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STATE OF NEW JERSEY  
**ANNUAL FISCAL REPORT**  
FISCAL YEAR 1978-1979



**Brendan Byrne**  
Governor

**Clifford A. Goldman**  
State Treasurer

**Edward G. Hofgesang**  
Director & Comptroller

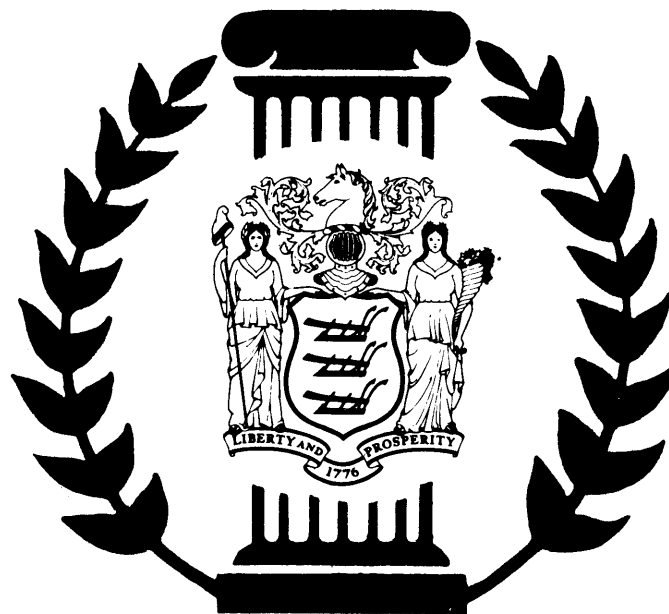
## DESCRIPTION OF COVER

On the cover is a picture of the recently completed Teaching Hospital, located at the Newark Campus of the College of Medicine and Dentistry of New Jersey.

The Hospital provides clinical training and experience for third and fourth year medical students of the New Jersey Medical School in addition to health care services for the people of New Jersey.

The construction of the Teaching Hospital was originally financed from proceeds of the sale of bonds by the New Jersey Health Care Facilities Financing Authority. However, in November, 1977, voters approved the refinancing of bonds for this facility at an interest rate 3.60 percent less than the original financing. This permitted the new Teaching Hospital to be completed at a \$47 million savings in debt service costs to New Jersey's taxpayers; and in addition, provided \$25 million to finance additional medical school facilities.

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# 1979 FISCAL REPORT

## Table of Contents

### LETTER OF TRANSMITTAL

### 1979 HIGHLIGHTS

	<u>PAGE</u>
I. NEW JERSEY EFFORTS TO IMPROVE FISCAL MANAGEMENT	
A. Past Achievements .....	1
B. Bidding of Professional Services .....	1
C. Productivity Investment Fund .....	2
D. Cash Management Activities .....	3
E. New Financial Statement Format .....	3
II. NEW JERSEY STATE GOVERNMENT WITHIN THE FEDERAL-STATE-LOCAL TAX SYSTEM	
A. General Framework .....	4
B. Money Flow Within the System .....	4
C. Federal Aid .....	4
D. State Tax Structure .....	5
E. Local Tax Structure .....	5
III. THE STATE'S FINANCIAL SYSTEM	
A. The Budget and Appropriation System .....	7
B. The Fund Structure .....	7
C. The Accounting System .....	8
D. Dedicated and Trust Funds .....	8
IV. THE DEPARTMENT OF THE TREASURY	
A. State Treasurer .....	15
B. State Comptroller .....	15
E. Divisions of the Department of the Treasury .....	15
V. WHERE THE MONEY COMES FROM	
A. Anticipated (Budgeted) Revenue .....	17
B. Revenues Appropriated—State, Other .....	22
C. Revenues Appropriated—Federal .....	22
D. Surplus .....	22
VI. WHERE THE MONEY IS SPENT	
A. State Aid to Local Governments .....	24
B. Direct State Services .....	26
C. Debt Service .....	26
D. Capital Construction .....	28

## Table of Contents

	<u>PAGE</u>
VII. STATE DEBT	
A. Overview .....	29
B. Full Faith and Credit Debt .....	29
C. Outstanding Bonded Debt .....	31
D. Lease Agreements .....	31
E. State Aid Appropriations for School Financing .....	32
F. Description of Bond Funds .....	32
VIII. DEBT OF THE STATE PUBLIC AUTHORITIES AND AGENCIES	
A. State Authorities .....	36
B. Regional Bond-Issuing Authorities .....	42
C. Outstanding Debt of New Jersey State Authorities .....	43
D. Moral Obligation Debt .....	43
E. Other State Agency and Authority Debt .....	43
IX. THE COMBINED BALANCE SHEET	
A. The Combined Balance Sheet .....	45
B. Notes to Combined Balance Sheet .....	47
X. RELATED FINANCIAL ACTIVITIES	
A. Financing of Pensions .....	51
B. Employee Relations .....	53
C. Investments .....	53
XI. NEW JERSEY'S PERFORMANCE IN PERSPECTIVE	
A. A Review of the Fiscal Year 1979 Economy .....	55
B. The Economic Outlook for Fiscal Year 1980 .....	57
C. Financial Comparisons With Other States .....	58

## LIST OF EXHIBITS

EXHIBIT I	THE NEW JERSEY STATE AND LOCAL TAX STRUCTURE .....	6
EXHIBIT II	DESCRIPTION OF TRUST AND DEDICATED FUNDS .....	9
EXHIBIT III	COMPARISON OF BUDGETED REVENUE .....	18
EXHIBIT IV	REALIZED BUDGETED REVENUE TOTALS FOR 1970-1979 .....	19
EXHIBIT V	COMPARISON OF TOTAL REVENUES—ALL FUNDS .....	21
EXHIBIT VI	NEW JERSEY'S SURPLUS AS A PERCENT OF TOTAL APPROPRIATION .....	23
EXHIBIT VII	COMPARATIVE EXPENDITURES BY DEPARTMENT .....	25
EXHIBIT VIII	DEBT SERVICE SCHEDULE .....	27
EXHIBIT IX	OUTSTANDING BONDED DEBT OF STATE .....	30
EXHIBIT X	OUTSTANDING DEBT OF STATE—TEN YEAR TREND .....	31
EXHIBIT XI	DESCRIPTION OF BOND FUNDS—BY FUNCTION .....	33
EXHIBIT XII	SUMMARY—STATE AUTHORITIES AND OUTSTANDING DEBT .....	44
EXHIBIT XIII	COMBINED BALANCE SHEET .....	46
EXHIBIT XIV	PENSION FUNDS—SUMMARY .....	52

December 14, 1979

To the Honorable:  
Governor  
Legislature  
People of New Jersey

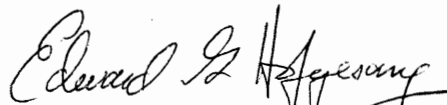
We are pleased to submit this Annual Report for the fiscal year ending June 30, 1979, presenting financial information in a non-technical style. Our detailed accountants' report, published in November, 1979, contains the traditional detailed schedules relating to revenues, appropriations and expenditures, the balance sheet, and the analysis of surplus.

A detailed explanation of the State's financial situation, including an Executive Summary of the 1979 Highlights is described within this report.

Respectfully submitted,



Clifford A. Goldman  
State Treasurer



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

## 1979 HIGHLIGHTS

1. New Jersey continues to be rated AAA by both Moody's and Standard and Poors.
2. The State ended fiscal year 1979 with a combined surplus of \$218 million in the General Fund and the Property Tax Relief Fund.
3. Budgeted expenditures in 1979 for the General Fund and the Property Tax Relief Fund totaled \$4,574 million. The State Constitution provides that the proceeds from the Income Tax be deposited in the Property Tax Relief Fund and appropriated as State Aid which reduces local property taxes. Of the \$4,574 million, \$956 million was from the Property Tax Relief Fund.
4. Fifty-two percent of all State expenditures was in the form of State Aid to Local Governments.
5. Proceeds from the lottery totaled \$122.0 million, an increase of 27 percent from the \$96 million realized in 1978, and almost four times the amount realized in 1975. The Constitution provides that these monies be applied to the cost of maintaining the State's institutions and for education.
6. State agencies, particularly the Division of Taxation, administered and collected taxes and fees totaling \$4,316 million, an increase of \$396 million.
7. The refinancing of the outstanding debt of the Sports and Exposition Authority was completed on December 28, 1978. It was the largest and most successful public financing in New Jersey's history. The sale of \$299.5 million of State-guaranteed bonds at an interest rate of 5.82 percent was used to refund the original Sports Authority bonds which carried an interest rate of 7.5 percent. The resulting savings in debt service over the life of the bonds will be \$197.6 million. In addition to these cost savings, the refunding generated a one-time cash adjustment of \$7.5 million, which was transferred to the State during fiscal year 1979. Further, the refunding made possible a \$42 million savings in interest costs on the simultaneous issue of revenue bonds to finance construction of an indoor arena. All these savings are expected to become surplus funds of the Authority and by law will be paid to the State Treasury. These savings are in addition to the other operating surpluses which the Authority anticipates. The State received \$19.8 million in such surplus funds from the Authority in fiscal year 1979.
8. The State issued \$100 million in bonds and retired \$76 million in debt during 1979.
9. In fiscal year 1979, the public approved four bond referenda, namely: \$100 million for Institutional Construction; \$200 million for Green Acres; \$25 million for Flood Control; and \$317 million to refinance the outstanding debt of the Sports and Exposition Authority.
10. In December, 1978, a State Appeals Court ruled that the \$100 million Institutional Bond referenda approved by the voters in November was unconstitutional because the projects were not functionally related. This ruling was appealed by the Attorney General; and in March, 1979, the Supreme Court issued an order reversing the Appeals Court ruling, thus enabling the bonds to be sold for the construction of projects related to mental health, mental retardation, corrections, etc.
11. In 1979, the permanent Commission on Capital Budgeting and Planning recommended that two bond referenda be placed before the voters. On November 6, 1979 (fiscal year 1980), the public approved \$475 million for transportation rehabilitation and improvements, but defeated a \$95 million bond issue for higher education.

12. The Division of Investment managed assets with a book value of \$6.7 billion, an increase of \$712 million or 12 percent from the prior year. During 1979, the funds supervised by the Division produced investment earnings in excess of \$421 million, an increase of \$79.8 million or almost 23 percent over fiscal year 1978.
13. New Jersey continued to improve in terms of federal dollars received in both absolute terms and per capita ranking. New Jersey (state and local governments) received \$2.6 billion in fiscal year 1978, the latest year of published comparative data, an increase of \$352 million from the prior year. In addition, New Jersey increased its per capita aid from \$300 million to \$348 million, an increase of 16 percent, the fourteenth largest increase in the nation.
14. In state fiscal year 1979, the Housing Finance Agency issued \$158.9 million in Section 8 federally assisted bonds. In October and November of 1979, the Housing Finance Agency completed two additional bond sales for a total of \$168 million of Section 8 assisted bonds. The ability of the Housing Finance Agency to issue this \$168 million of bonds demonstrated the continuing financing strength of the Agency. At the time these bonds were sold, other major public issuers were forced to postpone or cancel scheduled financings because of difficult bond market conditions. During the period from July 1, 1978 through December 1, 1979, the Housing Finance Agency issued a total of \$326.9 million of federally assisted Section 8 bonds for 35 projects providing 6023 units of housing. This record maintains the Housing Finance Agency's position as one of the country's leading producers of Section 8 housing.
15. The statewide home improvement loan program was initiated by the Mortgage Finance Agency in fiscal year 1979 to provide loans at a below-market interest rate to homeowners of modest income. Two bond issues totaling \$32 million have been sold to finance the purchase of \$27 million of loans from participating lenders. Approximately 5,000 dwelling units will be upgraded, enlarged, or made more energy efficient throughout the State. During state fiscal year 1979, the Mortgage Finance Agency purchased 2,500 mortgage loans for \$76 million under its two Neighborhood Loan Program bond issues. This program provides below-market rate mortgage loans for home purchases in urban neighborhoods experiencing a shortage of mortgage funds from private lenders. Through June 30, 1979, the Mortgage Finance Agency has spent \$109 million of Neighborhood Loan Program funds to purchase a total of 3,700 mortgages, leaving a balance of \$42 million of funds, already committed, for additional mortgage purchases.
16. In 1979, the Economic Development Authority will have arranged financing for more than 320 projects, totaling over \$375 million in low-interest financing, which will assist almost one-half billion dollars of industrial and commercial investments in New Jersey. Also in fiscal year 1979, the Authority moved ahead with the Urban Industrial Park Program with the development of two parcels of land in Jersey City and Elizabeth.
17. For fiscal year 1979, \$400,000 was appropriated for a Productivity Investment Fund. The purpose of the fund is to provide seed money to state agencies for implementing cost-savings processes. Over one hundred productivity investment proposals were submitted by state agencies for consideration. Sixteen proposals were funded and the return on the initial \$400,000 investment in the next three years is expected to be \$2.5 million.
18. The State's pension system continues to be strengthened actuarially. The accrued benefit liability is 78.5 percent or more funded for the three major pension plans administered by the State.
19. The New Jersey Cash Management Fund continues to grow. During fiscal year 1979, the assets grew from \$192.5 million to \$672 million, a 249 percent increase. The fund is an investment pool made up of the assets of a number of state funds together with deposits from counties, municipalities, and school districts.

20. In tax year 1979, the property taxes in the State increased by less than 5 percent over 1978 levels; however, when homestead rebates are included the property taxes in the State are still less than in 1976 by over \$128 million, or a decrease of 4 percent. If property taxes had continued on their prior pattern of 10 percent annual increases, the property taxes for 1979 would have been \$4,453 million instead of the net levy of \$3,218 million—a differential of \$1,235 million or 28 percent.
21. The state-local intergovernmental fiscal system is less dependent on the property tax than it was a few short years ago. Of the total state revenue and local property taxes in 1975, 53 percent was collected at the local level. In 1979, local property taxes accounted for 42 percent of the total state-wide taxes, a shift of 11 percentage points.
22. New Jersey ranks forty-third in total expenditures per \$1,000 of personal income, which was \$24.34 or 14 percent below the national median of \$205.

## NEW JERSEY'S EFFORTS TO IMPROVE FISCAL MANAGEMENT

In the past few Annual Fiscal Reports, we have commented upon various efforts to improve the financial management practices in State government. Some of our most significant improvements or policy developments included:

- Restoration of the State's AAA bond rating;
- Development and implementation of the Qualified Bond Law and Cash Management Fund;
- Refinancing of the Medical School and the Sports and Exposition Authority at a savings of over \$200 million in interest costs over the life of the bonds;
- Improvement of management techniques and organizational changes in such areas as cash management, accounts receivable, indirect cost recovery, federal fund accounting, and capital budgeting;
- Full disclosure reporting—new format for Bond Prospectus;
- Preparation of new annual and monthly financial and budget reports for the taxpayer; and
- Implementation of a Productivity Program and a Productivity Investment Fund.

Fiscal year 1979 has provided some additional evidence as to the strength of New Jersey's financial management practices and some examples for further improvements.

## BIDDING OF PROFESSIONAL SERVICES

At the direction of the State Treasurer, the State has been aggressively moving away from the use of the waiver process in its contracting for professional services. Increasing numbers and types of services the State normally buys are being competitively bid with significant savings being realized. For this effort the State Purchase Bureau recently won an award from the National Association of Purchasing Officials. Examples of those services now being bid and the projected savings are as follows:

- Banking services for the administration of the homestead rebates and income tax refund program. A per-transaction savings of \$.85 was realized which projects to a savings of \$1,052,100 over the 3½ year contract period.
- The basic skills assessment program for the Department of Education was competitively bid and awarded at a savings to the State of \$90,295.
- Management services of the State's Unemployment Compensation Program was bid and awarded at a per-transaction savings of \$.65 for a total projected savings of \$52,000.
- Appraisal and land surveying services to accommodate the plans of the Green Acres Acquisition Program were competitively bid for the first time.

The Division of Building and Construction recently concluded a pilot program to test the effects of competitive bidding for architectural services. Some 25 contracts were negotiated during this test period, with an estimated architectural fee saving of some 10 to 20 percent per contract. A standard operating procedure is now in the process of being prepared to reflect this change in architectural procurements.

## PRODUCTIVITY INVESTMENT FUND

One of the key parts of the State's productivity program which was developed in Fiscal Year 1978 and funded in 1979, is the Productivity Investment Fund. The purpose of the fund is to provide seed money to State agencies for implementing cost-savings processes or productivity improvements. This account was proposed by the Governor in his 1979 Budget Message and supported by the Legislature with an appropriation of \$400,000. One hundred and three productivity improvement proposals were subsequently received and evaluated, of which 16 were eventually funded. These sixteen funded projects are anticipated to save in excess of \$2.5 million dollars over the next three years.

The Productivity Investment Account was again funded in fiscal year 1980 for \$250,000. As in the previous year, proposals were received from all organizations in the State. To date, two proposals totaling \$91,500 have been approved for funding while nine others are under active review. Some examples of the projects funded during the past two years are as follows:

- An energy conservation system to reduce the costs of providing air-conditioning and temperature/humidity controls in a large computer center;
- The purchase and installation of a food-processing system in a state prison. This system will reduce food preparation costs by some \$40,000 annually while also ensuring that minimum health standards are maintained;
- A word processing system to reduce clerical workload in the Criminal Justice Division;
- An energy conservation system to reduce fuel consumption costs at two Rutgers University buildings;
- Equipment to speed-up license applications and the deposit of fee checks at the Division of Motor Vehicles;
- A model system to streamline the preparation of unemployment checks at local unemployment insurance offices;
- Thermal insulating films for the Labor and Industry Office Building to reduce energy costs and improve the working environment;
- Food freezers for Trenton Psychiatric Hospital to reduce the cost of food preparation;
- A refrigerator truck for the State's Distribution Center to reduce the cost of delivering meat and frozen foods;
- A desktop bankproof machine to reduce costs and speed up the processing of fees paid to the Department of Environmental Protection; and
- A mechanical surveillance unit in lieu of additional patrol personnel at Glassboro State College.

## CASH MANAGEMENT ACTIVITIES

The State has continued to extend its review of cash management activities over state accounts beyond those in central Treasury. With the cooperation and assistance of agency management, significant improvements have been made in each of the following areas:

- State Lottery Accounts—As a result of realignment of existing Lottery demand accounts, the implementation of bank balance controls and the immediate wire-transfer of lottery machine safe proceeds into an investment account, average demand account balances were reduced from \$500,000 to less than \$50,000 while at the same time yielding an annual investment earnings gain in excess of \$200,000.
- Pension Accounts—Procedural changes and utilization of the float in the control of the Pension Increase Fund, the Public Employees Retirement System, and the Health Benefits Fund have significantly reduced average daily balances and increased earnings to the fund by approximately \$320,000 annually.

## NEW FINANCIAL STATEMENT FORMAT

Our detailed financial statements prepared for fiscal year 1979 were presented in a new format and contains new data. In addition, to being more informative and easier to read, the revisions bring the financial statements a step closer to Governmental Accounting, Auditing, and Financial Reporting (GASFR) practices promulgated by the National Council on Governmental Accounting.

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

In New Jersey, as in most states, the cost of these services may vary from one jurisdiction to another. Such factors as the ability of a local government to raise taxes, the level of services requested by the people, the efficiency of the governmental units involved, and the prevailing wages in the area all influence the final cost of government services. Thus, in order to have a complete picture of the State's financial operation, an understanding of the Federal-State-Local fiscal system is presented.

### MONEY FLOW WITHIN THE SYSTEM

The intergovernmental financial system in the United States is becoming increasingly interdependent, as states and local units depend more than ever on external intergovernmental sources of revenue. Approximately one-fourth of all state revenues come from the federal government, and more than 40 percent of local government revenues are secured from state and federal sources. For 1978 all levels of government raised almost \$750 billion, of which approximately \$415 billion was raised at the federal level. Almost 18 percent of the federal revenues was funneled back to state and local governments. In addition, some of the federal money transferred to the state governments is combined with state-aid funds so that the amount available to local governments nationwide for spending is in excess of \$220 billion.

Similar flows of money take place within the State of New Jersey. Taxes are paid by the residents to federal, state, and local governments. The federal government returns some portion of the dollars to the state and to the local governments by means of grant-in-aid programs; and the State of New Jersey, in similar fashion, returns tax dollars to local municipalities, counties, and school districts by means of "State Aid" allocations (52 percent of 1979 State expenditures). Comments pertaining to federal aid and the state and local tax structure in New Jersey follows.

### 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 factors, such as population. Some funds must be applied for under various grant-in-aid programs.

Based upon data compiled by the Tax Foundation, New Jersey state and local governments received \$2.6 billion in grants in 1978, but residents in the State had an estimated tax burden of \$3.0 billion. Thus, the tax burden per dollar of aid in New Jersey is approximately 1.18. This can be contrasted, for example, to the State of Mississippi, where the tax burden on its residents is .59 per dollar returned; therefore, the state and local governments receive almost twice as much in federal grants as the residents pay in federal taxes. During the past several years, New Jersey has raised its ranking in per capita receipts, percentage gains, and total receipts so that the tax burden per dollar of aid has decreased from \$1.30 in 1976 to the present \$1.18. For 1978, the latest year of published statistics, the following data is applicable to New Jersey.

- (1) New Jersey's total of \$2.6 billion is the ninth highest among the states, and represents an increase of \$352 over the previous year, the eighth highest increase in the country.
- (2) New Jersey has increased its per capita aid from \$300 to \$348, improving its ranking from thirty-first to twenty-third among the states. This 16 percent increase was the fourteenth highest in the nation.

## STATE TAX STRUCTURE

Over 59 percent of the revenue, from traditional sources, which supported the State's Budget in fiscal year 1979 came from six sources, namely, the Sales Tax, Motor Vehicle and Fuel Taxes, the Cigarette Tax, Corporation Taxes, and the Inheritance Tax. On July 6, 1976, Governor Bryne signed legislation establishing the Gross Income Tax. The tax is calculated at the rate of 2 percent on the first \$20,000 and 2.5 percent on amounts over \$20,000 of taxable income. The proceeds are dedicated to property tax relief. Income taxes may not be used to support State operations. The Income Tax for fiscal year 1979 yielded \$838.5 million for property tax relief and represented 19 percent of total State revenue. Thus, total own-source revenues in fiscal year 1979 aggregated \$3.5 billion from traditional sources and \$838.5 million raised from the Income Tax.

The Division of Taxation administers most of the taxes collected by the State—the exception being primarily pari-mutuel racing, motor vehicle licenses and fees, and the motor fuels use tax. In addition, the Division of Taxation is responsible for assessing and certifying over \$440 million of public utility and insurance taxes to municipalities and counties. Also, the State, through the Division of Taxation, supervises and coordinates local property tax procedures for the twenty-one county boards of taxation and the 567 local taxing districts. The State does not collect the local property tax or use any of its revenue.

## LOCAL TAX STRUCTURE

The largest revenue source at the local level is the property tax. Other major revenue sources include taxes from public utilities, state aid assistance, federal aid assistance, and various miscellaneous revenues, such as licenses, fees, and permits. Thus, the property tax in New Jersey is a local tax. This means that the tax is assessed and collected at the municipal level for the support of local schools, municipal government, and county government. The State receives no portion of these taxes and, in fact, in 1979 paid out approximately 52 percent of the State's tax revenue to counties, municipalities, and school districts in some form of State Aid.

The property tax in New Jersey is a residual tax, that is, it is the tax levied to raise the amount of money required to meet budgeted expenditures not covered by monies available from all other sources. The local property tax is an ad valorem tax in that each taxpayer shares in the total tax burden of his municipality in direct proportion as the value of his property bears to the total value of all property in his town. Thus, the amount of an individual's property tax bill is determined by the dollars needed to support the local schools, the county and the municipal government, and by the proportionate value that one's property bears to the total value of all property in the municipality. Any increase in the cost of municipal, county, or school district services or any decrease in the amount of State Aid or Federal Aid, without offsetting increases in new ratables, will cause an increase in the amount of property taxes a homeowner must pay.

In tax year 1979, local property tax levies increased by \$166 million, only 4.9 percent over 1978 levels; however, when homestead rebates are included, the property taxes in the State are still less than they were in 1976 by over \$128 million, or a decrease of 4 percent. In the prior fifteen years, property taxes had been increasing at the average of 10 percent per year.

The following is a summary tabulation of the state and local tax structure in New Jersey utilizing 1979 data.

EXHIBIT I

THE NEW JERSEY 1979 STATE AND LOCAL TAX STRUCTURE

• BUDGETED STATE REVENUE COLLECTED . . . . .	\$4,315.7 million
• NON-BUDGETED STATE REVENUE, INCLUDING FEDERAL AID TO STATE GOVERNMENT . . . . .	1,597.2 million
• TAXES APPORTIONED BY THE STATE FOR LOCAL COLLECTION (Public Utility Gross Receipts and Franchise Taxes, and Insurance Taxes) . . . . .	440.4 million
• TAXES ADMINISTERED BY COUNTIES (Realty Transfer Fees, etc.) . . . . .	28.0 million
• TAXES ADMINISTERED BY MUNICIPALITIES (Property Taxes) . . . . .	<u>3,493.0 million</u>
	<u>\$9,874.3 million</u>

## THE STATE'S FINANCIAL SYSTEM

### THE BUDGET AND APPROPRIATION SYSTEM

The State operates on a fiscal year beginning July 1 and ending June 30. The New Jersey Constitution requires that appropriations be made by law before any money can be drawn from the State Treasury. In addition, all monies for the support of State government and all state purposes must be provided for in one general appropriation law covering one and the same fiscal year. The Constitution prohibits the Legislature from making appropriations in any fiscal year in excess of the total amount of the revenue on hand and anticipated as certified by the Governor.

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

The Governor's Budget is then transmitted as a Budget Message on or before the third Tuesday following the first meeting of the Legislature, except in the year when a Governor is inaugurated when it must be transmitted on or before February 15. The Governor's Message must embody the proposed complete financial program of the state government and must set forth in detail, each source of anticipated revenue and the purpose of recommended expenditures.

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

During the course of the year the Governor may prohibit and enjoin the expenditure of any appropriation when he determines that it is not in the best interest of the State or if revenue collections should fall below the certified amount. This provision is an additional tool which the Governor can exercise to insure economy in government and to insure that the State does not incur any deficits.

In addition to the Constitutional and statutory provisions concerning budget-making, the New Jersey budget process during the past decade has evolved from line-item budgeting, where numbers of positions and objects of expenditures constitute the primary area of concern; to program budgeting, where the budget is formulated directly to the program objectives of governmental activities; to a zero-base budgeting system, where the costs and benefits of the programs of each agency are justified at various alternative funding levels.

### THE FUND STRUCTURE

The financial transactions of the State are accounted for in several funds. For governmental accounting, a "fund" is defined as an independent fiscal and accounting entity with a self-balancing set of accounts recording cash and/or other resources together with all related liabilities,

obligations, reserves, and equities, segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations. The financial statements prepared for Fiscal Year 1979 represent a departure from previous financial reporting practices, in that certain activities formerly recorded in the General Fund are now segregated and accounted for as separate funds, each with a self-balancing set of accounts.

The General Fund is the fund into which all State revenues not otherwise restricted by statute, are deposited and from which appropriations are made. The largest part of the total financial operation of the State is accounted for in the General Fund. Revenues received from taxes, most federal revenue, and certain miscellaneous revenue are recorded in the General Fund. The other funds, formerly accounts within the General Fund, are the Property Tax Relief Fund, Casino Control Fund, Casino Revenue Fund, and Gubernatorial Election Fund. Definitions of these funds are included in the notes to the Combined Balance Sheet on pages 47-50.

## 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 Combined Balance Sheet and Significant Accounting Policies.)

## 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 1979, the State of New Jersey maintained approximately 61 Dedicated and Trust Funds. Several of the funds (21) were established to maintain the transactions of the various bond issues authorized by the voters. Total expenditures from the bond trust funds amounted to \$170 million.

The proceeds of some of the Trust and Dedicated Funds are transferred to the General State Budget by means of Interfund Transfers, and utilized as revenues for General State operations. The two most significant Trust Funds in this category are: The Federal General Revenue Sharing Fund and the State Lottery. Some of the largest Trust Funds are established to administer the income replacement programs funded by the federal government, or by employers and employees. These funds include: The State Disability Benefits Fund, the Unemployment Compensation Auxiliary Fund, and the Unemployment Compensation Tax Fund. The bond funds are described on pages 33-35. A description of the other Trust and Dedicated Funds is as follows.

EXHIBIT II  
DESCRIPTION OF TRUST AND DEDICATED FUNDS

COLLEGE OF MEDICINE AND DENTISTRY OF NEW JERSEY (52:18A-90.1)

Construction Grant Fund  
Endowment Fund  
Endowment Fund "B"  
Grant Fund  
Grant Fund "B"

Moneys in these funds formerly managed by the College of Medicine and Dentistry were turned over to the State for investment management purposes. The funds plus earnings are returnable to the College.

Self-Insurance Reserve Fund

This fund is established by a trust agreement between the State and the College of Medicine and Dentistry to cover malpractice claims against the hospitals and the College. Fund deposits are managed by the Division of Investment with earnings increasing the fund. This type of insurance is required by the New Jersey Health Care Facilities Financing Authority for protection of the authority's bondholders.

Common Pension Fund "A", Common Pension Fund "B", and Common Pension Fund "C" (52:18A-90.1)

The Division of Investment is authorized to establish, maintain, and operate common trust funds. Pension deposits from various funds are transferred for investment purposes to these common pension funds. Funds representing original sums plus accumulated earnings are then returned to the Division of Pensions and credited to the respective pension funds.

1837 Surplus Revenue Fund (52:8-4)

The fund was established to account for the funds returned from the several counties of the State, which had been previously transmitted by the State from surplus revenue of 1837 received from the federal government. The principal amount of the surplus revenue of 1837 is considered to be returnable to the federal government.

Emergency Services Fund (52:14E-5)

Established in 1972 to reimburse municipalities or counties for damage or excess costs as a result of an emergency. Payments must be certified by the Governor's Advisory Council and approved by the Governor.

General Revenue Sharing Fund

Federal regulations require the establishment of this fund to account for federal revenue sharing moneys. Funds are credited then transferred to the General Fund for expenditures as appropriated by the Legislature.

General Trust Fund (52:18-25.b)

The principal amount of unredeemed bonds and coupons over two years old are withdrawn from bank accounts and deposited in this fund for investment. When presented for payment these overdue bonds and coupons are redeemed from this fund.

Higher Education Assistance Fund (18A-72-8)

The purpose is to account for funds guaranteeing loans made by financial institutions to assist qualified persons in meeting the costs of higher education in certain educational institutions. Defaulted loans are purchased from the financial institutions. A direct loan program has subsequently been added to the fund activities.

Motor Vehicle Liability Security Fund (39:6-94)

The purpose is to account for moneys credited from receipts of insurers authorized to deal in vehicle liability insurance for New Jersey motor vehicles. The act provides for the payment of remaining benefits payable in the event of insolvency of the insurer.

Motor Vehicle Security-Responsibility Fund (39:6-30.1)

The purpose is to account for security deposits made by motorists not having the required minimum motor vehicle insurance coverage in this state, who have been involved in a motor vehicle accident resulting in bodily injury or death, and/or property damage. The deposits may be disbursed in satisfaction of judgments rendered and/or the return to the motorist of such unused portion upon release of liability.

Mutual Workmen's Compensation Security Fund (34:15-112 and 105)  
Stock Workmen's Compensation Security Fund

The purpose is to account for moneys received from assessments levied against Mutual and Stock insurance carriers writing workmen's compensation insurance in this state. Payments from the Mutual or Stock Workmen's Compensation Fund are made to persons entitled to receive workmen's compensation when a Mutual or Stock carrier is determined to be insolvent.

New Home Warranty Security Fund (46:3B-7)

The purpose is to account for moneys received from participating builders of dwellings not previously occupied, excluding those constructed solely for lease. Payments are authorized by approved claims of owners for defects in new homes covered by the new home warranty.

New Jersey Federal-State Rural Rehabilitation Fund

Established under the authority of the State Treasurer from funds received from the federal government and previously accounted for by the Department of Agriculture. The moneys herein are made available for loans to farmers in New Jersey.

New Jersey Insurance Development Fund (17:37A-18)

The purpose is to account for receipts derived from a surcharge of all basic property insurance premiums paid for by policies of insurance written in this state, collected by the insurer, and remitted to the State. Payments from the Fund are used to reimburse any insurer or the New Jersey Insurance Underwriting Association for losses sustained. The reimbursement in any given calendar year shall not however, exceed 5 percent of the insurance premiums written on essential property insurance in the State in the most recent full calendar year.

New Jersey Spill Compensation Fund (58:10-23.11i)

The purpose is to account for receipts from taxes and penalties levied upon each owner or operator of a major facility of hazardous substances. The tax is measured by the number of barrels of hazardous substances of the first transfer to the major facility. Payments may be authorized for clean-up costs, removal costs, research, and payments of approved claims.

New Jersey State Area Redevelopment Fund (13:1B-15.21)

The purpose is to account for an amount appropriated and transferred from the General Fund and for amounts received from the Unclaimed Personal Property Trust Fund and repayable thereto in thirty years. The moneys are used for interest bearing loans to area development agencies or enterprises. The Governor submitted on February 23, 1978, a reorganization plan transferring the functions of the Area Redevelopment Authority to the New Jersey Economic Development Authority in, but not of, the Department of Labor and Industry.

Outstanding Checks Account (52:18-25.1)

The purpose is to account for amounts withdrawn from state demand bank accounts, over which the State Treasurer has custody and control, which represent outstanding and unpaid checks over one year old. These amounts are held until (a) the outstanding check is presented for payment, or (b) the check has been outstanding for a period of six years, in which case the amount is transferred over to the General Fund.

Real Estate Guaranty Fund (45:15-34)

The purpose is to account for moneys received from additional fees on annual licenses of real estate brokers and real estate salesmen. Claim payments, as certified by court orders, are made to persons aggrieved by the embezzlement, conversion, or unlawful obtaining of money or property by a licensed real estate broker or a real estate salesman, or an unlicensed employee of a real estate broker.

Rutgers Medical School—Restricted Fund (52:18A-90.1)

The purpose is to permit the Division of Investment to establish, maintain, and operate one or more common trust funds. Moneys in the above fund, formerly held and maintained by Rutgers University, were turned over to the State for investment management purposes and are returnable, together with the investment earnings to the University.

School Building Aid—Capital Reserve Fund (18:10-29.54)

The purpose is to maintain a building aid reserve fund for each school district having funds on deposit as of September, 1975. These deposits as of that date, together with amounts credited from investment earnings to each school district may be disbursed for: (1) principal and interest payments to holders of bonds issued by the school district after the effective date of the act, when such school district has certified to the Commissioner of Education and the Director of the Division of Local Government Services its inability to meet the payments thereof; (2) payments to the school district up to the balance of the credit of such school district, to the extent that such withdrawal is anticipated as revenue in the school district budget for the current year, or withdrawn for capital purposes authorized by ordinance or by vote of the electors of the school district.

School Fund (P.L. 1903, c. 1)

This fund was formerly known as "Fund for the Support of Free Schools." The constitution of 1844 provided that such fund for the support of free schools remain a perpetual fund (now Article VII, Section IV, Paragraph 2). The accounting for the moneys deposited and expended is recorded by the use of two funds, i.e., School Fund—Income Account, and School Fund—Investment Account.

The School Fund—Income Account is utilized for all items of income to the School Fund which may consist of rents received on leased riparian lands of the State, licenses, and fees related to such lands, and the income from earnings on investments. The income is appropriated by the annual appropriation acts for the support of free public schools. The income of the fund is then transferred to the General Fund in support of such appropriations.

The School Fund—Interest Account is utilized for the proceeds of the sale of riparian lands of the State which are held and reserved as a perpetual fund. Moneys reserved may be used to purchase bonds of a school district, issued for school purposes after December 4, 1958, from the bond holders or to pay to such bond holders the interest due thereon when such school district has certified to the Commissioner of Education and the Director of Local Government Services its inability to meet the payments.

Special Railroad Deposits Trust Fund (48:12-25)

The purpose is to account for moneys deposited with the State Treasurer by railroad companies prior to construction of railroad branch lines. Payments from these funds may be made in the form of returns of deposits upon proper certification to the State Treasurer of the completion of the branch line. Earnings on the investment of such deposits accrue to the credit of the General Fund.

State Disability Benefits Fund (43:21-46a)

The purpose is to account for deposits from contributions of workers and employers who are subject to the contributions section on taxable wages under the unemployment compensation law of the State; and from special assessments, fines, penalties, and investment earnings. Payments from the fund may be made to persons entitled to disability benefits and benefits not covered by the Workers Compensation Law, for authorized refunds of contributions and for administration expenses.

State Employees' Dental Care Deductions Fund, State Employees' Health Benefits Deductions Fund, State Employees' Miscellaneous Deductions Fund

Established to account for amounts authorized by State employees to be withheld bi-weekly from their salary for the Dental Care Program, the Health Benefits Program, and/or Miscellaneous Programs such as the United Fund, etc. Payments from each of the respective funds, as authorized, are made to various organizations such as Blue Cross/Blue Shield, various United Funds, unions, dentists, etc.

State Lottery Fund (5:9-21)

The purpose is to account for moneys from the sale of state lottery tickets or shares. Disbursements are authorized for the payment of prizes to holders of winning lottery tickets or shares and for the administrative expenses of the Division of State Lottery. The balance of funds are paid over to the General Fund in support of the amounts annually appropriated for State institutions and for education.

State of New Jersey Cash Management Fund (52:18-90.4)

The purpose is to create a common trust fund to consolidate moneys for investment. Money from various bond funds, trust funds, and agency funds are used to purchase units of value in the State of New Jersey Cash Management Fund. The law also permits participation in the fund by municipalities, counties, school districts, or other public body corporate and politic.

State of New Jersey—Tischler Memorial Fund

Established under the authority of the State Treasurer in accordance with the terms of a bequest to the State of New Jersey, the principal amount of which is to be invested in a prudent manner and the income from such investment to be used for library materials.

Transportation Fund (54:18A-20)

The purpose is to account for receipts of taxes from the Emergency Transportation Tax Act; such tax is on the income of New Jersey residents derived from sources within a "critical area state" other than New Jersey, and on the income of residents of another "critical area state" derived from sources within New Jersey. The critical area state has been determined by the Commissioner of Transportation to be New York. Each taxpayer subject to the Emergency Transportation Tax Act, is required to compute the tax due the State for both the Emergency Transportation Tax and the New Jersey Gross Income Tax, and to pay the greater tax due, which is deposited and credited herein. The amount applicable to the tax, as calculated for the New Jersey Gross Income Tax, is first allocated and transferred to the Property Tax Relief Fund and reported by the State under the revenues of the Gross Income Tax in the Property Tax Relief Fund of the General Treasury. The funds are to be used for the improvement of transportation and transportation facilities in the critical areas covered by the Act.

Unclaimed Bank Deposits Escheat Reserve Fund (17:9-25b)

The purpose is to account for money received from banks located within the State, representing unclaimed balances of depositors' deposits which after ten years are escheatable to the State. Seventy-five percent of the receipts are escheated to the General Fund of the State. The remaining 25 percent are retained in the fund. Earnings on the investment of the moneys of the fund inure to the credit of the Fund.

Payments from the Fund are authorized for (a) payment of the 75 percent that escheats to the General Fund of the State; (b) payments of claims submitted and approved of the principal amounts escheated; and (c) for the payment of expenses and costs incurred by the State Treasurer and the Attorney General for administrative purposes.

Unclaimed Domestic Life Insurance Escheat Reserve Fund (17:34-54)

The purpose is to account for any unclaimed moneys received from insurance companies authorized to write life insurance in the State, due and payable to any person entitled and which has remained unclaimed after a five-year period. Seventy-five percent of the receipts are escheated to the General Fund. The remaining 25 percent is retained for a period of another five years, at which time if still unclaimed also escheats to the General Fund.

Payments from the fund are authorized for transferring of those amounts escheatable to the General Fund and for the payment of any approved claim to or in behalf of any person entitled to receive the same. Earnings on any funds invested are also authorized to be transferred to the General Fund.

Unclaimed Personal Property Trust Fund (2A:37-41)

Amounts received by the State from holders of personal property, presumed abandoned, due and payable to owners of last known address but unclaimed for various past successive years, are received into this fund. Seventy-five percent of such amounts are escheated to the General Fund when received. The remaining 25 percent is retained in the fund for five years. Payments from the fund are authorized for loans by legislation as enacted by the Legislature and approved by the Governor. Payments of claims presented by the owner are made after approval by the State Treasurer. The balance of the 25 percent retained for the five-year period which have not been claimed by the owners are then escheatable to the General Fund. Amounts representing unclaimed pensions do not escheat to the State. Such amounts escheat back to the respective pension fund from where payable. Should any claim approved for payment exceed the balance of moneys available herein, the difference is payable out of unappropriated funds of the General Fund.

Unemployment Benefits Liability Fund (43:21-7.3f)

The purpose is to account for receipts of wage earners' contributions withheld on wages subject to the Unemployment Compensation Law, paid to persons employed by the State, and the receipt of amounts appropriated to the General Fund by the Legislature and transferred hereinto as the employer's share of contributions. Payments are made directly to the Unemployment Compensation Fund of the State as reimbursements to that fund for unemployment benefits paid to persons formally employed by the State and eligible to receive such benefits.

Unemployment Compensation Auxiliary Fund (43:21-14g)

The purpose is to account for amounts collected as penalties and interest assessed against employers who have failed to make payment of contributions required under the Unemployment Compensation Law to the State on a timely basis.

Payments from the fund are authorized for the refund of any interest and/or penalty credited hereto, determined to have been collected or remitted by mistake. The remaining amounts may be expended by legislative appropriations for the administrative costs of the Unemployment Compensation Law and for the costs of programs which generate employment, such as the Work Incentive Program (WIN), authorized training programs, economic development activities, business advocacy functions, etc.

Unemployment Compensation Fund (43:21-9a)

The purpose is to account for moneys deposited from employers' and employees' contributions who are subject to the State of New Jersey Unemployment Compensation; also, to account for amounts credited or advances made by the federal government and amounts received herein from any other source.

After giving consideration to any claim for refund of overpayment of contributions, the remainder is transferred by the Division of Employment Security to the Treasurer of the United States for the credit to the State of New Jersey Unemployment Compensation Fund and held by the Treasurer of the United States in the State of New Jersey Unemployment Trust Fund. Drawdowns against the State of New Jersey Unemployment Trust Fund are made by requests submitted to the Treasurer of the United States by the Division of Employment Security on an as-need basis, which amounts are transferred back to the Unemployment Compensation Fund and are then disbursed by the Division of Employment Security to persons entitled to receive unemployment benefits.

Any insufficiency in the Unemployment Compensation Fund to pay benefits is covered by federal statutes which authorize advances from the federal government for unemployment benefits to the State. Such advances are repayable by increased rates on federally taxable wages reported by New Jersey employers, or the advances may be repaid out of the fund assets at any time by the Governor.

Unsatisfied Claim and Judgment Fund (39:6-63)

The purpose is to account for receipts from insurance companies, as assessed by the Director of the Division of Motor Vehicles; recoveries on judgments entered against uninsured motorists, and amounts credited from earnings on investments.

Payments are authorized for amounts of approved claims to entitled persons resulting from bodily injury, death, and/or damage to property up to specified maximum amounts, exclusive of interest and costs. In addition, payments of no-fault benefits on hit and run and non-insured cases resulting in bodily injury caused by an accident involving a motor vehicle are likewise authorized. Payments are made for amounts of medical expense benefits which exceed the maximum allowable amount payable for medical expense coverage under the no-fault provision of the New Jersey Automobile Reparation Reform Act. Administrative expenses are also payable as are approved refunds of excess recoveries on judgments.

Veterans' Guaranteed Loan Fund (38:23B-5)

The purpose is to account for funds that guarantee bank loans to certain war veterans. Upon request by the lending bank, a loan to a veteran evidenced by non-payment of the loan thirty days after date of maturity or evidenced by unpaid installments more than three months in arrears, together with any unpaid accrued interest, may be purchased by the fund upon approval of the Veterans' Loan Authority. The Authority thereupon assumes the responsibility for the collection of the defaulted loan and any accrued interest thereon that has been purchased from the bank by the fund. Receipts are applied against the principal and/or interest of the defaulted loan, as are investment earnings. Payments from the fund are also authorized for all administrative expenses.

## THE DEPARTMENT OF THE TREASURY

The Treasurer of the State of New Jersey serves as an advisor in the Governor's cabinet and is the chief executive officer of the State Department of the Treasury. The Treasury Department is organized into nine divisions—certain of which have operating responsibilities related to the raising and disbursement of state revenues, and others which provide centralized administrative services to state government as a whole. The State Treasurer further serves as chief financial analyst for the State in his capacity as a voting member of numerous state boards and commissions.

The Director of the Division of Budget and Accounting, in addition to being the State's Budget Officer, is also the State Comptroller and as such is responsible for drawing all warrants on the Treasurer for salaries and for all other payments of money directed by law to be paid out of the Treasury.

### DIVISIONS OF THE DEPARTMENT OF THE TREASURY

- The Division of Budget and Accounting is responsible for the preparation and administration of the State's \$6.2 billion operating budget and its \$750 million capital budget, as well as the management and day-to-day implementation and control of all aspects of the State's accounting system. Program evaluations and continuous management improvement activities also form an integral part of these state fiscal functions.
- The Division of Building and Construction manages the planning, construction, and rehabilitation of all state facilities. Included within this function is the design supervision, technical planning, cost estimating, administration of construction and service contracts, field supervision, and other related activities. The value of design and construction activities supervised during fiscal year 1979 approximated \$400 million.
- The Division of Data Processing and Telecommunications evaluates all requests for data processing and telecommunications services and equipment in state government. This evaluation process includes feasibility studies, system analysis and design activities, consulting services, and general management and overview of all data processing and telecommunications systems in the State. It also includes the direct operation of the Centrex System and Scan Network. Approximately 500 studies and reviews were conducted during fiscal year 1979 representing an overview of data processing expenditures in excess of \$20 million.
- The Division of State Lottery manages and administers the activities of the weekly and daily lotteries. On a sales base of \$297 million in fiscal year 1979, \$122 million was distributed in the form of aid to education and state institutions. The value of prizes awarded was in excess of \$148 million or 50 percent of all revenues from this source.
- The Division of Investments is responsible for the prudent investment of 73 separate state funds which have a current book value of approximately \$6.7 billion. In excess of 12,000 transactions were effected last year which will yield an estimated earnings of about \$421 million. These investment management activities are extended to all state agencies with investment accounts.
- The Division of Pensions manages the various state and public employees benefit programs. Functions include the determination of eligibility, certification of membership and rates, accounting for individual and system contributor records, administration of loans, and others. Program membership currently numbers approximately 340,000 persons, with annual pension payments in excess of \$300 million annually.

• The Division of Purchase and Property provides various centralized services for state government. The Purchase Bureau administers the centralized state purchase system through which supplies, services, and equipment valued at \$240 million is procured. In addition, purchasing standards and specifications are developed, a distribution center to facilitate bulk purchases is maintained, product testing and inspections are carried on, and other purchasing services provided.

Other Bureaus in the Division provide building maintenance for 22 State-owned buildings, the securing of all office, warehouse, and other state space requirements, the purchase of all insurance, and the management and administration of the Central Motor Pool.

• The Division of Taxation administers all the tax laws of the State, audits tax returns and taxpaying entities, performs office and field audits, prepares tax refunds, investigates tax matters having civil or criminal potential, and provides other tax-related services. In fiscal year 1979 over 125,000 tax investigations were conducted; 400,000 tax service cases were administered; better than 100,000 audits were completed; 2.7 million refunds were processed; and over \$4 billion in tax revenue were collected.

• The Division of Administration provides fiscal, personnel, and other services related to the overall management of the Department. Internal Treasury policy and procedures, fiscal impact of pending legislation, statewide reporting of interdepartmental accounts, and operation of the Capitol Post Office are representative of some of the Division's functions.

## 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 Fund, the Property Tax Relief Fund, the Gubernatorial Election Fund, and the Casino Funds are principally divided into three major categories; namely, (1) Anticipated or Budgeted Revenues, including the Income Tax and Casino Taxes; (2) State Revenues Dedicated and Appropriated (Not Budgeted); and (3) Federal Aid Appropriated (Not Budgeted). Total revenues from all sources for Fiscal Year 1979 amounted to \$5,912 million, an increase of \$547 million or 10 percent.

### ANTICIPATED (BUDGETED) REVENUE

These revenues support what is normally referred to as the Governor's Budget. For fiscal year 1979, these revenues totaled \$4,316 million. This compares to \$3,920 million reported in 1978, and shows an increase of \$396 million, or 10 percent. \$90 million (a 12 percent increase) of the increase relates to proceeds from the Income Tax, which was instituted July 8, 1976, and which is dedicated by constitutional amendment for property tax relief; and \$95 million (a 9.4 percent increase) relates to proceeds from the Sales Tax.

Over 78 percent of the revenue was supplied from the Income Tax, the Sales Tax, Motor Vehicle and Fuel Taxes, the Cigarette Tax, Corporation Taxes, and the Inheritance Tax. Exhibit III shows comparative statistics between 1978 and 1979 of Realized Budgeted Revenues.

MAJOR REVENUES within the General Fund are composed of taxes which are generated from the sale and use of goods and services; general business taxes, which are received from various corporations; a public utility excise tax; and other excise taxes. These taxes increased by \$170 million over 1978 totals of \$2,623 million—an increase of 6.5 percent. Some of the major revenues are explained below.

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

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

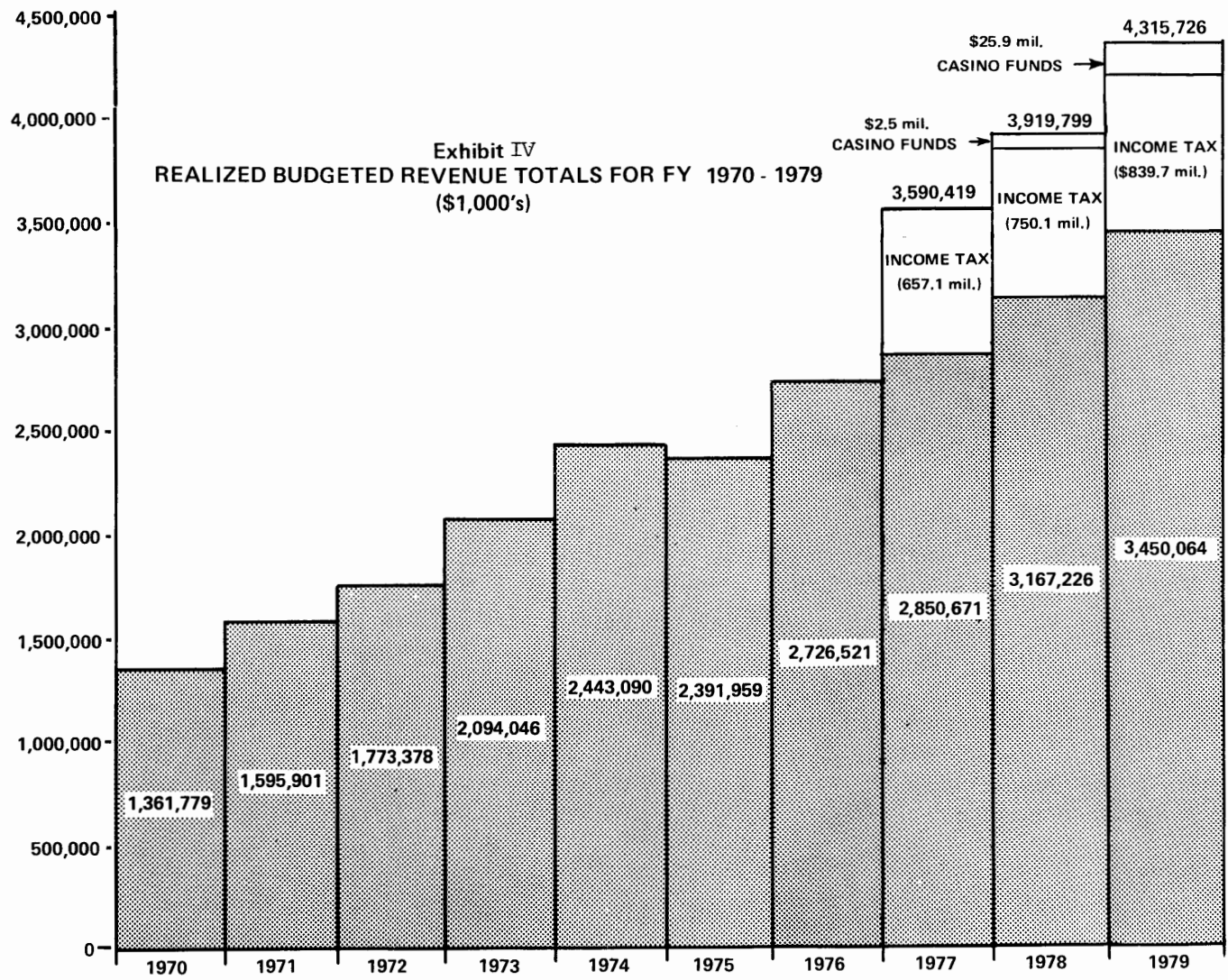
Alcoholic Beverage Tax is levied upon the first sale or delivery of alcoholic beverages to retailers in New Jersey. The rate is applied to the number of gallons sold. The tax on liquor is \$2.80 per gallon, \$.30 per gallon on wine, and \$.03-1/3 on beer.

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

EXHIBIT III  
COMPARISON OF BUDGETED REVENUE  
(in thousands of dollars)

	Realized To <u>June 30, 1979</u>	Increase (Decrease)	Realized To <u>June 30, 1978</u>
<u>General Fund</u>			
MAJOR TAXES:			
Sales	\$1,097,686	\$ 94,652	\$1,003,034
Motor Fuels	297,839	2,092	295,747
Corporation	618,751	31,790	586,961
Cigarette	169,870	( 218)	170,088
Transfer Inheritance	100,436	4,121	96,315
Alcoholic Beverage	54,463	( 488)	54,951
Public Utilities-Surtax	59,196	3,881	55,315
Motor Vehicle Fees	250,764	17,226	233,538
Pari-Mutuel	18,515	( 3,074)	21,589
Business Personal Property	78,677	( 2,499)	81,176
Other Major Taxes	<u>46,901</u>	<u>22,580</u>	<u>24,321</u>
Total Major Taxes	<u>2,793,098</u>	<u>170,063</u>	<u>2,623,035</u>
MISCELLANEOUS TAXES AND LICENSES AND OTHER REVENUE:			
Antirecession Fiscal Assistance	17,748	(13,508)	31,256
Interest on Investments and Deposits	14,049	( 7,129)	21,178
Institutional Fees and Reimbursements	114,074	6,868	107,206
Other Licenses and Fees	<u>246,814</u>	<u>88,346</u>	<u>158,468</u>
Total Miscellaneous Taxes and Licenses	<u>392,685</u>	<u>74,577</u>	<u>318,108</u>
INTERFUND TRANSFERS:			
State Lottery Fund	122,043	26,002	96,041
General Revenue Sharing Fund	74,838	3,531	71,307
All Other	<u>67,400</u>	<u>8,665</u>	<u>58,735</u>
Total Interfund Transfers	<u>264,281</u>	<u>38,198</u>	<u>226,083</u>
Sub-Total - General Fund	<u>3,450,064</u>	<u>282,838</u>	<u>3,167,226</u>
Property Tax Relief Fund			
Gross Income Tax	838,498	89,595	748,903
Gubernatorial General Elections Fund	1,229	63	1,166
Casino Control Fund	7,663	6,672	991
Casino Revenue Fund	<u>18,272</u>	<u>16,759</u>	<u>1,513</u>
Total Anticipated Revenue-All Funds	<u>\$4,315,726</u>	<u>\$395,927</u>	<u>\$ 3,919,799</u>

\* Includes three sources of Federal funds--General Revenue Sharing (\$74.8 million in 1979); Antirecession Fiscal Assistance (\$17.7 million in 1979); and Indirect Cost Recovery (\$8.4 million in 1979). All other Federal revenue is treated as appropriated revenue.



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 rate is 7½ percent of net income. In addition, a net worth tax is levied on business at various rates ranging from 2/10 of a mill to 2 mills per dollar.

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

Pari-Mutuel Taxes are levied upon the system of pari-mutuel betting in thoroughbred and harness meetings. The revenues shown in the Exhibit III reflect taxes from Atlantic City, Monmouth, and Freehold. Revenues received from the Meadowlands Racetrack accrue to the Sports and Exposition Authority.

MISCELLANEOUS TAXES, LICENSES, AND OTHER DEPARTMENTAL REVENUE include revenues received by the various state agencies, such as tuition from students at the state colleges, recreation and boating fees, institutional and patient fees, investment earnings, and the like. For the year 1979 these revenues increased from \$318 million to \$393 million—an increase of 24 percent. The largest single increase was \$19 million in surplus funds from the Sports and Exposition Authority, including a one-time payment of \$7.5 million resulting from the refinancing of the Sports Complex in December, 1979. Federal anti-recession funds decreased by \$13.5 million in fiscal year 1979, as this program was phased out in fiscal year 1979.

INTERFUND TRANSFERS include monies which were received by various Bond & Trust Funds, and transferred into the General Fund as anticipated revenue. Included in these types of revenue are the monies received by the State Lottery, monies received under the Federal General Revenue Sharing Program, and the monies received from taxes levied on New York residents working in New Jersey. The latter tax is commonly referred to as "Commuter Tax." These revenues increased by \$38 million with the largest increase being \$26 million from the Lottery.

THE INCOME TAX-PROPERTY TAX RELIEF FUND. All proceeds from the Gross Income Tax are deposited in a separate account known as the Property Tax Relief Fund. All monies in the fund must be appropriated exclusively for reducing or offsetting property taxes. The tax is calculated at 2 percent on the first \$20,000 of taxable income and 2.5 percent on amounts in excess of \$20,000. For fiscal year 1979 this tax yielded \$838 million for property tax relief—an increase of \$89.5 million.

CASINO REVENUE-CASINO CONTROL FUND/CASINO REVENUE FUND. The Casino Control Act of 1977 established two separate funds. Annual fees for the issuance or renewal of casino licenses are deposited into the Casino Control Fund as are other revenue such as application fees for various licenses. Monies in this fund are used to finance the operations of the Casino Control Commission and the Division of Gaming Enforcement. Taxes in the amount of 8 percent on gross revenue for fiscal year 1979 from gaming operations were deposited into the Casino Revenue Fund. Monies in this fund must be used for reductions in property taxes, utility charges, and other expenses of eligible senior citizens and disabled persons. For fiscal year 1979 casino revenue in both funds amounted to \$26 million, an increase of \$23 million over 1978. On September 8, 1979 (fiscal year 1980), the Governor signed a law which will temporarily raise the taxes on casino revenue from 8 percent to 12 percent.

EXHIBIT V

COMPARISON OF TOTAL FUND REVENUES

(in thousands of dollars)

	Realized To <u>June 30, 1979</u>	Increase (Decrease)	Realized To <u>June 30, 1978</u>
ANTICIPATED (BUDGETED) REVENUE:*			
General Fund-Major Taxes	\$2,793,098	\$170,063	\$2,623,035
General Fund-Miscellaneous Taxes	392,685	74,577	318,108
General Fund-Interfund Transfers	264,281	38,198	226,083
Property Tax Relief Fund-Income Tax	838,498	89,595	748,903
Gubernatorial General Elections Fund	1,229	63	1,166
Casino Control Fund	7,663	6,672	991
Casino Revenue Fund	<u>18,272</u>	<u>16,759</u>	<u>1,513</u>
Total Anticipated Revenue	<u>4,315,726</u>	<u>395,927</u>	<u>\$3,919,799</u>
APPROPRIATED REVENUE-STATE:			
State Police-Patrol Activities	7,034	1,057	5,977
All Other	<u>24,706</u>	<u>(3,535)</u>	<u>28,241</u>
Sub-Total	<u>31,740</u>	<u>(2,478)</u>	<u>34,218</u>
APPROPRIATED REVENUE-FEDERAL:			
Transportation Highway and Mass Transit	134,696	36,477	98,219
Medical Assistance	294,730	8,297	286,433
Dependent Children Assistance	268,607	9,443	259,164
Social Services (Title XX, etc.)	114,088	25,742	88,346
Elementary and Secondary Education	94,886	16,928	77,958
Child Nutrition	95,916	33,944	61,972
All Other	<u>393,287</u>	<u>27,131</u>	<u>366,156</u>
Sub-Total	<u>1,396,210</u>	<u>157,962</u>	<u>1,238,248</u>
APPROPRIATED REVENUE-OTHER:			
Miscellaneous Corporation Tax-Banks	14,196	( 275)	14,471
Special Compensation Fund	11,606	1,809	9,797
Child Care Costs	9,513	( 892)	10,405
College Programs	11,506	(2,024)	13,530
Revolving Funds	61,511	( 766)	62,277
All Other	<u>60,938</u>	<u>(1,672)</u>	<u>62,610</u>
Sub-Total	<u>169,270</u>	<u>(3,820)</u>	<u>173,090</u>
Total Appropriated Revenue	<u>1,597,220</u>	<u>151,664</u>	<u>1,445,556</u>
Total Revenues	<u>\$5,912,946</u>	<u>\$547,591</u>	<u>\$5,365,355</u>

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

## REVENUES APPROPRIATED—STATE, OTHER

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

Some of the kinds of revenues received by state agencies for specific purposes include: Second Injury Workmen's Compensation Insurance Tax, certain Corporation taxes from banks (which are disbursed to local governments), revenue from sale of water at state reservoirs, and auxiliary services and extension and public service income at the state colleges. Revenues received by the various Revolving Funds are also included in this category. Revenue in this category amounted to \$201 million in fiscal year 1979.

## REVENUES APPROPRIATED—FEDERAL

Most of the federal funds received by the State in fiscal year 1979 are classified under this category (See Exhibit V). Expenditures in respect to appropriated (not budgeted) federal revenues are made only after receipt of an approved federal grant award. During 1979, Federal Aid Not Budgeted amounted to \$1,396 million, an increase of \$158 million over 1978 levels. Of the amount received, over 71 percent represents Federal Aid in six major programs; namely, Medical Assistance (Medicaid), \$295 million; Dependent Children Assistance, \$269 million; Elementary and Secondary Education Aid, \$95 million; Transportation Aid, \$135 million; Child Nutrition, \$96 million; and Social Services such as Title XX, \$114 million.

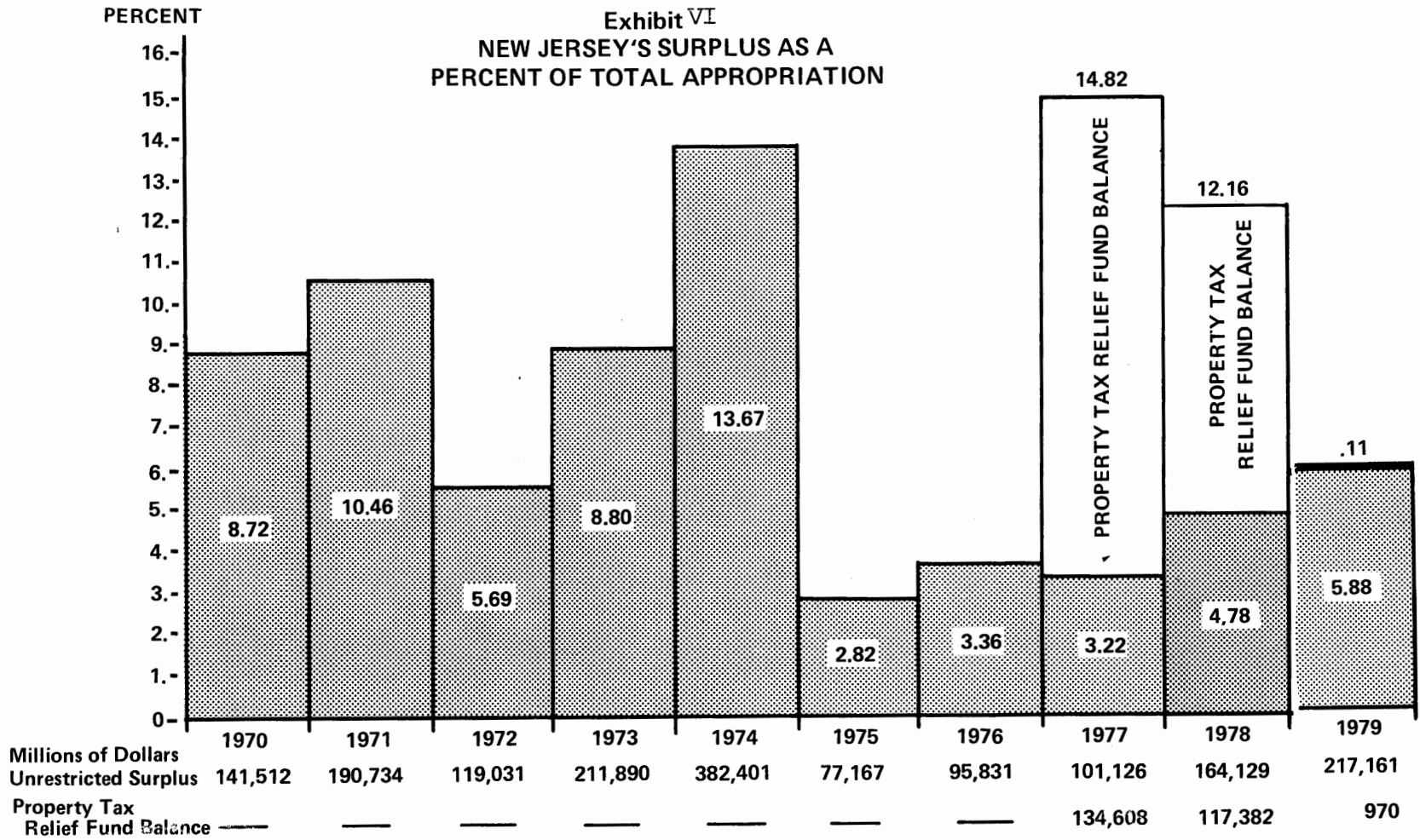
## SURPLUS

In addition to the revenue collected in any fiscal year, the State also has available for appropriation any unrestricted surplus. Surplus is the unexpended balance remaining in a fund at the close of a fiscal year. Surplus is generated principally by the realization of revenue in excess of that anticipated, or by expending less than what was budgeted.

The unrestricted surplus in the General Fund as of June 30, 1979, was \$217 million, compared to \$164 million on June 30, 1978. Surplus at the end of June 30, 1979, in the Property Tax Relief Fund (Income Tax) was \$1 million, compared to \$117 million on June 30, 1978. The \$117 million balance in the Property Tax Relief Fund at the end of fiscal year 1978 was due in part to legislation which permitted payments of the Homestead Rebate on an annual basis rather than semi-annually. The effect of this legislation was to defer approximately \$137 million of Homestead Rebates from fiscal year 1978 into fiscal year 1979, and thus obtain a one-time savings in expenditure and increase the fund balance.

Exhibit VI shows a ten-year trend of surplus and compares the year-end unresetricted surplus to the appropriation for the following year. In addition, the Exhibit reflects the balance in the Property Tax Relief Fund and compares its balance to the appropriation for the following year.

**Exhibit VI  
NEW JERSEY'S SURPLUS AS A  
PERCENT OF TOTAL APPROPRIATION**



## WHERE THE MONEY IS SPENT

Budgeted Expenditures, that is, the number commonly associated with the "State Budget," and supported principally from state revenue sources, for 1979 were \$4,574 million. Of this amount \$956 million was expended from the Property Tax Relief Fund. Budgeted Expenditures, exclusive of the Property Tax Relief Fund and the Casino Funds, increased by \$292 million or 8.8 percent—a decrease of 2 percent from the prior year.

The State also expends federal aid and other dedicated revenue sources. These non-budgeted sources, known as appropriated expenditures, amounted to \$1,528 million in fiscal year 1979, an increase of \$116 million. Thus, total expenditures from all funds, including appropriated sources, amounted to \$6,102 million in 1979, as compared to \$5,440 million in 1978.

Exhibit VII shows expenditures by Department, divided into six categories, including federal funds and appropriated funds. A summary of the four major expenditures supported by state tax revenues follows:

### STATE AID TO LOCAL GOVERNMENTS

State Aid to Local Governments was the largest expenditure of the State Budget. In fiscal year 1979, over 52 percent of the State's expenditures consisted of funds which were distributed to homeowners, municipalities, counties, and school districts. The total dollars expended was \$2,385 million—an increase of \$296 million or 14 percent.

The largest state aid expenditure, \$1,374 million, was provided for local elementary and secondary education programs. Of this amount, \$732.5 million was provided as Equalization Aid to each school district by formula based upon the number of students and the ability of the school district to raise taxes from its own base. In addition, the State provided \$63.3 million for special education programs for mentally retarded, visually handicapped, and other children with special needs. A compensatory education program (\$69 million) was also funded for those children needing to improve basic skills such as mathematics, english, etc. The State also expended \$268.8 million on behalf of local governments as the employer share of the teachers' pension and benefits programs, and \$90.8 million to pay 100 percent of all approved pupil transportation costs. Additional state aid provided for a portion of the cost of building construction, school lunches, vocational education, adult and continuing education, and local library aid. The State supported 40.3 percent of the total school district expenditures in the State during 1979.

Expenditures by the Treasury Department totaled \$530 million in state aid monies for fiscal year 1979. The principal programs funded were homestead rebates to homeowners to provide property tax relief (\$273 million); the cost of senior citizens' and veterans' property tax deductions (\$52.3 million); Revenue Sharing to municipalities to reduce property taxes (\$50 million); replacement revenues for taxes previously paid by railroads (\$5.7 million); taxes previously paid on business personal property (\$142.8 million); and in lieu of tax payments (\$11.0 million).

Other expenditures of state aid in fiscal year 1979 included welfare programs (\$234 million); aid to county colleges (\$50 million); municipal aid to 31 urban communities to maintain and upgrade municipal services (\$39 million); youth and family social services (\$25 million); aid to county mental hospitals and community mental health facilities (\$24 million); local transportation aid (\$49 million); and an Emergency Program of Local Assistance to offset the loss of Federal Anti-Recession funds (\$9 million).

COMPARATIVE EXPENDITURES BY DEPARTMENT  
(in millions of dollars)

	Direct State Services		State Aid		Capital Construction		Debt Services		Federal		Other*		Total	
	1979	1978	1979	1978	1979	1978	1979	1978	1979	1978	1979	1978	1979	1978
Legislative	\$ 11.9	\$ 11.5	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ .1	\$ .2	\$ -	\$ -	\$ 12.0	\$ 11.7
Chief Executive Office	1.5	.9	-	-	-	-	-	-	.2	.1	-	-	1.7	1.0
Law and Public Safety	113.3	105.0	.5	.7	1.5	(.1)	-	-	22.9	23.0	9.2	7.8	147.4	136.4
Treasury	56.5	53.2	165.7	126.7	.2	.5	-	-	.1	-	52.2	56.9	274.7	237.3
State	3.9	3.1	-	-	-	-	-	-	.4	.4	-	-	4.3	3.5
Civil Service	8.2	7.5	-	-	.2	-	-	-	.7	.7	.2	.2	9.3	8.4
Banking	3.4	3.1	-	-	-	-	-	-	-	-	-	-	3.4	3.1
Insurance	4.0	3.6	-	-	-	-	-	-	-	-	-	-	4.0	3.6
Agriculture	4.5	4.3	-	-	-	-	-	-	.7	.3	6.4	5.2	11.7	9.8
Defense	5.5	5.4	-	-	.8	.6	-	-	.4	.5	.3	.1	7.0	6.6
Energy	9.1	9.2	-	-	.1	-	.6	.6	2.4	1.1	2.6	1.1	14.8	12.0
Health	22.3	20.5	12.6	12.3	-	.8	.2	.2	44.1	38.9	1.7	2.0	80.9	74.7
Labor & Industry	27.5	23.1	-	-	-	-	-	-	125.6	125.1	14.5	19.2	167.6	167.4
Environmental Protection	35.0	33.2	2.2	5.8	.8	1.1	46.2	38.3	17.6	16.5	6.1	5.9	107.9	100.8
Education	24.2	20.5	789.5	753.4	.5	.1	3.5	3.6	222.5	183.4	4.7	4.7	1,044.9	965.7
Higher Education	373.7	351.1	50.3	51.4	6.8	6.8	41.0	35.9	24.3	23.7	20.0	18.2	516.1	487.1
Transportation	152.8	142.6	49.5	39.1	176.7**	167.0**	53.0	49.5	121.5	62.1	7.9	7.4	561.4	467.7
Human Services	582.5	524.0	282.3	280.2	4.3	1.9	10.8	10.4	735.7	679.6	24.2	20.3	1,639.8	1,516.4
Community Affairs	9.3	12.1	71.5	58.7	.5	-	2.4	1.8	21.5	28.7	2.9	4.1	108.1	105.4
Public Advocate	16.6	15.8	-	-	-	-	-	-	1.2	.9	1.6	1.3	19.4	18.0
Corrections	79.3	71.5	-	-	-	1.5	4.3	4.0	4.4	5.3	8.1	8.2	96.1	90.5
Executive Commissions	3.3	3.4	-	-	-	-	-	-	-	-	-	-	3.3	3.4
Interdepartmental Accounts	245.4	208.2	-	-	-	-	-	-	-	-	11.7	1.9	257.1	210.1
Judiciary	25.0	19.3	1.2	1.6	-	-	-	-	7.5	7.4	-	-	33.7	23.3
Sub-Total	\$1,818.7	\$1,652.1	\$1,425.3	\$1,329.9	\$192.5	\$180.2	\$162.0	\$144.3	\$1,353.8	\$1,197.9	\$174.3	\$164.5	\$5,126.6	\$4,668.9
Property Tax Relief Fund														
Treasury	\$ 6.8	\$ 7.0	\$ 364.3	\$ 258.7	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 371.1	\$ 265.7
Education	-	-	584.7	500.7	-	-	-	-	-	-	-	-	584.7	500.7
Sub-Total	\$ 6.8	\$ 7.0	\$ 949.0	\$ 759.4	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 955.8	\$ 766.4
Casino Control Fund														
Law and Public Safety	\$ 6.4	\$ 3.2	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 6.4	\$ 3.2
Treasury	2.1	1.0	-	-	-	-	-	-	-	-	-	-	2.1	1.0
Sub-Total	\$ 8.5	\$ 4.2	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 8.5	\$ 4.2
Casino Revenue Fund														
Community Affairs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Treasury	-	-	11.0	-	-	-	-	-	-	-	-	-	11.0	-
Sub-Total	\$ -	\$ -	\$ 11.0	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 11.0	\$ -
Grand Total	\$1,834.0	\$1,663.3	\$2,385.3	\$2,089.3	\$192.5	\$180.2	\$162.0	\$144.3	\$1,353.8	\$1,197.9	\$174.3	\$164.5	\$6,101.9	\$5,439.5

\* Includes revolving funds and General Fund non-federal appropriated expenditures.

\*\* Includes Federal funds which are matched by State funds for highway construction.

## DIRECT STATE SERVICES

The second largest portion of expenditures in fiscal year 1979 was applied to Direct State Services programs, under the direct responsibility of the State government's nineteen departments, the Executive Office, several commissions, the Legislature, and the Judiciary. In fiscal year 1979, expenditures for Direct State Services aggregated \$1,834 million and represented approximately 40 percent of expenditures. Some of the major expenditures for Direct State Services during fiscal year 1979 are described as follows.

A total of \$582 million was expended for programs administered by the Department of Human Services. Of that amount, \$302 million was expended as the State's share of Medicaid, which provides hospital, nursing home, medical, and pharmacist services for those people eligible for a variety of welfare programs. Further expenditures were made to provide support for day care centers, homemaker services, child abuse prevention, juvenile reform programs, and mental health and mental retardation programs, including the operation of seven psychiatric institutions and seven schools for the retarded.

A total of \$374 million was expended by the Department of Higher Education for the support of the state colleges, Rutgers University, the New Jersey Institute of Technology, and the College of Medicine and Dentistry.

A total of \$193 million was expended by the Departments of Law and Public Safety, and Corrections. Among the programs supported by this expenditure were the administration of the State's fourteen correctional facilities and parole activities; the registration and regulation of motor vehicles and licensed drivers; and the investigative and enforcement activities of the State Police.

A total of \$153 million was expended by the Department of Transportation for the various programs it administers, such as the maintenance and improvement of the State's highway systems of 10,087 land miles, and operating subsidies for railroads and bus companies.

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

## DEBT SERVICE

The primary method of state financing of capital projects is through the sale of general obligation bonds of the State of New Jersey. These bonds are backed by the full faith and credit of the State. State tax revenues are pledged to meet the principal and interest payments required to fully pay the debt. When the State sells bonds, it commits itself to repay the borrowed amount in full and with interest. Debt Service refers to these annual principal and interest payments. The total of principal and interest paid in fiscal year 1979 was \$162 million, as compared to \$144 million in fiscal year 1978. Debt Service represents 4 percent of the total State Budget.

Exhibit VIII shows the schedule for repayment of principal and interest on outstanding state debt as of June 30, 1979. The total repayment of \$2,647 million consists of \$1,713 million in principal and \$934 million in interest. These monies are raised by future annual appropriations.

EXHIBIT VIII

STATE OF NEW JERSEY  
DEBT SERVICE SCHEDULE  
(in thousands of dollars)

<u>Fiscal Year</u>	<u>Interest</u>	<u>Principal</u>	<u>Total Interest and Principal</u>
1980	\$ 87,278	\$ 77,195	\$ 164,473
1981	83,239	85,210	168,449
1982	78,865	87,875	166,740
1983	74,342	87,590	161,932
1984	69,792	87,895	157,687
1985	65,186	89,250	154,436
1986	60,516	90,755	151,271
1987	56,094	89,010	145,104
1988	51,496	89,915	141,411
1989	46,924	88,370	135,294
1990	42,340	84,630	126,970
1991	38,067	79,455	117,522
1992	33,889	74,875	108,764
1993	29,987	75,375	105,362
1994	25,886	78,175	104,061
1995	21,846	77,850	99,696
1996	18,037	64,800	82,837
1997	14,619	64,800	79,419
1998	11,502	49,800	61,302
1999	8,985	45,800	54,785
2000	6,598	44,250	50,848
2001	4,393	43,250	47,643
2002	2,543	30,300	32,843
2003	1,060	21,800	22,860
2004	252	4,500	4,752
Total	<u>\$933,736</u>	<u>\$ 1,712,725</u>	<u>\$ 2,646,461</u>

## CAPITAL CONSTRUCTION

In 1979, \$192.5 million, or 4 percent of the State Budget, was expended for Capital Construction, as compared to \$180 million in 1978. Monies expended for Capital Construction represent the State's effort on a pay-as-you-go basis as contrasted to issuing bonds.

The largest pay-as-you-go capital expenditure was in the area of highway construction (\$177 million). These monies include federal funds which were matched by State funds 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 and colleges.

Capital expenditures are subject to the review and recommendation of the New Jersey Commission on Capital Budgeting and Planning. This permanent Commission was established in November, 1975, and is charged with the preparation of the State Capital Improvement Plan, which contains proposals for state spending for capital projects. The Capital Improvement Plan must be submitted to the Governor and the Legislature by December 1 of each year. The recommendations for expenditure from both the General Fund and bond fund accounts made by the Commission to the Governor and the Legislature were fully recognized in both the 1978 and 1979 State Budgets.

## STATE DEBT

### OVERVIEW

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

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

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

There are four types of public purpose capital financings through borrowing which are done by the State of New Jersey or through which the State supports through annual appropriations: (1) full faith and credit or direct debt; (2) authority financing; (3) lease agreements; and (4) state-aid for local educational financings. Because of their special characteristics and the difference in the extent to which the state government is liable for the related debt service, each type of debt is discussed separately. Authorities are discussed in the following chapter; the other three instruments are discussed in this chapter.

### FULL FAITH AND CREDIT DEBT

The State Constitution provides that the Legislature may not create a debt (where total outstanding debt would exceed one percent of total appropriations for the year) unless a referendum is approved by a majority of the legally qualified voters. The debt must be authorized by law for a single object or work distinctly specified. The authorizing law also provides the ways and means, exclusive of loans, to pay the interest on the debt, and also to pay the principal within thirty-five years from the time it is contracted.

The individual bond acts also provide that the payment of principal and interest be made from revenue derived from one or more specific source; namely, the Motor Fuels Tax, the Emergency Transportation Taxes, the Alcoholic Beverage Tax, the Inheritance Tax, the Cigarette Tax, Corporation Business Taxes, the Sales Tax, and water supply facility revenues. In effect, the payment of principal and interest on state debt has first lien on these revenue sources.

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

-30-  
EXHIBIT IX

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

	ACT OF	TYPE	AUTHORIZED	UNISSUED	RETIRED	6/30/79 OUTSTANDING	6/30/78 OUTSTANDING
Beaches and Harbors .....	1977	Serial (to 2003)	\$ 30,000	\$ 25,000	-	\$ 5,000	-
Clean Waters .....	1976	Serial (to 2003)	120,000	44,000	\$ 2,250	73,750	\$ 24,980
Emergency Flood Control.....	1978	Serial (to 2004)	25,000	15,000	-	10,000	-
Higher Education Construction .....	1971	Serial (to 2003)	155,000	-	16,400	138,600	145,200
Highway Improvement .....	1930	Serial (to 1990)	58,000	-	53,660	4,340	5,015
Institutional Construction .....	1978	Serial (to 2004)	100,000	80,000	-	20,000	-
Institutions Construction .....	1976	Serial (to 2004)	80,000	44,000	540	35,460	5,760
Medical Education Facilities .....	1977	Serial (to 2003)	120,000	-	-	120,000	120,000
New Jersey Institutions Construction....	1964	Serial (to 1989)	50,000	-	18,200	31,800	34,200
Public Building Construction .....	1968	Serial (to 2003)	337,500	-	64,800	272,700	286,600
State Facilities for Handicapped .....	1973	Serial (to 1991)	25,000	14,500	1,900	8,600	9,300
State Higher Education Construction ....	1964	Serial (to 1989)	40,100	-	13,800	26,300	28,900
State Housing Assistance .....	1968	Serial (to 1997)	12,500	-	3,200	9,300	9,900
State Institution Construction .....	1960	Serial (to 1992)	40,000	-	25,700	14,300	16,100
State Land Acquisition and Development..	1978	Serial (to 2003)	200,000	190,000	-	10,000	-
State Mortgage Assistance .....	1976	Serial (to 2003)	25,000	8,000	630	16,370	6,720
State Recreation and Conservation Land Acquisition and Development.....	1974	Serial (to 2004)	200,000	95,000	6,690	98,310	61,640
State Recreation and Conservation Land Acquisition .....	1961	Serial (to 1992)	60,000	-	37,400	22,600	25,200
State Recreation and Conservation Land Acquisition .....	1971	Serial (to 2002)	80,000	-	6,630	73,370	76,200
State Transportation .....	1968	Serial (to 2003)	640,000	23,000	100,760	516,240	514,950
Water Conservation .....	1969	Serial (to 2002)	271,000	50,000	31,815	189,185	199,440
Water Development .....	1958	Serial (to 1988)	45,850	-	29,350	16,500	19,000
TOTAL BONDED DEBT			<u>\$2,714,950</u>	<u>\$ 588,500</u>	<u>\$413,725</u>	<u>\$1,712,725</u>	<u>\$1,589,105</u>

\*Outstanding debt as of June 30, 1979. It does not reflect the approval by the voters at the General Election held on November 6, 1979 of \$475 million for improving the Transportation System of the State.

## OUTSTANDING BONDED DEBT

As shown in Exhibit IX the citizens of New Jersey have authorized \$2,715 million in bonded debt—all of which is guaranteed by the full faith and credit of the State. Of this total authorization, \$1,713 million is issued and outstanding, \$588.5 million remained unissued, and \$413.7 million has been retired as of June 30, 1979. During fiscal year 1979 the State sold \$100 million in bonds and retired \$76.3 million in debt.

In addition, the State guarantees payments on \$101,209,000 bonds of the New Jersey Highway Authority due 1979-88, and payments on \$299,550,000 bonds of the New Jersey Sports and Exposition Authority due 1980-2005. At the present time it is believed that the revenues of these authorities will be sufficient to provide for payment of debt service on their obligations without recourse to the State's guarantee.

The \$640.0 million State Transportation Bond Issue of 1968 represents the largest single voter approved authorization. At June 30, 1979, \$516.2 million of these bonds were outstanding and \$23 million remained unissued. The entire \$337.5 million Public Building Construction Issue of 1968 has been sold and \$272.7 million remains outstanding. Of the \$271.0 million Water Conservation Bonds approved in 1969, \$189.2 million is outstanding and \$50 million remains unissued. The largest single unissued bond authorization is the 1978 State Land Acquisition and Development Bond. Of the \$200 million authorized, \$190 million remains unissued.

Exhibit X shows the outstanding debt of the State at the close of the last ten fiscal years. A large portion of the increase reflects State support for local capital projects, as much of the outlay has been distributed in the form of state aid in such areas as community colleges, sewer and water construction, local parks and open spaces, housing construction, vocational schools, flood control, and shore protection.

### EXHIBIT X

#### OUTSTANDING DEBT OF THE STATE—TEN YEAR TREND

<u>As of June 30</u>	<u>Outstanding</u>	<u>As of June 30</u>	<u>Outstanding</u>
1979	\$1,712,725,000	1974	\$1,265,541,000
1978	1,589,221,000	1973	1,148,606,000
1977	1,533,336,000	1972	1,024,361,000
1976	1,360,436,000	1971	742,926,000
1975	1,354,751,000	1970	458,986,000

### 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, 1979, there were 114 long-term realty lease agreements with expirations ranging from over a period of three to twenty-three years. These lease obligations amounted to \$78 million and annual rental payments approximated \$9.5 million. Recent lease agreements, involving the Mercer County Improvement Authority, include financings for a tax processing building and a justice complex. There are described as follows.

On October 8, 1976, the State entered a lease agreement with the Mercer County Improvement Authority whereby the Authority agreed to acquire certain property, make improvements, and lease the property to the State for use as a State Tax Processing Building. On July 26, 1977, the Mercer County Improvement Authority issued \$2.5 million of its revenue bonds, payable from the rentals to be received from the State and secured also by a guarantee of the prompt payment of interest and principal by Mercer County. Under the lease agreement, the State has agreed to pay the Authority a rental equal to the debt service on the bonds while the bonds remain outstanding, plus payments due in lieu of real estate taxes. The bonds will mature 1979 through 1992, inclusive.

On January 1, 1978, the State entered a similar lease agreement with the Mercer County Improvement Authority for the construction and rental of a State Justice Complex to house the State Supreme Court, the Department of Law and Public Safety, and other State agencies. On February 22, 1978, and August 1, 1979, the Mercer County Improvement Authority issued \$50 million and \$60.2 million, respectively, of its revenue bonds, payable from the rentals to be received from the State. Under the lease agreement the State has agreed to pay the Authority a rental equal to the debt service on the bonds while the bonds remain outstanding, plus payments due in lieu of real estate taxes. The bonds will mature 1982 through 2018, inclusive.

### STATE-AID APPROPRIATIONS FOR SCHOOL FINANCINGS

Since 1968, the Legislature has passed three laws (P.L. 1968, c. 177; P.L. 1971, c. 10; and P.L. 1978, c. 74) which provide for state support for the construction of local school facilities. These laws provide for future appropriations for debt service on a maximum principal amount of \$280 million in bonded debt issued by local school districts. Individual projects are approved by the Department of Education based upon criteria established in the enabling legislation. The entitlements under c. 177 (\$90 m) and c. 10 (\$90 m) have been almost entirely utilized (\$179,409,000). The amount authorized under c. 74, amounting to \$100 million, is for renovation or replacement of deteriorated school buildings, as well as for the construction of vocational schools. Applications by school districts for the use of the \$100 million are presently being reviewed by the Department of Education. The amount expended in Fiscal Year 1979 for the support of bonds issued by school districts under these laws amounted to \$14.3 million.

Also, P.L. 1971, c. 12, provides that the State make payment on one-half the debt service on up to \$80 million in county college bonds. As of June 30, 1979, the State is paying one-half the debt service on a total of \$43.4 million in bonds issued by county colleges—such expenditures amounted to \$1.5 million in Fiscal Year 1979.

In both these instances the Legislature is not legally bound to make future appropriations, but has done so to date on all outstanding obligations issued under these laws.

### DESCRIPTION OF BOND FUNDS

Exhibit IX provides financial data on the status of the State's outstanding debt as of June 30, 1979. Exhibit XI is a description of each bond fund and the purpose for which funds may be expended. The data is organized by functional area, program, and then by date of authorization.

EXHIBIT XI

DESCRIPTION OF BOND FUNDS—BY FUNCTION

I. ENVIRONMENT

• State Land Acquisition and Development Fund (P.L. 1978, c. 118)

An amount of \$200,000,000 was authorized for state and local acquisition and development to continue efforts to conserve open space and provide recreation areas. Half of the amount is allocated to urban areas.

• State Recreation and Conservation Land Acquisition and Development Fund (P.L. 1974, c. 102)

An amount of \$200,000,000 was authorized to enable the State to acquire and develop lands and to provide for state grants to assist municipalities and counties and other units of local government to acquire and develop lands for recreation and conservation purposes.

• State Recreation and Conservation Land Acquisition Fund (P.L. 1971, c. 165)

An amount of \$80,000,000 was authorized to enable the State to acquire lands and to provide for state grants to assist municipalities and counties and other units of local government to acquire lands for recreation and conservation purposes.

• State Recreation and Conservation Land Acquisition Fund (P.L. 1961, c. 46)

An amount of \$60,000,000 was authorized to enable the State to acquire lands and to provide for state grants to assist municipalities and counties or other units of local government to acquire lands for conservation and recreation purposes.

• Clean Waters Fund (P.L. 1976, c. 92)

An amount of \$120,000,000 was authorized for the purposes of researching, planning, acquiring, developing, constructing, and maintaining water supply and waste water treatment facilities.

• Water Conservation Fund (P.L. 1969, c. 127)

An amount of \$271,000,000 was authorized for the purpose of researching, planning, acquiring, developing, constructing, and maintaining water supply and waste water treatment facilities for the preservation, sale, or exchange of water for potable, industrial, commercial, irrigational, recreational, and other public purposes.

• State Water Development Fund (P.L. 1958, c. 35)

An amount of \$45,850,000 was authorized for the purpose of researching, acquiring, constructing, and developing water supplies for potable, industrial, irrigational, and other purposes.

• Emergency Flood Control Fund (P.L. 1978, c. 78)

An amount of \$25,000,000 was authorized for the purposes of acquiring, developing, constructing, and maintaining flood control facilities and for the development of a comprehensive flood control master plan.

• Beaches and Harbor Fund (P.L. 1977, c. 208)

An amount of \$30,000,000 was authorized for purposes of researching, planning, acquiring, developing, constructing, and maintaining beaches and harbors.

II. EDUCATIONAL

Medical Education Facilities Fund (P.L. 1977, c. 235)

An amount of \$120,000,000 was authorized for the purpose of refinancing revenue bonds issued in 1974 by the New Jersey Health Care Facilities Financing Authority, so as to reduce interest costs for the construction of the teaching hospital at the College of Medicine and Dentistry of New Jersey, and such authorization also provided substantial savings (\$25 million) which are available for the construction of other medical facilities.

State Facilities for Handicapped Fund (P.L. 1973, c. 149)

An amount of \$25,000,000 was authorized for expansion and renovation of the Marie H. Katzenbach School for the Deaf and for the planning, acquisition, improvements, and construction of regional day-school facilities to educate children with severe handicaps.

Higher Education Buildings Construction Fund (P.L. 1971, c. 164)

An amount of \$155,000,000 was authorized for the purposes of acquisition, construction, reconstruction, development, improvement, and equipment for state institutions of higher education and for county colleges.

Higher Education Construction Fund (P.L. 1964, c. 142)

An amount of \$40,100,000 was authorized for construction, reconstruction, and equipment of facilities and for the purchase of land, if necessary, for Rutgers University, New Jersey Institute of Technology, and the state colleges.

III. INSTITUTIONAL

Institutional Construction Fund (P.L. 1978, c. 79)

An amount of \$100,000,000 was authorized to construct or rehabilitate facilities for the mentally retarded in concert with the federal program for Intermediate Care Facilities/Mentally Retarded (ICF/MR) and the construction or rehabilitation of mental health and correctional facilities. In addition, funds are also available for a library for the blind and handicapped and a forensic laboratory for the State Medical Examiner.

Institutions Construction Fund (P.L. 1976, c. 93)

An amount of \$80,000,000 was authorized to provide safe and humane facilities at institutions for the mentally ill, mentally retarded, and incarcerated through construction of new facilities or rehabilitation and improvement of existing facilities.

Public Buildings Construction Fund (P.L. 1968, c. 128)

An amount of \$337,500,000 was authorized for construction, reconstruction, development, extension, and equipping of public buildings for state institutions; higher education, including state and county colleges; vocational education, and for a state-wide television and radio network.

State 1964 Institutional Construction Fund (P.L. 1964, c. 144)

An amount of \$50,000,000 was authorized for construction of or renovations to state mental, charitable, hospital, relief, training, and correctional institutional buildings.

State 1960 Institution Construction Fund (P.L. 1960, c. 156)

An amount of \$40,000,000 was authorized to renovate and improve or construct facilities at various state institutions established for mental health, charitable, public health, training, or correctional purposes.

IV. HOUSING

Mortgage Assistance Fund (P.L. 1976, c. 94)

An amount of \$25,000,000 was authorized for mortgage assistance and to spur construction, rehabilitation, and maintenance of housing for senior citizens and families of low and moderate income, and to provide funds for second mortgages and for a Neighborhood Preservation Program.

Housing Assistance Fund (P.L. 1968, c. 127)

An amount of \$12,500,000 was authorized for the purposes of making interest rate subsidies on contracts and agreements with qualified mortgagors and mortgagees of housing developments to decrease rental and carrying charges to low and moderate income occupants of such housing. Also, to provide financial assistance to qualified housing developments constructed, financed, or rehabilitated under federal law and moderate income financing programs.

V. TRANSPORTATION

State Transportation Fund (P.L. 1968, c. 126)

An amount of \$640,000,000 was authorized for the purpose of improving the public transportation system for the State. Of the amount, \$200,000,000 was reserved for mass transportation facilities; the balance was reserved for the improvement of state highways.

State Highway and Grade Crossing Elimination Fund (P.L. 1930, c. 228)

An amount of \$58,000,000 was authorized for road and bridge construction, construction of roads at state institutions, and right-of-way acquisition.

## DEBT OF STATE PUBLIC AUTHORITIES AND AGENCIES

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

Historically, public authorities were established to finance, construct, and operate on a self-sustaining basis, revenue producing facilities of a public benefit, such as bridges and roads. Later, authorities were used to finance types of construction traditionally financed by the State itself, such as state university and health facilities. More recently, public authorities have served as financing vehicles to undertake services once provided by private enterprise, such as stadiums, housing, and capitalization for business development or expansion.

Generally, public authorities have not been defined either in the New Jersey Constitution or in statute. Instead each authority has been established to perform a specific set of functions and has been given specific, unique powers in the enabling legislation. The principal document of any revenue bond issued by an authority is the bond resolution. The trustee administers the funds of a project in accordance with this resolution or indenture. This resolution, for example, might require that a certain sum of money be maintained in a reserve fund. A term usually connected with the viability of a revenue bond is "coverage." Coverage indicates the margin of safety for payment of debt service, reflecting the relationship between earnings for a period and debt service payable in the period.

### STATE AUTHORITIES

There are twelve State authorities or agencies within New Jersey which have the legislative power to issue bonds. In addition, there are four regional or bi-State authorities which provide facilities for the use of New Jersey residents, but which do not operate solely within the boundaries of New Jersey. See Exhibit XII for a summary listing of State authorities.

A short description of the twelve authorities within New Jersey follows, only the Hackensack Meadowlands Commission has not issued debt.

#### South Jersey Port Corporation

The South Jersey Port Corporation, an entity of the State's Department of Labor and Industry, was created in 1970 by the South Jersey Port Corporation Act. The act conferred upon the Corporation the powers to establish, acquire, construct, rehabilitate, improve, operate, and maintain marine terminals in the South Jersey Port District, including Mercer, Burlington, Camden, Gloucester, Salem, Cumberland, and Cape May counties. To this end, the Corporation may issue tax-exempt revenue bonds subject to the provisions and restrictions of the Marine Terminal Revenue Bond Resolution adopted November 30, 1970, which dedicates funds to several commission funds.

The Corporation operated two marine terminals in the Camden area—the Becket Street Terminal, acquired from the now defunct New York Shipbuilding Corporation, and the Broadway Terminal for which the Corporation utilized a portion of the \$16 million of Marine Terminal Revenue Bonds in 1970—for the importing and exporting of goods and materials and cargo handling. Since 1970, gross revenues of the Port have increased from \$1.9 million to \$6.6 million in 1978. This figure should exceed \$7.0 million in 1980. There has been a commensurate increase in Port tonnage, with over one million tons being handled in each of the last six years. This activity has been translated into millions of dollars of economic benefit to the South Jersey area. While net revenues from this project were not sufficient to fully cover debt service in calendar years 1972-1977, the State provided the necessary funds by appropriations equal to the certified deficiencies in the Bond Reserve Fund. For calendar year 1978, the Port Corporation covered debt service requirements from operating revenues. The 1980 calendar year budget approved in September, 1979, anticipates debt service coverage of 1.97.

#### New Jersey Mortgage Finance Agency

The New Jersey Mortgage Finance Agency was created by the Legislature in 1970 as an independent public body to increase the availability of mortgage and home improvement lending to residents of the State. The Agency is specifically authorized to issue bonds and notes both to provide funds to private lenders for direct permanent mortgage loans and to create a secondary market for the purchase of residential mortgages and home improvement loans. Established to finance single family housing, all of the Agency's programs to date are directed toward the one to four unit homeowner-ship market.

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

A statewide home improvement loan program was initiated by the Agency in March, 1978 to provide such loans at a below-market interest rate to homeowners of modest income. Two bond issues totaling \$32 million have been sold to finance the purchase of these low interest loans from participating lending institutions. Approximately 5,000 households will be upgraded, enlarged, or made more energy efficient through these funds.

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

#### New Jersey Health Care Facilities Financing Authority

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

As of June 30, 1979, the Authority has issued bonds totaling over \$451 million, the proceeds of which were utilized for the construction, modernization, and/or new equipment as well as for the refinancing of existing debt of twenty-six hospitals and other health care facilities.

New Jersey Educational Facilities Authority

The New Jersey Educational Facilities Authority was established in 1966 to provide a means for New Jersey public and independent colleges and universities to construct additional facilities through the financial resources of a public authority empowered to sell tax-exempt notes and bonds. The Authority may finance only revenue producing facilities on public college campuses; it is not so restricted for the independent institutions and may finance academic buildings as well.

Since its inception, the Authority has provided financing for the construction of 32 projects for 17 colleges and universities in the State of New Jersey. The projects include academic buildings, student centers, dormitories, student apartments, parking facilities, cafeterias, and athletic/recreation centers.

The Authority has issued bond anticipation notes (temporary financing) in the amount of \$285,457,000 and bonds in the amount of \$139,239,000. As of June 30, 1979, the Authority had one note obligation outstanding in the amount of \$1,265,000, and it had bonds payable at \$111,665,000.

New Jersey Economic Development Authority

The New Jersey Economic Development Authority, created in 1974 as a public body corporate and politic, is designed to provide long-term, low-interest financing to private firms and companies for the purpose of maintaining and expanding employment opportunities in the State of New Jersey. To accomplish its objectives, the Authority has developed the following programs:

- Tax-exempt industrial development bonding, which provides low-interest financing for companies seeking to expand in or relocate to New Jersey. In 1979, the Authority will have arranged financing for more than 320 projects, totaling over \$375 million in low-interest financing, which will spark over one-half billion dollars of industrial and commercial investments in the State's economy.

- Direct loan and loan guarantees, which are provided to private companies for purposes of fixed asset or working capital expansion. In 1979, the Authority will have closed approximately 27 direct loans and loan guarantees for a total Authority exposure of \$8,336,000, which will result in private investments of more than \$48,165,000.

- Urban Industrial Park Program, in which the Authority acts as purchaser and developer of urban renewal land located in certain urban aid municipalities. In 1979, the Authority moved ahead with development of two parcels of land located in Jersey City, purchased in 1978; and Elizabeth, purchased in 1979. The Authority's development of the properties was completed in 1979 and a number of contracts were signed for sale of individual parcels to industrial users. Ultimately, the Authority's total investment of approximately \$4,000,000 in these two parcels is expected to create at least 1,000 jobs at these industrial sites. The Authority is currently working with other cities in order to proceed with similar industrial park developments.

- Trade Adjustment Assistance Center—In 1979, the Authority continued to assist New Jersey firms that have been adversely impacted due to foreign import competition. This assistance is in the form of technical assistance (management, engineering, marketing) as well as financial assistance in the form of direct loans and loan guarantees. Funding for this program is provided through a grant to the Authority by the U.S. Economic Development Administration under its Trade Adjustment Assistance Program.

Permanent employment resulting from the Authority's activity in providing tax-exempt industrial revenue bond financing and direct loan and loan guarantees during 1979 is expected to reach 16,000.

During 1979, the Authority enacted a regulation which has the effect of targeting certain economically-distressed municipalities, numbering 117, for applying the Authority's programs of financial assistance. It is the Authority's purpose that through this regulation it will be able to more directly apply its financial assistance programs to the ultimate hiring of the economically-disadvantaged throughout the State.

#### New Jersey Turnpike Authority

The New Jersey Turnpike Authority, created as a body corporate and politic by the New Jersey Turnpike Authority Act of 1948, is authorized to construct, maintain, repair, and operate turnpike projects at locations established by law. Furthermore, the Authority may issue turnpike revenue bonds or notes of the Authority, subject to prior approval by the Governor and of either or both the State Treasurer and the Comptroller of the Treasury, payable solely from tolls and other revenues of the Authority. Recent construction projects have included the construction of access roads to and from the Meadowlands Sports Complex, while recent operations projects such as the Automatic Traffic Surveillance and Control System have made the State's turnpike among the safest of the heavily-trafficked roads in the country. In 1979 the Authority awarded the first contract of a project to construct a new Interchange (13A) at the southern end of Newark International Airport. The cost of this new facility, estimated at \$72 million, is shared by the Port Authority of New York and New Jersey, the New Jersey Department of Transportation, and the Turnpike Authority. The fatality and accident records of the Authority have been the best in New Jersey and have contributed to the State's record as the safest in the nation.

#### New Jersey Expressway Authority

The New Jersey Expressway Authority, created in 1962 as a body corporate and politic, is authorized and empowered to acquire, construct, maintain, repair, and operate Atlantic City Expressway projects at lawfully established locations and to issue its bonds for such purposes. The existing roadway serves as a link between the Philadelphia metropolitan area and the seashore counties bordering the Atlantic Ocean. The principal source of revenue for the Authority is the money received from Expressway tolls, the rate schedules of which are set by independent traffic consultants, representing the bond holders. The original bond issued for the construction of the Expressway totaled \$52,625,000. As of June 30, 1979, the outstanding debt was \$42,195,000.

#### New Jersey Highway Authority

The New Jersey Highway Authority, created in 1952 as a body corporate and politic, is authorized to acquire, construct, operate, and maintain highway projects (specifically the toll portions of the Garden State Parkway) with the provision that the Governor shall have the right to veto any action, except collective bargaining; and that the approval of the Governor and State Treasurer or Comptroller shall be required prior to adoption of any bond resolution or revision of tolls. The aforesaid veto and approval power of the Governor and State Treasurer or Comptroller has been held to be unconstitutional by the Superior Court of New Jersey, Chancery Division, Essex County. That ruling has been appealed by the Authority and the Attorney General of the State of New Jersey. The Authority has also been responsible for construction and maintenance of the Garden State Arts Center.

The Highway Authority is the number one toll road in the nation for vehicular use. The State of New Jersey guarantees payment on \$101,209,000 of bonds due 1979-88, however, the State believes that revenue from the Authority will be sufficient to provide for payment of debt service without recourse to the State's guarantee.

#### New Jersey Sports and Exposition Authority

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

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

On December 14, 1978, the debt of the Sports Authority was refinanced. Under the program, the outstanding debt of the Authority with an average interest cost of approximately 7½ percent was refunded by the proceeds of a new issue of Authority bonds, secured by a State guarantee and by race-track and stadium revenue. Because of the State's AAA credit rating, the interest rate (5.82 percent) was substantially lower, and it is estimated that the reduced debt service costs and other first year adjustments will result in a savings of \$115 million over the life of the bonds. In addition, under a new lien structure made possible by the refinancing, the debt service costs for the new indoor sports arena will be reduced by \$42 million compared with the original financing plan for the arena. By law all surplus funds of the Authority are paid to the State Treasury. The combined value of this plan, therefore, will provide an additional \$157 million to the State over the life of the bonds.

#### Rutgers, the State University

Rutgers, the State University, entered into an open-end indenture dated May 1, 1967, to provide a means of financing construction of auxiliary enterprise facilities such as student apartments, dormitories, and student centers, and to consolidate previously outstanding bond indebtedness. Under the terms of the indenture, all bonds issued are direct and general obligations of the University and are in no way obligations of the State. All revenues from auxiliary enterprise facilities construction from the proceeds of the bonds together with revenues from certain other such facilities are pledged to secure the indebtedness. The excess of funds, after satisfying certain requirements, is available to the University.

#### Hackensack Meadowlands Development Commission

The Hackensack Meadowlands Development Commission is a body corporate and politic established within the Department of Community Affairs under the provision of the Hackensack Meadowlands Reclamation and Development Act of 1969. Pursuant to the Act, the Commission is authorized and empowered to finance the reclaiming, planning, development, and redevelopment of the

Hackensack Meadowlands (19,730 acres of waterway, tidal flow lands, and small portions of woodlands, marsh, and meadows contained within parts of fourteen municipalities and two counties, Bergen and Hudson) by issuing tax-exempt bonds and notes. The bonds are to be redeemed with the revenues derived by the Commission from special assessments on benefited property. To date, the Commission has issued no bonds and relies primarily on private investment and State-appropriated monies.

During 1979, the development capital poured into the district in record amounts creating large numbers of new jobs. The environment of the Hackensack River and its wetlands continued to show considerable improvement. Plans for development of the 2,000 acre Richard W. DeKorte state park were finished and adopted. Construction of the 1,000 ton per day baler, financed by \$6.9 million in federal public works funds, was completed. Plans for a major food distribution center in Jersey City were undertaken. High-rise residential development began along the Hackensack River in Harmon Cove. A commuter rail station was built, and an ecological and resource management plan was unveiled for the entire Meadowlands.

During fiscal year 1979, over \$62 million was invested in the District to build homes, warehouses, offices, a major hotel, and other commercial buildings. This brings the total development over 10 years to more than \$700 million producing more than 28,000 new jobs.

#### Housing Finance Agency

Through the sale of tax-exempt bonds the New Jersey Housing Finance Agency (HFA) provides housing for senior citizens and low and moderate income families throughout the State. The Agency finances and supervises the planning, construction, and management of all its developments and secures needed state and federal subsidies.

During the past year the Housing Finance Agency completed the largest offering in its history. This \$158.9 million issue financed the construction of more than 3,000 housing units and was the largest bond issue sold by any state housing agency in the country.

In conformance with Governor Byrne's urban priority, nearly 75 percent of the units financed through the HFA during the past year are being built in the State's Urban Aid Cities. One highlight is the construction of the first units of low and moderate-income housing to be built in Atlantic City since the advent of casino gambling. This also represents the first use of the special federal rent subsidy allocation provided to the Agency for use in the Atlantic City area. Federal subsidies, needed to insure that tenants pay no more than 25 percent of their income for rent, continued to play a vital role in the feasibility of the Agency's developments. The New Jersey Housing Finance Agency is nationally acknowledged as a leader in federally subsidized housing. During the period from July 1, 1978 through December 1, 1979, HFA secured more than \$41 million in annual federal Section 8 rent subsidies for the occupants of the more than 6,000 units currently under construction. More than 3,600 construction jobs have been created due to this increased Agency activity.

Since its inception, the Agency has provided over \$1 billion in mortgage financing for 142 projects resulting in nearly 27,700 units of housing at no cost to the taxpayer. Municipalities have also benefitted by the Agency's housing production. During the past year, local governments received over \$5.1 million in annual tax revenues from developments currently in occupancy. Furthermore, an estimated \$4.2 million in additional tax revenues will be forthcoming to municipalities upon completion of the developments now under construction or recently financed and about to begin construction.

## REGIONAL BOND-ISSUING AUTHORITIES

The four regional or bi-State authorities serving New Jersey are:

### Delaware River Joint Toll Bridge Commission

The Delaware River Joint Toll Bridge Commission is a body corporate and politic, created in 1934 by a compact between the Commonwealth of Pennsylvania and the State of New Jersey with approval of the United States Congress. The Commission is authorized and empowered, in certain cases with the requirement of federal governmental approval, to acquire, construct, administer, operate, and maintain such bridges as the Commission deems necessary to advance the interest of the two states, and to issue bonds and other obligations. The compact provides that Commission indebtedness shall not be deemed to constitute a debt or liability of the two states.

The Commission has authority over six toll-supported bridges, Trenton-Morrisville, New Hope-Lambertville, Easton-Phillipsburg, Portland-Columbia, Delaware Water Gap, Melford-Montague, from which excess revenues go toward bridge improvements and bond redemptions; plus thirteen state-owned and tax-supported bridges whose source of revenue for operation and maintenance comes from the States of Pennsylvania and New Jersey.

### Delaware River and Bay Authority

The Delaware River and Bay Authority, created in 1962 with the consent of the United States Congress, is a body politic and an agency of the government of the States of Delaware and New Jersey. The Authority is authorized to plan, finance, develop, construct, purchase, lease, maintain, improve, and operate crossings, including bridges, tunnels, and ferries between the State of Delaware and the State of New Jersey across the Delaware River and Bay. To this end, the Authority may issue revenue bonds payable from operations of the Authority's facilities.

The Authority operates twin bridges, the Delaware Memorial Bridge (1951) and a second bridge which opened in 1968 financed by a \$103,000,000 revenue bond issued in 1964. In addition, the Authority operates the Cape May-Lewes Ferry.

### Delaware River Port Authority

The Delaware River Port Authority, originally created in the 1920s as a bi-state Commission authorized to construct the Benjamin Franklin Bridge between Camden and Philadelphia, is a self-sustaining agency, operating without tax funds and getting most of its revenues from Authority operations. Since changing from a Bridge Commission to a Port Authority, the Authority has undertaken construction of three additional bridges—the Walt Whitman Bridge (1957), the Commodore John Barry Bridge (1976), and the Betsey Ross Bridge (1976)—and expanded its responsibilities for regional mass transit—the Lindenwald Highspeed Line opened in 1969—and promotion of ports on the Delaware River, collectively known as Ameriport. The Authority's World Trade Division, in particular, is responsible for solicitation of maritime trade making Ameriport number one among North Atlantic ports in the amount of international waterborn cargo handled.

Port Authority of New York and New Jersey

The Port Authority, a municipal corporate instrumentality of the States of New York and New Jersey, was created by compact between the two states in 1921, with the consent of the Congress of the United States to plan, develop, and operate terminals and other facilities of transportation and commerce, and to advance projects in the general fields of transportation and world trade that contribute to promoting and protecting commerce of the Port District.

The Port Authority is financially self-sustaining; and, as such, it must obtain the funds necessary for construction or acquisition of facilities upon the basis of its own credit, its reserve funds, and its future revenues. The Authority has neither the power to pledge the credit of either state or any municipality nor to levy taxes or assessments. Since its creation, investors have purchased almost \$4.8 billion in obligations, of which over \$2.1 billion was outstanding on December 31, 1978.

Authority facilities, all of which have been authorized by the two states, include six trans-Hudson bridges and tunnels, three major metropolitan airports, a heliport, the World Trade Center, the PATH system of rapid transit, buses and ancillary bus facilities in the States of New York and New Jersey, as well as marine, passenger ship, motor truck, and bus terminals.

In August, 1978, legislation was adopted by the States of New Jersey and New York providing for Port Authority participation in a program of industrial development, including resource recovery and industrial pollution control facilities, in the Port District.

In March, 1979, the States of New Jersey and New York adopted legislation which authorized the Port Authority to acquire, develop, and finance up to \$240,000,000 of buses and ancillary bus facilities in the States of New York and New Jersey, with up to \$120,000,000 allocated in each state for the purpose of leasing, selling, or transferring such buses and ancillary bus facilities to either State or to any public authority, agency, commission, city, or county thereof.

OUTSTANDING DEBT OF NEW JERSEY STATE AUTHORITIES AS OF MAY 1, 1979

Moral Obligation Debt

The authorizing legislation for two State agencies and authorities provides for specific budgetary procedures with respect to certain obligations. According to the legislation, a designated official is required to certify any deficiency in the debt reserve fund maintained to meet payments of principal and interest on the obligations, and an appropriation in the amount of the deficiency is to be made. The Legislature, however, is not legally bound to make such an appropriation. Bonds issued pursuant to authorizing legislation of this type are usually referred to as "moral obligation" bonds. The debt of the Housing Finance Agency and the South Jersey Port Corporation have the moral obligation of the State.

Other State Agency and Authority Debt

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

Exhibit XII summarizes the debt of the State Authorities, including moral obligation debt as of May 1, 1979.

EXHIBIT XII  
SUMMARY  
STATE PUBLIC AUTHORITIES/AGENCIES

<u>Agency</u>	<u>Debt Outstanding</u>	<u>Purpose of Agency</u>
New Jersey Housing Finance Agency	\$ 830,955,000**	• Finance the construction of low and moderate income projects
New Jersey Sports and Exposition Authority	375,810,000	• Provide for stadiums and other facilities in the Hackensack Meadowlands
South Jersey Port Corporation*	15,575,000	• Operate marine terminals
New Jersey Mortgage Finance Agency	474,520,000	• Increase availability of home mortgage money
New Jersey Health Care Facilities Financing Authority	287,927,755	• Provide financing for public & nonprofit health care institutions
New Jersey Educational Facilities Authority	112,066,000	• Provide financing for public and independent colleges
New Jersey Economic Development Authority	662,247,907	• Provide financing for private firms
New Jersey Turnpike Authority	817,895,000	• Construct, maintain, and operate the N.J. Turnpike
New Jersey Expressway Authority	42,285,000	• Construct, maintain, and operate the Atlantic City Expressway
New Jersey Highway Authority	240,078,000	• Construct, maintain, and operate the Garden State Parkway
Rutgers University	74,820,000	• Finance auxiliary enterprise facilities such as dormitories, etc., at the State University
Hackensack Meadowlands Development Commission	<u>-0-</u>	• Plan and develop the Hackensack Meadowlands
	 \$3,087,649,662	

\* Moral Obligation Debt

\*\*The Housing Finance Agency also has \$63,285,000 of special pledge revenue obligations outstanding which are not "moral obligations."

## THE COMBINED BALANCE SHEET—ALL FUNDS

### 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 presents the financial condition of the State for the year ending June 30, 1979.

### ASSETS

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

Receivables represent funds due to the State. Taxes and Patient Accounts are presented as net figures with the estimated amount of uncollectible accounts deducted. Other assets are those accounts which are not immediately available for expenditure. The State Purchase Revolving Fund is a fund through which State agencies acquire materials and supplies needed for their operations. The fund replenishes itself through a system of user charges; it retains \$2,000,000 from the General State Fund as an operating base.

### LIABILITIES

The State incurs liabilities in a number of ways. The major way is the result of acquiring goods and services necessary to enable agencies to perform their functions. Accounts payable represent payments due vendors for goods and services already received by agencies. Encumbrances are funds reserved to meet formal commitments for goods and services expected to be delivered. These two types of obligations are combined in Accounts Payable and Encumbrances and comprised the major portion of liabilities as of June 30, 1979. Other categories of liabilities which appear on the June 30, 1979 Balance Sheet include Revenue Refunds Payable and Motor Fuels Tax Refundable, which relate to items the State has an obligation to repay to the federal government and taxpayers.

-46-  
EXHIBIT XIII  
STATE OF NEW JERSEY  
COMBINED BALANCE SHEET—ALL FUNDS  
JUNE 30, 1979  
(in thousands of dollars)

	General Fund	Property Tax Relief Fund	Gubernatorial General Elections Fund	Casino Control Fund	Casino Revenue Fund	Bond Funds	Trust and Agency Fund
<u>ASSETS</u>							
CASH							
Demand Accounts (Note 10)	\$ ( 60,225)	\$	\$	\$	\$	\$( 2,832)	\$ 7,576
Time Accounts	15,900						
INVESTMENTS AT BOOK VALUE (Note 11)	441,596					27,271	3,734,584
RECEIVABLES							
Taxes	176,552	74,305					7,589
Federal Government - Transportation Purposes (Note 12)	335,513					47,227	213,342
Departmental Accounts (Note 13)	355,908			1		21,773	15,661
Loans	1,901					1,016	25,413
Other	45,293						
OTHER ASSETS							
State Purchase Revolving Fund	2,000						
Due from Other Funds	120,856		1,417	1,972	879	252,465	133,960
Advances to Other Funds	4,038						799
Deferred Charges							
Total	<u>\$ 1,439,332</u>	<u>\$ 74,305</u>	<u>\$ 1,417</u>	<u>\$ 1,973</u>	<u>\$ 879</u>	<u>\$350,786</u>	<u>\$4,138,924</u>
<u>LIABILITIES, APPROPRIATIONS AND FUND BALANCES</u>							
LIABILITIES							
Accounts Payable and Encumbrances (Note 15)							
Current Fiscal Year	\$ 583,018	\$ 2,784	\$	\$ 1,879	\$	\$150,050	\$ 314,867
Prior Fiscal Years	175,041	165		94			
Deferred Revenue (Note 16)	22,551					12	1,700
Due to Other Funds	12,702	64,310				19,603	422,840
Advances from Other Funds				4,039			
Other	5,212	6,076					3,602,828
APPROPRIATION BALANCES	355,667					257,939	1,141
FUND BALANCE							
Unrestricted	217,161	970	1,417	( 4,039)	879	(98,411)	(292,665)
Restricted	67,980					21,593	88,213
Total	<u>\$ 1,439,332</u>	<u>\$ 74,305</u>	<u>\$ 1,417</u>	<u>\$ 1,973</u>	<u>\$ 879</u>	<u>\$350,786</u>	<u>\$4,138,924</u>



## NOTES TO COMBINED BALANCE SHEET AS OF JUNE 30, 1979

### NOTE 1—FINANCIAL STATEMENTS

The National Council on Governmental Accounting in its publication entitled Governmental Accounting, Auditing, and Financial Reporting defines a fund 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 which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations.

These statements reflect financial reporting practices in accordance with the above, in that activities formerly recorded in a single fund (the General Fund) are now segregated and accounted for as separate funds each with a self-balancing set of accounts. These are the Property Tax Relief Fund, Gubernatorial General Election Fund, Casino Control Fund, and Casino Revenue Fund.

### NOTE 2—SIGNIFICANT ACCOUNTING POLICIES

The modified accrual basis of accounting is utilized for all funds. Under this basis revenues are recorded as received in cash except for: (1) revenues susceptible to accrual (measurable and available); (2) revenues of a material amount that have not been received at the normal time of receipt; and (3) material revenues received prior to normal time of receipt, which are recorded as deferred revenue. Expenditures are recorded on the accrual basis except for: (1) disbursements for inventory type items, prepaid expenses and fixed assets, which are considered expenditures at the time of purchase; (2) interest on long-term debt and employer Social Security contributions which are recorded as an expenditure when paid; and (3) 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 executive of a contract, and the outstanding encumbrance is recognized as an obligation until liquidated.

### NOTE 3—GENERAL FUND

The General Fund is the fund into which all State revenues, not otherwise restricted by statute, are deposited and from which appropriations are made. The largest part of the total financial operations of the State are accounted for in the General Fund. Revenues received from taxes, most federal revenue, and certain miscellaneous revenue items are recorded in the General Fund. The appropriation acts enacted by the Legislature provide the basic framework for the operation of the General Fund.

### NOTE 4—PROPERTY TAX RELIEF FUND

The Property Tax Relief Fund is used to account for revenues from the New Jersey Gross Income Tax. Revenues realized from the Gross Income Tax are dedicated by the State Constitution. All receipts from taxes levied on personal income of individuals, estates, and trusts must be appropriated exclusively for the purpose of reducing or offsetting property taxes. Annual appropriations are made from the fund, pursuant to formulae established by the Legislature, to counties, municipalities, and school districts. The Property Tax Relief Fund was established by the New Jersey Gross Income Tax Act, N.J.S.A. 54A:9-25, approved July 8, 1976.

NOTE 5—GUBERNATORIAL GENERAL ELECTIONS FUND

The Gubernatorial General Elections Fund is used to account for receipts from the dollar designations on New Jersey Gross Income Tax returns. When indicated by the taxpayer, one dollar of the tax is reserved from gross income tax revenues (Property Tax Relief Fund) and credited to the Gubernatorial General Elections Fund. These funds are available for appropriation pursuant to the New Jersey Campaign Contributions and Expenditures Reporting Act, as amended. The Gubernatorial General Elections Fund was established by the New Jersey Gross Income Tax Act, N.J.S.A. 54A:9-25.1, approved July 8, 1976.

NOTE 6—CASINO CONTROL FUND

The Casino Control Fund is used to account for fees from the issuance and annual renewal of casino licenses. Appropriations are made to fund the operations of the Casino Control Commission and the Division of Gaming Enforcement. The cost of operations to date have been funded by advances from the General Fund, and must be repaid within six years. The Casino Control Fund was established by N.J.S.A. 54:12-143, approved June 2, 1977.

NOTE 7—CASINO REVENUE FUND

The Casino Revenue Fund is used to account for the tax on gross revenues generated by the casinos. Gross revenue refers to the total of all sums actually received by a licensee from gaming operations, less the total sums paid out as winnings to patrons. Appropriations from this fund must be used for reductions in property taxes, utility charges, and other expenses of eligible senior citizens. The Casino Revenue Fund was established by N.J.S.A. 54:12-154, approved June 2, 1977.

NOTE 8—BOND FUNDS

Bond Funds are used to account for the proceeds of general obligation bonds which are secured by the State pledge of its faith, credit, and taxing power. State tax revenues are pledged to meet the principal and interest payments. All long-term borrowing must conform with the provisions of the State Constitution.

NOTE 9—TRUST AND AGENCY FUNDS

Trust and Agency Funds are used to account for resources which are received and held in a trustee or fiduciary capacity to be expended or invested in accordance with the conditions of the trust or agreement. The use of resources of Trust and Agency funds are restricted by statutory specification or dedication to a particular purpose or program by the Annual Appropriation Act or other legislation.

NOTE 10—CASH/DEMAND ACCOUNTS

Negative book balances represent a managed overdraft. Available cash in banks, except for compensating balances, is invested until checks are presented to the bank for payment. Available cash of certain bond funds, and trust and agency funds is invested through the State of New Jersey Cash Management Fund.

NOTE 11—INVESTMENTS

All securities purchased are recorded at cost and amortized for premium or discount. Securities received as donations and from settlement or claims are recorded at market value when received, and any difference between that and the par value is amortized.

NOTE 12—RECEIVABLES—FEDERAL GOVERNMENT FOR TRANSPORTATION PURPOSES

Includes amounts restablished as appropriations by the State to the Department of Transportation, based upon Federal Highway Apportionments, the expenditure of which becomes the basis for reimbursement. In addition, amounts previously earned and billed, but not yet collected, are a part of this balance.

NOTE 13—RECEIVABLES—DEPARTMENTAL ACCOUNTS

Consists principally of amounts established as appropriations by the State based upon federal and other grant awards, the expenditure of which becomes the basis for reimbursement. In addition, amounts previously earned and billed, but not yet collected, are a part of this balance. Appropriate reserves have been established for amounts deemed to be uncollectible, and the net amounts are reflected herein.

NOTE 14—FIXED ASSETS

Fixed assets are not reflected in the financial statements. They are recorded as expenditures at the time of acquisition.

NOTE 15—ACCOUNTS PAYABLE AND ENCUMBRANCES

Includes appropriations reserved or committed based upon the issuance of a purchase order or the execution of a contract. The outstanding amounts are recognized as an obligation until liquidated. In addition, included in this balance are amounts due for goods and services provided, but not liquidated as of the report date.

NOTE 16—DEFERRED REVENUE

Represents amounts received but unearned, applicable to future periods including license and registration fees, college tuitions, and other miscellaneous sources.

NOTE 17—LONG-TERM LEASE COMMITMENTS

At June 30, 1979, there were 114 long-term realty lease agreements with unexpired periods ranging from 3 to 24 years. Future obligations for these leases amount to \$77,737,000 and the annual rental payments are approximately \$9,462,000.

The State has entered into three agreements (two dated October 15, 1964, and one dated June 15, 1965) whereby the Public Employees' Retirement System and the Teachers' Pension and Annuity Fund have incurred construction costs of approximately \$17.9 million. Under these agreements the facilities are owned by the pension funds and leased to the State for a period of 20 years; and at the end of the term, the State may exercise its option to purchase the facilities at a cost of one dollar per agreement. Under generally accepted accounting principles, such leases are treated as purchase agreements and accordingly have been eliminated from the long-term lease commitments indicated above. At June 30, 1979, the remaining liability for these agreements is \$7.6 million.

NOTE 18—CONTINGENT LIABILITIES

The State is involved in a number of legal actions wherein the State of New Jersey has the potential for either significant loss of revenue or unanticipated expenditure. It is the opinion of the Attorney General that the ultimate disposition of the cases cannot be predicted.

Pursuant to the New Jersey Tort Claims Act there are numerous cases pending involving in excess of \$200 million. In the opinion of the Attorney General, the ultimate disposition of these matters would involve a significantly lesser amount.

## RELATED FINANCIAL ACTIVITIES

### FINANCING OF PENSIONS

Virtually all of the public employees of the State and its counties, municipalities, and political subdivisions are members of pension plans administered by the State. The State operates seven retirement plans. Public Employees' Retirement System ("PERS") and Teachers' Pension and Annuity Fund ("TPAF"), created by acts of the State Legislature in 1920 and 1919, respectively, are the principal plans, together covering 306,000 out of the total 335,000 members covered by all State administered plans. The other systems are Police and Firemen's Retirement System (26,300 members), Consolidated Police and Firemen's Pension Fund (166 members), State Police Retirement System (1940 members), Judicial Retirement System (283 members), and Prison Officers' Pension Fund (153 members).

State law regulates the administration of the pension fund systems. Each system (except the Prison Officers' Pension Fund) is operated on the entry age normal cost method, with a frozen liability for past service costs. Each year the State contributes the current year's cost together with a portion of the accrued benefit liability. The accrued benefit liability for each fund (except the Prison Officers' Pension Fund and the Consolidated Police and Firemen's Fund) is now being funded over a 40-year period beginning 1972. 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 investigations are designed to insure that these programs adequately recognize the additional costs resulting from experience or legislative changes in the benefits to be paid. As these systems are fully funded reserve programs, any amendment increasing liabilities is met by an increase in the normal contribution as well as the establishment of an accrued liability to be financed over a period of years as specified in the amendatory statute.

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

Nearly all employees are members of contributory plans, with fifteen years of employment required before the benefits become vested. Upon retirement, after thirty years of service (twenty-five years for policemen and firemen), members are eligible for annual pension benefits equal to one half of their average contractual or base salary (60 percent for policemen and firemen) for their three final or highest paid fiscal years of service. After a member has been retired for two years, he is eligible for the pension adjustment program, which provides for an adjustment in benefits equal to 60 percent of the change in the consumer price index. All members of State administered plans, except policemen and firemen, qualify for social security benefits in addition to the benefits of the retirement plans.

The accrued benefit liability (including anticipated salary increases for active members) is 78.5 percent or more funded for PERS, TPAF, and Police and Firemen's Retirement System, the three major pension plans administered by the State. Specifically, the percentage of funding denoted for the systems as of June 30, 1978, is as follows:

EXHIBIT XIV

PENSION FUNDS—SUMMARY

<u>System</u>	<u>Funding Began</u>	<u>Accrued Benefit Liability</u>	<u>Book Assets</u>	<u>Percentage of Funding</u>
PERS	1920	\$2,142,772,212	\$1,708,855,366	79.7%
TPAF	1919	3,005,106,919	2,432,872,796	81.0
Police & Firemen's Consolidated Police and Firemen's	1944	1,359,463,267	1,066,800,470	78.5
State Police	1953	234,830,789	81,841,784	34.9
Judicial	1965	136,105,467	105,993,374	77.9
	1973	43,981,767	15,733,804	35.8

The Division of Investment of the Department of the Treasury invests the assets of the State administered pension plans. The book value of the aggregate investments of the pension funds was \$5,575.2 million at June 30, 1979. The net investment earnings of pension fund assets was \$353.7 million for the fiscal year ended June 30, 1979.

In PERS, the State pays the liability for State employees while counties, municipalities, school districts, and local public agencies pay the cost for their employee members. The State, rather than the local school boards, pays the employer's cost of the TPAF, including the employer's share of the Social Security Tax. The other retirement systems administered by the State include the Police and Firemen's Retirement System, which is primarily established for municipal policemen and firemen. The State's participation is limited to those State employed law enforcement officers who have been permitted to enroll. In 1979, the State expended approximately \$90 million to fund pension obligations for State employees, and an additional \$169 million for pension obligations of school district employees.

The State also administers the Consolidated Police and Firemen's Pension Fund, which is a system composed entirely of municipal policemen and firemen who were first employed prior to 1944. The system was established on a funded basis in 1953 with its debt to be amortized over a period of thirty years. The State pays one-third of the accrued liability of that system although there are no State employees who are members.

There are only State employees in the Prison Officers' Pension Fund, a system which has been closed to new members since 1960 and which now contains 153 remaining members. Because of its nature, the system does not lend itself to a reserve program, as such, its obligations are being met out of current appropriations. The State maintains a State Police Retirement System which was placed on a funded basis in 1965. The State also administers the Judicial Retirement System, which was placed on a funded basis in 1973.

In addition to these defined benefit programs, the State also maintains the Alternative Benefit Program, which is a defined contribution plan for full-time members of the faculties at Rutgers, the State University; the New Jersey Institute of Technology; the College of Medicine and Dentistry; and state and county colleges. This plan is underwritten by the Teacher's Insurance and Annuity Association and the College Retirement Equities Fund. The State pays a fixed rate of contribution comparable to the normal contribution which would be required in a defined benefit program.

## EMPLOYEE RELATIONS

The State of New Jersey, as a public employer, is covered by the New Jersey Public Employer-Employee Relations Act, P.L. 1941, c. 100, as amended, which guarantees to public employees the right to negotiate collectively through employee organizations certified or recognized as the exclusive collective negotiations representative for a unit of public employees found to be appropriate for collective negotiations purposes. Of the State's approximately 78,000 (including personnel at Rutgers University and the College of Medicine and Dentistry) employees, approximately 60,000 are represented by certified or recognized exclusive majority representatives and are organized into 26 negotiating units.

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

In fiscal year 1979, State employees received an across-the-board increase of 5 percent. In addition, employees who received at least satisfactory performance ratings, also received merit increments in accordance with the Compensation Plan. On the average, these increments amounted to 4 percent per eligible employee. The amount appropriated for the fiscal year 1979 salary program was \$49 million. Collective bargaining agreements for most employee groups have been signed for fiscal years 1980 and 1981.

## INVESTMENTS

The Investment Division in the Department of the Treasury has the responsibility for investing seventy-three funds, including six pension and annuity funds. The statutes provide for an Investment Council and a Director. The Council consists of ten members, five appointed for staggered five-year terms by the Governor and five appointed for one-year terms by five of the pension systems.

Prior to 1950, investment was limited by law to United States government and municipal obligations. Over the years several amendments have been made to the law which have materially increased the scope of potential investment opportunities and provided a foundation for achieving a better portfolio balance and diversification. At the present time the pension fund systems are permitted to invest in property of every nature, including common stocks. Present regulations of the State Investment Council limit the authority of the Director to investment of not more than 25 percent of the book value of any one fund in common stock.

The book value of all securities held by the State's investment funds as of June 30, 1979, was \$6.7 billion, an increase of 12 percent, or \$712 million from fiscal year 1978. Of the \$6.7 billion book value of funds, the assets of the six pension funds represent \$5.6 billion, while the remainder is in trust funds and other state funds.

The net investment earnings produced by the investments in fiscal year 1979 were in excess of \$421 million, an increase of \$79.8 million or 23 percent from the prior year. The State share of the earnings was \$50.7 million, while the largest portion, \$353.7 million, was earned on securities held by the State-managed pension funds. The remaining \$16.5 million was earned on state trust funds, the earnings of which are retained by the individual fund. The investment earnings, for example, in the case of the pension funds, enable the State to reduce its obligation to appropriate tax dollars to fund the accrued liability of the State's pension obligations.

The New Jersey Cash Management Fund is an investment pool made up of the assets of a number of state funds together with deposits from counties, municipalities, school boards, and other eligible public entities. The book value of units of participation in the fund grew from \$192.5 million at the beginning of fiscal year 1979 to \$671.8 million at the end of the fiscal year. Municipal participation began in January, 1978. By the end of fiscal year 1979, 128 applications had been received and approved, eighty-two municipalities were participating in the fund, and total municipal participation aggregated \$48.8 million, compared with \$7.7 million at the end of the prior year.

The fund provides that eligible participants can deposit and withdraw funds at any time and earn daily interest at a rate which reflects interest and amortization income and market changes in the prices of the securities in the fund. The gross average daily return for the fund on an annualized basis was 9.07 percent in fiscal year 1979, compared to 6.21 percent in the prior year. The principal advantage of the Cash Management Fund is the ease of investing idle funds for indeterminate periods of time at a rate of return which compares favorably with other day-of-deposit/day-of-withdrawal investment alternatives.

## NEW JERSEY'S PERFORMANCE IN PERSPECTIVE

### A REVIEW OF THE FISCAL YEAR 1979 ECONOMY

#### The National Economy in 1979

To many observers it appeared that in fiscal year 1979 the United States economy would not be able to sustain very high rates of growth that characterized the early recovery phase of the business cycle. Hence, instead of real GNP growing at rates much above the long-term trend, it was expected that the economy will settle on a path of average growth of 3-4 percent annually.

Actual growth of GNP in inflation adjusted terms was 3.8 percent during FY 1979. With the inflation rate at 8.4 percent, as measured by the GNP implicit price deflator, nominal GNP grew last year by 12.5 percent.

Last year's consensus predictions were correct only for the Nation's output of goods and services. Most forecasters, however, underestimated the strength of inflationary pressures, especially those stemming from OPEC oil price increases. This, among other factors, has led to a pronounced deterioration of the dollar in international exchange markets and to the necessity to employ strong countermeasures. In November 1978 the U.S. Government adopted new policies aimed at strengthening the dollar, including a sharp increase in the Federal Reserve discount rate. The implications of that policy were to further slow down economic growth. The Iranian upheaval brought a temporary interruption of oil supply, and a long-term reduction in Iranian oil production. New federal economic policies coupled with the oil situation caused a significant decline in real GNP by the second quarter of 1979.

In FY 1979, a slowdown in output growth, employment in the U.S. economy increased by 2.2 percent over the last year. More than two million new jobs were created during this year. The goods producing sectors (mining, manufacturing, and contract construction) enlarged their employment by 3.8 percent creating almost a million new jobs, while the services sectors' employment grew by 3.9 percent. Government employment increased only by 0.5 percent and agricultural employment declined by almost 5 percent. The unemployment rate in June of 1979 was 5.6 percent, only slightly lower than the 5.8 percent rate in June of 1978. The labor force in the U.S. continued to grow as a result of demographic factors and increased labor force participation. Therefore, despite the continued high rate of job creation, the unemployment rate did not change much during FY 1979.

Since employment in the goods and services sector increased as much as output, there was no significant increase in labor productivity over the entire year. Moreover, productivity actually declined in the second half of FY 1979. However, nominal compensation per hour in the non-farm business sector increased by at least 9 percent. This caused unit labor cost to increase by about 7 percent in the second half of 1978 and by over 13 percent in the two quarters of 1979. Thus, underlying inflationary pressures accelerated considerably in 1979.

The acceleration of price inflation was also related to the continued strong demand from consumers. Retail sales in nominal terms increased during the last fiscal year by over 13 percent. Meanwhile, the percentage of savings out of personal disposable income stayed at about 5 percent--a very low rate compared to other western nations. At least part of consumers propensity to spend can be associated with the inflationary spiral and the rationable of repaying consumer loans with depreciated dollars. Much of the spending was based on consumer credit; it is feared that the American consumer has over-stretched his ability to repay the loans.

By the end of FY 1979 two areas of consumer spending, namely housing construction and new automobile acquisitions, showed clear signs of decline. The latter was probably caused by the energy situation but to some extent also by increased interest rates. Similarly, high interest rates, and, in some cases, tight credit due to state usury ceiling laws, caused the decline in housing activity. These were only the first signs of the coming recession.

#### The New Jersey Economy in Fiscal Year 1979

During fiscal year 1979 the New Jersey economy did not fall much behind developments in the entire national economy. Personal income, the broadest measure of state aggregate economic activity, grew by 11.7 percent. However, with local prices increasing by 8.8 percent, the real increase in personal income was 2.9 percent. Although incomes increased by almost 3.4 percent nationally, a significant portion of that increase is attributed to a growing population. On a per capita basis, U.S. income increased by 2.6 percent as compared to New Jersey's 2.9 percent.

For the most part the increase in New Jersey's personal income reflects increases in total non-agricultural employment. More than 45,000 new jobs were added to the State's economy during fiscal year 1979; this amounts to a 1.5 percent rate of growth. Since the New Jersey labor force expanded by 1.0 percent, the State's unemployment rate declined by .5 percentage points. The official unemployment rate in New Jersey (7.4 percent in June 1978) dropped to 6.9 percent in June 1979. At the end of FY 1978 the State's unemployment rate was 1.8 percentage points above the U.S. rate and by the end of FY 1979 the differential was reduced to 1.3 percentage points. It should be noted that recent labor force growth is not a consequence of a growing population but is rather due to an increase in the participation rate of the resident population. One positive aspect of this development may surface in calendar 1980. As the recession deepens, unemployment will rise, but if the population is not growing, the economy will not have to accommodate new entrants, but only job losers. This should dampen the increase in the number of unemployed persons.

Employment in the State's goods-producing industries expanded by 1.3 percent, while employment in government declined by 1.3 percent. The overall 2.5 percent growth in service employment was bolstered chiefly by a 5.3 percent employment gain in education, health, business and personal services.

Apparently the moderate demand for new factory workers (ten thousand during the 1979 fiscal year) has restrained the growth in manufacturing wages. In New Jersey, manufacturing hourly earnings increased by 6.5 percent, which is below the national increase of 9.0 percent. Assuming New Jersey manufacturers achieved similar gains in labor productivity as the national manufacturers, it would appear that the State improved its relative competitive position.

Retail sales were truly booming in New Jersey last year. New Jersey retailers experienced a 16.9 percent increase in sales. After the effect of rising prices is deducted, real (constant dollar) sales grew by 8.1 percent. Since this exceeds the growth in personal income, we infer that shoppers have accumulated significant amounts of debt in anticipation of accelerating inflation. The consequences of consumer debt could magnify the cyclic nature of retail sales over the next fiscal year. As incomes fall during the recession, consumption spending will also decline and consumers will have to delay further spending plans until debt levels are reduced.

## THE ECONOMIC OUTLOOK FOR FISCAL YEAR 1980

### The National Economy

By the end of fiscal year 1979 there were clear indications of economic decline and the predictions were for a mild and rather short recession. The third quarter of 1979, however, temporarily arrested the downward slide, but the economy will not be able to resist recessionary pressures. Because of the conflicting indications in the economic data between the two fiscal years may be misleading. If we choose instead the first quarter of 1979 as the reference point, real GNP is expected to decrease by about 1.5 percent by the end of FY 1980. Since the 1979 third quarter GNP was about the same as in the first quarter, this implies a 2.2 percent average annual rate of decline during the remaining three quarters of FY 1980. The recovery from the recession can no longer be expected to start in the second quarter of 1980 because of the restrictive monetary policy adopted by the Federal Government in October 1979, and the expected energy squeeze due to the Iranian situation. The recovery, at the earliest, would be seen in the third quarter of 1980.

The decline in real GNP will be accompanied by an increase in the unemployment rate. The jobless rate, which is currently at 5.8 percent, is expected to climb to 7 percent during the second half of 1980. The inflation rate, which has remained stubbornly at the double-digit level, is likely to return to the 8-9 percent level only by the end of FY 1980, barring any substantial boost in crude oil prices by OPEC.

### The New Jersey Economy

Since the industrial structure of the State is similar to that of the United States, it is reasonable to expect the State economy to behave similar to the national economy during the current recession. Therefore, total personal income in real terms, by the end of FY 1980, is expected to be lower than the 1979 first quarter level by about 1 to 1.5 percent.

The unemployment rate in the State is usually 1 to 1.5 percent above its national counterpart. This implies that the State's unemployment rate could be expected to reach 8 to 8.5 percent rate some time during the second half of 1980.

The inflation rate, on the other hand, has lately been lower in our region than in the rest of the U.S. The major reasons for a relatively slower rate of inflation in this region has been slower increases in shelter costs, foods and medical care. It is expected that the housing market in the State, as in the rest of the U.S., will be one of the most depressed sectors of the economy during the 1980 recession. Therefore, the State's inflation rate can be expected to be somewhat lower than the national rate, perhaps by 0.5 percent.

The recovery of the State's economy from the current recession will probably take place simultaneously with that of the national economy, unlike our unhappy experience during the last recession when the State economy's recovery lagged substantially behind the national economy.

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

## FINANCIAL COMPARISONS WITH OTHER STATES

Comparisons with other states indicate that New Jersey state government is at the low-end of the range in terms of total expenditures as a percent of personal income. The State is also considerably below the average in number of employees. Personal income is considered a good measure of tax burden because it considers the tax paying capacity of the citizens of the State.

Comparative data by state for the prior year, in this case 1978, is generally published by the Federal Bureau of Census by November. As of the printing of this fiscal report, the 1978 data for expenditures is not yet available and so data comparative for 1977 was used. With respect to employee count and personal income, 1978 data is available and is reflected accordingly. The data below compares New Jersey state government as well as all levels of government in the State.

### STATE GOVERNMENT

- New Jersey's per capita personal income was \$8,773 for calendar year 1978 which placed it sixth among the 50 states. The per capita personal income is \$937 or nearly 12 percent above the national average of \$7,836.
- Total expenditures per \$1,000 of personal income for 1977 was \$100.69 which placed New Jersey forty-fourth among the 50 states. The median state expenditure was \$134.77 which is nearly \$35.60 or 34 percent above the New Jersey state government expenditure pattern.
- The number of New Jersey State government employees as of October, 1978 was 108 per 10,000 population which placed the State forty-seventh in the nation or third from the bottom. New Jersey is 26 percent below the U.S. average of 136 employees per 10,000 population.

### STATE GOVERNMENT & LOCAL GOVERNMENT DATA

When all levels of government in the State are considered, that is, state government, local governments, and school districts, the State is still near the bottom of the scale. The following comparative statements can be made relative to expenditures and employees.

- New Jersey ranks forty-third in total expenditures per \$1,000 of personal income in 1977. Such expenditures amounted to \$179.55 which was \$24.34 or 14 percent below the national median of \$204.89.
- The number of employees in the State was 490 per 10,000 population, which placed the State thirty-fourth in the nation.



