

LIABILITIES, APPROPRIATIONS, RESERVES AND SURPLUS

LIABILITIES

Accounts Payable and Encumbrances	\$ 545,955	\$ 538,981
Revenue Refunds Payable (Note 7)	3,465	0
Advanced Funds Returnable	1,950	1,767
Motor Fuels Tax Refundable	1,800	1,800
Deferred Revenues (Note 8)	<u>22,087</u>	<u>20,824</u>
Total Liabilities	\$ 575,257	\$ 563,372
APPROPRIATION BALANCES (Note 9)	469,759	544,608
SURPLUS UNRESTRICTED	95,832	77,168
SURPLUS RESTRICTED (Note 10)	<u>41,313</u>	<u>6,482</u>
TOTAL	<u>\$1,182,161</u>	<u>\$1,191,630</u>

31

*Does not include Dedicated or Trust Funds or Bonded Indebtedness

The accompanying summary of significant accounting policies and notes are an integral part of the Comparative Balance Sheet as of June 30, 1976 and 1975.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basis of accounting followed in recording transactions in the General State Fund of the State of New Jersey utilizes the modified accrual method. Factors inherent in the use of this method are:

- (1) Revenues are recorded as received in cash except for:
 - (a) Revenues susceptible to accrual,
 - (b) Revenues of a material amount that have not been received at the normal time of receipt, and
 - (c) Material revenues received prior to normal time of receipt are recorded as deferred revenue.
- (2) Expenditures are recorded on the accrual basis except for:
 - (a) Disbursements for inventory type items, prepaid expenses and fixed assets, which are considered expenditures at the time of purchase,
 - (b) Interest on long-term debt, which is recorded as an expenditure when due, and
 - (c) The adoption of the encumbrance method of accounting wherein funds are reserved and committed, usually based on the issuance of a purchase order or the execution of a contract, and the outstanding encumbrance is recognized as an expenditure until liquidated.

NOTES TO COMPARATIVE BALANCE SHEET AS OF JUNE 30, 1976 AND 1975

1. Cash--Demand Accounts

The cash balance was in a managed overdraft position at June 30, 1976 and June 30, 1975. Available cash is invested until checks issued are presented to the bank for payment.

2. Marketable securities are stated at amortized cost.

3. Receivables - Taxes

The June 30, 1976 balance includes the following items: Sales, \$87.1 million; Motor Fuels, \$25.9 million; Alcoholic Beverage, \$10.4 million; Cigarette, \$10.9 million; and Inheritance, \$4.2 million.

4. Receivables - Departmental Accounts

The June 30, 1976 balance includes \$160.4 million of funds collected during July and August that were applicable to fiscal year 1976. The remaining \$110.3 million consists principally of funds due from the Federal government.

5. Receivables - Public Authorities

The June 30, 1976 balance includes funds due from the Port Authority of New York and New Jersey, \$.4 million; New Jersey Turnpike Authority, \$.3 million; and the New Jersey Highway Authority, \$10.4 million.

6. Other Assets - Due from Dedicated and Trust Funds

The June 30, 1976 balance includes funds due from the General Revenue Sharing Fund, \$16.4 million; State Lottery Fund, \$15.4 million; Transportation Fund, \$4.1 million; and Other Sources, \$6.5 million.

7. Revenue Refunds Payable

At June 30, 1975 Revenue Refunds Payable were included in Accounts Payable and Encumbrances.

8. Deferred Revenues

The June 30, 1976 balance contains funds received but unearned during fiscal year 1976. Amounts received applicable to future periods include Motor Vehicle License Fees, \$11.7 million; College Tuition, \$4.0 million; and All Other Fees, \$6.4 million.

9. Appropriation Balances

As provided for in the Appropriations Act for fiscal year 1977, these balances are reappropriated.

10. Surplus Restricted

The June 30, 1976 balance includes \$24.1 million of Emergency Transportation Tax (New York) and \$6.9 million of Transportation Benefits Tax (Pennsylvania) attributable to the period January 1 through June 30, 1976, reserved in accordance with the instructions of the Attorney General. Other restrictions of \$10.3 million relate to resources not currently available to finance governmental operations during the year.

RELATED FINANCIAL ACTIVITIES

FINANCING OF PENSIONS

Virtually all of the public employees of the State and its counties, municipalities and political sub-divisions are members of pension plans administered by the State. The State operates seven retirement plans. Public Employees' Retirement System ("PERS") and Teachers' Pension and Annuity Fund ("Teachers"), created by acts of the State Legislature in 1920 and 1919, respectively, are the principal plans, together covering 281,000 out of the total 309,000 members covered by all State administered plans.

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

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

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

The accrued benefit liability (including anticipated salary increases for active members) is 70% funded for Public Employees' Retirement System, Teachers' Pension and Annuity Fund, and Police and Firemen's Fund, the three major pension plans administered by the State.

The State's total contribution involving the normal as well as the accrued liability was approximately \$35 million in fiscal year 1976 for the Public Employees' Retirement Systems. In addition, approximately \$104 million was paid by the State for the support of the local Teachers' Pension and Annuity Fund.

EMPLOYEE RELATIONS

The State of New Jersey, as a public employer, is covered by the New Jersey Public Employer-Employee Relations Act, as amended, N.J.S.A. 34:13A-1, et seq., which guarantees to public employees the right to negotiate collectively through employee organization certified or recognized as the exclusive collective negotiations representative for units of public employees found to be appropriate for collective negotiations purposes. Of the State's approximately 70,000 employees, approximately 55,500 are represented by certified or recognized exclusive majority representatives and are organized into 23 negotiating units, e.g. Health, Care and Rehabilitation Services Unit, represented by the American Federation of State, County and Municipal Employees, includes about 8,000 employees, and the Administrative and Clerical Services Unit, represented by a combination of The New Jersey Civil Service Association and The New Jersey State Employees Association (herein called SCA/SEA), includes about 11,000 employees.

The Act specifies a negotiations process which includes mediation and advisory fact finding in the event of a negotiations impasse. This process is geared to the public employers budget submission process. Thus, in the case of the State, unless there is a multi-year agreement in effect, negotiations begin in October and the entire process, including mediation and fact finding, should be completed prior to the Governor's submission of a budget to the Legislature in February of each year, so that the budget process can reflect the results of negotiations. In the event that negotiations are not completed by the February budget submission date, a later supplemental appropriations request is made. The economic provisions of negotiated agreements generally take effect at the beginning of each fiscal year.

In fiscal year 1976, State employees did not receive any across-the-board increases. All qualified employees did, however, receive an increment in accordance with the Compensation Plan. On the average these increments amounted to 4.5% per employee and totaled approximately \$16.0 million.

INVESTMENTS

The Investment Division has the responsibility for investing approximately fifty funds, including six pension and annuity funds. In addition, the Division invests the assets of another forty-six funds as a service to State authorities.

The Division was created by Chapter 270, P.L. 1950. An important objective of the statute creating the Division was to centralize all functions relating to purchases, sales or exchanges of securities for the State's diverse funds under experienced and professional management. The statute provides for an Investment Council and a Director. The Council consists of ten members, five appointed for staggered five-year terms by the Governor and five appointed for one-year terms by five of the pension systems.

Members of the Council serve without compensation. The Director is appointed by the State Treasurer from candidates for the office selected by the Council.

Prior to 1950, investment was limited by law to United States Government and Municipal obligations. The statute provided that, in addition, investments could be made in obligations which are legal investments for savings banks within the State. Over the years several amendments have been made to the law which have materially increased the scope of potential investment opportunities and provided a foundation for achieving a better portfolio balance and diversification.

At the present time the pension fund systems, like the fiduciary of a trust estate, are permitted to invest in property of every nature, including common stocks. Present regulations of the State Investment Council limit the authority of the Director to investment of not more than 25% of the book value of any one fund in common stock. Under that authority, the Director is gradually increasing common stock holdings from the present level of 12% to 20% of the book value of the portfolios.

During fiscal 1976 the State funds earned \$261 million. The investment of State funds by the Division of Investment benefits all citizens and taxpayers since the income generated contributes directly to the funding of services and benefits provided by the State to its citizens.

LEASE AGREEMENTS

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

As of June 30, 1975 there were 277 long-term realty lease agreements with expirations ranging from over a period of three to twenty-five years. These lease obligations amounted to \$89,000,000 and fiscal year 1976 annual rental payments approximated \$17 million.

NEW JERSEY'S PERFORMANCE IN PERSPECTIVE

THE UNITED STATES ECONOMY IN 1976

Our bicentennial year began with the national economy growing at the inflation-adjusted annual rate of 9%. Since then, aggregate economic activity, although still expanding, has slowed to the point where in the fourth quarter "real" Gross National Product is expected to grow by only 4% in 1976.

Consumer outlays provided the impetus for the earlier growth in output, as previously deferred purchases for manufacturers durable equipment posted sharp increases. At the present monthly rate automobile sales promise to exceed 10.5 million this year with the share of sales from domestic manufacturers increasing from 81% of the market last year to an estimated 85% in 1976.

Even though personal consumption expenditures in real terms are running more than 5% higher than a year ago, consumers have become increasingly frugal in recent months. With the annual rate of inflation down to a comfortable 5%, consumers have realized increases in their real, spendable incomes. Despite this situation, consumers have continued to reduce their credit burden since the recession ended in the spring of 1975.

Coinciding with consumer restraint has been a change in spending by businessmen on inventories. In the initial stages of recovery, businessmen's shelves were quickly depleted by consumers. This provided the spark for manufacturers to restore production and reaccumulate inventories. Since consumer spending has waned, so has industrial production.

Manufacturers' output for each man-hour worked grew at the annual rate of 8.2% during the first six months of this year; however, preliminary third quarter data shows that the growth in productivity has slowed to an annual rate of less than 6%. However, the growth in manufacturing unit labor costs have been moderate with wage settlements coming in somewhat lower than expected. The combined elements of moderate inflation and excess capacity, both in plant equipment and labor, created a favorable environment for corporate profits.

At mid-year the corporate balance sheet reflected an increase of almost 33% in profits from a year earlier. Although corporate profits are expected to taper off before the year's end, this is nothing unusual during the second year of business recovery. As recovery begins, businessmen are using only their most efficient plants and are working with a reduced labor force. For months, rising output is handled without expanding plant or adding more workers. Finally, they are forced to employ and bring idle plants back into use. As costs begin to rise, output per man-hour falls and profits begin to weaken.

In spite of the recovery in profits, businesses have been exceedingly cautious in committing funds for capital expansion. The economy needs a higher rate of capital investment to provide new jobs, improve industrial efficiency, and avoid shortages in basic materials. Yet by mid-1976 capital spending has grown by just 5% over a year ago. In inflation-adjusted terms the increase in spending is even more conservative. A recent survey of businessmen's intentions indicates a healthy rise in capital investment later this year and in 1977.

The data on labor market conditions indicate that, despite substantial gains in employment since the trough of the recession, there are still millions of persons looking for work. In the first six months of 1976 total non-agricultural employment increased by 1.1 million, or by 1.5%. Employment will post only some insignificant gains in the latter half of the year. Continued growth in the labor force will mean little reduction in the nation's unemployment rate. The jobless rate, which fell to 7.3% in May 1976, increased to almost 8% in the third quarter.

Residential construction activity has remained relatively flat this year although there are some signs of short-term improvement. Local building permits indicate that new housing should approach 1.5 million units in 1976.

THE NEW JERSEY ECONOMY -- 1976

Although the national economy has improved throughout the year, the New Jersey economic picture has been clouded with a mixture of both good and bad news.

The personal incomes of New Jersey residents have grown impressively throughout 1976. At the present growth rate, incomes will be almost 12% higher than a year ago. With more money in their pockets, consumers have re-established old spending habits. Retail sales for the first half of 1976 are 11.5% above a year ago. After adjusting for inflationary price increases, New Jerseyans should, in real terms, spend about 7% more than last year when inflation-adjusted sales grew less than 1% or in 1974 when sales dropped by 11%.

Industrial production began to reflect increased activity in 1976. Average monthly electric power sales to commercial and industrial users, a typical indicator of output, are currently 6% above 1975 levels. This is the first time since 1972-73 that the rate of electric power usage has increased. Similarly, the manufacturing workweek continued to grow in 1976. Historically, this has been a reliable indication that a cyclical turn-around was in the making. However, early gains in employment have dwindled, leaving the manufacturing sector only slightly better off than during the depths of the recession.

Although rebounding somewhat later than the nation, the New Jersey economy did experience recovery in 1976. However, a more accurate assessment would compare the strength and speed of recovery in New Jersey to that of the nation as a whole.

The Comparative Economic Index (CEI) is a measure of the State's "relative" economic performance vis-a-vis the nation. The New Jersey CEI is an arithmetic average of four indicators: (1) personal income, (2) total non-agricultural employment, (3) retail sales, and (4) sales of electric power to commercial and industrial users. These indicators represent broad areas of employment, output, income, and trade.

Between 1969 and 1972, New Jersey's economy grew at a faster rate than the United States economy; therefore, the CEI was greater than 1.0. After 1972, the index fell below the national norm and has continued to decline. Although some sectors of the New Jersey economy are now improving, their rate of recovery is slower than their national counterparts. Thus, a wide gap remains in the CEI. Despite variations in particular states, the entire Mid-Atlantic and New England regions are lagging behind the nation in achieving prerecession levels of employment.

THE ECONOMIC OUTLOOK FOR 1977

THE UNITED STATES ECONOMY

Next year a new administration will be responsible for the direction of the nation's economy. Because the current recovery has begun to falter, we expect a number of new programs to confront specific problem areas. Thus, an outlook for next year must, in part, speculate as to the type and extent of these programs.

We expect a certain degree of additional stimulus to the economy early next year. An unspent fund of about \$11 billion budgeted for this fiscal year will be used to spur the economy. As this money is spent and changes hands in the economy, it will generate additional rounds of economic activity. Also, the prospect for a \$10-15 billion new stimulus in the form of a tax cut or direct Federal expenditure appears to be gaining momentum.

By the end of next year, aggregate output, adjusted for inflation, could increase by as much as 6%. An additional reason to expect a 6% growth rate includes an anticipated resurgence of personal consumption expenditures. The decline in consumer spending in the latter stages of 1976 was tied not to declining incomes, but to a loss of confidence in the economy by the public at large. Consumer attitudes should improve with the onset of expansionary economic policies.

As a world leader, the United States economy significantly affects the economies of its allies and trading partners. A healthy national economy will stimulate international trade and eventually will result in additional economic activity in the United States, although the effects may not be realized until later in the year.

Unless the expected rate of growth in aggregate output is translated into additional employment it will be a hollow statistic. In 1976 much of the increase in Gross National Product was a result of increased productivity; that is, businessmen expanded output by putting idle plants

and equipment back to work with minimal new hiring. In 1976 non-agricultural employment will increase by less than 2% barely reaching the prerecession high. Next year businessmen will have less excess capacity to press into production as some industries are already reaching the point of production bottlenecks. At this point businessmen have to increase capital expenditures and hire additional labor.

Also, we cannot ignore the employment effects of the Federal Public Works Bill and other programs which might have a particularly strong effect on the economies of Northeastern states. These programs will finance labor intensive projects in certain high unemployment areas of the nation. It is possible that national unemployment will be reduced anywhere from .50% to .75% as a result of such programs.

The outlook for total unemployment is, however, difficult to assess. Although a growing economy means more jobs and more employment, a growing economy will also attract a number of workers who left the labor force during the 1973-74 recession. The so-called discouraged workers may inflate the labor force and prevent the unemployment rate from falling below 6.5% in 1977, despite the likely prospect of new programs and increased consumer spending.

As with consumers, the attitudes of businessmen are a significant factor in formulating new investment spending plans. Thus far, capital expenditures have been quite moderate, failing to take up the slack in consumer spending. However, new investment is expected to grow significantly in 1977. The intentions of businessmen indicate a healthy \$140 billion total investment expenditure in 1977, which is a real 6% increase over 1976 outlays.

Additional impetus will come from those firms approaching full capacity utilization. In the near term future they will be ready to make new plant and equipment expenditures. Increased consumer demand will also encourage firms to expand their production facilities.

It is hoped that the Federal Reserve will accommodate these new developments by maintaining an appropriate money supply.

The net effect of certain supply and demand conditions confuses the inflation outlook. In some industries still characterized by a good deal of excess capacity, there is little pressure to raise prices. Similarly, with unemployment still high there is no immediate danger of labor shortages. On the other hand, some industries have recovered more fully from the recession and will be confronted with rising costs of production.

On the demand side, consumer spending may induce some price increases as businessmen perceive the existence of a stronger market. The new administration has also promised a strong anti-inflation position. Anticipating more government intervention, business may impose a round of price increases early in 1977. By the end of next year, prices may increase 6% over 1976.

THE NEW JERSEY ECONOMY

The New Jersey economy, lagging well behind the United States business recovery in 1976, holds a great deal of potential for 1977. Voter acceptance of three bond issues earmarked for capital construction will provide additional jobs for New Jersey labor. Some stimulus will be felt as Outer Continental Shelf oil drilling and on-shore preparations commence in 1977. Another reason is public approval of a referendum allowing casino gambling in Atlantic City. The initial stimulus to the economy will be a rebirth of construction jobs, a sector which has experienced unemployment rates as high as 30% over the past two years.

Certain problems of New Jersey are expected to be confronted directly next year as the Coalition of Northeast Governors prepares a package of remedial economic programs requiring direct Federal involvement and intra-regional cooperation among states. It is hoped that before the end of 1977 some of these programs will be working to reduce the comparative disadvantage of the Northeast for the expansion and relocation of manufacturing enterprises. Other segments of the economy such as home building will rebound in line with the overall growth of the economy.

In total, the New Jersey economy should grow by approximately the same rate as the national economy. At best this translates into a 6% growth rate in inflation adjusted terms. Growing real incomes will reflect a continuation in the growth in retail sales. Employment will expand significantly but the unemployment rate will be hard pressed to fall below double digit levels as new entrants and discouraged workers reenter the labor force. This will still leave New Jersey with an unemployment rate above 10%. With this much slack in the economy, the State will still need significant improvements in its business tax structure and industrial incentive program commensurate to those in neighboring states.

EXPENDITURE TRENDS AND COMPARISON WITH OTHER STATES

EXPENDITURE TRENDS

In fiscal year 1961, New Jersey's total budgeted expenditures amounted to \$435 million. By fiscal year 1975, total budgeted expenditures had increased to \$2,758 million. New Jersey's budgeted expenditures had increased over 530% in a fifteen-year period. The average annual percentage increase during this period amounted to 14.5%

Inflation has been the major factor in increasing expenditures. When budgeted expenditures in fiscal year 1975 are compared to fiscal year 1961, more than 50% of the increase was the result of inflated prices for goods and services. Data obtained from the United States Department of Commerce indicates that over the past fifteen years the price of a commodity that cost \$100 in fiscal year 1961, cost \$210 in fiscal year 1975.

In each major section of the budget (General State Operations, Capital and State Aid), the inflationary portion of expenditure increased from 1961 to 1975 by more than 50%. For example, in fiscal year 1961 ex-

penditures for General State Operations amounted to \$190 million. By 1975, these expenditures had increased to \$1,372 million -- an average annual increase of 15%. Adjusting these expenditures for inflation, General State Operations grew at an average rate of 9%.

Clearly inflation has been a major contribute to the growth of State expenditures in New Jersey. No matter what the reason, however, this expenditure trend could no longer continue. In fiscal year 1976, the Governor sent to the Legislature a budget for \$2.8 billion which represented the smallest increase in twenty years -- 1.8%. The final appropriations for fiscal year 1976 eventually resulted in a budget of \$2.7 billion or a decline of 2.4% over 1975 final appropriations.

COMPARISON WITH OTHER STATES

New Jersey State government is very economical in comparison to other state governments. In 1975, New Jersey citizens paid \$46 out of every \$1,000 of personal income in State taxes. The average State citizen in the United States paid \$70 out of every \$1,000 of personal income to their state in taxes.

Neighboring state citizens paid \$73 - Pennsylvania, \$80 - New York, and \$93 - Delaware per \$1,000 of personal income in state taxes.

EXHIBIT XIV

FINANCIAL COMPARISON OF NEW JERSEY WITH OTHER STATES - 1976*

Statistic	New Jersey		All States	High		Low	
	Amount	Rank		State	Amount	State	Amount
State Derived Revenues per \$1,000 of personal income	\$46	49	\$ 70	Hawaii	\$113	New Hampshire	\$43
State Expenditures per \$1,000 of personal income	\$94	48	\$121	Alaska	\$335	Ohio	\$92
Number of State Employees per 10,000 population	92	49	129	Alaska	279	Ohio	88

*Data obtained from United States Department of Commerce, Bureau of Census, Governmental Finances in 1975, and Public Employment in 1975.

State governmental expenditures in New Jersey per \$1,000 of personal income amounted to \$94 in 1975, one of the lowest in the nation. New Jersey ranked 49th in the nation, in 1974, in the number of State employees per capital with 92 employees per 10,000 population. The average throughout the nation was 129 employees. The neighboring States of Pennsylvania, New York and Delaware had 113,104 and 224 State employees per 10,000 population respectively.

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

NEW JERSEY'S EFFORTS TO IMPROVE FISCAL MANAGEMENT

In the 1975 Fiscal Report we commented extensively upon efforts undertaken during the recent past to improve financial management practices in New Jersey State government. These included organizational changes; improved management techniques in such areas as cash management, accounts receivable, indirect cost recovery; and major system changes, particularly the adoption and installation of a computerized Appropriation and Revenue Accounting System.

During the past fiscal year the following additional improvements or policies have been undertaken:

QUALIFIED BONDS

Chapters 38 and 39 of P.L. 1976 provided for the creation of "qualified bonds". The laws strengthened the security of New Jersey Municipal and School bonds by pledging State Urban Aid, Business Personal Property Tax Replacement Revenues, or State School Aid to guarantee the principal and interest on qualified bonds.

Any municipality or school district may apply to the Local Finance Board, and as applicable, the State Board of Education, for authorization to issue qualified bonds. After review and approval by the Local Finance Board (and the State Board of Education in the case of school districts), the municipality and/or school district may issue a "qualified bond".

On notification of the debt service payment schedule for such bonds, the State Treasurer, through the Division of Budget and Accounting, withholds from the Urban Aid, or Business Personal Property Replacement Revenue, or State School Aid allocated to the issuing municipality or school district, the amount necessary to make each payment and pays over this amount directly to the paying agent. The participating municipality or school district continues to raise the amount necessary to meet its bond obligations in their budget, but transfers it to current expenses to replace the State revenue applied to debt service. This policy provides a sound basis for long-term financing for New Jersey local governments, and at the same time, provides the means for a potential saving of millions of dollars as a result of substantially lower interest rates than the localities could attract without the "qualified bond".

SUMMARY MONTHLY REPORT

During fiscal year 1976 the Bureau of Accounting developed a new format for a Summary Monthly Fiscal Report which presents in a concise format the monthly financial status of the General State Fund. This monthly statement is now prepared within twenty days of the close of the month and is transmitted to members of the Legislature, taxpayer groups and other interested citizens.

STATE AUDITOR EXAMINATION

For the past two fiscal years, 1974 and 1975, the General State Fund has been audited by the Division of State Auditing (State Auditor). The examinations were made in accordance with generally-accepted auditing standards. In addition to the examination of the balance sheet and related statements of revenues, appropriations and surplus, the State Auditor reviewed internal control procedures and financial reporting practices.

It was the opinion of the State Auditor, except for the treatment of fixed assets, and subject to the final disposition of certain litigation, that the financial statements presented fairly the financial position of the General State Fund and the results of operations for the year in conformity with generally-accepted accounting principles applicable to government units applied on a basis consistent with that of the preceding year.

The Treasury Department, Division of Budget and Accounting, also acknowledges the assistance of the Division of State Auditing during the past two audits. We believe that the comments and recommendations have been constructive, and that significant improvements have been accomplished in the accounting procedures and fiscal control of the State of New Jersey during the past two years.

FULL DISCLOSURE REPORTING

Recent events concerning the financial condition of New York City have served to focus attention on full disclosure of governmental finances.

During fiscal year 1976 the State of New Jersey expanded the format of its official statement relating to a sale of bonds. This Prospectus was well received and represented the first step taken by the State of New Jersey to meet some of the guidelines suggested by various professional groups urging full disclosure.

In July, 1976 a second and even more detailed bond prospectus was prepared, a Prospectus which the State feels has increased the investor's confidence in the marketability of New Jersey bond obligations.

FINANCIAL REPORTING FOR THE PUBLIC

During fiscal year 1975 the State prepared for the first time an Annual Fiscal Report which presented pertinent information about the State's fiscal operations and general economic condition in a non-technical format designed to acquaint the general public. This Report for fiscal year 1976 is a continuation of that policy. In addition, the Division of Budget and Accounting now prepares an annual "Taxpayers Guide to the Budget", which is designed to help New Jerseyans understand

the State's budget and financial policy. Taxpayers Guides have been prepared for fiscal year 1976 and fiscal year 1977 budgets.

CAPITAL BUDGETING

In November, 1975, a permanent Commission on Capital Budgeting and Planning was established. This Commission is now charged with the preparation of the State's Seven-Year Capital Improvement Plan, and making recommendations to the Governor and the Legislature for the appropriation for the forthcoming budget year. The staff to the Commission is provided by the Division of Budget and Accounting. A permanent Commission assigned to reviewing and analyzing the capital needs of the State will develop a more rationale approach to capital needs and the means to finance these needs.

In fiscal year 1976, The Commission recommended that three bond referenda be placed before the voters. On November 2, 1976 the public approved all three bond referenda; namely, \$120 million for Water Resources, \$80 million for Institutional Construction, and \$25 million for Housing.

NEW JERSEY BEGINS A NEW ERA -- THE INCOME TAX

The New Jersey Supreme Court ruled in 1973 that the existing method of financing public schools was unconstitutional, primarily because it relied too heavily on inequitable property taxes.

The Legislature, after exploring many ways of financing additional school aid and providing property tax relief, concluded that only an income tax provided an elastic source of revenue to ease the burden on local property taxpayers.

On July 8, 1976, Governor Byrne signed legislation establishing the Gross Income Tax on the income of individuals, estates and trusts, except charitable trusts and trusts forming part of a pension or profit-sharing plan. The tax is calculated at the rate of 2% on the first \$20,000 of taxable income and 2 1/2% on amounts in excess of \$20,000. The tax imposed by the Gross Income Tax Law applies to all items of income received or accrued on and after July 1, 1976, with provision for certain exemptions, deductions, and tax credits.

The Gross Income Tax Law stipulated that its provisions become operative only upon the enactment of three companion measures: the Homestead Exemption Act, the Tenant Rebate Act, and a Revenue Sharing bill. Each of these three measures was passed by the Legislature and signed by Governor Byrne.

The estimated revenue yield from the Gross Income Tax for the first year (fiscal 1977) is \$723 million.

The Gross Income Tax Law and supplemental appropriations have allocated part of this revenue on an annualized basis as follows:

- \$374 million to school districts to fund a Supreme Court mandate.
- \$50 million in Revenue Sharing distributed to municipalities on population basis.
- \$260 million for homestead rebates. (The average rebate for each homeowner is \$190).
- \$36 million for reimbursement to municipalities for senior citizens' and veterans' property tax deductions.
- \$5 million for administration.

The tax reform program includes the repeal of the Capital Gains and Unearned Income Tax as well as the repeal of the Unincorporated Business Tax and the Gross Receipts Tax. Repeal of the business taxes was done in an attempt to improve New Jersey's business climate.

Other features of the Income Tax program include:

- Credits and property tax rebate for tenants.
- Spending limitations on State and local governments.
- Dedication of the Income Tax for State Aid purposes.

Other legislation relating to the Gross Income Tax Law provides that the Income Tax Law shall expire on June 30, 1978, unless extended by the Legislature and Governor.



