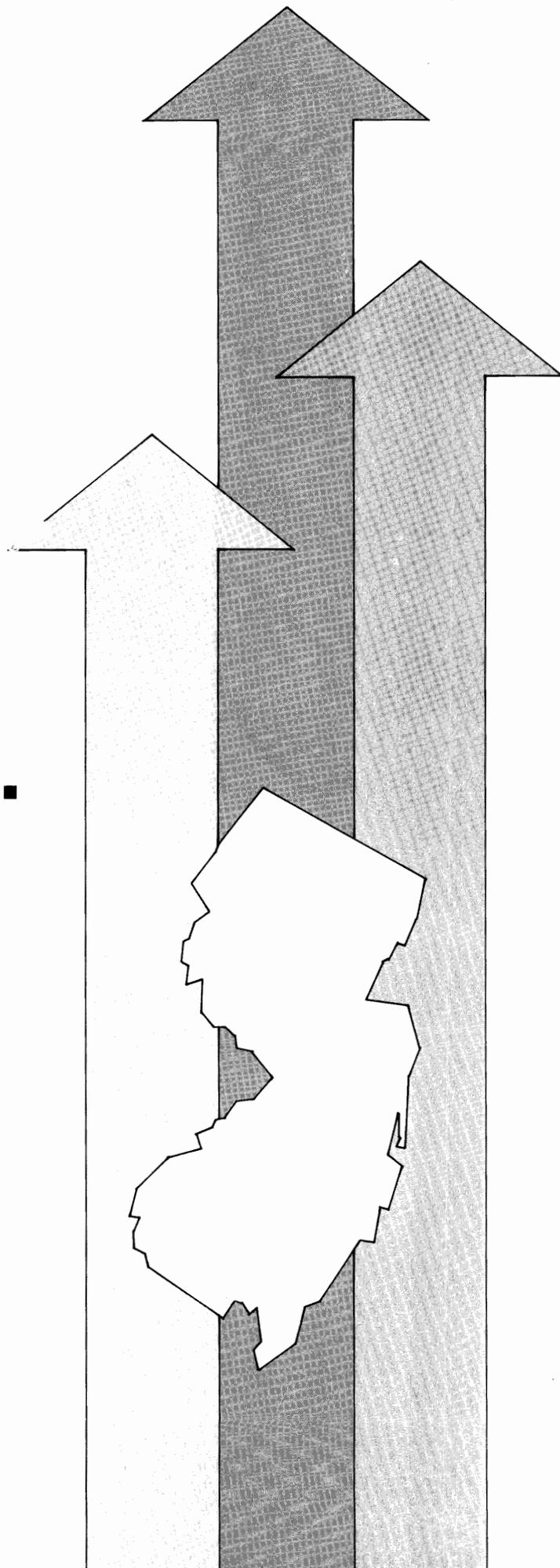


GOVERNOR'S MANAGEMENT IMPROVEMENT PROGRAM, INC.

Report to the State of
New Jersey





REPORT TO THE STATE OF NEW JERSEY

**GOVERNOR'S MANAGEMENT
IMPROVEMENT PROGRAM, INC. (GMIP)**

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Chairman of the Executive Committee
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June 1, 1984

Introduction

This publication contains the final report of the Governor's Management Improvement Program, Inc. (GMIP). The primary objective of this independent non-profit program was to provide options for improving the operations of New Jersey's State government, thereby providing better services at lower cost to State residents.

As the name of the project indicates, it was launched at the behest of Governor Thomas H. Kean. The Governor set the process in motion in the Spring of 1982 by calling together a group of chief executives of a number of New Jersey's foremost private sector organizations, and asked them to organize and carry out the project.

The business and financial leaders who comprised the private sector group analyzed the Governor's request and determined a course of action based on the following:

- The project would be under the leadership and direction of a non-profit corporation whose Board of Trustees, collectively, would be non-partisan.
- Professional consultation would be needed to accomplish much of the work related to the collection and analysis of data.
- The work of the non-profit corporation would be accomplished with financing provided entirely by the private sector.
- The entire project, although directed and implemented by the independent, non-profit corporation (GMIP), would be carried out in close coordination with the various departments and divisions of State government.

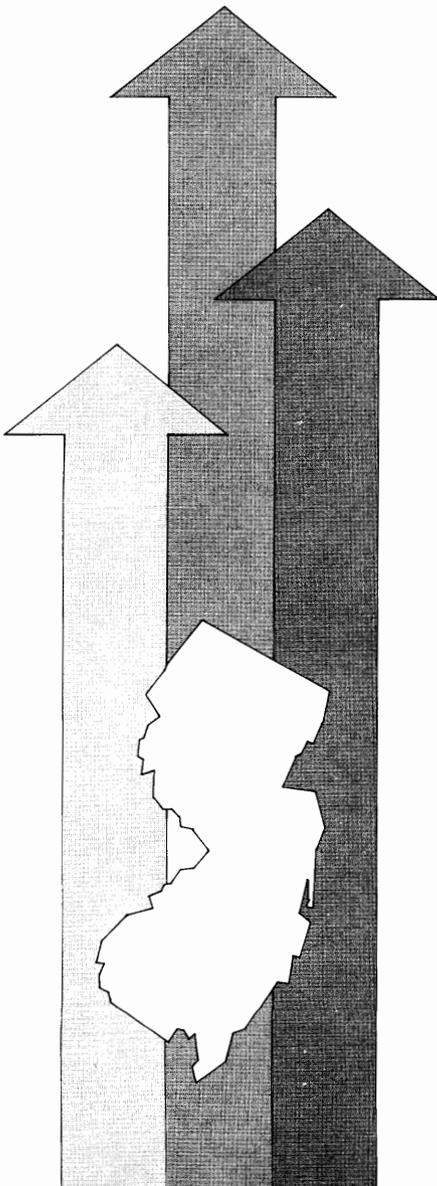
In order to assure the State's close cooperation with the project, the Governor established a special Office of Management Services, to follow through on all matters requiring liaison between the State and the private sector. This office was staffed and funded by the State, as its contribution to the project.

The private sector, in the meantime, embarked on a drive to raise \$3 million from the corporate and professional community, as its financial contribution to a unique project that would be highly worthwhile. In addition to its financial contribution, the private sector donated thousands of hours of the time of approximately 250 executives who participated in the program.

Great care was taken to avoid placing any loaned executive in a position in which he or she would be called upon to study any department or division of government with regulatory responsibility for the loaned executive's industry or organization. Thus potential conflicts of interest in the process were carefully avoided.

The GMIP board members and other loaned executives who participated in the formative stages of the program concluded that it would be more effectively carried out if divided into two main segments; these came to be known as the Short Term Program and the Long Term, or Strategic Issues Program.

The Short Term Program encompassed an analysis of all programs that would impact on the State's budget for fiscal year 1984. It provided an opportunity for GMIP to focus on practical steps that would enable State government to immediately do its job better, and at lower cost.



For the short term effort, loaned executives were formed into six separate groups and further subdivided into 32 separate study teams, each ranging in size from five-to-eight individuals. Each team was responsible for a different department of State government and team size was determined by the size and complexity of the agency's operation.

Study teams worked in close consultation with State executives ranging from Cabinet officials to middle management personnel within the divisions and departments to which they were assigned. An overriding factor making the GMIP project unique among government efficiency and improvement studies was that all the information that resulted in short term recommendations was provided by State employees.

Conclusions and options came fundamentally from government personnel who worked closely with the consulting private sector executives. An elaborate system was devised for directly involving responsible officials from the upper and middle echelons of government in the process of collecting and evaluating information about all jobs and functions.

Another major element of the Short Term Program was its focus on management personnel and their functions. This was not a program designed simply to eliminate employees at the lower levels. A priority objective was the determination of how better management could be accomplished by fewer managers, more effectively deployed.

An important element of the short term report is the department-by-department summary of savings achieved in the 1984 budget due

to assistance of the GMIP. The summary shows a total savings of \$102.5 million — a figure that needs clarification in two respects:

First, the \$102.5 million represents cost avoidance by the State as a result of cutbacks suggested by GMIP. Importantly, while holding the line on expenditures, the State also preserved the integrity of its services. However, this should not be misconstrued as an accumulated reserve of cash resulting from the application of the GMIP short term recommendations.

The second possible basis for misunderstanding of the \$102.5 million figure is to view it erroneously as the total and final savings to be derived from the short term effort. In fact, as the GMIP findings are adopted in future years, much if not all of the same savings should recur annually. In addition, future implementation of even more of the detailed recommendations of the Short Term Program could yield still further savings — also recurring on an annual basis.

Options for divisional and departmental management improvements are not intended by GMIP to be rigid manuals that must be followed explicitly. GMIP recognized fully that senior managers must have flexibility in order to function effectively. However, each department and division now has a plan that, if applied, will provide both increased efficiency and cost savings.

GMIP's Long Term Program involved a detailed analysis of what the private sector leadership considered to be ten serious long range, strategic issues facing New Jersey during the next five-to-ten years. These issues were judged to be problems that, if not

confronted in the near term, would inflict grave financial consequences on the State in future years.

At the outset, executives who took on the challenge of the Long Term Program considered more than 75 critical issues for possible inclusion in the project. It was recognized, however, that it was impossible for GMIP to examine all of these issues. So collectively the executives analyzed and selected 10 key strategic issues that satisfied the following three criteria:

First, issues were chosen that could have a substantial, important impact on the State.

Next, issues had to demonstrate clearly, through complex and especially difficult problems, that a strategic evaluation could be beneficial to the leadership of State government for the long term.

And finally, issues were chosen that offered a significant opportunity to change direction as a result of strategic assessment and presenting options.

Clearly, the primary goal throughout this effort was to lay out the long term implications of major issues; to identify the key forces driving those long term implications; and to present to New Jersey's political leaders a few options and the implications of these options. It was not GMIP's mission to present specific recommendations concerning long term issues.

It is true that private sector executives also wanted to demonstrate the value of strategic, long term analysis to New Jersey's political leadership. So GMIP selected key program issues, which could be described as encompassing the State's "products and services,"

and key process issues, which deal with the "delivery" of those products and services.

The key process issues studied in the long term program were:

- Budget and planning
- Civil Service
- The State Division of Purchase and Property

The key program issues studied in the long term program were:

- Unemployment insurance
- Highways and bridges infrastructure
- Mass transit
- The prison and correctional system
- Medical assistance and health services
- Non-tax revenues
- Aid to elementary and secondary education

There is little doubt about the importance of these strategic issues. The primary goal was to identify problems and lay out the long term implication of these problems.

After identifying each issue and the key forces driving it, the next phase was to study options for coping with it and to review the implications of these options.

A separate study team made an in-depth analysis of each of the ten strategic issues. Each team ultimately compiled a report, in consultation with the leadership of the Long Term Program and with professional consultants engaged for the project. All ten individual long range issue reports are included here as part of the formal, final report.

Loaned executives, who worked on these issues for more than a year reported that they received the strong cooperation and encouragement of government officials and workers at all levels. This

was a major factor in support of a worthwhile result. But the true end result, of course, will be in the actual implementation of the options or variants of options advanced in these reports.

While these reports were presented to the Governor as the person responsible for initiating the GMIP study, the Legislature will have a central role in deciding the outcome of these issues. Accordingly, the final decisions are now in the hands of the Legislators and the Governor.

Besides the obvious value of these analyses by the Governor's Management Improvement Program, studying these key issues also provided the opportunity to show the merit of a strategic, long term process — through which important issues will be confronted before they become crises.

Those associated directly with this non-profit organization are indebted to everyone in State government who encouraged the project or cooperated with it. A most satisfying revelation for many of the private sector participants was the extent to which most public employees are sincerely concerned with helping to achieve greater efficiency in their operations.

A particular expression of thanks is due to the staff of the State's Office of Management Services, which was established to facilitate this project, and to its director, Alfred F. Fasola, Jr., who has since been elevated to the newly created position of Director of the State Office of Management and Budget. The establishment of the latter office was one of the principal early objectives of the GMIP Short Term Program.

Thanks also are extended here to the two highly capable professional consulting firms that worked on the project, Braxton Associates of Boston, and Science Management Corporation-Hendrick, Inc., of Bridgewater, New Jersey, and Framingham, Mass.

The ultimate test of the success of the Governor's Management Improvement Program will be, of course, in the actual implementation of the suggested options.

As indicated, most of the short term findings already have been implemented. Concerning the long term reports, some implementation already has taken place, but much remains for consideration by the Governor and Legislature.

The Governor's Management Improvement Program, Inc. remains in existence and is prepared to assist the State's governmental leadership in helping the entire process continue. It is hoped that this effort will become a standard worthy of emulation of every State in the nation.



David R. Clare
Chairman
Long Term Study



Robert R. Ferguson, Jr.
Chairman
Board of Directors, GMIP



Rocco J. Marano
Chairman
Short Term Study

LEADERSHIP ORGANIZATION SHORT TERM STUDY

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President
Campbell Soup Company

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Allied Corporation

John Lloyd Huck
President and Chief Operating Officer
Merck & Company, Inc.

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Prudential Insurance Company of America

CROSS-CUT ISSUES/PERSONNEL

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Johnson & Johnson

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Finn M. W. Caspersen

Chairman of the Board
Beneficial Corporation

GMIP



Report On The Short Term Study

Prepared By

THE GOVERNOR'S MANAGEMENT IMPROVEMENT PROGRAM, INC.

GOVERNOR'S MANAGEMENT IMPROVEMENT PROGRAM

There shall be a study and analysis of every department in state government through a process which integrates the experience of state managers and private-sector executives in order to ascertain the most efficient and economical manner to perform services by the state of New Jersey for its citizens. - Governor Thomas H. Kean, Executive Order No. 13, August 13, 1982.

With an eye toward establishing a private sector - government partnership, Governor Kean announced the creation of the Governor's Management Improvement Program. At a breakfast with forty-five of the state's business leaders on June 29, 1982, the Governor described a two-part program that would undertake the most comprehensive and far-reaching analysis of state government ever attempted. Through the creation of a nonprofit organization and the solicitation of support, both financial and in personnel, from the private sector, the Governor's Management Improvement Program would be conducted at no direct cost to the taxpayers.

Governor Kean announced the appointment of three New Jersey business leaders to spearhead this effort. Rocco J. Marano, vice president of AT&T, was named to chair the short-term effort to examine all state agencies with an eye toward improving efficiency, cutting costs, and eliminating waste from state government. David R. Clare, president of Johnson & Johnson, was designated as chairman for the long-term approach to planning the future mission of state agencies and government programs. Finally, Robert R. Ferguson, Jr., president and chief executive officer of First National State Bancorp, was appointed chairman of the Governor's Management Improvement Program and chairman of the financial committee charged with the fund-raising effort. The Governor looked to this core group and the team that they could assemble to lend private-sector expertise, support, and talent to this unprecedented effort to reorganize state government.

Most important, this process involves all of our managers and employees. We need their ideas and solutions to problems. You can't reorganize a complex organization from the outside. The study will challenge every state worker to find creative ways to do a better job with less money. - Governor Thomas J. Kean, June 29, 1982.

The Governor was committed to a rational fiscal process requiring effective management of resources within the limits of what revenues can afford. The Governor's Management Improvement Program was dedicated to fulfilling that commitment.

Making use of broad group of state employees to revamp and streamline government was an essential element of the entire process. The Governor's Management Improvement Program represents a unique partnership between the business community and the public sector. The Kean administration recognized that practices and technology that are commonplace in the private sector can offer a great deal to government during a time of burgeoning fiscal deficits and changing federal-state relationships. But participation by agency managers was crucial, both to help identify problem areas and to point out the subtle differences between governmental and private-sector operations.

SHORT TERM PROGRAM

- I. GOAL - Address the most pressing need of a balanced FY '84 budget and conduct a comprehensive organizational and programmatic review of the executive branch.

- II. PROCESS - Over 250 leading New Jersey business executives were grouped with agency managers to form co-consultant teams. Their mission was to identify cost-reduction opportunities, eliminate duplication and non-productive management practices, develop systems offering better and more accountability, and provide for more effective delivery

service. Five major analyses were developed by GMIP to assist the co-consultant teams in their review of all state departments and agencies.

- A. Organizational Analysis - Emphasizing staffing levels, spans of managerial control, layers of management, activity costs and structural job design. This work was coordinated by Science Management Corporation and the GMIP staff.

- B. Program Analysis - Identifying program areas with high potential for cost reduction and developing recommendations that would yield results with minimal disruption, and matching programs with target populations to determine where there was duplication in service delivery. This work was coordinated by Braxton Associates and the GMIP staff.

- C. Analysis of Staffing and Fringe Benefits - Studying attrition patterns, sick leave and employee benefits; exploring opportunities for productivity improvements that were identified during the organizational and program analyses; and conducting pilot studies on productivity improvements with the aim of developing a model approach toward long-term improvements in productivity and in management training. This work was coordinated by Science Management Corporation and the GMIP staff.

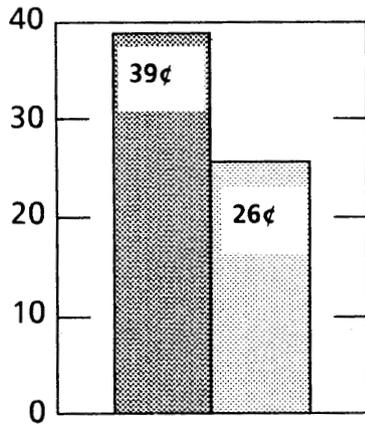
- D. Systems Analysis - Reviewing and analyzing the state's existing data processing and management information systems with a result of recommendations for upgrading facilities to aid workers and clients. This work was coordinated by Science Management Corporation.

E. Analysis of Central Support Services - Focusing on statewide policy issues and on those services that are interdepartmental in nature and affect the operations of all the agencies. The analytical staff investigated opportunities for cost reduction in areas such as purchasing, management of real property, cash management, and personnel management. Several private sector executives were designated to coordinate this segment of the work and were assisted by Braxton Associates.

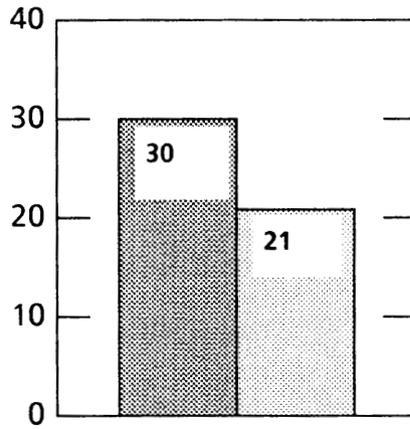
III. QUANTIFIABLE RESULTS

- Cost avoidance of an estimated \$100 million in the Administration's FY'84 executive direct state services budget was a result of holding 17 of the 20 executive departments at or below their current funding levels.
- Identification of approximately \$32 million in immediate payroll reduction opportunities.
- Acquisition of \$20 million extraordinary appropriation for EDP initiatives with a calculated \$98 million payback over three years.
- Redesignation of close to 3,000 managers to workers status.
- Identification of potential for FY'84-'85 savings over \$71 million through implementation of a controlled replacement program.
- Targeted reduction of 25 percent in current sick leave usage over 2 years.

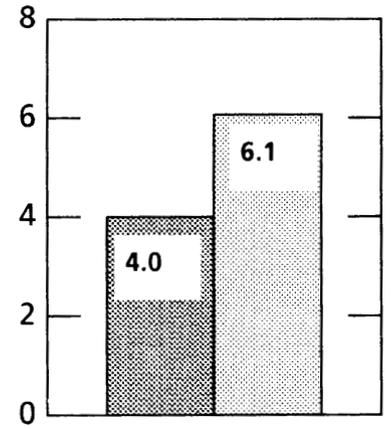
STATE OF NEW JERSEY



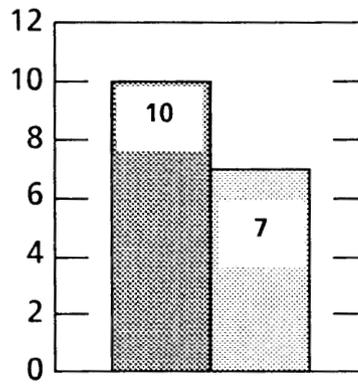
COST TO MANAGE



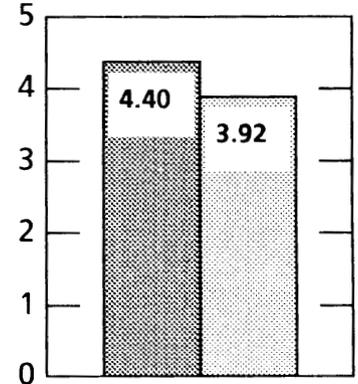
% MIDDLE MANAGERS



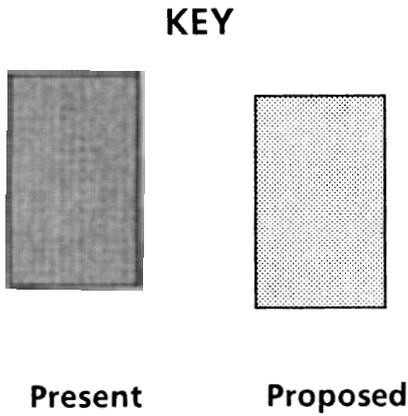
RATIO WORKERS/MANAGER



MAX MANAGEMENT LEVEL



AVG MANAGEMENT LEVEL



SMC DATA

COST AVOIDANCE - FY '84 APPROPRIATIONS
(IN 000's)

<u>Department</u>	<u>Average Growth FY 80-83</u>	<u>FY 83 Adjusted Approp. (2)</u>	<u>FY 84 Proj. Growth Based Upon Prior Years' Average</u>	<u>FY 84 Projected Needs</u>	<u>FY 84 (1) Actual Approp.</u>	<u>Cost Avoidance</u>
Agriculture	5.9%	\$5,710	\$336	\$6,046	\$6,220	\$-174
Banking	7.5%	4,508	338	4,846	4,616	230
Civil Service	12.0%	12,917	1,550	14,467	13,253	1,214
Commerce	6.7%	6,205	415	6,620	6,293	327
Community Affairs	9.1%	12,935	1,177	14,112	13,485	627
Corrections	22.2%	174,465	38,731	213,196	203,395	9,801
Defense	11.4%	8,433	961	9,394	9,657	-263
Education	7.7%	28,552	2,198	30,750	29,343	1,407
Energy						
Public Broadcasting	6.9%	5,285	365	5,650	5,405	245
Energy	24.1%	2,069	499	2,568	2,123	445
Board of Public Utilities	<u>10.4%</u>	<u>6,902</u>	<u>718</u>	<u>7,620</u>	<u>9,408</u>	<u>-1,788</u>
TOTAL	11.1%	\$14,256	\$1,582	\$15,838	\$16,936	-\$1,098
Environmental Protection	11.8%	49,001	5,782	54,783	50,925	3,858
Health	9.2%	29,793	2,741	32,534	30,866	1,668
Higher Education	8.2%	512,787	42,049	554,836	540,205	14,631
Human Services	12.1%	460,111	55,673	515,784	469,160	46,624
Insurance	11.3%	6,167	697	6,864	6,196	668
Labor	11.7%	34,376	4,022	38,398	35,626	2,772
Law & Public Safety	9.4%	158,563	14,904	173,467	165,242	8,225
Public Advocate	11.2%	25,258	2,828	28,086	26,144	1,942
State						
Administrative Law	4.0%	3,954	158	4,112	4,052	60
State	<u>12.1%</u>	<u>8,580</u>	<u>1,041</u>	<u>9,621</u>	<u>8,404</u>	<u>1,217</u>
TOTAL	9.6%	\$12,534	\$1,199	\$13,733	\$12,456	\$1,277
Transportation						
Transit Corporation	14.4%	124,000	17,906	141,906	149,000	-7,094
Transportation	<u>7.7%</u>	<u>121,839</u>	<u>9,382</u>	<u>131,221</u>	<u>122,861</u>	<u>8,360</u>
TOTAL	11.1%	\$245,839	\$27,288	\$273,127	\$271,861	\$1,266
Treasury	11.5%	<u>74,239</u>	<u>8,537</u>	<u>82,776</u>	<u>75,566</u>	<u>7,210</u>
GRAND TOTAL		<u>\$1,876,649</u>	<u>\$213,008</u>	<u>\$2,089,657</u>	<u>\$1,987,445</u>	<u>\$102,212</u>

(1) See attached schedule for computation of FY 84 actual appropriation.

(2) Departments of Education and State adjusted to reflect transfer of responsibilities.

MRF:ply
11/14/83

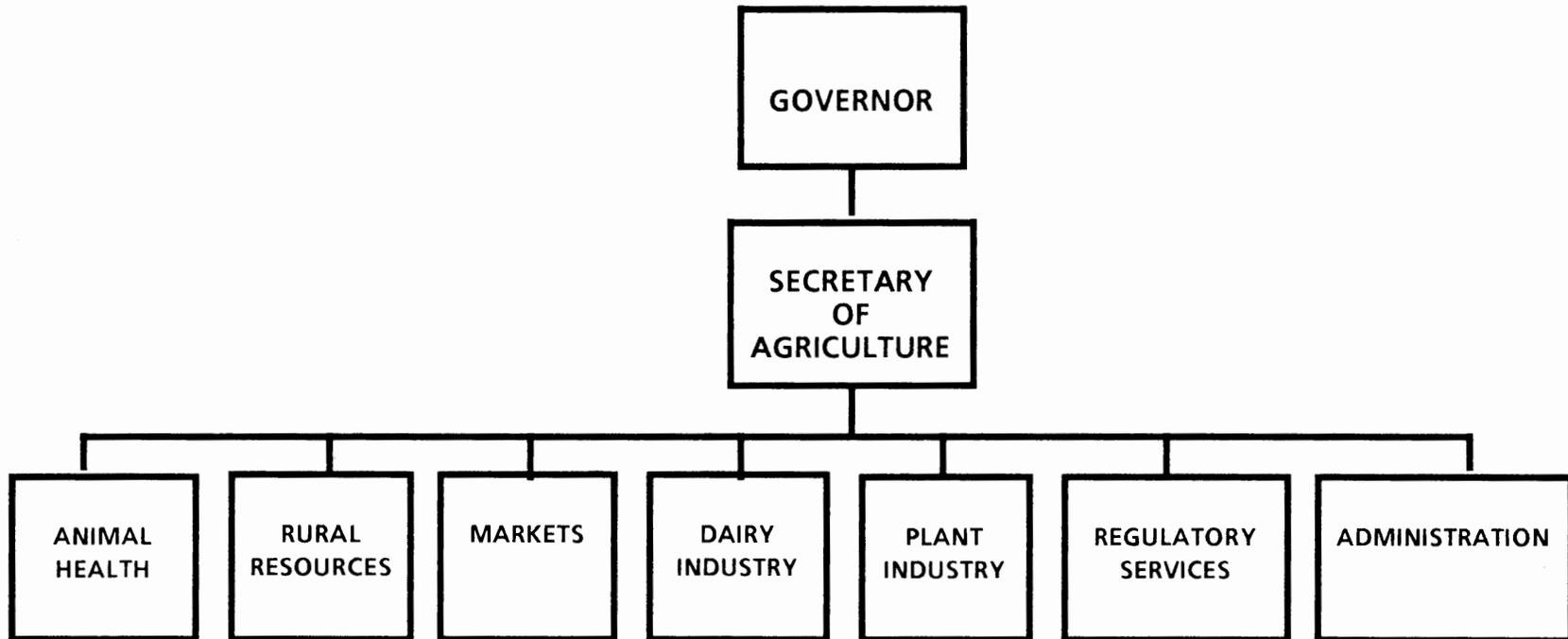
FY 1984 APPROPRIATION BY DEPARTMENT
(IN 000's)

	<u>S-3500 & S-3433</u> <u>(Approp. Acts)</u>	<u>Salary Program</u> <u>(Tentative)</u>	<u>Overtime</u>	<u>EDP Funds*</u>	<u>Total</u>
Agriculture	\$6,100	\$120	0	0	\$6,220
Banking	4,508	108	0	0	4,616
Civil Service	12,024	338	\$60	\$831	13,253
Commerce	6,228	64	1	0	6,293
Community Affairs	13,069	338	78	0	13,485
Corrections	184,986	3,280	15,129	0	203,395
Defense	9,495	157	5	0	9,657
Education	28,704	585	54	0	29,343
Energy					
Public Broadcasting	5,110	124	171	0	5,405
Energy	2,068	54	1	0	2,123
Board of Public Utilities	<u>9,181</u>	<u>227</u>	<u>0</u>	<u>0</u>	<u>9,408</u>
TOTAL	\$16,359	\$405	\$172	0	\$16,936
Environmental Protection	49,691	995	239	0	50,925
Health	30,233	633	0	0	30,866
Higher Education	524,213	14,300	1,592	100	540,205
Human Services	448,207	9,715	11,149	89	469,160
Insurance	6,039	157	0	0	6,196
Labor	35,001	503	47	75	35,626
Law & Public Safety	157,715	6,030	1,497	0	165,242
Public Advocate	25,439	702	3	0	26,144
State					
Administrative Law	3,954	88	10	0	4,052
State	<u>8,225</u>	<u>179</u>	<u>0</u>	<u>0</u>	<u>8,404</u>
TOTAL	\$12,179	\$267	\$10	0	\$12,456
Transportation					
Transit Corporation	149,000	0	0	0	149,000
Transportation	<u>117,169</u>	<u>2,164</u>	<u>3,528</u>	<u>0</u>	<u>122,861</u>
TOTAL	\$266,169	\$2,164	\$3,528	0	\$271,861
Treasury	<u>72,138</u>	<u>1,726</u>	<u>737</u>	<u>965</u>	<u>75,566</u>
GRAND TOTAL	<u>\$1,908,497</u>	<u>\$42,587</u>	<u>\$34,301</u>	<u>\$2,060</u>	<u>\$1,987,445</u>

* These represent continuation funding which was appropriated in the department budgets, but was deleted from those budgets by the JAC and included in the inter-departmental area. (Resolution #505).

MRF:ply
11/14/83

DEPARTMENT OF AGRICULTURE



Department of Agriculture programs and policies to meet major goals are established by the State Board of Agriculture, New Jersey's highest-ranking official agricultural body. The principal executive and administrative officer of the department is the Secretary of Agriculture, who is appointed by the board with the approval of the governor. The board, in conjunction with the secretary, establishes the basic organization of the department and assigns the functions and programs to the units within that organization.

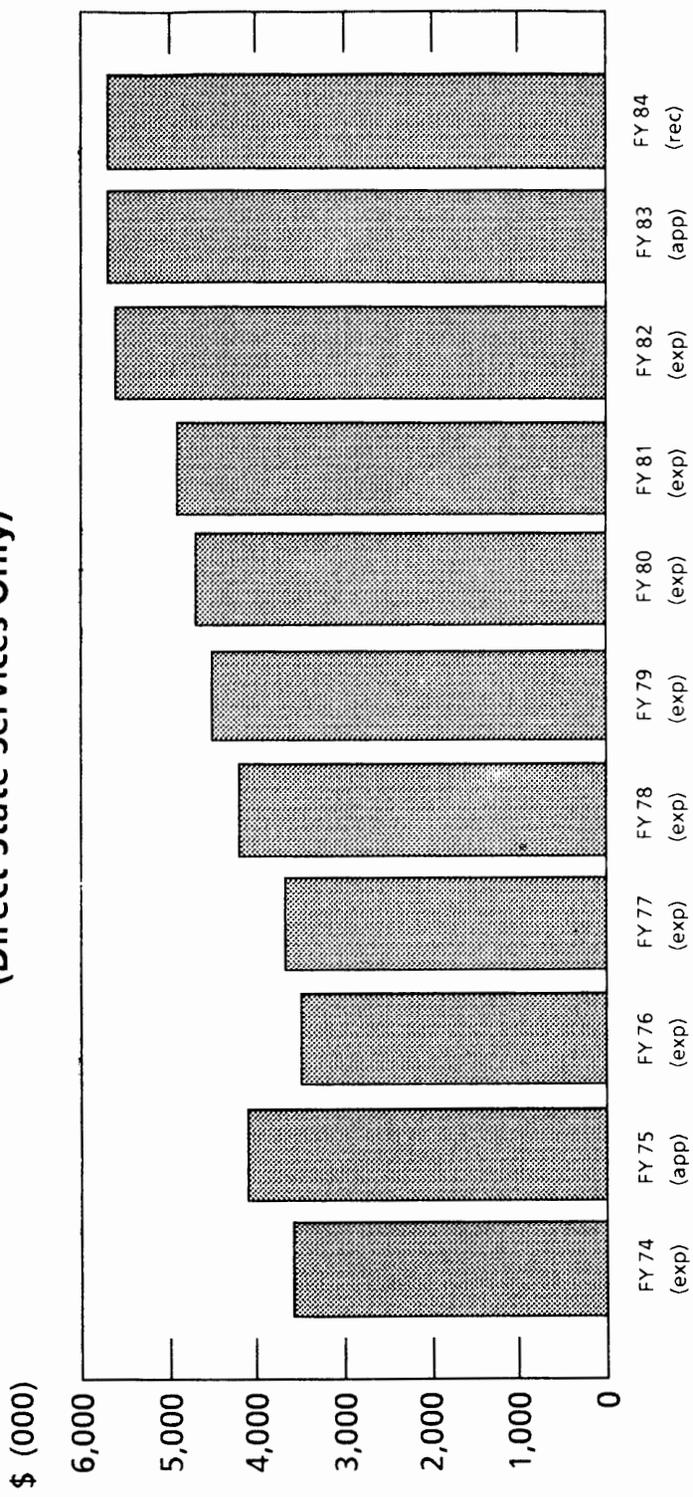
The New Jersey Department of Agriculture provides a wide array of programs and services in support of the state's agricultural industry, its rural areas and natural resources, and consumers of agricultural products. More specifically, the department's programs are directed toward achieving the following major goals:

- o Detect, control, and eradicate animal and plant pests and diseases of economic, environmental, and health importance to agriculture and the public.
- o Develop, stimulate, support, and improve the state's agricultural, marketing, agribusiness, and rural economy.
- o Protect, conserve, and develop the natural resources of soil, water, and other renewable resources for economic, environmental, and aesthetic benefits.
- o Prevent unfair, improper, and illegal trade practices related to the production and marketing of wholesome and plentiful agricultural products.

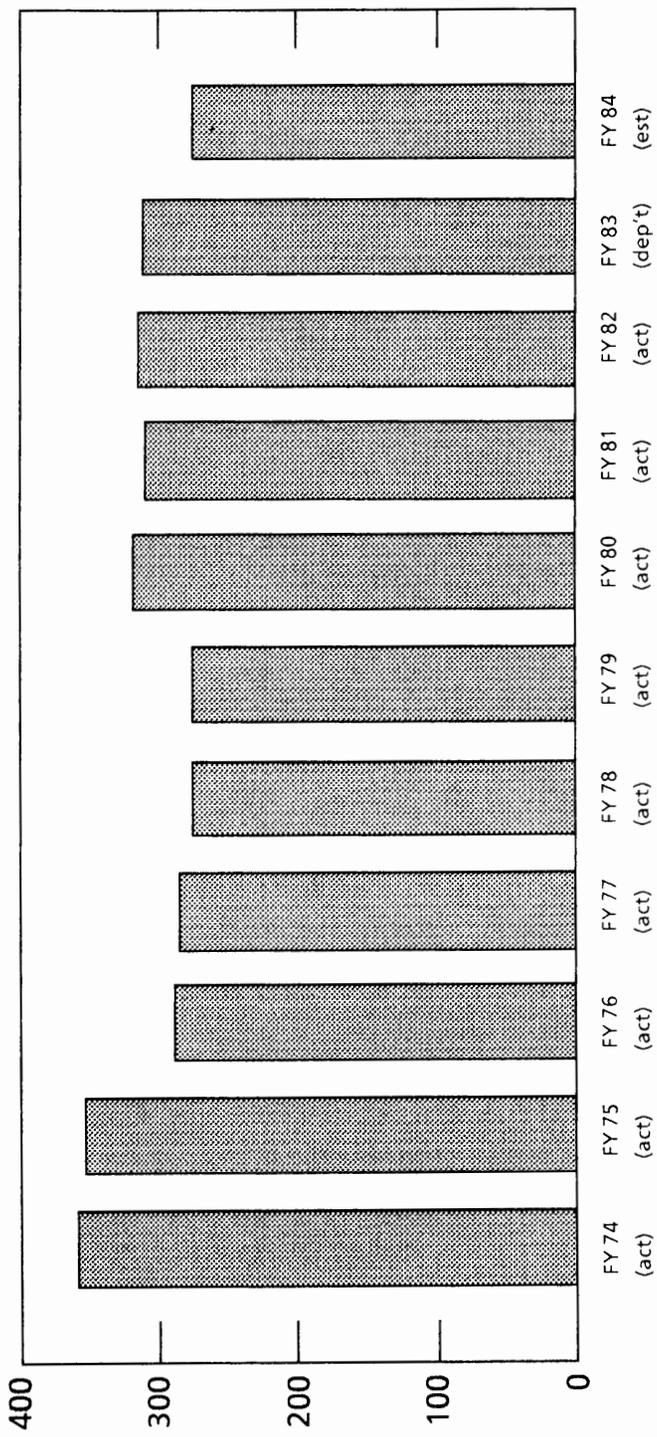
For Fiscal Year 1983, the department had 308 positions and a state operating budget of \$5.7 million.

The organization chart for the department reflects the final decision of the secretary after analysis of the GMIP final report.

BUDGET (Direct State Services Only)



TOTAL POSITIONS (All Funding Sources)



Accomplishments

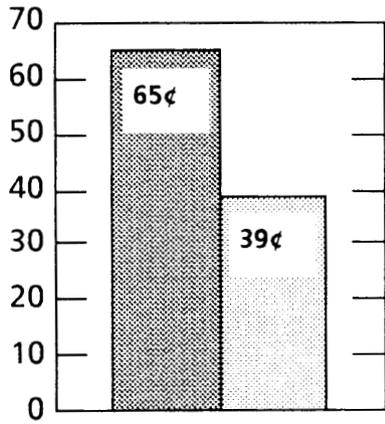
The organizational analysis included reviews of the agency's organization, staffing levels, spans of managerial control, layers of management and activity costs. The major accomplishments of the organizational analysis were as follows:

- o Departmental staff reduced by 15 positions
- o Managers reduced by 31 positions
- o Average number of management levels reduced from 2.92 to 2.62
- o Span of managerial control increased from approximately one manager to every four workers to one manager for every seven workers
- o Number of organizational units reduced from 75 to 44
- o Management costs reduced from 65 cents to 39 cents per worker salary dollar

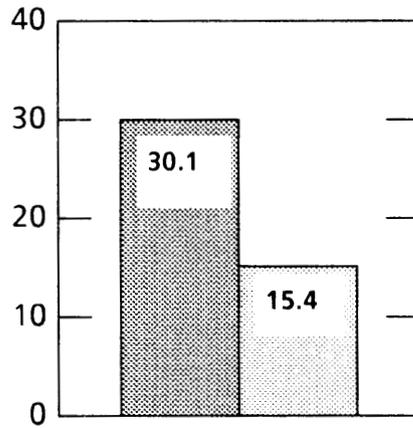
Additional Opportunities

- o Recommended action to consolidate and centralize revenue handling and related accounting controls
- o Recommended action to increase the efficient utilization of field staff
- o Identified need to reduce staff time devoted to preparing reports
- o Identified the need and opportunity to increase automation
- o Identified the need to participate in management training and development program

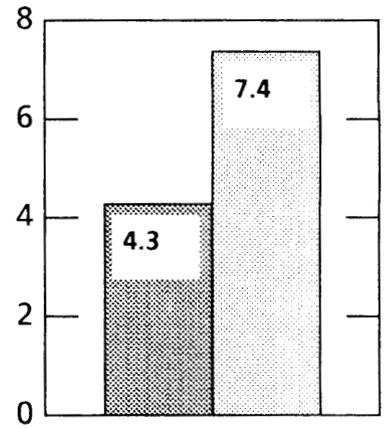
DEPARTMENT OF AGRICULTURE



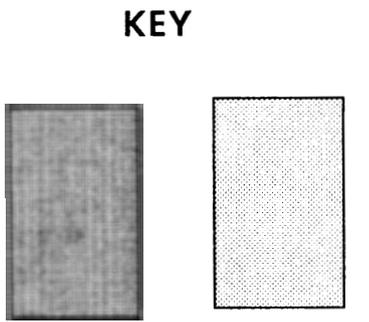
COST TO MANAGE



% MIDDLE MANAGERS

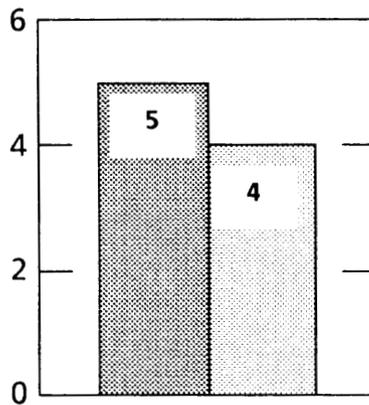


RATIO WORKERS/MANAGER

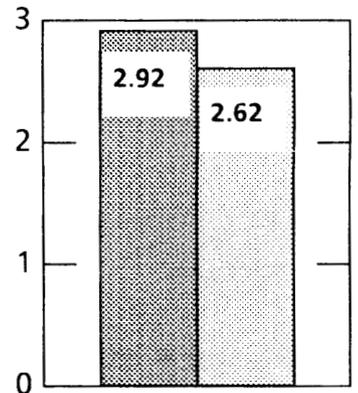


Present

Proposed



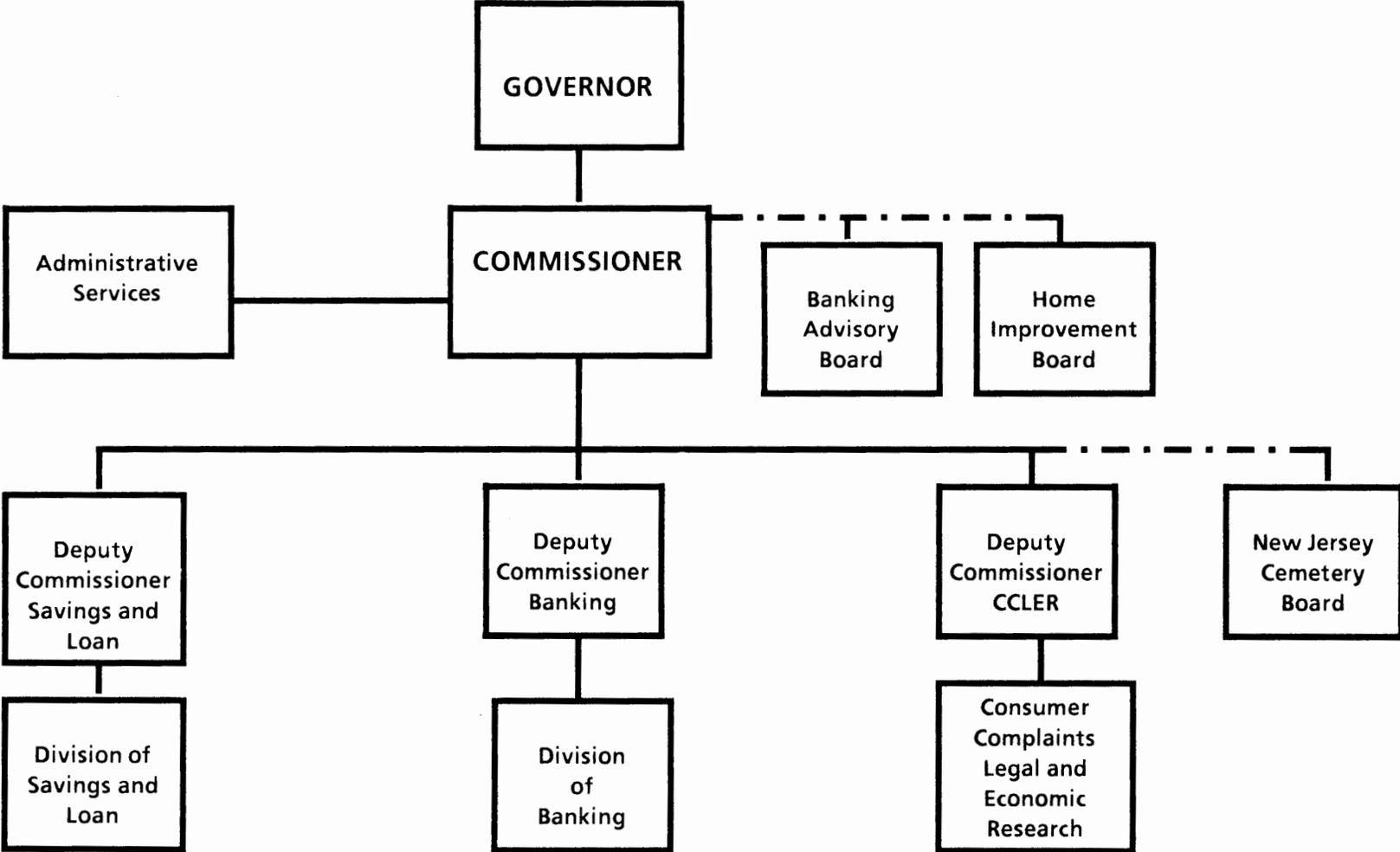
MAX MANAGEMENT LEVEL



AVG MANAGEMENT LEVEL

SMC DATA

DEPARTMENT OF BANKING



INVESTMENT SERVICES DIVISION

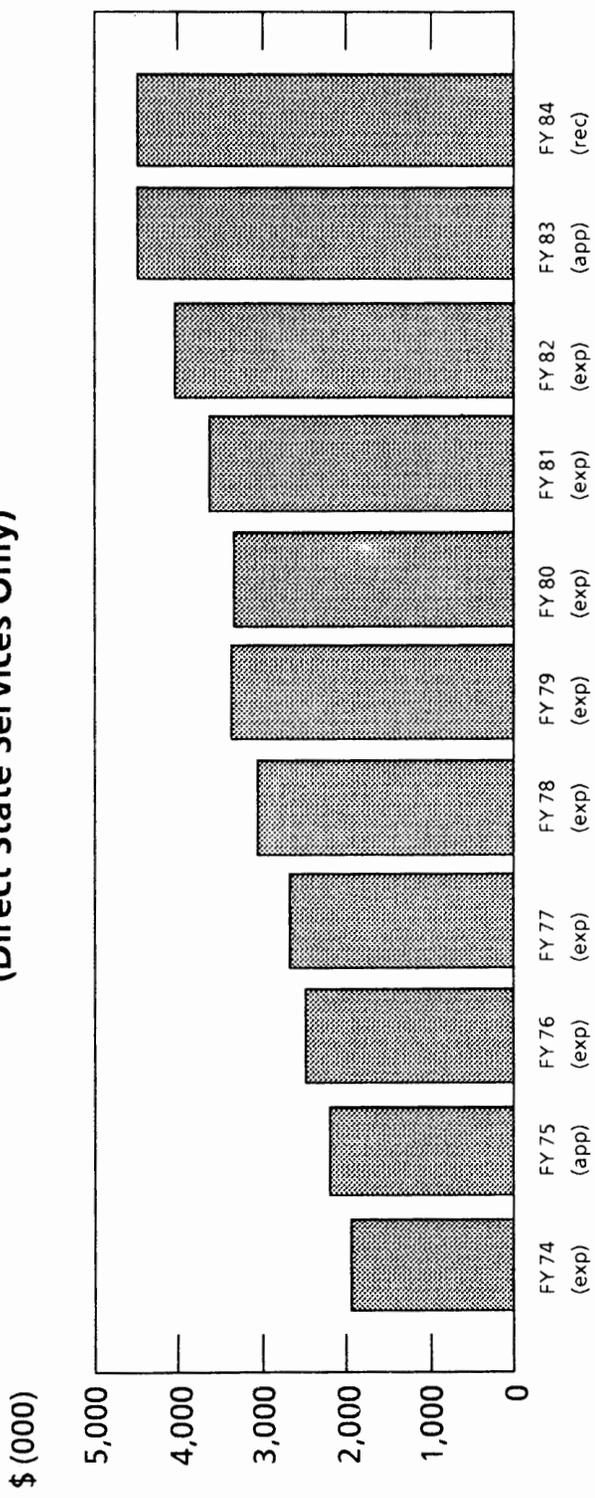
The Department of Banking operates programs to ensure full compliance with all statutes and regulations for the protection of the public. This is accomplished by using teams of examiners who conduct operational examinations of financial institutions including consumer credit companies and mortgage bankers and brokers (chapter 18, P.L. 81) that evaluate the quality of their assets, the adequacy of their capital, their strength of earnings, their sufficiency of liquidity, and the quality of their management and compliance with applicable rules and regulations.

The department was created to protect the public from financial loss resulting from failure of financial and consumer credit institutions, to ensure the public of fair and equitable treatment by financial institutions, to inform and educate the public on financial matters, and to protect the public through licensing and regulation of cemetery companies.

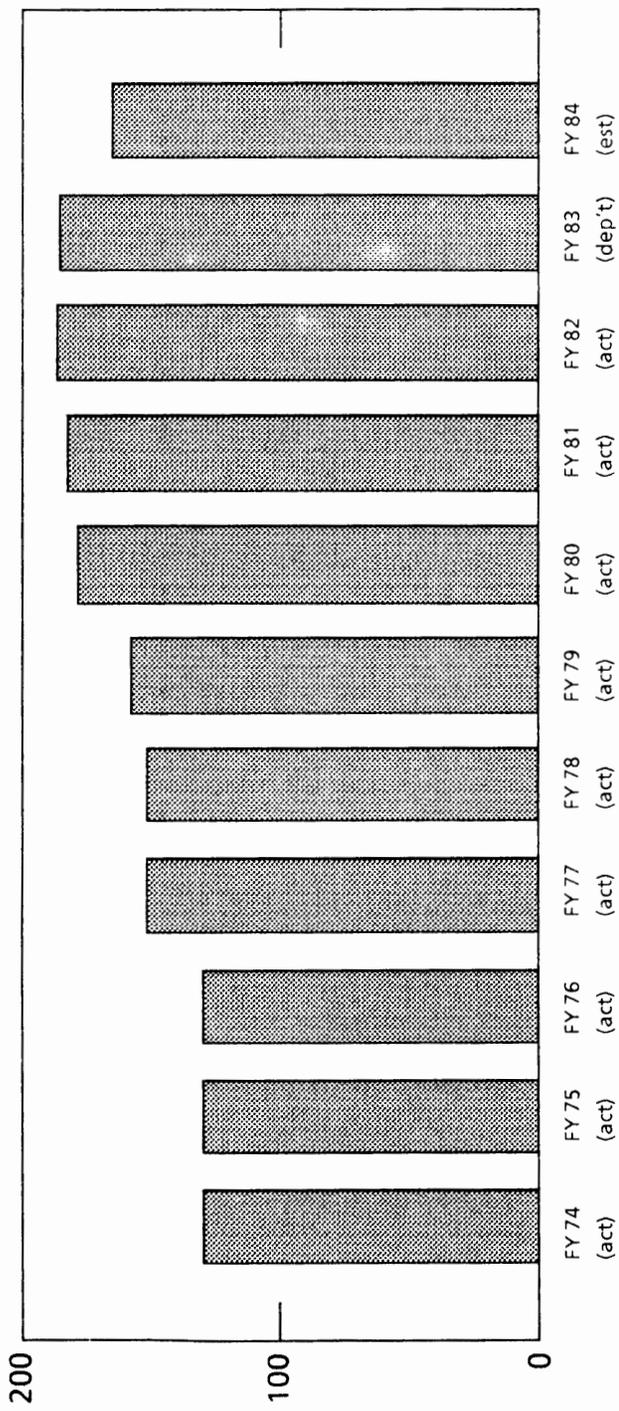
For Fiscal Year 1983, the department had 185 positions and a state operating budget of \$4.5 million. The regulatory functions of the program are supported through assessments and fees of the institutions regulated.

The organization chart for the department reflects the final decision of the commissioner after analysis of the GMIP final report.

BUDGET (Direct State Services Only)



TOTAL POSITIONS (All Funding Sources)



Accomplishments

As a result of the analysis of its organizational structure, the department was able to effect the following improvements:

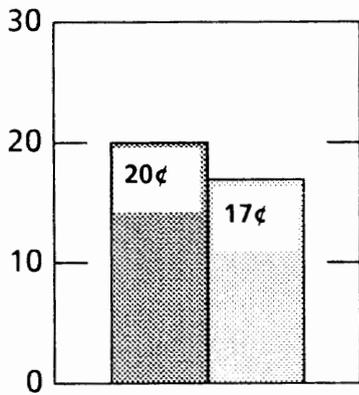
- o The number of levels of management has been reduced by 25 percent.
- o The internal reorganization of the Division of Consumer Complaints, Legal and Economic Research has improved the reporting relationships between workers and managers by moving two managerial positions to worker positions.
- o Through an 11.1 percent reduction in managers the average ratio of managers to workers has been increased from 1 manager for every 9 workers to 1 manager for every 10 workers.
- o Consolidation of the administrative function within the department has been achieved.
- o Regulatory examination activities in the Division of Banking have been concentrated into one area.
- o Cost reductions of \$78,000 were accomplished by staff reductions of one manager, one secretary , and two workers.
- o The cost to manage each dollar of worker's salary has been reduced from 20 cents to 17 cents.

Additional Opportunities

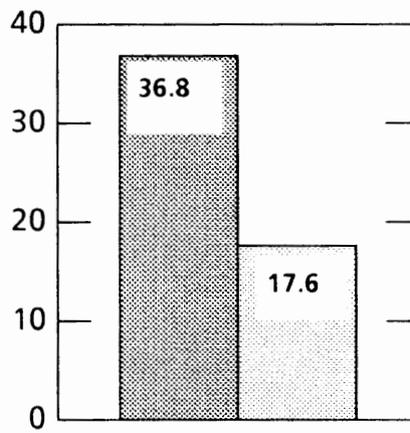
The following issues were identified for further study:

- o Remove the Department of Banking from the traditional budgetary process because it is essentially self-funding.
- o Seek to change the methods for establishing fees and assessments to allow for a more flexible operating posture for responding to changing industry and budgetary needs.
- o Consider revising the operating structure of the department for more efficient use of available resources; in particular, place increased emphasis on examinations based on remote trend analysis.

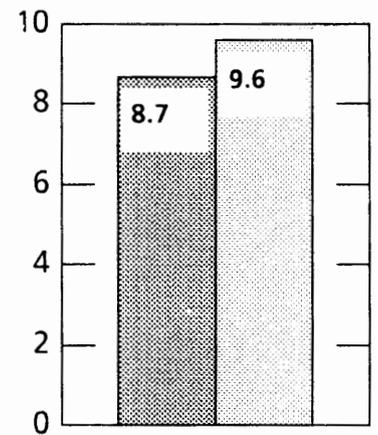
DEPARTMENT OF BANKING



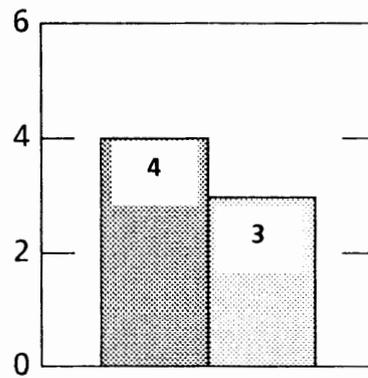
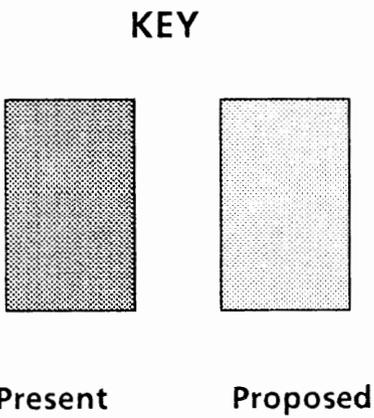
COST TO MANAGE



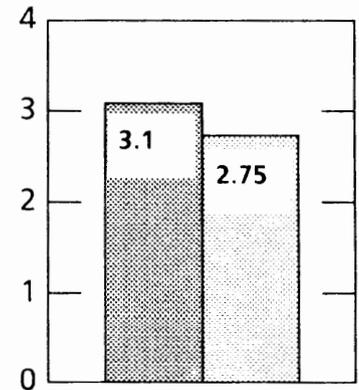
% MIDDLE MANAGERS



RATIO WORKERS/MANAGER



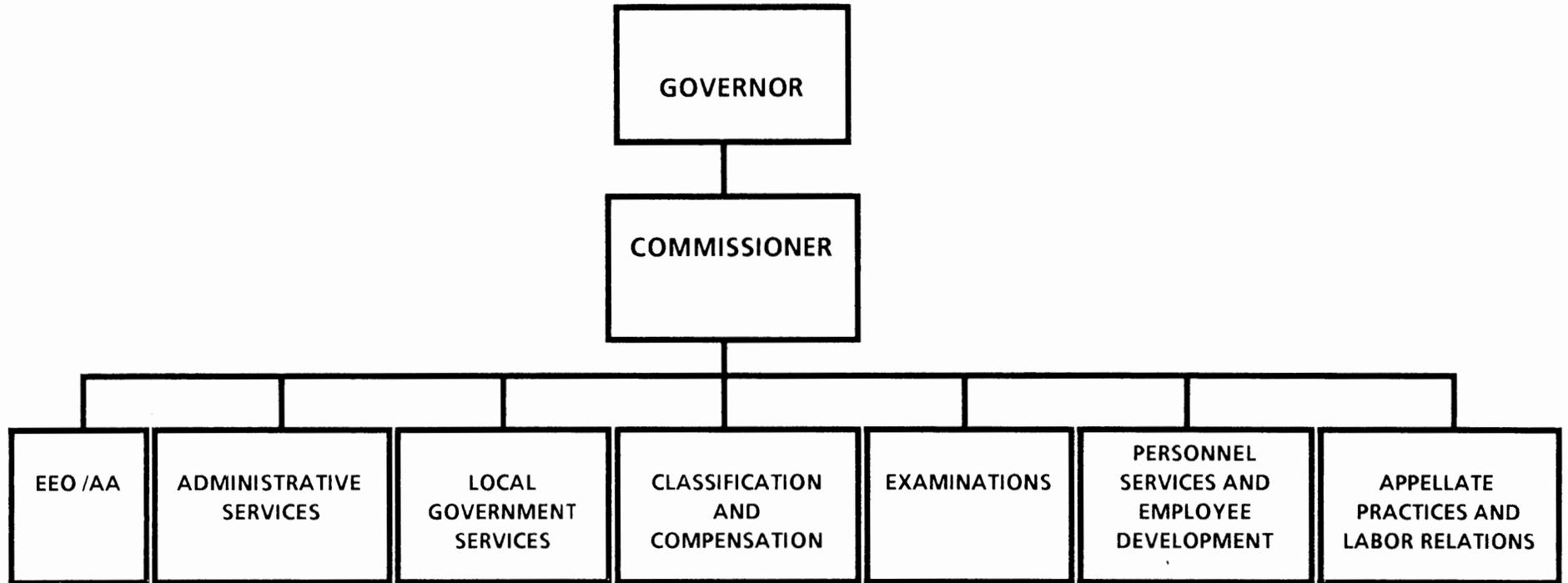
MAX MANAGEMENT LEVEL



AVG MANAGEMENT LEVEL

SMC DATA

DEPARTMENT OF CIVIL SERVICE



The New Jersey Department of Civil Service administers and provides personnel management services for all state governmental employees in twenty state departments, the legislature, the judiciary, and affiliated agencies, as well as for approximately 125,000 local governmental employees in twenty of New Jersey's twenty-one counties and nearly 277 municipalities and autonomous bodies.

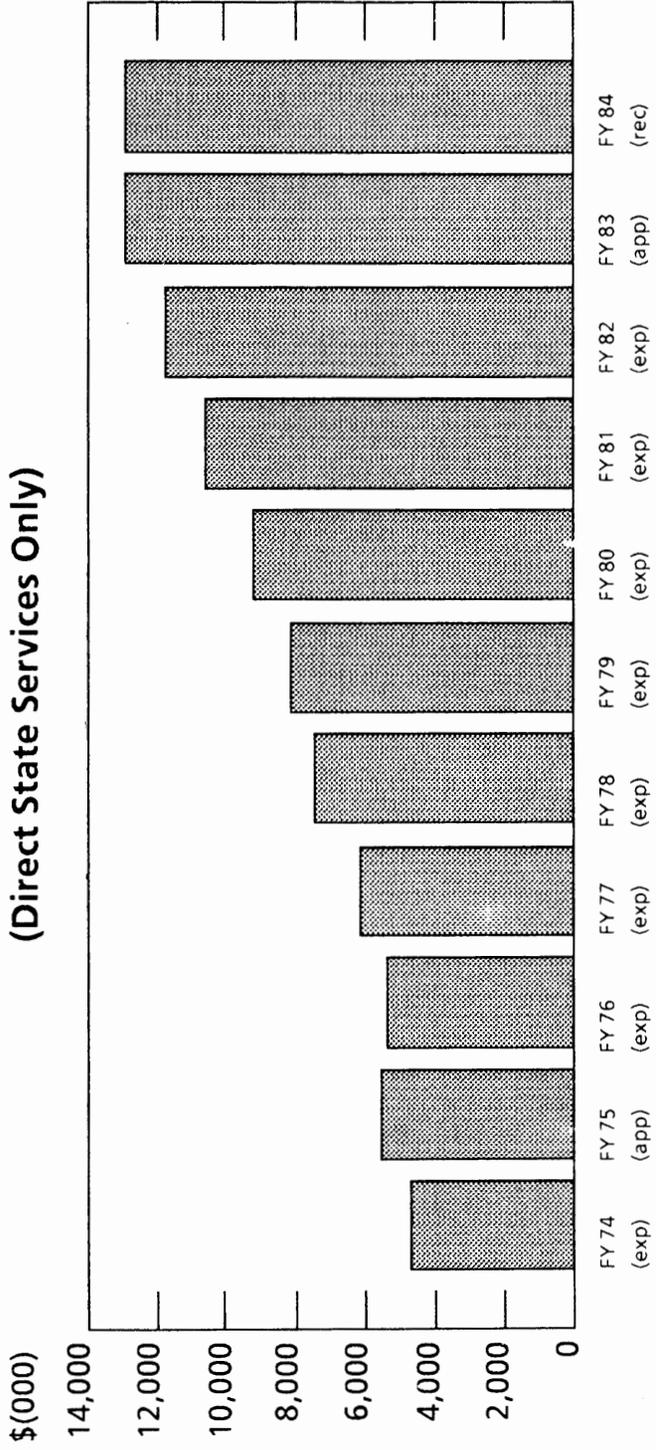
Its major program activities are as follows:

- o Provide state and local governments with the classification and organizational structures best suited for improving the performance of those governmental agencies and for providing the qualified staff required.
- o Provide an equitable compensation plan for all state employees.
- o Provide for the recruitment, selection, retention, and advancement of qualified employees and ensure that all personnel actions are based firmly on the merit principle.
- o Guarantee equal employment opportunity in state and local governmental employment by actively instituting affirmative action in hiring and promotion of all employees.
- o Resolve employee appeals in a fair and equitable manner.
- o Enhance employee personal fulfillment, effectiveness, and productivity by providing timely training and career development programs.
- o Improve personnel practices and continually progress toward the development of modern personnel techniques.

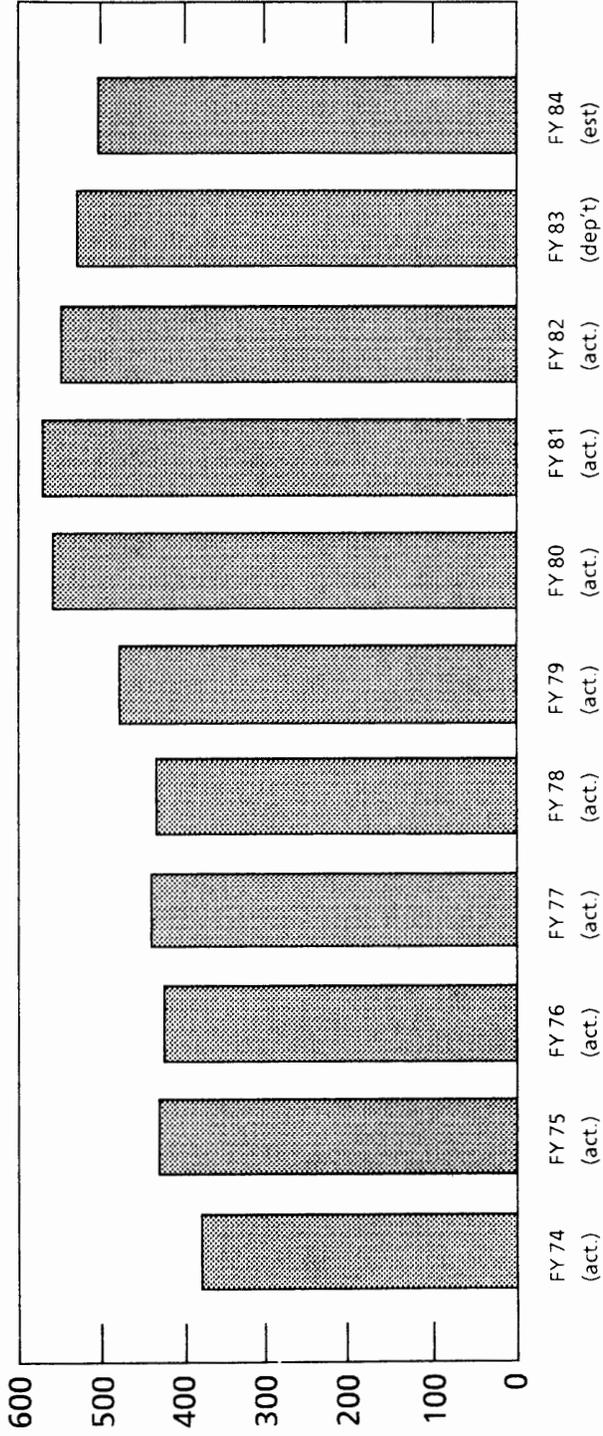
In Fiscal Year 1983, the department had 533 positions and a state operating budget of \$12.9 million.

The organization chart for the department reflects the final decision of the commissioner after analysis of the GMIP final report.

BUDGET (Direct State Services Only)



TOTAL POSITIONS (All Funding Sources)



Accomplishments

Major accomplishments of the organizational analysis were as follows:

- o The department eliminated forty-nine positions and/or employees and reorganized the remainder into an improved structure that included fewer supervisors and fewer levels of supervision.
- o The department's payroll was reduced (approximately \$925,700) which may eventually generate additional savings based on reduced consumption of supplies, equipment, and support services.

Additional Opportunities

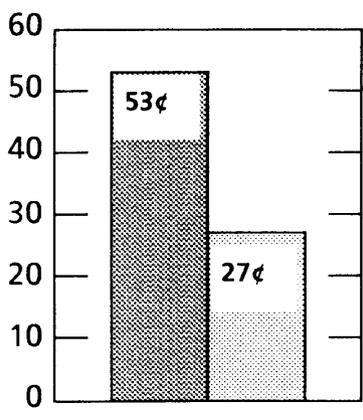
- o The department and the administration are actively pursuing a revision to N.J.S.A. Title 11, the merit-system law in New Jersey, which will result in a statute allowing for the modernization of personnel management in state government.
- o The department, as a result of the governor's executive order, has implemented a Certified Public Manager Program for supervisors and managers in state government.
- o A Vacancy Review Board has been established by executive order that will require the department, in cooperation with the governor's office and the treasurer, to review all positions that become vacant through retirement with a view toward determining whether that position should be filled at the same level, filled at a reduced level, or eliminated. It is expected that the establishment of the board will result in continued savings to the state.

Impact on Department Services

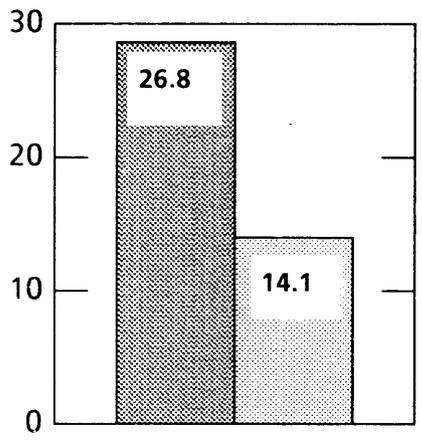
The impact of implementation on service delivery can be summarized as follows:

- o Training staff has been reduced to conform with the current level of training receipts.
- o Several programs of the Division of Personnel Services and Employee Development have been curtailed or suspended. These programs include the following: the Civil Service hotline, the State Service Transfer Program, the State Service Preretirement Program, and the Personnel Improvement Projects Team. In addition, development and monitoring of the State Service Personnel Appraisal System have been suspended, while the system itself continues to operate.
- o In keeping with the greatly reduced rate of hiring in the state service, special recruiting activities of the Division of Equal Employment Opportunity and Affirmative Action have been eliminated. Future Affirmative Action efforts will target individuals who are already on state payrolls.

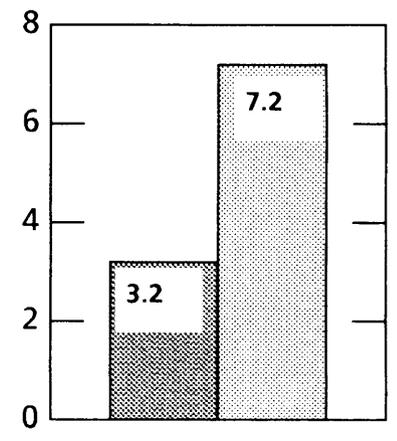
DEPARTMENT OF CIVIL SERVICE



COST TO MANAGE

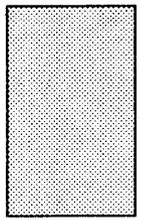
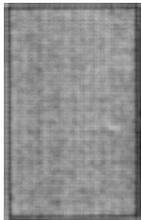


% MIDDLE MANAGERS



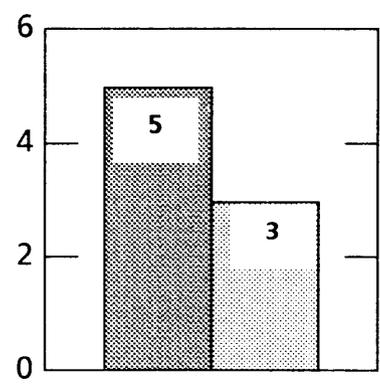
RATIO WORKERS/MANAGER

KEY

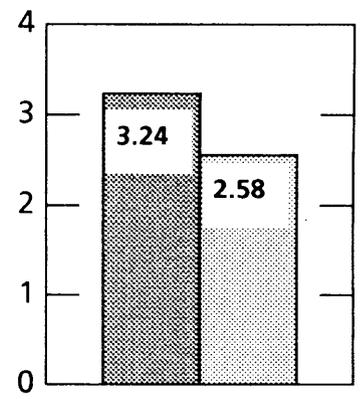


Present

Proposed



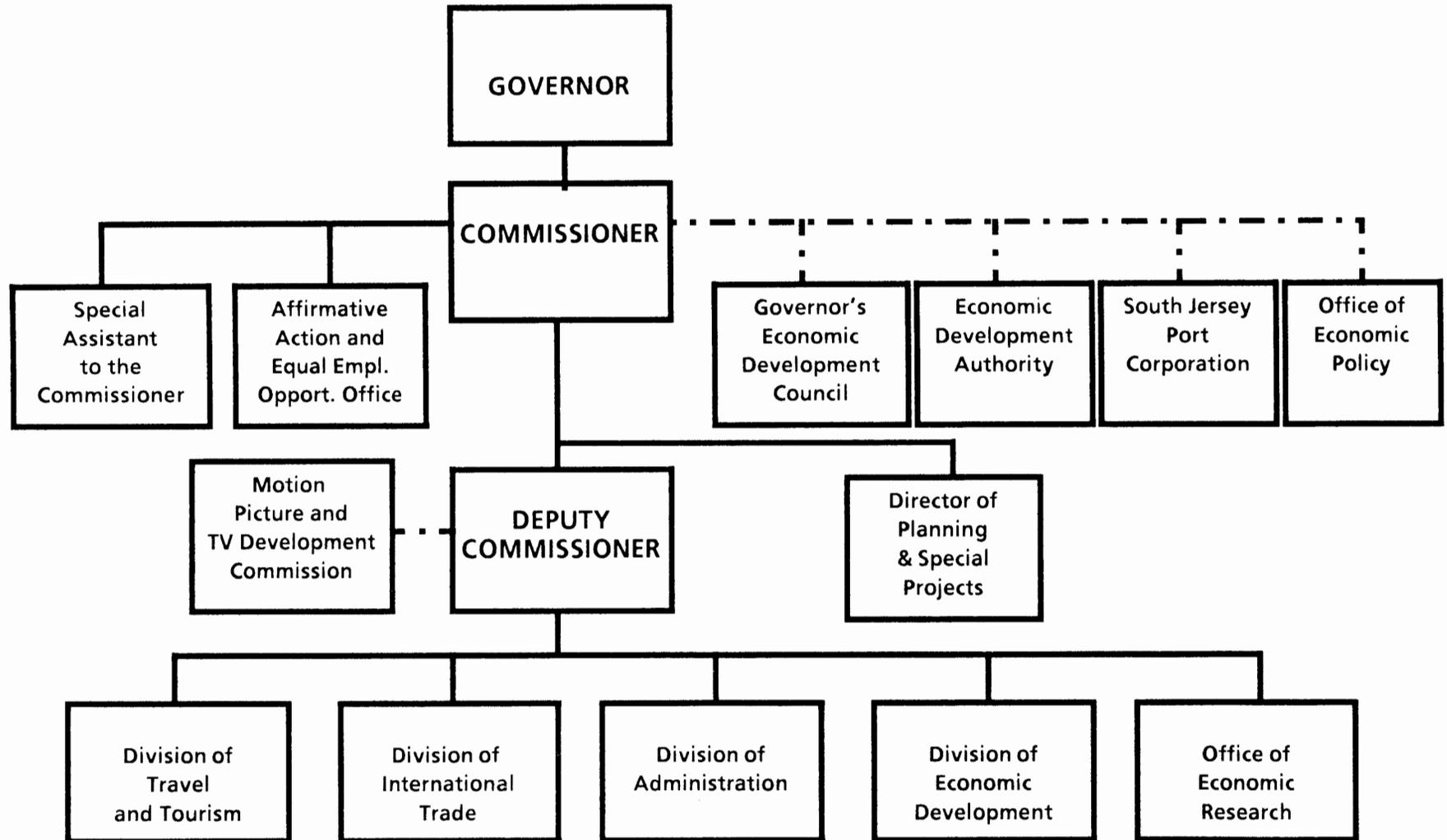
MAX MANAGEMENT LEVEL



AVG MANAGEMENT LEVEL

SMC DATA

DEPARTMENT OF COMMERCE AND ECONOMIC DEVELOPMENT



The Department of Commerce and Economic Development is the advocate of private-sector economic concerns. It coordinates planning activities related to the state's economy, particularly in the areas of economic policy, industrial development, international trade, and promotion of tourism. The department's major objectives are the creation of more private-sector jobs, retention and expansion of industry for New Jersey, and providing a favorable climate for economic development.

The following is a synopsis of the varied missions of the department:

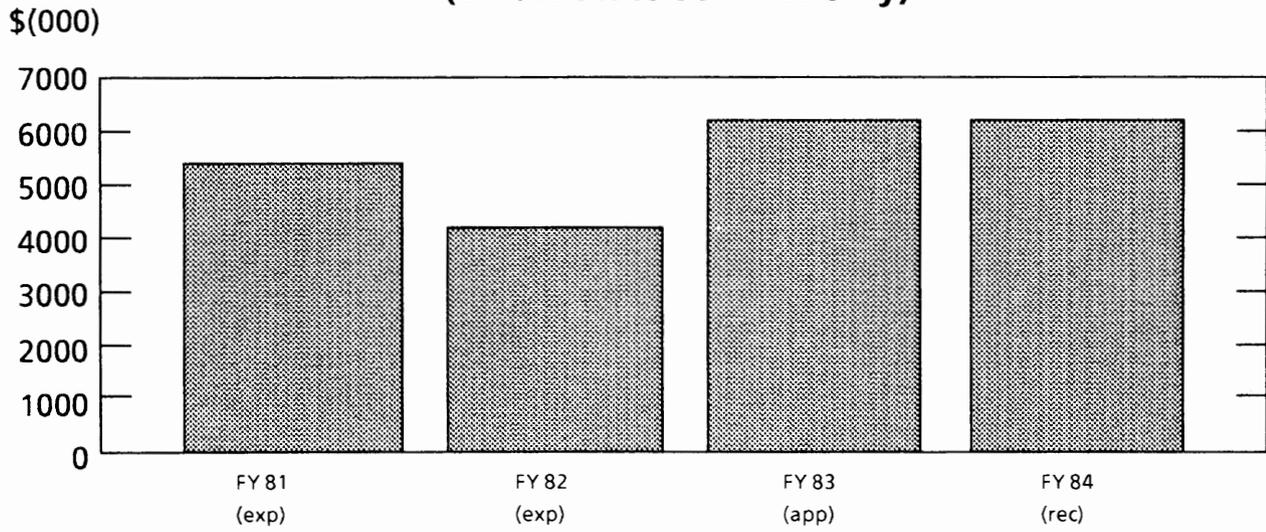
- o Promote the growth of the tourism industry.
- o Encourage expansion of the export development program.
- o Provide guidance, supervision, and executive leadership for industrial development, business advocacy, and small business assistance programs.
- o Study industrial trends from the perspective of economic development and engage in research and educational activities to foster New Jersey's commerce and industry.
- o Prepare and implement programs to expand the motion picture and television industry in the state.
- o Provide economic analyses and policy advice to the governor.
- o Provide long-term, low-interest financing to private companies for the construction, acquisition, and enlargement of industrial plant and other business facilities through the Economic Development Authority which is autonomous, being in but not of the department.
- o Operate two marine terminals in the area for the import and export of goods and materials through the South Jersey Port Corporation, which is autonomous, being in but not part of the department.

For Fiscal Year 1983, the department had 73 positions and a state operating budget of \$6.2 million, excluding funding for the South Jersey Port Corporation and Economic Development Authority.

The organization chart for the department reflects the final decision of the commissioner after analysis of the GMIP final report.

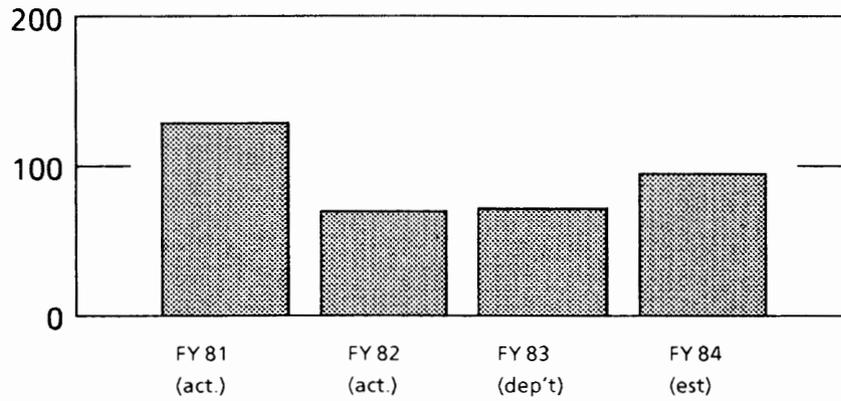
BUDGET

(Direct State Services only)



TOTAL POSITIONS

(All funding sources)



Accomplishments

Major accomplishments of the organizational analysis were as follows:

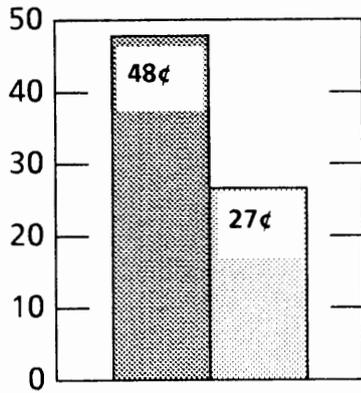
- o Operating responsibility for all departmental functions was assigned to the deputy commissioner, freeing the commissioner to concentrate on developing policy for accomplishing the department mission, strategic planning, and relationships with the business community and the legislature.
- o The realignment of middle-management functions and structural improvements to the organization resulted in
 - the ratio of managers to workers increased from 1 manager for every 3.3 workers to 1 manager for every 6.3 workers
 - the cost to manage each dollar of worker's salary decreased from 48 cents to 27 cents
 - the percentage of middle managers declined by 32 percent
 - departmental staff was reduced by 10.3 percent.
- o The use of community development representatives was redirected to increase responsiveness to New Jersey's business needs and maintain closer contact between the division and the Economic Development Council.

Additional Opportunities

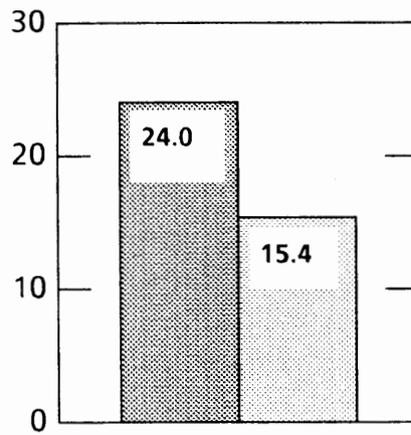
Areas for further study were identified as:

- o The need to coordinate economic development policy at the state level.
- o The necessity to maintain a continuity of professional staffing within the department.
- o The need to improve liaison with other state agencies; develop additional in-service training for departmental personnel in the areas of business, management, and public communications; institute new methods to improve cooperation between the private sector and the department; and improve contact and interaction between the department and the business community.
- o The department is studying the consolidation of scattered secretarial and clerical functions and the feasibility of using office automation equipment to further reduce costs and provide more effective services to departmental personnel.

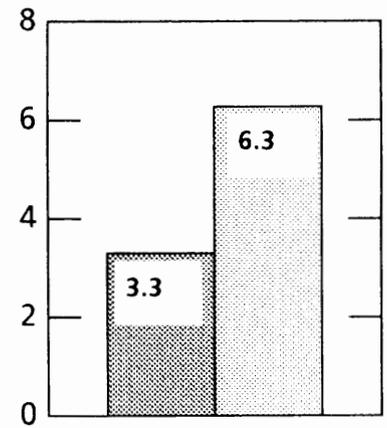
DEPARTMENT OF COMMERCE AND ECONOMIC DEVELOPMENT



COST TO MANAGE

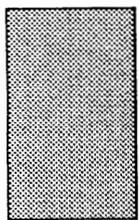


% MIDDLE MANAGERS

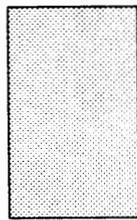


RATIO WORKERS/MANAGER

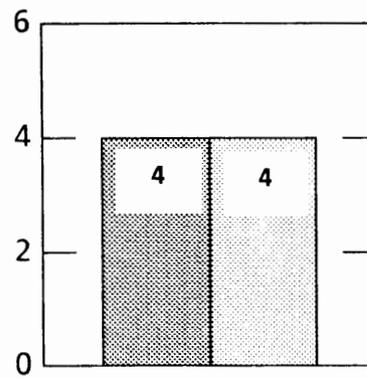
KEY



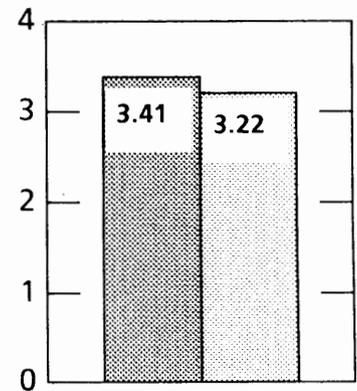
Present



Proposed



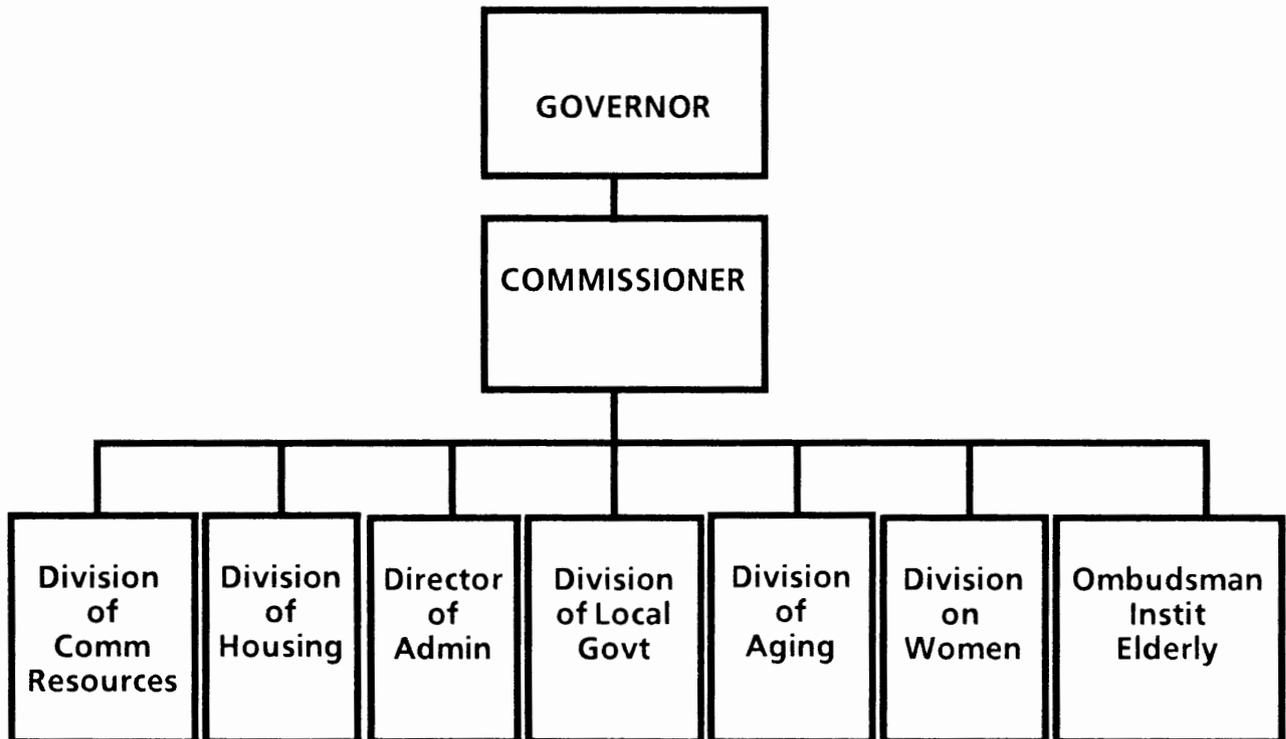
MAX MANAGEMENT LEVEL



AVG MANAGEMENT LEVEL

SMC DATA

DEPARTMENT OF COMMUNITY AFFAIRS



The Department of Community Affairs offers a wide spectrum of services designed to meet the needs of counties and municipalities, as well as the needs of individual citizens. These services are organized under two major program management areas -- Community Development Management and Related Social Services programs.

The mission of the department is to

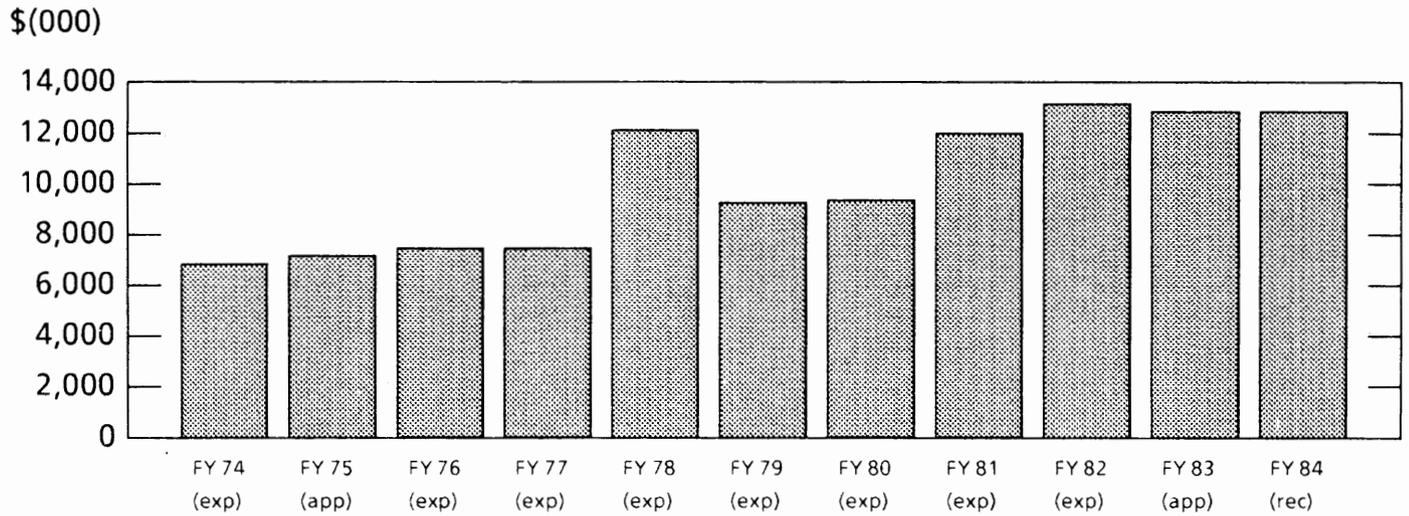
- o Advocate the needs of, and reflect the State government's institutional commitment to, the local government system and related community groups.
- o Maintain the fiscal integrity of local governments and provide professional technical assistance in strengthening their fiscal, managerial, and functional systems.
- o Provide for the protection of citizens through the regulation and enforcement of standards for:
 - Rooming and boarding homes

- Multi-family housing stock
- Building construction
- Planned real estate developments
- Non-profit housing corporations or associations, limited-dividend housing corporations or associations, and local housing authorities
- o Assist in developing the communities of the state as follows:
 - Ensure the efficient administration of the Safe and Clean Neighborhoods program, the Municipal Aid program, and several other state and federal aid programs
 - Promote construction of new affordable housing of the necessary characteristics
 - Provide federal rental assistance payments and rehabilitation of existing housing units to low-income families, with special emphasis on services to the mentally and physically handicapped
- o Advocate the special needs of the elderly, women, Hispanics, and economically disadvantaged groups

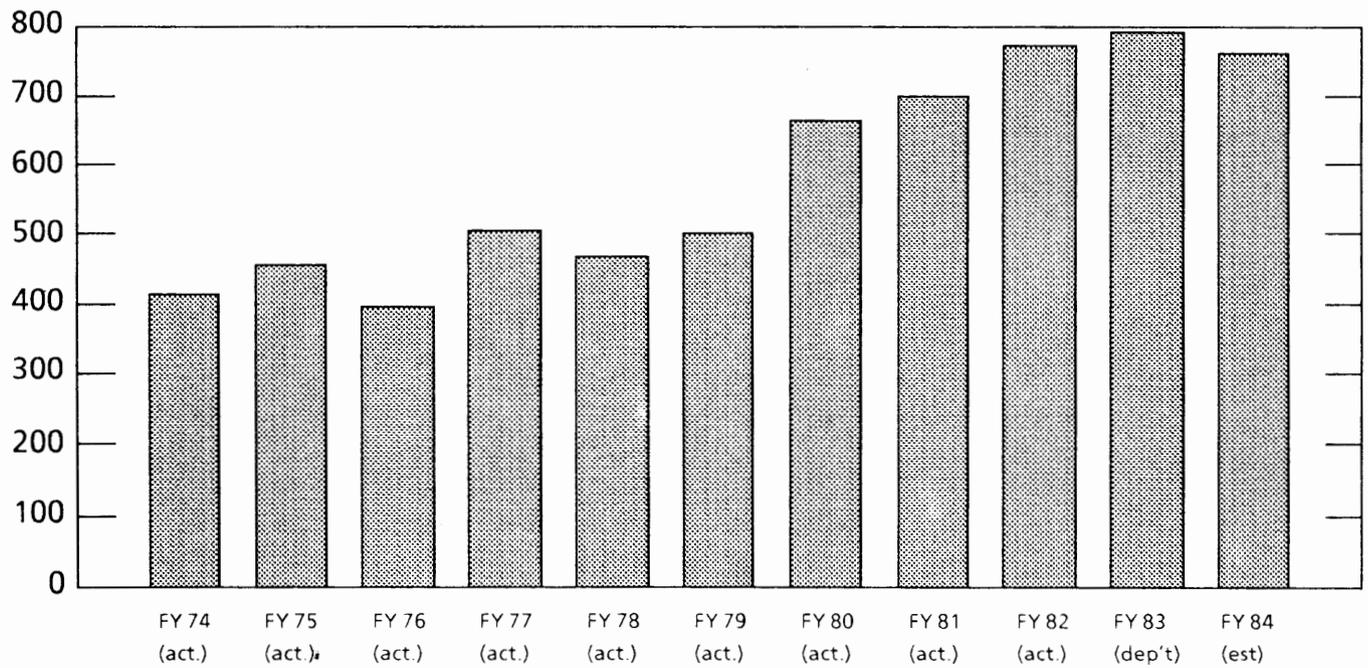
In Fiscal Year 1983, the department had 792 positions and a state operating budget of \$12.9 million.

The organization chart for the department reflects the final decision of the commissioner after analysis of the GMIP final report.

BUDGET (Direct State Services only)



TOTAL POSITIONS (All Funding Sources)



Accomplishments

Major accomplishments achieved through the department's organizational analysis were as follows:

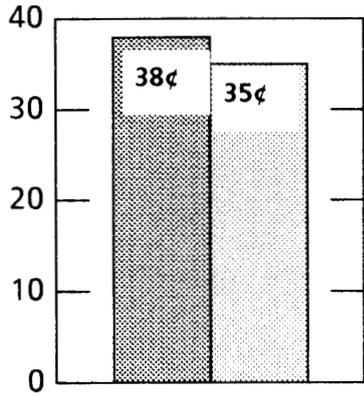
- o Structural and functional reorganization resulted in ten fewer bureaus and 61 fewer employees, including the elimination of an assistant commissioner position. Redundant levels of supervision were eliminated throughout the department.
- o Reorganization of the housing inspection function on a functional rather than geographical basis resulted in one less layer of management, the conversion of 16 managers to workers and the elimination of one position, increasing the effectiveness of the organization.
- o Restructuring of the planning function resulted in consolidation of fragmented activities and elimination of peripheral activities. This action resulted in savings of approximately \$500,000.

Additional Opportunities

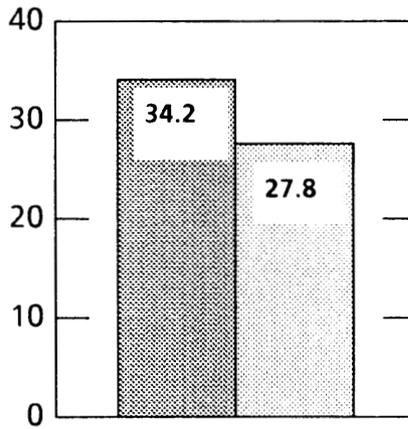
Several areas for additional study were identified by the Department of Community Affairs through its organizational review process:

- o A system for work-load measurement for housing inspectors
- o Centralized cashiering
- o Centralization of key fiscal procedures
- o A system for monitoring the adequacy of fees
- o Development of a strategy for office automation

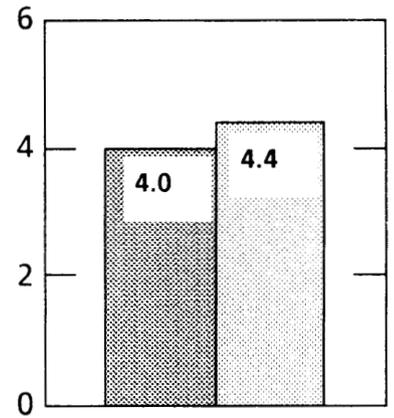
DEPARTMENT OF COMMUNITY AFFAIRS



COST TO MANAGE

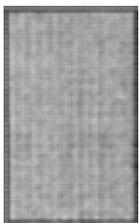


% MIDDLE MANAGERS



RATIO WORKERS/MANAGER

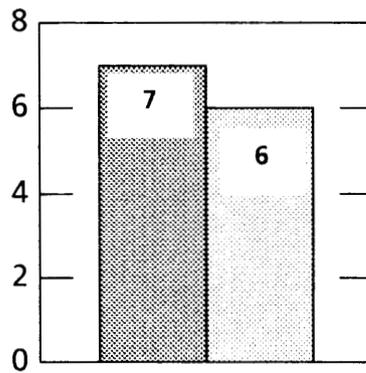
KEY



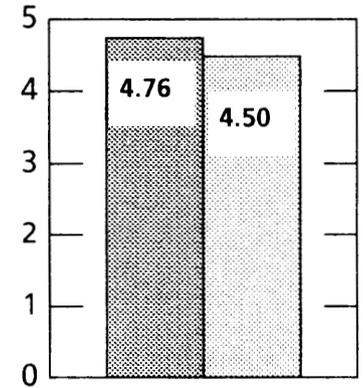
Present



Proposed



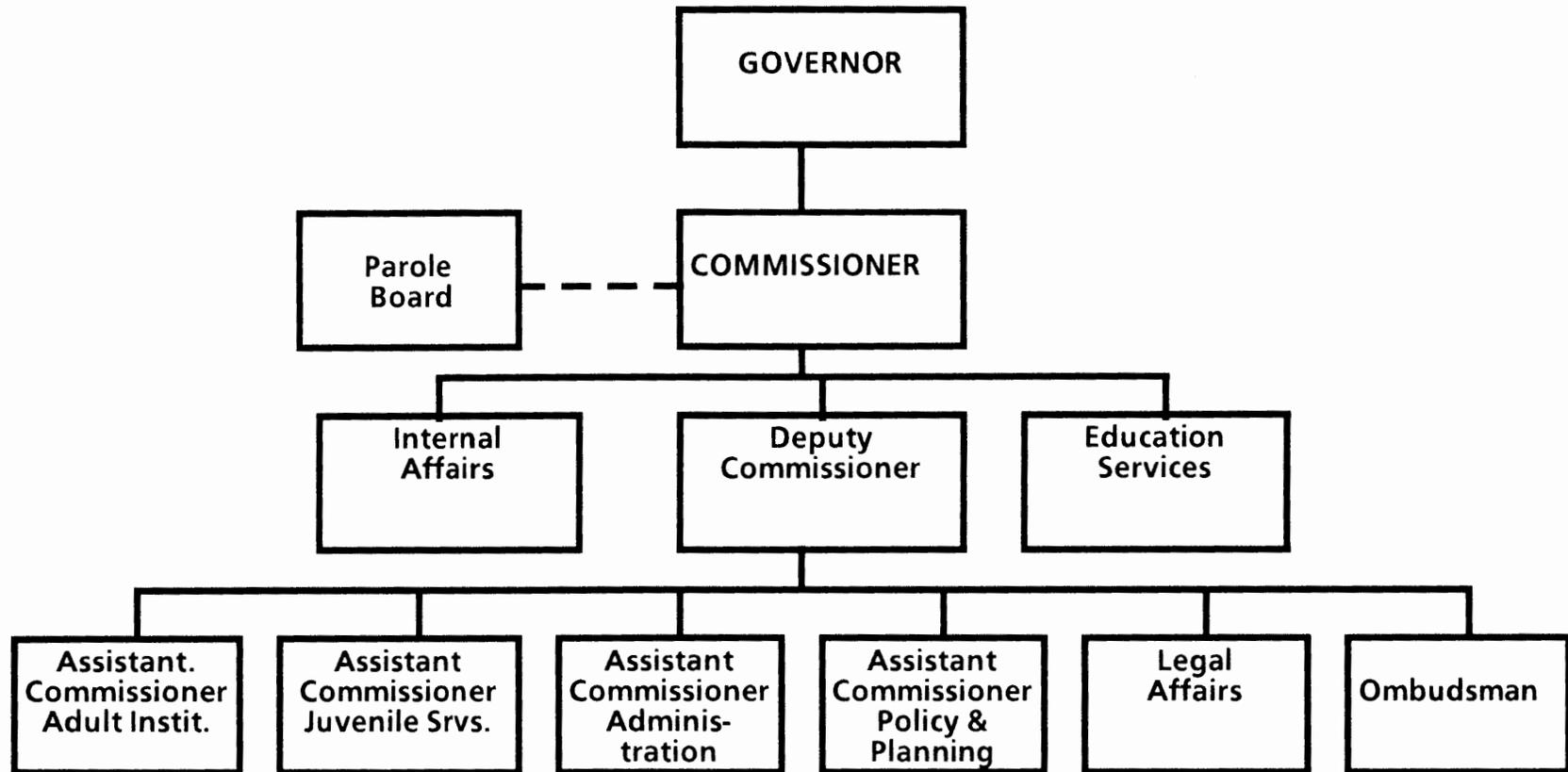
MAX MANAGEMENT LEVEL



AVG MANAGEMENT LEVEL

SMC DATA

DEPARTMENT OF CORRECTIONS



The Department of Corrections is responsible for the custody and care of approximately 10,400 juvenile and adult offenders committed to its custody by the courts and for the supervision of approximately 10,300 offenders who have been released from custody and are completing their sentences on parole.

The mission of the Department of Corrections is to:

- o Receive, diagnose, and classify offenders legally committed to the prisons, correctional and juvenile institutions, and the Adult Diagnostic and Treatment Center, with emphasis on satisfying the individual rehabilitation program needs of the offender
- o Effect a reorientation of attitudes and habits, upgrade educational attainment, and develop work skills through vocational programs that will assist offenders in conforming to acceptable community living standards on release from institutions
- o Develop and enhance public interest, and encourage community participation, in the correctional process.

In Fiscal year 1983, the department had 5,291 positions and a state operating budget of \$174.5 million.

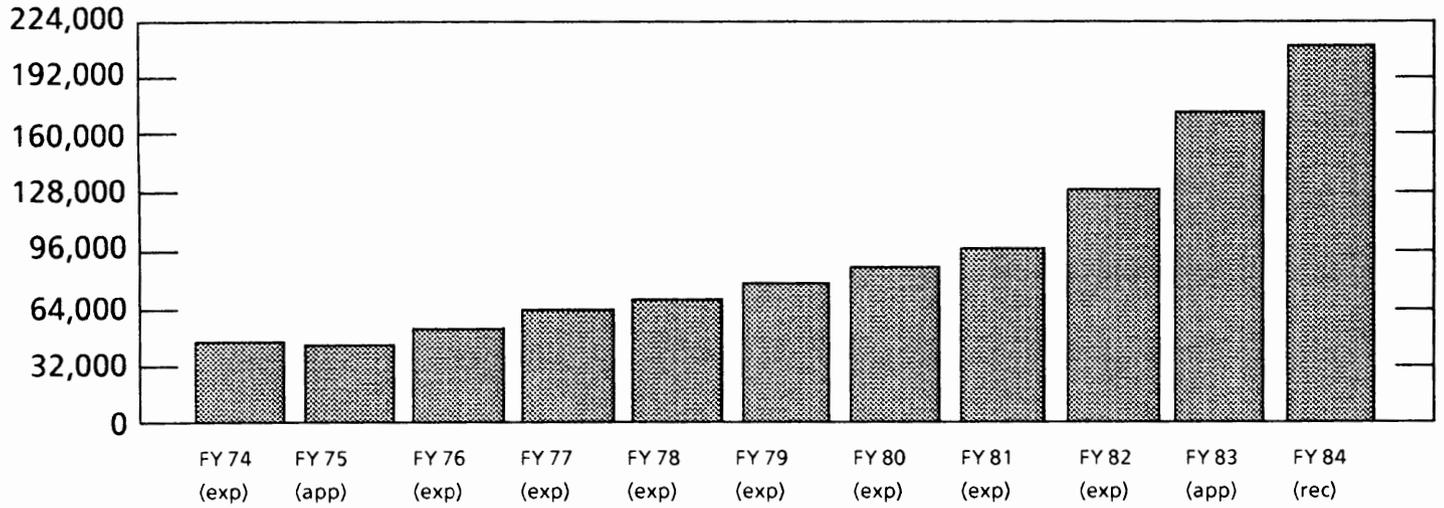
Of the total operating budget, 95.6 percent is absorbed by juvenile and adult institutions, the Bureau of Parole, and payments to the counties for housing state-sentenced inmates for whom there is no room in the state system. At present the department is paying the counties \$14 million to reimburse them for housing state-sentenced inmates for whom there is no room in the state correctional institutions. Only 4.4 percent of the total budget is expended on the operation of the department's central office.

The organization chart for the department reflects the final decision of the commissioner after analysis of the GMIP final report.

BUDGET

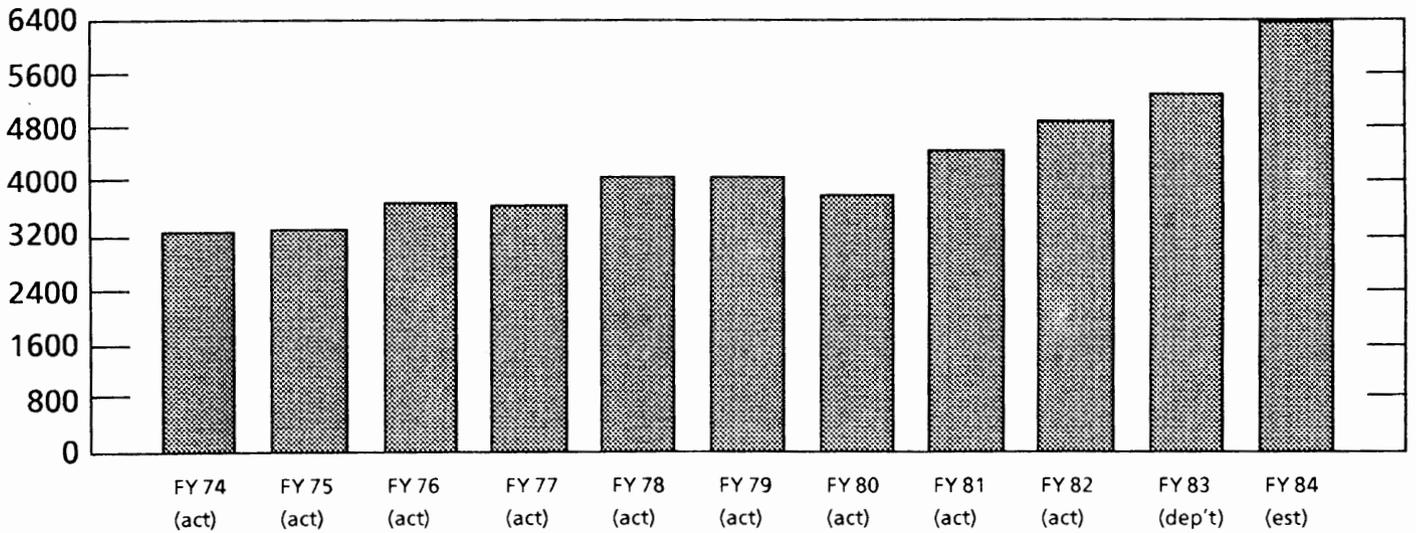
(Direct State Services only)

(\$000)



TOTAL POSITIONS

(All Funding Sources)



Accomplishments

The Department of Corrections made major changes in its management structure by reorganizing the top two levels in each of the institutions and in its central office.

- o In all institutions, one level of management was eliminated by creating an Office of the Superintendent, which includes the assistant superintendents. In addition to eliminating one layer of management, the new structure enhances the grooming process for assistant superintendents and lends more credence to their positions as second in command of their institutions.
- o Similarly, three levels of central office management were eliminated by creating an Office of the Commissioner, which includes the deputy commissioner; the Office of the Assistant Commissioner, which includes the deputy director; and the Office of the Bureau Chief, which includes the assistant chief.
- o Reporting structures became standardized in all institutions which will contribute significantly to an across-the-board improvement in the management of institutions.
- o Personnel changes resulted in the following improvements:
 - Reduced the mid-manager work force from 34.3 percent to 26.4 percent
 - Reduced the cost to manage from 29 cents per worker dollar to 21 cents
 - Increased the number of workers supervised by each manager from an average of 5.1 to an average of 6.7
- o Plans to implement an in-house training program for all managers were developed.

PAROLE BOARD

The State Parole Board, administratively placed within the Department of Corrections, is an autonomous agency that determines if, when, and under what circumstances persons subject to its jurisdiction may be released on parole or returned to an institution from parole. In addition, the board investigates petitions for executive clemency and forwards its recommendations to the governor. The Parole Board assumed additional, legislatively mandated responsibilities pursuant to the Prison Overcrowding Plan of Action. The board's new role includes jurisdiction over county cases and the development of emergency release procedures to accelerate the review of low-risk offenders.

Accomplishments

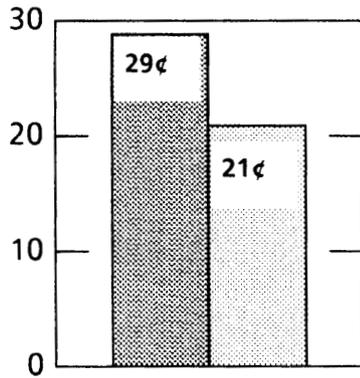
The organizational analysis revealed a four-tiered management structure, with 33.3 percent of the managers in the middle-management level and a 1 to 4 manager-to-worker ratio. This profile accurately reflected recent restructuring

to provide adequate management of growing, decentralized, and highly specialized line staff activity, particularly in the areas of revocation and recision hearings, parole release hearings, infraction reviews, parole counseling and other field services.

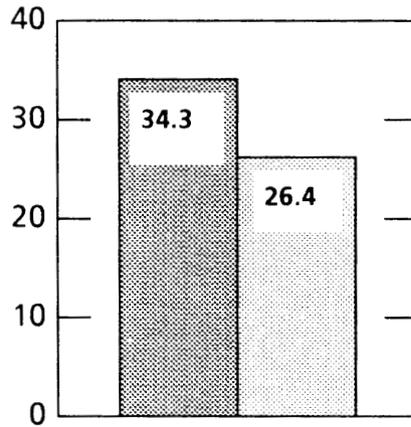
Scrutiny of the analysis data resulted in identifying a few selected opportunities for consolidation of assignments which resulted in the following structural improvements to the organization:

- o Percentage of middle managers decreased by 10 percent
- o Cost to manage increased by 2.5 percent
- o Ratio of managers to workers decreased by 1 percent.

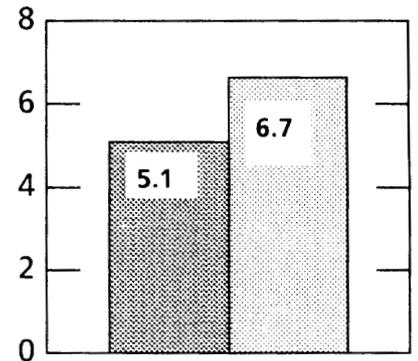
DEPARTMENT OF CORRECTIONS



COST TO MANAGE

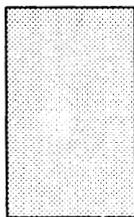
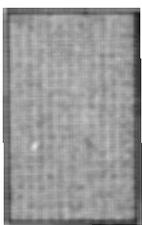


% MIDDLE MANAGERS



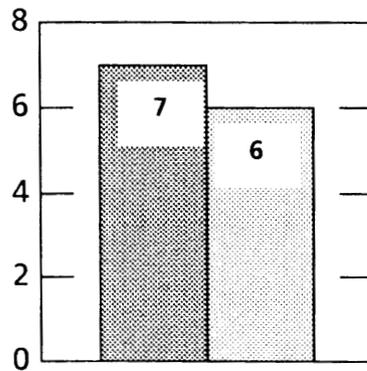
RATIO WORKERS/MANAGER

KEY

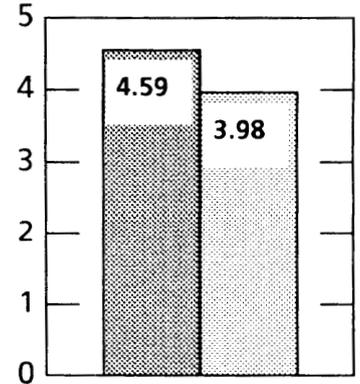


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Proposed



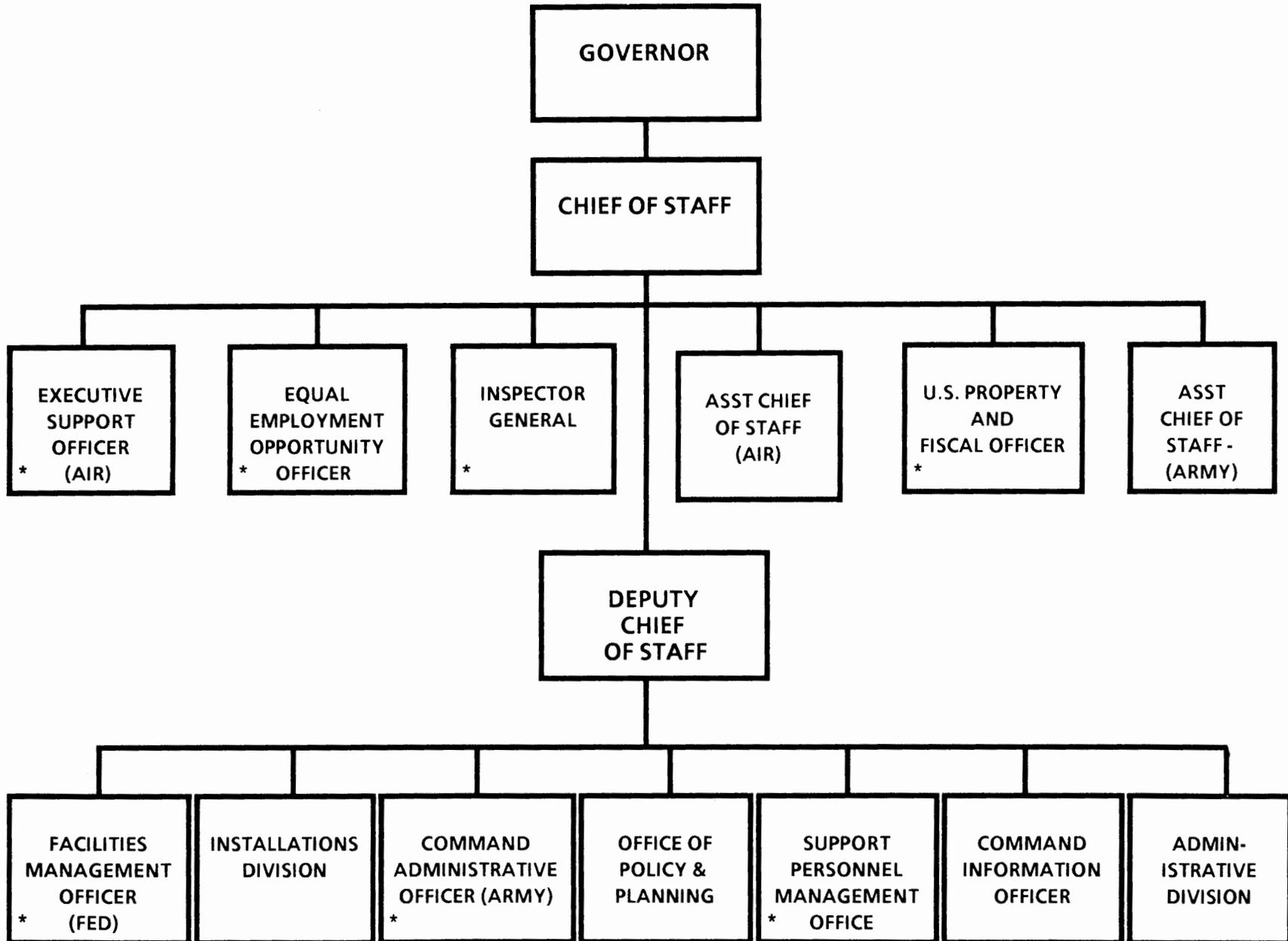
MAX MANAGEMENT LEVEL



AVG MANAGEMENT LEVEL

SMC DATA

DEPARTMENT OF DEFENSE



The Department of Defense is responsible for National Guard activities within the state. These activities include the responsibility for organizing and recruiting the units allotted to the state, and their discipline, readiness, and effectiveness to execute missions that may be assigned. In addition, the department conducts military education programs that involve the assignment of military personnel to active duty, regular-establishment service schools, extension course institutes, unit schools, and state-operated officer candidate and noncommissioned officers' schools.

The department provides for the maintenance, construction, and operation of armories, warehouses, maintenance shops, and equipment storage sites, as well as accommodations for aviation activities. The armories are available for use by other state agencies and for use by the public in case of emergency. The armories are also leased for commercial, nonprofit, and community activities.

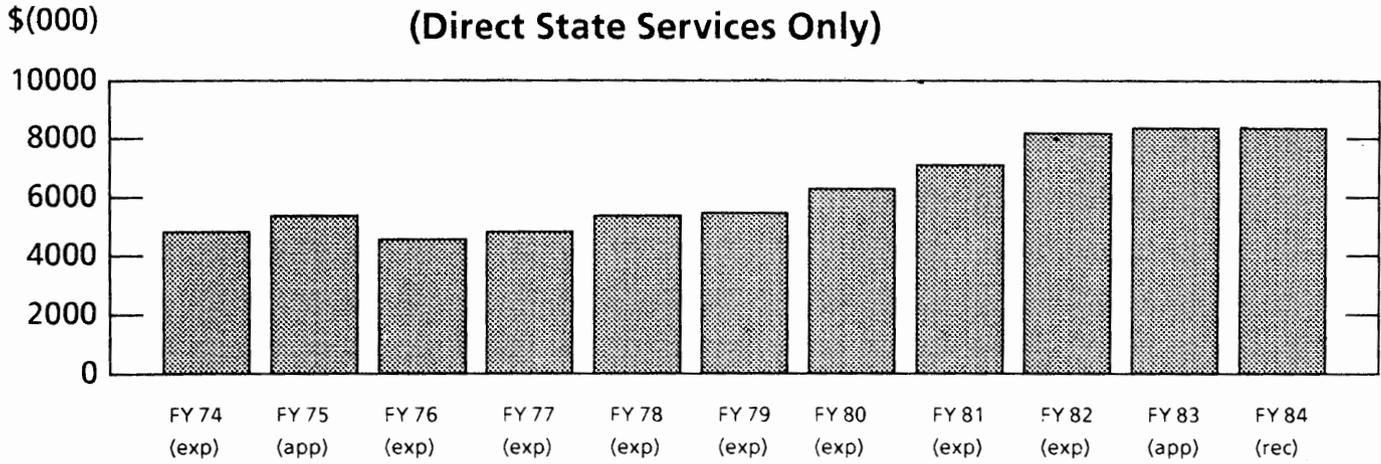
The department owns and operates the training center at Sea Girt, which provides accommodations for the New Jersey military officer and noncommissioned officer academies. General, as well as specialized, military training and federal training activities are held at the center, which also hosts the state police operations for special in-service and recruit training, and for basic police training of county and municipal law enforcement personnel.

In Fiscal Year year 1983, the department had 325 positions and a state operating budget of \$8.4 million.

The organization chart for the department reflects the final decision of the chief of staff after analysis of the GMIP final report.

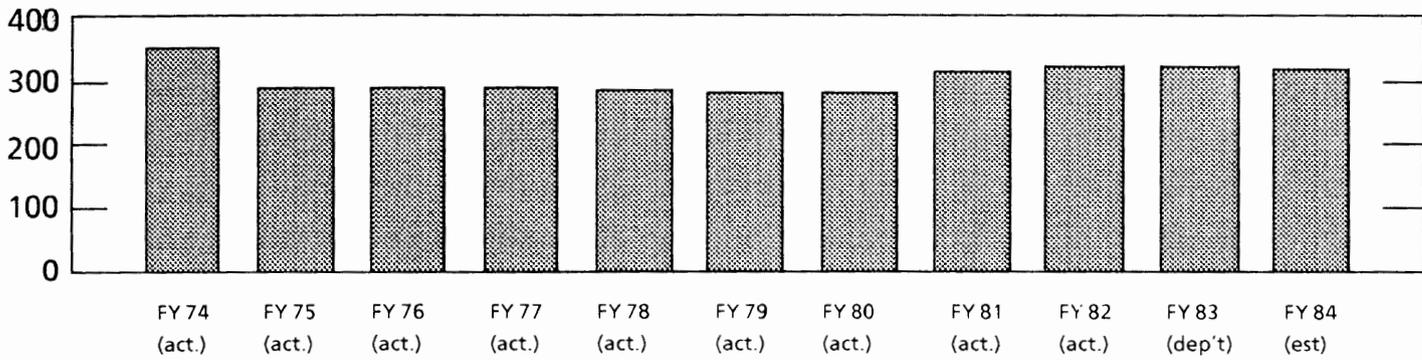
BUDGET

(Direct State Services Only)



TOTAL POSITIONS

(All funding sources)

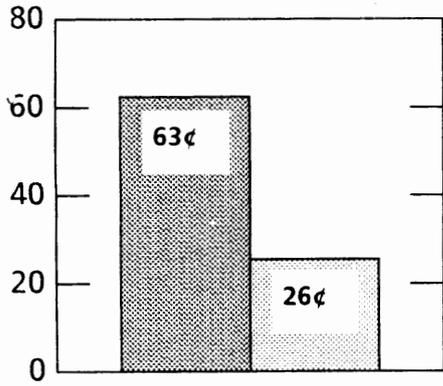


Accomplishments

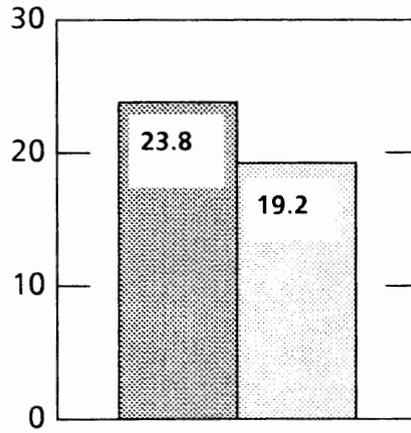
Major accomplishments of the organizational analysis were as follows:

- o All administrative services functions were consolidated under one major division which reduced fragmentation and allowed redistribution of existing human resources
- o All activities related to mobilization and planning were centralized which reduced fragmentation and improved communications and responsiveness
- o Facilities-oriented functions were centralized in the Installations Division which improved managerial control and increased efficiency
- o Central administration responsibilities were reassigned to reduce the span of direct control of the chief of staff
- o Cost to manage was reduced from 63 cents to 26 cents per worker dollar
- o Percentage of middle managers was reduced from 23.8 to 19.2
- o Ratio of managers to workers increased from 1 to 3.0 to 1 to 5.3.

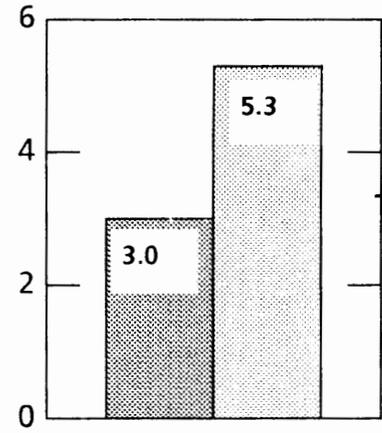
DEPARTMENT OF DEFENSE



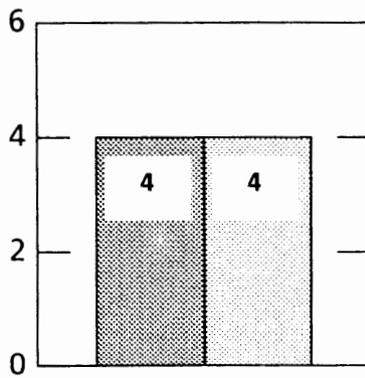
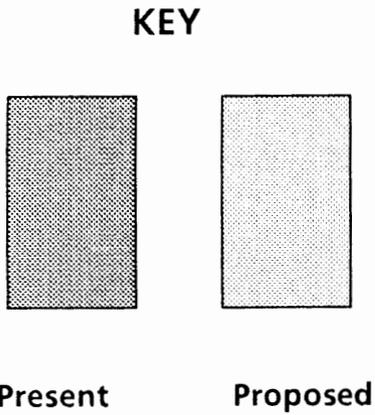
COST TO MANAGE



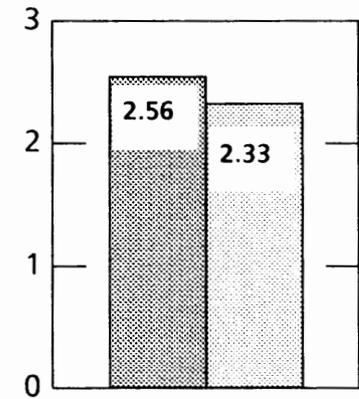
% MIDDLE MANAGERS



RATIO WORKERS/MANAGER



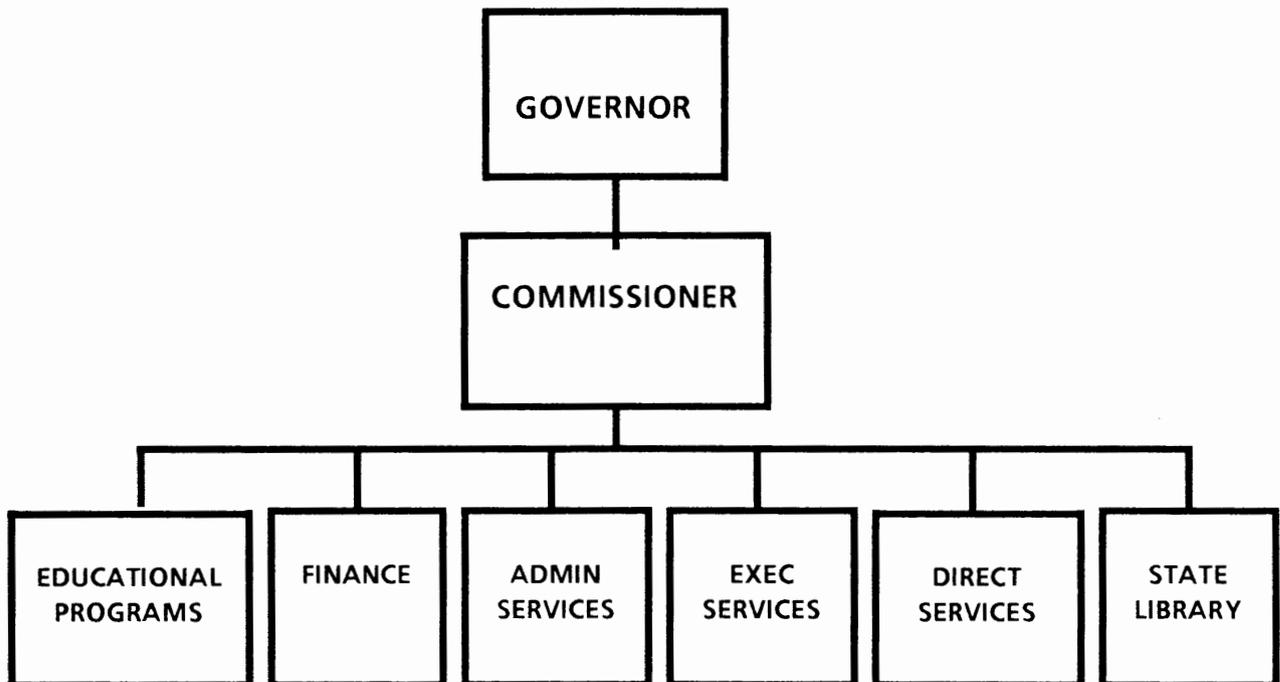
MAX MANAGEMENT LEVEL



AVG MANAGEMENT LEVEL

SMC DATA

DEPARTMENT OF EDUCATION



The Department of Education supports the elementary and secondary education of 1.4 million public and nonpublic school students with financial aid and program assistance. It is responsible for ensuring that local districts and schools comply with state and federal laws and regulations. During Fiscal Year 1983, the department was reorganized to emphasize curriculum assistance and innovation and to make the monitoring of local districts more efficient.

In addition to the assistance provided to local schools, the department provides direct educational opportunities for children with special needs or those involved in special programs.

The resources of the state library are available to all residents, either directly or through publications and loan programs. State aid is provided to local and area libraries throughout the state, to four research libraries, and to the Newark museum.

It is the mission of the Department of Education to:

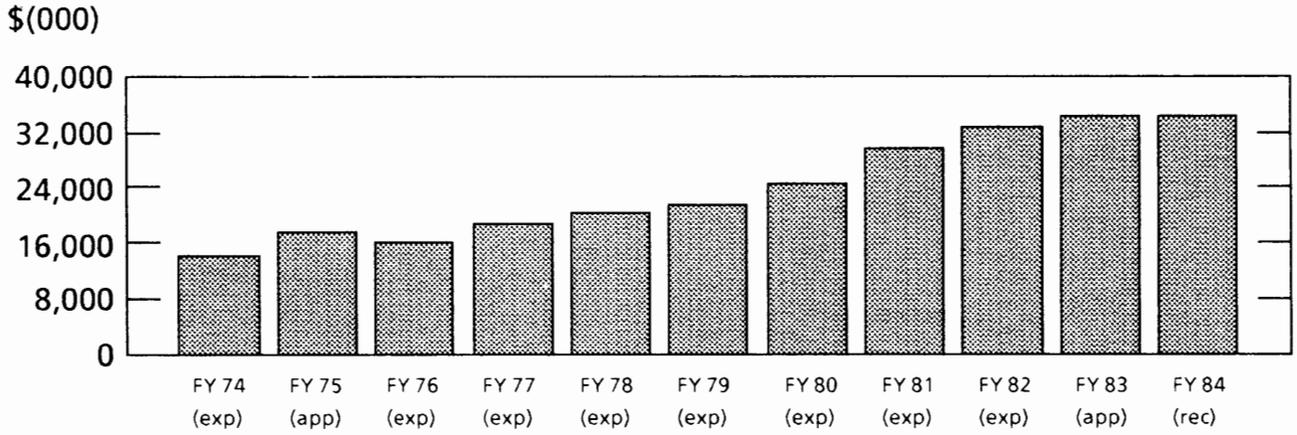
- o Provide continued educational improvement for all public school students in kindergarten through grade twelve, with an emphasis on providing services that address staff, funding, curriculum, and facilities
- o Provide financial assistance to all local public educational agencies for operating costs
- o Provide financial assistance and services for pre-kindergarten, post-high school, and non-public school students

- o Aid, administer, evaluate, and monitor educational programs for special-need handicapped children and adults, including state and federal projects
- o Aid, develop, manage, and evaluate federal and state educational programs for children and adults of limited English-speaking proficiency
- o Administer and monitor the funding of federal and state remedial education programs for youths and adults.

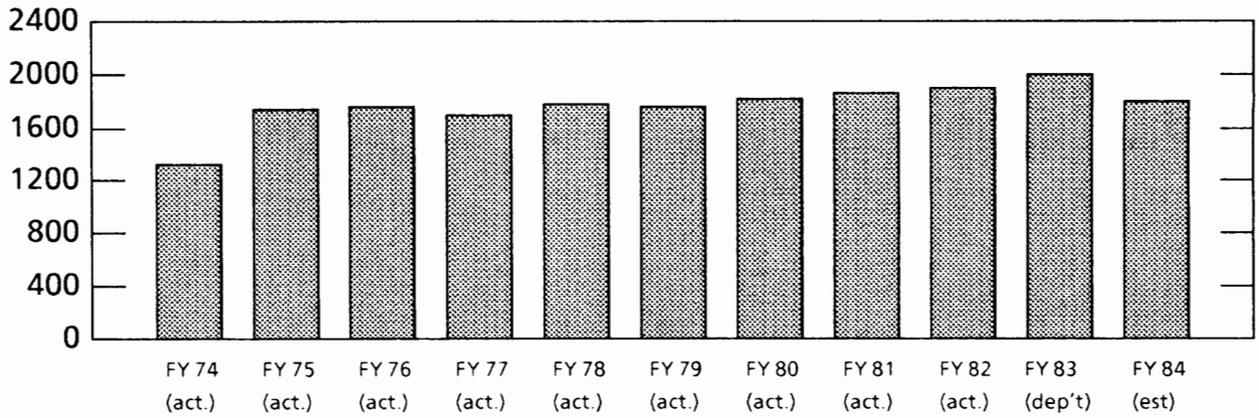
In Fiscal Year 1983, the department had 1,961 positions and a state operating budget of \$34.1 million.

The organization chart for the department reflects the final decision of the commissioner after analysis of the GMIP final report.

BUDGET (Direct State Services Only)



TOTAL POSITIONS (All funding sources)



Accomplishments

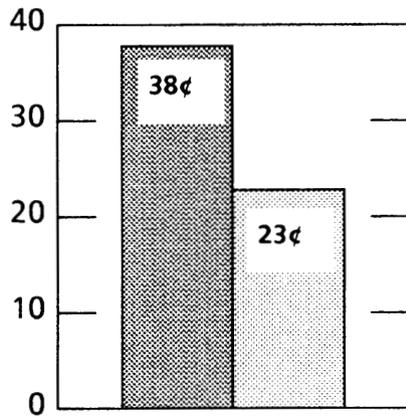
The restructuring phase of the organizational analysis emphasized school programs and general support, leaving the state library and direct services for later review. The three program areas were restructured into seven areas with more clearly defined missions, and the five administrative areas were combined into three. In the process, sixty-three middle management positions were reduced, leaving one middle manager in each of the primary mission and support portions of the department.

- o The average number of management levels was reduced from 4.3 to 3.08, for a reduction of 28 percent
- o The ratio of managers to workers was improved from approximately 1 to 4 to approximately 1 to 7
- o Management costs declined from 38 cents to 23 cents per worker salary dollar, or 39 percent. For the core-mission units only, management costs decreased from 31 cents to 17 cents per worker salary dollar, or 45 percent

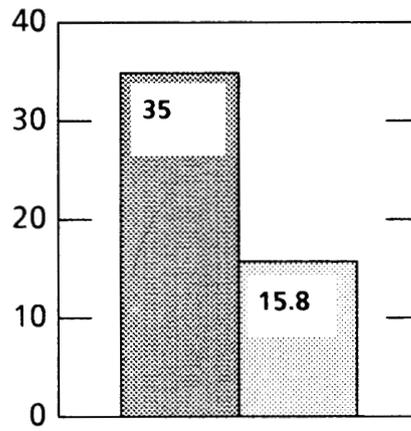
Additional Opportunities

Strategic planning will play a vital role in the new organization because its function will be to analyze long-term issues or emerging social trends that may have an impact on education. Strategic planning will anticipate and plan appropriate strategies to meet such challenges and will be carried out by a committee of senior managers.

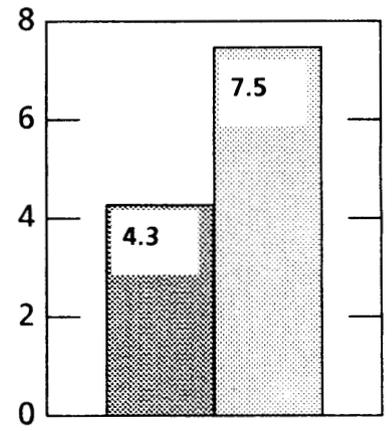
DEPARTMENT OF EDUCATION



COST TO MANAGE

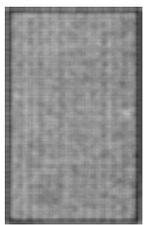


% MIDDLE MANAGERS

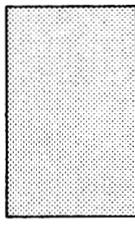


RATIO WORKERS/MANAGER

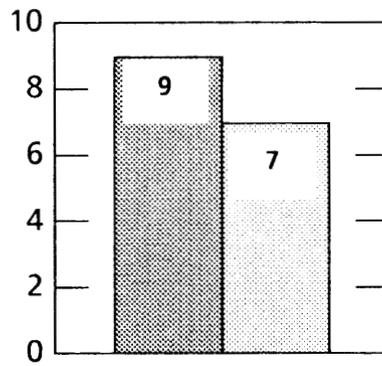
KEY



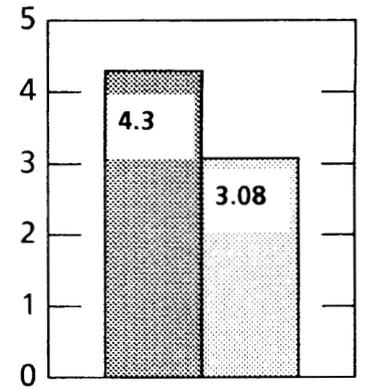
Present



Proposed



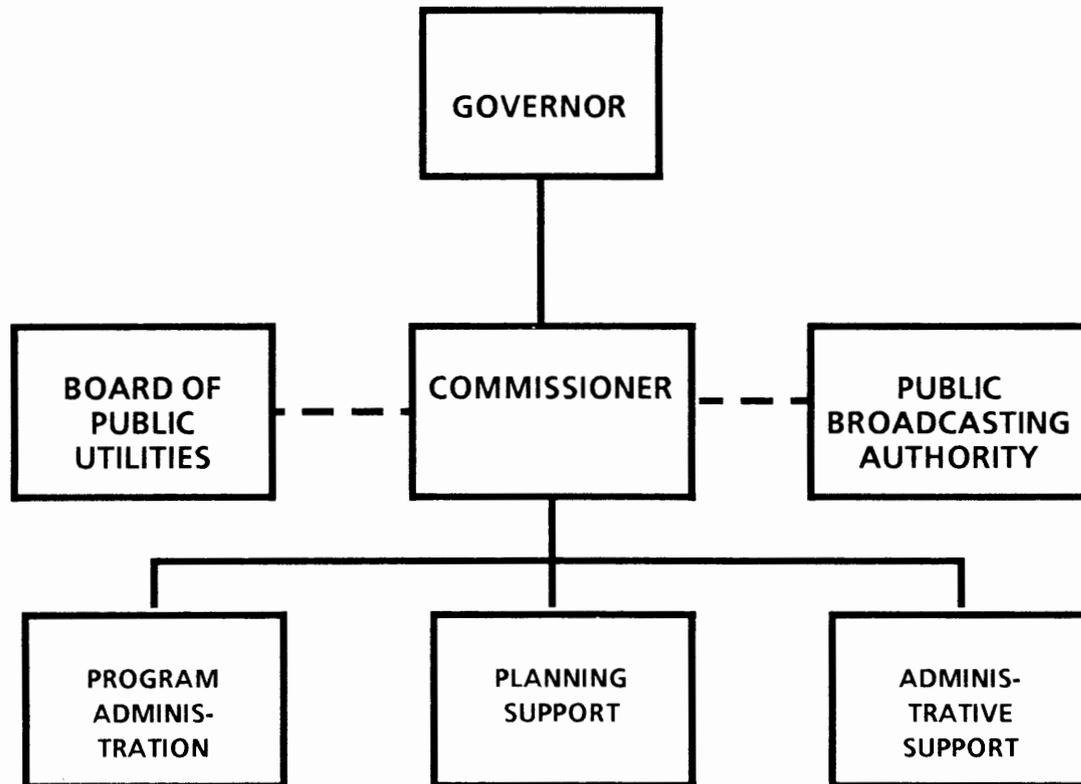
MAX MANAGEMENT LEVEL



AVG MANAGEMENT LEVEL

SMC DATA

DEPARTMENT OF ENERGY



The Department of Energy has the responsibility to design, implement, and coordinate New Jersey's energy policy and federal and state regulations in order to ensure that New Jersey's energy requirements are met and to secure federal funding for energy-related projects. It also must:

- o Develop and implement a ten-year master plan with respect to the production, processing, storage, transmission, consumption, and conservation of all forms of energy within the state
- o Establish a central repository of energy information and data
- o Intervene in any proceedings before state, regional, or federal agencies in order to represent the energy interests of New Jersey
- o Hold co-extensive jurisdiction with all other state agencies in determining the need for and site of all types of energy facilities.

In Fiscal Year 1983, the department had 546 positions and a state operating budget of \$14.2 million.

The department includes the activities of the Board of Public Utilities which ensures that utility services are provided at reasonable, nondiscriminatory rates to all members of the public who desire such services and that they are provided in a safe, adequate, and proper manner.

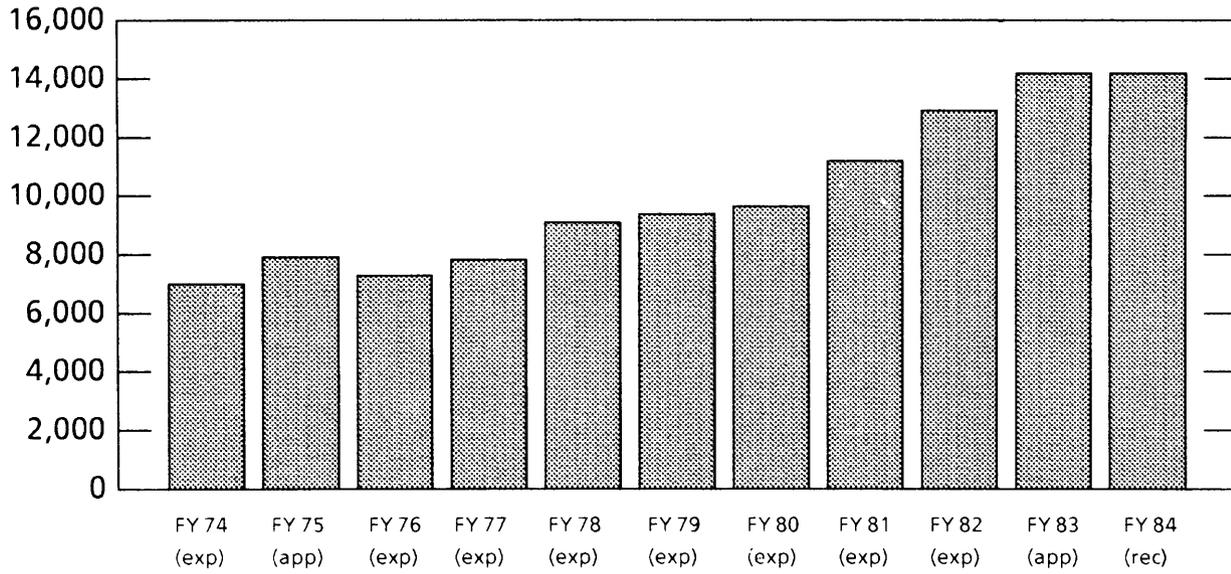
The department also includes the New Jersey Public Broadcasting Authority which provides noncommercial educational television or radio services and noncommercial public broadcasting services.

The organization chart for the department reflects the final decision of the commissioner after analysis of the GMIP final report.

BUDGET

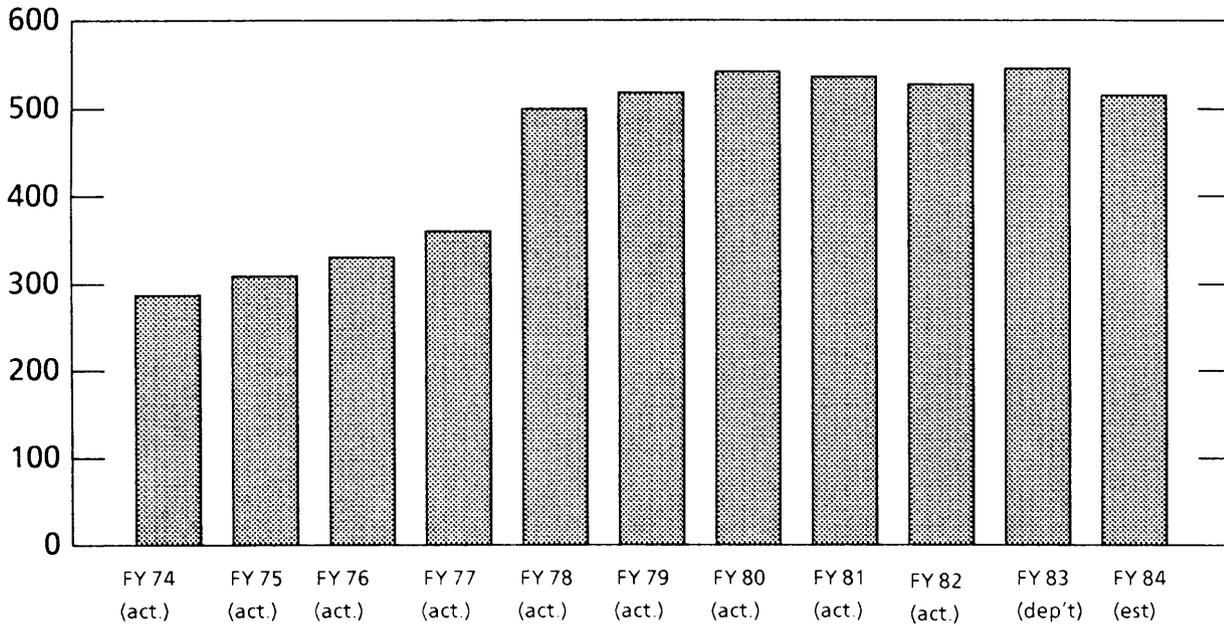
(Direct State Services Only)

\$000



TOTAL POSITIONS

(All Funding Sources)



Accomplishments

As a result of the organizational analysis, the Department of Energy was able to identify the following structural changes and organizational improvements:

- o Reclassification of four managers to workers
- o Reduction in the cost to manage from 47 cents per dollar of worker's salary to 34 cents
- o Reduction in the percentage of middle managers from 23.1 percent to 19.0 percent
- o An increase in the ratio of managers to workers from 1 to 3.5 to 1 to 4.2
- o Reorganization of the department into three divisions with clearly delineated functions, responsibilities, and adequate internal-control mechanisms
- o Implemented a reevaluation of job titles and descriptions for at least 50 percent of the department's work force.

Board of Public Utilities

The Board of Public Utilities implemented the following organizational improvements:

- o Percentage of middle managers reduced by 24.8 percent
- o Cost to manage reduced by 41 percent
- o Ratio of managers to workers improved by 45 percent
- o Reorganization of the Office of the Secretary will result in improved case management and customer service
- o Consolidation of support activities, including the elimination of a division, will result in increased efficiency and reduced costs
- o Separation of the audit function from the utility finance and accounting functions will improve the integrity of the system

Additional Opportunities

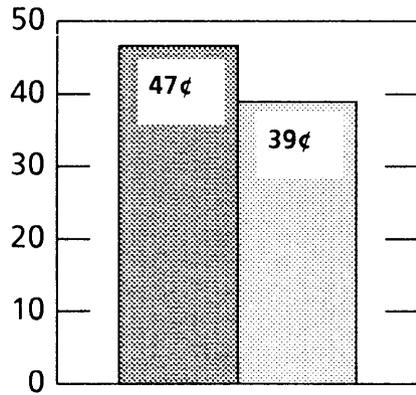
- o Identification of long-range needs:
 - Cost accounting system
 - Automation
 - Training
 - Policies and procedures

Board of Public Broadcasting

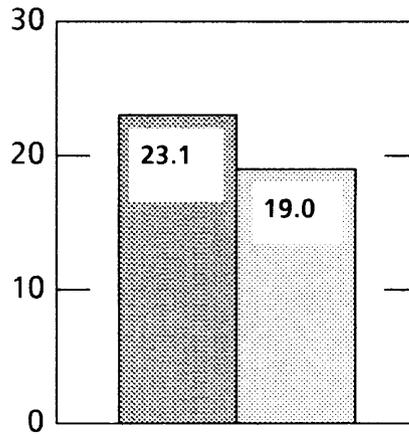
The Board of Public Broadcasting has taken the following steps to strengthen the fiscal and managerial efficiency of the agency. These steps include:

- o Implementation of a selective hiring freeze
- o Reduction in staff
- o Elimination or consolidation of departments
- o Structural improvements to the organization have resulted in the following changes:
 - Cost to manage reduced from 40 cents to 35 cents per worker dollar
 - Percentage of middle managers reduced from 18.2 per cent to 12.8 per cent

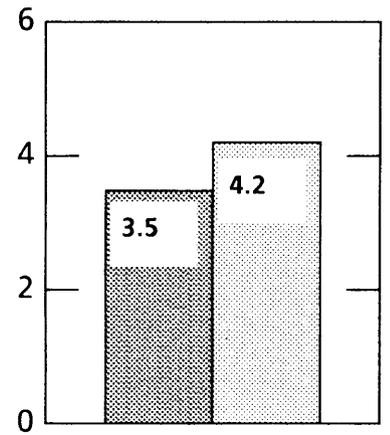
DEPARTMENT OF ENERGY



COST TO MANAGE

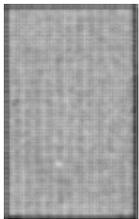


% MIDDLE MANAGERS

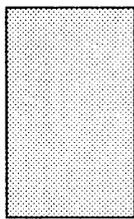


RATIO WORKERS/MANAGER

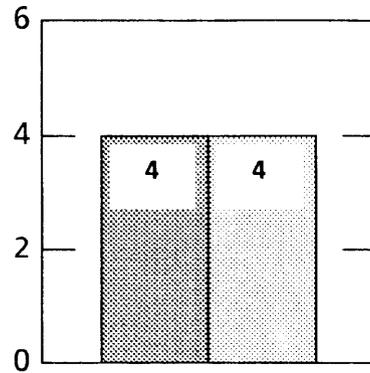
KEY



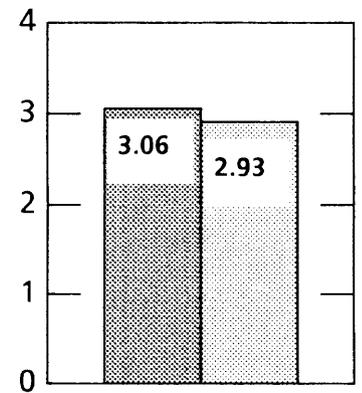
Present



Proposed



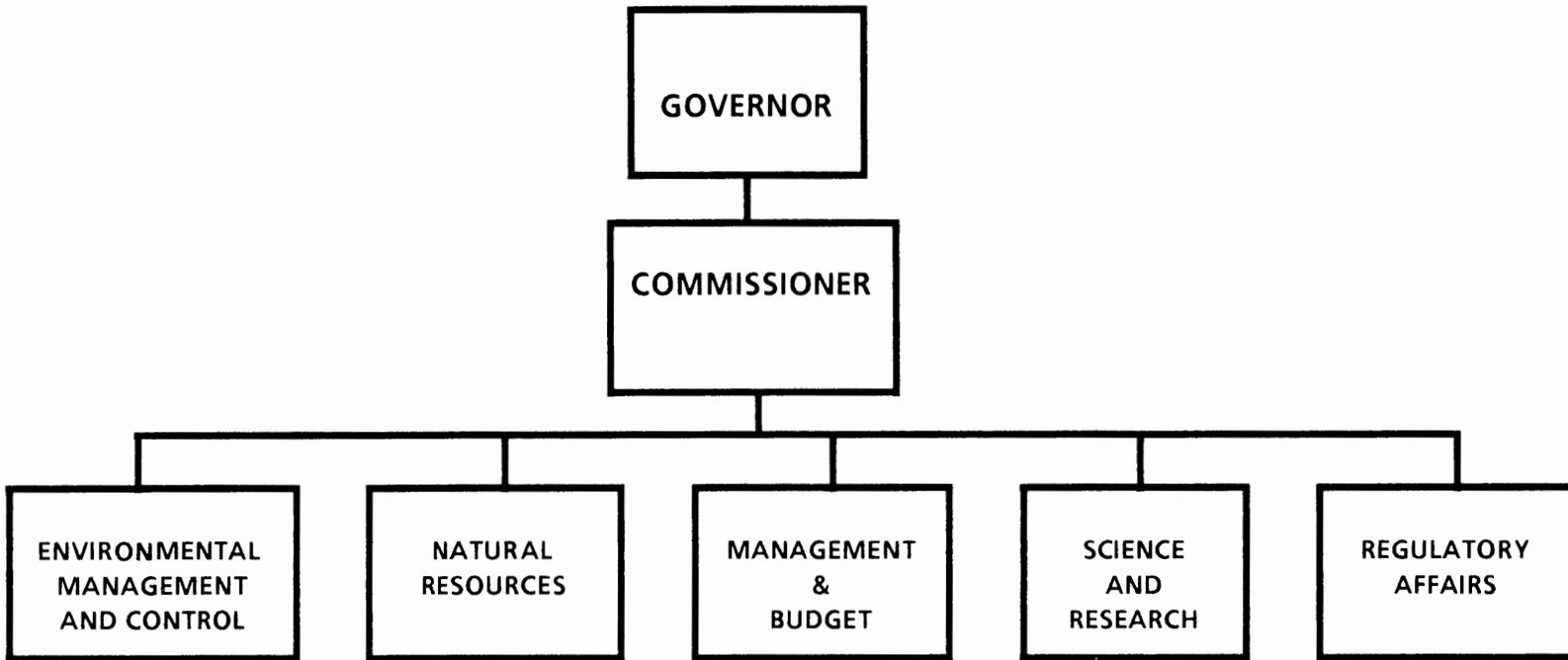
MAX MANAGEMENT LEVEL



AVG MANAGEMENT LEVEL

SMC DATA

DEPARTMENT OF ENVIRONMENTAL PROTECTION



The Department of Environmental Protection was established in 1970 to unite all state governmental operations under a mandate for protection, conservation, restoration, and enhancement of the environment. Its responsibilities include the protection of human health and welfare through management of water, air, land, forests, shore, wildlife, and shellfish resources and the provision of outdoor recreation opportunities.

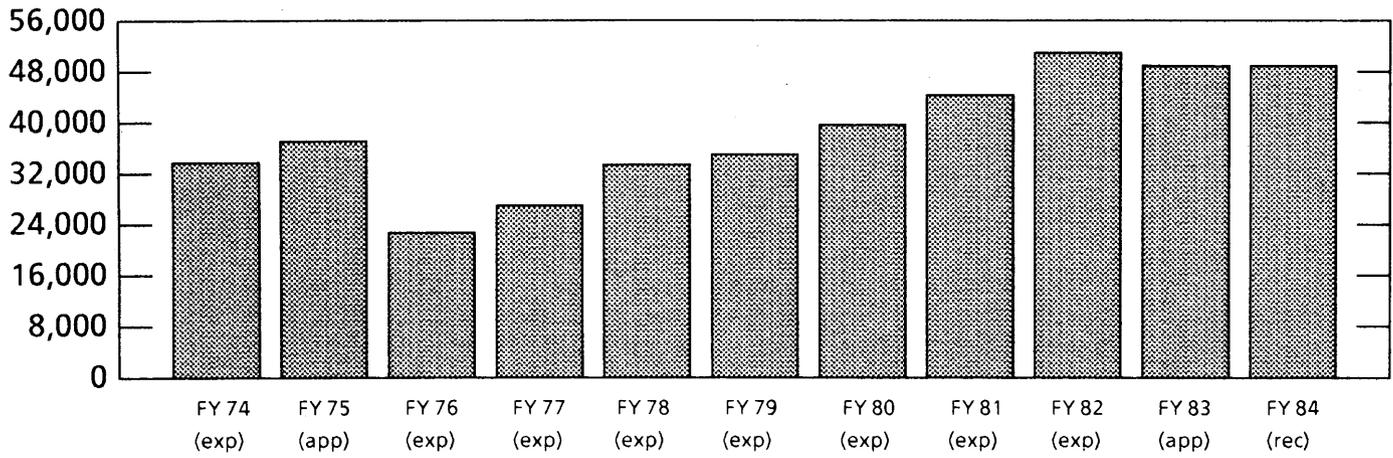
To achieve its mission, the department has instituted both regulatory and capital improvement programs. Prominent among these are programs of identification and cleanup of hazardous wastes, air pollution control, water pollution control, sewerage facility construction, reservoir construction, loans to municipalities for repair of aging water supply systems, dam reconstruction, shore protection, dredging, coastal zone and wetlands protection, radiation monitoring and protection, pesticide control, preservation of lands for recreation and conservation at both the state and local levels; and management of parks, forests, fish and game lands, and shellfish and marine fishery.

In Fiscal Year 1983, the department had 2,596 positions and a state operating budget of \$49.0 million.

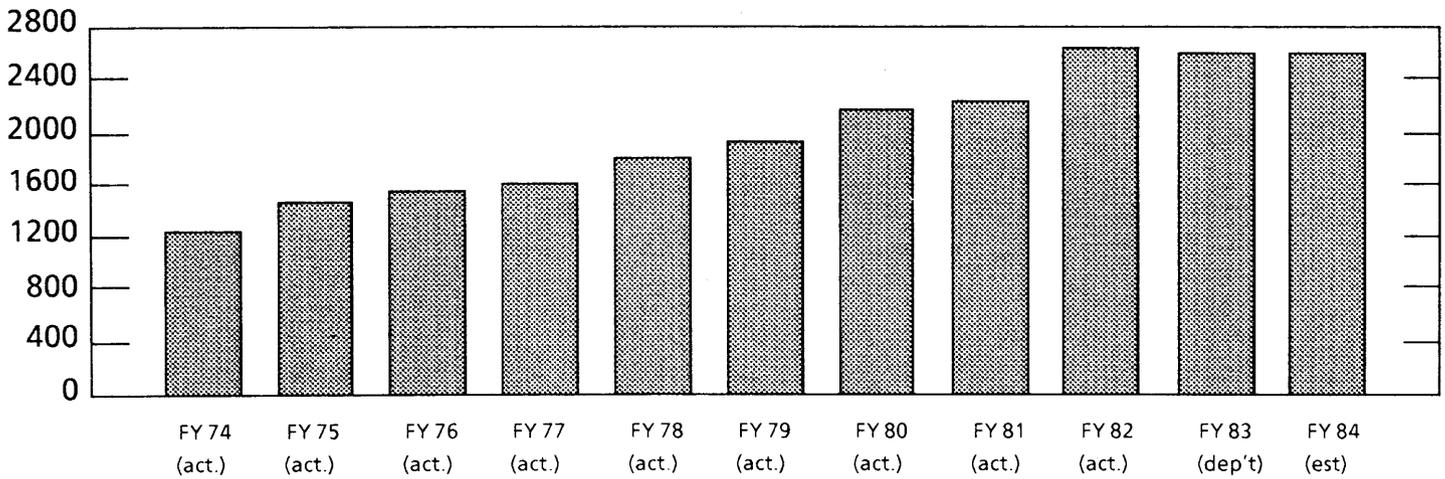
The organization chart for the department reflects the final decision of the commissioner after analysis of the GMIP final report.

BUDGET (Direct State Services)

\$(000)



TOTAL POSITIONS (All Funding Sources)



Accomplishments

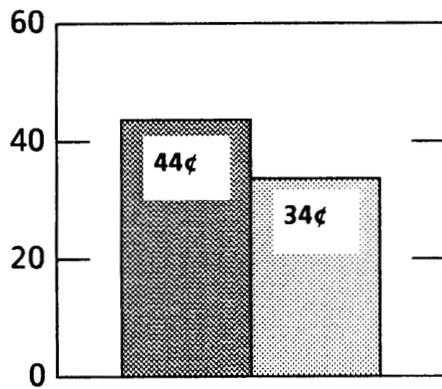
In its organizational analysis the department effected structural changes that should result in greater effectiveness and efficiency. Moreover, prior to and during its involvement in the project, the department was able to reduce its payroll and other operating expenses to bring them into balance with its budget appropriations.

Additional Opportunities

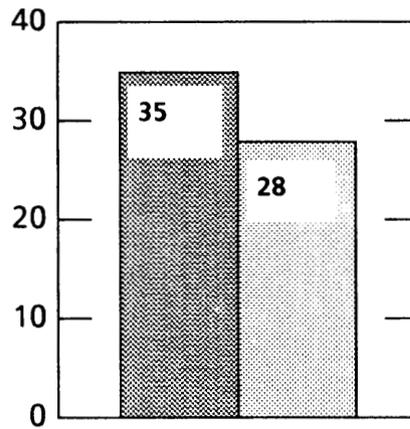
The department used its opportunity to engage in formal organizational analysis to identify and begin the process of dealing with longer-term issues. It wrestled with issues of an interdepartmental nature as well as those that are intradepartmental. With respect to the latter, the department

- o Examined the merits of the centralization of functions such as accounting and personnel and implemented such actions in the clerical accounting function to accelerate processing of invoices and to reduce the number of personnel required in this area.
- o Initiated the process of assessing the merits of regionalizing enforcement aspects of the department.
- o Decided to explore ways of developing low-maintenance parks and recreation areas.
- o Centralized and consolidated clerical accounting functions to accelerate processing of invoices and to reduce the number of personnel required in these areas.
- o Structural improvements to the organization whereby the percentage of middle managers would be reduced by 20 percent, the cost to manage reduced by 20.5 percent, and the ratio of workers to managers improved by 29 percent were identified and were contingent in great part upon the department's ability to initiate and implement the use of high-tech titles. This approach would negate the department's need to continue the use of managerial titles to compensate scientific and highly specialized personnel.
- o Achieved savings through improvements in office automation, increased emphasis on user fees to cover program costs, consolidation of clerical and accounting functions, and identified the possibility of savings through leasing vs purchasing of agency vehicles.

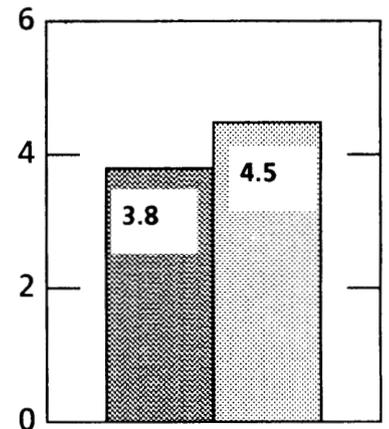
DEPARTMENT OF ENVIRONMENTAL PROTECTION



COST TO MANAGE



% MIDDLE MANAGERS

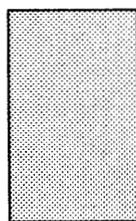


RATIO WORKERS/MANAGER

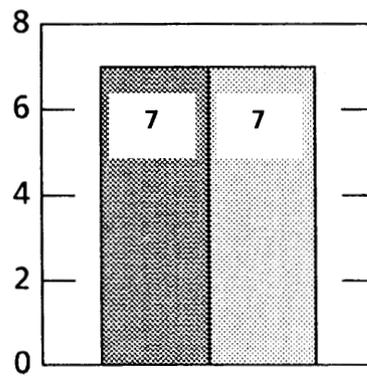
KEY



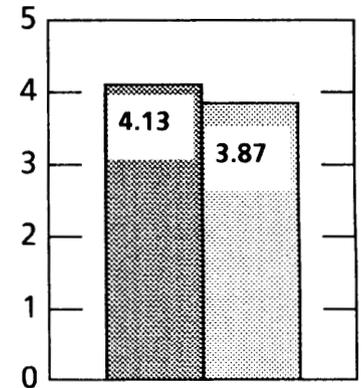
Present



Proposed



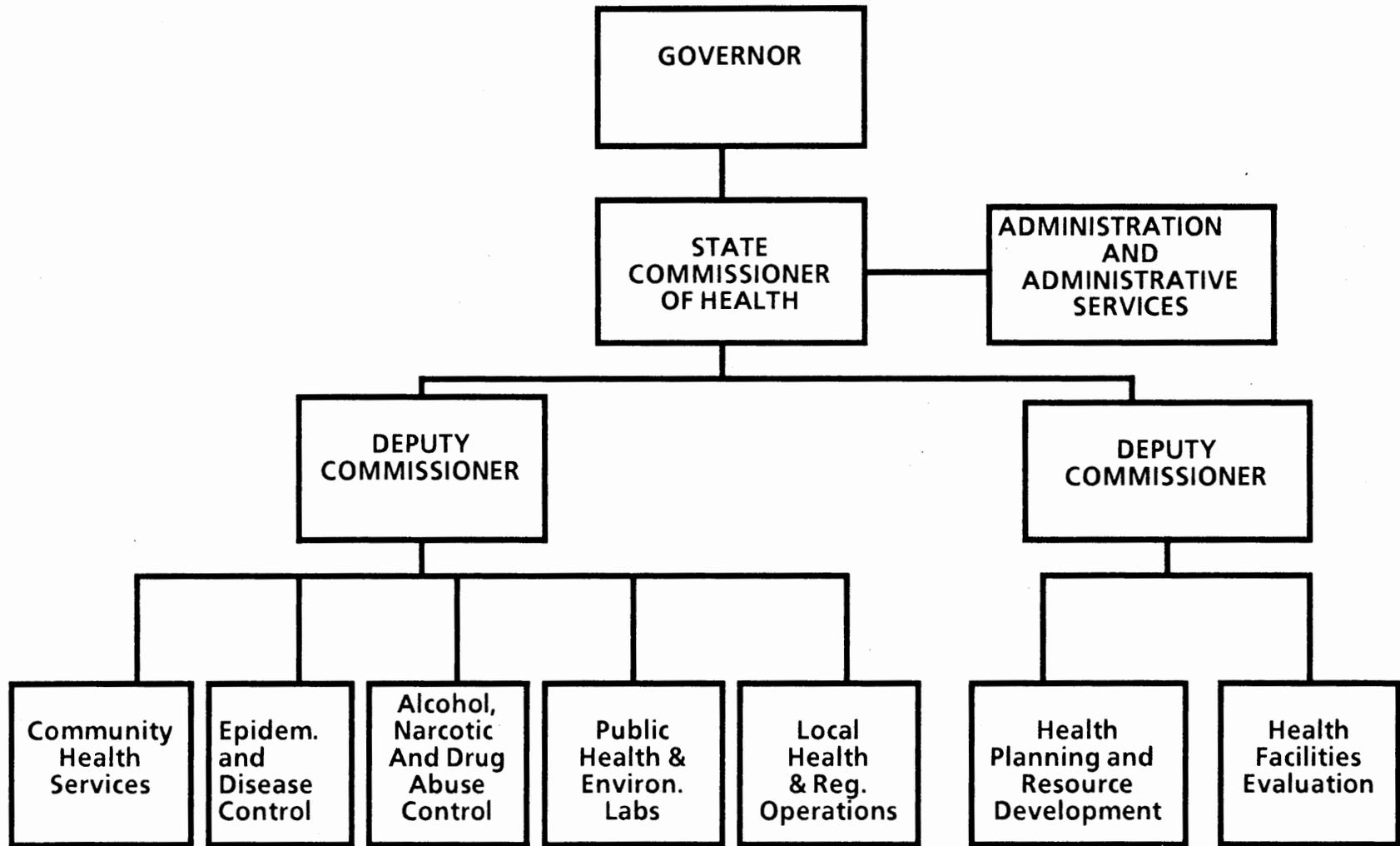
MAX MANAGEMENT LEVEL



AVG MANAGEMENT LEVEL

SMC DATA

DEPARTMENT OF HEALTH



The Department of Health has broad powers to prevent the spread of disease within the state of New Jersey and to assure its residents of quality health care at a reasonable cost.

The first portion of the twofold mission of the Department of Health is to prevent the spread of disease and is accomplished with an emphasis on preventive health services. The purpose of the department's community-wide prevention strategy is to eliminate the possibility of illness and to provide screening and early intervention programs aimed at identifying and treating diseases in high-risk populations before they become life-threatening.

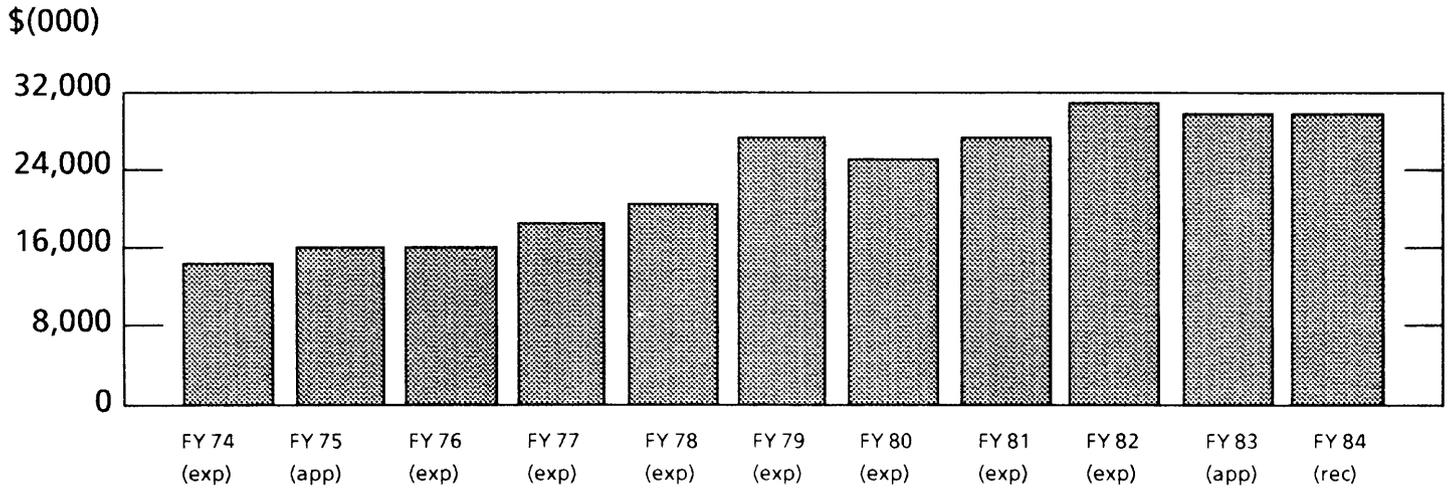
The department provides preventive health services through a network of state and local agencies. Funds are subcontracted to over 400 service providers, including hospitals, clinics, local public health departments, home health agencies, and others providing preventive services. The strong links with these local health agencies magnifies the impact of departmental programs with comparatively small budgets and staff.

The second portion of the department's mission is to assure residents of access to quality health care at a reasonable cost and is achieved through a unique prospective cost-reimbursement system designed to avoid unnecessary proliferation of facilities and services. These elements, which consume only modest staff and funding appropriations, are integrally linked to form a strong and successful cost-containment system interacting with the providers of medical care and affect all payers for care, such as government, insurance companies, the hospital industry, and the general public. An example of the beneficial effects of this program is a forecasted savings in 1984 of over \$15 million in capital costs and \$60 million in operating costs in New Jersey's health care system. Quality assurance is built into this system of care by inspection programs that complement cost-containment and standard-setting functions.

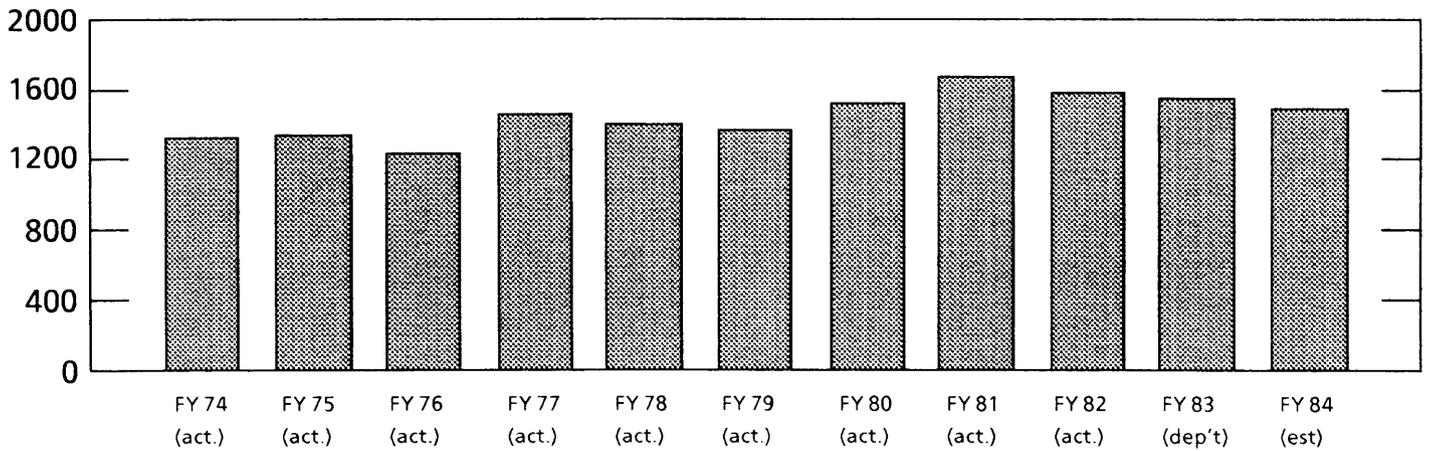
In Fiscal year 1983, the department had 1,548 positions and a state operating budget of \$29.8 million.

The organization chart for the department reflects the final decision of the commissioner after analysis of the GMIP final report.

BUDGET (Direct State Services only)



TOTAL POSITIONS (All Funding Sources)



Accomplishments

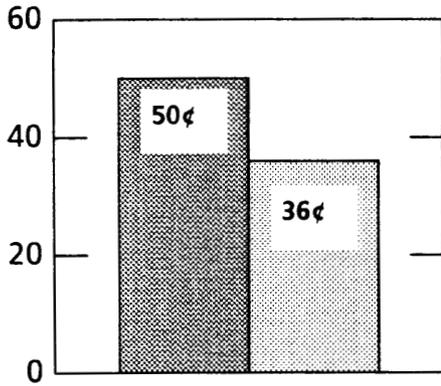
Major accomplishments of the organizational analysis were potential improvements as follows:

- o An improvement in the ratio of managers to workers from 1 to 3.1 to 1 to 4.5, or 45 percent.
- o A reduction in the percentage of middle managers from 38.7 percent to 30.9 percent, or 20 percent.
- o Elimination of 27 managerial positions completed at this point in time.
- o Elimination of 77 positions, of the twenty additional positions identified for reduction, eleven are managerial positions, yielding a potential cost savings of \$306,900.
- o A reduction in the percentage of one-to-one reporting relationships of 55 percent (from 16.8 percent to 7.2 percent).
- o Overall reduction in the maximum number of management levels by one or more for most divisions.

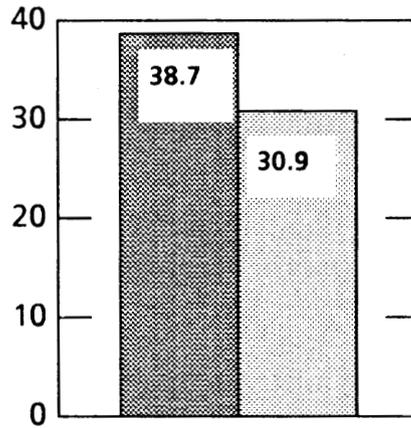
Additional Opportunities

The department is also in the process of developing various ongoing strategies utilizing elements of the GMIP methodology. As an example, computer programs have been written, based on data obtained from SMC, to organize departmental activities by cost within divisions and across the entire department. This data will assist in the identification of cost reduction targets, allowing the department to make more effective use of limited resources.

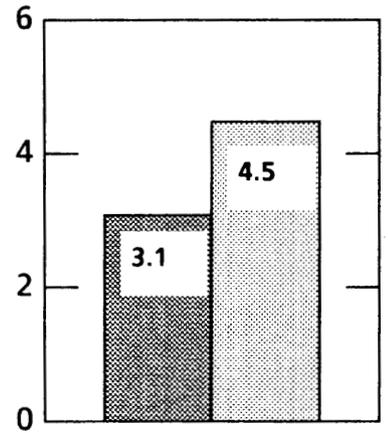
DEPARTMENT OF HEALTH



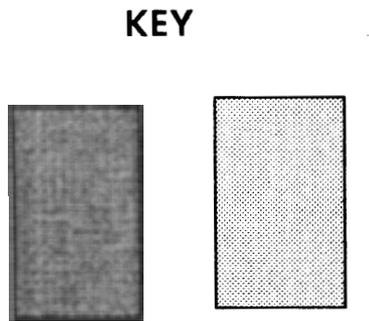
COST TO MANAGE



% MIDDLE MANAGERS

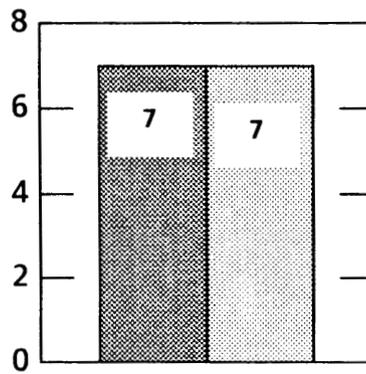


RATIO WORKERS/MANAGER

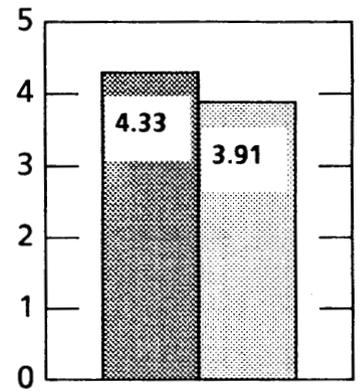


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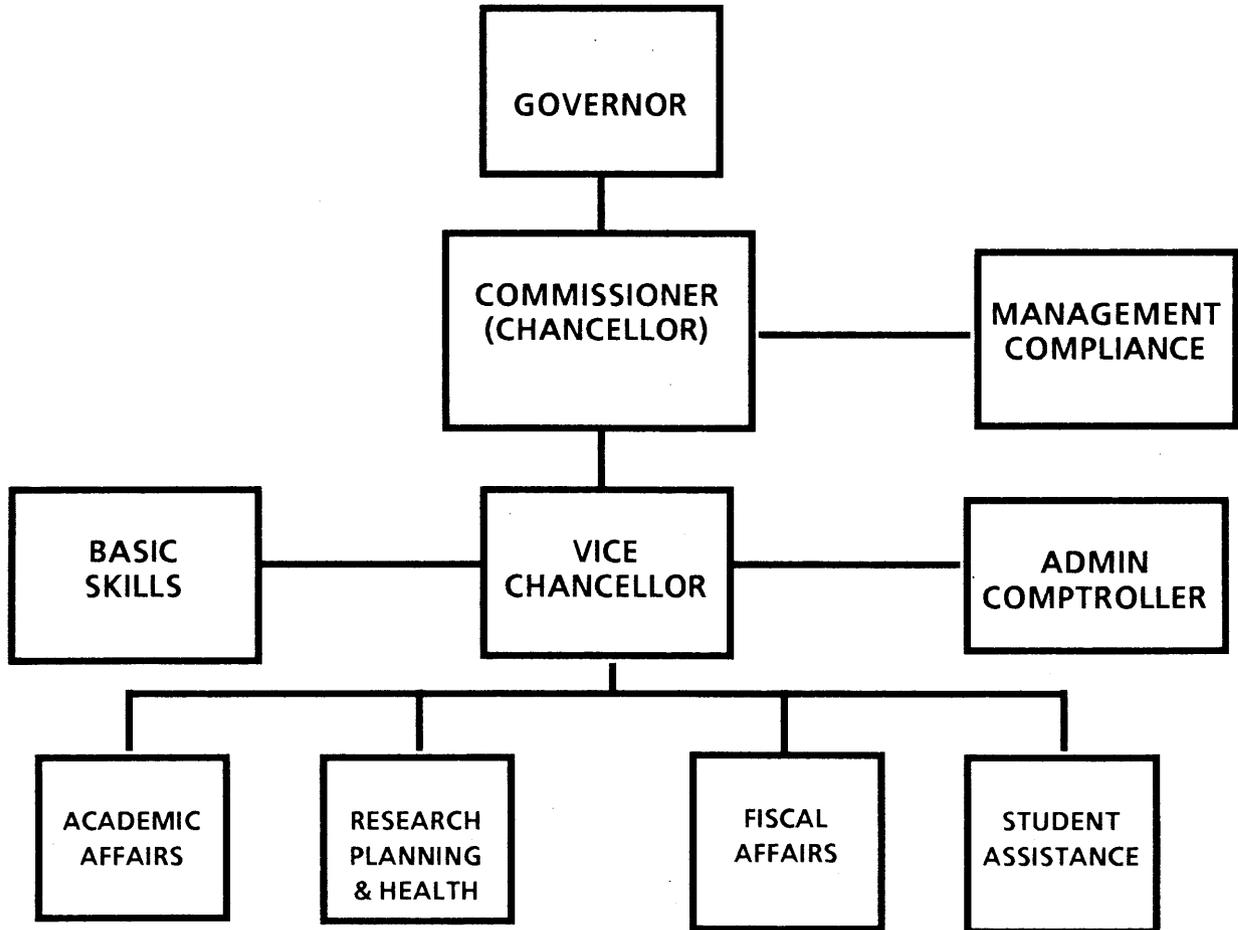
MAX MANAGEMENT LEVEL



AVG MANAGEMENT LEVEL

SMC DATA

DEPARTMENT OF HIGHER EDUCATION



The New Jersey higher education system consists of the New Jersey Board of Higher Education - which deals with system-wide questions of fiscal strategy and educational policy, fifty-eight colleges and universities, and central management services to the board and institutions within the system.

The mission of the New Jersey higher education system is to:

- o Improve and expand statewide planning efforts in order to establish a rational basis for institutional and programmatic development in higher education
- o Ensure that all qualified and motivated New Jersey students are able to find a place in a program of postsecondary study through the provision of student financial aid programs, appropriate academic policies, and adequate facilities
- o Continue statewide planning and program development to meet major medical and allied health needs in New Jersey for the present and future
- o Enhance the management capability of the department and the institutions of the state through the further development of computer-based and other data processing systems
- o Assist in the development and strengthening of independent colleges and universities as integral components of a state system of higher education

The higher education system manages land holdings and campus facilities worth an estimated \$8 billion; it employs over 34,000 full-time staff and also makes heavy use of part-time and seasonal personnel. Direct educational services are provided to over 350,000 full-time and part-time students, resulting in 45,000 degrees each year. In addition, expert consulting services are provided and basic and applied research of economic value to private employers and government jurisdictions is performed.

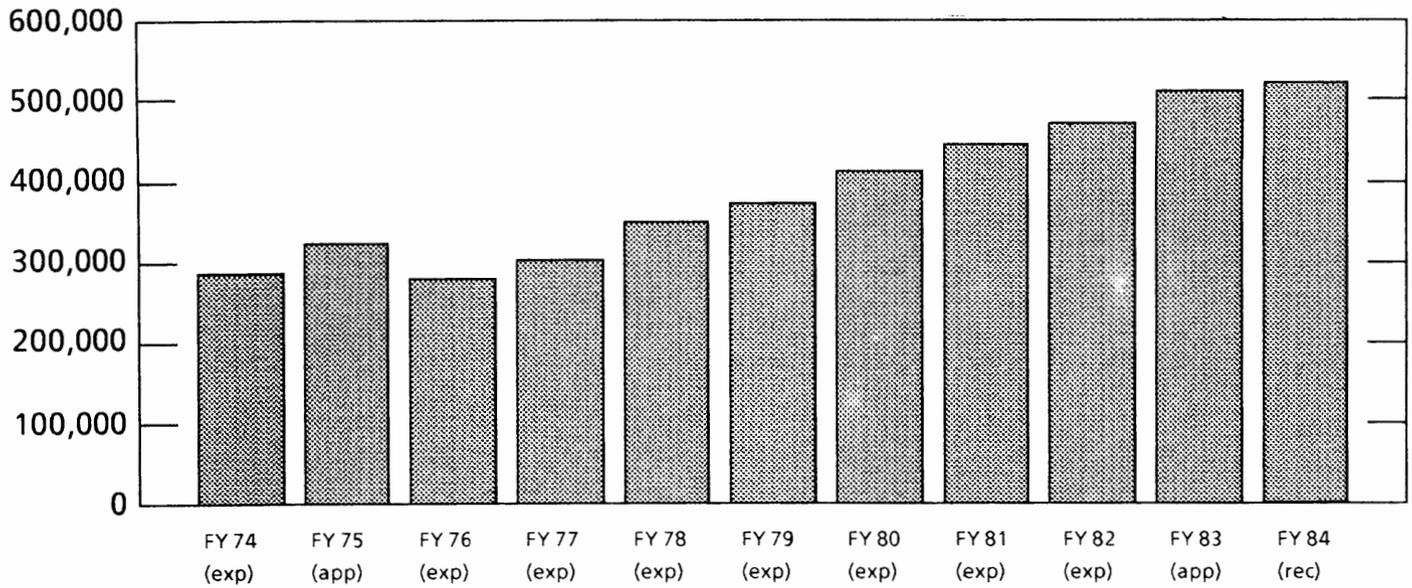
In Fiscal Year 1983, the department had a state operating budget of \$512.8 million.

The organization chart for the department reflects the final decision of the chancellor after analysis of the GMIP final report.

BUDGET

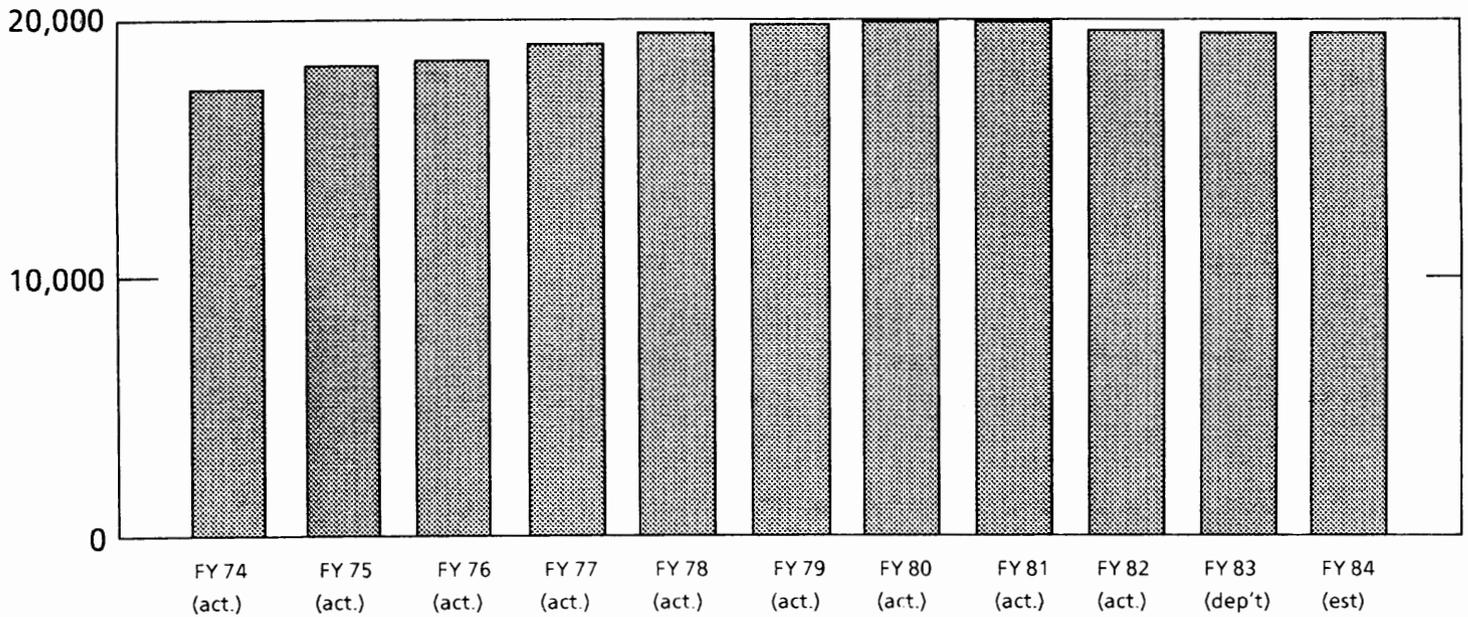
(Direct State Services only)

\$(000)



TOTAL POSITIONS

(All Funding Sources)



Accomplishments

Major accomplishments of the organizational analysis are presented for the Department of Higher Education (central management), Rutgers University, University of Medicine and Dentistry, New Jersey Institute of Technology and state colleges.

Recommendations systemwide provided for the organizational redesignation as workers of 271 employees previously classified as managers and for the redirection of over \$1,000,000 in redesignation-related cost reductions to the improvement of support services.

Department of Higher Education

The department reviewed the structural organization in order to gain a better manager-to-worker ratio and reduce the cost of managing. The department concentrated on restructuring work in the Division of Student Assistance. It reduced seven levels of management to four levels, reduced the number of managers by 25 percent and improved the ratio of managers to workers from 1 to 4.3 to 1 to 5.6.

Additional Opportunities

Rutgers University

The following areas for changes were identified:

- o Reallocate payroll dollars from lesser to higher priority areas
- o Information systems aimed at improving services or realizing economies
- o Streamline the administrative process by eliminating unnecessary levels of reporting
- o Improved services for the students and the diffusion of responsibilities and fragmentation of effort reduced for the managers and faculty
- o Revised procedures for secretarial and clerical work, housekeeping and janitorial work, security police and parking, the driving of vehicles and the handling of mail
- o The cost of secretarial and clerical work highlighted the backlog of administrative and computer support needs
- o The recognition of the need for management training.

University of Medicine and Dentistry

The analysis was viewed as the beginning of a planning process that the university might adopt but not as an opportunity for immediate recommendations for restructuring or for payroll reductions.

A major factor in this viewpoint is the relationship between the university and the state. Specifically, although the university recognizes that the state has a legitimate concern that payroll costs be reduced, it perceives its management structure as being the concern of its board of governors. Thus, the potential for reducing payroll costs by simplifying the management structure through reducing management overhead is seen as a matter for attention by its board of governors.

New Jersey Institute of Technology

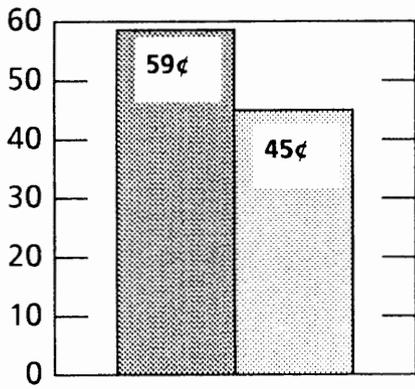
The analysis focused on support functions, particularly personnel, purchasing, and budgeting. The institute recognizes that the consultative nature of collegiate decision making would prevent it from immediately realizing the full potential of the analytical findings and that the analysis was but the first step in a continuing reassessment.

State Colleges

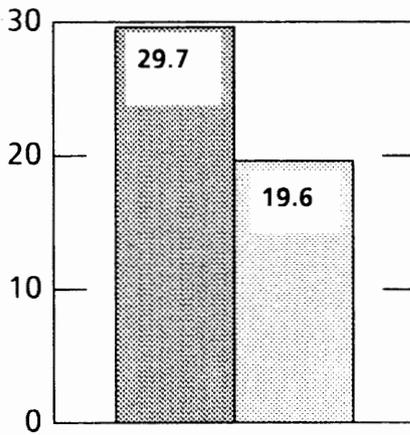
Because managerial control of each state college rests with its president and board of trustees and there is not a consolidated operating system, each co-consultant team analyzed its own institution and reviewed the results with the group at large. Eighteen common issues relating to program policy and operations were identified during general discussions. The analysis was viewed more as a beginning of the planning process than as an occasion for immediate restructuring. Under an informal arrangement with the Department of Higher Education, Mercer County College was included in the analysis.

DEPARTMENT OF HIGHER EDUCATION

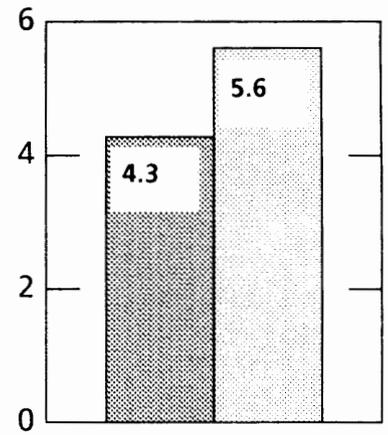
(Central Office Only)



COST TO MANAGE

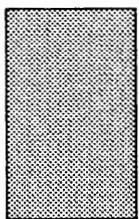


% MIDDLE MANAGERS

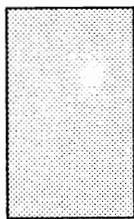


RATIO WORKERS/MANAGER

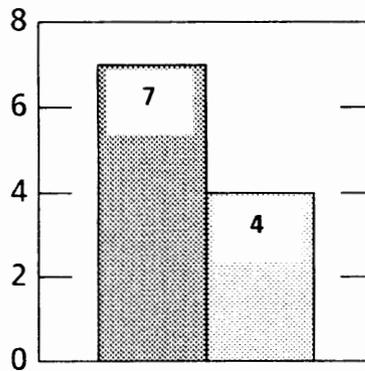
KEY



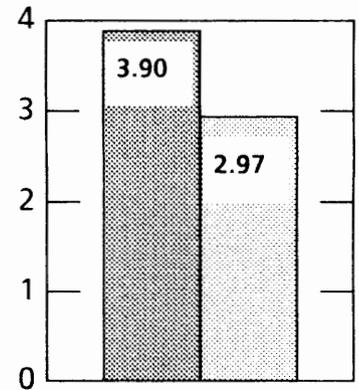
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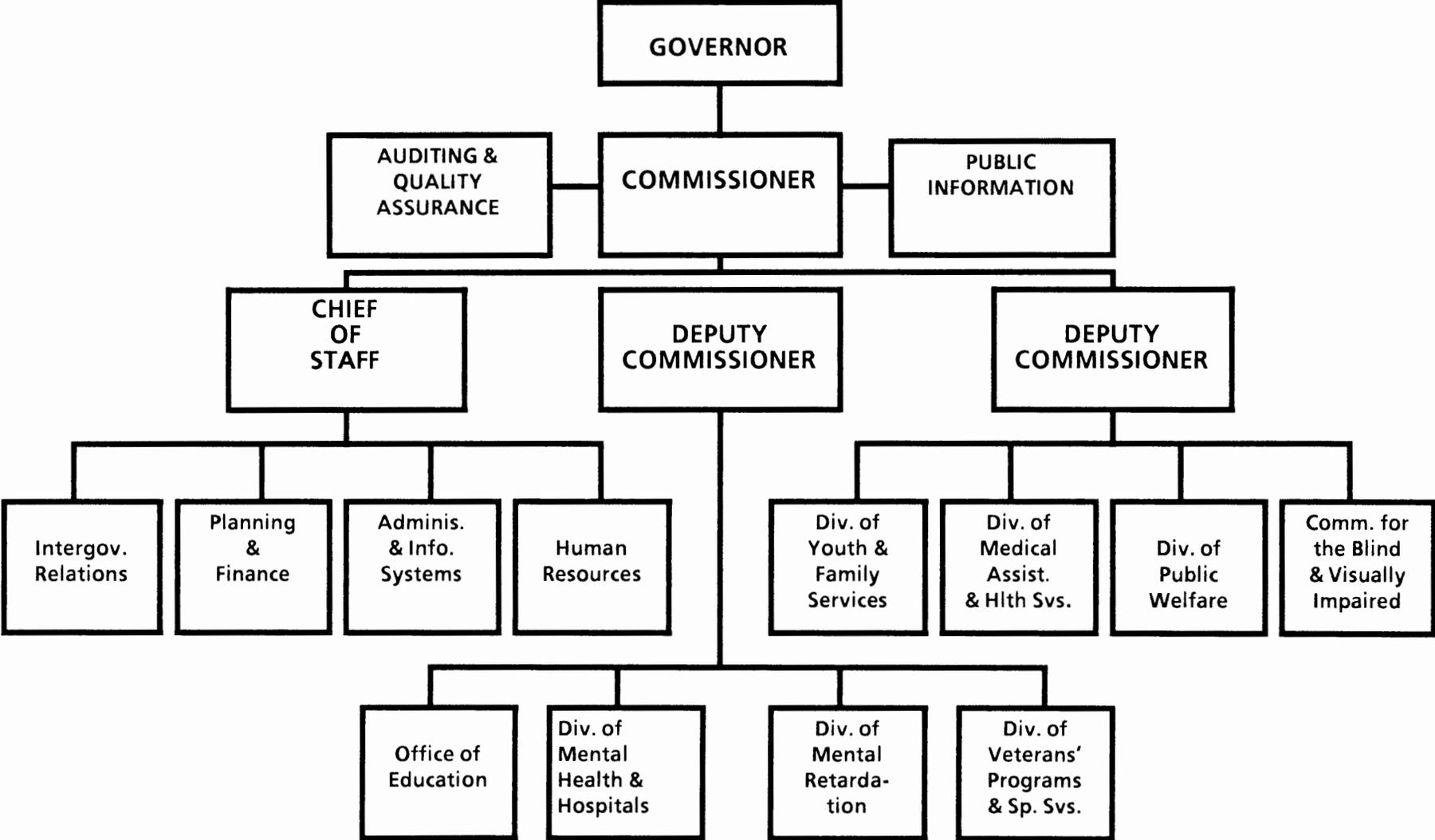
MAX MANAGEMENT LEVEL



AVG MANAGEMENT LEVEL

SMC DATA

DEPARTMENT OF HUMAN SERVICES



The Department of Human Services is the largest department of state government. It is responsible for administering the state's mental health institutions and institutions for the mentally retarded; a network of community-based centers concerned with mental health and mental retardation; the welfare and Medicaid programs; the Commission for the Blind; the administration of veterans' homes; and most state-supported social services programs, such as day care and family services. As New Jersey's major social service agency, it is responsible for providing services to one million men, women, and children in New Jersey.

The department employs approximately 23,000 people and had an operating budget of \$890.7 million in Fiscal Year 1983. Services are offered through the following seven divisions:

Commission for the Blind and Visually Impaired. Provides a variety of services to the blind and visually impaired, including counseling, medical treatment, education, training, and job placement. The commission also participates in state and federal vocational rehabilitation programs, home industries, and vending facilities.

Division of Medical Assistance and Health Services (Medicaid). A joint federal-state program providing for the medical and health needs of over 600,000 poor New Jerseyans. The program covers the Pharmaceutical Assistance to the Aged Program, the Lifeline Credit Program, inpatient and outpatient hospital care, skilled nursing and intermediate care, home and hospital treatment for children, and family planning health clinic services.

Division of Mental Health and Hospitals. Administers four state psychiatric hospitals, a children's residential treatment center, and a special facility for geriatric patients; provides aid in the development of community mental health centers; and provides state funding for mental health clinic services.

Division of Mental Retardation. Administers and operates the state's nine residential facilities for the retarded. Provides other functional services, including purchase of residential care, day training and adult activity centers, research, guardianship protection, and a broad spectrum of regional social services, including nonresidential supervision.

Division of Public Welfare. Administers several public assistance programs including Aid to Families with Dependent Children, General Assistance, and Home Energy Assistance. Supervises the Cuban and Indo-Chinese Refugee Assistance programs and the federal food stamp program.

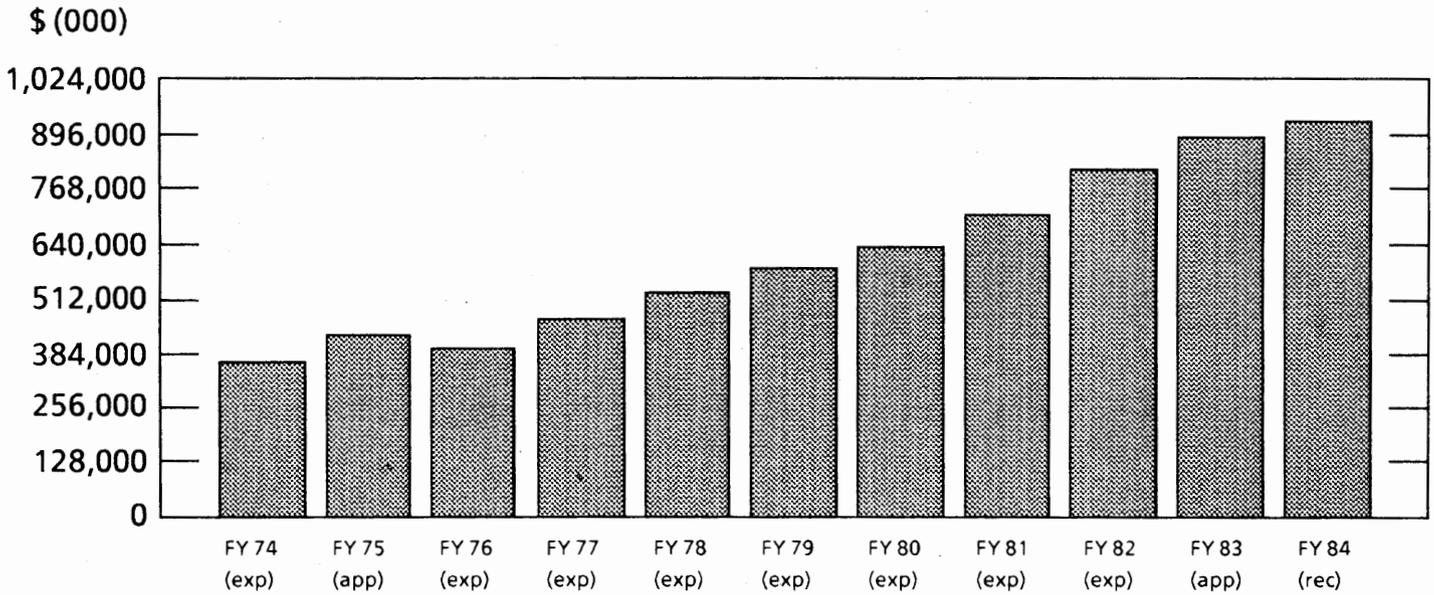
Division of Veterans' Programs and Special Services. Administers the two soldiers' homes and the Bureau of Veterans' Services. The bureau assists and counsels veterans on all state and federal benefits to which they may be entitled.

Division of Youth and Family Services. Provides adoption and foster care placement; protective services for abused, abandoned, and neglected children; casework, counseling, and tangible services to families; day care services and residential and institutional care.

The organization chart for the department reflects the final decision of the commissioner after analysis of the GMIP final report.

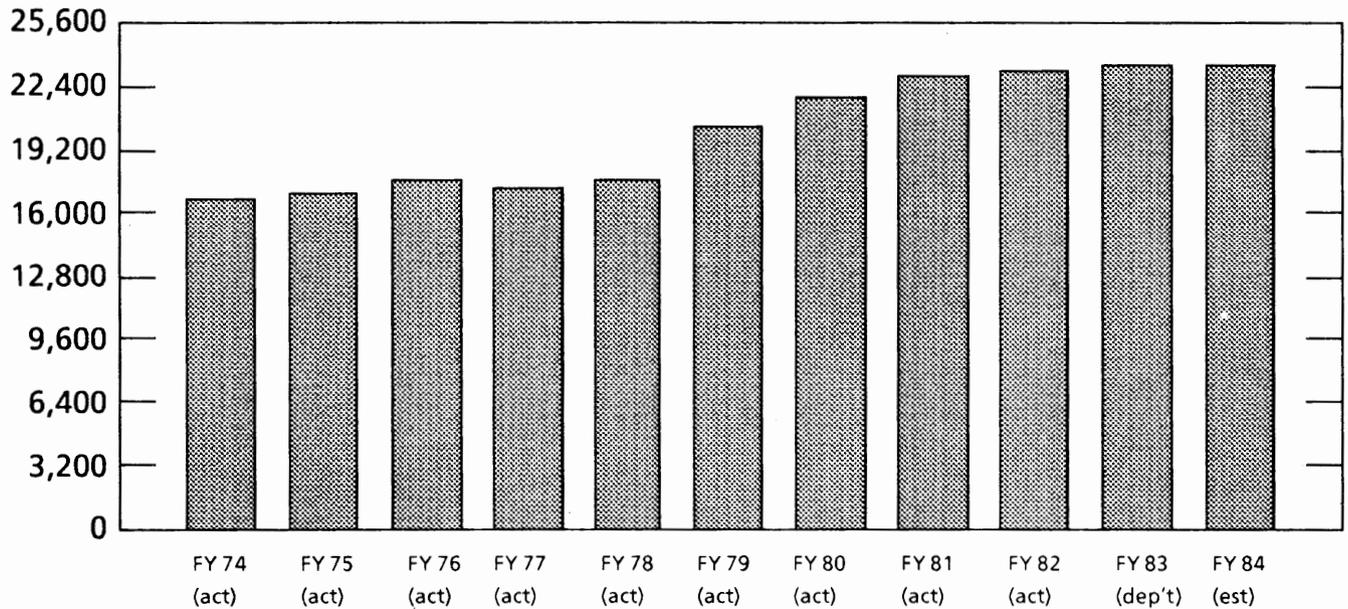
BUDGET

(Direct State Services only)



TOTAL POSITIONS

(All Funding Sources)



Accomplishments

As a result of the GMIP process, the department was restructured so that it can effectively function as one centralized entity rather than as seven independent divisions. Major accomplishments of the study were as follows:

- o The department was restructured to permit supervision of the seven operating divisions by two Deputy Commissioners, with all administrative functions which cut across divisional lines being consolidated under a Chief of Staff. These functions include departmental planning, facilities management services, personnel services, establishment of department-wide priorities and plans for automated systems. These functions will be handled by three Assistant Commissioners, reporting through the Chief of Staff to the Commissioner.

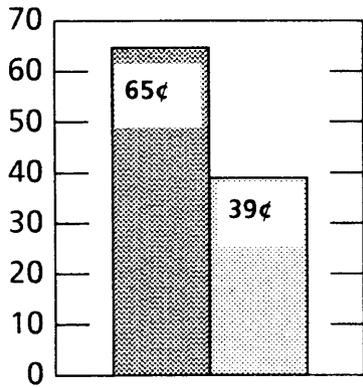
The proposed restructuring will reduce the number of individuals reporting to the Commissioner from an unwieldy 13 to a manageable 5, while, at the same time, increasing the management resources of the Commissioner's Office. In addition, it reduces duplication and clearly identifies roles and responsibilities of each executive in the Central Office.

- o The Central Office's function has been changed considerably as a result of participating in GMIP. Previously, each division oversaw its own program planning and fiscal activities, acting as an autonomous unit. In the future, the Central Office will coordinate and control all programs, administrative procedures, and fiscal activities within the department. The reorganization will streamline and centralize the administrative structure, consolidate common functions, increase coordination, improve management controls, and clearly identify the roles and responsibilities of each organizational unit.
- o Major restructuring was done to change the Division of Youth and Family Services from a highly centralized to a regionalized organization. Because staffing guides were provided by the department, it was possible to allocate managers and workers on the basis of population density and other characteristics. As a result, 154 managers, or 5.4 percent of the division total, were reduced despite a significant increase in the people in some district offices where demand is heaviest. Since the analysis was completed, it has been decided to reallocate some of the reduced personnel to direct case work and thereby improve the level of service and reduce the case loads where desired.
- o The GMIP process allowed the department to conduct an overall household sweep, evaluating staffing patterns as well as programmatic efficiency. Areas requiring closer control mechanisms were identified through evaluation and were subsequently realigned to provide for more efficient work.
- o The organizational analysis of each division identified the areas of highest cost and staffing concentration. Those areas are being restructured toward a more efficient and cost-beneficial hierarchy to achieve effective service delivery while tuning the costs to include only necessary operational staff.

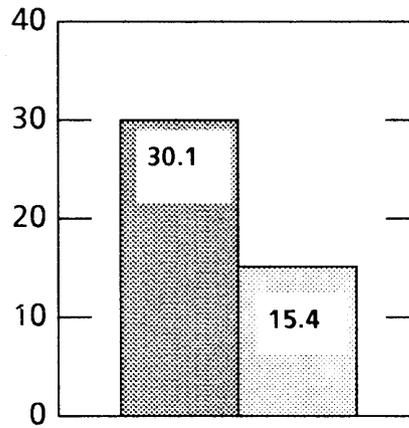
Additional Opportunities

- o The proposed model for development of information systems is also a centralized structure. Centralization of management information systems will provide for greater flexibility in existing analytical and planning resources within the department. Automation allows a provision of services at a high level without increasing costs, particularly administrative costs.
- o Realignment within the Department of Human Services will begin with the development and implementation of a centralized personnel system. Centralization of this area represents a potential cost savings of \$270,000 and will be achieved by centralizing the personnel systems of Youth and Family Services, Public Welfare, Medicaid, and the Commission for the Blind and Visually Impaired.
- o Yet another short-term action planned at DHS is a financial management information system. This system will automate the department's finance and accounting subsystems in one system that will act as a facilitator in the planning, managing, evaluating, and replanning cycle. A department such as this one, which operates on combination funds, needs an adaptable system to provide a wide array of information.
- o A large amount of budgeted monies was being spent on food services throughout the institutions and facilities sponsored by DHS. Closer examination led to the conclusion that the system lacks any kind of uniformity and therefore is subject to increasing costs. From one facility to the next there is no common system in the purchase, preparation and provision of foodstuffs. DHS has now formulated a food-service task force to examine the problem and make recommendations to the commissioner.
- o Examination of long-term options on a divisional level identified various areas that may generate revenue and improve services to the state's disadvantaged population:
 - Mental Health and Hospitals: Long-term cost-effective facility- utilization plan
 - Youth and Family Services: Review of the Adoption Subsidy Program and rooming and boarding home projects
 - Public Welfare: Integration of income maintenance and services staff
 - Medical Assistance: Require banks to provide account verification to welfare agencies; establishment of a long-term community care program
 - Central Office: Complete vertical as well as horizontal realignment within the central office structure of DHS.

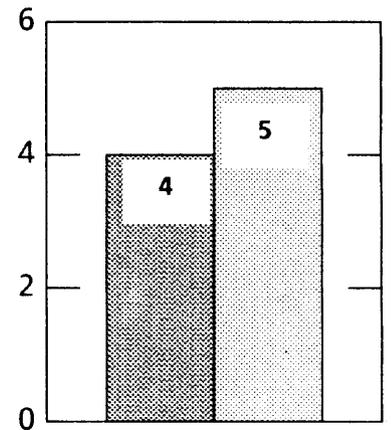
DEPARTMENT OF HUMAN SERVICES



COST TO MANAGE

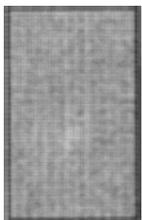


% MIDDLE MANAGERS

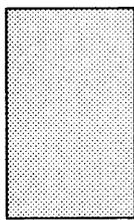


RATIO WORKERS/MANAGER

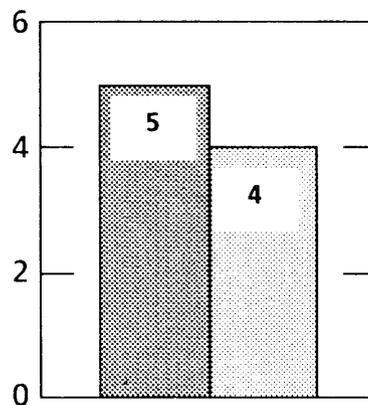
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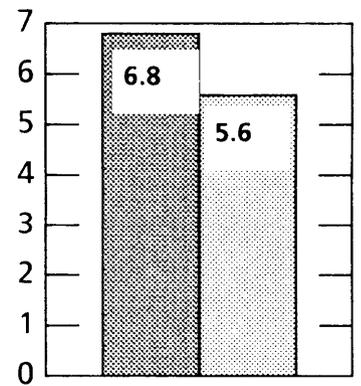
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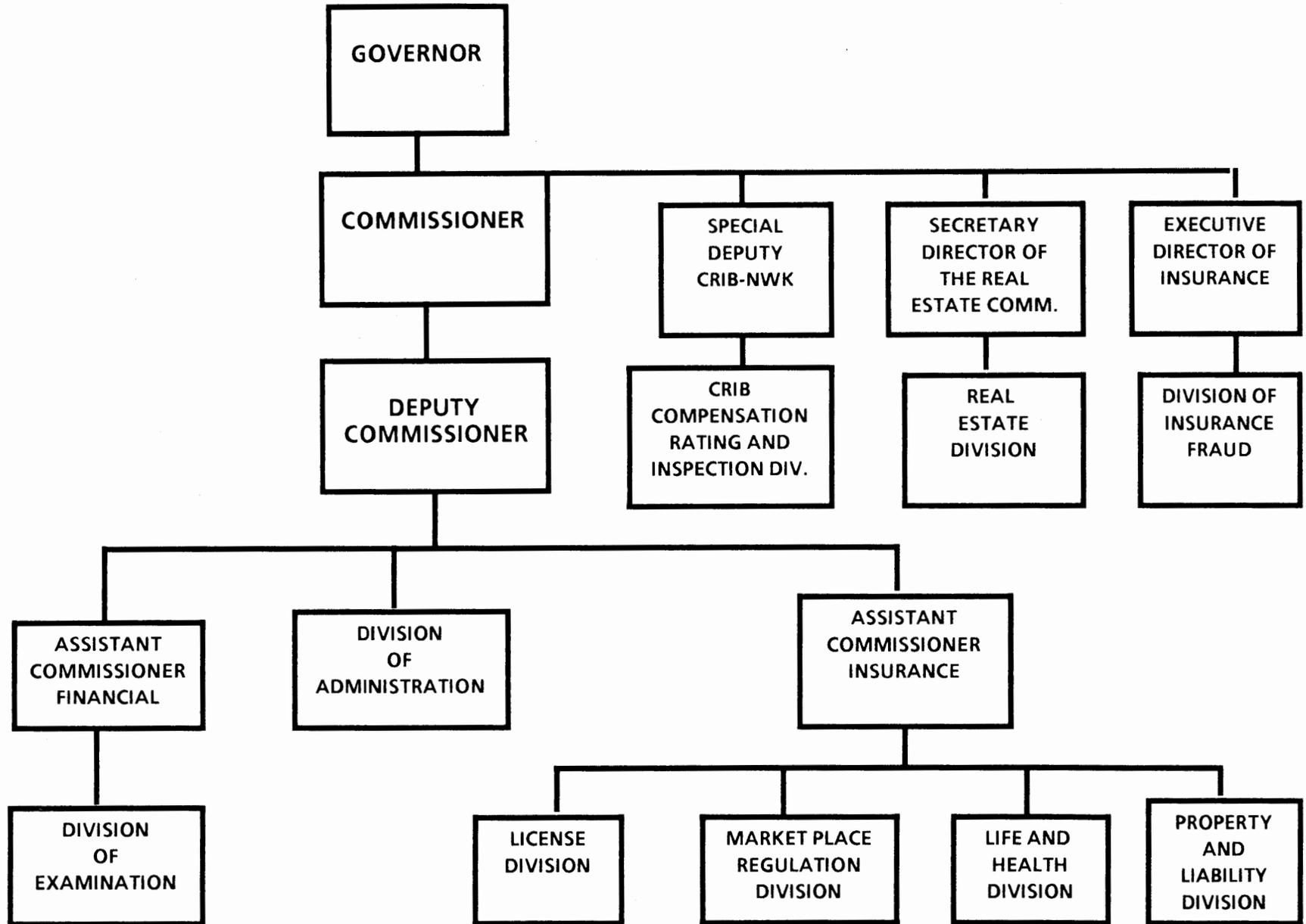
MAX MANAGEMENT LEVEL



AVG MANAGEMENT LEVEL

SMC DATA

DEPARTMENT OF INSURANCE



The Department of Insurance has responsibility for administering and enforcing the laws that regulate the real estate and insurance industries in New Jersey. Another of the department's important tasks is to examine and license insurance companies in order to protect the public. At regular intervals, every New Jersey insurance company is examined to determine its financial soundness. The department licenses insurance agents, brokers, and solicitors who have passed qualifying examinations. It investigates complaints against companies, agents, and brokers; holds public hearings; and has the power to suspend or revoke any license it has issued, or to impose fines for violations of the laws or departmental regulations. Among the department's many responsibilities is the approval of rates for property, liability, and health insurance policies. The department also examines and evaluates policy forms prior to allowing them to be used in New Jersey.

Within the Department of Insurance is the Division of the New Jersey Real Estate Commission. This agency has the responsibility for the regulation of the New Jersey real estate marketplace and includes licensing, enforcement, complaints, subdivided land sales, and hearings.

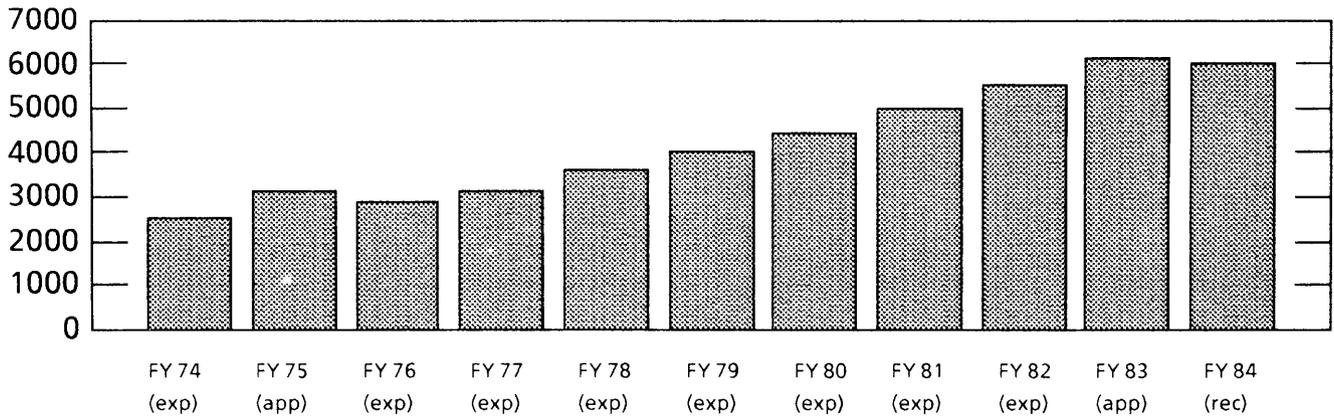
In Fiscal Year 1983, the department had 267 employees and a state operating budget of \$6.2 million.

The organization chart for the department reflects the final decision of the commissioner after analysis of the GMIP final report.

BUDGET

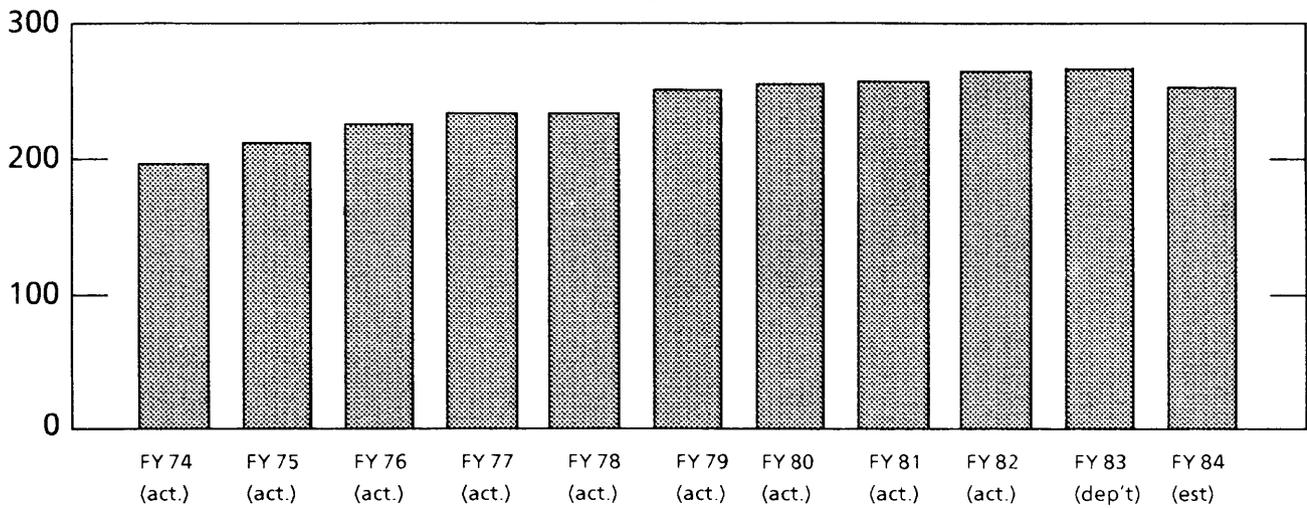
(Direct State Services Only)

\$(000)



TOTAL POSITIONS

(All Funding Sources)



Accomplishments

Major accomplishments of the organizational analysis were as follows:

- o Abolishing the Division of Consumer Services and incorporating its functions within other operating divisions.
- o Restructuring the Division of Administration, reallocating six supervisory positions to worker positions.
- o Restructuring the Financial Examination Division, reallocating 14 supervisory positions to worker positions.
- o Establishing a consumer information and complaint "help desk" and staffing it with qualified professional staff from real estate insurance marketplace regulatory functions.
- o Consolidating revenue and reimbursable accounting functions into the departmental fiscal office.
- o Structural improvements achieved through the organizational analysis will result in a reduction in the cost to manage from 80 cents to 38 cents, a reduction in the percentage of middle managers from 36 percent to 22.5 percent and an improvement in the ratio of managers to workers, from 1 to 2.3 to 1 to 5.2.

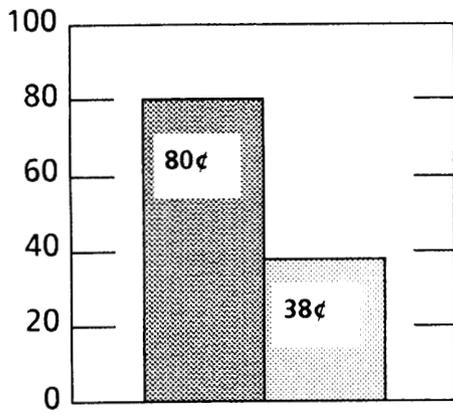
Additional Opportunities

Areas of potential improvement requiring further study were also identified.

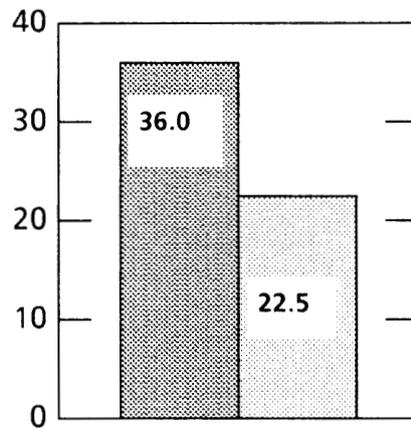
- o Establishment of a revolving fund to support reimbursable regulatory audits would address problems of inadequate support and budget restraints
- o Establishment of a dedicated fund reappropriating revenues and other receipts for services that are performed by the department at the request of the insurance and real estate industries and its licensees
- o Evaluating current fees charged, their adequacy, and how they compare with other states.

Consolidating the insurance and real estate licensing and marketplace regulatory functions is being studied. Implementation is not immediately feasible, but this possibility will be evaluated on a regular basis.

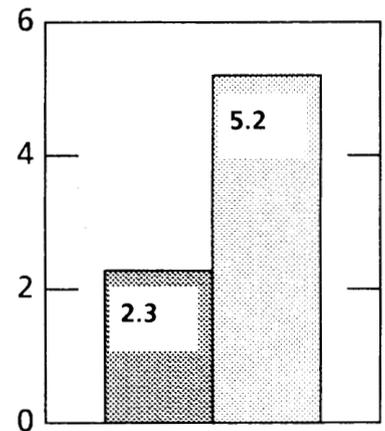
DEPARTMENT OF INSURANCE



COST TO MANAGE

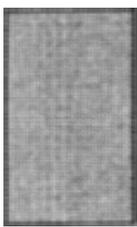


% MIDDLE MANAGERS

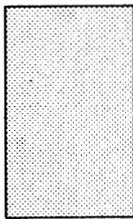


RATIO WORKERS/MANAGER

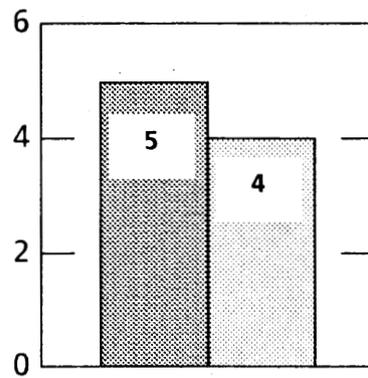
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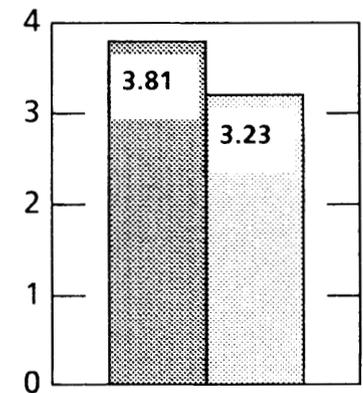
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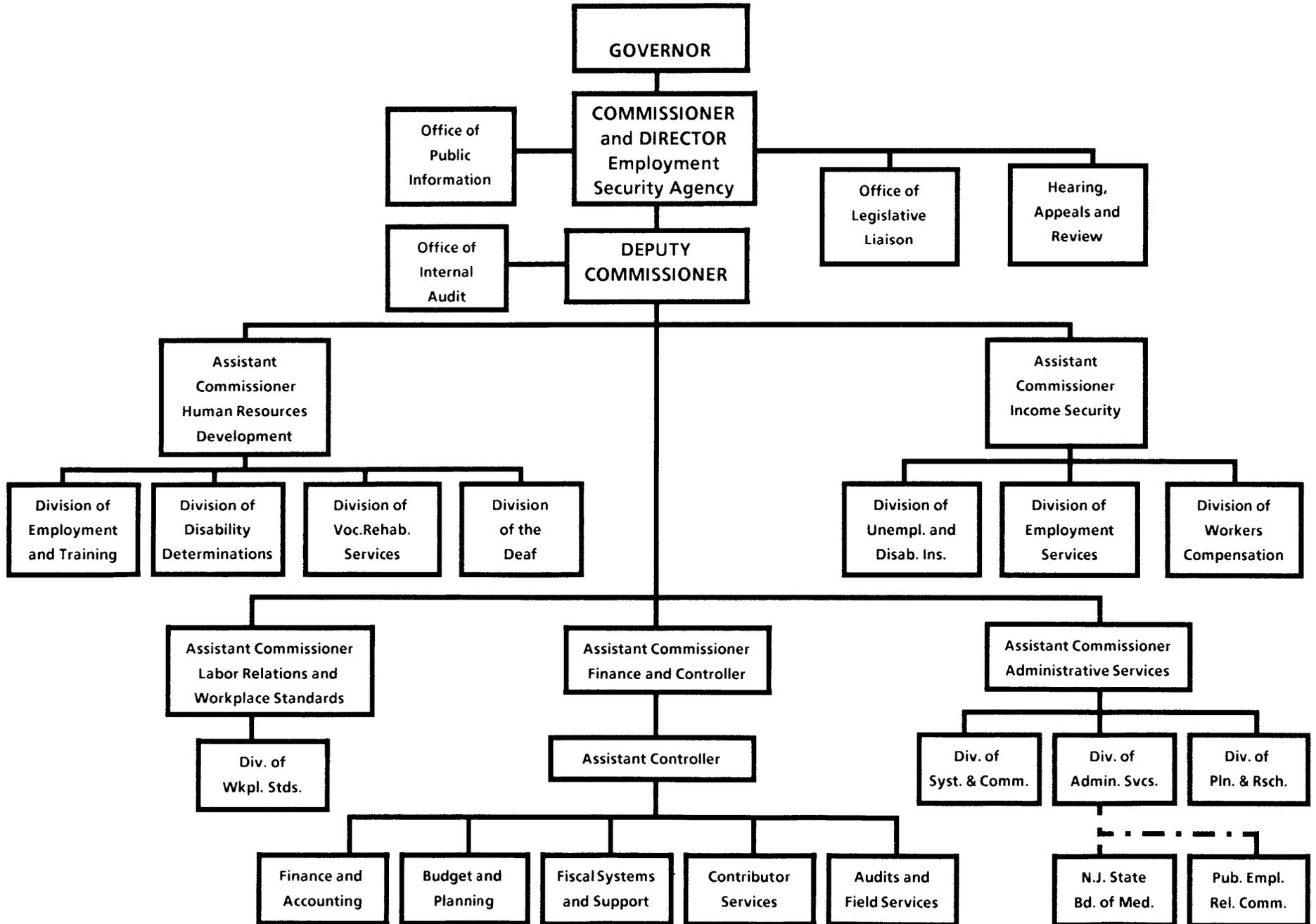
MAX MANAGEMENT LEVEL



AVG MANAGEMENT LEVEL

SMC DATA

DEPARTMENT OF LABOR



The Department of Labor operates under a variety of federal and state statutes and runs a multiplicity of programs that affect all aspects of working life in New Jersey. The major missions of the department are summarized as follows:

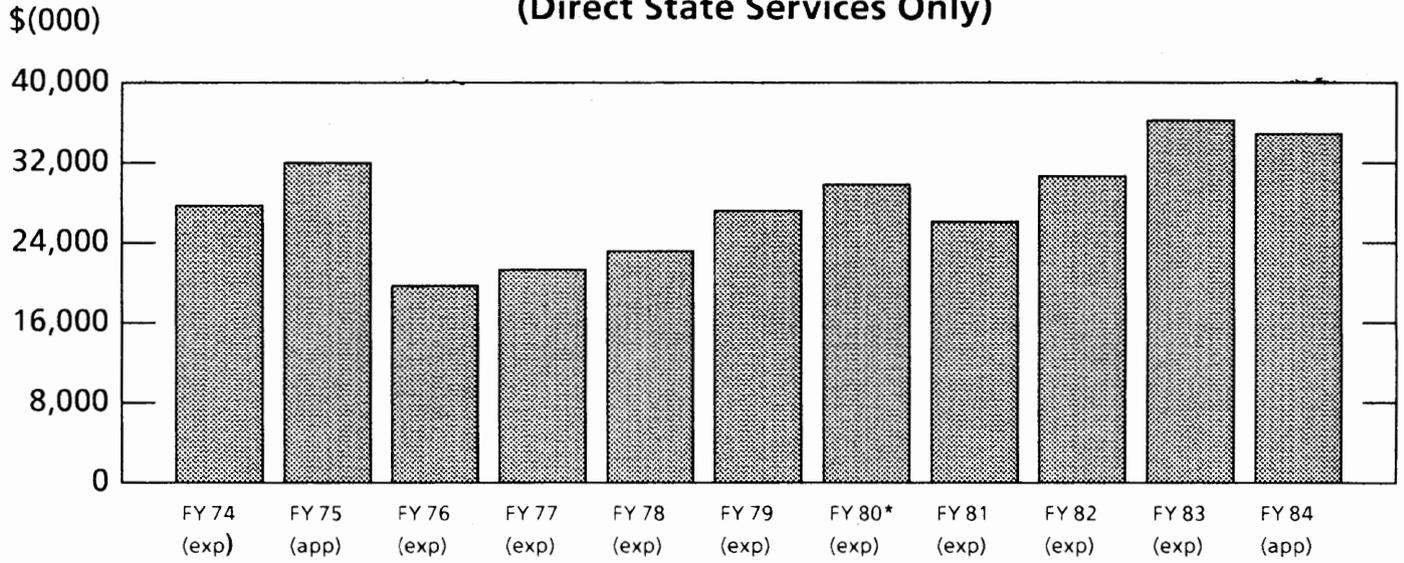
- o Prevent or eliminate employment practices that are injurious to workers or that abrogate workers' rights, and ensure equitable wages, hours, and working conditions.
- o Accumulate adequate reserves and pay or direct payment of benefits to unemployed and disabled individuals.
- o Develop and make available employment and training opportunities to interested workers.
- o Rehabilitate disabled manpower for employment opportunities.
- o Minimize public and private employer-employee disputes, resolve such disputes when they arise, and enforce statutory collective bargaining rights of public employees.

In Fiscal Year 1983, the department had 4,825 positions and a state operating budget of \$34.4 million.

The organization chart for the department reflects the final decision of the commissioner after analysis of the GMIP final report.

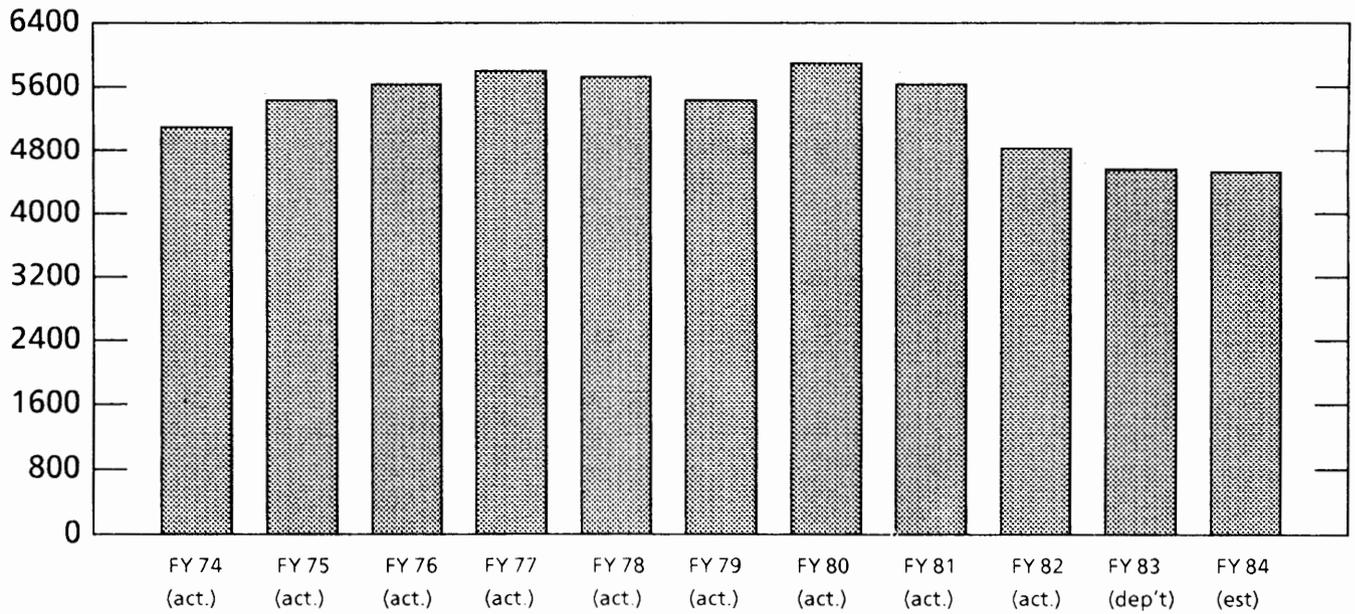
BUDGET

(Direct State Services Only)



TOTAL POSITIONS

(All Funding Sources)



*Dept. of Commerce was separated from Dept. of Labor in FY81

Accomplishments

Major accomplishments resulting from the organizational and program analyses were as follows:

- o One hundred twenty-three positions were identified to be abolished without any deleterious effect on the department's operations, for a saving of \$2 million.
- o Nine new positions had to be created to accommodate new organizational structuring.
- o Supervisory responsibility was removed from 109 job classifications, resulting in the need to properly classify over 300 individuals.
- o Many classifications were supported by the technical work involved and, hence, would not require including supervisory responsibilities.
- o Savings from positions downgraded amounted to \$2.7 million.

As a result of the reorganization, cents to manage was reduced from 35 cents per worker salary dollar to 27 cents, a 23 percent reduction; the percentage of middle managers was reduced from 38.4 percent to 28.5 percent, a 26 percent reduction; and the ratio of managers to workers was improved from 1 to 4.8 to 1 to 6.3.

The department is anticipating improved services to the public, particularly as a result of making more operating personnel available. There will probably be some short-run period of adjustment. However, once that has been completed and newly assigned people have learned their jobs, productive results should develop and provide for longer-term improvement.

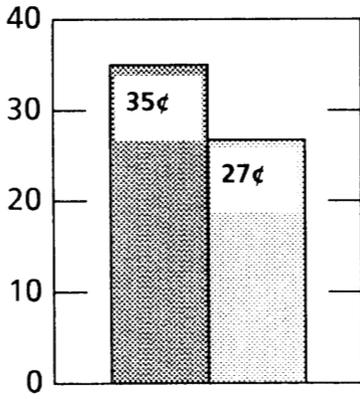
Additional Opportunities

Areas for further study were identified during the analytical activity:

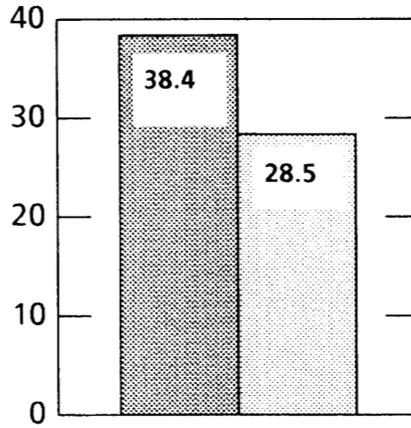
- o The possibility of further integration of departmental functions, including the elimination of overlapping and duplicative activities in the areas of personnel, training, procedures writing, and management analyses.
- o Recalculation of the priority-expenditure analysis at the divisional level toward identifying overlapping duplication of administrative activity and further integration of program responsibility.

The priority-expenditure analysis conducted at the department level produced mixed and somewhat misleading results; therefore, it will be conducted at the divisional level.

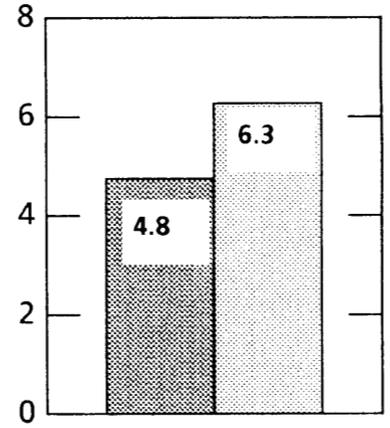
DEPARTMENT OF LABOR



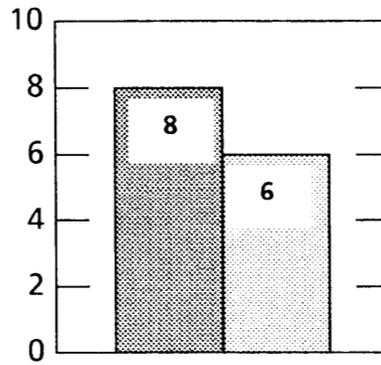
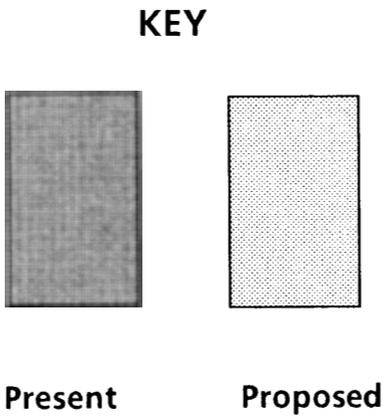
COST TO MANAGE



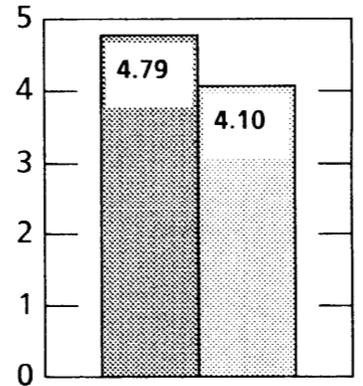
% MIDDLE MANAGERS



RATIO WORKERS/MANAGER



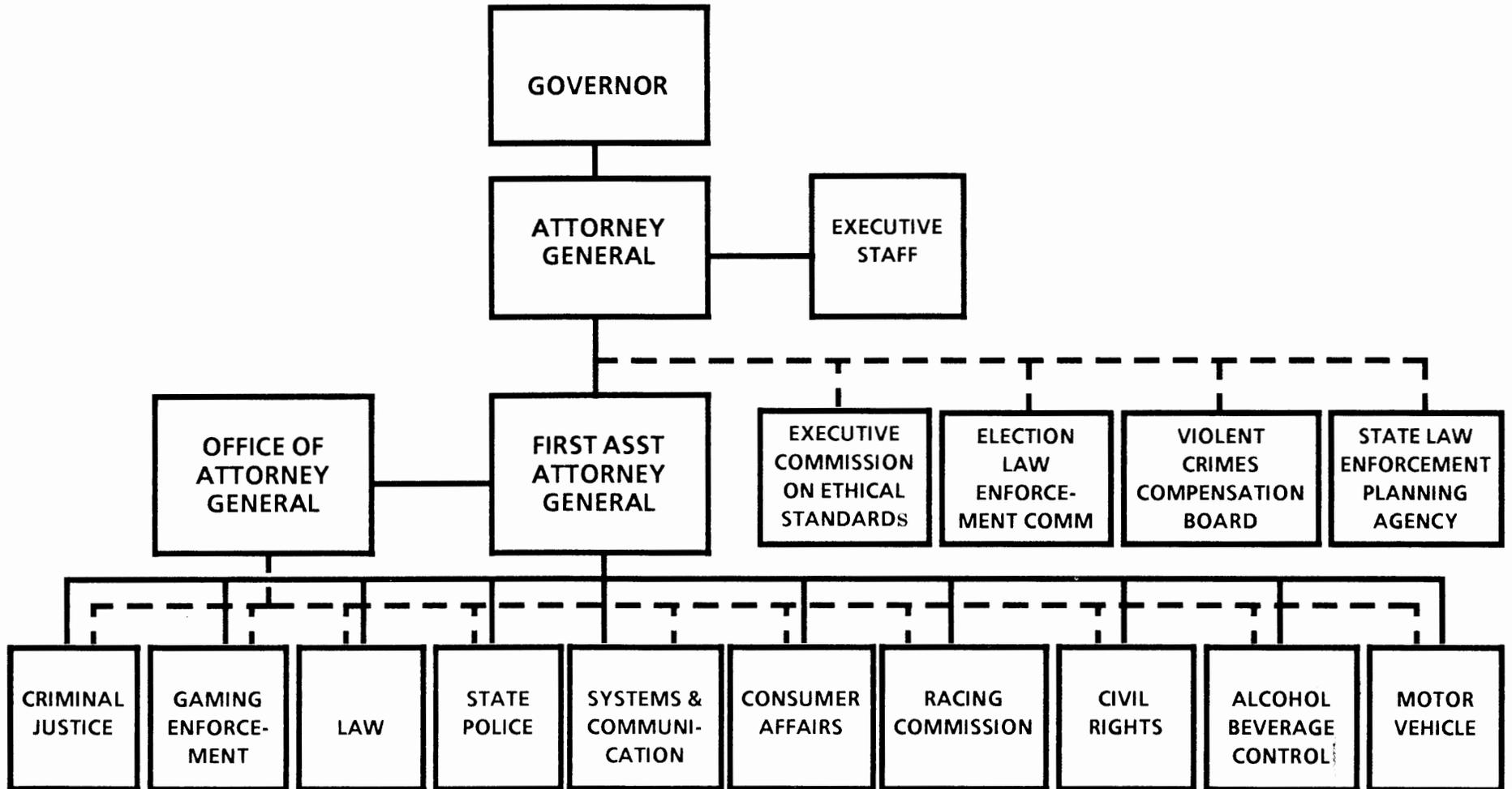
MAX MANAGEMENT LEVEL



AVG MANAGEMENT LEVEL

SMC DATA

DEPARTMENT OF LAW AND PUBLIC SAFETY



The Department of Law and Public Safety has a wide range of responsibility that includes the office of the attorney general, ten separate divisions, and four autonomous agencies.

- o The Division of Law provides legal representation to all departments in state government, to certain independent and quasi-independent authorities and, on request, to the legislative and judicial branches of government.
- o The Division of Criminal Justice investigates organized crime and corruption, presents cases to the state grand jury, tries indictments returned by that grand jury, prosecutes violations of the antitrust law, and is responsible for criminal appeals from all twenty-one counties in New Jersey; when requested or deemed necessary to protect the interests of the state, the division may supersede or assist the county prosecutors in the discharge of their duties. It also provides technical assistance and training services to the county prosecutors to ensure that uniform and effective enforcement of the criminal laws and administration of criminal justice within the state.
- o The state police are responsible for patrolling the major highways in the state, for enforcing the narcotics, alcoholic beverage, and other criminal laws, regulating boating safety, providing laboratory and other technical services to local police departments, and supplying general protection in areas without police departments. The superintendent of state police is also the state Director of Emergency Management, coordinating the statewide emergency responses to man-made or natural disasters.
- o The Division of Motor Vehicles is responsible for the registering and inspection of motor vehicles and the licensing of all motorists.
- o The Division of Alcoholic Beverage Control regulates the manufacturing, wholesaling, and retailing segments of the liquor industry in the state. The director of that division also serves as Commissioner of Amusement Games of Chance, which regulates that industry as well.
- o The Division on Civil Rights enforces laws prohibiting discrimination.
- o The Division of Consumer Affairs ensures fair, equitable and competent treatment of the consumer in relation to the acquisition of goods and services and in the use of professional and occupational boards.
- o The Division of Systems and Communications maintains several computer systems to provide vital information necessary to the internal operations of the department and to law enforcement agencies throughout the state.
- o The New Jersey Racing Commission regulates the horse-racing industry and its employees.
- o The Division of Gaming Enforcement was created to investigate all applicants for casino and casino-related licenses, to review and audit casino operations, and to investigate and prosecute all violations of the Casino Control Act.

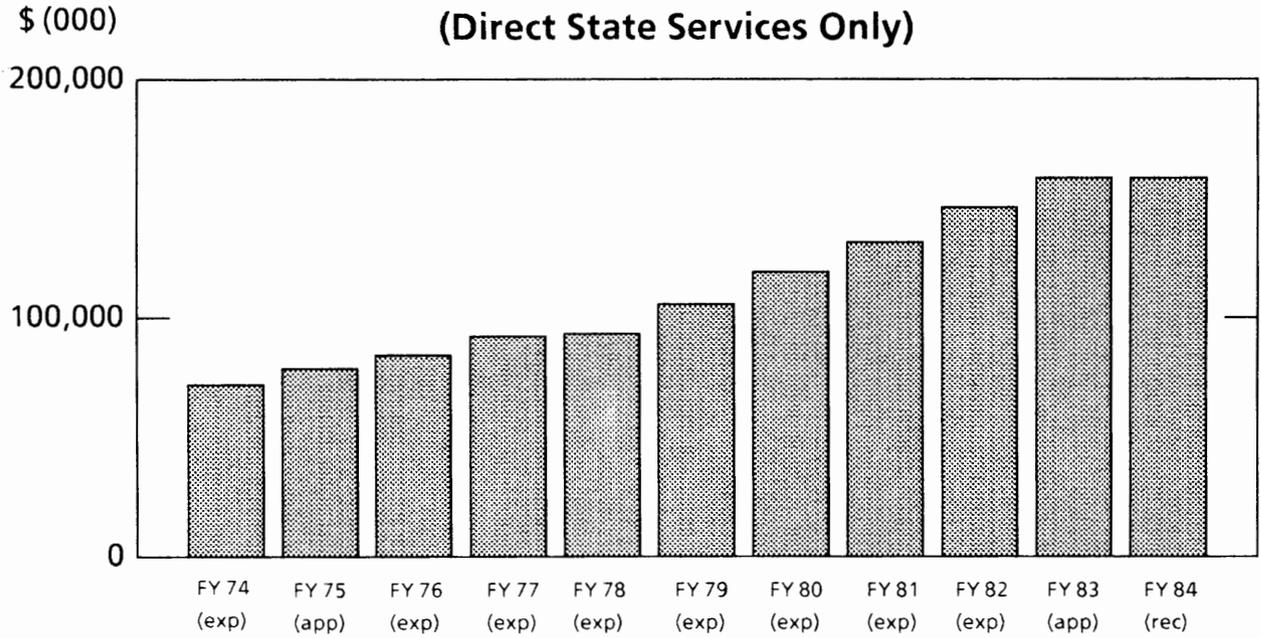
- o The autonomous commissions and agencies administratively in but not part of the department include the Executive Commission on Ethical Standards, the Election Law Enforcement Commission, the State Law Enforcement Planning Agency, and the Violent Crimes Compensation Board.

In Fiscal Year 1983, the department had 6,987 positions and a state operating budget of \$158.6 million.

The organization chart for the department reflects the final decision of the attorney general after analysis of the GMIP final report.

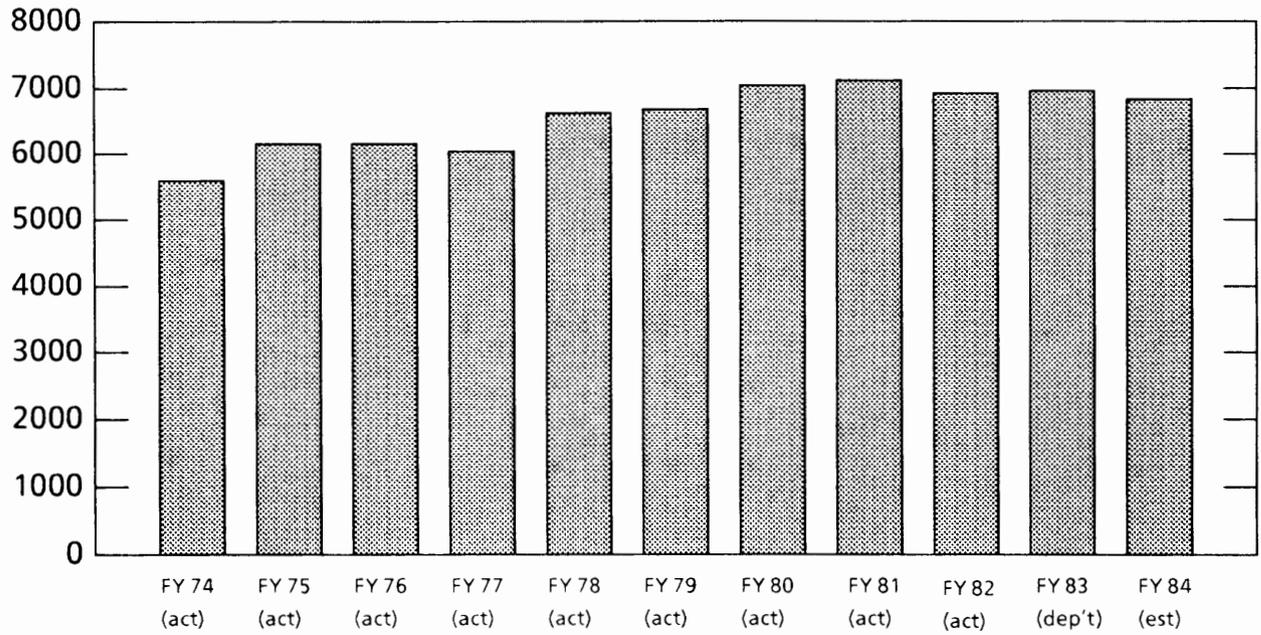
BUDGET

(Direct State Services Only)



TOTAL POSITIONS

(All Funding Sources)



Accomplishments

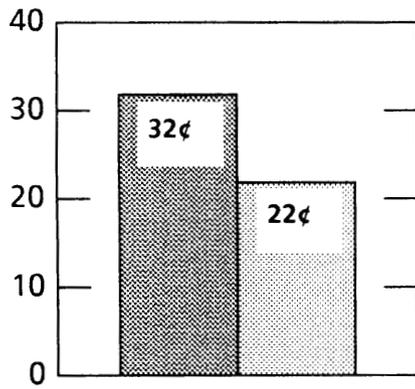
Major accomplishments of the organizational analysis, to be implemented over a three-year period, are as follows:

- o The overall benefits expected from implementation of the GMIP process are: cents to manage each dollar of worker salary reduced from 32 cents to 22 cents, an improvement of 37 percent; the ratio of managers to workers improved from 1 to 4.8 to 1 to 7.5, an improvement of 54.2 percent; the percentage of middle managers decreased from 30.4 percent to 20.4 percent, an improvement of 36.5 percent; and the average number of management levels reduced from 3.91 to 3.17, an improvement of 18.7 percent. When the plan is fully implemented, the number of employees will be reduced by approximately 300, for a reduction of 3.8 percent, reducing total payroll by \$5.8 million, or 4.1 percent.
- o The Division of State Police reassessed managerial responsibilities and developed more streamlined management structures in the areas of investigations, laboratories, and administration. Changes were made to the administrative reporting and assignment channels between State Police units concerned with gaming enforcement and the civilian staff operating under the Division of Gaming Enforcement. There was a streamlining of reporting systems to allow troopers in the field to spend more time on police work and less on report writing. An increase in automation is planned for the administrative section at divisional headquarters to increase efficiency, and automation of the interstate identification process is planned to provide instantaneous criminal-history information for all phases of the criminal justice process.
- o The Division of Motor Vehicles will centralize its computerized telephone answering system for general motor-vehicle information; consolidate automated accounting functions; consolidate the rehabilitation functions of the bureaus of Alcohol Countermeasures, Probationary Driver, and Driver Improvement; reorient objectives of the Bureau of Agencies to emphasize document verification at the division's central office and emphasize quality assurance at each local agency; eliminate the Bureau of Court Report and Fines; transfer the Bureau of Compulsory Insurance and Accident Reporting to the Driver Improvement Service; reorganize the present vehicle- inspection and driver-testing efforts; and redesign the present computerized data base to permit integration of the registration file, enhancement of the violation data file, and acceleration of the agency automation process.
- o The Division of Criminal Justice analysis focused primarily on internal restructuring of investigative and prosecutorial resources, with particular attention given to reducing middle managers to enhance the efficiency of the division's administrative processing of criminal matters.
- o The Division of Law will increase its use of word processing to better enable its staff to produce legal documents with fewer clerical employees.
- o The Division of Alcoholic Beverage Control will reassign selected functions from the present Licensing Bureau into a new Bureau of Trade Practices to

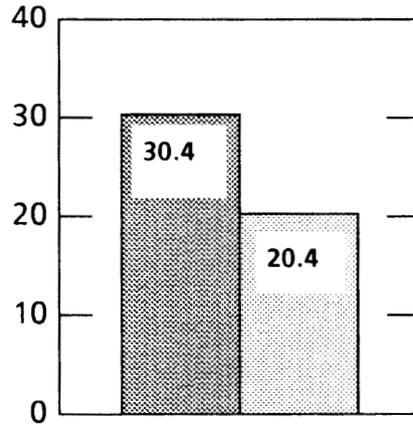
permit better supervision of the industry as a whole and possibly increase revenues.

- o The Division of Consumer Affairs will consolidate the present Charities Registration Section with the Bureau of Securities to maximize the effectiveness of their present resources.
- o The Division of Gaming Enforcement will reassign several current sections from operations to investigations based on an analysis of functions and grouping of related units that results in the reduction of management positions and it will locate the administration and trial functions under the personal supervision of the director.
- o The Division on Civil Rights will consolidate its bureaus of Administration and Research and Planning and Program Development and restructure the Enforcement Bureau on functional rather than geographic lines in order to reduce the levels of management and streamline internal reporting channels.
- o The Division of Systems and Communications will eliminate the present manual punch card files of the Division of Motor Vehicles and install state-of-the-art computer applications in order to permit a reduction in the number of clerical staff and data processing operators.
- o The New Jersey Racing Commission will eliminate one level of management in order to streamline its internal operations.
- o The Office of the Attorney General will be restructured along functional lines and will eliminate one level of middle managers to more clearly define administrative accountability and streamline the management structure of the department. An intradepartmental task force is being commissioned to coordinate the implementation of the GMIP process, especially with regard to administrative activities that are not program related.

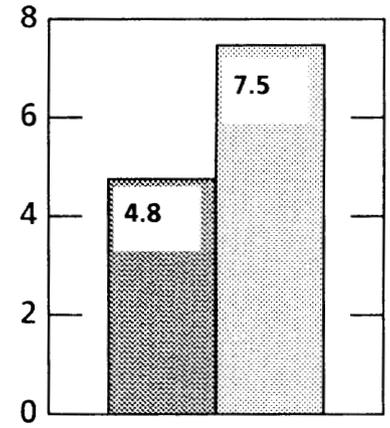
DEPARTMENT OF LAW & PUBLIC SAFETY



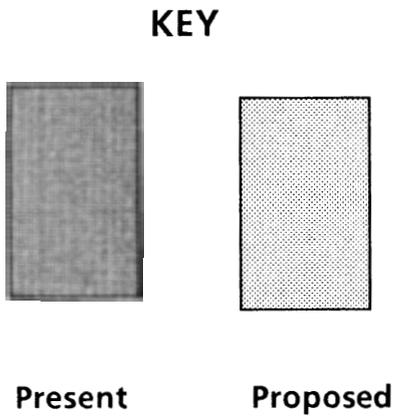
COST TO MANAGE



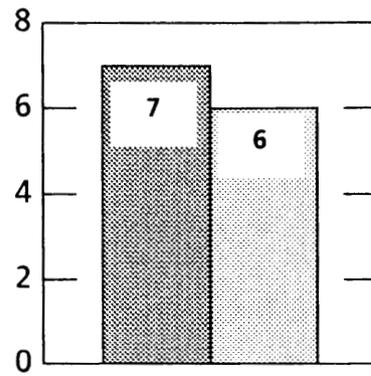
% MIDDLE MANAGERS



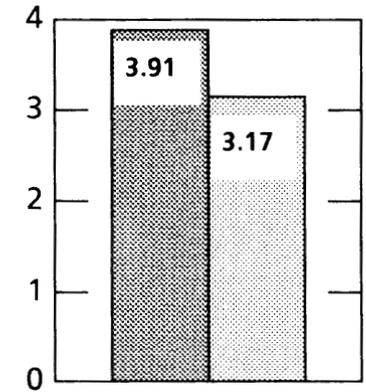
RATIO WORKERS/MANAGER



KEY



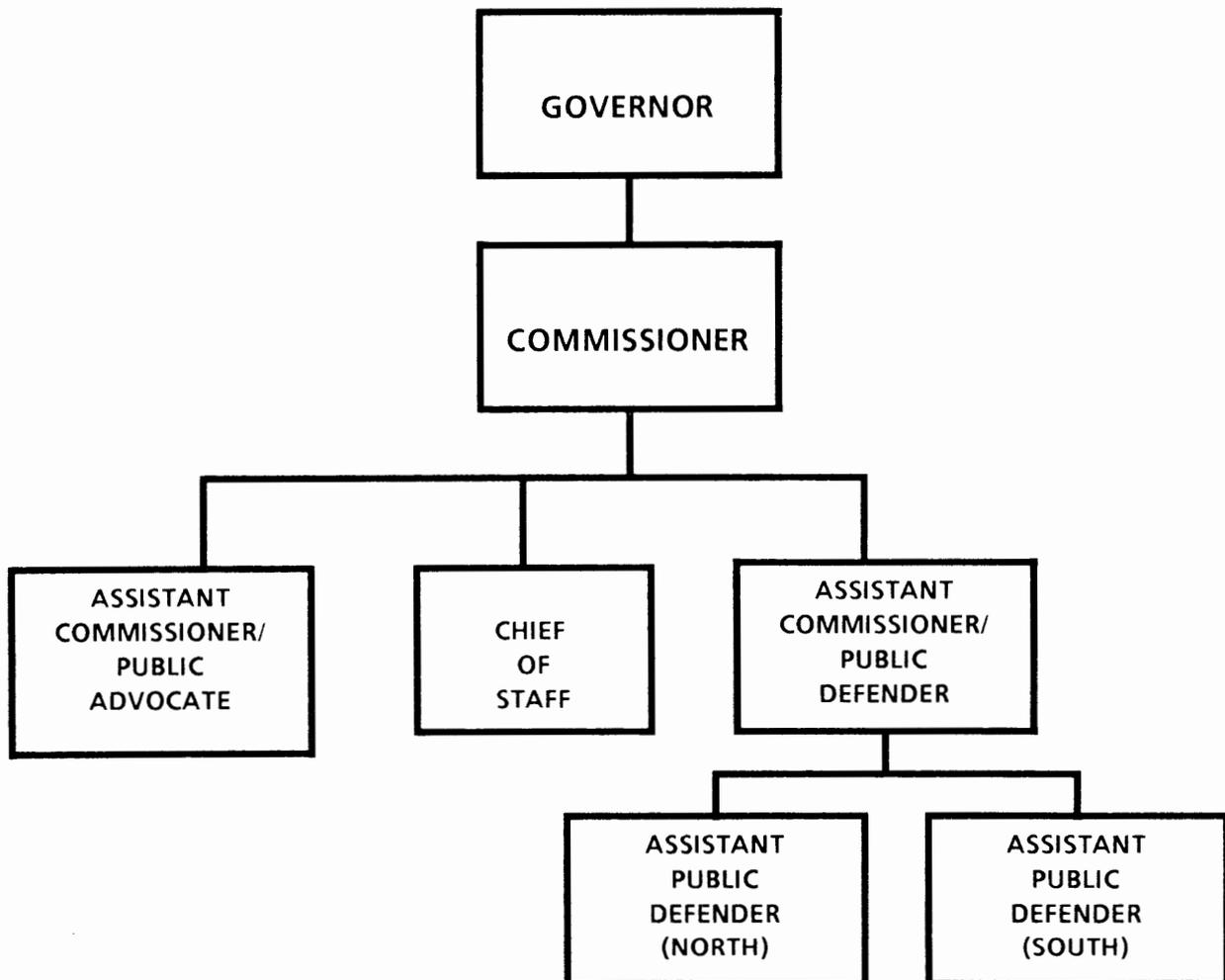
MAX MANAGEMENT LEVEL



AVG MANAGEMENT LEVEL

SMC DATA

DEPARTMENT OF PUBLIC ADVOCATE

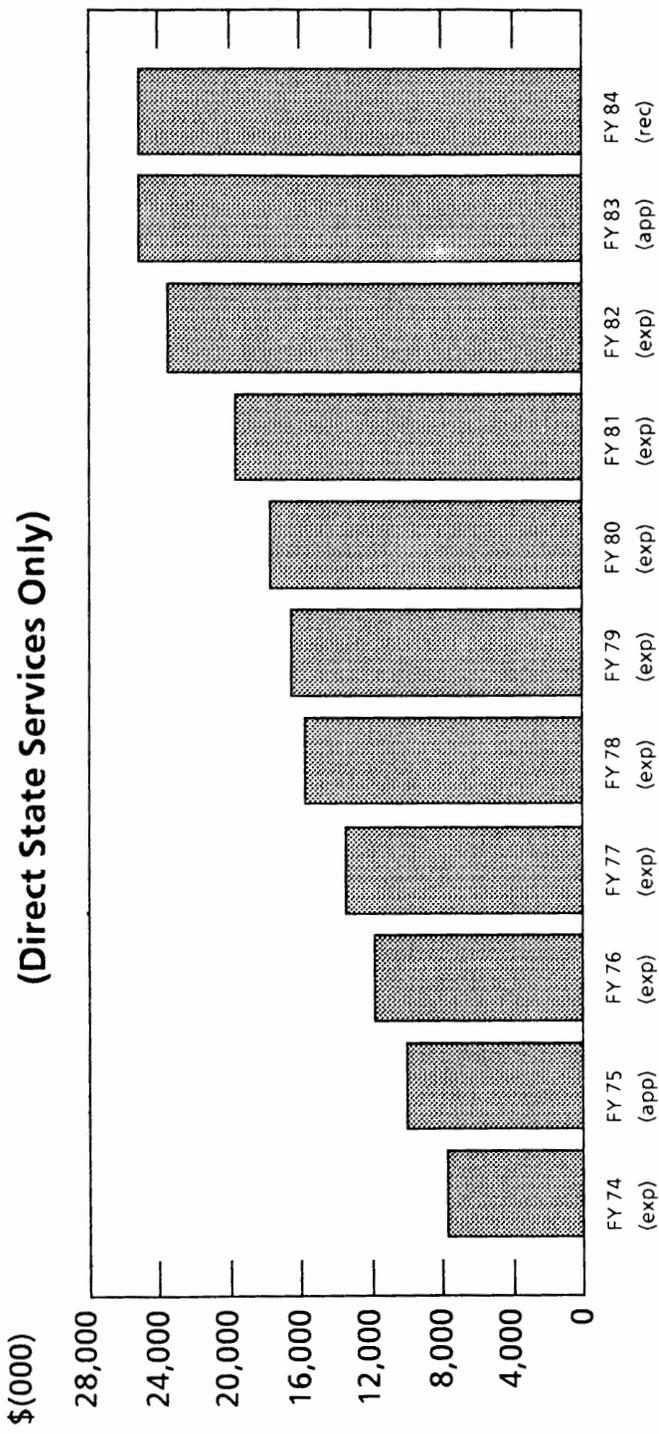


The Department of Public Advocate represents the public interest in areas as diverse as health care, the environment, utility rate setting, employment, mental health, the rights of developmentally disabled, and the concerns of senior citizens. In addition the department serves as an ombudsman for citizens who face problems dealing with state agencies. However, the major portion of the department's appropriated budget, 85 percent, is devoted to the centralized public defender system through which indigents accused of crimes are provided with legal representation.

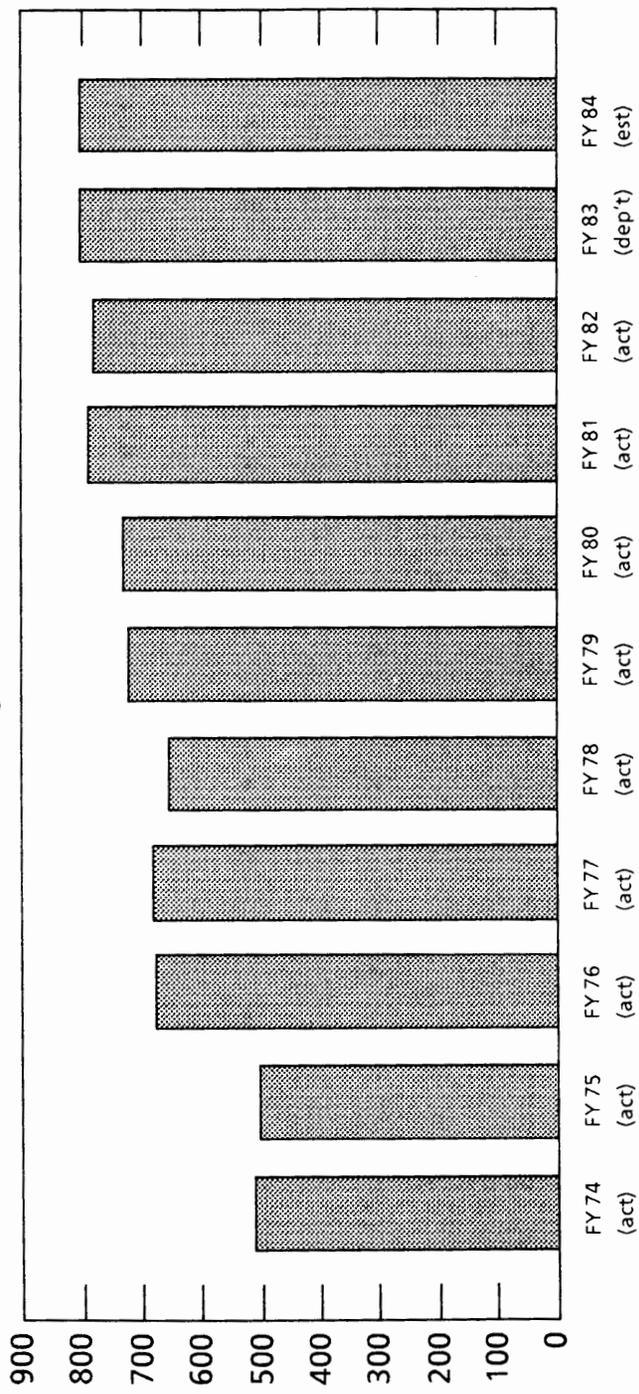
In Fiscal Year 1983, the department had 805 positions and a state operating budget of \$25.2 million.

The organization chart for the department reflects the final decision of the commissioner after analysis of the GMIP final report.

BUDGET (Direct State Services Only)



TOTAL POSITIONS (All Funding Sources)



Accomplishments

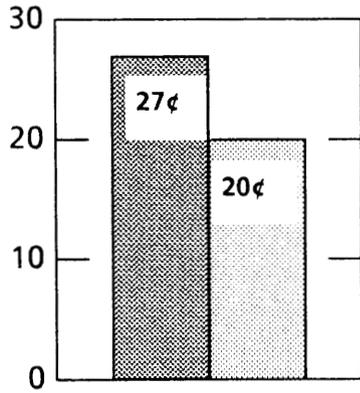
Major accomplishments achieved through the organizational analysis are as follows:

- o Staff Reductions. Managerial positions totaling about \$100,000 in Fiscal Year 1983 have been frozen and additional Fiscal Year 1984 actions may increase that amount by \$100,000 annually.
- o Under the proposed reorganization, cents to manage each worker dollar will be reduced from 27 cents to 20 cents, a reduction of 25.9 percent; the ratio of managers to workers will be improved from 1 to 5.4 to 1 to 7.8, an improvement of 44.4 percent; the percentage of middle managers will be reduced from 35.3 percent to 25.8 percent, a reduction of 27.2 percent; and the average number of management levels will be reduced from 3.19 to 2.90, an improvement of 8.8 percent.

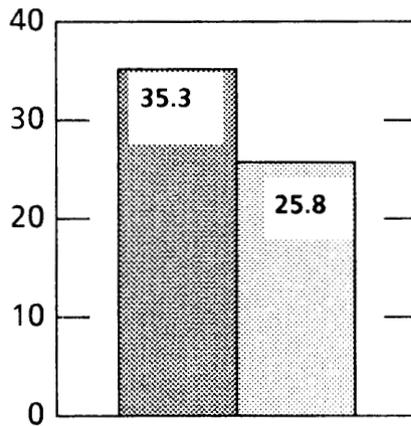
Additional Opportunities

- o Training Managers in the Budget Process and Civil Service Law. Public Advocate and Public Defender managers will be trained in these two areas to improve their efficiency, develop closer monitoring of expenditures, and use the Civil Service system to develop and reduce personnel where necessary, in concert with reorganizations to be pursued in most units.
- o Strategic Substantive and Activity Planning. The department will undertake a complete analysis of the data developed during the program and organizational analyses to assign priorities to issues and organizational and work activities.
- o Develop the Lead-Worker Concept. The department will work with Civil Service to develop a parallel, nonmanagerial career ladder for the expert worker. Specific criteria for alternative job specifications will be researched, with the goal of eliminating some middle-management positions.
- o Analysis of Work Distribution, High-Low Activity Costs, and Cost Panels. This self-analysis should lead to modest cost savings at the end of Fiscal Year 1984 and certainly by Fiscal Year 1985. The savings will be modest because the Public Advocate's budget has had a below-average growth rate over the years in comparison with other agencies.
- o Management Information System. Immediate plans include using computerization of fiscal and personnel information housed in Treasury and Civil Service. Long-range plans through Fiscal Year 1985 include the study, request for purchase, and implementation of data processing capability throughout the department. Annual savings of \$140,000 are anticipated through elimination of positions and through cost efficiencies by the end of Fiscal Year 1984.

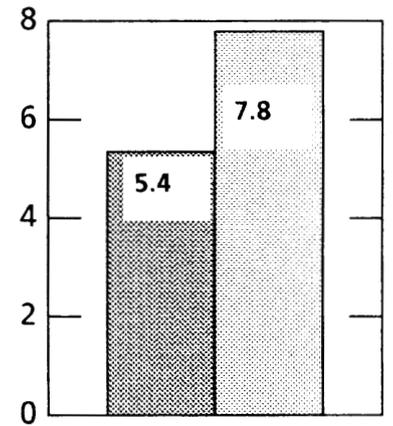
DEPARTMENT OF PUBLIC ADVOCATE



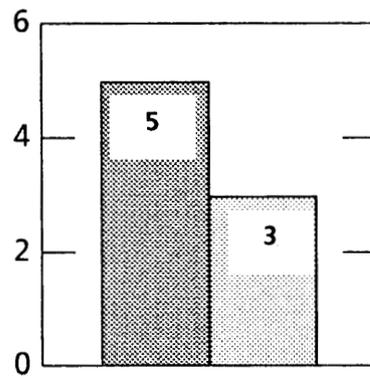
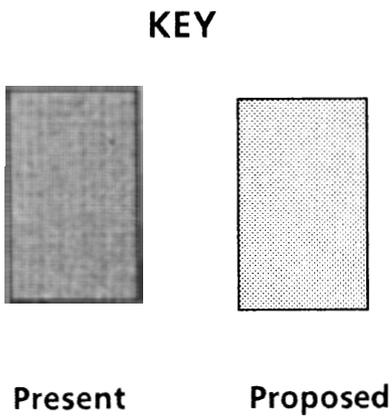
COST TO MANAGE



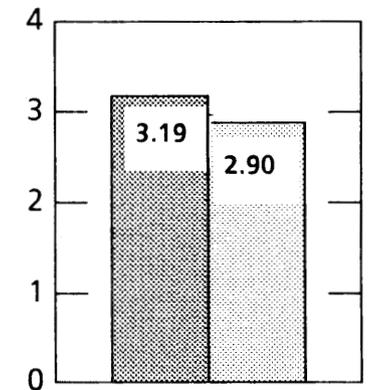
% MIDDLE MANAGERS



RATIO WORKERS/MANAGER



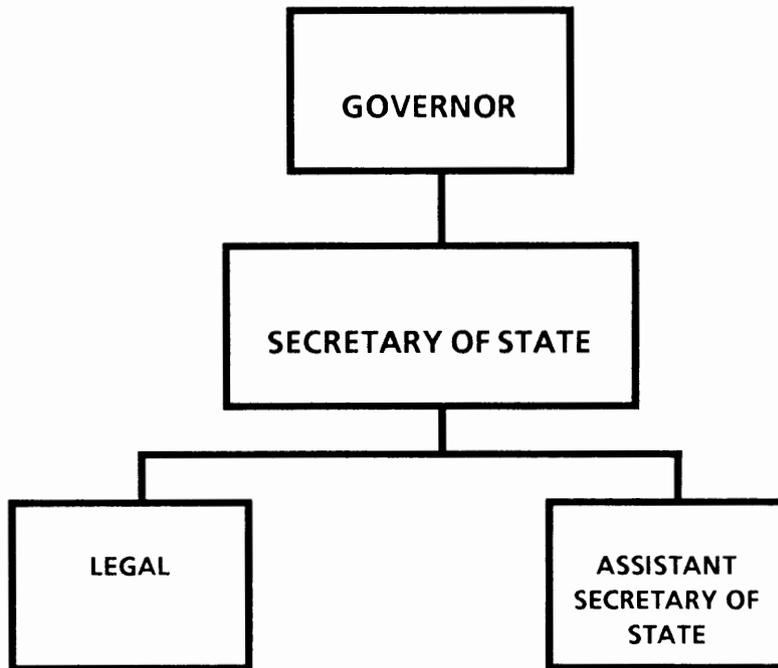
MAX MANAGEMENT LEVEL



AVG MANAGEMENT LEVEL

SMC DATA

DEPARTMENT OF STATE



The Department of State serves as the state's primary record keeper, administrator of electoral procedures, and repository for cultural agencies and institutions. The Office of the Secretary of State governs the processing, recording, and filing of all corporate documents (foreign and domestic) and annual reports, collection agency bonds, hotel and motel name of individuals, railroad agreements, conditional sales agreements, financing statements and other documents. It regulates service of process on corporations, airlines, hotels, and multiple dwellings. The office issues commissions to notaries public, foreign commissioners of deeds, pilot licenses for Sandy Hook and New York harbors, and prepares all extradition papers, pardons, and restorations of citizenship. It also is responsible for the canvassing of votes cast for governor, United States senator, congressman, state senate and general assembly candidates, constitutional amendments, and other public questions.

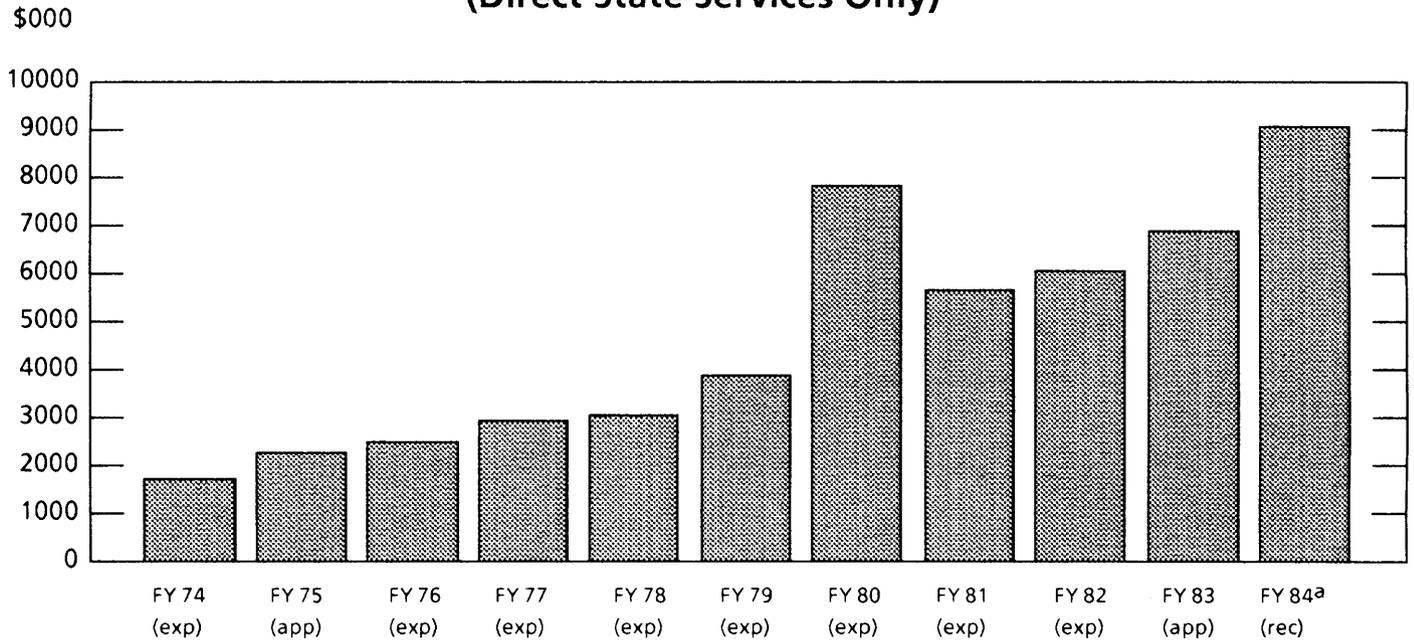
The department also serves as a focal point for state-supported cultural activities and includes within it the Office of Ethnic Affairs, the New Jersey Council on the Arts, the New Jersey Historical Commission, the New Jersey State Museum and the Division of Archives and Records Management.

At the beginning of Fiscal Year 1983, the department had 291 positions (90 within the Office of the Secretary of State and 201 in the Office of Administrative Law) and a state operating budget of \$6.9 million.

The organization chart for the department reflects the final decision of the secretary after analysis of the GMIP final report.

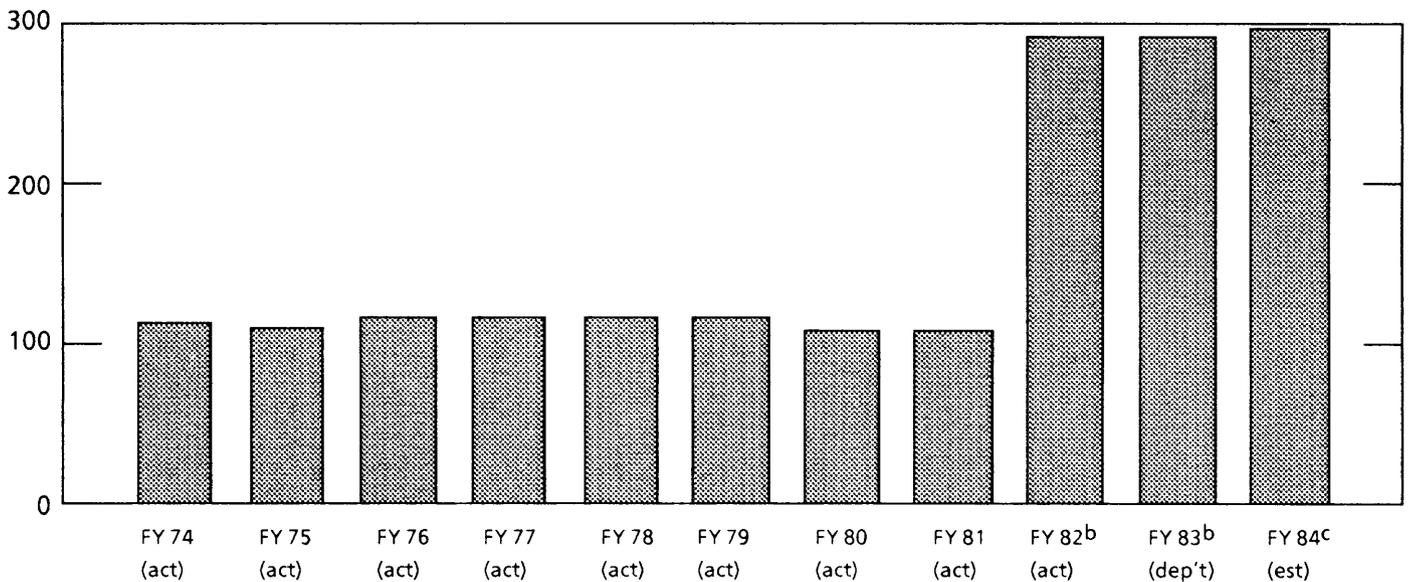
BUDGET

(Direct State Services Only)



TOTAL POSITIONS

(All Funding Sources)



- This amount for the Secretary of State's area has increased to \$9.1 million with the addition of the Museum, State Council on the Arts, State Historical Commission and Archives and Records Management.
- The area under the control of the Secretary of State had a total of 90 budgeted positions during these fiscal years, plus three to eight authorized positions.
- The agencies reporting to the Secretary of State including those mentioned as being transferred under footnote a, increase the Department's complement of positions to 366.

Accomplishments

Major accomplishments of the organizational analysis were as follows:

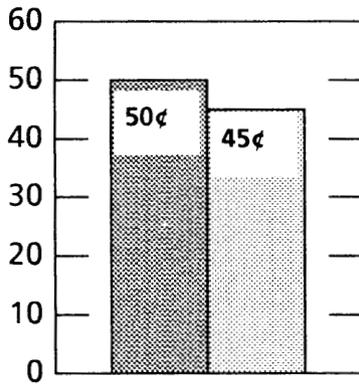
- Redefining the mission of the department to include state-supported cultural entities that had previously been scattered across state government. This broadening of functions required a series of measures that included new laws, executive orders, and the invocation of the governor's powers under the Reorganization Act of 1969. It increased department personnel by approximately 80 people.
- Structural improvements to the organization were:
 - A reduction in cents to manage each worker salary dollar of 5 cents, an improvement of 10 percent.
 - An increase in the ratio of managers to workers from 1 to 4.1 to 4.6, an improvement of 12 percent.
 - A reduction in the average number of levels of management, from 4.21 to 4.08, a reduction of 3 percent.

Additional Opportunities

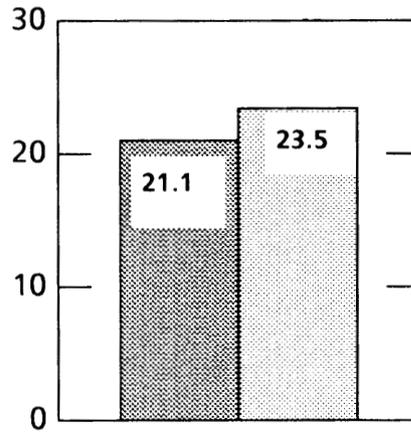
Identification of issues requiring further study

- Automation of office functions
- Increased revenue collection

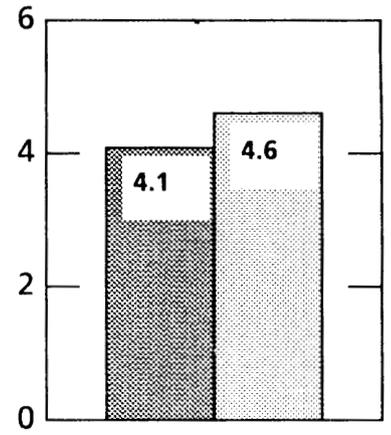
DEPARTMENT OF STATE



COST TO MANAGE

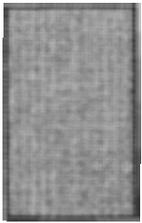


% MIDDLE MANAGERS

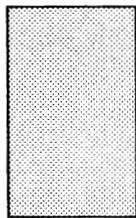


RATIO WORKERS/MANAGER

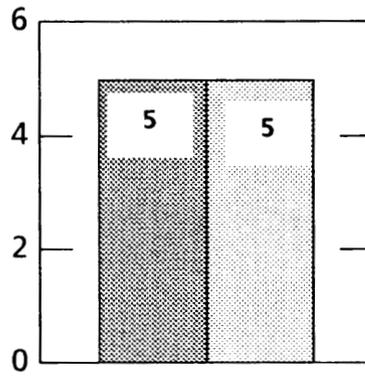
KEY



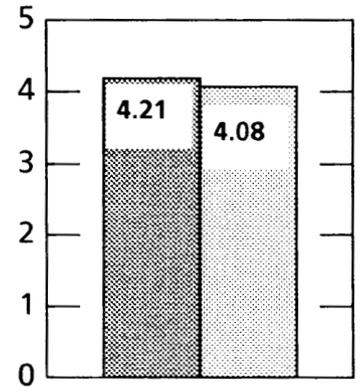
Present



Proposed



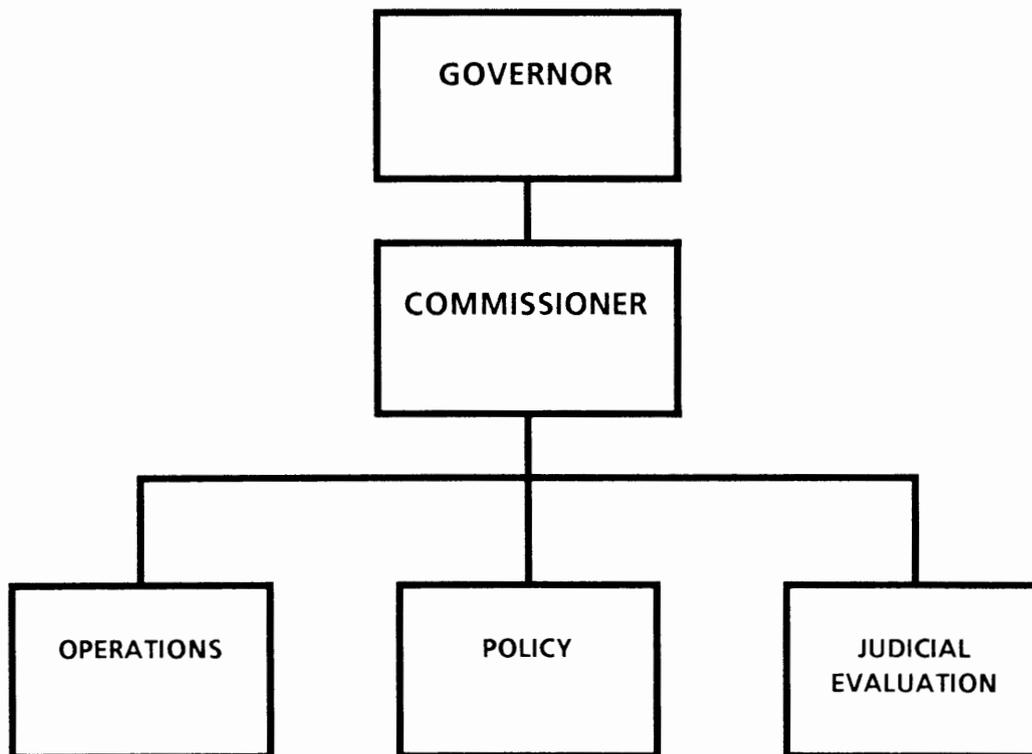
MAX MANAGEMENT LEVEL



AVG MANAGEMENT LEVEL

SMC DATA

ADMINISTRATIVE LAW



The Office of Administrative Law is in, but not part of, the Department of State. It is responsible for the development and application of a fair comprehensive and uniform system of administrative practices in the executive branch of government. Full-time administrative law judges hold hearings and render decisions containing findings of fact, conclusions of law, and dispositions that are reported as recommendations to the various agency heads for their acceptance, rejection, or modification. Uniform standards, rules of evidence, and procedures adopted by the Office of Administrative Law pursuant to statute apply to the conduct of contested cases and the making of administrative adjudications in all administrative agencies.

The office creates standards, maintains filing, docketing, record-keeping, and decision-making systems for an estimated 12,000 cases in the administrative agencies and develops and administers a program for the continuing training and education of judicial personnel.

The office also regulates state agencies with regard to the preparation, publication, and filing of proposed and adopted rules and regulations and maintains and sets standards for the New Jersey Register and the New Jersey Administrative Code.

Accomplishments

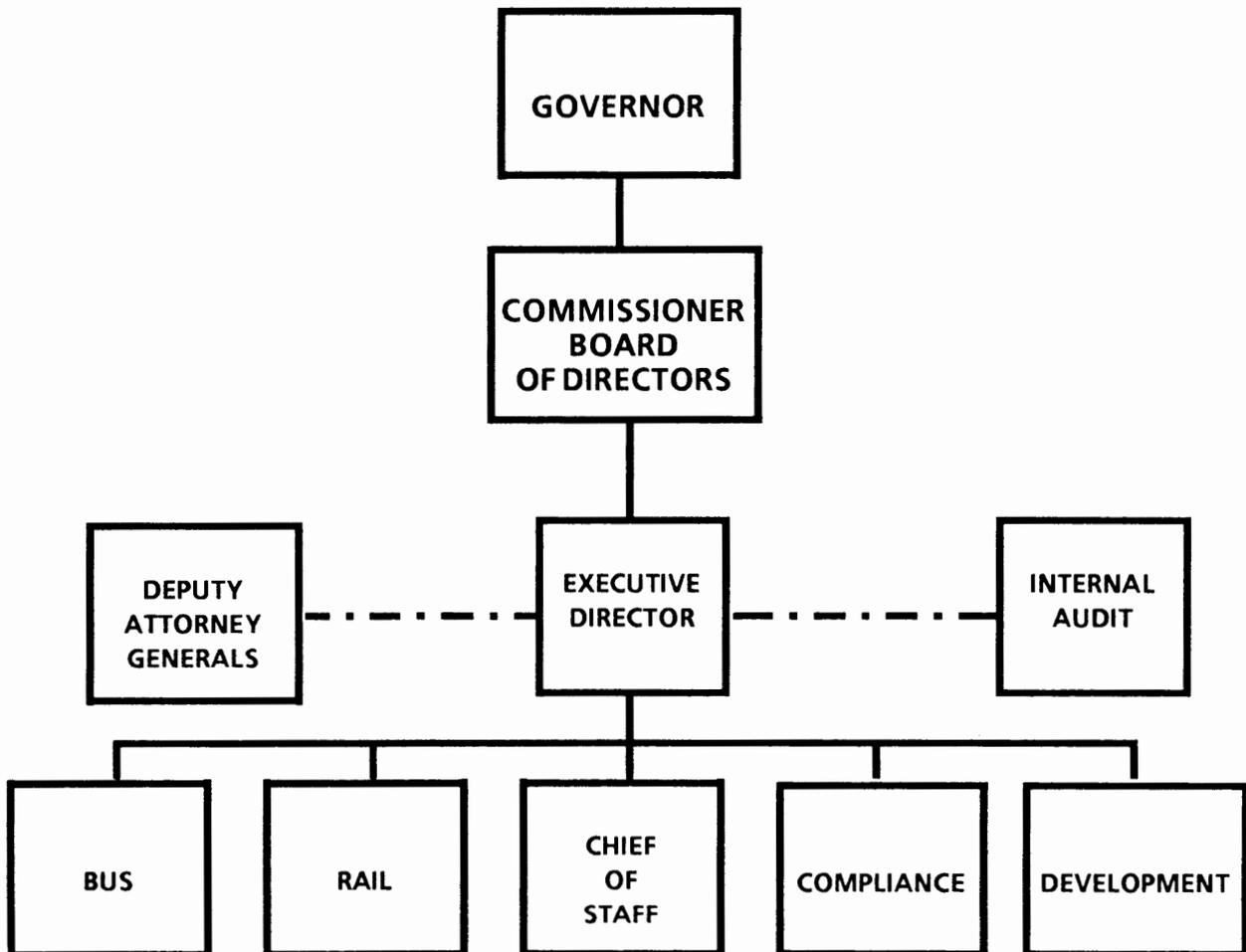
Major accomplishments of the organizational analysis were as follows:

- Reduced the percentage of middle managers by 41 percent.
- Reduced the cost to manage by 18 percent.
- Improved the ratio of managers to workers by 20 percent.
- Reduced the average number of management levels by 6 percent.
- Implemented recommendations to streamline operations and improve the handling of cases for adjudication.

Additional Opportunities

- Identified methods to improve the process for selection, appointment and retention of judges.
- Identified methods to simplify procedures and reduce processing time in rendering judicial decisions.

NEW JERSEY TRANSIT AUTHORITY



New Jersey Transit is responsible for providing a coordinated and efficient public transportation system statewide via operation of commuter rail service and the largest bus system in the state. It has responsibility to:

- o Ensure the availability to the public of a viable public transportation system that serves the needs of commuters, the elderly, the handicapped, and the transportation-disadvantaged, and to provide alternatives to increasing reliance on the automobile. This includes continuing the elderly and handicapped programs that permit eligible citizens to use passenger services at reduced fares during off-peak hours and that provide special equipment to nonprofit organizations to assist those who cannot use scheduled services.

- o Maintain essential public transportation services in the state by contracting for services, making marketing efforts to increase use of those services, and making capital improvements, including the purchase of new and rehabilitation of old equipment and facilities.

On July 1, 1982, New Jersey Transit had 4,892 employees and a state operating budget of \$104.0 million.

The organization chart for the department reflects the final decision of the commissioner after analysis of the GMIP final report.

Accomplishments

The organizational changes effected at New Jersey Transit Bus Operations were designed to clarify lines of responsibility and authority, eliminate overlapping responsibilities, adjust managers' spans of control, and increase the overall operating efficiency of New Jersey Transit. Prior to this analysis, fourteen managers had reported directly to the general manager. Currently, there are eight managers reporting to the general manager.

Changes at New Jersey Transit headquarters include reorganization of the Finance Department, changes in the structure of the Corporate Communications Department, and the consolidation of all quality-assurance activities at headquarters rather than at the rail and bus subsidiaries. Structural efficiencies include:

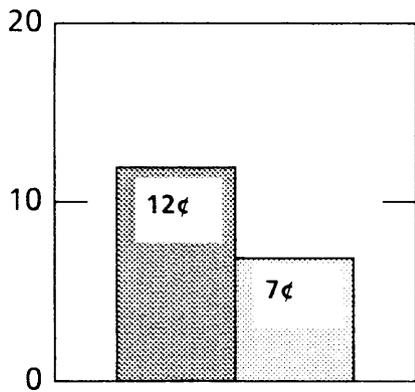
- o Reclassification of 161 managers to workers
- o An improvement in the ratio of managers to workers from 1 to 11.2 to 1 to 20, or 78 percent
- o An improvement in the cost of managing from 12 cents per worker payroll dollar to 7 cents per dollar, or 41 percent
- o Improvement in the percentage of middle managers, by 30 percent, from 27.3 percent to 21.9 percent

Additional Opportunities

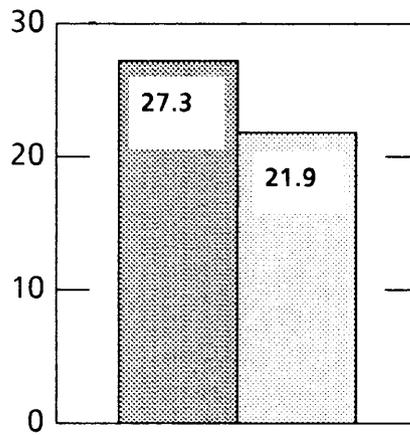
- o Maintenance-Industry Task Force - At the recommendation of the co-consultants, a maintenance-industry task force was created to evaluate the maintenance operations at New Jersey Transit Bus Operations and make recommendations for improvements. A fact-finding effort was initiated and recommendations will be presented to the executive director and commissioner.
- o Management Information System - Efforts to develop management information systems (MIS) for a financial accounting system for headquarters and both subsidiaries as well as an inventory control system for New Jersey Transit Bus Operations have been initiated. These developments, in addition to others in the overall MIS effort, will ultimately revolutionize the way New Jersey Transit conducts business and will greatly enhance productivity.
- o Risk-Management Survey - An analysis of risk-management needs is being pursued and a risk-management survey is currently in progress.
- o Bidding Process - The staff is preparing recommendations to the board on expediting and improving the bidding process in order to significantly streamline the process and cut costs.
- o Industry Participation - A program is being designed to encourage private-sector participation in public transportation and to develop an advocacy role for the private sector in support of public transportation.

- o **Consolidated Ticketing and Ticket Expense - An analysis is under way on methods to reduce ticketing expense and to consolidate rail and bus ticket sales.**
- o **Free-Flow Gates - Urge that a policy be established by the interstate authorities to allow all regular route mass transportation vehicles to pass through toll roads, toll bridges, and tunnels for free.**

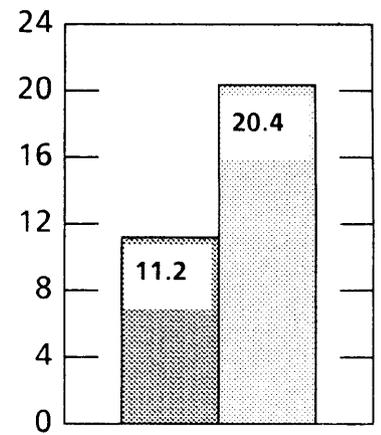
NEW JERSEY TRANSIT AUTHORITY



COST TO MANAGE

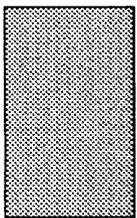


% MIDDLE MANAGERS

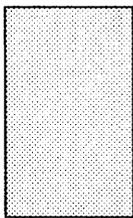


RATIO WORKERS/MANAGER

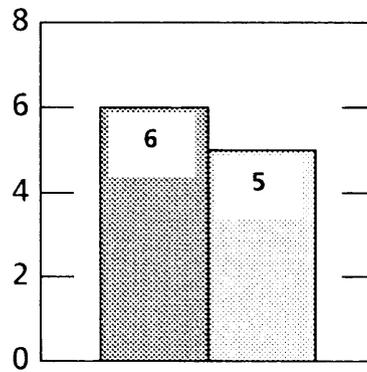
KEY



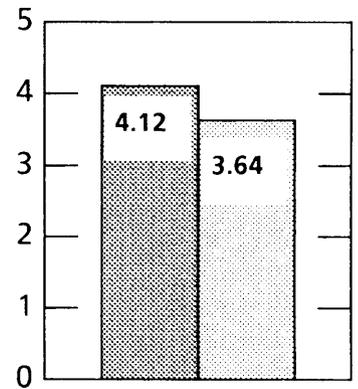
Present



Proposed



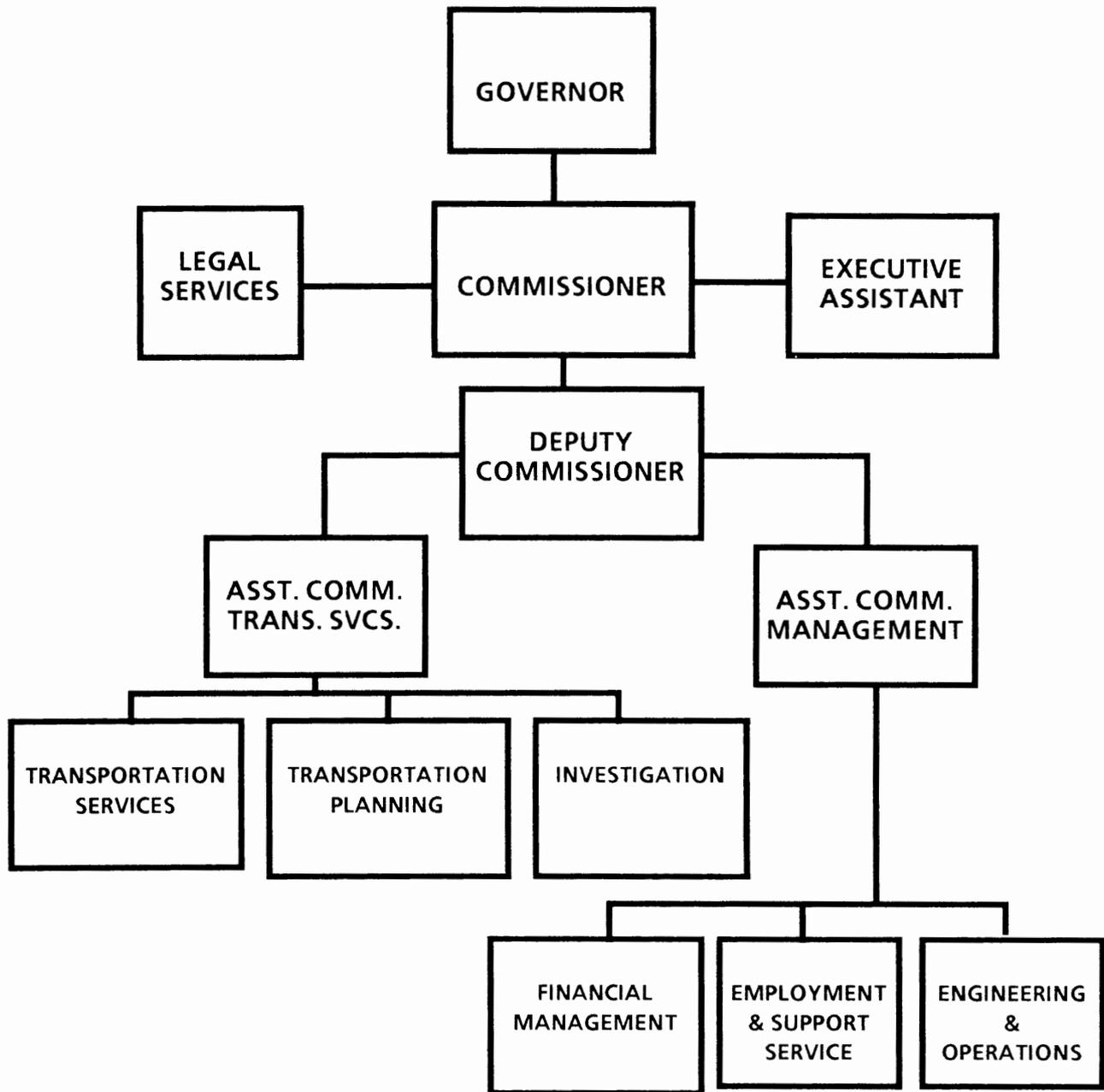
MAX MANAGEMENT LEVEL



AVG MANAGEMENT LEVEL

SMC DATA

DEPARTMENT OF TRANSPORTATION



The Department of Transportation is responsible for overseeing the operation and maintenance of the state's transportation system -- its railroads, buses, highways, and airports. Based on volume of traffic and road mileage, the state's highway system

carries more traffic per mile than any other state, at the same time maintaining one of the lowest fatality rates in the nation.

The department has direct responsibility for:

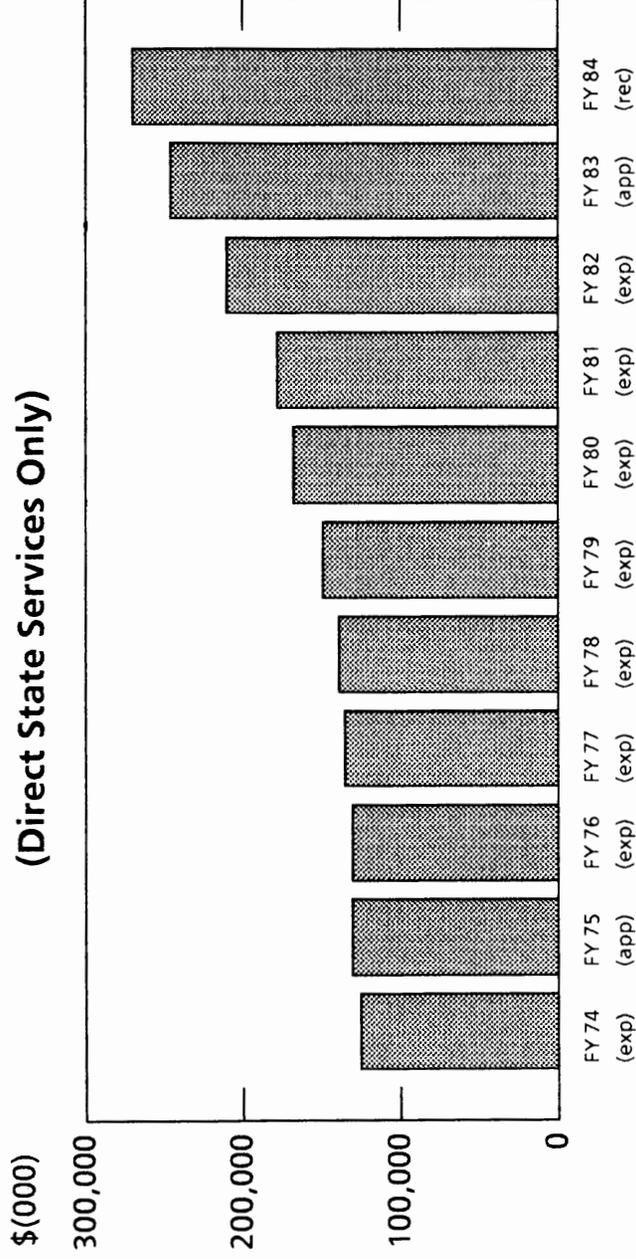
- o Promoting an efficient, fully integrated, and balanced transportation system for the state
- o Preparing and implementing comprehensive plans and programs for all transportation modes in the state
- o Coordinating the transportation activities of state agencies, state- created public authorities, and other public agencies with transportation responsibilities in the state
- o Planning, designing, building and maintaining a state highway system
- o Improving and upgrading local roads and streets

Through New Jersey Transit Corporation, the department plans, develops, operates and maintains a statewide public transit system.

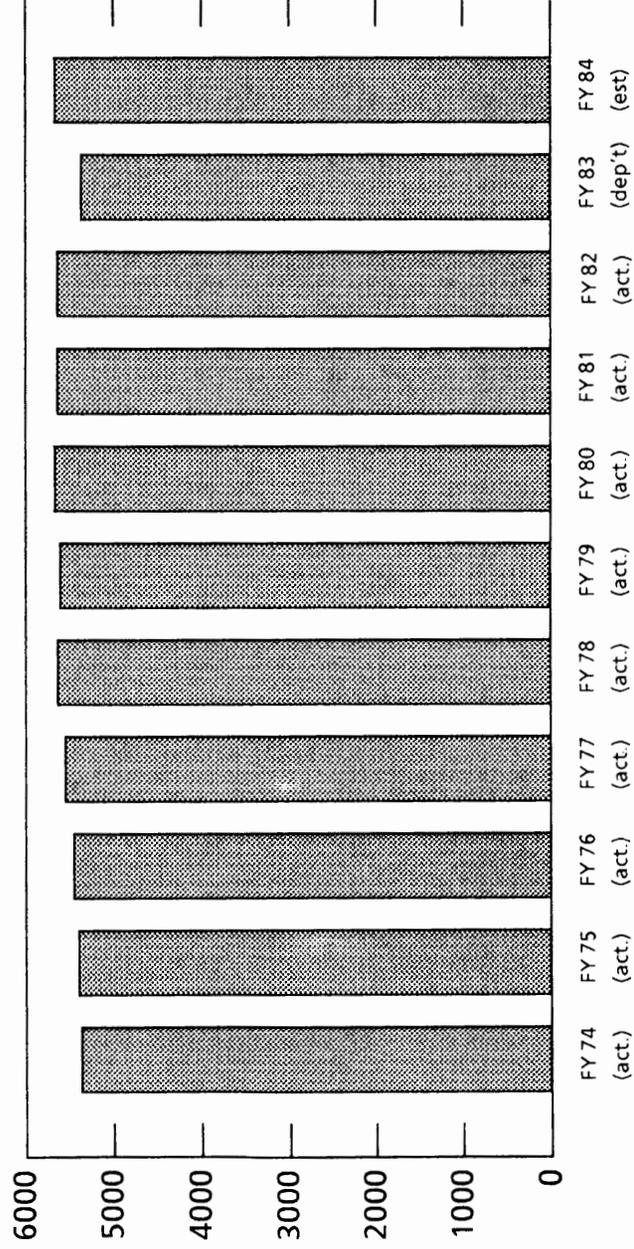
In Fiscal Year 1983, the department had 5,978 positions and a state operating budget of \$245.8 million.

The organization chart for the department reflects the final decision of the commissioner after analysis of the GMIP final report.

BUDGET (Direct State Services Only)



TOTAL POSITIONS (All Funding Sources)



Accomplishments

Major accomplishments of the organizational analysis were as follows:

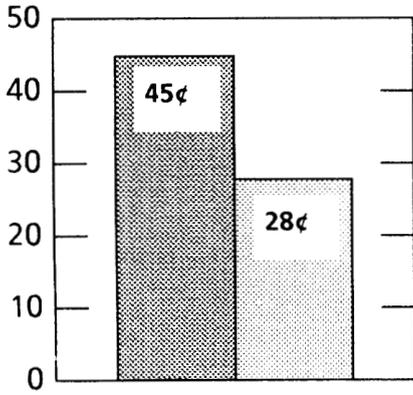
- o Eliminate the dual inspection of New Jersey Transit buses by both the department and New Jersey Transit. Under the new action, New Jersey Transit will perform its own inspections and will self-certify. This will result in a savings of approximately \$175,000 annually.
- o Transfer the private-carrier bus-inspection program of the department to the Office of Regulatory Affairs.
- o Redefine the role of the aeronautics section to put more emphasis on its promotional operation, which is designed to strengthen local airports and attract business and jobs to the state. The department will realize an annual savings of \$160,000.
- o Reduce by fifty the number of vehicles assigned to transportation personnel and substitute compact and subcompact cars for pickup trucks where appropriate. This will produce a saving of \$480,000.
- o Improve the ratio of clerical help to the professional, technical, and nonprofessional staff. This should result in an annual saving of approximately \$500,000.
- o Install maintenance-free, low cost landscaping wherever possible to minimize maintenance and upkeep costs.
- o Develop agreements with independent road authorities, counties, and municipalities that will authorize them to accept responsibility for state-owned sections of roadways.

The organizational review by the co-consultants resulted in reductions in the number of management positions by making lower-level managers into workers and by eliminating positions. Specifically, 358 managers have had their responsibilities reduced to the worker level, resulting in a potential saving of \$1.9 million, and twenty-seven managers and twenty-three clerical and other positions have been proposed for elimination, for a saving of \$1.1 million.

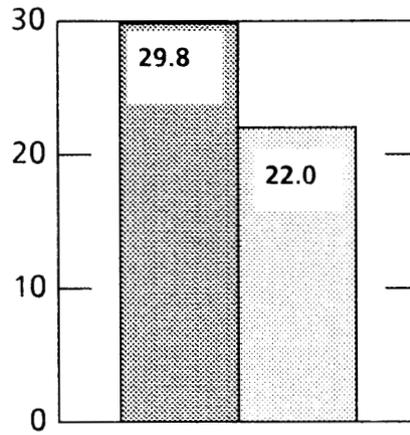
These changes also improved the department's ratio of managers to workers from 1 to 3.6 to 1 to 5.8, well within reach of the generally accepted norm of one manager to six workers.

Implementation of these changes means that the cost of managing was reduced from 45 cents per worker salary dollar to 28 cents, again within the program target.

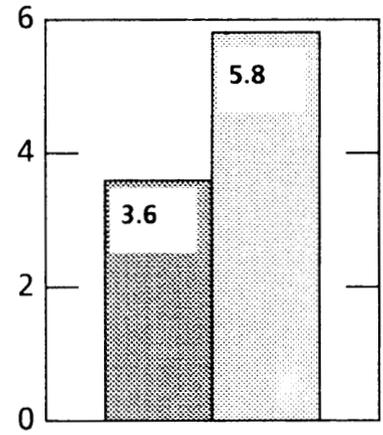
DEPARTMENT OF TRANSPORTATION



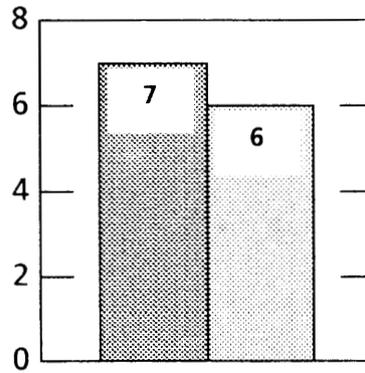
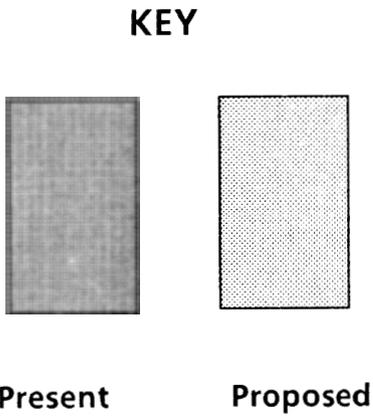
COST TO MANAGE



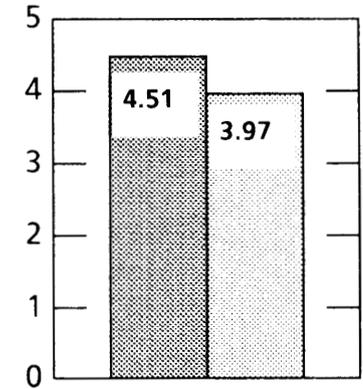
% MIDDLE MANAGERS



RATIO WORKERS/MANAGER



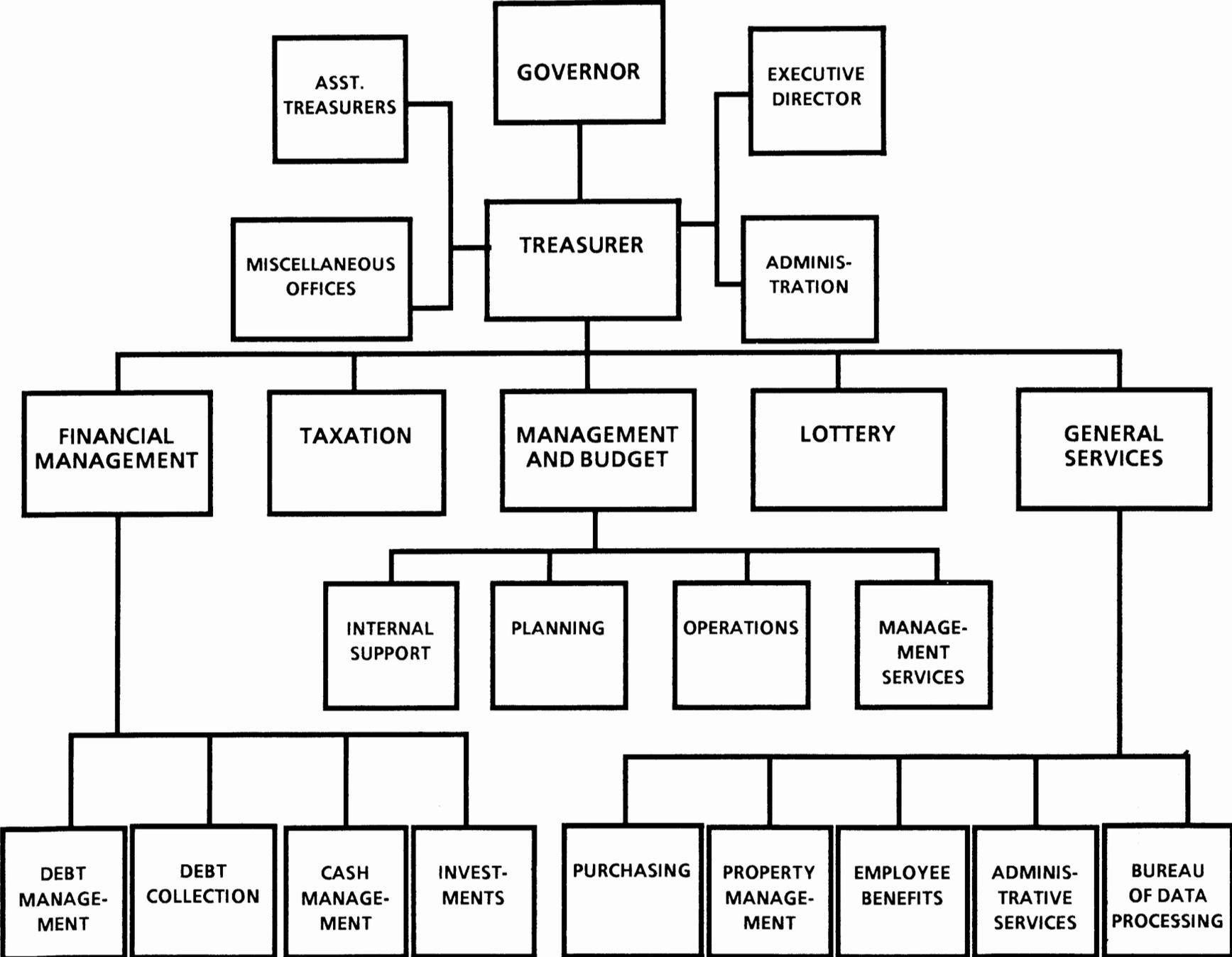
MAX MANAGEMENT LEVEL



AVG MANAGEMENT LEVEL

SMC DATA

DEPARTMENT OF TREASURY



The Department of Treasury is the central management agency of state government and is organized into nine divisions - certain of which have operating responsibilities related to raising and disbursing state revenues, and others of which provide centralized administrative services to state government as a whole.

Revenue Activities

- o Preparation and administration of the state's \$9.5 billion operating budget and its \$420 million capital budget, as well as managing, implementing, and controlling all aspects of the state's accounting system.
- o Investment of 81 separate state funds having a current book value of approximately \$9.5 billion and administration of the Cash Management fund which includes deposits from counties, municipalities, and school districts.
- o Administration of the tax laws of the state so that all properly due taxes are collected
- o Maximize revenues from the state lottery

Centralized Administrative Services

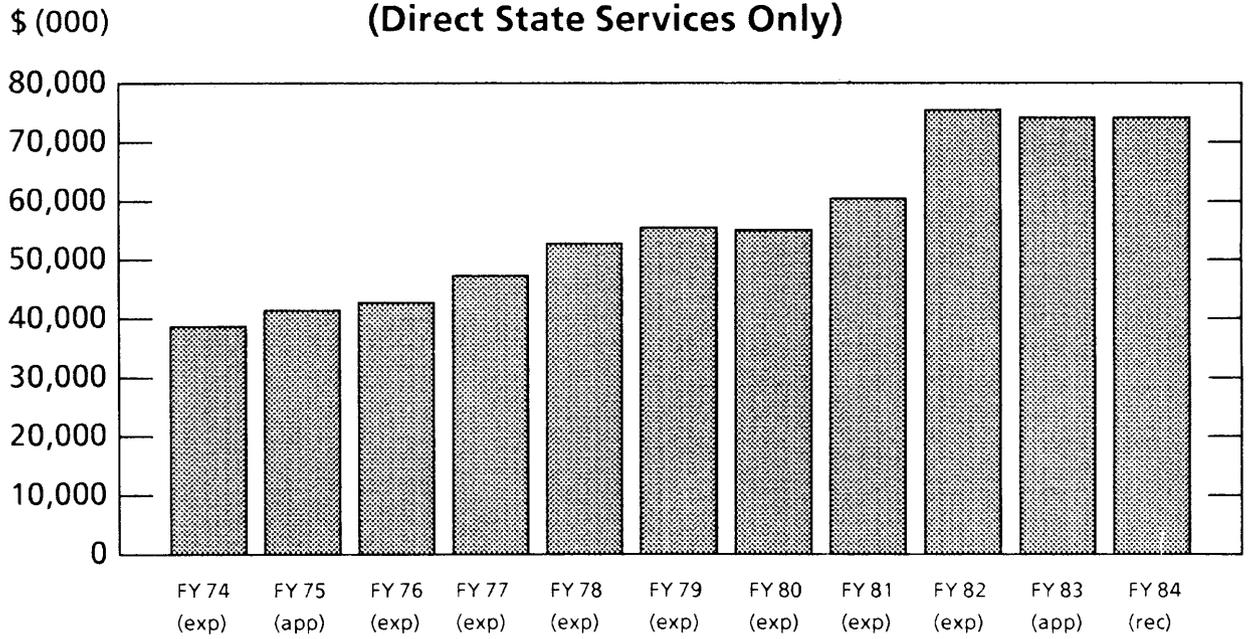
- o Provide for centralized management of the rental, purchase, and disposal of real property; management of the fire and casualty insurance program; maintenance of the buildings in the capital complex; and oversight of the construction of buildings and facilities for the various state agencies.
- o Operate a central motor pool fleet at the lowest possible cost and provide the state agencies with safe operating vehicles
- o Provide a printing service, mail processing, and delivery system at minimum cost
- o Provide food service in the state house complex cafeterias and Department of Transportation cafeteria
- o Administer employee benefits programs for state and local employees
- o Assist the governor's Employee Relations Policy Council in all matters regarding relations between the state and its employees
- o Evaluate all requests for data processing, telecommunications services, and data processing equipment in state government
- o Provide economic data and information processing services to the department and to other agencies
- o Provide a means for state, local, and county governments and school districts to effect economy by cooperative purchasing

In Fiscal Year 1983, the department had 4,588 positions and a state operating budget of \$74.2 million.

The organization chart for the department reflects the final decision of the treasurer after analysis of the GMIP final report.

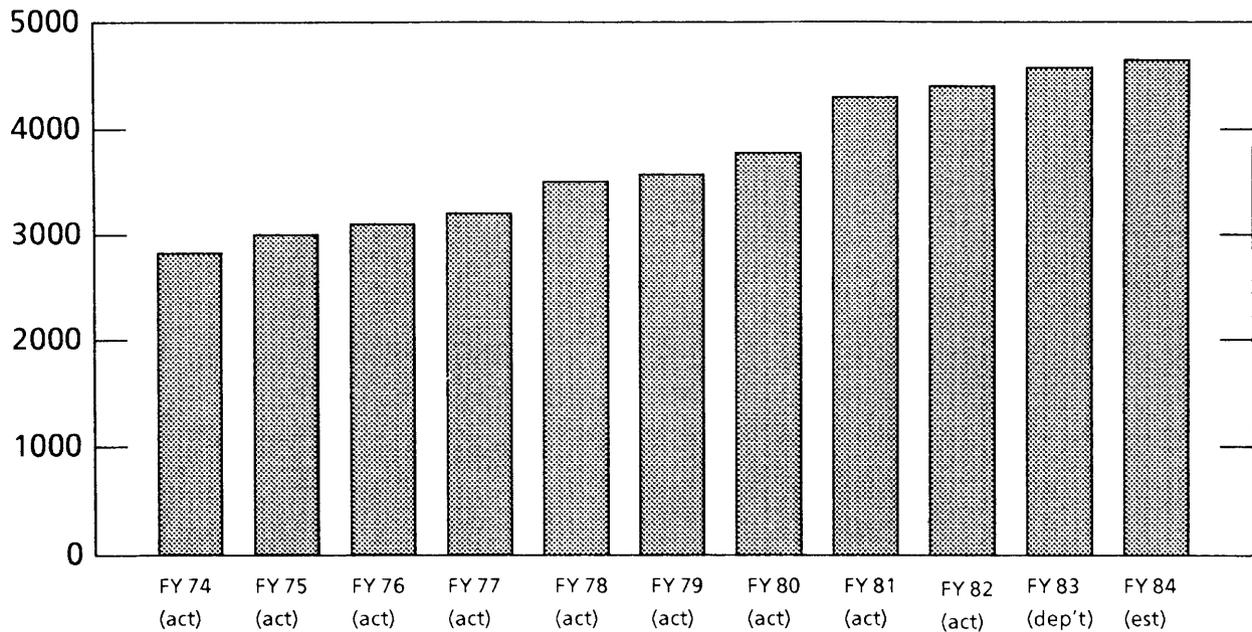
BUDGET

(Direct State Services Only)



TOTAL POSITIONS

(All Funding Sources)



Accomplishments

Major accomplishments of the organizational analysis were as follows:

- o Restructuring of three major statewide functions performed by the department resulted in the following organizational changes:
 - Office of Management and Budget - Creation of this office provides for centralized control and direction for the planning, budgeting, and information systems functions. It includes the former Division of Budget and Accounting, Division of Data Processing and Telecommunications and the Office of Management Services.
 - General Services Administration - Creation of this office provides for consolidation of all purchasing, construction, property and administrative service functions of state government. It includes the Division of Purchase and Property, Division of Buildings and Construction, and Division of Pensions.
 - Financial Management Administration - Creation of this office provides for centralized control and co-ordination of basic treasury and money management functions. It includes cash management functions previously performed by the Division of Budget and Accounting, debt management functions performed by the Assistant Treasurer, the Division of Investment, and a new office for improved debt collection activity.
- o Savings include management costs being reduced by \$3.3 million and worker salaries increased by \$2.1 million, for a net savings of \$1.2 million
- o Structural improvements are as follows:
 - The percentage of middle managers reduced from 30 per cent to 23 per cent
 - Cents to manage reduced from 32 cents to 25 cents
 - The ratio of managers to workers improved from 1 to 5.8 to 1 to 8.5
 - The average number of management levels reduced from 4.85 to 3.96

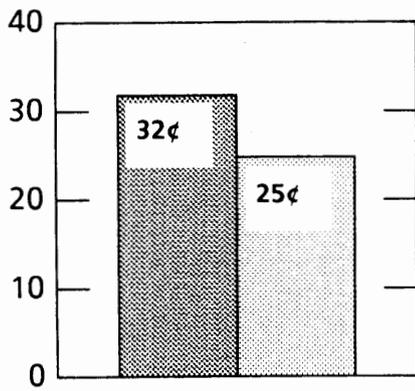
Additional Opportunities

Areas identified for further study were:

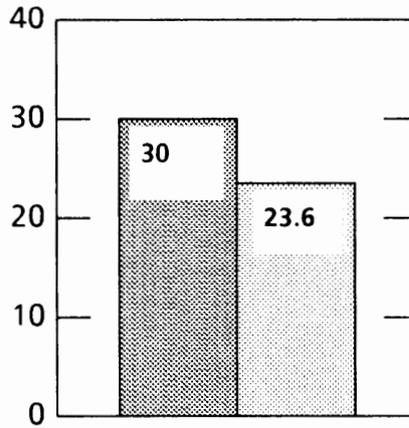
- o Implementation of a consolidated print shop with electronic equipment to provide the entire state with faster high-quality printing and reproduction
- o Modernization of the pension system by instituting new programs and equipment to eliminate overtime, backlog, and excess required personnel
- o Instituting a policy of maintaining a minimal vehicle fleet, complemented by mileage reimbursement, credit card curtailment, and better planned and functioning maintenance facilities
- o Investigate how affirmative action in selecting vendors can be better integrated into the bidding process

- o Review and revise the state's entire mail and delivery process. There are opportunities to reduce the cost of deliveries by better and more use of presently available equipment and by obtaining certain new equipment.
- o Changing the manner in which the homestead rebate tax is disbursed; that is, as a credit on local property tax or the income tax.

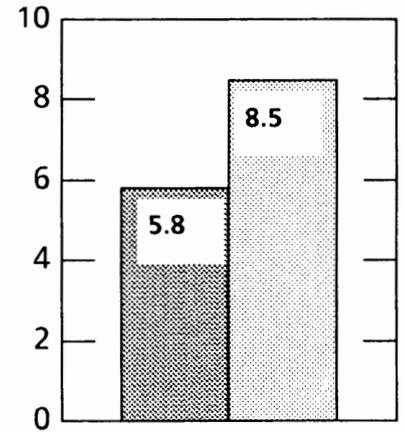
DEPARTMENT OF TREASURY



COST TO MANAGE

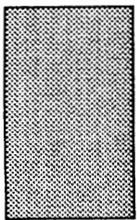


% MIDDLE MANAGERS

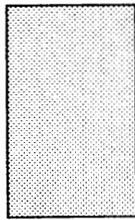


RATIO WORKERS/MANAGER

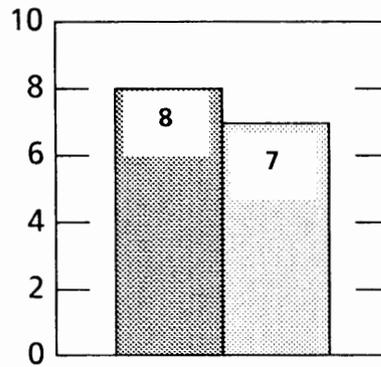
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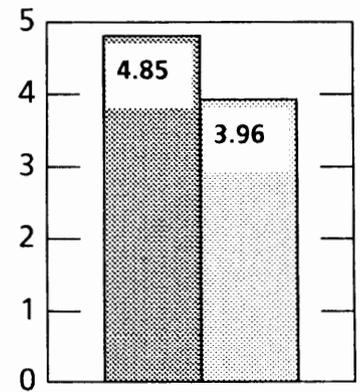
Present



Proposed



MAX MANAGEMENT LEVEL



AVG MANAGEMENT LEVEL

SMC DATA

GMIP



Study of Long Term Strategic Issues
for the State of New Jersey

Prepared By

THE GOVERNOR'S MANAGEMENT IMPROVEMENT PROGRAM, INC.

LEADERSHIP ORGANIZATION LONG TERM STUDY

EXECUTIVE CONSULTANT

Irwin L. Holzman

Vice President, Organizational Planning & Development
Johnson & Johnson

INFRASTRUCTURE RENEWAL

Joseph E. Cross

Director — Data Services (retired)
AT&T Long Lines

MASS TRANSIT

Carl J. Decator

Manager, Customer Services
Maher Terminals

CIVIL SERVICE

Horace J. DePodwin

Graduate School of Management
Rutgers University

Charles Serraino

Vice President, Labor Relations (retired)
Johnson & Johnson

MEDICAL ASSISTANCE

Robert A. Dunn

Director, Management Services
Schering-Plough Corporation

PURCHASING

Robert L. Gensamer

Assistant Corporate Controller
Resorts International, Inc.

EDUCATION

Robert G. Maher

Division Manager — Organization Effectiveness
AT&T

CORRECTIONS

Alan R. Ryan

President and Chief Executive Officer (retired)
Burry-Lu, Inc.

BUDGET & PLANNING

Robert V. Van Fossan

Chairman and Chief Executive Officer
Mutual Benefit Life Insurance Company

NON-TAX REVENUE

Walter Wechsler

Governmental and Fiscal Affairs Consultant
Trenton

UNEMPLOYMENT COMPENSATION

Lawrence W. Muth

Director, Corporate Economic Research
Johnson & Johnson

**DEPARTMENT OF THE TREASURY
BUDGETING AND PLANNING**

Strategic Issues and Alternatives



AGENDA

• SUMMARY

- CURRENT STATE BUDGET PROCESS AND PROCEDURES
- PROBLEMS IN THE CURRENT BUDGETING SYSTEM
- STRATEGIC PLANNING AND MANAGEMENT
- ORGANIZATIONAL ALTERNATIVES
- IMPLEMENTATION PERSPECTIVES

SUMMARY

The state's annual budget is the most powerful policy-making tool available to a Governor. The level of funding allocated to each program should be a reflection of the administration's spending priorities within current revenue constraints.

At the department level, budget preparation is a vital management function. For the efficient management of state agencies, the budget document must be comprehensive, explicit and functional, and should take into account long-term operating strategies and revenue projections. Agencies must understand the Governor's program priorities, fiscal policies, and parameters for long-term objectives at the outset of the budget preparation cycle. In addition, orderly programmatic review and evaluation are essential in determining agency spending plans.

In New Jersey, however, the state's current budget process lacks executive level policy-setting and timely communication of revenue estimates, and includes no planning beyond the immediate resolution of priorities for individual line-items for the coming fiscal year.

A process essentially unchanged for years, the same system guided New Jersey's budget preparation when spending was \$2.09 billion in 1973, growing to \$4.4 billion in 1979 and \$6.2 billion in FY1983. The lack of policy guidelines, fiscal restraints and long-term planning that routinely led to across-the-board increases when government growth was fashionable and affordable cannot be tolerated in our present era of scarcity and retrenchment.

This report outlines changes that must be made in our budget process to better manage state resources. Our final recommendation to restructure the budget operation is essential to incorporating these key reforms into New Jersey's budget process. These reforms include:

1. Replace agency-initiated budget requests with clear policy guidelines from the Chief Executive. New Jersey's bottom-up approach to budgeting, where the agencies prepare, based on the previous year's spending plans, a type of "wish list" for funding to be submitted to the Governor for review, practically guarantees continuation of programs and incremental expansion in every line-item. Under our present system, policy input from the Governor's office comes at the end, rather than the beginning, of the budget cycle. At that point, after agencies have prepared and the budget bureau has reviewed spending plans, policy input becomes a random, hit-or-miss approach where the major "success" comes in avoiding obvious funding inconsistencies. For the budget to reflect the administration's policy aims, clear policy guidelines must be issued to all departments from the Governor's office at the outset of the budget preparation process.

THE BUDGET PROCESS

CURRENT

- AGENCY INITIATIVE
- UNCLEAR EXPECTATIONS
- EXPENDITURE BASED
- INAPPROPRIATE CONTROLS
- UNEVALUATED PERPETUATION OF PROGRAMS

PROPOSED

- GUBERNATORIAL INITIATIVE
- CLEAR PRIORITIES AND EXPECTATIONS
- REVENUE AND STRATEGIC PLANNING BASED
- CONTROLS USED TO MONITOR
- PERIODIC PROGRAM EVALUATION

2. Provide agencies with fiscal projections and firm departmental spending targets as budget preparation begins. In New Jersey, agencies prepare budget requests months before receiving any information from Treasury regarding revenue estimates for the coming year. Revenue projections become available only within the 30 to 60 day conclusion of the budget cycle, leaving agencies little time to thoughtfully alter spending plans to accommodate projected shortfalls. The result in recent years, where shortfalls due to recessionary economic factors were the rule rather than the exception, was largely unplanned slashing and shifting of minor object accounts.

Agencies also begin each budget cycle with no target spending figures for the department as a whole. With no bottom line to guide funding requests, the system encourages spending rather than managing. It is in a department's interest to overstate line-item amounts to preserve an increase after the budget bureau review. As a result, it has not been uncommon for departments to submit requests 20 to 30 percent higher than the previous year, knowing that the budget bureau function is primarily one of trimming rather than evaluating fiscal and program policies. Because of the competitive gamesmanship that has evolved between the departments and the budget bureau, target spending figures, when finally issued to the agencies, are largely ignored.

Agency heads have also never been provided with information on the state's overall fiscal responsibilities, particularly with regard to mandated increases in formula funding items such as pensions and school aid. Without this overview, department managers find it difficult to understand limitations on and adjustment to their individual budgets.

For the budget to encourage fiscal responsibility and good management practices, agency heads must be given realistic and firm spending limits at the outset of the budget preparation cycle. It will then be up to each manager to produce spending plans which reflect not only administration program priorities, but also the fiscal realities of the state's overall economic situation.

3. Agencies must be given guidelines as to the state's long-term management and policy objectives, and must incorporate long-term planning into their budget preparation. At no point in New Jersey's budget process is anyone required to look beyond the next fiscal year. The repeated preparation of annual spending plans, with no long-term strategic planning, leaves agency budget directors unprepared for changes in economic conditions or revised management priorities.

A key advantage to long-term planning in the budget process is that the so-called "uncontrollable" aspects of state spending--debt service, mandated growth items such as state aid, and increases in formula funding--can be factored into each agency's spending strategy. When agency heads see the total relationship between revenue and mandated expenses, they more readily understand that imposed spending limitations are a necessity rather than just a whim of the budget bureau.

4. The budget process must include a mechanism for periodic program review and evaluation. With no budgetary incentive to terminate ineffective programs or restructure marginally useful divisions, most New Jersey departments submit year-after-year, line-item incremental budgets that guarantee continuation and expansion of all programs. The changes in the budget process recommended here will also require the implementation of a program evaluation procedure. A manager faced with policy guidelines, a target spending figure, and long-term objectives must review departmental programs to determine how each one fits with overall administration policies. The program review will also include an evaluation of the program's effectiveness: Does it serve the intended purpose and client groups? Is it an efficient use of the state's resources? For the first time, each program will be seen as a means to meet policy and financial objectives, rather than an automatic way for a department to get a bigger share of the funding pie. Encouraging managers to cut marginally useful programs should be part of the budget system.

The following report on New Jersey's Budgeting and Planning process will outline in more detail the inadequacies of the present system and recommendations for change. The major points are:

1. Agency initiative in determining policy priorities will be replaced by gubernatorial initiative through policy guidelines issued at the outset of the budget cycle.
2. Rather than budget requests on the previous year's expenditures, agency budgets will be based on revenue projections for both short- and long-term planning--issued at the beginning of the budget cycle. Firm targets will be determined for each agency through the planning process.
3. Each agency will be required to prepare not only a detailed budget for the coming fiscal year, but also a long-term strategic planning document taking into account policy and fiscal goals.
4. Review and evaluation of programs will be a key part of departmental budget preparation.

To accomplish the above objectives in making a more responsive and responsible budget process, our study team determined that the current state budget structure cannot accommodate the intended changes in the process. The recommended top-down budgeting and planning procedures can be implemented only through a revised organizational structure that reflects the Governor's control of departmental spending and planning. Our examination of several options for restructuring the budget mechanism is included here. Our recommendation that the budget bureau be realigned under a new Office of Management and Budget is outlined in the "Organizational Alternatives" section of this report.

AGENDA

- SUMMARY

- CURRENT STATE BUDGET PROCESS AND PROCEDURES

- PROBLEMS IN THE CURRENT BUDGETING SYSTEM

- STRATEGIC PLANNING AND MANAGEMENT

- ORGANIZATIONAL ALTERNATIVES

- IMPLEMENTATION PERSPECTIVES

THE CURRENT BUDGET PROCESS AND PROCEDURES

The New Jersey Constitution¹ requires that for each fiscal year² all funds for the support of state government be provided for in a general appropriation law (budget). The budget is the instrument used for allocating the financial resources available to government. It is created as a result of a long, complicated process that begins each July and ends the following June.

The state adopted a zero-base budgeting (ZBB) process in 1974.³ The budget process consists of three elements:

1. Identification of a "current services budget."
2. Justification of all activities to a 75 percent⁴ funding level.
3. Priorization of decision packages which add or subtract from the "current services budget."

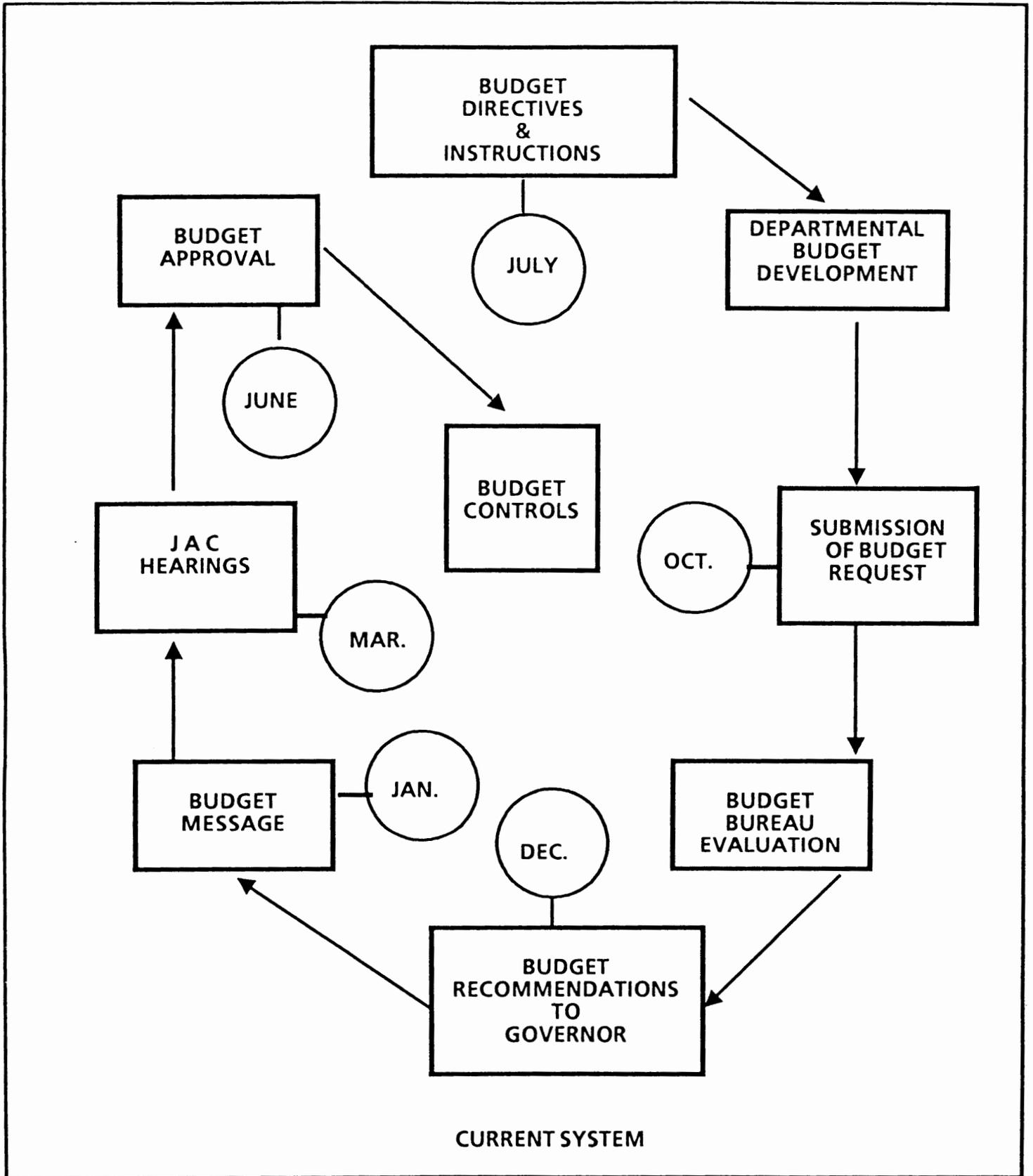
The Division of Budget and Accounting is responsible for the development and format of the budget. The Division establishes the guidelines, forms, and procedures for the budget submission, as well as reviews each budget request to determine the necessity and advisability of the requested appropriation.

The budgeting process begins in July after budget instructions and forms are sent to the departments by the Division of Budget and Accounting for preparation of a departmental budget. Preparation of departmental budgets is guided by a number of Budget Bureau directives. These directives include inflation factors and departmental budget targets based on guesstimates of the departments' ability to spend the funding available.

Departments prepare their budgets in line with these directives. Their responsibilities are to:

1. Develop a budget request "based on actual requirements to provide reasonable services which the agency is obligated to perform in accordance with current legislation."
2. Justify the request to both the Governor and Legislature.
3. Indicate relative priorities of departmental activities and budget accordingly.

Each budget request includes two sets of key documents: BB 101⁵ and BB 104.⁶ These documents relate specifically to the "Modified Zero Based Budgeting"⁴ process the state utilizes.



The (BB-101) involves identification of a "current services budget" for each program classification.⁶ This budget, built up from the appropriation level of the past year, reflects the resource needs necessary to provide for current services. These "current services budgets" are then aggregated and prioritized to create a total program classification request.

The (BB-104) series involves prioritization of the total departmental budget by activity. This prioritization exercise involves creating a list assuming at least a 75 percent level of funding for each program. In addition, each new or expanded request above the "current service" requirement is prioritized and expressed in both the (BB-104) and (BB-101).

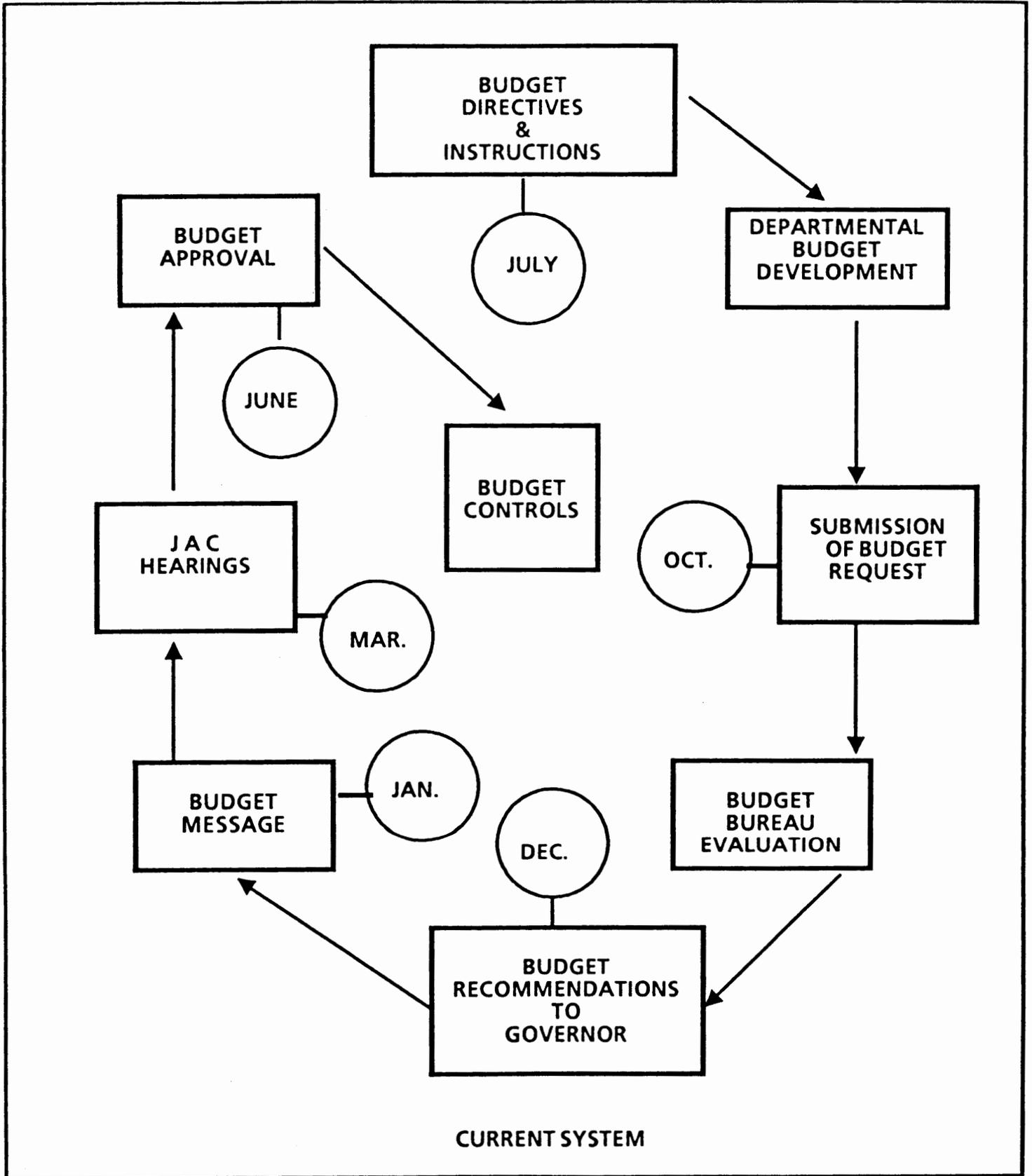
The budget requests for each department must be submitted by October 1⁷ to the Division of Budget and Accounting. Departmental submissions are evaluated by budget analysts who develop budget recommendations. The budget recommendations are forwarded in early December to the Governor for consideration.

In addition, the Governor and/or Director of Budget and Accounting may request budget hearings during October and November. These hearings are a review of the departmental budget requests.

The Governor's office reviews the recommendations made by the Division of Budget and Accounting and creates the budget request. The Governor transmits his budget request to the Legislature for consideration via his budget message in January.

The budget request is examined by the Joint Appropriations Committee. The Committee reviews the request, holds departmental hearings, and makes appropriate changes. The budget is then approved by the two Legislative Houses and signed into law by the Governor.

Following passage of the appropriations act, the departments can incur obligations and spend their appropriations.



NOTES

¹See article VII, Section 2.

²New Jersey's fiscal year begins on July 1 and ends on June 30.

³The New Jersey budget system has evolved over a number of years. In addition to being zero based, it contains elements of planned-program and line-item budgeting.

⁴The budgeting process in 1982 was streamlined to ease the administrative burden on agencies, while maintaining the basic elements of the zero-base process. The most significant change was the elimination of the need to justify expenditures to a zero-base level.

⁵General Statement - The vehicle through which all narrative data in support of the budget request is provided.

⁶The series includes: 1) BB-104A - "The Activity Form," 2) BB-104B - "Agency Priority Spending Analysis," 3) BB-104D - "Agency Evaluation Data," 4) BB-104E - "Priority Package Justification."

⁷Determined by statute. Additionally, this submission date has not been adhered to. Many departments are late in submitting their budgets. Tardiness of budget submission allows little time for budget evaluation.

AGENDA

- SUMMARY
- CURRENT STATE BUDGET PROCESS AND PROCEDURES
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PROBLEMS IN THE CURRENT BUDGETING SYSTEM

There are three basic problems that result from the current budgeting process:

1. The failure of the current process to produce a planned budget strategy including fiscal projections, spending targets reflecting priorities and management policy guidelines, and a longer term perspective and view of revenues and expenditures.
2. The lack of an effective program performance evaluation and review function.
3. The budget organization is located a number of layers below the Governor's Office, making it difficult to facilitate effective budget and management direction and communication.

FAILURE TO PLAN AND COMMUNICATE A BUDGET STRATEGY

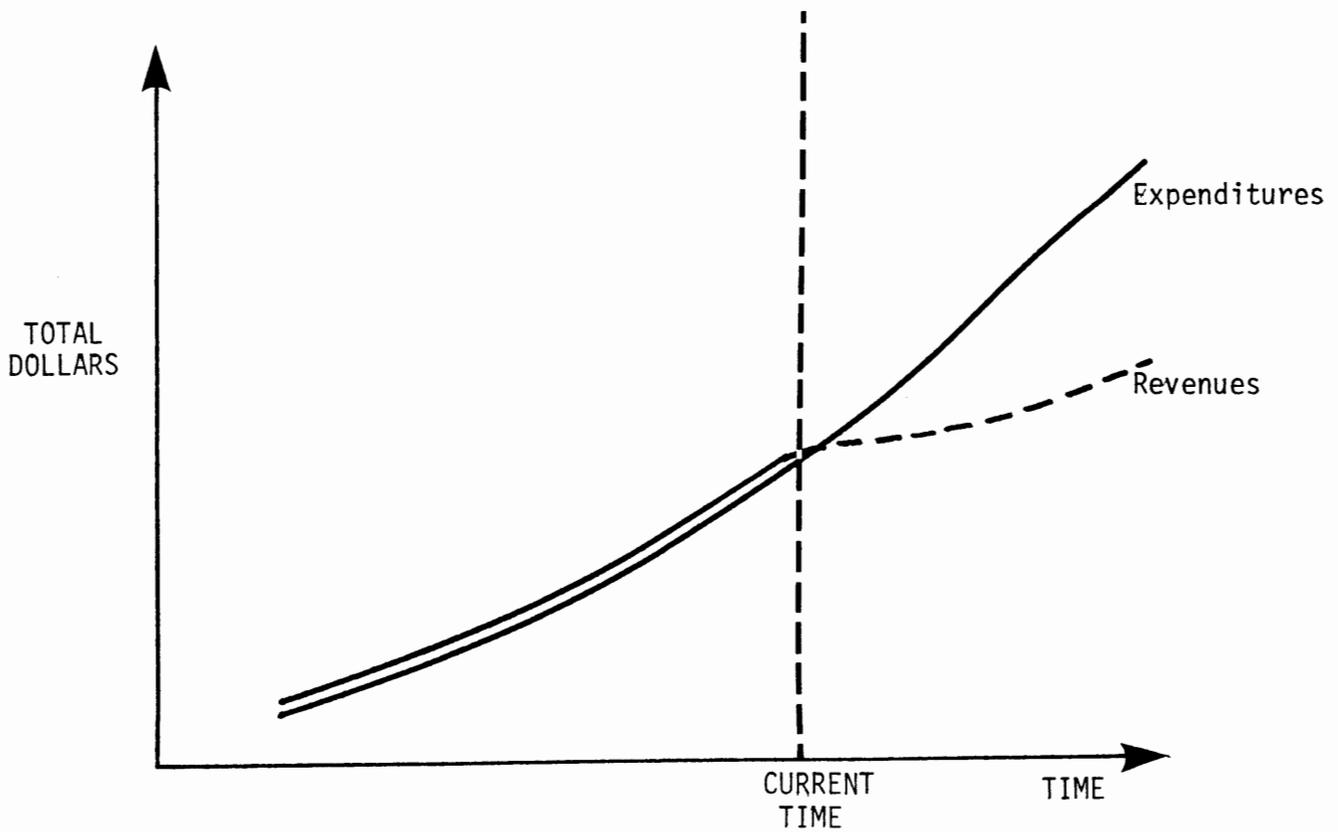
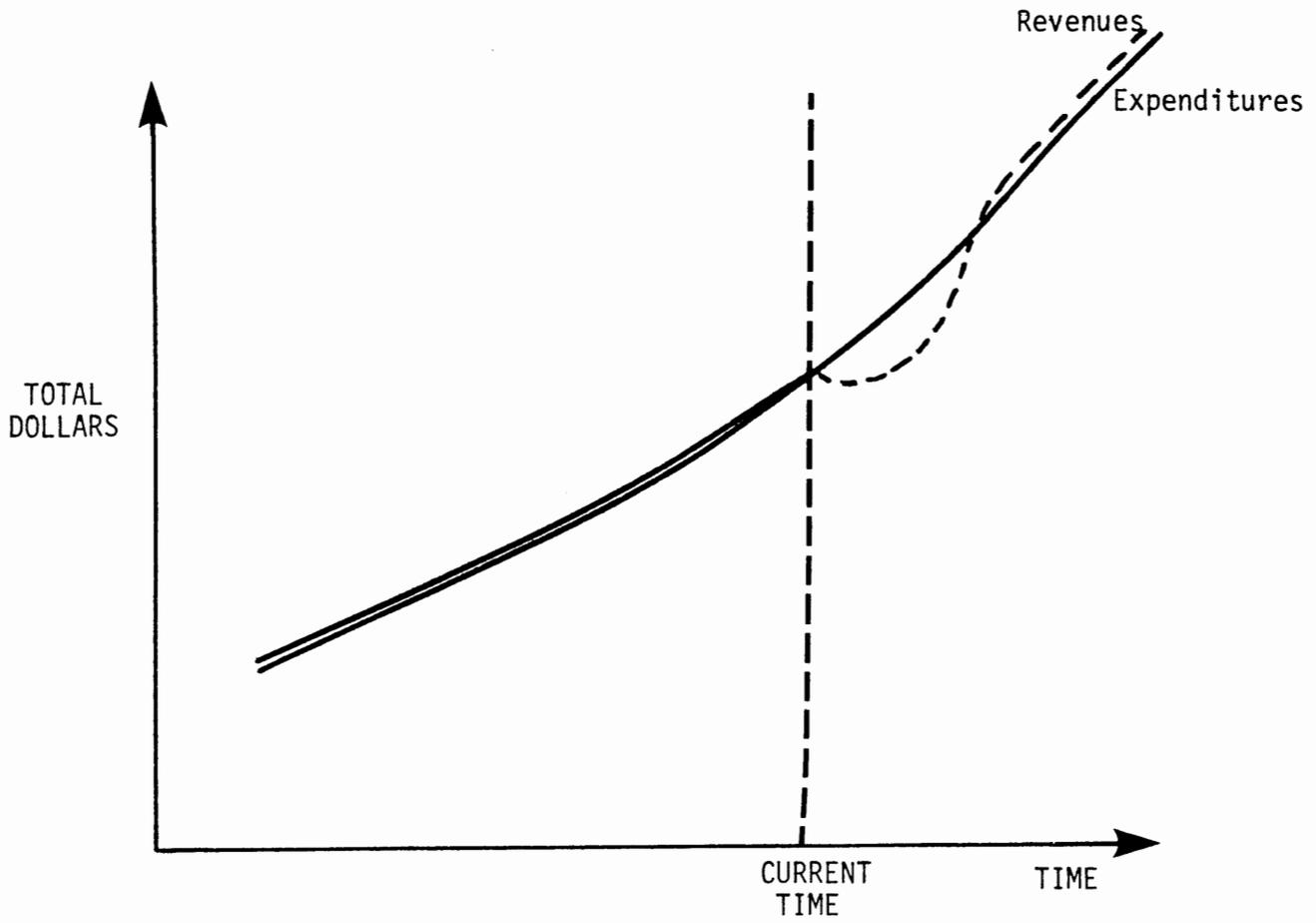
Clearly one of the most significant problems found is the lack of both overall policy direction and a long-term budget and management strategy. The lack of effective long-term budgetary planning results in a bottom-up, incremental approach to budgeting without top-down overall guidelines.

The significance of a long-term planning perspective is indicated in the following conceptual example. Since the state budget must be balanced, historically revenues and expenditures have tracked each other closely in both graphs on the facing page. In the top example revenues fall off for several years due to a major recession in the economy. However, the expectation is that revenues will recover to the expenditure trajectory as economic conditions improve.

In the lower graph, however, revenues are affected not only by the recession, but also by additional structural factors. Such factors might include the relocation of private sector jobs to "Sunbelt" regions, a lack of long-term growth in the economy, a long-term trend of reduced federal program support, or even a shift in average age or other demographic changes. In this scenario, a long-term movement of revenues away from a historically based expenditure projection could result.

The appropriate state budgeting priorities and responses should be substantially different in these two examples. A short-term change in revenue outlook would lead to a different result in the annual budgeting process than a long-term change. An annual, incremental budget process typically cannot predict which of these conditions is likely to prevail or respond to conditions with long-range tendencies.

NEW JERSEY STATE BUDGET
REVENUE-EXPENDITURE BALANCE



The current budget process lacks an effective planning mechanism that can anticipate changing revenue needs and availability. The current budget cycle begins with an assessment by the Division of Budgeting and Accounting of available resources for the coming fiscal year. Based on the availability of increased revenues, a set of budget target request numbers are created. These budget target request numbers reflect the additional increment of funding available to the departments. The extent to which a planning exercise exists is the extent to which additional resource availability is determined and divided up among the various departments. Generally there is an assessment of external trends, internal capabilities or administration priorities used to establish budgetary needs and priorities.

In addition to the target budget request number, the Division creates a set of inflation factors. These numbers reflect a standard inflationary increase in percentage terms to be applied across appropriate line items.

Because the directives consist of only budget request targets and inflation factors, the departments have a tendency to create "wish list" type budget requests. These requests are unguided by an indication of the total revenue picture, the priorities the administration has and/or the changing external trends. Subsequently, the budget requests reflect the department's priorities, which in many cases may or may not be the Governor's priorities.

The priorities of the department are reflected in the (BB-104) form which is included in the budget request package. This form is designed to prioritize program classifications and to reflect funding levels below and above providing continuation services.

However, the form has little value because it is not backed-up with departmental planning activities consistent with the total budget process. Instead, the form tends to reflect a maximum expenditure of available funding. This form also permits budgets to be developed with mandated and high-visibility programs listed as low priorities.

Although the departments do not have to complete any long-range planning to establish their priorities, there is not a lack of paperwork geared toward justifying the budget request of the current portfolio of programs and services a department has. The external environment is not generally considered to justify the need for the program and service.

Additionally, the program or service is not evaluated in terms of the department's ability to deliver the service efficiently and/or effectively. The question of what expenditure is necessary to meet the demands for the program is normally asked.

LACK OF A PROGRAM EVALUATION AND REVIEW FUNCTION

Two distinct yet interdependent problems exist; one, the lack of an effective program function, and two, the lack of management incentives to improve program effectiveness and efficiency.

The current budget process is a zero-based process, which is intended to evaluate the actual resource needs for individual programs starting from ground zero. However, the tendency has been to evaluate only the additional, incremental need, not the total budgetary needs of programs. This is especially evidenced by recent modifications in the zero-based procedure. Presently, at least 75 percent of program dollars are unquestioned and assumed to be needed and well spent.

While the budget organization includes a program review and there needs to be more effective program evaluation function¹ included in the budget process, we can no longer afford to focus our evaluation on the incremental increase each year, and not on the total expenditure for each program. Both the efficiency and effectiveness of programs must be evaluated, especially if the planning cycle is to reflect on the ability of government to efficiently and effectively meet citizen needs with available resources.

The evaluation function entails two primary thrusts. One is the evaluation of the performance of individual programs. The second, and equally important, is the review of the performance of managers with responsibility for the programs.

A systematic evaluation of programs has two major objectives: to determine whether the current level of resources is warranted; and to insure the intended objectives and results are achieved.

The controls² established to guide the allocation of resources must relate to the evaluation function. These controls provide some of the data used for evaluation. Analysis requires additional data more closely related to the nature of the mission and objectives of the individual programs.

Yet measuring the performance of individual programs is only one of the performance reviews necessary. Managerial performance must also be evaluated, particularly if the total management system is to stress management accountability.

There is another significant problem related to program evaluation. It is the lack of incentives within the departments to assess their program and management performance. The rewards for good management in the current system have traditionally been larger, more expensive budgets. Currently, while the state is in budgetary contraction and unable to get larger budgets, the rewards are perceived to be maintaining current budgetary levels.

Generally, it is not evident that managers are either motivated to do or rewarded for doing things more efficiently or effectively. Additionally, because effective program evaluation and management appraisal systems are lacking, there is little recognition for more efficient and effective resource utilization and management.

Incentives must be built into the planning and budgetary system. Managers should be recognized for superior efforts to increase effectiveness and efficiency without being given larger budgets. If the planning cycle is effective, perhaps rewards for creativity and good organizational planning could produce expanding managerial responsibility. However, recognition of managers through larger budgets is contradictory and can impede more effective resource allocation.

NOTES

¹The performance evaluation function is recognized as clearly needed, however, appropriate evaluation systems were not studied. The short-term GMIP cross-cut study also recognized the need for more budget related analysis.

²The short-term GMIP cross-cut study identified the current organization as having adequate budgetary controls. But, knowing that a well-defined budget strategy does not exist, it is possible that many current budget controls are directionless and potentially useless. Controls linked to a clearly articulated strategy could be used to measure managerial and program performance to insure implementation of the Governor's strategy and priorities.

STRUCTURAL IMPEDIMENTS TO EFFECTIVE BUDGETING

Four structural impediments to effective budgeting exist, even if a more effective process were implemented. These impediments are:

- The organization creating the budget is located many layers removed from the Governor.
- No member of the Governor's office is directly engaged in the formal preparation of the budget.
- Lack of a clearly recognized person to provide direction on the preparation of the budget.
- The Division of Budget and Accounting does not have the authority or functional responsibility for planning and performance evaluation.

Currently, the organization responsible for creating the budget is removed a number of layers below the Governor. This situation is disadvantageous for two particular reasons. First, an organization many layers below the Governor is not going to be readily recognized as credibly reflecting his priorities. Secondly, an organization that far removed from the Governor has the potential to become insulated from direct input from the Governor.

Credibility is very important in this process because major policy decisions are reflected in the budget document. Without a clear understanding that the person responsible for the overall budgeting process does, in fact, reflect the Governor's wishes, you have a most difficult situation. This scenario includes having the budget process undermined through miscommunication and misinterpretation of budgetary policy, lack of departmental compliance to directives, and departments appealing to other high-ranking Governor's office personnel to change decisions they find unsatisfactory.

The problem of the lack of effective communication and policy guidance is partially a by-product of an organization not positioned to have the credibility necessary to represent the Governor. This is not to suggest that merely elevating the budget production organization function will result in a more effective budgeting system, but instead suggests that an organizational evaluation change could facilitate greater credibility and ultimately better communication.

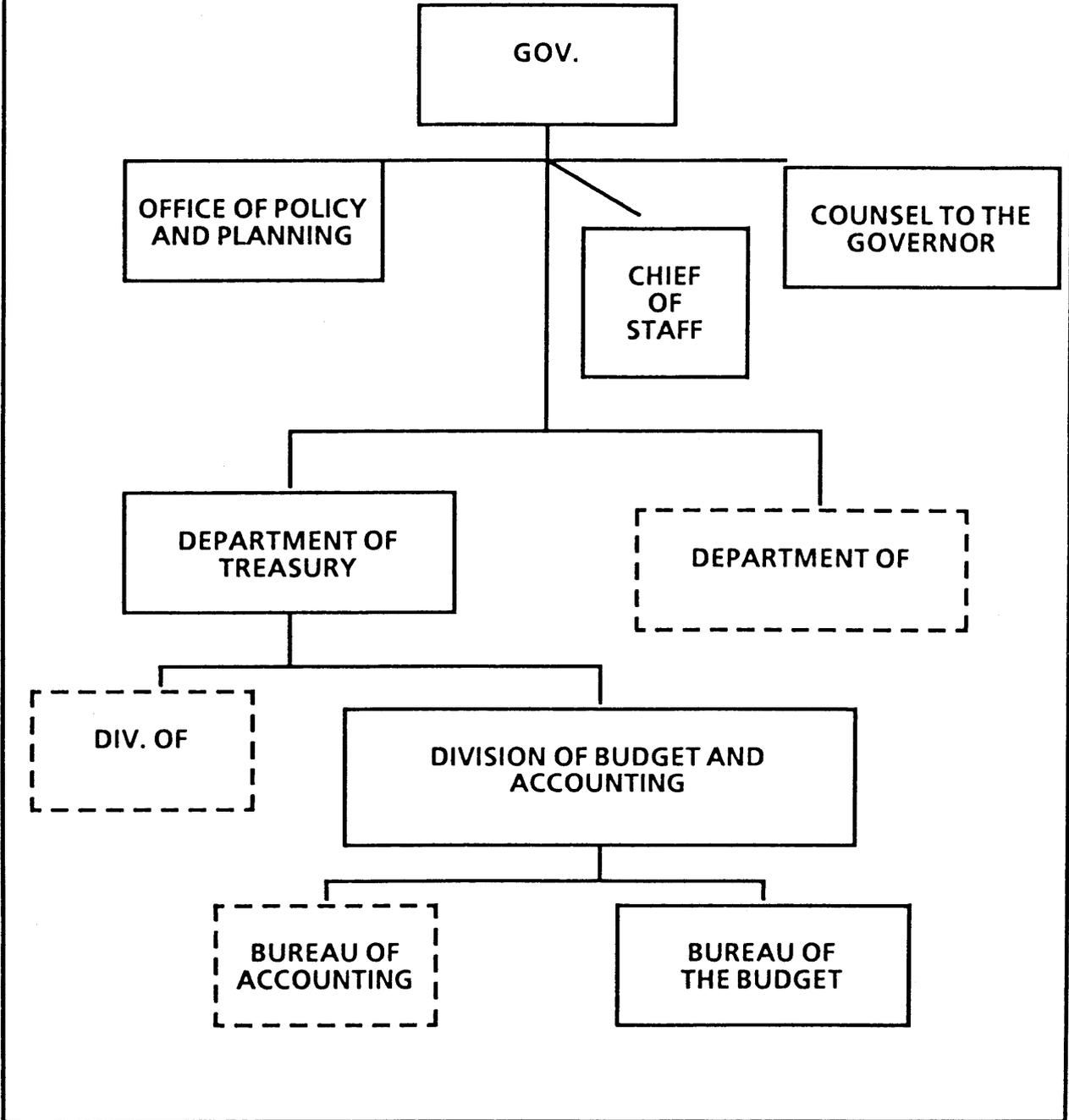
The potential for the organization to become too insular is also significant. An organization too far removed from those whom it impacts is potentially dangerous. It is very important that the budget organization reflect the Governor's desires in both overall direction and its day-to-day dealings. The day-to-day decisions, if not totally known or understood by the Governor's office, could nullify the overall directives given by the Governor.

This point is of even greater concern when one considers that no member of the Governor's office is presently directly involved in the formal preparation of the budget. Consequently, no one on the Governor's staff is fully informed on the budget preparation. In addition, the Governor's office is highly dependent on an organization, potentially void of a close working relationship with its staff, for information needed to make major policy and budget decisions.

The budget process involves extensive coordination of varied interests. Each interest has its own sense of its importance within the budget process. If the budget organization is somewhat isolated and without a clear signal of who is in charge, it is likely that interests with priorities not shared by the Governor can affect budgeting policies and decision items. It can be suggested that the Governor becomes only one of many interests competing for resources in the budget process. Therefore, coordination of the many competing interests involved in the budget process must occur in an organization at a level capable of insuring that everyone understands that the Governor is in charge and that the budget is his policy statement.

Finally, one of the major elements lacking in the current budget organization is the formal authority to question the performance of programs. Without this formal authority, it becomes virtually impossible for the budget organization to evaluate the actual needs of programs. It is also very difficult to hold managers accountable for poorly managed programs.

ORGANIZATIONAL CONTEXT



AGENDA

- SUMMARY
- CURRENT STATE BUDGET PROCESS AND PROCEDURES
- PROBLEMS IN THE CURRENT BUDGETING SYSTEM
- STRATEGIC PLANNING AND MANAGEMENT
- ORGANIZATIONAL ALTERNATIVES
- IMPLEMENTATION PERSPECTIVES

THE STRATEGIC PLANNING AND MANAGEMENT PROCESS

Recommendations

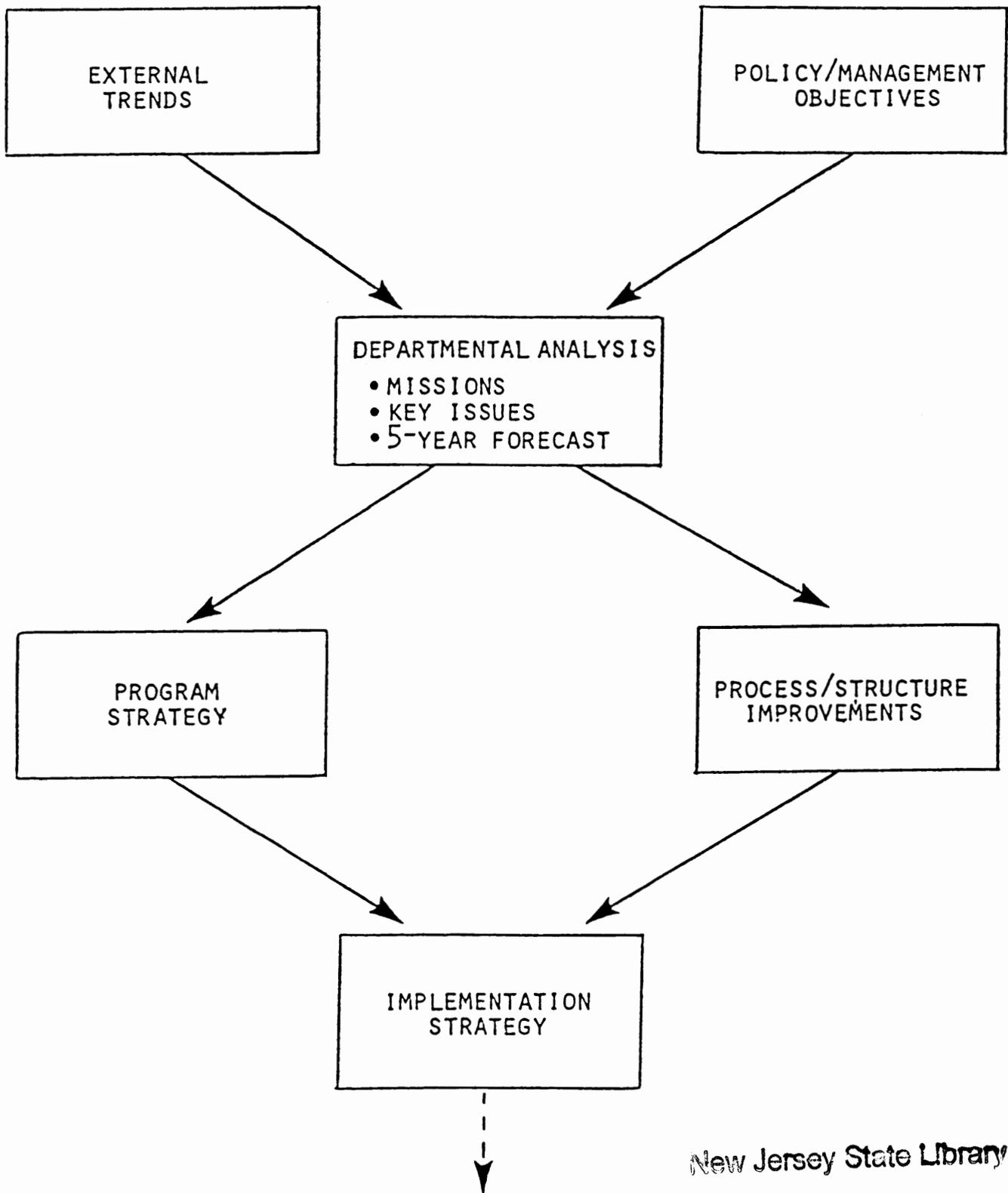
- Establish a strategic planning process to replace agency-initiated budget requests with a top-down planned budget and management strategy.
- Establish a performance review and evaluation function.

The overall strategic planning process, which we believe should precede and set the context for the current budget cycle, is summarized by the following diagram.

The process includes two inputs provided to the departments, a departmental analysis of its goals, issues, and five-year future, and two outputs (aggregates of the departmental analysis) which are used in formulating an implementation strategy in the current budget cycle.

Note: A more detailed description of the recommended planning process has been developed. For the purpose of this report, the process has been summarized.

THE PLANNING PROCESS



New Jersey State Library

THE BUDGET PROCESS

The first input is a common statement of statewide external factors and trends. This statement should include two items. First, an overview of recent state spending history and future resource availability is helpful in giving each department a perspective on its expenditures and its growth relative to the government as a whole. And, second, a forecast summary of statewide demographic and economic trends, usually limited to five or ten initial parameters, that serves to set broad direction for the five-year projections of programs developed by individual departments.

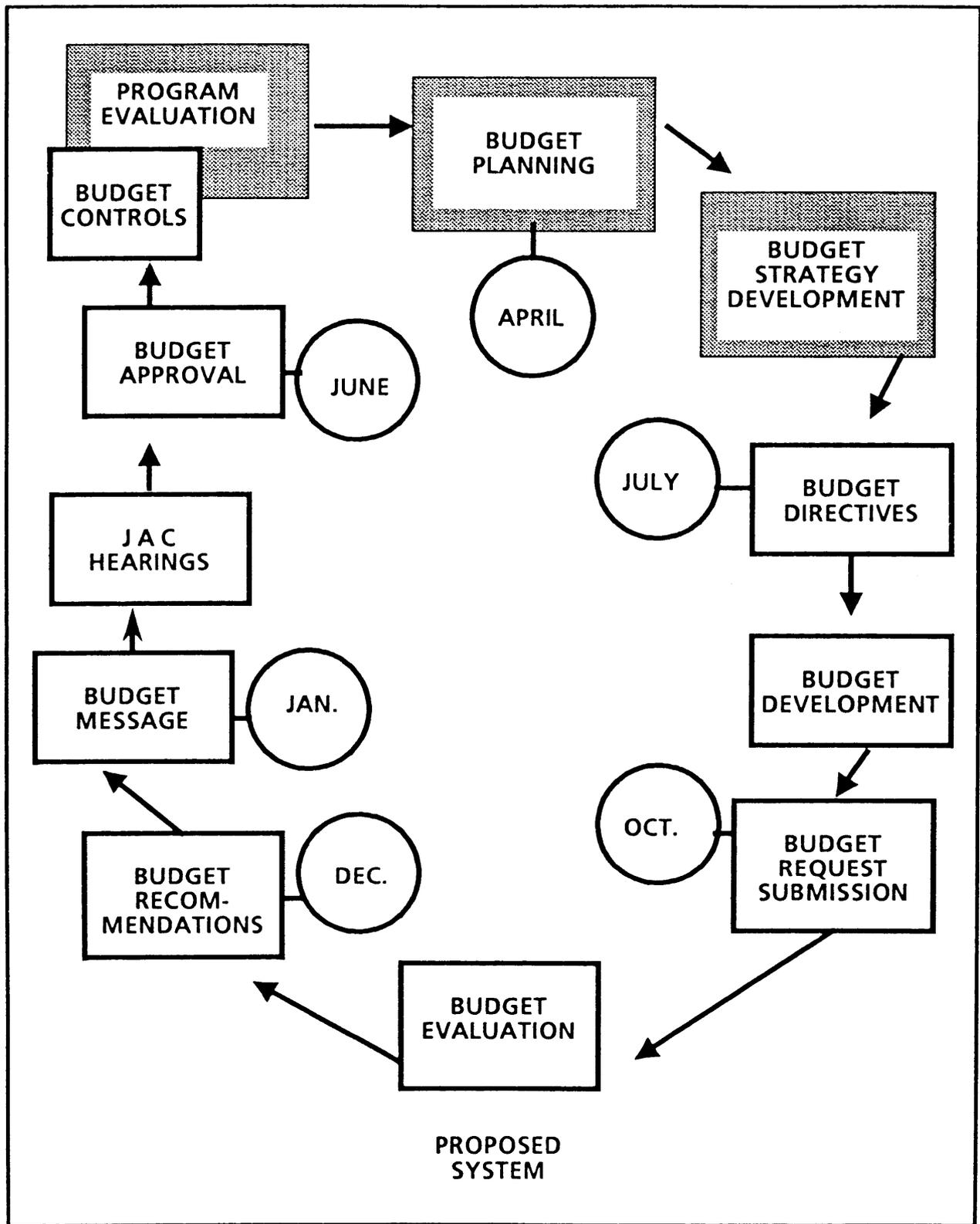
The second input is an updated summary of the Governor's major "strategic" objectives. These objectives should also be few in number and stated in broad terms in order to set the general tone of the individual departmental planning efforts.

We believe that these planning efforts, taking into account external trends and the Governor's objectives, should produce broad mission statements, key issues, and five-year projections of expenditures and nontax revenues for each department or major division (see Appendix I for recommendations on the format for departmental planning documents). The intent is not to generate the detail and accuracy of the annual budget, but rather to set the stage for its preparation.

The first overall output, the program strategy, answers the question, "What does the Governor want to deliver to the constituency?" This involves the aggregation of all departmental analyses in order to assess the impact of program options on closing an anticipated budget shortfall over both the short-term and the five-year period. New programs and innovative changes in providing services or addressing emerging constituent needs should be evaluated in terms of available resources and impact on other programs. Essentially, this process should be one of negotiation, providing an incentive for creative, pro-active management.

The final overall output, the management strategy, answers the question, "How will the Governor deliver services to the constituency?" This involves an ongoing review of issues concerning process, structure, and operation of the overall government in order to provide relief to anticipated budget shortfalls and allow for greater choice in determining program strategy.

Finally, these two outputs concerning program and management should be coordinated into an implementation strategy and a detailed annual budget which takes into account both tradeoffs among programs and long-range demographic and economic trends in order better to serve constituents.



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ORGANIZATIONAL ALTERNATIVES

Recommendations

- Combine the planning, management, and budget functions into one organization to insure a unified, comprehensive overall management and budget strategy.
- Elevate the current organizational positioning of the budgeting and planning function.

Numerous organizational alternatives exist for implementing the structural changes necessary for the proposed strategic management process. Most all of these alternatives directly affect the current structure of the Treasury Department and the Office of the Governor.

Three particular alternatives were developed, each with its own advantages and disadvantages. The following pages briefly describe each alternative.

In a significant number of other states (see Appendix II for a breakdown on state-to-state comparative data), the budget office is either directly within the Governor's Office or reports directly to it. The primary reasons for this arrangement are: to indicate clearly who is in charge of the budget, including its planning, preparation, control, and evaluation; to insure that the Governor's priorities are clearly reflected in the budget; and to maintain effective communication on budgetary and management policies.

ALTERNATIVE A

- Planning and budget (OMB) combined as an integral component of the Governor's Office.

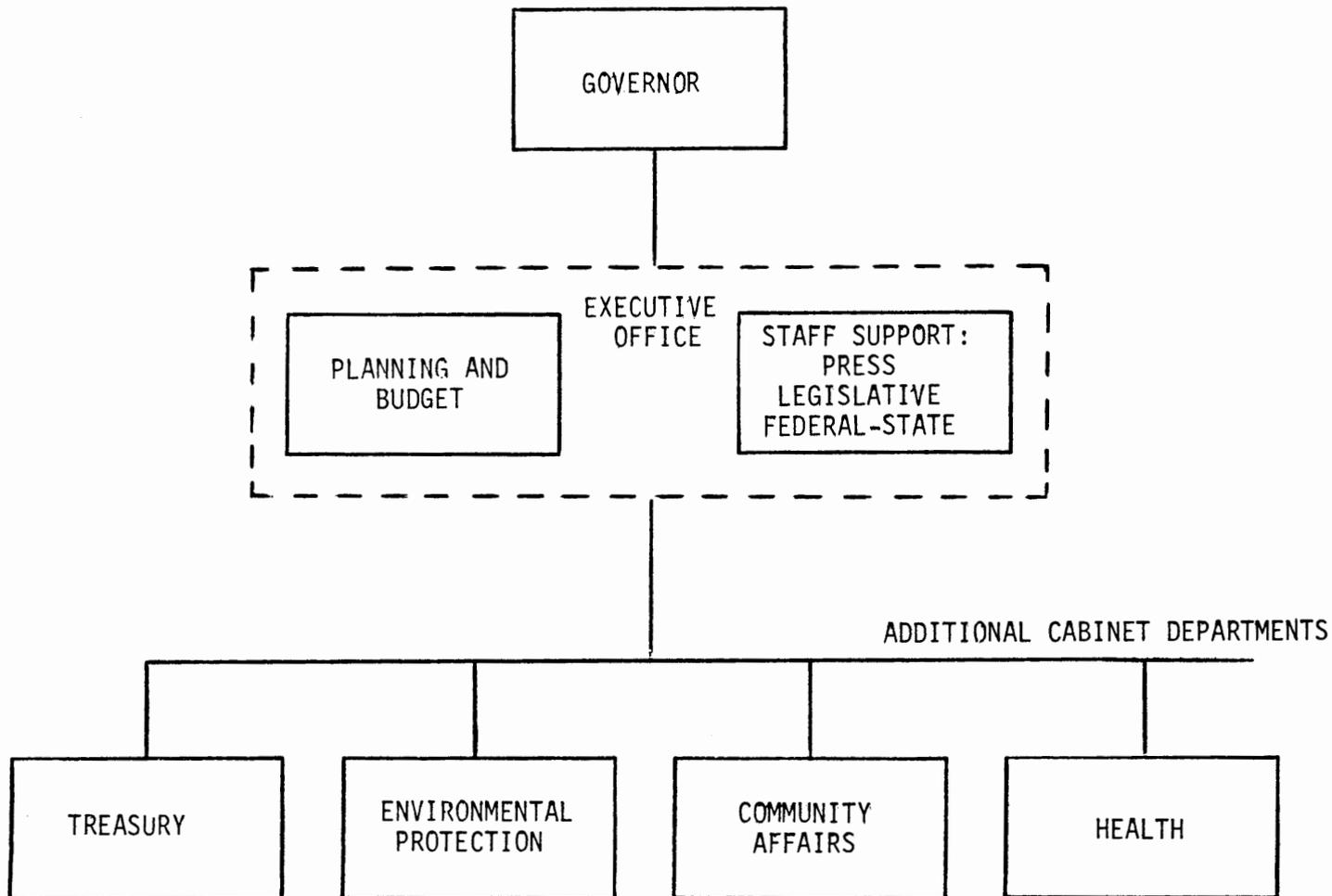
This involves moving budgeting directly into the Governor's Office to integrate with policy and planning, and the Office of Management Services (OMS).

Advantages:

1. Immediate proximity to the Governor.
2. Clear recognition of who is in charge.
3. Access to the Governor for budget input easily maintained.
4. Governor's Office involvement in the budget from day one.
5. Gubernatorial selection of Director.

Disadvantages:

1. Constitutional change required to put an administrative function (budgeting) in the Governor's Office.
2. Substantial disruption in current operating procedures through a splitting of the budget and the accounting functions.



ALTERNATIVE B

●An OMB created as a Cabinet Department

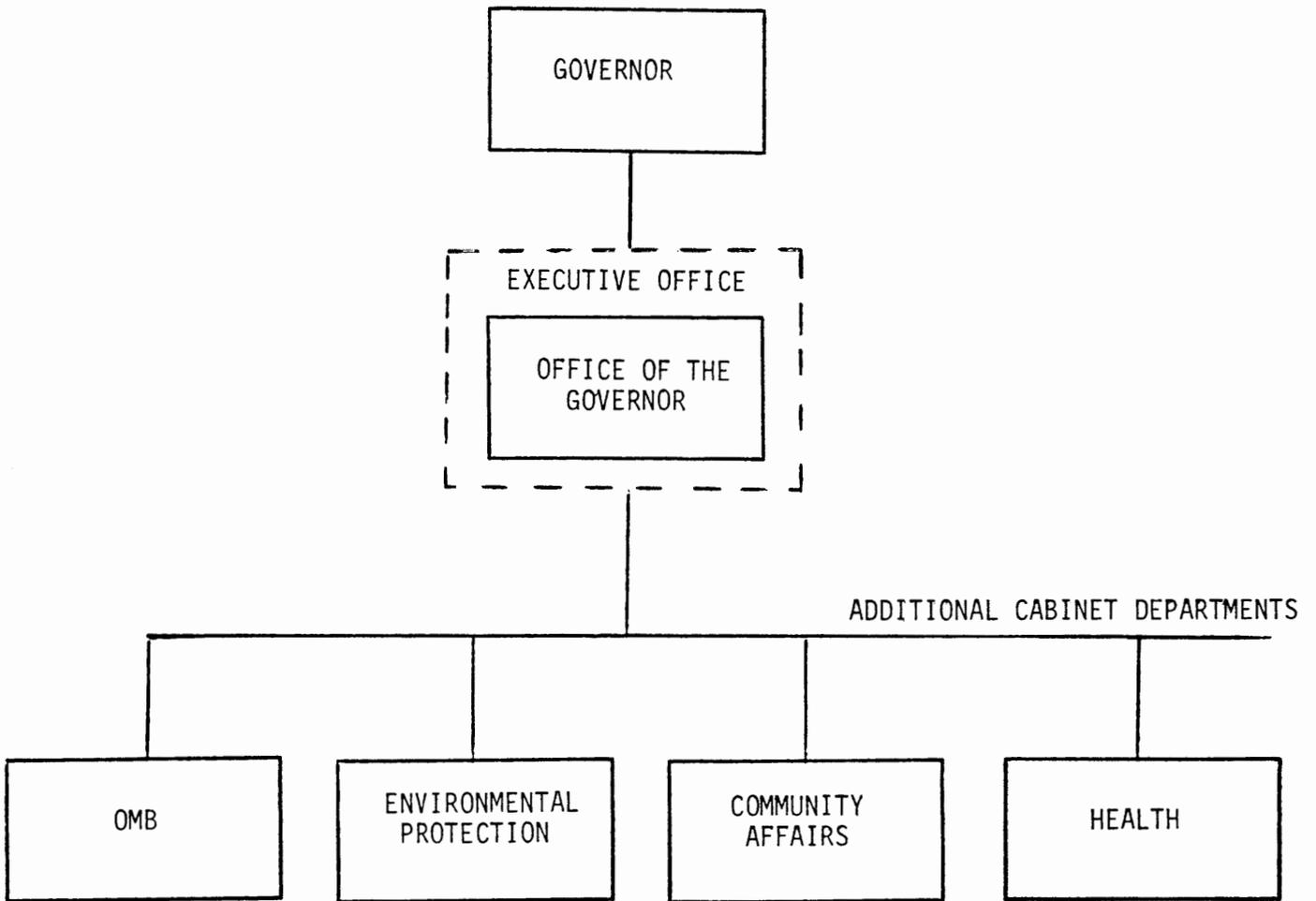
This involves moving the Division of Budgeting and Accounting, OMS, and the planning function currently in the Governor's Office into a newly created department.

Advantages:

1. Clear recognition of who is responsible for the budget and related activities.
2. Governor's Office not involved in the day-to-day details of budgeting.
3. Gubernatorial selection of Director.

Disadvantages:

1. Difficulty of giving this department greater status than other departments.
2. Direct line authority difficult to enforce.
3. Legislative action required to create a new department.
4. Would require a reorganization of the current cabinet.



ALTERNATIVE C

- An OMB located in the Department of Treasury with functional line authority to the Governor's Office.

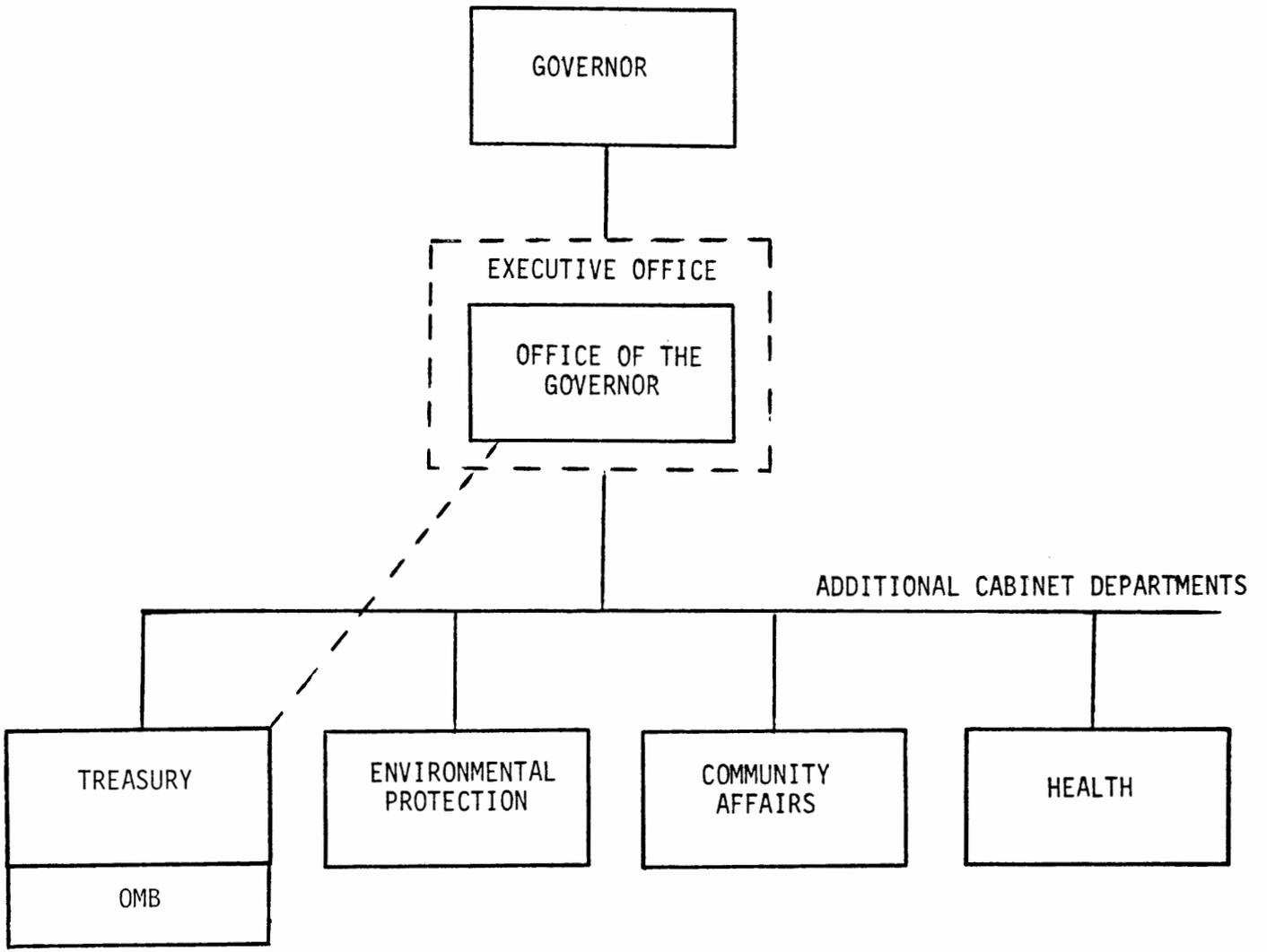
This would involve revising the current responsibilities of the Division of Budget and Accounting and integrating it with the Office of Management Services.

Advantages:

1. Establishes who is clearly responsible for budgeting and related activities.
2. Governor's Office not involved in day-to-day details of budgeting.
3. Immediate proximity to Governor's Office.
4. Gubernatorial selection of Director.
5. No legislation required for implementation.

Disadvantages:

1. Does not achieve proximity ultimately desired.
2. Does not limit formal access for budget impact to extent ultimately desired.



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IMPLEMENTATION PERSPECTIVE

It is important to recognize that implementation of changes in the planning and budgeting process while benefitting from substantial momentum built up during the GMIP process, will be complex and difficult. Several basic principles are noteworthy:

- Organizational restructuring should be immediate for ultimate implementation of the functional elements outlined.
- Managing expectations are critical. It should not be expected that the entire process can be implemented "immediately."
- Related to expectations, the rollout of the process will probably take years--even up to 4-5 years. However, the immediate impact of the recommended changes will be substantial.
- Finally, it is important to have an "early success"-- a clear demonstration of support and an issue or target in which the chances of success are high.

APPENDIX I

From the collective experience of the GMIP participants, certain formats for presenting the department planning documents and discussing the data needed for planning have been found to work more effectively than others. The following points are important:

1. The format should be in summary form (2-3 pages), forcing the agencies into the discipline of condensing their data into only the most essential information.
2. The format should define the mission and objectives of the organization.
3. The format should include an indication of historical and forecasted expenditure items.
4. The format should indicate the key driving forces associated with both historical and forecasted expenditure growth.
5. The format should indicate key anticipated problems/issues to be confronted by the agency.
6. The format should indicate optional solutions to the key problems/issues.

APPENDIX II

Budget Agencies Under State Governors

A recent report by the National Association of State Budget Officers¹ indicates that 26 of 45 states responding to a survey on budgeting processes in the states have either the budget office within the Governor's Office or report directly to it. Twenty-one of these budget officers in 1980 reported their functions to the Council of State Governments. Of these:

- 13 (62%) make revenue estimates which are used as a basis for the executive budget.
- 20 (95%) perform in-depth analysis of revenue and expenditure trends and fiscal impact of major executive and/or legislative proposals.
- 15 (71%) analyze the national and state economy to develop predictions on state business activity and personal income.
- 19 (90%) prepare reports based on data to determine effectiveness of present activities.
- 14 (67%) provide planning support
 - 12 (57%) provide policy planning.
 - 5 (24%) provide comprehensive statewide planning.
 - 2 (10%) provide functional planning.
 - 1 (5%) provides local planning.

The states and possessions included are: California, Florida, Georgia, Hawaii, Idaho, Illinois, Indiana, Iowa, Louisiana, Maryland, Montana, New York, North Carolina, Ohio, Pennsylvania, South Dakota, Texas, Utah, The Virgin Islands, Washington, and West Virginia. The states of Michigan and Oklahoma have budget agencies which report directly to the Governor but did not provide information on their function.

¹Budgetary Processes in the States, National Association of State Budget Officers, July 1981.

**CIVIL SERVICE:
PERSONNEL POLICIES AND PRACTICES**

Strategic Issues and Alternatives



CIVIL SERVICE: PERSONNEL POLICIES AND PRACTICES

New Jersey State Government, an employer of substantial size, has highly centralized, detailed, and rigid employment policies and practices set by current law. The conclusion of this study is that these policies and practices raise the cost of providing services, reduce incentives to improve productivity, and limit the State's ability to manage the work of government. This report examines individual employment practices and suggests changes for modernizing the system.

Almost every aspect of State employment is prescribed in the Civil Service Statute, Title 11, and its implementing regulations. The foundation for this law is Article VII, Section 1, paragraph 2 of the Constitution of New Jersey. The latter states that:

"Appointments and promotions in the civil service of the state, and of such political subdivisions as may be provided by law, shall be made according to merit and fitness to be ascertained, as far as practicable, by examination, which as far as practicable, shall be competitive; except that preference in appointments by reason of active service in any branch of the military or naval forces of the United States in time of war may be provided by law."

The fundamental purpose of these enactments is to insure that "merit and fitness" determine who is employed in State service and that once employed, persons will be treated equally and fairly. But, these goals have been sought by a statutory procedure which sets forth in detail what the State may not do as an employer of human resources. Moreover, this law is administered and enforced by a centralized employment apparatus which often bears the brunt of criticism by some managers who would avoid their responsibilities for managing employees. The general consequence is that in State government some unit managers do not

have or use the authority to manage to the same extent their counterparts in industry have and use such authority. Because of actual and perceived restraints on managerial authority imposed by the system, some managers in State government do not hold employees accountable for performance to the same degree employees in efficient private organizations are held accountable.

Altogether, it is our conclusion that in its attempt to be fair to employees, the State of New Jersey has created by its current laws an employment system which does not utilize modern personnel standards and is ultimately unfair to citizens at large because it limits the efficiency and effectiveness of State government. We have concluded, also that Civil Service laws now in force are only one cause of this situation and certainly not the sole cause. The perception of many managers in State government is that the personnel system does not work effectively. The State of New Jersey, therefore, has great need to modernize its personnel function and to require that all managers manage those employees for whom they are responsible.

ISSUES

The nature of State's personnel system is highlighted by these realities which characterize government employment in New Jersey:

(i) The general perception of employees, supervisors, and senior managers is that once an employee has been qualified in a State position, he or she has lifetime tenure, except for outrageous service or behavior, or economic layoffs. The process of separating employees for cause is so time-consuming that

unit managers seldom attempt to dismiss the incompetent. Moreover, there are few incentives for supervisors to hold employees accountable for high performance.

The absence of managerial accountability and employee perception that tenure is for a lifetime contributes to the creation of a work environment which is neither challenging nor demanding. This is not to say that there are not thousands of State government employees who are diligent and effective. But, they themselves have accepted the responsibility to perform at high standards despite the fact that the State as an employer does not require or reward such performance.

(ii) Some managers in State government employ a variety of subterfuges to "beat the system." The latter include these: reclassifying positions in order to upgrade or downgrade incumbents; redefining a position so that it will be filled by a new hire rather than a person currently employed or by a person on the list of employees certified for hire. As a consequence, there is a proliferation of job titles with many position titles only slightly different from others, while work content is essentially the same.

(iii) The centralization in Civil Service of employee testing for appointment, and promotion for State agencies and jurisdictions under Civil Service causes delays which impede the work of individual departments. The burden imposed on the Department of Civil Service by centralization is formidable. For example, in its report for the 1980-1981 fiscal year, the Department noted that 736 State and 7,288 local open competitive lists had been promulgated. In the same year, 2,157 State government and 2,214 local government promotion lists were

prepared. The criticism of the users of the service, i.e., the State agencies are these:

- Examinations are held too infrequently and lists of eligible employees to fill specific positions are lacking. Consequently, provisional employees must be hired and trained or positions go unfilled.
- Test score on a written examination is too simplistic a criterion for the selection of employees as new appointees or for promotion. Therefore, persons best suited for individual work assignments may not be the ones hired.

(iv) The Civil Service Department is responsible for the classification of all classified positions in State agencies and in local governments subject to the Department's authority. In addition to assigning titles, the Department is responsible for setting the educational and experience requirements for each title. State agencies must submit reclassification and new title requests to the Department for prior approval. New title requests include assignment of the title to a salary range. Local jurisdictions must submit requests for new titles but control the assignment of salary rates or salary ranges.

Contrary to expectation, the centralization of job classification in the Department of Civil Service has permitted the creation of many more position titles and descriptions than the personnel system requires. While it is reasonable to expect that a centralized service would constrain the proliferation of job titles, the fact is that it has not in New Jersey despite the obvious benefits of doing so. We believe that State agencies and jurisdictions under Civil Service make far more requests for new titles than are necessary. The presence of fewer job titles across State government would allow more flexibility in recruitment, selection, classification, and compensation. Presently, such flexibility does not prevail.

State agencies also criticize the process of classifying positions and setting educational and experience requirements as inordinately lengthy. The response of Civil Service is that the volume of work places an inordinately large burden on its small staff. Comparison with other state governments shows New Jersey to have fewer Department of Civil Service employees when total number of employees in government is considered. A recommendation below covers this issue.

(v) The pay levels permitted through application of the State salary schedules do not meet the needs of State agencies. When qualified persons are attracted to State service it is often because State service is secure or because they are willing to sacrifice pay for experience. When it has been gained, they leave for private sector positions. Such is frequently the case with young professionals. This was confirmed by the findings of the Supreme Court committee on efficiency. (Page 40)

The need, then, is for the State to insure that salaries are adequate to attract persons with necessary job related skills. Adequate pay treatment would reduce the cost of government as a consequence of reduced turnover and increased productivity.

(vi) The State's attempt to be fair to employees has produced a grievance and appeal process which is unduly formalistic and costly.

Presently, State and local government employees are entitled to formal hearings to appeal dismissals or suspensions of more than five days. Hearing procedures are formal adversary proceedings before an Administrative Law Judge who recommends a decision to the Civil Service Commission, which approves or

modifies the decision. The complaint of agencies is that the process is so time consuming, legalistic, and backlogged that managers are discouraged from initiating suspensions and dismissals. There is also evidence that since the State does not hold its managers accountable for performance in a meaningful sense, few managers in State agencies are inclined to enter into such formal, adversary proceedings.

It is our conclusion that the State of New Jersey provides its employees with more legal rights and privileges than are provided employees in the private sector. Specifically, the internal adversary proceeding, which essentially meets the standards of a court of law, might well be modified to reduce the costs to the State.

(vii) The centralization of the state's personnel function and the politicizing of the process which leads to wage increases has failed to reward employees for meritorious performance or penalize employees for inferior performance.

The State provides a compensation plan for State employees which has salary ranges, each with a series of steps with uniform increments between steps. Each salary range, from the lowest position to the highest, has the same number of steps. Employees move up through a range by receiving increments for service on an annual basis, presumably because the quality of their service is meritorious. In practice, the actual basis is service, without regard to the quality of performance. Almost all employees receive their annual increment with few being denied it and

very few receive extra adjustments for outstanding work accomplishment. As a practical matter there is no regular method of rewarding employees for superior performance, except through promotion.

Further, the process which leads to wage increases for State employees has been strongly politicized over the years. Consequently, the supply and demand for labor has been less important in determining pay increases than political forces. Thus, it is highly probable that State employees in many positions have had larger pay increases in recent years than their counterparts in industry.

(viii) State government sick leave policy is liberal and it appears to be misused by individual employees.

State employees are entitled to fifteen days sick leave per year and are permitted unlimited accrual from year to year of any sick leave that is unused. On average, ten sick days per year are used by State employees. Employees at the lower end of the pay scale use even more. The total payroll cost of used sick leave is about \$30,000,000 per year.

Two studies of private sector employment indicate that employees average from five to seven sick days per year. We doubt seriously that the average State employee is so unhealthy that he/she requires 10 work days each year for illness. After normalizing for holidays, weekends and vacation and other days not worked, this amounts to an annual average of 16.5 days of illness serious enough to warrant staying at home.

It is our strong impression that many State employees view sick leave as an entitlement, and this impression is strengthened by the State allowing employees to accrue sick leave and then paying them upon retirement for the days accrued.

This finding, along with others, leads us to the conclusion that the State's employee benefits program could be controlled more effectively and its cost lowered.

(ix) Employees are not given the equipment with which to perform with effectiveness equal to private sector employees doing comparable work in firms with as many employees. Computers are inadequate in departments which cry for their use. Examples include the Department of Civil Service and the Division of Motor Vehicles. Civil Service, for example, has its basic records on cards which must be manually posted. Consequently, determining basic facts on an employee in service is a laborious, time-consuming task. The Division of Motor Vehicles has a warehouse full of computers, paid for but never installed, while its employees are swamped with work that computers could perform more effectively. As a result, uninspected cars and trucks which have failed inspection remain on the road and drivers who should have lost their licenses for violations continue to drive.

(x) Many, if not the majority of, unit managers in State government have little or no managerial training prior to their first management assignment in State government. They rarely receive such training as they progress. This has been recognized by the new administration and it should be remedied by the emphasis being placed on employee training and development by the Governor and the Department of Civil Service through Executive Order 28.

ALTERNATIVES

The principal thrust of these alternatives is that the personnel function of State government be substantially delegated under prescribed standards from the Department of Civil Service to the State agencies. We would have the department set merit system personnel policy, promulgate guidelines, advise agencies, coordinate personnel functions, and monitor and audit their performance.

The individual agencies would classify established positions. However, new titles would require budgetary and Civil Service approval. Agencies would test applicants for positions, make determinations on hiring, and perform their regular personnel functions as well.

We believe that the high degree of centralization characteristic of the State's personnel system has an adverse influence on the effectiveness of government. Agency and unit heads believe they have limited responsibility for their employees since so much responsibility for personnel is vested in the Department of Civil Service. Whether or not this is entirely true is not as important as the fact that it is widely perceived or expressed. Further, under the present system unit managers believe that their ability to manage is severely constrained by Civil Service laws. Our proposal would give them much greater authority over personnel, but it would hold them accountable to a greater degree. The matter of whether the common perception of Civil Service is accurate or Civil Service is criticized unduly is addressed in another recommendation.

The present highly centralized and structured personnel function has evolved over many years and is so firmly entrenched that decentralizing it will not come easily. But, despite the human, institutional, and legal barriers which face reform, we offer recommendations which we believe can be achieved. The major recommendations are generally consistent with pending legislation, the Civil Service Act, A1720, S2019.* A key provision is the authority of the Commissioner of Personnel to delegate certain personnel functions to other departments of State government. These recommendations include those related to the Civil Service Department's basic functions of selection, classification, compensation, and appeal.

1. The Governor should hold accountable the head of each unit of State government for the performance of each employee in his/her unit; such responsibility includes periodic, effective personnel evaluation, including performance measurement of individuals and the units of which they are part.

2. The Governor, through the President of the Civil Service Commission and the Department of Civil Service should work to delegate the personnel function of State government to the major State agencies. The Department of Civil Service should be given the authority to delegate its operating functions to State agencies and act primarily as a policy-making, review, and compliance authority.

* Committee amendments made subsequent to April 30, 1983 were not available for consideration by this committee.

3. Specific personnel elements we propose be decentralized to the agencies follow:

(i) Departments and local jurisdictions should be permitted to classify positions without requiring prior approval. However, the creation of new titles should be subject to the approval of the Department of Civil Service.

Guidelines to be followed in the classification of positions should be issued periodically by the Department of Civil Service. It should also be the responsibility of the Department to monitor, audit, analyze, and field survey classification actions to ensure that they are consistent with prescribed guidelines.*

(ii) State agencies and local Civil Service jurisdictions should eventually be authorized where feasible and subject to State and federal test validity and employment regulations to prepare, hold, and process examinations for their own organizations. The Civil Service Department should prepare guidelines, monitor, provide technical assistance, and investigate complaints related to this program's administration.*

(iii) The Job Content Evaluation Committee and the Reclassification Committee would be discontinued and the Civil Service Department itself should handle this function as noted in (i), above. Both of these committees cause considerable delay and serve little purpose. The fiscal control recommendation

* A1720 and S2019 provide for these authorizations.

(below) should control the number of reclassifications, range revisions, and new title requests sufficiently. (No new legislation would be required to implement this recommendation.)

4. Strict State government fiscal controls should be exercised over reclassifications, range revisions, and new titles.

State agencies should be permitted to reclassify positions only when change does not result in additional operating unit costs. This procedure will require operating agencies to establish cost centers and allocate positions accordingly. The number and/or level of positions should not change in a section unless the workload function is substantially changed and a higher cost for the section's output or service is approved by the State budget officer. (No new legislation would be required to implement this recommendation.)

5. Performance and salary increments should be more closely related, especially for supervisory, managerial, and professional positions. Increments, as currently, would be retained for lower level positions. For middle level positions, the increment amount should be split so that half would depend on the quality of performance. For higher level positions ranges would be retained with minimum and maximum rates. But there would be no regular increments. Steps and salary rates within the range would depend on performance. Finally, we recommend a merit fund for rewarding exemplary performers annually. (No new legislation would be required to implement this recommendation.)

6. Hearings within State government on employees suspensions and dismissals should be at the departmental level, chaired by a hearing officer

assigned by the Civil Service Commission. We suggest that hearings be recorded by machine and that the party requiring a transcription in writing bear the cost of transcribing. The Commission would review only those decisions involving dismissals. Further adjudication would be a matter for judicial proceedings. (New legislation would be required and A1720 would require modification.)

7. Sick leave should be changed from an entitlement to a fixed number of days off each year to an entitlement to time off for illness. The solution lies in effecting attitudinal change as well as in holding employees accountable for time off. A solution may be to eliminate sick leave, per se, and institute an insurance based system. Where the record shows a pattern of abuse, disciplinary action should follow. (New legislation would be required.)

8. Adequate funding for programs mandated by legislation appears to have been a substantial problem for the Civil Service Department. The department's budget has been lower than the civil service units of other states, after adjustment for employees covered. Also, the share of the New Jersey State Budget accounted for by Civil Service has declined over the years while its responsibilities have increased.

The recommendations made here will reduce the department's operating responsibility by decentralizing some of its functions to State agencies and local jurisdictions. But the department's responsibilities for monitoring and auditing will be enlarged substantially. Both the Department of Civil Service and State agencies will be required to perform tasks which are not now budgeted.

There is no way to determine whether these proposals will increase or decrease State expenditures for its personnel function. Personnel expenditures can be decreased if the State weighs the costs and benefits of personnel work now being performed and eliminates or reduces those functions and tasks with marginal benefits. This is covered in the next recommendation.

9. The Civil Service Department's program should be studied in depth and that basic data on the department be produced so that the costs and benefits of specific functions can be evaluated. Specifically it is recommended that:

- (1) a. A listing of all titles with the number of provisionals in each title
- b. A listing of current eligible lists by title with number of eligibles appointed from each list, the original number of eligibles on each list, and the number remaining.

The latest Civil Service Department annual report (pages 81-82) shows 8,016 open competitive lists promulgated for State and local governments and 13,180 appointments. The indication from these gross figures is that fewer than two appointments were made from each list. Actually, it would be even fewer since such lists are promulgated for three years and appointments are made from lists promulgated in prior years. Also certain lists -- clerical, police and fire -- usually have a large number of appointments. We recommend, therefore, that Civil Service data be analyzed to determine what has occurred and is occurring regarding employment lists. Are they being used? Are there eligibles on lists which have titles very similar to titles with provisional employees?

There is a need to reduce the number of position titles and examinations and to simplify the classification of work assignments.

(2). List and review prior reclassification and range revisions in State government for a one or two year period.

(3). Analyze these actions to determine grade creep, ripple effect, and attempt to categorize type of request and the reasons advanced.

(4). Study the reclassification and range revision programs of other comparable states. Determine if they are continuous and as numerous as in New Jersey. Also, determine how other states handle approval authority with the purpose of simplifying what now exists.

10. In reviewing comments on Civil Service by State government executives, it is apparent that their conclusions on how much authority they can exercise for managing employees are based on limited personal experience. Further, many have not attempted, or may even be unwilling, to manage those for whose work they are responsible. There is great need, therefore, for State agency heads to engage in a concerted effort to manage personnel effectively. Discussions with key Civil Service executives have led us to conclude that they are prepared to delegate responsibility and authority to state agencies to streamline what in the past may have been cumbersome personnel procedures and to simplify channels of communication between agencies and the Civil Service Department.

DEPARTMENT OF THE TREASURY
DIVISION OF PURCHASE AND PROPERTY

Strategic Issues and Alternatives



PURCHASING

- INTRODUCTION
- CONTEXT
- MISSION STATEMENT
- FUNCTIONAL ACTIVITIES
- IMPLEMENTATION RECOMMENDATIONS
- RECOMMENDED NEXT STEPS

INTRODUCTION

As part of Governor Kean's initiative to improve the efficiency of New Jersey's government, a task force was assigned to examine the issues regarding the State's purchasing system.

This booklet is a summary of the efforts by the task force over approximately a three-month period to deal with issues of a strategic nature regarding the role, responsibilities, and functions that purchasing should perform. The task force, comprised of individuals from the Purchase Bureau, user agencies, Governor's staff, and private sector executives has attempted to develop the issues on a broad enough level to provide potential alternatives for consideration by policy makers but has used its judgement to recommend specific implementation items where it felt appropriate.

Excluded from the task force's analysis were the purchasing functions carried out within:

- Rutgers
- University of Medicine and Dentistry
- Turnpike Authority
- New Jersey Transit
- Public Schools
- Counties and Municipalities
- Independent Authorities

Comments related to purchasing within this report, unless otherwise specified, refer to the entire State purchasing function.

PURCHASING

• INTRODUCTION

• CONTEXT

• MISSION STATEMENT

• FUNCTIONAL ACTIVITIES

• IMPLEMENTATION RECOMMENDATIONS

• RECOMMENDED NEXT STEPS

CONTEXT

In order to better understand the issues that are involved in purchasing, the task force felt that a basic profile of the current purchasing system was a fundamental building block. The parameters chosen to profile the system involved details regarding how the State purchases its goods and services, what it purchases, the cost of the purchases, and the State's cost to administer a purchasing system.

PURCHASING

- INTRODUCTION

- CONTEXT

- MISSION STATEMENT

- FUNCTIONAL ACTIVITIES

- IMPLEMENTATION RECOMMENDATIONS

- RECOMMENDED NEXT STEPS

PURCHASING CHANNELS

State purchases can be broken down into two basic channels: those that are delegated to the agencies and those administered through central purchasing.

Delegated Purchases to Agencies

- Term Contracts. Established through public bidding by the State Purchase Bureau. Agencies can issue purchase orders for items covered under term contracts directly to contract vendors.
- Direct Purchase Authority (DPA). Agencies may apply for Direct Purchase Authorization to the Purchase Bureau, and, if approved after a streamlined competitive bidding process, may place orders directly with vendors up to \$2,500 per purchase of a product or service.
- Special Procurement. Special procurement authorization is provided for State colleges, for the Department of Defense up to \$2,500 and for all departments for construction materials and supplies up to \$7,500.
- Utilities. Utility rates are set by the Public Utilities Commission.

Central Purchasing

- Advertised Bids and Quotations. Products and services not available under long-term contracts or for which direct purchase authority has not been granted must be submitted to central purchasing for bidding.
- Waivers of Public Advertising. Products and services that are unique, specialized or have a lead time which cannot be met through normal channels may have the bidding requirement waived in certain cases.

DEPARTMENT OF THE TREASURY
 DIVISION OF PURCHASE & PROPERTY
 PURCHASE BUREAU
 METHODS OF PROCUREMENT

Total Expenditures FY 1982 (In Millions)

\$443.6

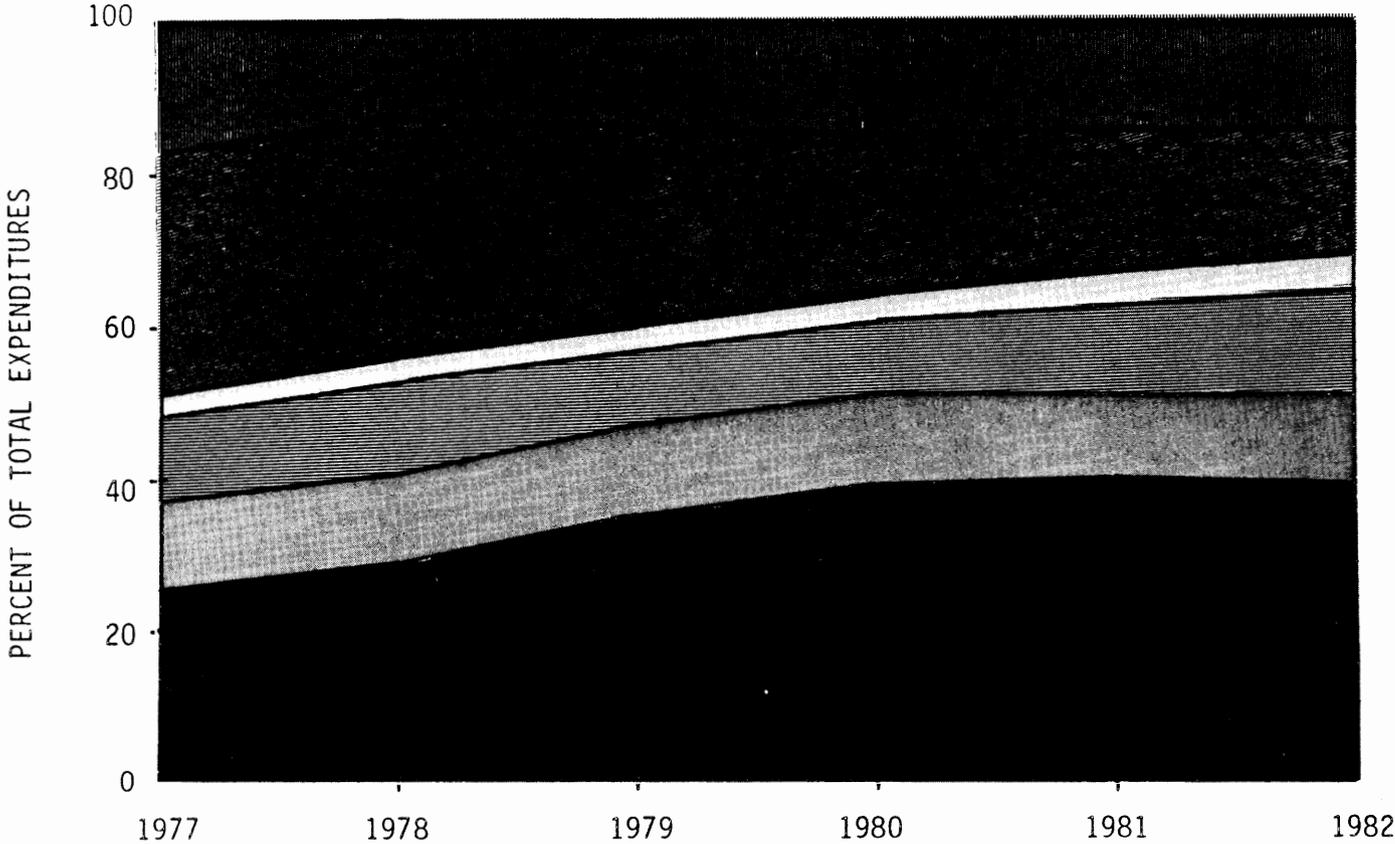
<u>DELEGATED PURCHASES TO AGENCIES</u>				<u>CENTRAL PURCHASING</u>	
<u>TERM</u>	<u>DIRECT</u>	<u>SPECIAL PROCURE- MENT</u>	<u>UTILITIES</u>	<u>ADVERTISED BIDS AND QUOTATIONS</u>	<u>WAIVERS OF PUBLIC ADVERTISEMENT PRODUCTS & SERVICES</u>
\$173.2	\$16.6	\$54.4	\$64.4	\$77.3	\$58.5

PURCHASING CHANNELS
Trends

The following chart displays each method of purchasing as a percentage of New Jersey's total purchases between 1977 and 1982.

In 1977, 50% of all goods and services purchased by the State was done by Central Purchasing through the Waivers-Products/Services and the Advertised Bid process. By 1982, this figure decreased to 32%, reflecting the decentralization of the procurement of goods and service from Central Purchasing to State Agencies.

STATE OF NEW JERSEY
 DIVISION OF PURCHASE AND PROPERTY
 METHODS OF PROCUREMENT
 1977-1982



- | | |
|-----------------------------|---|
| ■ Waivers-Products/Services | } Purchasing done by central purchasing |
| ■ Advertised Bids | |
| □ Direct Purchase | } Purchasing done by agency |
| ▨ Waivers-Utilities | |
| ▨ Special Procurement | |
| ■ Term Contracts | |

PURCHASING CHANNELS
Trends

The total purchases of goods and services for New Jersey totaled \$444mm in FY1982. These purchases have grown at nine percent from FY1979-FY1982, a period when the total State budget grew at 15 percent.

The two facing charts display State purchases by procurement channel. These graphs, called sector graphs, display several pieces of information.

The horizontal axis plots the relative volume of State purchases by channel on a logarithmic scale. The vertical axis plots the historical growth rate of each channel. The dashed horizontal line represents the average growth rate for all purchases in the sector as a whole, and circle sizes reflect dollar purchases in that sector.

For example, the State's purchases through term contracts is approximately twice the amount purchased by the next largest channel, advertised bids and quotations. The growth rate of term contracts from 1979-1982 was about 13% per annum, faster than the average for all State purchases (9%).

The top chart is shaded to indicate those channels in which actual purchase activities are physically managed by the using agency. The bottom chart is shaded to indicate those channels for which purchase price is determined by the Purchase Bureau (approximately 80% of total purchases).

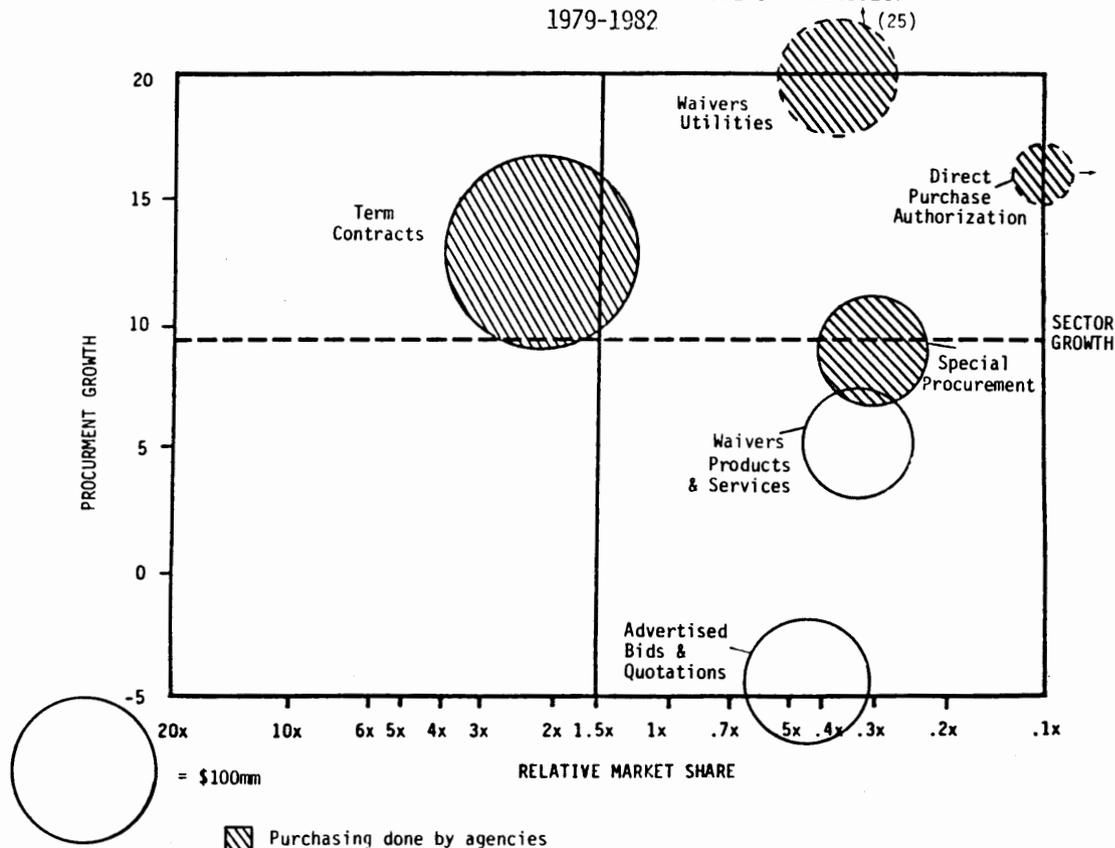
As demonstrated by the charts, the single most important channel through which the State purchases is long-term contracts. The rapid growth in waivers for utilities in recent years is merely a result of escalating oil prices--not significant volume growth. The growth of direct purchases in excess of total purchase growth again indicates a trend towards decentralization.

The trends in State purchases by channel show two distinct characteristics over the past several years:

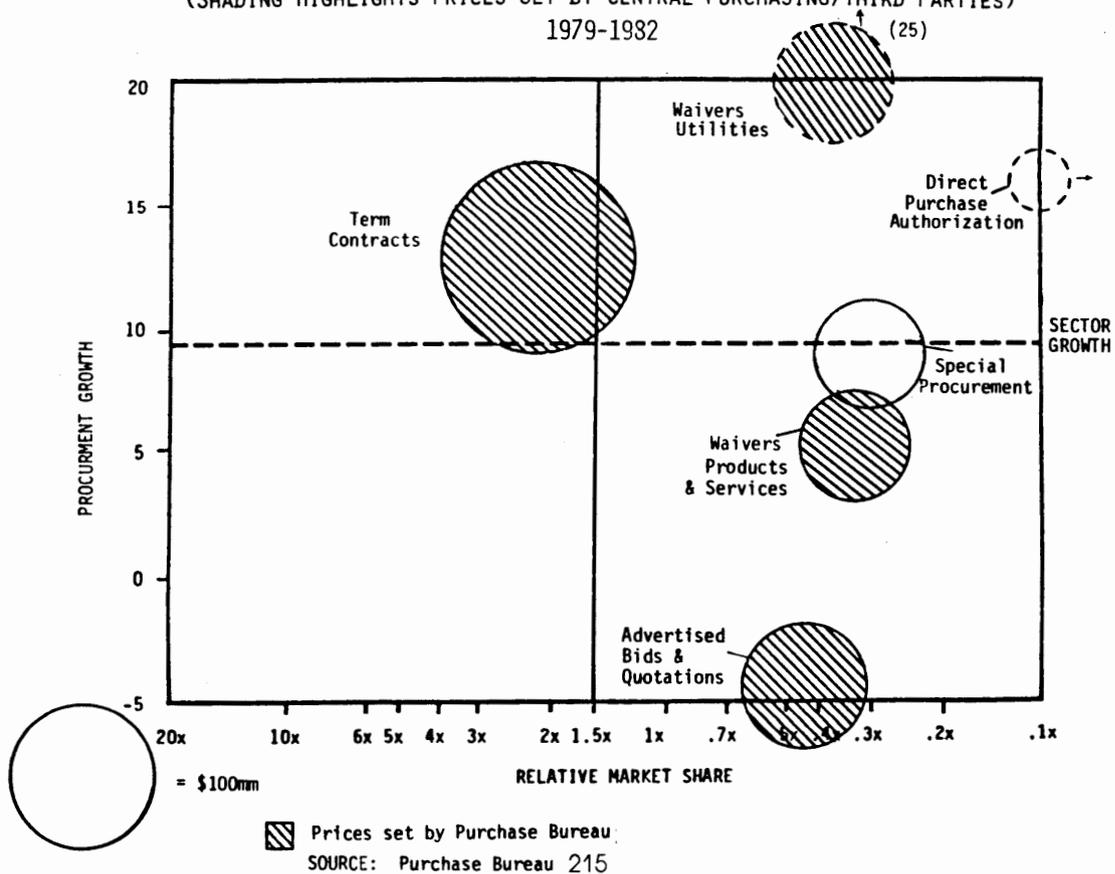
- Most of the State purchases are physically handled and processed directly by the using agency.
- Most of the pricing of goods and services is done through Central Purchasing or by independent commission (utilities).

These trends are consistent with a theme of decentralizing the purchase authority while retaining a centralized capability to obtain purchasing power economies.

PURCHASE BUREAU
METHODS OF PROCUREMENT
(SHADING HIGHLIGHTS PURCHASING DONE BY AGENCIES)
1979-1982



PURCHASE BUREAU
METHODS OF PROCUREMENT
(SHADING HIGHLIGHTS PRICES SET BY CENTRAL PURCHASING/THIRD PARTIES)
1979-1982



PURCHASES BY COMMODITY

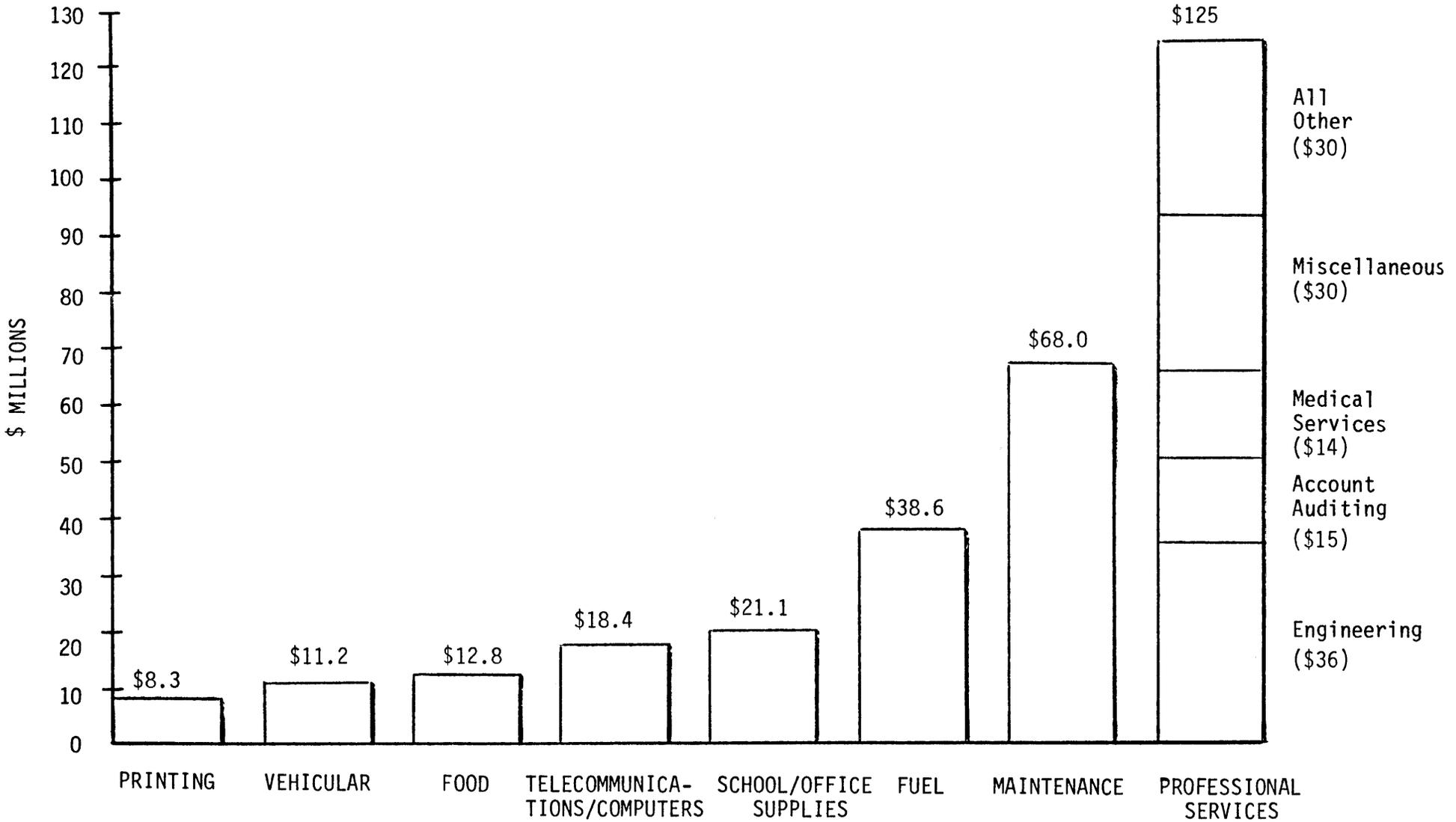
To help understand the composition of State purchases by type of product/service, the task force looked at the State's commodity group purchasing data. With the exception of the Distribution Center, management information is virtually nonexistent and when it does exist is rarely practical to access in any usable format. The State has no ability to capture the volume of its purchases or to track unit pricing other than manually.

The single largest group of purchases is for professional services. This includes over \$36 million for engineering services, \$15 million for auditing, and \$14 million for medical services. The major commodity groups all represent types of purchases where discount buying should be readily available (e.g., high volume commodity items such as paper clips).

In addition to being the largest grouping of State purchases, professional services has also been the most rapidly growing. From 1979-1982, when total purchases grew at 9%/year, professional services expanded by 61%/year.

Note that the high proportion of miscellaneous dollars suggests the need for the expansion of categories and a greater effort at classifying expenditures.

STATE OF NEW JERSEY
 DIVISION OF PURCHASE AND PROPERTY
 PURCHASING DOLLARS BY COMMODITY GROUP *
 FY 1982



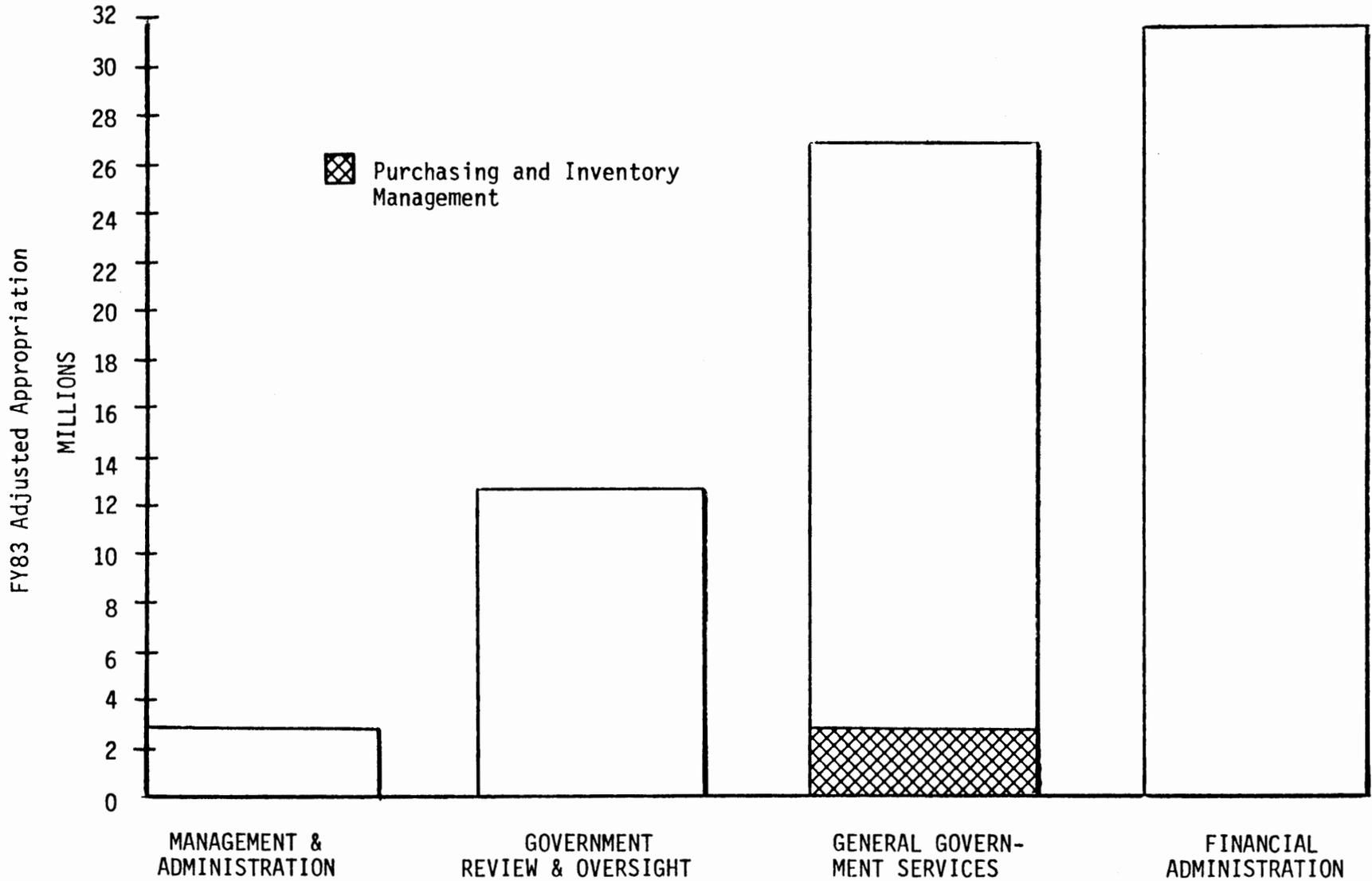
*Includes only individual items greater than \$1.0mm in purchases

PURCHASING COSTS
Purchase Bureau

The administrative cost to the State to purchase goods and services is comprised of two elements: the cost of the Purchase Bureau and the cost of personnel in the agencies who perform a purchasing function.

Historically, the State has only looked at its purchasing costs as reflected in the budget for the Purchase Bureau. The budget of the Purchase Bureau has grown 12% annually, from \$1.7mm in FY1978 to \$3.0mm in FY1983. The facing chart displays the Bureau's budget in the context of the entire Treasury Department budget. Although, at first glance, the cost associated with the purchasing function appears insignificant, the true cost of purchasing must be identified within the Agencies in addition to the Purchase Bureau.

DEPARTMENT OF TREASURY
SUMMARY BY PROGRAM
FY 1983

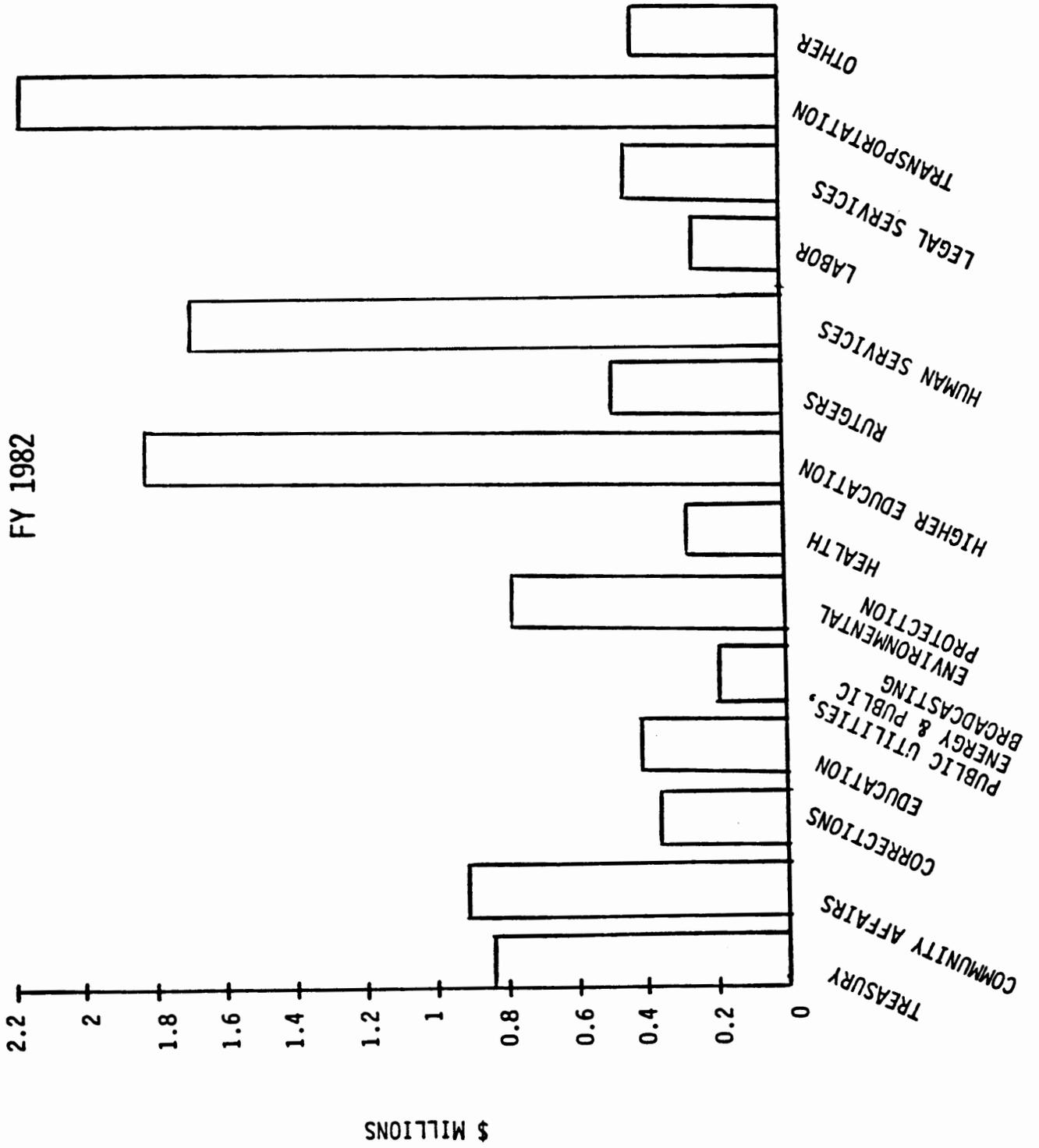


PURCHASING COSTS
Agency

The other element of administrative cost in the State purchasing system is at the agency level. To help estimate these costs the task force utilized the output from the Governor's Management Improvement Program's organizational analysis which, through surveys, broke down payroll costs by function.

The total cost to the State for agency purchasing activity is estimated to be \$11mm. It is estimated that it costs various State agencies between \$100,000 (e.g. Energy and Labor) and \$2,200,000 (Transportation) to administer agency purchasing (exclusive of secretarial costs). The Transportation Department's high relative cost is due to the myriad maintenance contracts that they administer.

STATE OF NEW JERSEY
 PAYROLL DOLLARS DEVOTED TO PURCHASING
 BY DEPARTMENT
 FY 1982



PURCHASING COSTS
By Function

When the \$11 million in purchasing costs are aggregated across all departments (again from the GMIP analysis) and then broken down by function, the majority of the resources are shown to be expended on administrative/processing functions. This suggests that increased automation has significant potential to reduce purchasing costs. A minimal amount of the State's effort is expended on such important areas as researching and analyzing purchasing information and Inspection/Receiving.

A display of this type should be used in the future to assess how well the functional activities reflect the changing purchasing trends (centralized/decentralized), and the impact of management decisions (increased automation).

Definitions

The following definitions provide a better understanding of the facing chart:

Purchasing Materials - Securing from vendors needed items or services. Includes investigating alternative sources.

Vendor Liaison - Maintaining vendor contacts; maintaining price and delivery information not related to specific requisitions.

Purchasing Research - Analyzing program or service needs, purchase item usage, buying methods and the like and recommending improved purchasing practices.

Contract Administration - Monitoring and performing program review of actual program services, provider/vendor performance during the contract life, including quality control and maintaining records of provider/vendor performance.

Contract Development - Preparation, development and negotiation of proposals and contracts. Includes recruitment and qualifying of providers and bidders.

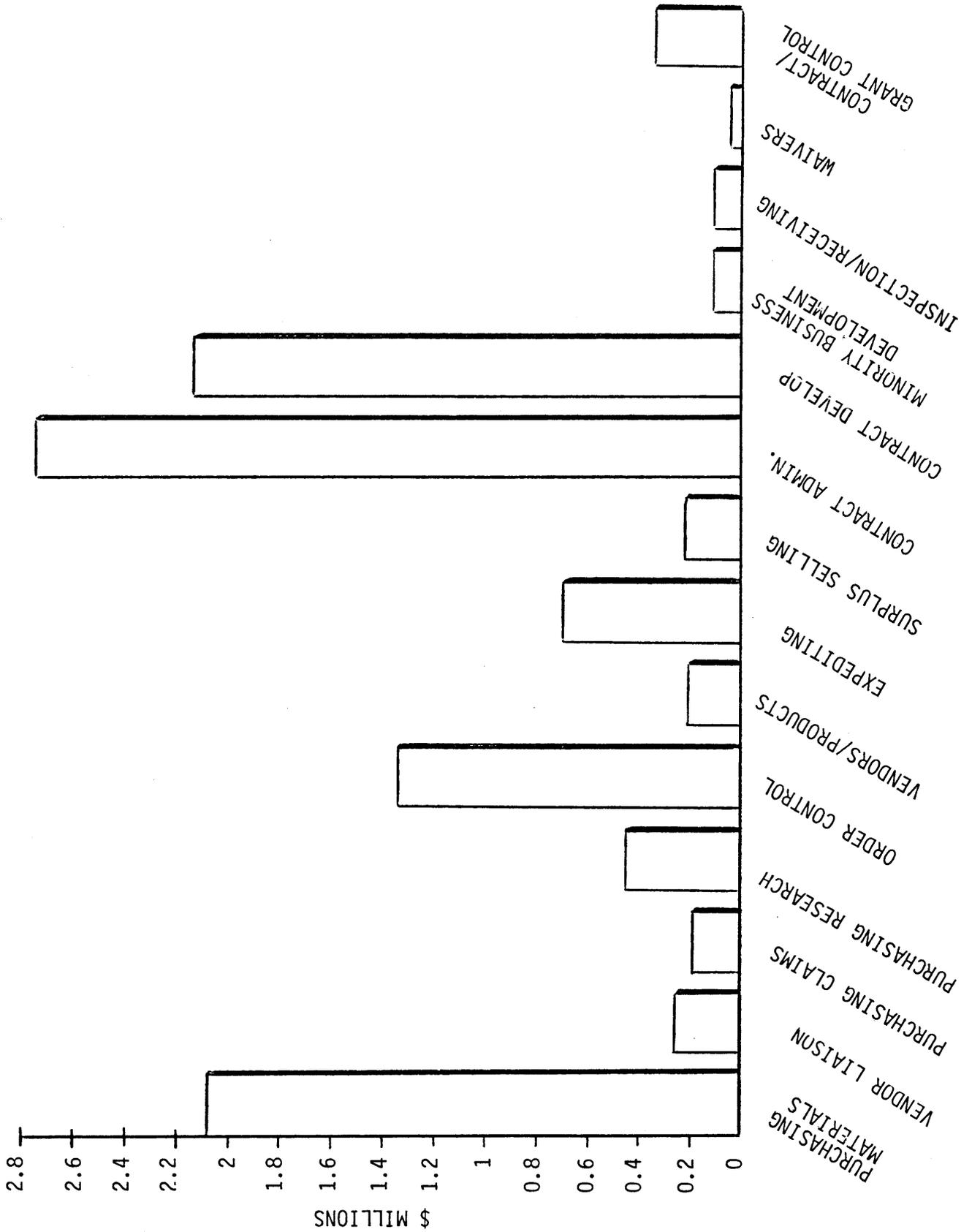
Purchasing Claims - Negotiating with and processing claims and disputes with vendors or providers.

Waiving - Preparing documents justifying the purchase of goods or services without bids and in accordance with purchasing policies and procedures.

Order Control - Maintaining the purchase order system to assure the accuracy of numbers issued, returns to vendors, and locations and status for future reference.

Expediting - Maintaining vendor contracts; maintaining price and delivery information not related to specific requisitions.

STATE OF NEW JERSEY
 PAYROLL DOLLARS BY PURCHASING FUNCTION
 FY 1982



PURCHASING

- INTRODUCTION

- CONTEXT

- MISSION STATEMENT

- FUNCTIONAL ACTIVITIES

- IMPLEMENTATION RECOMMENDATIONS

- RECOMMENDED NEXT STEPS

MISSION STATEMENT

While the mission statement for purchasing may appear simplistic and obvious, the task force believes that an articulation of that mission serves several useful purposes. First, it defines the three key elements of a purchasing decision: What is needed? When is it needed? How much does it cost? Second, it embraces the entire purchasing system--whether at the Purchase Bureau or agency level. Third, it provides a statement that all purchasing functional activities must be measured against. Finally, it addresses the balance of centralization versus decentralization of the purchasing function. The determination of what is needed and when it is needed is best understood by the using agency, while the lowest possible cost is often a function of purchasing power economics from Central Purchasing.

In spirit with this mission:

- Product specifications must be developed and evaluations made jointly with the agencies.
- The principal objective of the Purchase Bureau must be to facilitate the concentration of purchasing power to effect a net statewide savings in the cost of purchases.

It should be noted that the only rationale for a central purchase authority is if the cost of that authority is more than compensated by cost savings or value enhancement on purchases due to central purchasing practices. Unless this can be measured and demonstrated on a consistent basis, the effectiveness of the balance between centralized versus decentralized purchasing is questionable.

MISSION STATEMENT

THE MISSION OF THE STATE'S PURCHASING SYSTEM IS TO ACQUIRE THE GOODS AND SERVICES NEEDED IN A TIMELY AND EFFICIENT MANNER, AT THE LOWEST POSSIBLE COST AND GREATEST VALUE.

PURCHASING

- INTRODUCTION

- CONTEXT

- MISSION STATEMENT

- FUNCTIONAL ACTIVITIES

- IMPLEMENTATION RECOMMENDATIONS

- RECOMMENDED NEXT STEPS

FUNCTIONAL ACTIVITIES

In order to accomplish the mission of purchasing, certain functional activities must be performed. The State must know what it buys (by product/service), when it buys, from whom, and what price it pays. This speaks directly to a need for basic management information--little of which is currently available.

This information must then be used in a way to provide a context for purchasing decisions. The analysis should provide useful trend data, cost-benefit support, make/buy tradeoffs, and other inputs fundamental to a purchasing decision.

Data and analysis are valuable only if they can be used in a meaningful way to elicit contract/price reductions that would not have been possible without such data. The purchasing agent must be able to structure purchases in a way that is innovative and efficient for the State's needs.

Fundamental accountability of purchasing performance is necessary to justify the effort--particularly at the central purchasing level. Standards and performance measures need to be articulated, tracked, and evaluated.

Agency purchasing officials require support if they are to perform the operational aspects of acquiring the majority of the State's purchases. This includes technical assistance, vendor information, procedure standardization, receiving, quality assurance, training, and other functions where a central expertise is more cost-effective.

FUNCTIONAL ACTIVITIES (MAJOR)

- MANAGEMENT INFORMATION
 - PRODUCTS/SERVICES
 - VOLUMES
 - PRICES

- ANALYSIS

- CONTRACT NEGOTIATIONS

- PERFORMANCE STANDARDS

- USER SUPPORT

FUNCTIONAL ACTIVITIES
Suggested Emphasis/Deemphasis

Given the service-oriented mission statement developed by the task force, a series of functional activities are necessary to implement the mission. At the same time, there are a series of more traditional purchasing activities--many of which are accounting or processing oriented--which would receive lesser emphasis in the light of this mission. These areas of emphasis/deemphasis are summarized on the facing chart.

In fact, the Purchase Bureau is already deemphasizing some of the suggested areas, such as Funding/PB-3 and Encumbrances. The current process whereby requisitions to encumber funds (PB-3s) are routed through the Purchase Bureau has been recommended for a change to direct request to Accounting. It is estimated that 5-14 days processing time could be saved with this "direct entry" change.

Definitions

- PB-3 is a form completed by state agencies to request funds for the purchase of goods and services.
- Encumbrance is the process by which funds are approved by the Purchase Bureau, the Budget Bureau, and the Accounting Office for the purchase of goods and services.
- 8100 System is the IBM hardware presently in place to support PIMS (Purchasing Information Management System).
- PIMS is a management information system being developed to automate certain purchasing functions and to develop a purchasing data base.

FUNCTIONAL ACTIVITIES
(SUGGESTED EMPHASIS/DEEMPHASIS)

EMPHASIZE

- CONTRACT DEVELOPMENT AND AWARD
- MANAGEMENT INFORMATION
- USER SUPPORT
- ANALYSIS
- PERFORMANCE STANDARDS

DEEMPHASIZE

- FUNDING/PB-3
- ENCUMBRANCE
- MANUAL PROCESSING
- 8100 SYSTEM
- PIMS (AS CURRENTLY CONFIGURED)

PURCHASING

- INTRODUCTION
- CONTEXT
- MISSION STATEMENT
- FUNCTIONAL ACTIVITIES
- IMPLEMENTATION RECOMMENDATIONS
- RECOMMENDED NEXT STEPS

IMPLEMENTATION CONTEXT

The task force views the major policy option in the purchasing system as one of degree of centralization versus decentralization, control versus flexibility. Fundamental to this question is the articulation of a mission statement for the Central Purchasing functions. The recent trends indicate that the agencies are increasingly taking on responsibility for the mechanics of purchasing activities. Simultaneously, the Central Purchase function is fulfilling its role of centralized pricing and contract negotiating. There appear, however, to be opportunities for Central Purchasing to extend its role in characterizing and assessing the "big picture" of the State's purchasing activities. It currently tends to spend considerable energy in a control role rather than emphasizing a central coordinator and manager function.

There are numerous examples of the effect that concentration of purchasing power has on reduction of vendor unit prices. The focus of Central Purchasing must be related to this objective. Contract structures that utilize the leverage inherent in volume purchases are best suited to accomplish the implementation of purchasing power. An example relevant to New Jersey experience would be the contract for typewriters. In 1979, New Jersey let a blanket contract to purchase typewriters without specifying a volume or delivery date. Ultimately, 1,000 typewriters were purchased against that contract for \$755 each. In 1980 the same contract was awarded specifying a volume of 1,000 typewriters and a delivery date. The winning bid (from the same company) was \$690 each with additional ribbons and elements.

This is illustrative of the potential for cost savings from volume purchases--if the potential volume is used in the contract negotiation. When the commodity purchasing data was reviewed, over \$40 million was identified as having multiple vendor contracts (not assuring any volume to a successful bidder).

IMPLEMENTATION CONTEXT

- CENTRALIZATION/DECENTRALIZATION
- VOLUME PURCHASE LEVERAGE

PILOT PROCUREMENT PROGRAM

The task force recommends that a six-month (July to December) Pilot Procurement Program be initiated with the objectives of reducing multiple vendor contracts, analyzing purchase volume data, setting cost reduction goals, and documenting the cost-effectiveness of the program. From this data base evaluations can be made, adjustments performed if necessary, and ultimately the process can be institutionalized. We suggest that this pilot program be initiated in the Department of Human Services. Due to its large size, Human Services is the best candidate because it will ensure that the program will have a sufficient sample size to validate all results.

Advertised Bid Threshold

The current advertised bid threshold is \$2,500, an amount set in 1954. Seventy-five percent of all the advertised bid workload falls within the DPA limit of \$2,500 and the inflation adjusted figure of \$10,000 (the \$2,500 1958 limit stated in 1982 dollars). While the task force developed no hard evidence on the cost of advertised bids versus purchase price reduction, it would appear reasonable in today's inflationary environment to adjust the bidding threshold to 1982 purchasing power (\$10,000) and to index it to inflation going forward.

There is currently an effort within the legislature, (S 665) to increase the limit to \$7,500. While the task force supports the spirit of this bill, it appears that a higher limit (\$10,000) and an indexing of the limit are appropriate changes.

Management Information System - PIMS

The ongoing three-year effort to develop a purchasing data base (PIMS) has consumed considerable money (\$200,000) and management attention. It may be appropriate to redirect this effort in order that the development of PIMS can be based on the results of the above-mentioned agency pilot program. At that time user needs would have been more clearly identified and appropriate resources defined to develop/implement the most effective information system in a minimal amount of time.

IMPLEMENTATION RECOMMENDATIONS

- PILOT PROCUREMENT PROGRAM
- ADVERTISED BID THRESHOLD
- MANAGEMENT INFORMATION SYSTEM
- PAPERWORK REDUCTION
- USER SUPPORT

Paperwork Reduction - PB-3

A significant amount of the total purchasing budget is involved in paperwork processing. One example is the routing of PB-3 obligations for direct purchases through Central Purchasing. Analysis showed that Central Purchasing handles these twice (before and after the Accounting Bureau) yet does not use them for any informational or operational need that could not be met in some other manner. Agency samples revealed that it takes one to two months for this process to be completed. The task force strongly suggests that this procedure be eliminated and that other procedures be audited regularly to question whether they add meaningfully to the accomplishment of the mission.

User Support

Numerous using agency complaints have been voiced regarding the purchasing system's complex procedures, timeliness of purchase processing and control orientation rather than service assistance to the agencies. While similar complaints must be addressed by any service organization, there appear to be a number of possible steps to deal with them. One area for improvement regarding the communication between the agency and Central Purchasing is in the amount of technical assistance. User purchasing guides should be developed and kept up to date. Workshops and training sessions need to be instituted to upgrade the total system's skill level in purchasing practices with the goal of teaching agencies how to get the best possible combination of price and quality.

IMPLEMENTATION RECOMMENDATIONS

- PILOT PROCUREMENT PROGRAM
- ADVERTISED BID THRESHOLD
- MANAGEMENT INFORMATION SYSTEM
- PAPERWORK REDUCTION
- USER SUPPORT

PURCHASING

- INTRODUCTION
- CONTEXT
- MISSION STATEMENT
- FUNCTIONAL ACTIVITIES
- IMPLEMENTATION RECOMMENDATIONS

• RECOMMENDED NEXT STEPS

RECOMMENDATIONS FOR ADDITIONAL REVIEW

Several areas with important policy implications did not receive the attention that the task force felt warranted given the time limitations. These are items that are recommended for evaluation on an ongoing basis.

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

The purchasing role in the acquisition of data processing systems/services needs to be reexamined in coordination with the GMIP task force's review of the State's DP needs. Responsibilities need to be defined between the Purchase Bureau and Data Processing and Telecommunications to prevent overlapping authority and duplication of effort.

There is considerable value in aggressive utilization of cash (or early payment) discounts available from suppliers. An important step in this regard is the development of a process for taking advantage of them. This task deserves additional study.

In major purchasing decisions, as well as in cases where a conflict might arise between a user's definition of what is needed and a lower cost alternative defined by Central Purchasing, a review process which allows primary consideration of agency needs and requirements should be studied.

The numerous independent commissions, municipal governments, and other authorities which are currently outside the State's purchasing system should be evaluated for potential inclusion. This should be based on an analysis of the cost of including these entities relative to the additional purchasing power benefit statewide.

RECOMMENDATIONS FOR ADDITIONAL REVIEW

- ACCOUNTING - PURCHASING INTERRELATIONSHIPS
- DATA PROCESSING PURCHASES
- CASH DISCOUNT UTILIZATION
- PURCHASE REVIEW PROCESS
- EXTENDED PURCHASING SCOPE

**DEPARTMENT OF LABOR
UNEMPLOYMENT INSURANCE**

Strategic Issues and Alternatives



INTRODUCTION

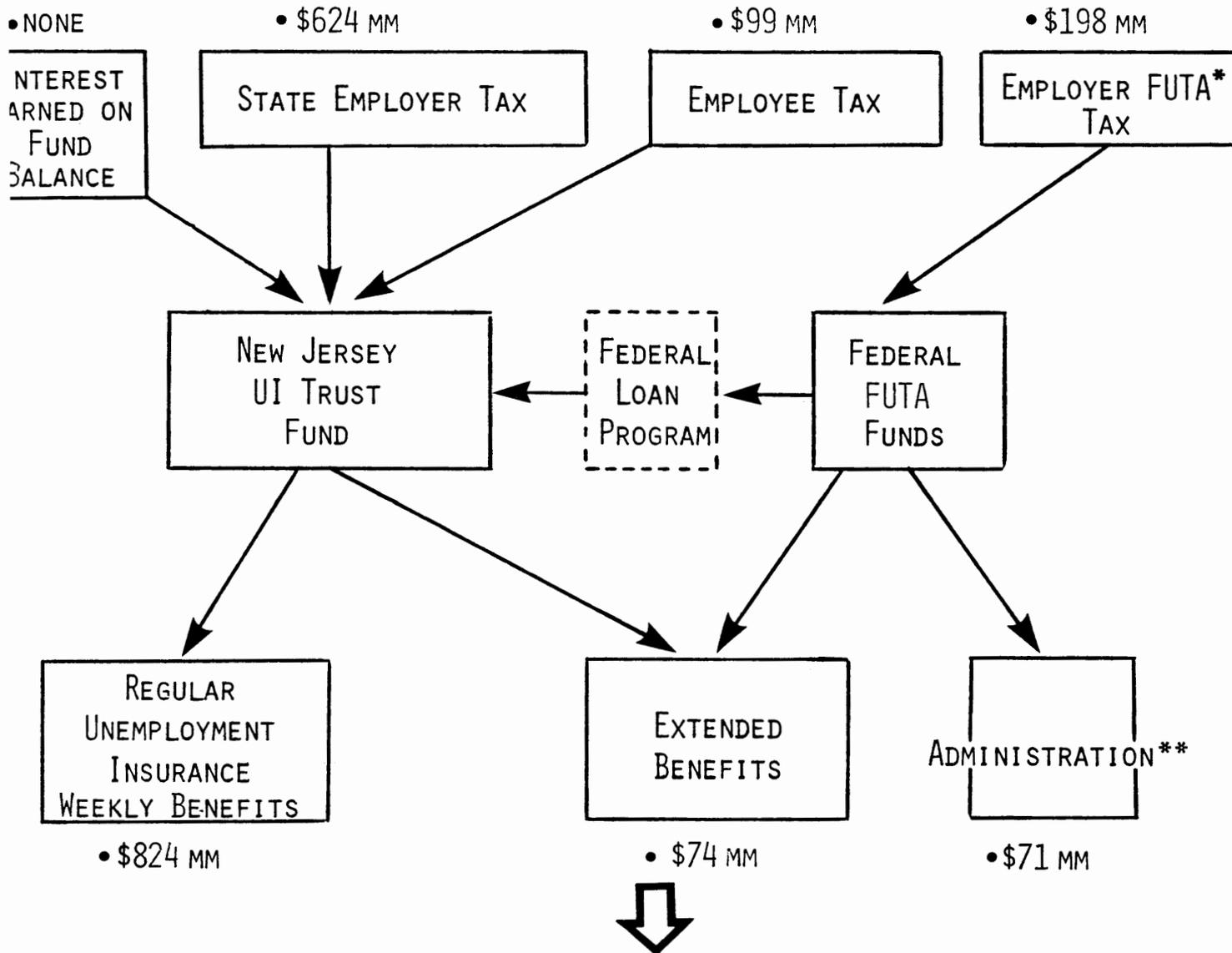
As part of Governor Kean's initiative to improve the efficiency of New Jersey's government, a task force was assigned to examine the issue of the State's Unemployment Insurance Trust Fund. This booklet has been prepared to explain:

- The manner in which Unemployment Insurance is funded in New Jersey.
- The Trust Fund's current problems which confront both New Jersey residents and employers.
- The reasons that have caused the Trust Fund to be in its current situation.
- The options that must be considered to overcome the current problems.

I. WHAT IS THE UNEMPLOYMENT INSURANCE SYSTEM?

The basic goal of the Unemployment Insurance System (UI) is to provide reliable limited term financial assistance to involuntarily unemployed workers who have demonstrated an attachment to the labor force. It has been designed to be a self funding mechanism, i.e., funds paid into the Trust Fund by employees and employers in New Jersey are used to pay for benefits to unemployed workers in the state. The main source of funds (86% of the total) comes from the state employer tax. In 1982, the Trust Fund paid out a total of \$865 million in benefits - \$824 million in Regular Unemployment Benefits and \$41 million in Extended Benefits (the remaining \$33 million, paid out in Extended Benefits for 1982, came from the Federal government). The following pages lay out an overview of the flow of revenues and expenditures for the Trust Fund.

UNEMPLOYMENT INSURANCE SYSTEM
1982



OBJECTIVE: PROVIDE LIMITED TERM FINANCIAL ASSISTANCE TO INVOLUNTARILY UNEMPLOYED WORKER

* FEDERAL UNEMPLOYMENT TAXES

** INCLUDES EMPLOYMENT SERVICES & LABOR MARKET INFORMATION FUNDING

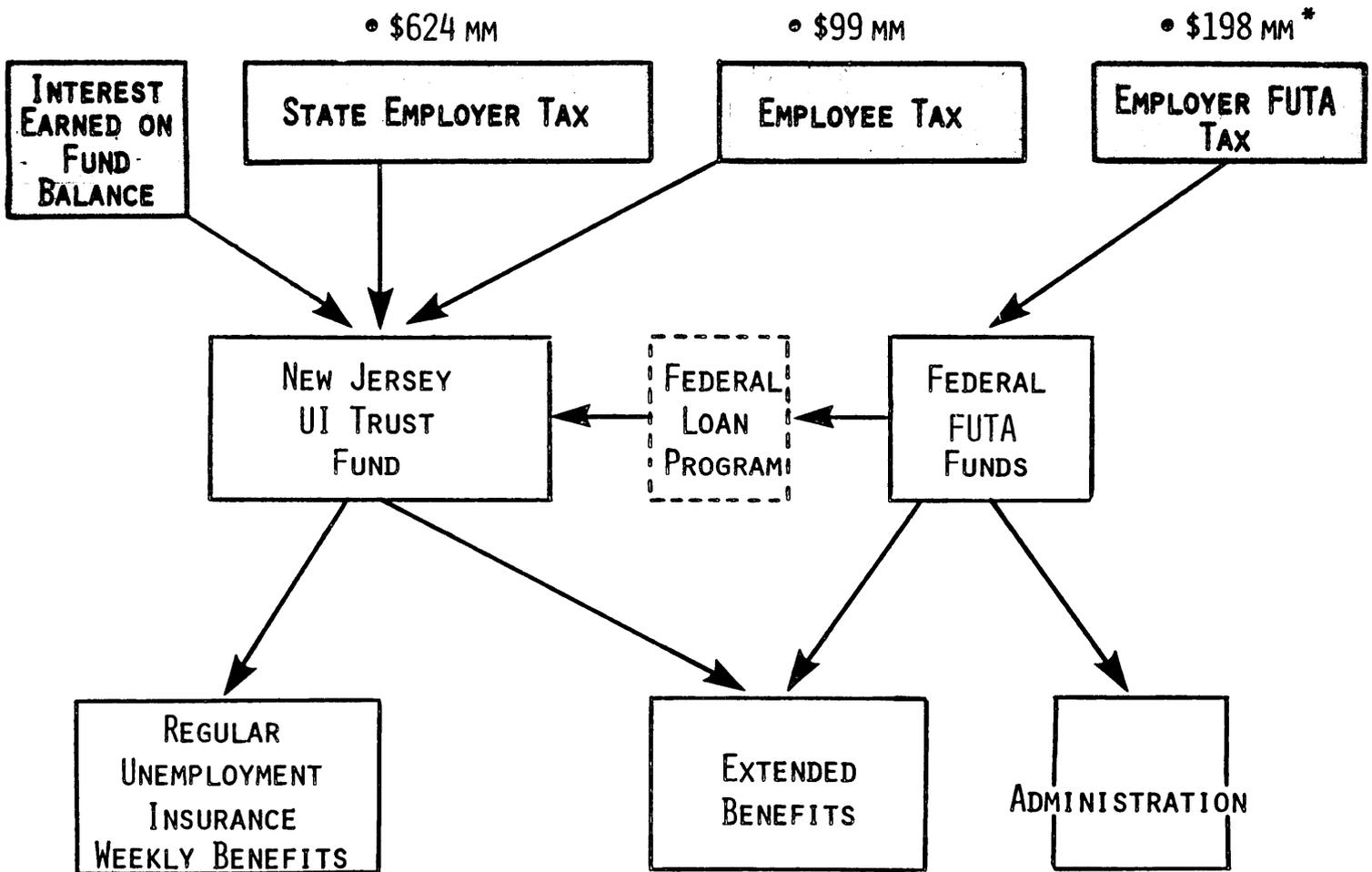
REVENUES

The Trust Fund has several sources of revenues:

- Employers pay both a state tax and a federal tax (FUTA).
 - For the state portion, the employer tax is equal to a percent of each employed worker's first \$8,800 (in 1983) of annual income. The specific percent of income that each employer pays is a function of:
 - the overall fiscal condition of the Trust Fund, and
 - the employer's experience with previous workers drawing unemployment benefits from the Trust Fund.
 - Currently, the state tax rates for specific New Jersey employers range from 1.2% to 6.5%. In 1982, the average tax rate was 3.2% of taxable wages. The state employer tax amounted to \$624 million in 1982.
 - For wages paid in 1982 the federal tax (FUTA) is nominally set at 3.4% of the first \$6,000 of annual wages for each employed worker. However, this tax rate is offset by a credit of up to 2.7% resulting in a net tax of .7%. In 1982, this amounted to approximately \$106 million.
 - In addition, New Jersey employers are currently required to pay an extra .6% in FUTA tax to reduce the State's \$521 million federal debt (as of December 31, 1982). In 1982 this amounted to \$92 million, making the total FUTA tax paid by New Jersey employers \$198 million.
 - Effective for wages paid after January 1, 1983, the nominal FUTA tax rate was increased from 3.4% to 3.5% and the taxable wage base was increased from \$6,000 to \$7,000, resulting in an estimated total FUTA tax bill paid by New Jersey employers of \$230 million to \$263 million for wages paid in 1983. This amount includes the loan repayment.
 - In 1982, the combined state and FUTA tax bill paid by New Jersey employers totaled \$822 million.
- Employee contributions, 14% of total state revenues, result from a flat percent, 0.5%, applied to an individual's first \$8,800 of income. New Jersey is one of only three states levying an unemployment insurance tax on employees. In 1982, employee tax receipts totaled \$99 million.
- In New Jersey the base for both employer and employee state taxable wages (\$8,800 in 1983) is indexed to inflation. FUTA taxable wages (\$7,000) are not indexed to inflation.

UNEMPLOYMENT INSURANCE REVENUES

- NO LONGER ACCRUING DUE TO DEBT
- STATE TAX: APPROPRIATE % FROM TAX TABLE ON TAXABLE WAGES OF \$8,800 IN 1983
- STATE TAX: 0.5% OF TAXABLE WAGES OF \$8,800 IN 1983
- FEDERAL TAX: 3.5% OF FIRST \$7000. OFFSET CREDIT UP TO 2.7% ON FEDERAL TAX IN 1983



*INCLUDES THE \$92MM LOAN REPAYMENT

EXPENDITURES

The combined resources of the State and the Federal Unemployment Insurance Funds are spent on administration as well as on two major programs:

- Regular Unemployment Benefits provide qualified claimants with weekly benefit payments for up to 26 weeks. In New Jersey the weekly amount paid to individuals is equal to 66 2/3% of the average weekly wages they earned when they were working; this is subjected to a maximum of 50% of the State's average weekly wages paid to covered workers. In 1982 Regular Unemployment Benefits payments reached a total of \$824 million.
- If certain criteria are met, during times of high unemployment, Extended Benefits are provided to unemployed workers. These benefits can last for an additional 13 weeks and the State pays 50% of the cost while the U.S. Government pays the rest (except for the first week of extended benefits in New Jersey). In 1982 the State share amounted to \$41 million.
- Administrative costs at the Federal and State level are paid for with funds from the FUTA tax on employers. Total costs were \$71 million in 1982.

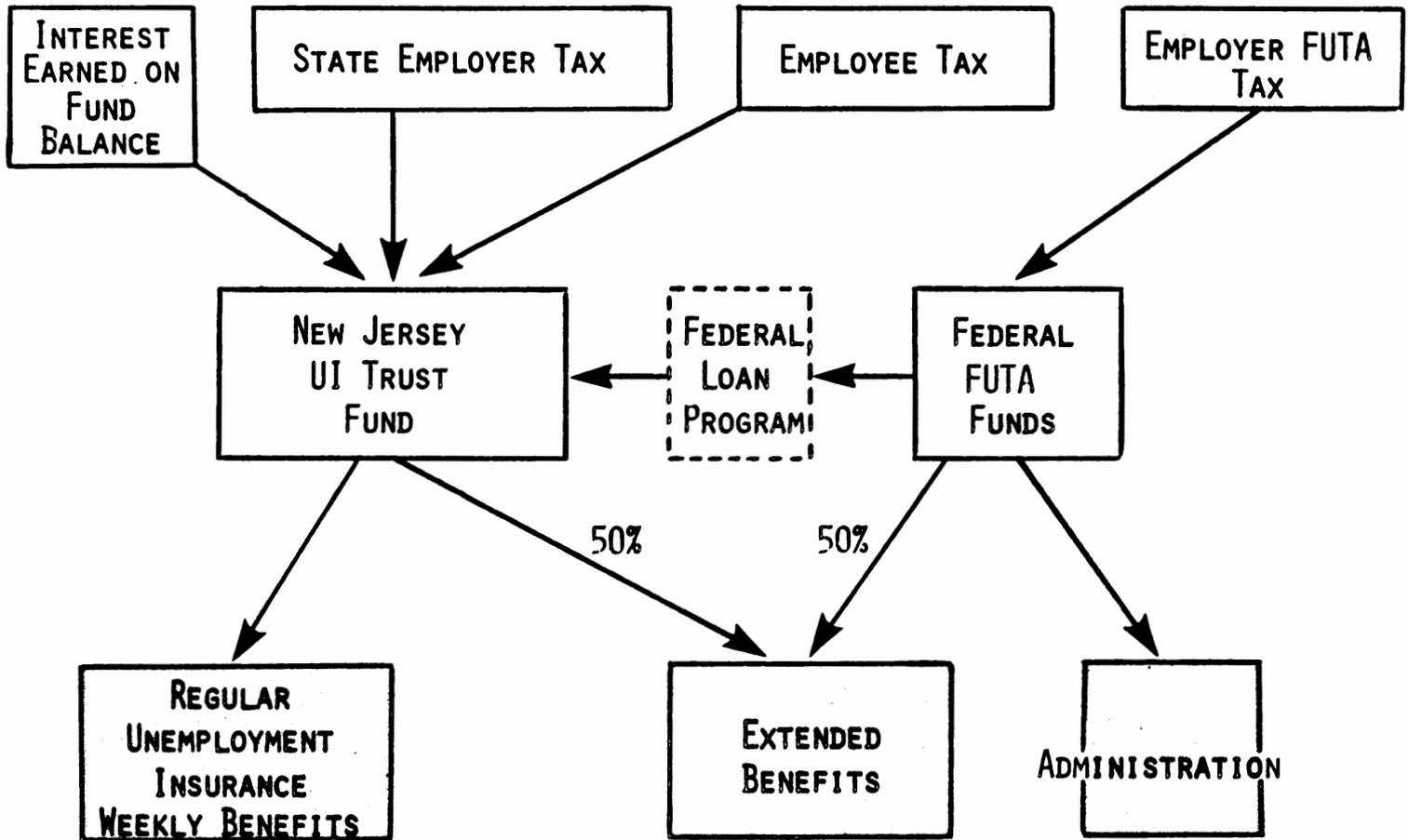
It is possible for a state to borrow from the Federal Trust Funds when the balances in the State UI Trust Fund are insufficient to cover current benefit payments. These loans are repaid through increased taxes on employers (i.e., incremental loss of FUTA tax credits).

During the 1975-78 recession, the New Jersey UI Trust Fund borrowed \$735 million from the Federal Government to meet benefit payments. The State has not had to borrow from the Federal Government since 1978, but it still owed \$521 million as of December 31, 1982. However, the State has had to borrow again, in 1983, for cash flow purposes.

In addition to the above UI Programs, there are other mechanisms for providing payments to unemployed workers. Currently, when an unemployed worker has exhausted all the available benefits under the Regular UI and the Extended Benefits programs, a Federal Supplemental Compensation program, paid totally by Federal General Revenues, will extend benefits for up to an additional 12 weeks in New Jersey. The program was scheduled to expire on March 31, 1983; however, Congress has extended the program until September 30, 1983.

Also, other federally funded programs operate on a regular basis for certain categories of unemployed workers: i.e., benefits for federal workers, veterans, etc.

UNEMPLOYMENT INSURANCE EXPENDITURES



• \$824MM

• \$74 MM

• \$71 MM

- 66 2/3% OF INDIVIDUAL WEEKLY WAGE UP TO 50% OF STATE'S AVERAGE WEEKLY WAGE

- CAN PROVIDE UP TO 13 WEEKS OF ADDITIONAL BENEFITS IN TIMES OF HIGH UNEMPLOYMENT

- PAYS FOR NEW JERSEY UI TRUST FUND ADMINISTRATION COSTS

- PAYABLE FOR 26 WEEKS MAXIMUM

- PAYS FOR FEDERAL ADMINISTRATIVE COSTS FOR EMPLOYMENT SECURITY PROGRAMS

II. THE PROBLEM

During the 1970's, benefit payments exceeded revenues collected, resulting, since 1975, in a negative balance in the net condition of the Trust Fund (Trust Fund cash balance minus outstanding loans.) At the end of 1982, the New Jersey UI Trust Fund owed the Federal Government a total of \$521 million (upon which no interest is due).

Recent federal legislation with respect to the program affects the State of New Jersey.

- The outstanding loan (\$521 million) is being repaid through a reduction in the FUTA tax credit, in effect causing New Jersey's employers' already high unemployment taxes to rise even more. This change is expected to cost employers an estimated additional \$99-112 million in taxes based on 1983 payroll. Of the \$198 million paid in 1982 for Federal Unemployment tax (FUTA), \$92 million was assigned to loan repayments. Alternatively, the debt could be repaid out of the UI Trust Fund.
- Loans needed to fund benefits after April 1982 will require interest payments. These interest payments must be made from State revenues, such as the General Fund, and not the New Jersey UI Trust Fund.

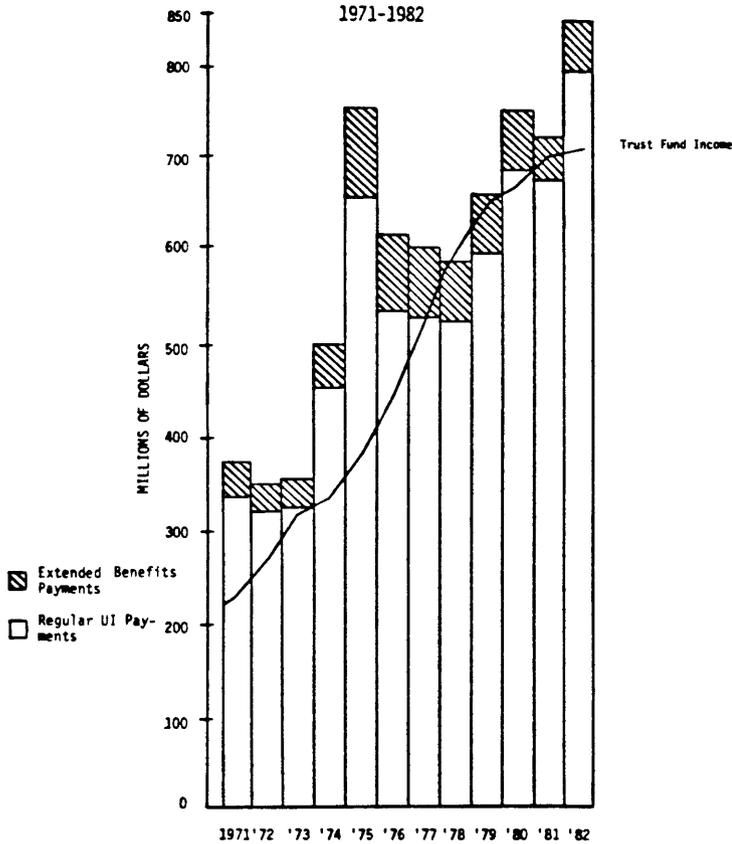
At the end of 1982, the State of New Jersey ranked 5th among 23 states and territories in debt to the Federal Government. However, at the beginning of 1983, the State requested an additional \$130 million loan from the Federal Government and drew down \$48 million on it in March.

The deterioration of the New Jersey UI Trust Fund has occurred even though the State's employers have paid an average state tax rate that exceeded most other states' rates. In 1982, the State's average tax rate as a percent of total wages (1.4%) was 27% higher than the United States' average. The high level of these employer taxes has been repeatedly identified as a major deterrent to jobs (private capital development/investment) in significant business climate studies.

By year end 1982, the net condition of the UI Trust Fund was a negative balance of \$444 million. There is no universally agreed upon definition of Trust Fund solvency. Using existing federal guidelines (1.5 times the highest annual benefit level -- 1975 for the State of New Jersey, adjusted for inflation) would suggest that the Trust Fund balance should be in the range of \$2.0 --2.3 billion. While a level substantially below this sum is probably acceptable in practice, the Trust Fund is currently insolvent by any standard.

THE UNEMPLOYMENT INSURANCE TRUST FUND PROBLEM

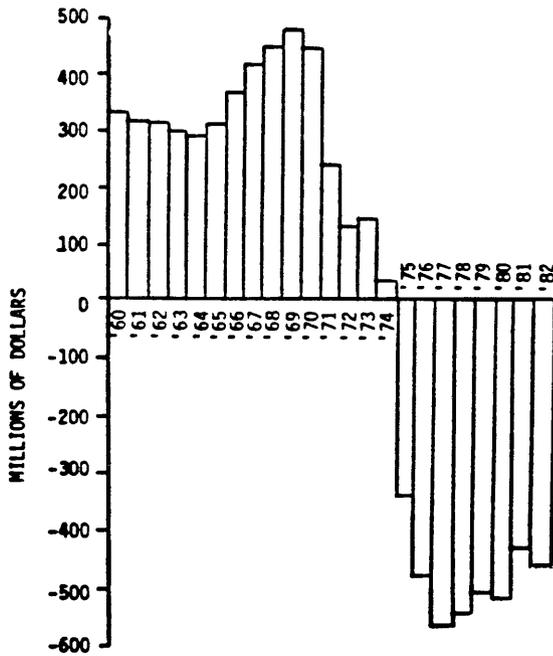
EXTERNAL FACTORS: EXTENDED BENEFITS PAYMENTS



- BENEFITS PAID EXCEED INCOME ALTHOUGH EMPLOYER TAXES ARE 27% HIGHER THAN U.S. AVERAGE



NET CONDITION* OF THE UNEMPLOYMENT INSURANCE TRUST FUND (AS OF DECEMBER 31)



- AT THE END OF 1982 THE TRUST FUND OWED \$521MM.
- BORROWING UP TO AN ADDITIONAL \$130MM IN 1983.
- "SOLVENCY" COULD REQUIRE REACHING A POSITIVE BALANCE OF OVER \$2.0 BILLION.

*Net Condition = Trust Fund Balance - Loan Outstanding

- MAJOR DETERRENT TO CREATION OF NEW JOBS DUE TO HIGHER EMPLOYER TAXES
- FUTA TAXES ARE INCREASING IN ORDER TO REPAY LOAN

III. FACTORS

The deterioration of the fund balance has been due to a number of factors - some external, some unique to New Jersey's system. The State clearly has no short-term control over macroeconomic factors such as the general state of the U.S. economy. These factors can create the conditions in which the State incurs heavy financial burdens in fulfilling its obligations associated with Unemployment Insurance. There are, however, a number of elements of the New Jersey system which the State does control and which currently compare unfavorably to other states and national averages. The following pages examine in more detail some of these factors, beginning with external.

FACTORS INFLUENCING CURRENT CONDITION

EXTERNAL FACTORS

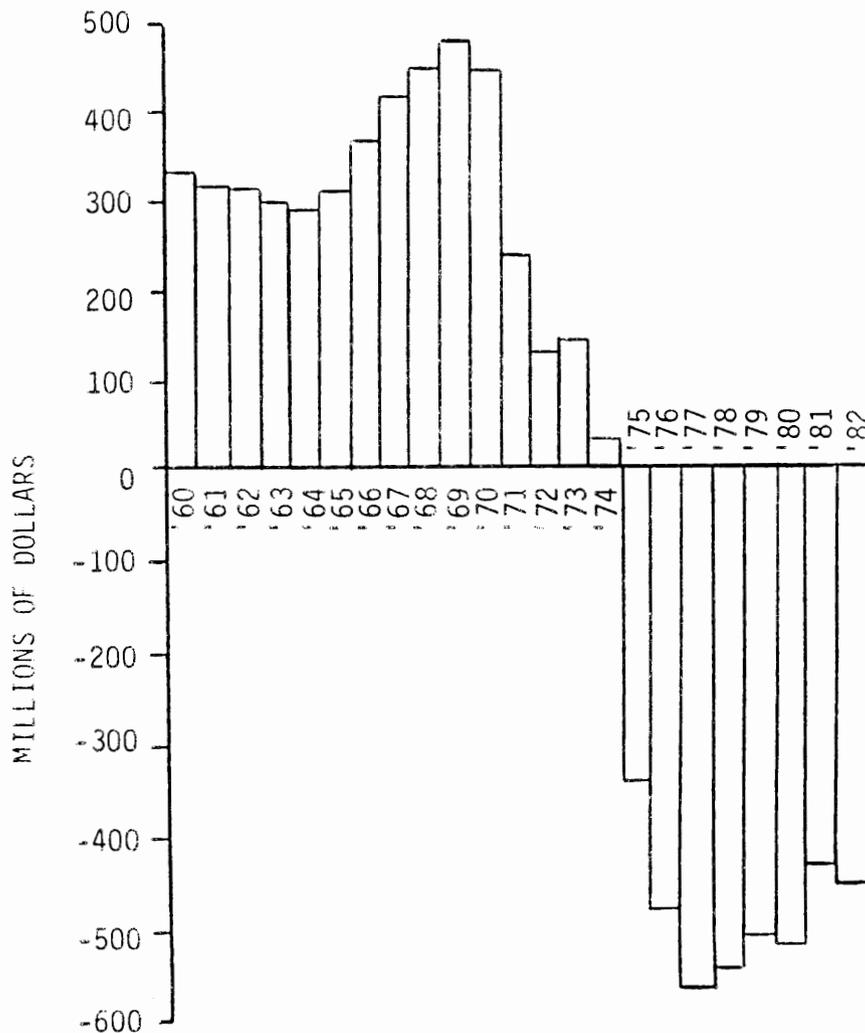
- EMPLOYMENT RELATED
- EXTENDED BENEFITS

PROGRAM RELATED FACTORS

- ELIGIBILITY
- BENEFITS
- DURATION



NET CONDITION* OF THE UNEMPLOYMENT INSURANCE TRUST FUND
(AS OF DECEMBER 31)

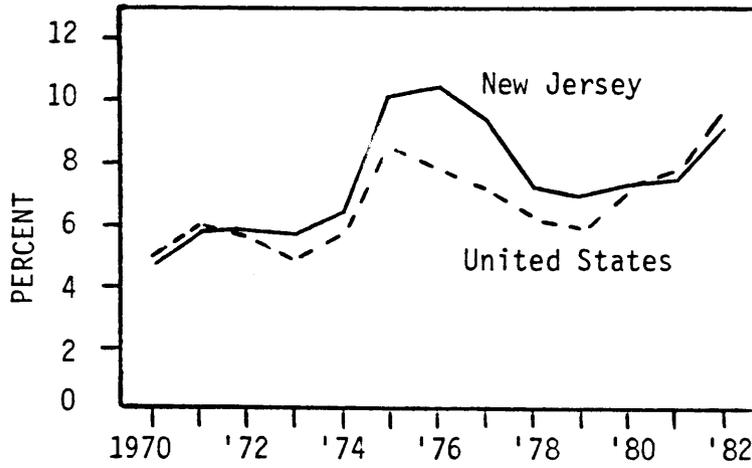


*Net Condition = Trust Fund Balance - Loan Outstanding

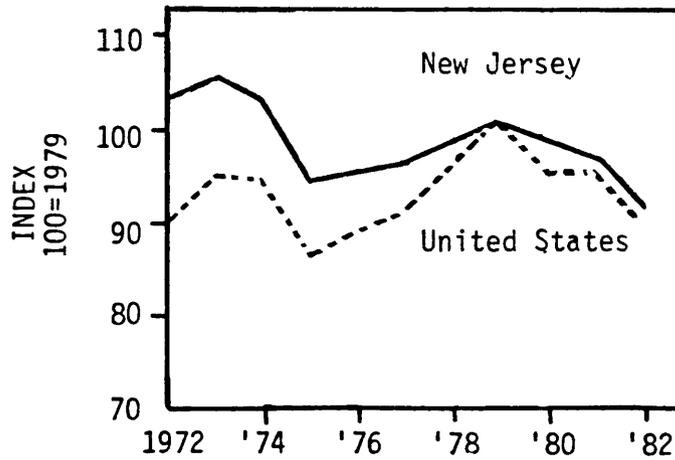
EMPLOYMENT RELATED

- The top chart shows that as a percent of the total work force, average unemployment was worse in the state of New Jersey from 1971 to 1980 than in the country as a whole. In particular, the effects of the 1974-1975 recession were more pronounced and lasted longer for the state in terms of unemployment. This put greater demands upon the trust fund which was not solvent enough to meet the payment of benefits without going into debt.
- Additionally, the state has experienced a net relative loss of manufacturing jobs (about 25% of the state's total employment). Until recently the index of manufacturing payroll employment has been falling steadily below the national average, reflecting the degradation of the state's manufacturing activity.
- However, during this past recession, New Jersey's average employment levels in the service sector have fared better than the U.S. average. This relative improvement of the state service sector has dampened the impact of the current recession on the unemployment levels in 1982.

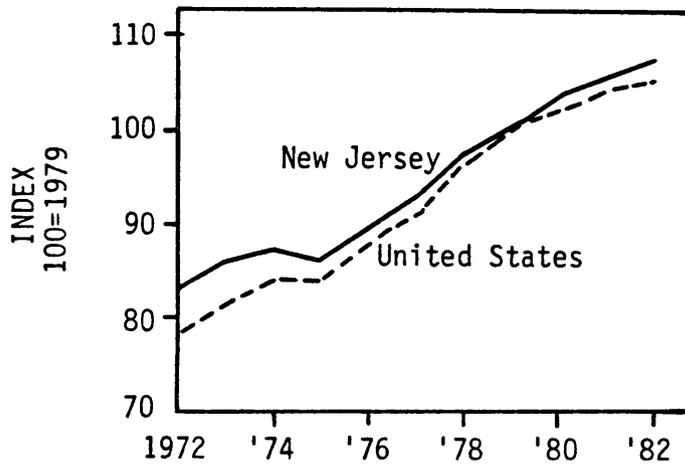
EXTERNAL FACTORS: EMPLOYMENT RELATED
 ANNUAL AVERAGE UNEMPLOYMENT RATE
 1970-1982



MANUFACTURING PAYROLL EMPLOYMENT



PRIVATE SERVICE EMPLOYMENT



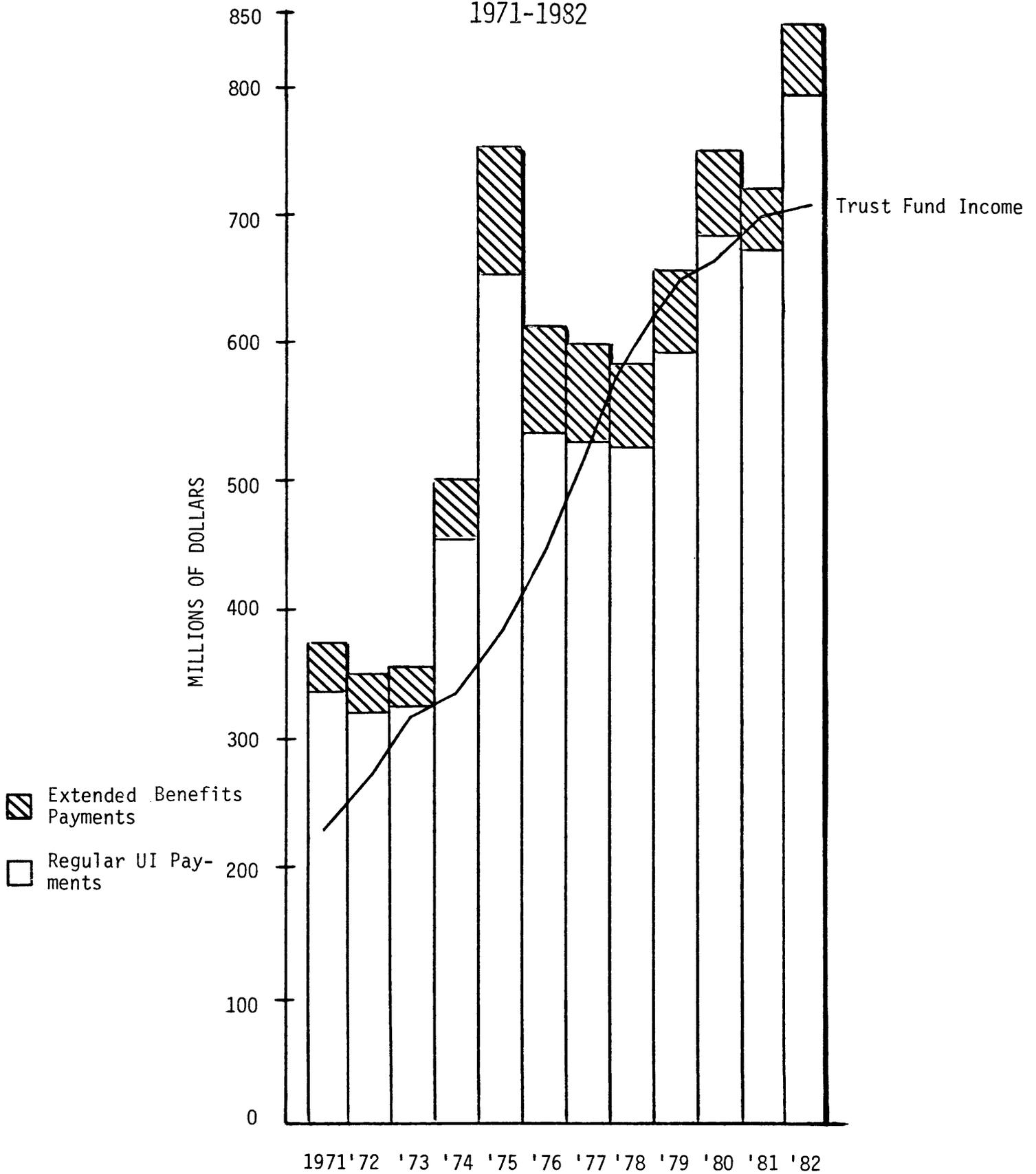
EXTENDED BENEFITS

The Extended Benefits Program is a federally mandated program, yet the State's Unemployment Insurance Trust Fund has to pay approximately 50% of the benefits claimed under the program. Until recently, this program had been in operation almost continuously since its inception in 1971. The program provides up to an extra 13 weeks of benefits to claimants exhausting regular state UI benefits during periods of high unemployment.

Until August, 1981, the Extended Benefits Program was activated by a combination of state and federal triggers. After this date, the federal trigger was eliminated and the state triggers were tightened. The triggers consist of a series of calculations that reflect the relative level of unemployment from week to week. When a certain level is reached, the extended Benefits Program "triggers" on. Additionally, the State of New Jersey has exercised its rights to use an optional state trigger which is more sensitive than the basic state trigger.

From 1971 to 1982, a total of \$703.6 million Extended Benefits payments were made by the State of New Jersey (not counting federal monies). Based upon new computing procedures and trigger rates established in recent years, the Extended Benefits Program will not trigger as often as earlier. This represents a significant change. If the new triggers had been in force over the past 11 years, the State of New Jersey would have saved \$389 million or 75% of the current outstanding loan balance.

EXTERNAL FACTORS: STATE EXTENDED BENEFITS PAYMENTS
1971-1982



PROGRAM RELATED FACTORS

The current deficit has also been influenced by certain factors that are related to the New Jersey program. These factors have been grouped into three major areas which by definition dictate the total cost incurred by the program.

- Who is eligible?
 - Labor Force Attachment: How long and at what wage rate must an individual be employed to qualify for unemployment benefits?
 - Disqualifications: What are the circumstances and penalties associated with disqualification for benefits, either as an individual first begins to collect or during the collection period?
- What level of benefits are paid?
 - Weekly Benefit Formula: How is the weekly benefit level established?
 - Waiting Week: Are claimants paid for the first week of unemployment?
- How long are benefits paid?
 - Average Duration of Insured Unemployment: How effective is the State in placing claimants in jobs and thus eliminating benefit payments?

These issues are examined in more detail on the succeeding pages.

FACTORS INFLUENCING CURRENT CONDITION

EXTERNAL FACTORS

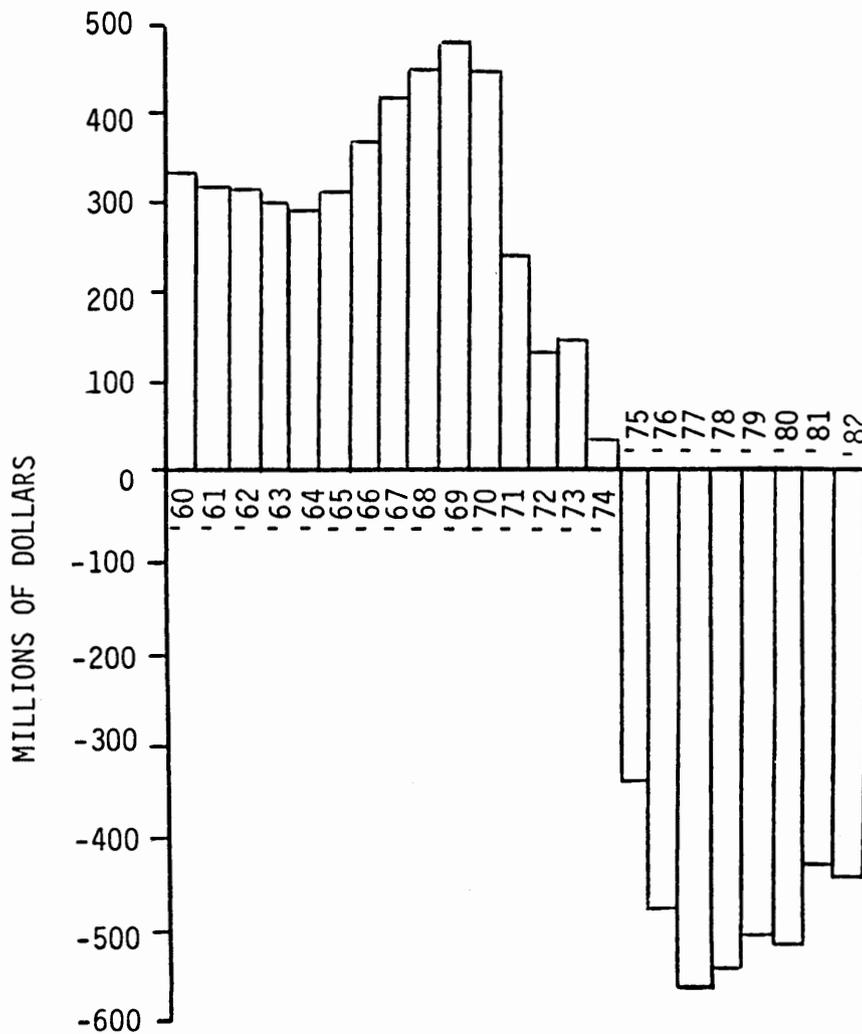
- EMPLOYMENT RELATED
- EXTENDED BENEFITS

PROGRAM RELATED FACTORS

- ELIGIBILITY
- BENEFITS
- DURATION



NET CONDITION* OF THE UNEMPLOYMENT INSURANCE TRUST FUND (AS OF DECEMBER 31)



*Net Condition = Trust Fund Balance-Loan Outstanding

LABOR FORCE ATTACHMENT

In order to qualify for any benefits at all, a claimant must meet an "attachment to the labor force" test. This varies from state to state, but most commonly it requires that the claimant have been employed a minimum length of time (usually 20 weeks or more than one quarter) and have earned some minimum amount of money. In New Jersey, the claimant must have worked 20 weeks and earned at least \$30 per week. New Jersey also has an alternative criterion for claimants who do not meet the 20-week test, this being that the claimant must have earned \$2,200 without regard to the number of weeks worked. This is a fixed amount which has been in effect since 1975.

Out of 53 states and jurisdictions, only four, besides New Jersey, have laws which permit a claimant to meet the labor force attachment test solely on the basis of a dollar amount earnings during the base period: Rhode Island, Texas, and Oklahoma have alternative earnings requirements ranging from \$4,020 to \$23,800. California simply requires base earnings of \$1,200.

Many believe that as a result of inflation, the dollar amounts in the tests no longer reflect an adequate attachment to the labor force. In 1981, 7.7% of the claimants qualified for benefits under the \$2,200 alternative earnings test. These lower dollar levels enable marginally attached workers to qualify, causing benefit payments to rise.

PROGRAM ELIGIBILITY: LABOR FORCE ATTACHMENT

NEW JERSEY LAW

- TO QUALIFY, INDIVIDUAL MUST:
 - WORK 20 WEEKS AND EARN AT LEAST \$30 EACH WEEK
 - OR
 - EARN \$2,200

PERSPECTIVES

- ONLY FOUR OTHER STATES ALLOW ALTERNATIVE OPTION
 - 7.7% OF 1981 NEW JERSEY CLAIMANTS QUALIFIED DUE TO ALTERNATIVE TEST
 - DOLLAR LEVELS NOT CHANGED SINCE 1975
 - SHOULD BE ADJUSTED FOR INFLATION
- MARGINALLY ATTACHED WORKERS QUALIFY
 - COLLEGE STUDENTS
 - SUMMER WORKERS

DISQUALIFICATION FROM INITIAL ELIGIBILITY

An individual can be disqualified from the program due to voluntarily leaving the job.

Individuals discharged for cause are not required to return to work to requalify for benefits. Instead, they are disqualified for the statutory period of five weeks before receiving benefits.

New Jersey probably incurs higher benefit payments due to penalties that appear more lenient relative to other states. As the facing table illustrates, it is easy in New Jersey, relative to other states, to qualify initially for benefits even though one might not have become involuntarily unemployed.

PROGRAM ELIGIBILITY: DISQUALIFICATIONS FROM INITIAL ELIGIBILITY

NEW JERSEY LAW

- PROVISIONS FOR DISQUALIFICATION
 - VOLUNTARY LEAVING (WITHOUT GOOD CAUSE):
DISQUALIFIED UNTIL CLAIMANT EARNS THE
EQUIVALENT OF 4 WEEKS' BENEFITS IN ANOTHER
JOB
 - MISCONDUCT DISCHARGE: DELAYED FOR 5 WEEKS
EVEN IN CRIMINAL MISCONDUCT

PERSPECTIVES

- VOLUNTARY LEAVING
 - OF 44 STATES IMPOSING REEMPLOYMENT REQUIRE-
MENTS, 37 HAVE MORE SEVERE PENALTY THAN
NEW JERSEY
- MISCONDUCT DISCHARGE
 - 37 STATES REQUIRE SUBSEQUENT EMPLOYMENT
 - WHILE NEW JERSEY DOES NOT
 - 29 STATES ADDRESS CRIMINAL MISCONDUCT
 - 17 STATES CANCEL WAGE CREDITS
 - 3 STATES DISQUALIFY FOR ONE YEAR
 - WHILE NEW JERSEY DOES NOT

DISQUALIFICATIONS WHILE ON PROGRAM

As shown on the facing chart, the major disqualification problem while on the program in the State of New Jersey is that, after claimants have violated provisions of the program, it is relatively easy for them to become requalified for benefits.

PROGRAM ELIGIBILITY: DISQUALIFICATIONS WHILE ON PROGRAM

NEW JERSEY LAW

- PROVISIONS FOR DISQUALIFICATIONS
 - REFUSAL OF SUITABLE WORK: BENEFITS DELAYED FOR 3 WEEKS
 - FRAUDULENT CLAIM: BENEFITS DELAYED FOR 17 WEEKS, BENEFIT ENTITLEMENTS REDUCED 17 TIMES WEEKLY BENEFIT RATE, FINED \$20 FOR EACH WEEK OF ILLEGAL RECEIPT

PERSPECTIVES

- SUITABLE WORK
 - 37 STATES REQUIRE SUBSEQUENT EMPLOYMENT WHILE NEW JERSEY DOES NOT
 - NEW JERSEY PENALTY IS LEAST SEVERE OF ALL STATES WITH FIXED PERIOD
 - NEW JERSEY DEFINITION OF SUITABLE WORK ALLOWS INDIVIDUAL SIGNIFICANT LATITUDE BUT CONFORMS WITH MOST STATES
 - SOME STATES AMEND WAGE CRITERION DOWNWARD AS DURATION OF UNEMPLOYMENT CONTINUES
 - WYOMING: AFTER FOUR WEEKS, JOB PAYING 75% OF FORMER JOB IS SUITABLE
- FRAUDULENT CLAIM
 - 31 STATES DISQUALIFY FOR PERIODS UP TO 1 YEAR
 - NEW JERSEY DELAYS BENEFITS ONLY 17 WEEKS
 - \$20 FINE NOT ADJUSTED FOR INFLATION
 - ORIGINALLY SET IN 1975

WEEKLY BENEFIT FORMULA

An individual's weekly benefit is equal to 66 2/3% of his average weekly earnings up to a maximum of 50% of the state's average weekly wage which rises with the general trend in wages. The maximum weekly benefit in 1983 is \$158.

When compared to other states, the maximum benefit and the average weekly benefit paid (\$111 in 1982) are not significantly different from the U.S. average. Due to the formula, the 50% cap on the state's average weekly wage provides a low benefit rate for higher wage earners, i.e., an individual who earned \$400 a week would receive \$158 or 40% of his previous average weekly earnings. However, due to the replacement rate of 66 2/3%, which is the highest in the country, low wage earners receive a higher benefit rate, i.e., an individual who earned \$150 weekly would earn \$100 in weekly benefits or 66 2/3% of his previous weekly earnings. Many argue that it is a disincentive for some low income workers to seek employment since the unemployment benefits can approximate the net take home pay if employed (when payroll taxes and commuting expenses are taken into consideration).

PROGRAM BENEFITS: WEEKLY BENEFIT FORMULA

NEW JERSEY LAW

- AN INDIVIDUAL'S WEEKLY BENEFIT EQUALS $2/3$ OF THE INDIVIDUAL'S AVERAGE WEEKLY WAGE WHILE EMPLOYED UP TO A MAXIMUM OF 50% OF THE STATEWIDE AVERAGE WEEKLY WAGE
 - MAXIMUM WEEKLY BENEFIT IN 1982: \$145
 - MAXIMUM WEEKLY BENEFIT IN 1983: \$158

PERSPECTIVES

- THE 1982 MAXIMUM WEEKLY PAYMENT OF \$145 WAS NOT SIGNIFICANTLY DIFFERENT FROM U.S. AVERAGE
 - THE DOLLAR AMOUNT RANKED 33RD IN NATION (29TH IN 1983)
 - AS A PERCENT OF AVERAGE WEEKLY EARNINGS, NEW JERSEY MAXIMUM RANKED 41ST
- NEW JERSEY'S WAGE REPLACEMENT RATE OF $2/3$ IS THE HIGHEST AMONG STATES WITH UNIFORM RATES

<u>WAGE REPLACEMENT RATE</u>	<u>NUMBER OF STATES (40)</u>
66% OR GREATER	1
60%-66%	4
55%-60%	6
50%-55%	29

- THE BENEFIT FORMULA PROVIDES A LOW BENEFIT RATE FOR HIGHER WAGE EARNERS (DUE TO 50% CAP) WHILE HIGH BENEFIT RATE FOR LOW INCOME EARNERS (DUE TO REPLACEMENT RATE)
 - DISINCENTIVE FOR SOME LOW INCOME CLAIMANTS TO SEEK EMPLOYMENT

WAITING WEEK

Unemployment benefits for the first week of unemployment are not paid in New Jersey until the claimant has been unemployed for four weeks. At that time, he is paid for the first week, thus the name "waiting week". Federal legislation in 1980 has put pressure on all states to adopt a noncompensable waiting week. Any state which pays the individual for the first week of unemployment (even retroactively as in New Jersey) no longer receives federal reimbursement for the first week of Extended Benefits. Because New Jersey did not change its law to make the first week of unemployment noncompensable, it incurred additional costs in the program:

- in 1982, the cost of paying the waiting week was approximately \$12.5 million; and
- the cost to the Trust Fund due to non-reimbursement by the Federal Government of the first week of Extended Benefits was \$4.8 million (during the four months that Extended Benefits were paid during the year).

PROGRAM BENEFITS: WAITING WEEK

NEW JERSEY LAW

- FIRST WEEK AT BEGINNING OF CLAIM IS WAITING WEEK
 - NO COMPENSATION FOR THIS WEEK UNLESS UNEMPLOYED AND ELIGIBLE FOR FOUR WEEKS

PERSPECTIVES

- THIRTY-FOUR STATES REQUIRE A NON-COMPENSABLE WAITING WEEK
 - TWELVE STATES HAVE NO WAITING WEEK
 - SEVEN STATES (INCLUDING NEW JERSEY) HAVE SUBSEQUENT PAYABLE WEEK
- FEDERAL LEGISLATION ENCOURAGES STATES TO ADOPT NONPAID WAITING WEEK
 - PENALTY FOR NONCOMPLIANCE: STATE MUST PAY 100% OF FIRST WEEK OF EXTENDED BENEFIT VERSUS 50%
 - COST TO NEW JERSEY IN 1982: \$4.8MM
- POTENTIAL DISINCENTIVE FOR INDIVIDUALS TO RETURN TO WORK BEFORE FOUR WEEK PERIOD

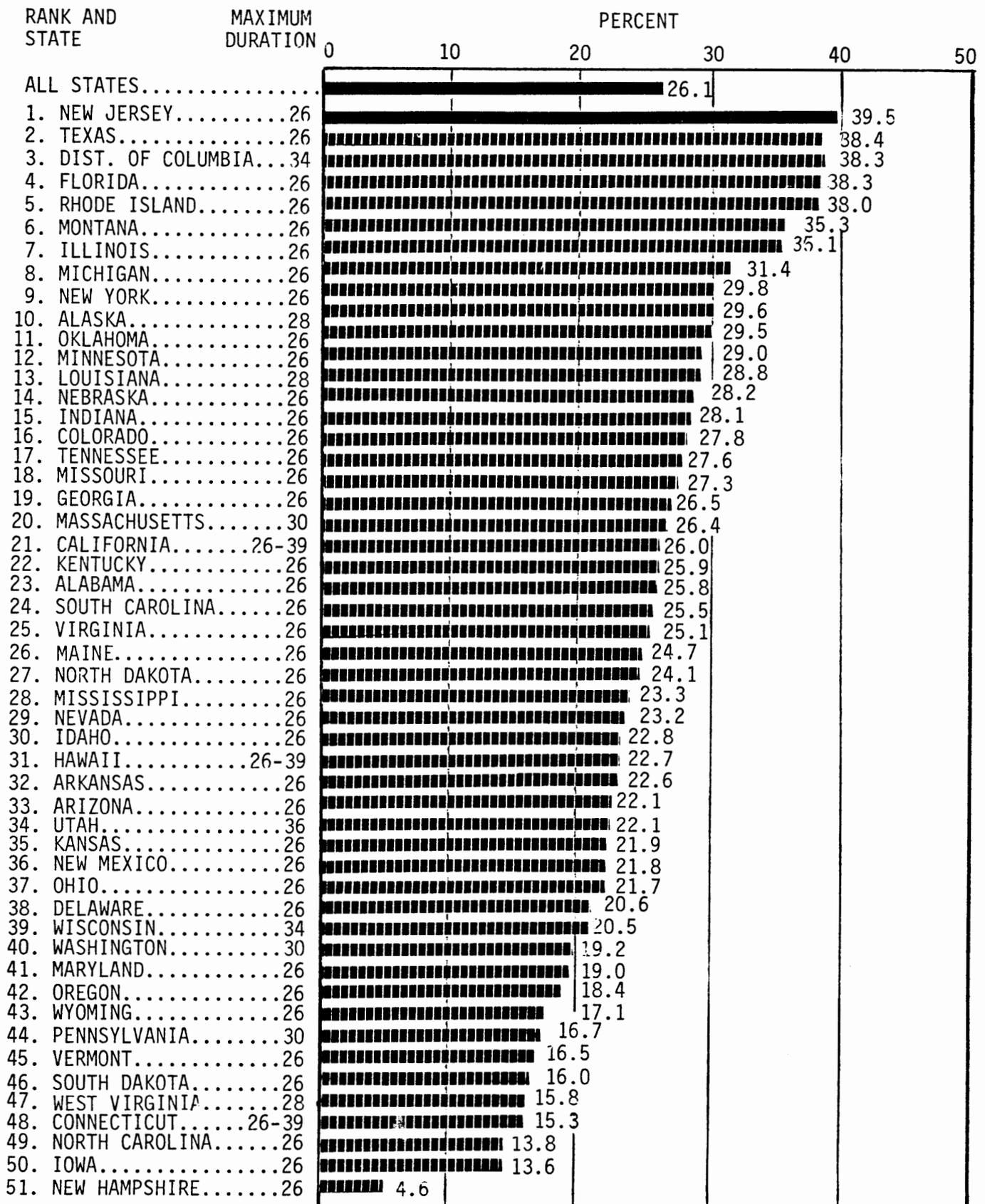
DURATION OF INSURED UNEMPLOYMENT

The total cost of the unemployment insurance program is in part directly proportional to the length of time that claimants collect benefits. As the facing chart illustrates, in 1979 the State ranked number 1 on the percent of recipients exhausting benefit rights, 50% higher than the U.S. average. The 1979 figures were used because that year was the last year of "normal" unemployment, making it a good year to use for comparative purposes with regard to the basic structure of the state's unemployment insurance system. More recent, 1981 data indicate that New Jersey continued to have a high percentage of recipients exhausting benefit rights (39.4%). While the national average increased during the same period of time, New Jersey is still a full 22% above the U.S. average.

A number of factors can influence this high percentage of recipients exhausting benefit rights. The availability of jobs in the state and the success of the state's Employment Services division in placing unemployed persons are among these factors.

Within the placement activities of the Employment Services division, UI claimants are not exclusively the served population. In 1981, out of 138,000 placements, 14.3% were unemployment insurance claimants. A factor is that mainly lower paying jobs are listed with Employment Services and, due to the high wage replacement rate, there is less incentive for some lower wage earners to accept employment.

PERCENT OF BENEFIT RECIPIENTS EXHAUSTING BENEFIT RIGHTS
UNDER STATE UNEMPLOYMENT COMPENSATION LAWS, 1979



SUMMARY

As shown in the previous pages, each of four broad areas--external factors (including Extended Benefits), eligibility factors, benefit levels and formulae, and benefit duration--have combined to produce a system with high annual costs and a negative fund balance. At \$227 per covered worker, New Jersey's costs in 1981 (the last year of comparative data) were 42% higher than the national average. Total State costs, including Extended Benefits, have exceeded State revenues every year but one (1978) since 1970. However, Extended Benefits payments should be reduced relative to previous levels by virtue of federal legislation enacted in 1981 which tightens up criteria for payment.

Because of these cost elements, New Jersey's Unemployment Insurance Tax revenues (Employer & Employee taxes) per covered worker are high--67% higher than the national average in 1981.

In summary, New Jersey's UI system faces a significant problem related to restoring overall solvency while continuing to provide annual benefits. Specifically, the State must:

- On average, have annual State revenues exceed annual State benefit payments.
- Achieve a spread between revenues and payments sufficient to return the fund balance to a viable solvency level.
- Meet the additional objective of avoiding new federal loans and paying off the existing loans balance of \$521 million.

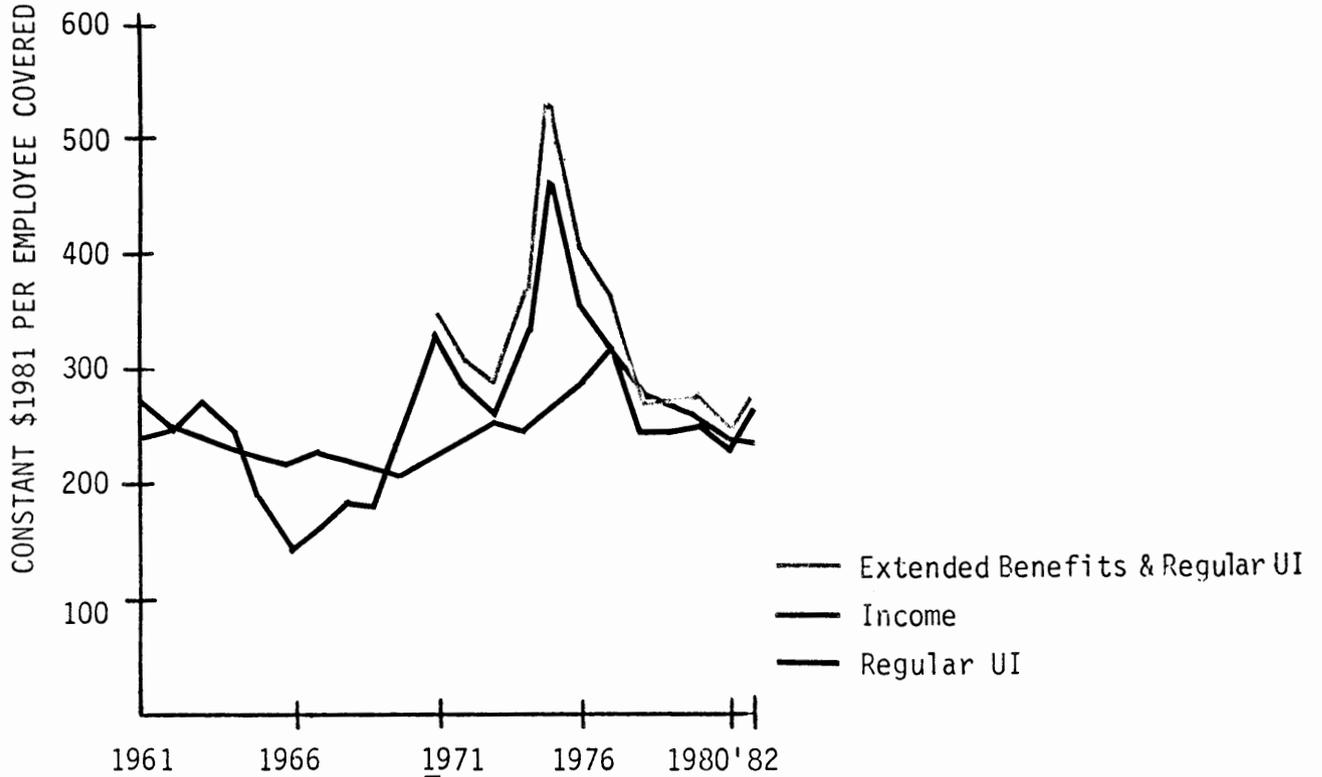
The achievement of these goals must represent a high priority for the state of New Jersey.

SUMMARY

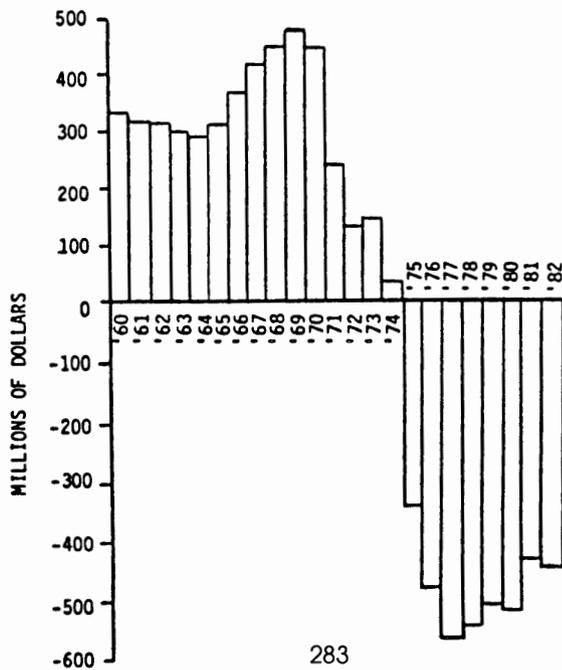
REVENUES
PER COVERED WORKER
PER YEAR

COST OF BENEFITS
PER COVERED WORKER
PER YEAR

STATE OF NEW JERSEY UNEMPLOYMENT INSURANCE PROGRAM 1961-1982



NET CONDITION* OF THE UNEMPLOYMENT INSURANCE TRUST FUND (AS OF DECEMBER 31)



*Net Condition = Trust Fund Balance-Loan Outstanding

OVERVIEW OF STRATEGIC OPTIONS

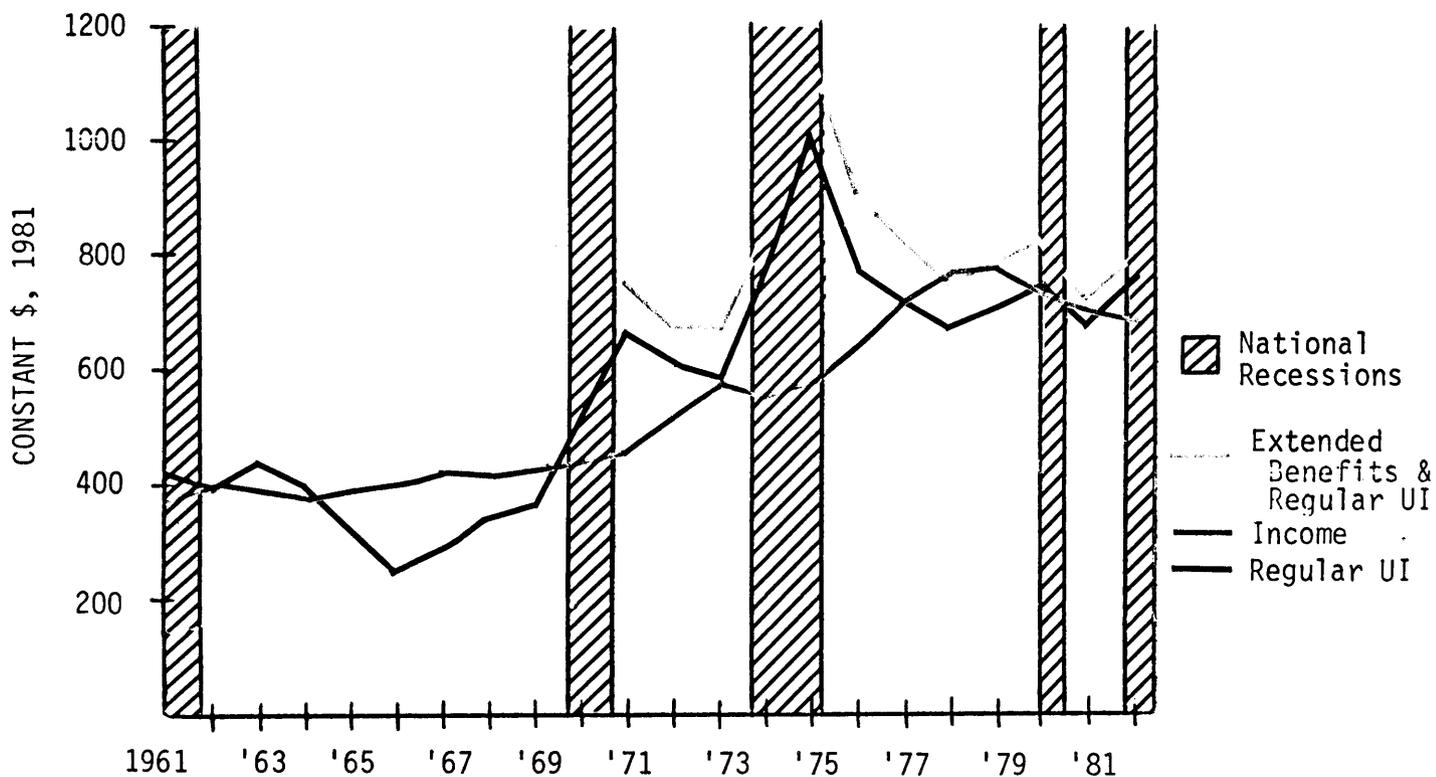
As discussed in the previous pages, the Unemployment Insurance System is complex and it faces substantial financial problems at both state and federal levels. Resolving these difficulties will require fundamental changes to current practices and a period of years to achieve. Some of these changes--e.g., "tightening up" extended benefits eligibility criteria--have already been implemented. Further possibilities are explored in the remaining pages of this document.

As context for specific recommendations, however, it is useful to make the following observations about the Unemployment Insurance System:

- In the broadest sense, the system is performing exactly as it was designed to. In "good" times, revenues exceed benefits and the net condition of the Trust Fund improves--it builds its reserves. In "bad," or recessionary, times the fund quickly pays out benefits to qualified claimants and the Fund's net condition deteriorates.
- The core of the current problem is the imbalance between the respective time cycles of "good" and "bad" times. As the chart on the facing page shows, over the last 12 years the average time between economic downturns has been 3-4 years versus 7-8 years in the 1960's and earlier. In those recent "good" times between episodes of economic turmoil, the Fund's net condition has been improved by only small increments annually--\$20-30 million per year on average. Payouts, on the other hand, have deteriorated the Fund's net condition extremely rapidly--as much as \$300 million and more per year.
- A rough projection of current revenue and payout trends suggests that it could take as long as 5 years to pay off the debt and an additional 5 to 10 years to approach a reasonable level of solvency. This projection makes the unlikely assumption of no further recessionary periods.

Consequently, the fundamental strategic objective of the Unemployment Insurance Trust Fund in the 1980's should be to establish the mechanisms which enable the system to rebuild its solvency more quickly during "good" times. This means improving the Fund's net condition in nonrecession years by annual increments of an order of magnitude of \$100-200 million, not \$20-30 million. A corollary objective is to develop ways to minimize payouts in "bad" times consistent with the legal and moral requirements of providing benefits to those claimants who qualify.

UNEMPLOYMENT INSURANCE TRUST FUND
FUNDS FLOW
1961-1982



- ECONOMY MORE VOLATILE THAN SYSTEM CAN HANDLE
- DURING RECESSIONS, FUNDS FLOW OUT RAPIDLY WELL IN EXCESS OF REVENUES
- BETWEEN RECESSIONS, NET FUND INFLOWS MUST INCREASE RAPIDLY TO BE PREPARED
 - IN 1980'S NET FUND INFLOW SHOULD BE \$100 - \$200MM PER YEAR.



OBJECTIVE
BUILD TRUST BALANCE
BETWEEN RECESSIONS
- \$100 - \$200MM
PER YEAR

MAJOR STRATEGIC OPTIONS

While there may be different specific actions possible to achieve each of the objectives outlined on the previous page, the two major parameters available for adjustment are, clearly, revenues and benefits. The possible options for each will in fact have impact during both "good" and "bad" times. Consequently the ensuing discussion is presented with the aim of simultaneously achieving both objectives outlined earlier.

As shown on the next page, New Jersey's revenues from taxes per covered worker (Employer & Employee taxes) are already 67% higher than the national average. As with many other industrialized states facing high unemployment, this tax burden represents an additional load on businesses in the state and acts to deter further investment and job creation.

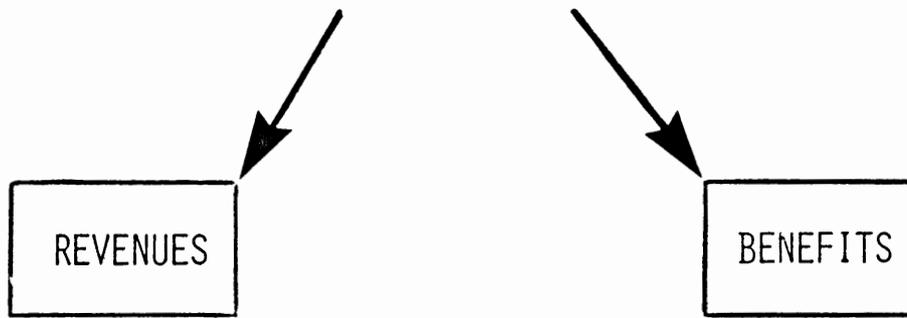
- Seeking an additional \$100 million per year across the board from employers would result in state employer taxes going up by about 15% and would place New Jersey's burden (Employer & Employee taxes) per covered worker at approximately 90% higher than the 1981 national average. An option to increase taxes selectively may produce extra revenues and achieve fairness at the same time. Tax increases for employers with repeated histories of generating claimants, e.g., companies which make heavy use of seasonal or temporary employees who subsequently qualify for benefits could be targeted for special Unemployment Tax surcharges.
- Finally, for the last three recessions, average outflows increased 41% over the previous year levels while revenues increased only by 9%. This data suggests that mechanisms should be considered to enable the department to establish employer tax levels that are responsive to more recent experience. Additionally, many of the measures to reduce program costs would still be necessary, i.e., tightening eligibility and disqualification requirements.

While some possibilities do exist, tax increases as the prime vehicle for achieving solvency appear to have limited potential.

MAJOR STRATEGIC OPTIONS

OBJECTIVES :

- MEET ANNUAL BENEFITS OBLIGATIONS
- RESTORE SOLVENCY



- CURRENT STATE REVENUES PER COVERED WORKER ARE 67% HIGHER THAN 1981 NATIONAL AVERAGE
- \$100 MILLION ADDITIONAL TAXES ANNUALLY
 - 91% HIGHER THAN 1981 NATIONAL AVERAGE
 - 15% INCREASE FOR STATE EMPLOYERS
- SELECTIVE TAX INCREASES POSSIBLE
- PROGRAM MECHANISMS

MAJOR STRATEGIC OPTIONS

The other area of opportunity lies in reducing benefit costs. In 1981, New Jersey's cost per covered worker was 42% higher than the national average and, as described earlier, is influenced by three broad areas: eligibility (number of claimants), benefit levels, and duration of claims. While these are complex issues in detail, there are several broad areas which represent high priority cost reduction possibilities.

Eligibility

- Program eligibility--controlling the number of claimants--clearly provides substantial cost reduction leverage. As described earlier, the alternative earnings test for labor force attachment (\$2,200 fixed earnings) accounted for almost 8% of the number of total recipients in 1981. Since total benefits paid in 1982 were over \$800 million, elimination of this means of qualifying could save a magnitude of \$40-50 million annually.
- An alternative to total elimination of the alternative earnings test lies in updating the weekly wage test for labor force attachment and the alternative test to account for inflation. The current level of the weekly wage test is \$30 per week, and it was established in 1975. This amount should be adjusted for inflation.

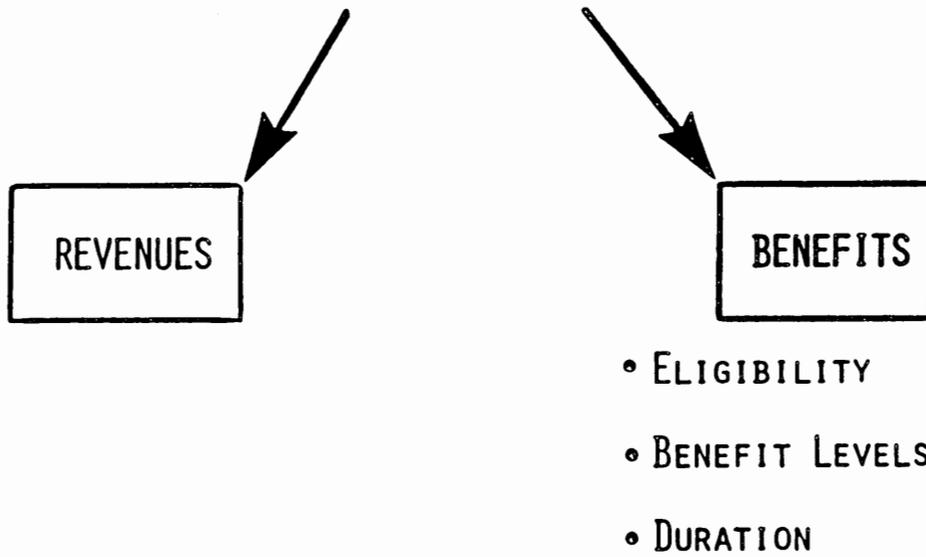
Benefits Level

- New Jersey's average and maximum weekly benefits per claimant are in line with the U.S. averages. The amount of weekly benefits paid--hence overall program costs--are highly sensitive to two elements of the weekly benefit formula: the wage replacement rate and the maximum weekly benefit level.
 - New Jersey's wage replacement rate is currently the highest in the nation at 66 2/3% of the claimant's previous average weekly wage. This is subject to a maximum weekly benefit rate of 50% of the State's average wage. This 50% cap is at the lower end of rates when compared to other states.
 - Adjusting each of these parameters has a different impact on the various claimant populations: the wage replacement rate tends to have greatest leverage on the benefit levels of low income claimants; the maximum weekly benefit level tends to influence higher income claimants.

MAJOR STRATEGIC OPTIONS

OBJECTIVES :

- MEET ANNUAL BENEFITS OBLIGATIONS
- RESTORE SOLVENCY



OPTIONS SUMMARY

The facing page summarizes the principal options for achieving the goals outlined earlier. Political realities will no doubt require adjustments on both the revenue and cost side of the Unemployment Insurance System. Legislative action will be required for most, if not all, of the options discussed.

While further tax escalation is possible, the overriding impression evident from analyzing current UI System operations is that the system is costly and in need of improvement. Even if tax increases are pursued, the opportunity for large scale cost reductions -- in both "good" times and "bad" is evident. Implementing some combination of the benefits reduction possibilities discussed in this document will be required if there is to be a serious attempt at continuing to provide annual benefits and reestablishing system solvency.

There is currently a proposal to amend the unemployment compensation system under consideration by the Legislature. However, the above options generally go further than the proposed legislation, which is nevertheless a step in the right direction.

- The wide range of possible combinations of these two parameters could yield cost savings over a broad range--potentially up to \$75 million. A reasonable alternative of 50% for wage replacement and 66 2/3% for maximum benefit level would, we believe, yield potential savings on the order of \$35 million.
- Another item for action would be the elimination of the current practice of paying for the waiting week. Elimination of this payment could reduce annual costs by an additional \$10-15 million.

Duration

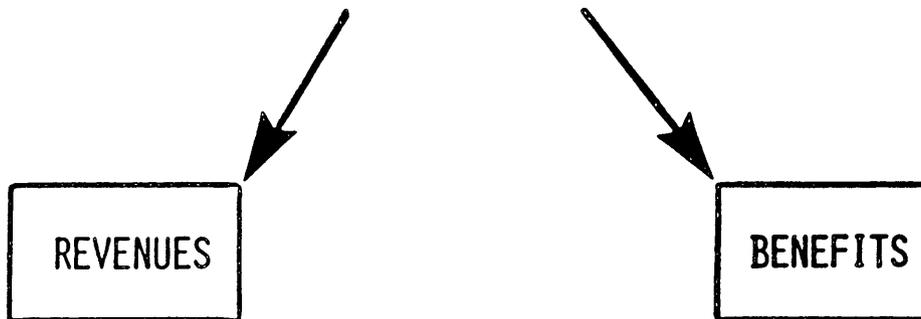
In 1979, New Jersey had the highest percentage in the nation of claimants exhausting benefit rights--39% vs. 26%. This condition is the result of a number of factors, including:

- The current wage replacement rate which does not provide a significant incentive for some low income claimants to find suitable employment;
- The state's disqualification provisions. Most states have more stringent penalties.
- Precise estimates of the potential savings are difficult and complex. A very rough assessment, however, suggests that reducing the average duration by one week would save on the order of \$30-50 million. This action would require adjusting the parameters of the various disqualification provisions and policing them strictly.
- In previous years Extended Benefits contributed heavily to the State's overall burden. Recent changes in laws governing eligibility for Extended Benefits will help minimize the impact of this item, but there will almost certainly continue to be obligations for Extended Benefits payments from time to time. The action taken since 1981 will result in annual savings in the millions of dollars.

MAJOR STRATEGIC OPTIONS

OBJECTIVES :

- MEET ANNUAL BENEFITS OBLIGATIONS
- RESTORE SOLVENCY



- ELIGIBILITY
- BENEFIT LEVELS
- DURATION

OPTION SUMMARY

REVENUES

- GENERAL TAX INCREASE
- FOCUSED TAX INCREASE

BENEFITS

- ELIGIBILITY (POTENTIAL SAVINGS: \$40-50MM)
 - ALTERNATE EARNINGS TEST
 - LABOR FORCE ATTACHMENT TEST
- BENEFITS LEVEL (POTENTIAL SAVINGS: \$35-50MM)
 - WAGE REPLACEMENT RATE
 - MAXIMUM WEEKLY BENEFIT
 - WAITING WEEK
- DURATION (POTENTIAL SAVINGS: \$30-50MM)
 - DISQUALIFICATION PROVISIONS

ADDITIONAL ACTIONS

In addition to the State's own responsibility to improve the Trust Fund solvency, other actions should be considered.

- Various plans have been advanced by a variety of groups to share the burden of growing benefits between the state and federal funds in time of high unemployment. The State of New Jersey could actively develop and lobby with the Federal Government such plans as a cost-equalization program where the Federal Government pays for a share of the benefits when the unemployment rate reaches specified levels.
- The State of New Jersey could strive to attract high technology and more "recession proof" industries through a combination of incentives and steps to improve the overall business climate.

ADDITIONAL ACTIONS

- FEDERAL LEGISLATION
 - COST-EQUALIZATION PROGRAM

- ATTRACT COUNTER CYCLICAL INDUSTRIES
 - GENERAL BUSINESS CLIMATE
 - SPECIFIC INCENTIVES TO TARGET INDUSTRIES

**DEPARTMENT OF TRANSPORTATION
TRANSPORTATION INFRASTRUCTURE**

Strategic Issues and Alternatives



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- SUMMARY OBSERVATIONS

- POLICY OPTIONS

Introduction

This report documents the efforts of a joint task force representing state government, the private sector, and outside business consultants to identify and to review the key strategic issues associated with the state's highway infrastructure as administered by the New Jersey Department of Transportation (DOT). The mission of this group, given limited time and resources, was to provide a context useful for the strategic review of these issues at the Governor and Cabinet Officer level.

This effort arose from recognition of the fact that New Jersey's \$42 billion investment in bridges and highways is in an advanced state of decay. Any rehabilitation program will be in addition to the ongoing need to complete the State's infrastructure network.

The magnitude of this fixed asset, the potential rehabilitation costs, and the need to complete the system, place transportation funding high on the list of issues which will require careful balancing against other critical needs facing the state over the next decade.

The specific objectives were as follows:

- Understand current and future trends in the state's bridge and roadway construction and maintenance activities.
- Identify the cost of completing the state's highway system.
- Identify and measure the extent of the infrastructure rehabilitation problem.
- Determine the necessary resources required to:
 - bring the infrastructure back to a more acceptable overall condition, and
 - maintain the roads and bridges at that level.
- Raise issues which may require policy changes in order to resolve these problems.

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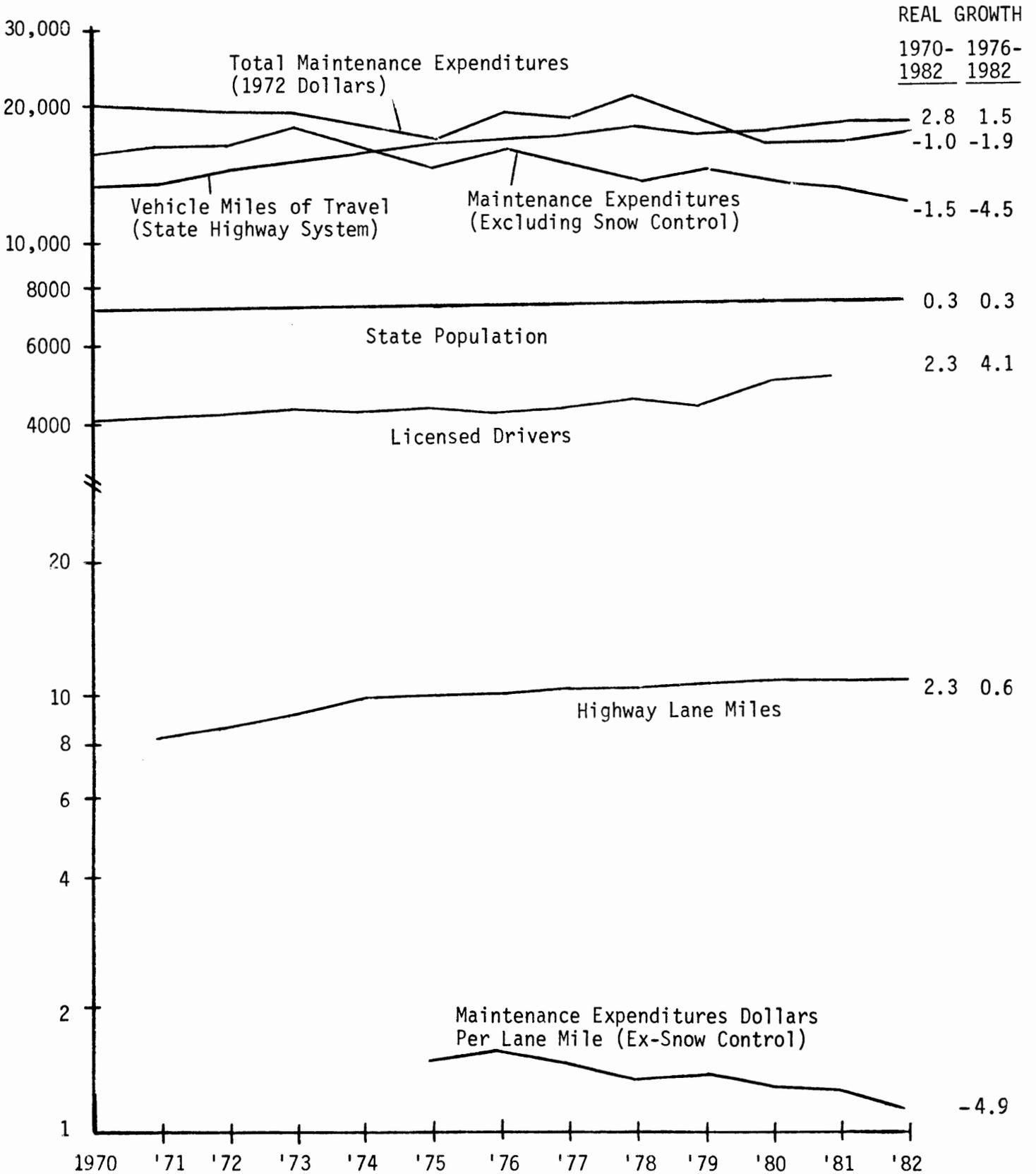
- POLICY OPTIONS

In constant dollar (inflation-free) terms, DOT's maintenance expenditures have been decreasing since 1970. Meanwhile, factors generally correlated with roadway deterioration--state population, licensed drivers, and vehicle miles travelled--have been increasing. Also, state highway lane miles have been increasing at a slow, but steady, rate.

This combination of increasing lane miles and decreasing maintenance expenditures has resulted in decreased maintenance expenditures per lane mile. This may not accurately reflect reasonable unit maintenance costs per lane mile. In order to perform comparable maintenance (i.e., to the same standards as in 1970), unit maintenance costs would have to decrease as fast as maintenance expenditures, reflecting increases in productivity and/or cost effectiveness improvements. This has not been happening as will be shown in subsequent charts. The decrease in annual unit maintenance expenditures is directly related to the constraints placed on DOT's annual maintenance and operating budgets, constraints which could contribute to more extensive and costly repairs.

The problem is further worsened by the increase in real maintenance costs due to the continuing decay of the existing infrastructure.

DEPARTMENT OF TRANSPORTATION
COMPARATIVE TRENDS IN MAINTENANCE EXPENDITURES
1970-1982



An accepted measure of cost management effectiveness is the change in real unit costs over time. Of the over 400 individual maintenance-related activities undertaken by DOT, approximately 15 were selected for further investigation. Unit costs in appropriate terms (per ton, per sq. ft., per lane mile, per hour, etc.) were tracked over the recent five year period.

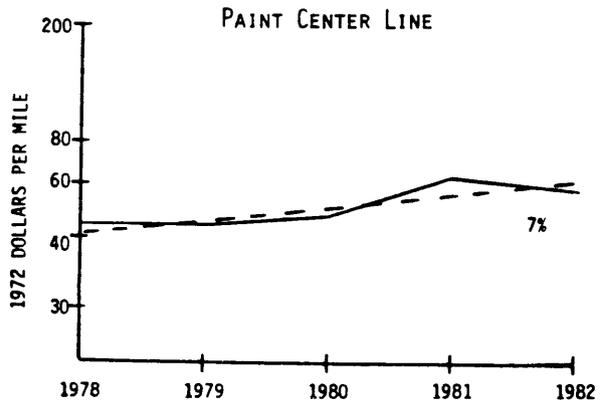
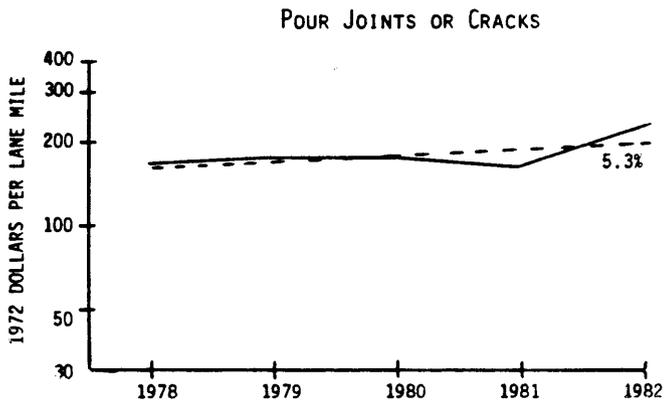
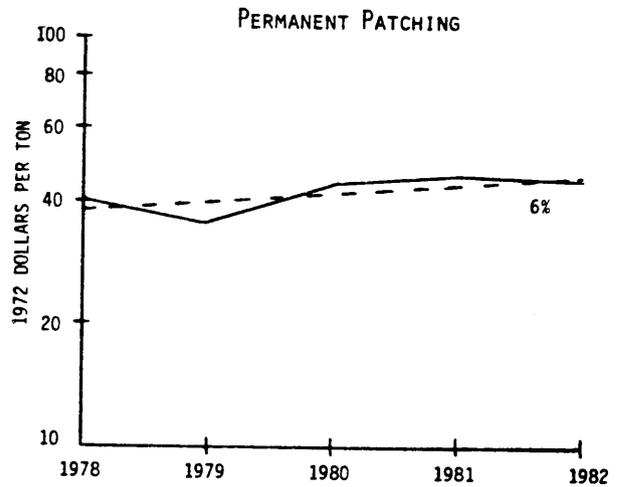
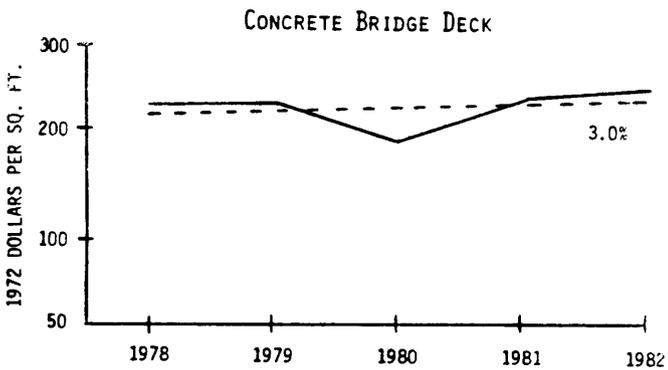
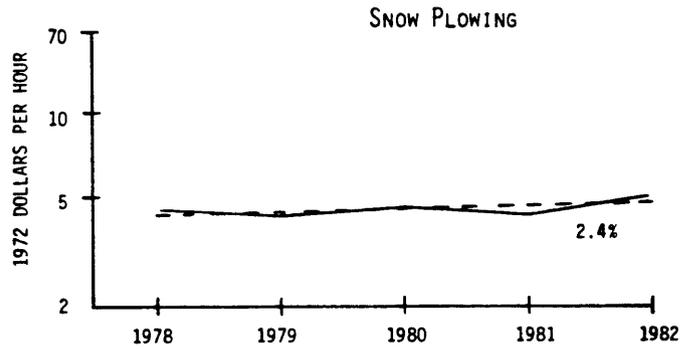
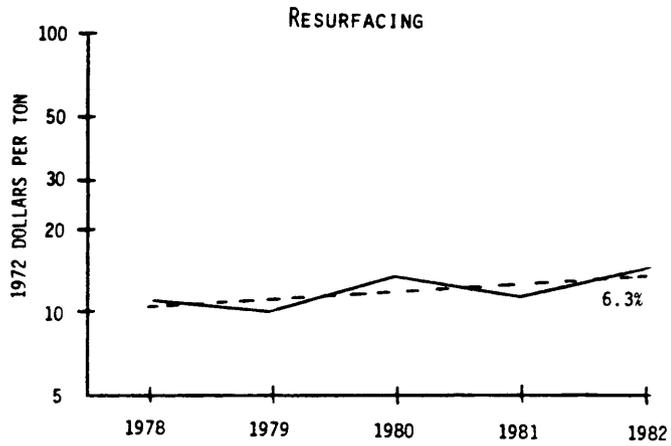
The facing charts show unit cost trends for six of the selected maintenance functions, expressed in constant (inflation-adjusted) dollars. Without exception, real costs are rising. This is in contrast to other situations where constant dollar unit costs decline over time due to the "experience effect."

Unit cost increases for certain DOT maintenance activities may be due to departmental policies and local conditions. For example, the 6.3%/year increase in resurfacing costs could be the result of current policies on how much resurfacing will be done by DOT versus contractors. The current in-house limit of 150,000 tons per year is comprised of smaller high cost jobs (maximum size 3,500 tons), whereas the larger projects are awarded to outside contractors.

Another reason for increasing unit costs might be the advancing deterioration of the bridge and roadway systems. What might have been a true maintenance cost under ordinary circumstances may have advanced to a semi-reconstruction cost.

The effect of department policy and advancing deterioration of the transportation system should be reviewed related to increases in real unit costs. Opportunities for effective, long-term cost management and supporting financial resources should be identified and real unit costs reduced.

DEPARTMENT OF TRANSPORTATION
UNIT COST PERFORMANCE OF SELECTED MAINTENANCE ACTIVITIES
1978-1982



The six activities discussed on the previous page together with other maintenance activities comprise what might be described as the maintenance "portfolio." The vertical axis on the chart shows constant dollar unit cost performance over the period 1978-1982 for the fifteen largest maintenance activities.

The circle size is proportional to the total amount spent on each activity (in-house plus contracted services) in 1982. Any circle on the vertical line is done completely in-house. Any circle to the right of the vertical line is partially contracted-out. Very few maintenance activities are contracted out; hence, most circles are directly on the vertical line.

Maintenance is dominated by three functions: resurfacing, snow and ice control, and patching. All show increasing unit costs. Furthermore, all but four activities have experienced increasing unit costs since 1978, indicating that there may be potential leverage for savings in the maintenance area.

Some of the real cost increases are related to the deteriorating condition of the highway system.

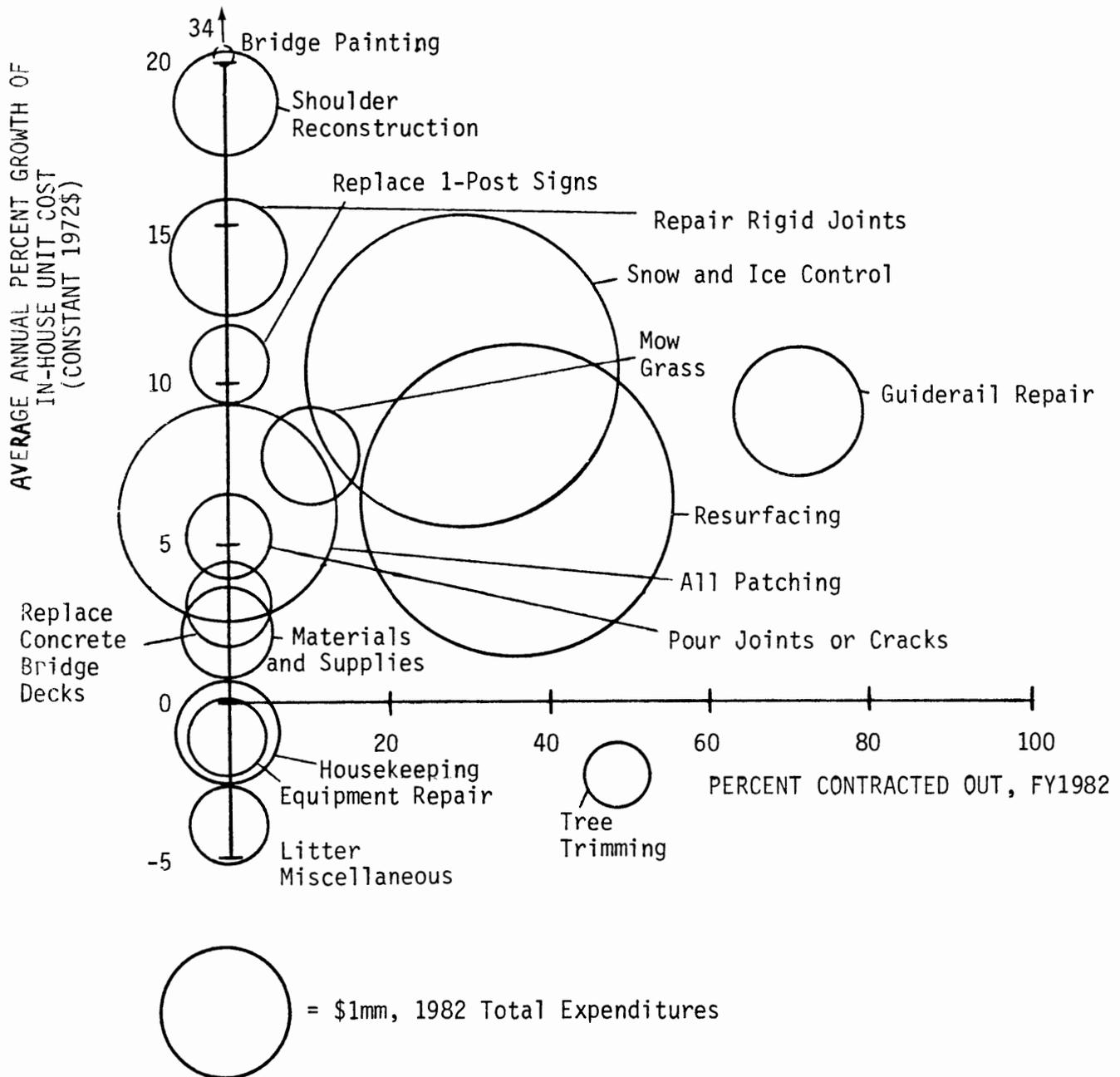
The two largest expenditures--resurfacing and snow and ice control--represent a combination of DOT and independent contractor effort.

An attempt was made to determine if those projects contracted-out experienced lower increases in real unit costs compared to DOT's in-house costs. The findings were inconclusive, and a more detailed analysis is needed to determine which component (or to what degree each component) is responsible for the real cost increases.

The ultimate result would be a policy to manage maintenance expenditures as a "portfolio," where cost performance trends dictate which activities should be contracted for versus those that should be done by DOT.

Effective long-term cost management built around a supportive budget planning process (and including a provision for a reserve to handle extraordinary expenditures such as unusually heavy/frequent snows) should be able to bring real costs down.

DEPARTMENT OF TRANSPORTATION
 UNIT COST PERFORMANCE OF MAJOR MAINTENANCE ACTIVITIES
 1978-1982



Most organizations ultimately develop a strength or expertise in the ability to manage one or more key functions relative to others. Major functional components for DOT's maintenance activities include labor force management, equipment utilization, and materials procurement and handling.

The chart illustrates the heterogenous cost profile of selected maintenance activities. When compared to increases in real costs, those activities which are increasing the fastest have no obvious weighting towards one of the major functional requirements.

The relationship between percent of costs for each of the three major functional components and the percent contracted-out was investigated for those activities which are most typically contracted out. There appears to be no correlation. This suggests that DOT's use of contractors may not be effective in reducing unit costs.

A detailed analysis should be undertaken to determine what DOT's strengths are versus contractors', and appropriate changes made to reduce costs.

DEPARTMENT OF TRANSPORTATION
 COST COMPONENTS OF SELECTED MAINTENANCE ACTIVITIES
 FY 1982

	GUIDERAIL REPAIRS	BRIDGE PAINTING	RESURFACING	PERMANENT PATCHING	SNOW CONTROL
	\$0.4MM	\$0.03MM	\$4.5MM	\$1.8MM	\$8.0MM
LABOR	[]	[]	[]	[]	[]
EQUIPMENT	[]	[]	[]	[]	[]
MATERIALS	[]	[]	[]	[]	[]

DOT provides the engineering and administrative resources necessary to execute and supervise the State's construction activity. This includes right-of-way purchases, design engineering, field inspection, (collectively titled "construction engineering") and actual construction.

Comparative line budget items are shown for the years FY1982 through FY1984, covering both internal DOT functions and itemized contract construction and external design engineering purchases. As in all long-term capital programs, actual construction costs lag year-to-year changes in engineering-related expenditures. Any examination of construction engineering costs is best done over an extended period with specific input provided on a project-to-project basis.

The three-year DOT overhead costs noted in the accompanying table appear high. A departmental cost of 14% for right-of-way purchases and 17% for construction engineering is indicated.

More analysis is required to determine if these higher overhead ratios are the result of responding to federal regulations and citizens concerns, or if the Department needs to improve its management of the total construction engineering function. DOT has requested additional management information systems support to assist in the future management of its construction engineering expenses.

DEPARTMENT OF TRANSPORTATION
BRIDGE AND ROAD CONSTRUCTION BUDGET ACCOUNTS

	ANNUALLY (\$ MILLIONS)				PERCENTAGE OF RIGHT-OF-WAY PURCHASES
	1982	1983	1984	3-YEAR TOTAL	
<u>D.O.T. RIGHT-OF-WAY</u>	6.1	6.2	6.6	18.9	14.2*
<u>RIGHT-OF-WAY PURCHASED</u>	16.6	50.0	70.0	136.6**	
					PERCENTAGE OF TOTAL CONSTRUCTION
<u>D.O.T. CONSTRUCTION ENGINEERING</u>					
PROJECT DEVELOPMENT	1.8	2.1	2.1	6.0	1.0
CONSTRUCTION DESIGN	19.2	19.2	20.1	58.5	5.0
CONSTRUCTION INSPECTION	16.1	17.4	18.7	52.2	4.0
OTHER	2.8	2.5	3.0	8.3	1.0
SUBTOTAL	<u>39.9</u>	<u>41.2</u>	<u>43.9</u>	<u>125.0</u>	<u>11.0</u>
<u>CONTRACTED DESIGN</u>	<u>23.7</u>	<u>35.0</u>	<u>20.0</u>	<u>78.7</u>	<u>7.0</u>
<u>TOTAL CONSTRUCTION DESIGN</u>	<u>63.6</u>	<u>76.2</u>	<u>63.9</u>	<u>203.7</u>	<u>17.0</u>
<u>CONSTRUCTION</u>	<u>169.7</u>	<u>279.4</u>	<u>361.0</u>	<u>810.1</u>	<u>69.0</u>
<u>TOTAL CONSTRUCTION</u> (INCLUDES DESIGN & RIGHTS- OF-WAY)	<u><u>256.0</u></u>	<u><u>411.8</u></u>	<u><u>501.5</u></u>	<u><u>1169.3</u></u>	<u><u>100.0</u></u>

*INCLUDES \$0.5 MIL FOR CONTRACT APPRAISALS

**INCLUDES \$0.5 MIL PAID FOR APPRAISALS

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Transportation has a direct and substantial impact on the economy of the State. One of New Jersey's major economic advantages in the past was and has been its extensive transportation system. In order for the State to remain in a competitive position it is not only necessary to maintain and rehabilitate its existing highway system, it must also complete the planned interstate and noninterstate system expansion. These include capacity improvements (typically by adding lanes) and the completion of existing "gaps" in both noninterstate freeways and the interstate system.

The Department in its planning process has identified specific routes and projects needed to complete its highway system. In most cases, the projects represent "missing links" in the noninterstate freeway system, the completion of the missing links of the interstate system, and major improvements on identified highways in the State.

In order to complete the system as now planned, DOT has identified approximately \$1.6 billion in highway improvements over the six-year period 1985 to 1990, assuming that the FY1983 and FY1984 programs are successfully completed. The planning studies and much of the construction estimating have been completed.

It should be noted that the capacity improvements estimate of \$425 million continues to increase as new projects are identified and studied. However, in the facing chart there is an assumption that this amount will stay even.

The \$1,625 million required to complete the non-interstate freeway gaps, capacity improvements, and interstate gap requirements will require \$113 million per year for the next six years to provide the state match of federal funds and to provide the additional state funding over and above the federal/state program needed to complete the projects.

These funds could be provided through increased gasoline taxes to be deposited in an infrastructure bank or through the allocation of some portion of the existing gasoline tax into an infrastructure bank. The infrastructure bank would serve to leverage the resources it receives. This leveraging takes place through the issuance of revenue bonds. The proceeds of the bonds could be utilized to expedite the capital construction funding while the debt service would be paid through the taxes deposited into the fund over a ten-year period.

Among other funding sources potentially available for these projects are the recently announced Port Authority Bank for Regional Development and contributions by various other transportation authorities. These other alternatives are now being studied.

NEW JERSEY
IMPROVEMENTS TO HIGHWAY SYSTEM
(MILLIONS)

CAPACITY IMPROVEMENTS	\$425
NON-INTERSTATE FREEWAY GAPS	600
INTERSTATE GAPS	600
	<hr/>
TOTAL	\$1,625
FEDERAL FUNDS AVAILABLE	945

STATE NEED	\$680 OR \$113 A YEAR FOR 6 YEARS
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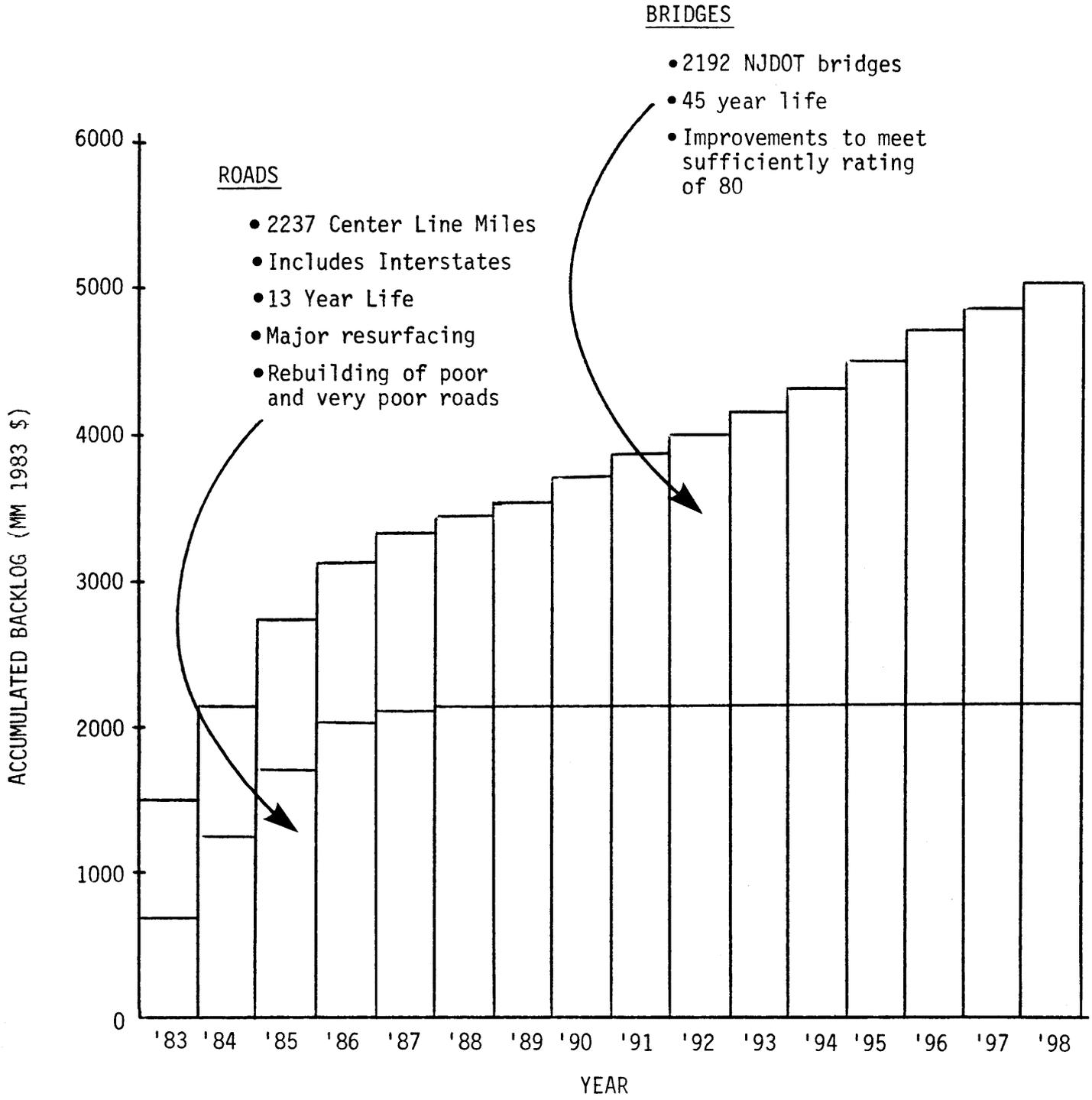
- POLICY OPTIONS

The single most serious problem facing New Jersey (and D.O.T.) is the continuing decay of state-owned bridges and highways. The road and bridge renewal backlog presently stands at \$1.5 billion (see chart) and, if left untended, could grow to approximately \$5.0 billion within 15 years.

Due to unique circumstances affecting the dynamics of this decay (which will be discussed in subsequent charts), the highway rehabilitation needs will escalate significantly until 1988, at which time the cost plateau will be at a level indicative of extensive construction.

The bridge problem, on the other hand, grows steadily throughout the same 15 year period. Bridges potentially could be the major long term problem, with roadways a more immediate problem.

NEW JERSEY
 BRIDGE & ROADWAY REHABILITATION
 ACCUMULATED BACKLOG, 15 YEAR HORIZON

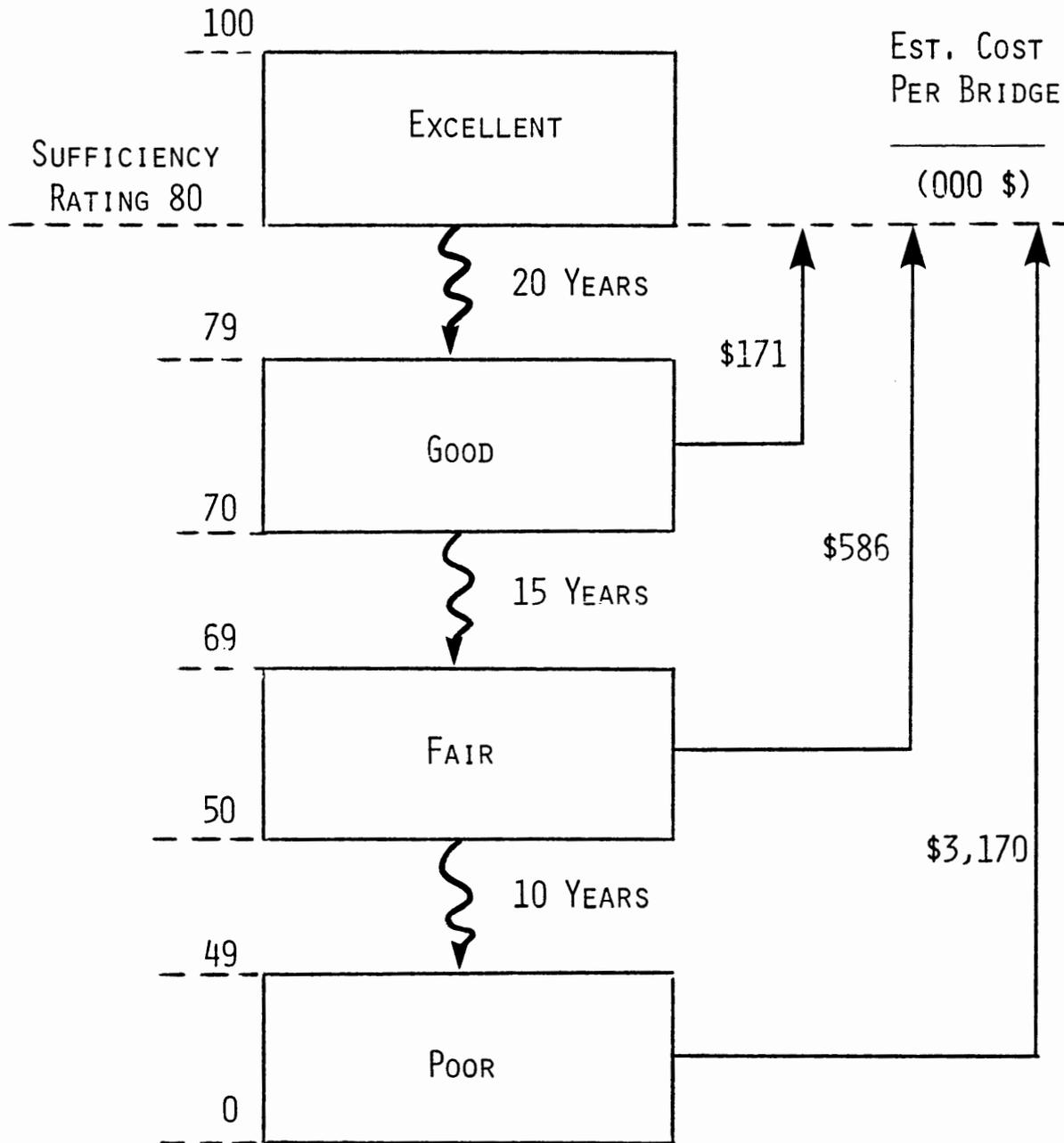


The state's bridges are classified according to four different sufficiency ratings, with a rating of 80 considered to be a minimum goal of any rehabilitation program. Presently, most bridges are in either "good" or "excellent" condition.

However, bridges have varying decay levels, decay rates, and rehabilitation costs. The average life of a bridge is 45 years, and the rate of deterioration (and repair cost) hastens as a bridge falls into worse and worse repair. (Not addressed in this analysis is the bridge roadway, or "deck," which may require repair even though the bridge is rated "good" overall.)

Finally, when rehabilitation becomes so critical, a bridge's condition can exceed that expected of simple rehabilitation, and require reconstruction.

NEW JERSEY DYNAMICS OF BRIDGE REHABILITATION



NOTES

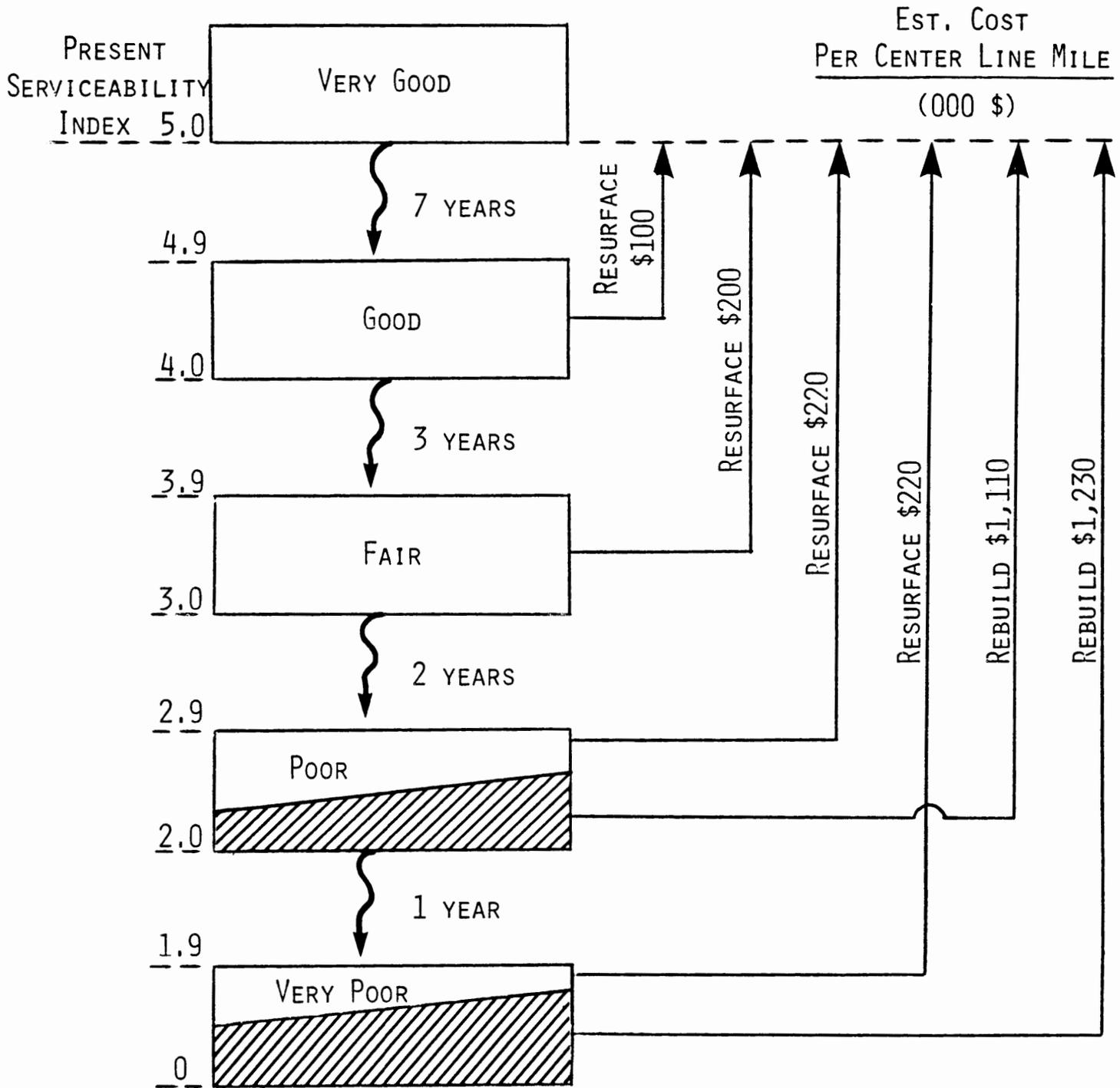
- NEW JERSEY D.O.T. BRIDGES ONLY
- BRIDGES GREATER THAN 20 FEET

Roads are classified as one of five levels of decay as determined by their Pavement Serviceability Index value. An index of 5.0 is considered a goal of roadway rehabilitation.

The average life cycle of a state highway is 13 years and is not evenly distributed between classifications. Roadway deterioration quickens as roads get worse. Once a road is in "very good" condition (either rebuilt or newly built), it takes fully seven years to deteriorate to "good" versus only 2 years for a "fair" road to deteriorate to a "poor" one. As might be expected, the cost to rehabilitate escalates once the roadway slips into such disrepair that it must be rebuilt. Roads which are "poor" or "very poor" incur resurfacing costs of approximately \$200,000 per center line mile, versus rebuilding costs of over \$1.2 million per center line mile.

Internal statistics indicate that approximately 50% of roadways in the "poor" category require rebuilding; this increases to 75% in the "very poor" category.

NEW JERSEY DYNAMICS OF ROADWAY REHABILITATION



NOTES

- INCLUDES INTERSTATE HIGHWAYS (APPROX. 23% OF TOTAL MILES)
- EXCLUDES ALL COUNTY, MUNICIPAL, AND AUTHORITY ROAD SYSTEMS

The decay dynamics of the bridge and roadway systems in the state, discussed in the two previous charts, must be complemented by an understanding of the current status of the inventories.

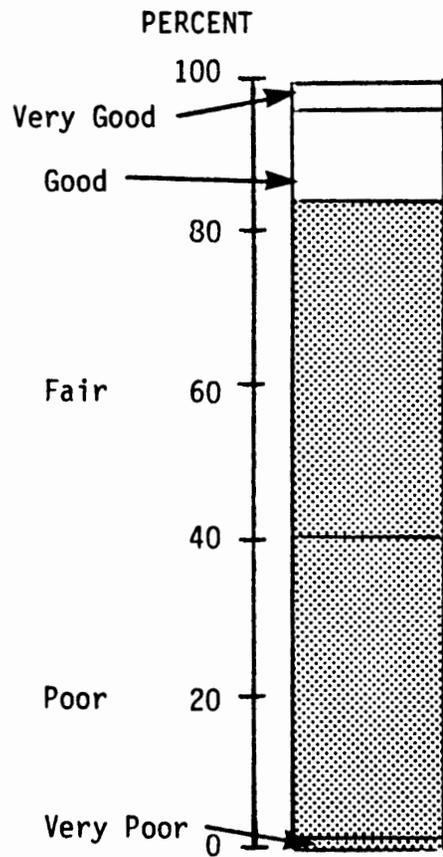
Over 80 percent of the highway system as measured in center line miles is in "fair" condition or worse while roughly 15% of the bridges are in similar condition.

Further, life cycle dynamics are quite different for roads and bridges. Given no attention, a new road will deteriorate to "very poor" condition within 13 years. Bridges take more than three times as long--45 years.

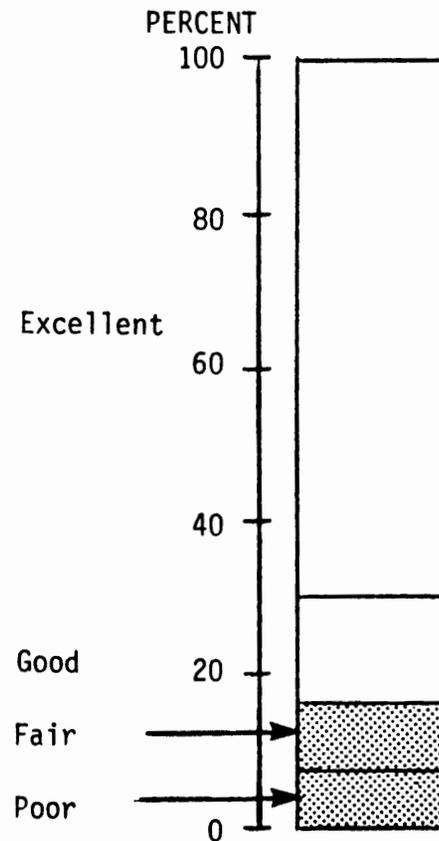
The consequences of not investing in roadway renewal can have (and have had) a more dramatic effect. The highway system within the state will reach its apex of degradation within 5 years. Bridges, on the other hand, are a longer, rather than shorter, term problem.

DEPARTMENT OF TRANSPORTATION
CONDITION OF INFRASTRUCTURE, FY 1983

ROADS



BRIDGES



There are three "generic" responses to New Jersey's highway problem. These might be appropriately classified as policy options, and are as follows:

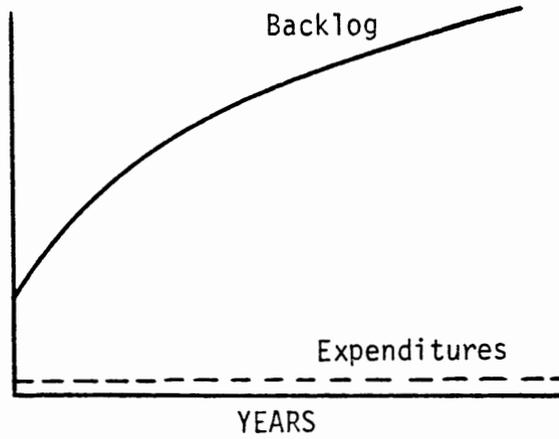
- Continue to fund at the current levels under a "status quo" case;
- Invest heavily in order to eliminate the backlog; or
- Increase annual expenditures in order to reduce and stabilize the renewal backlog.

Each of these options will be more fully developed in the following pages.

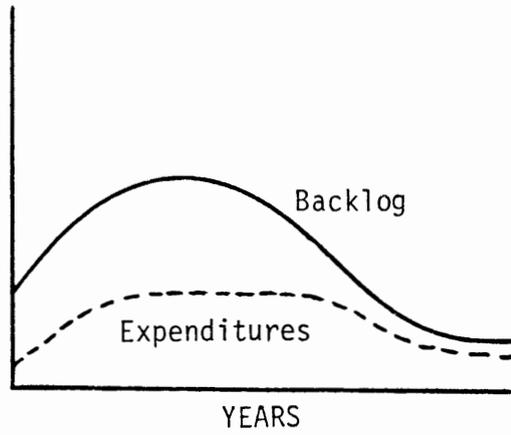
DEPARTMENT OF TRANSPORTATION
BRIDGE AND ROAD REHABILITATION

POLICY OPTIONS

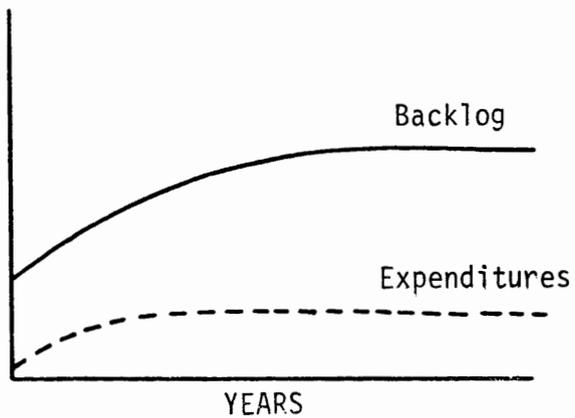
CASE I
STATUS QUO



CASE II
ELIMINATE BACKLOG



CASE III
REDUCE AND STABILIZE BACKLOG



The roadway system can be divided into its two major segments (interstates and noninterstates) which together with bridges comprise the three components of the rehabilitation problem.

Currently, \$100 to 115 million is expended annually on the existing infrastructure. Roughly \$50 million for state-owned bridges, \$34 million for interstates, and \$20 million for non-interstates. Even these levels of funding are dependent upon funds received under the 1982 surface transportation act.

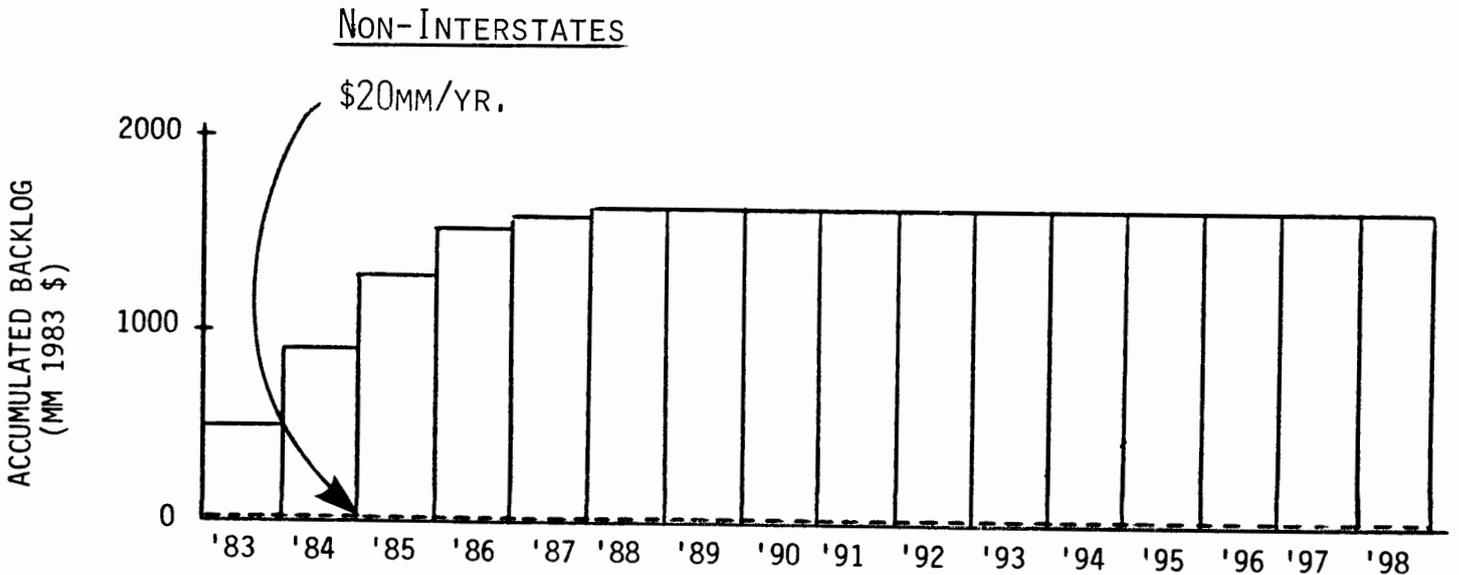
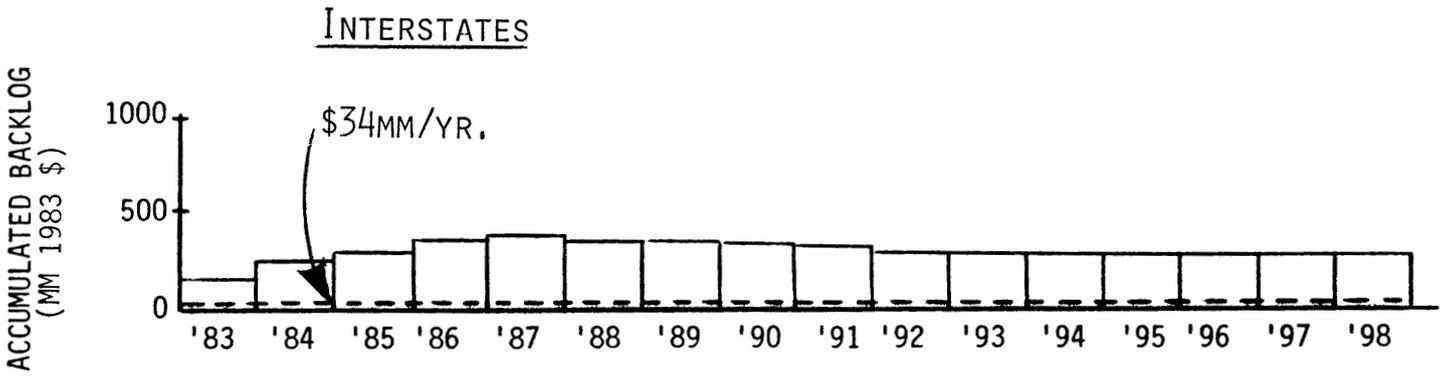
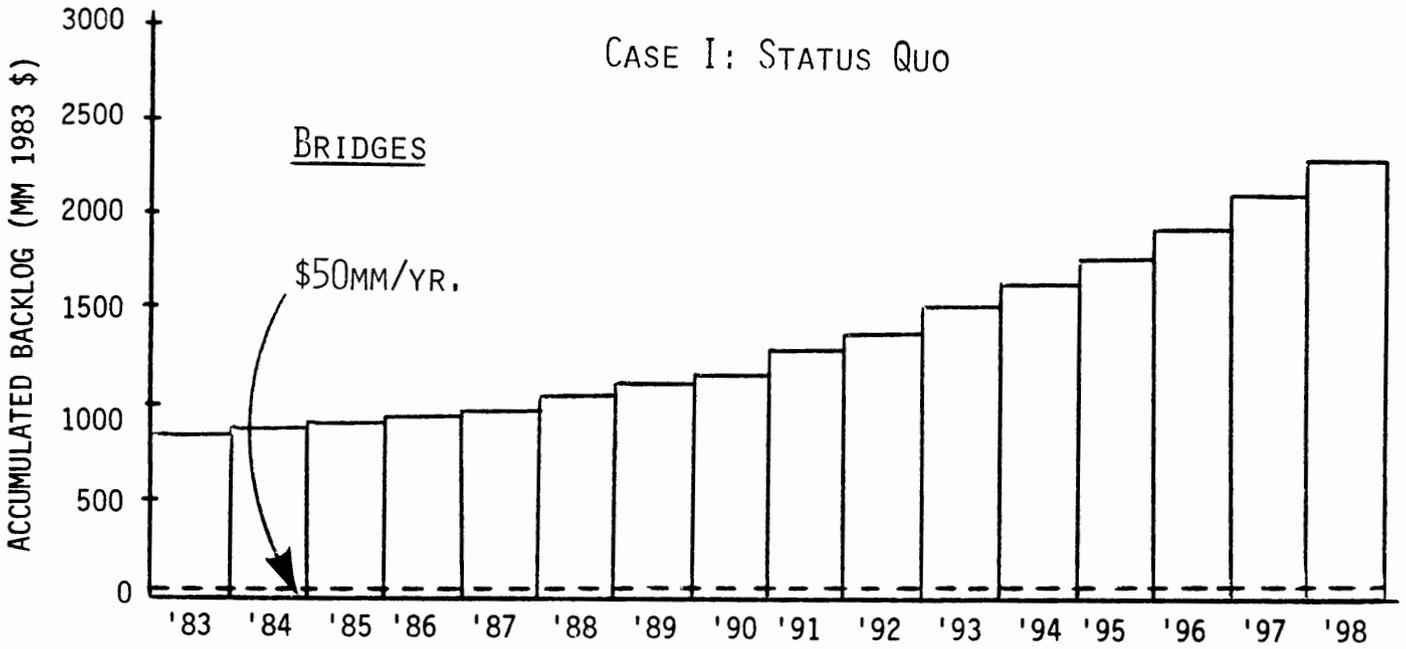
Should the current funding level for bridge repair continue, the backlog will continue to escalate. At \$50 million per year, existing efforts are not sufficient to reverse the trend over the 15 year horizon.

A continuation of the \$34 million invested annually on New Jersey's existing interstates should be effective in arresting the problem after 1988, and is sufficient to offset annual increases in the backlog beginning in 1992. Unfortunately, interstates account for a relatively small part (\$200 million) of the existing \$1.5 billion backlog. Post-1992, stabilization of interstate decay will be at a level of deterioration in excess of the system's current condition.

The third segment, noninterstates, is the real problem. The current level of \$20 million investment is insignificant in slowing growth in the backlog. Beyond 1988, the backlog reaches its "steady state" condition of \$1.5 billion, virtually all of which must ultimately be rehabilitated by state resources. It is here that significant and early increases in annual investment can have the most leverage in eliminating long term costs.

NEW JERSEY BRIDGE & ROADWAY REHABILITATION

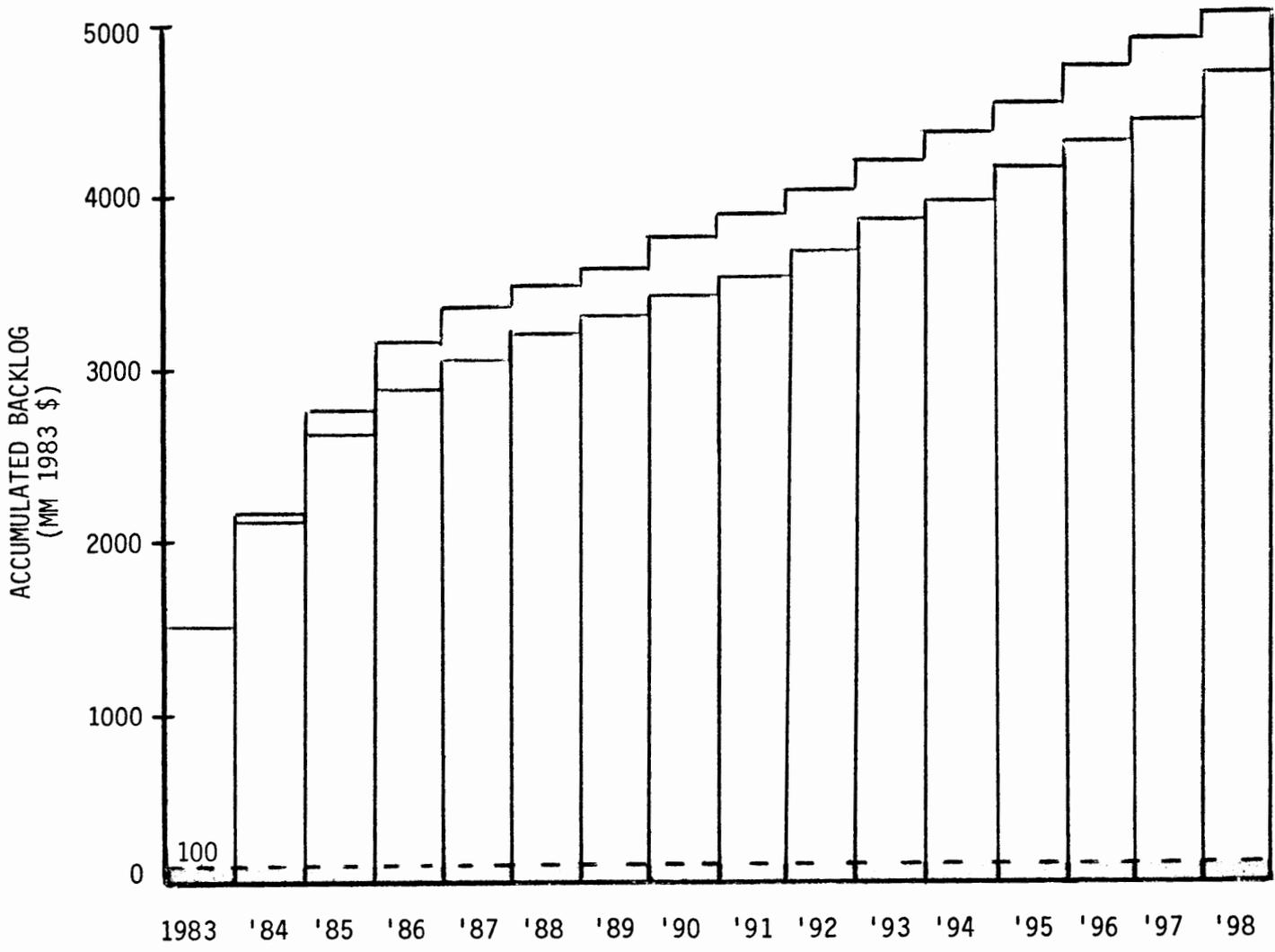
CASE I: STATUS QUO



■ Funding

The three segments discussed on the previous chart are combined here. Under a status quo condition (Case I), both short and long term backlogs are reduced only minimally. By 1998, the backlog is estimated to be \$4.7 billion and rising. The current situation would, therefore, continue to worsen.

NEW JERSEY
 TOTAL BRIDGE & ROADWAY REHABILITATION
 CASE I: STATUS QUO



- Backlog Eliminated
- Annual Funding

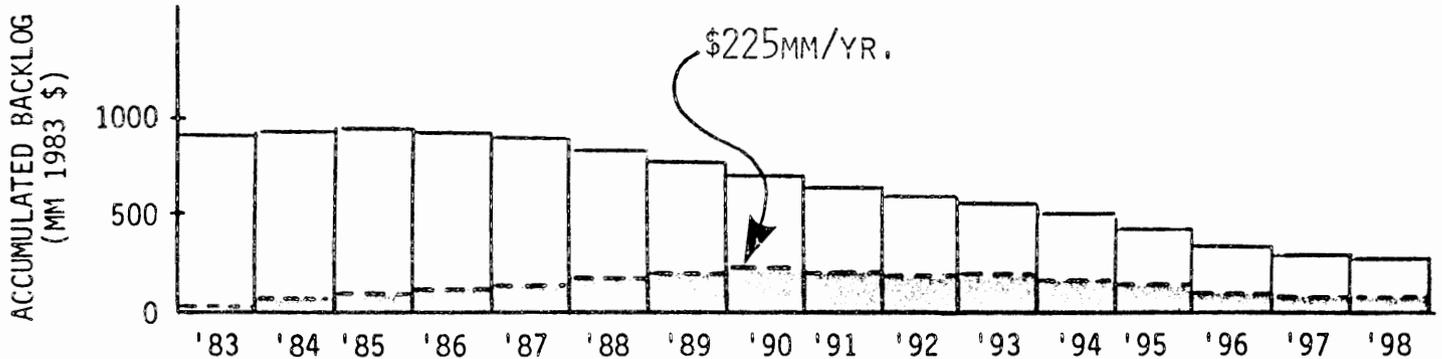
To eliminate the backlog within a 15 year period would require a significant and early increase in annual investment. Funding for the bridges, interstate, and non-interstate systems would peak at \$225 million, \$100 million, and \$200 million, respectively.

All three segments would ultimately require minimal annual funding to offset year-to-year increases in the backlog. Such "maintenance" expenditures would be on the order of the \$100 million currently being spent.

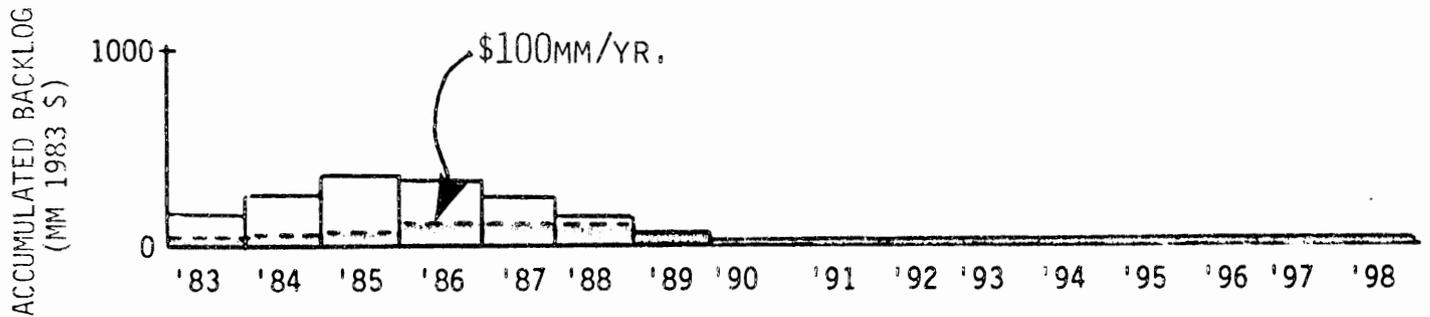
NEW JERSEY BRIDGE & ROADWAY REHABILITATION

CASE II : ELIMINATE BACKLOG

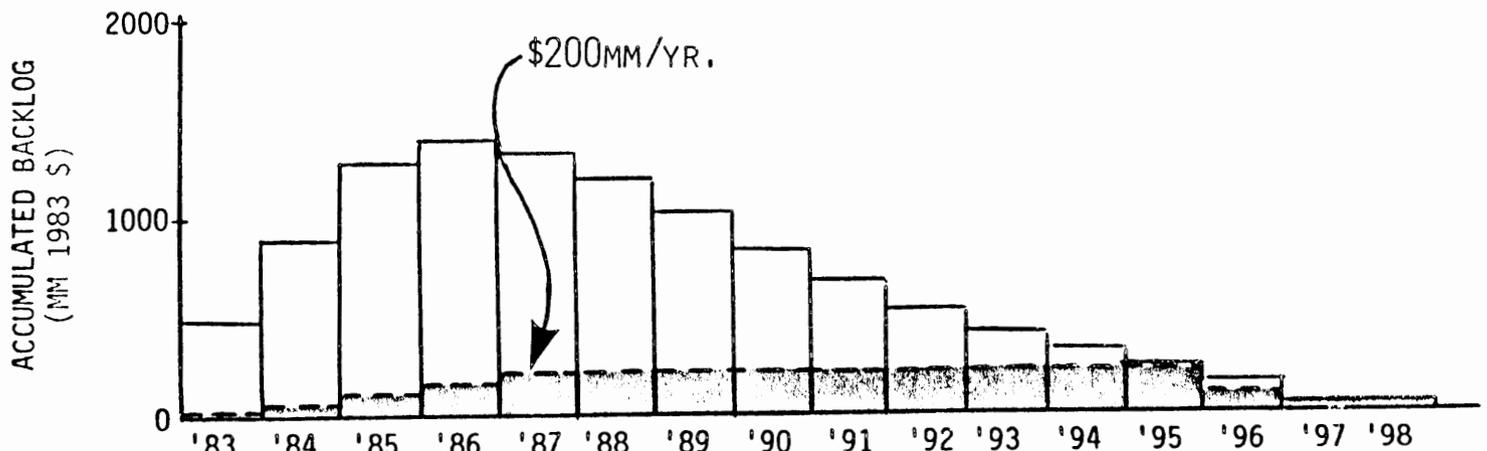
BRIDGES



INTERSTATES



NON-INTERSTATES

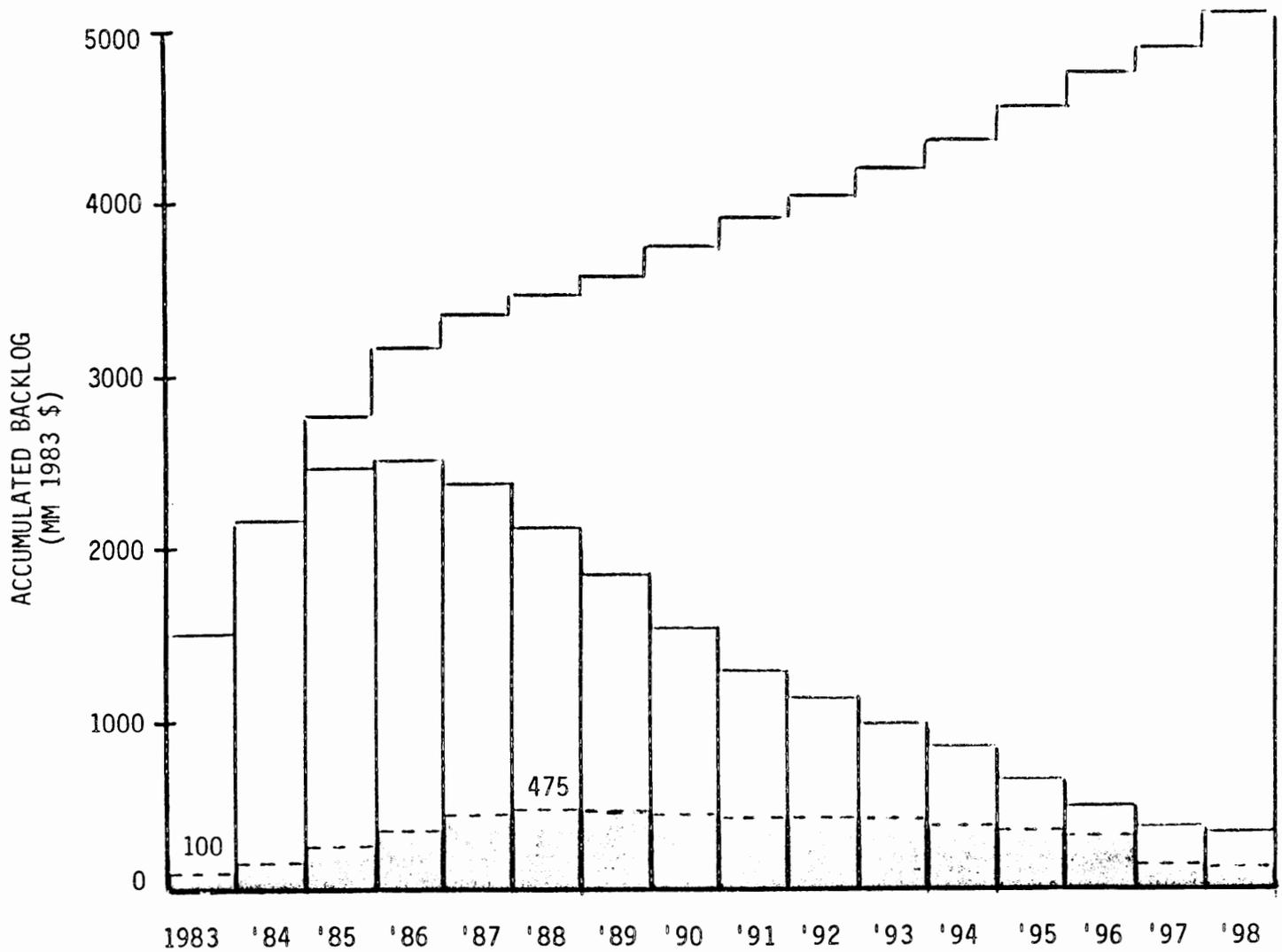


■ Funding

By aggressively attacking the rehabilitation problem, it could be corrected and minimized within 15 years. In order to eliminate the backlog, a peak annual funding level of \$475 million would be required by the fifth year, followed by a drop to \$400 million for six to eight years.

After a review of the options available with current funding, it was concluded that the State could not attain the peak levels necessary to eliminate the backlog. In other words, New Jersey may never rectify its infrastructure problem. Therefore, it seems prudent to consider options which will address the resource needs from a practical standpoint and make significant inroads in reducing the problem.

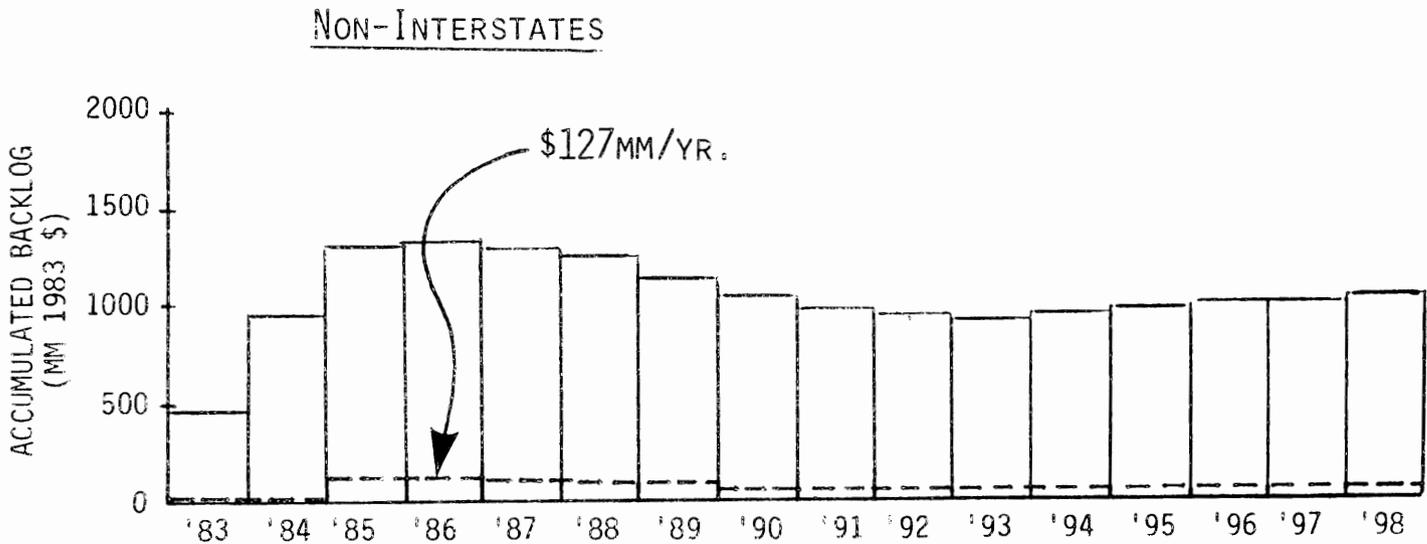
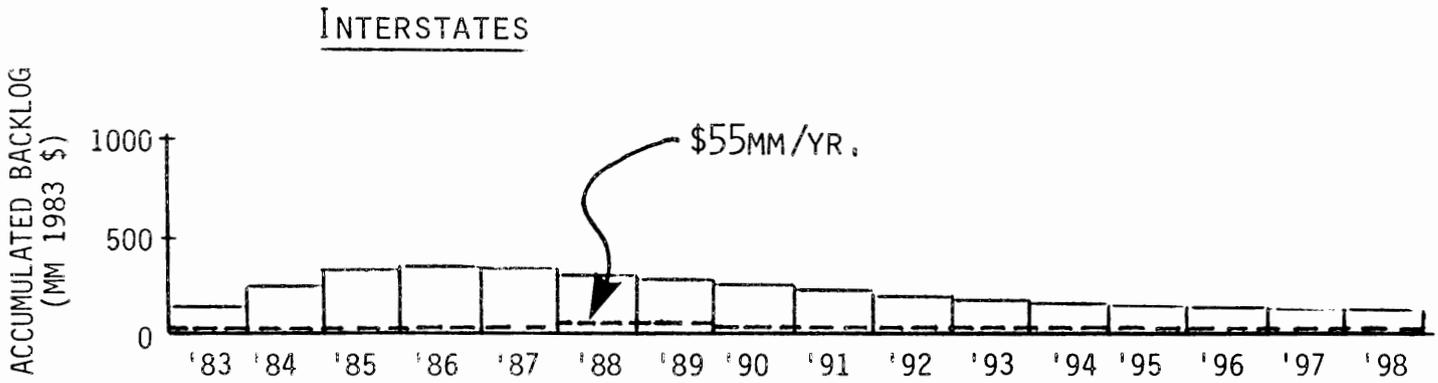
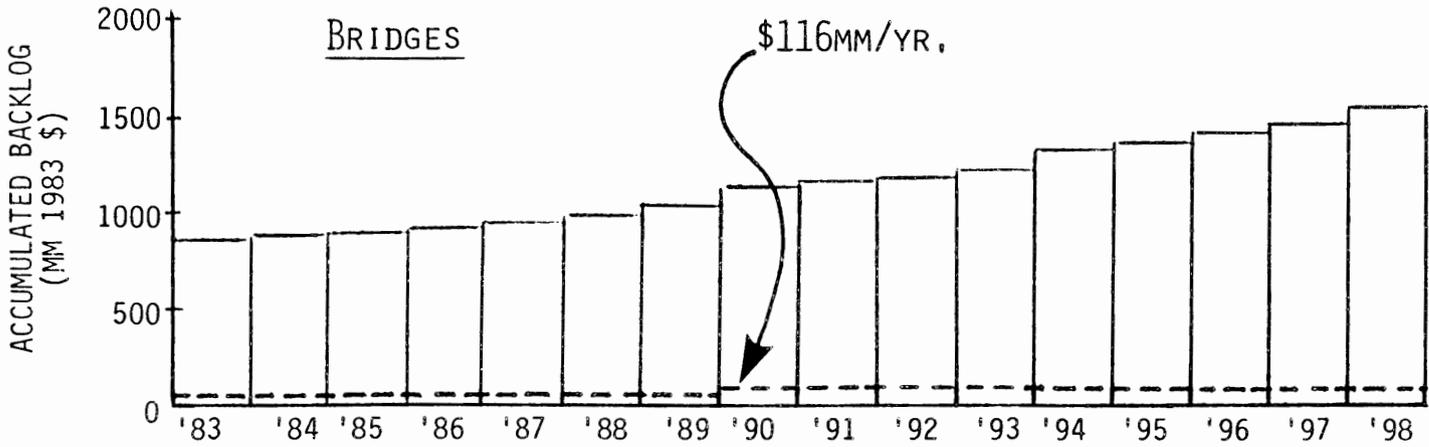
NEW JERSEY
 TOTAL BRIDGE & ROADWAY REHABILITATION
 CASE II : ELIMINATE BACKLOG



- Backlog Eliminated
- Annual Funding

By continuing the present funding and adding the equivalent of a 4 cents/gallon motor fuels tax increase, the roadway (interstate and non-interstate) rehabilitation can be controlled, but not significantly reduced. The bridge rehabilitation needs continue to grow. Annual expenditures after 1985 would be on the order of \$240mm.

NEW JERSEY
BRIDGE & ROADWAY REHABILITATION
CASE IIIA: REDUCE & STABILIZE BACKLOG



□ Funding

Given the infeasibility of a Case II (eliminate the backlog) approach, it seems prudent to consider options which will address the resource needs from a practical standpoint and make significant inroads in reducing the problem.

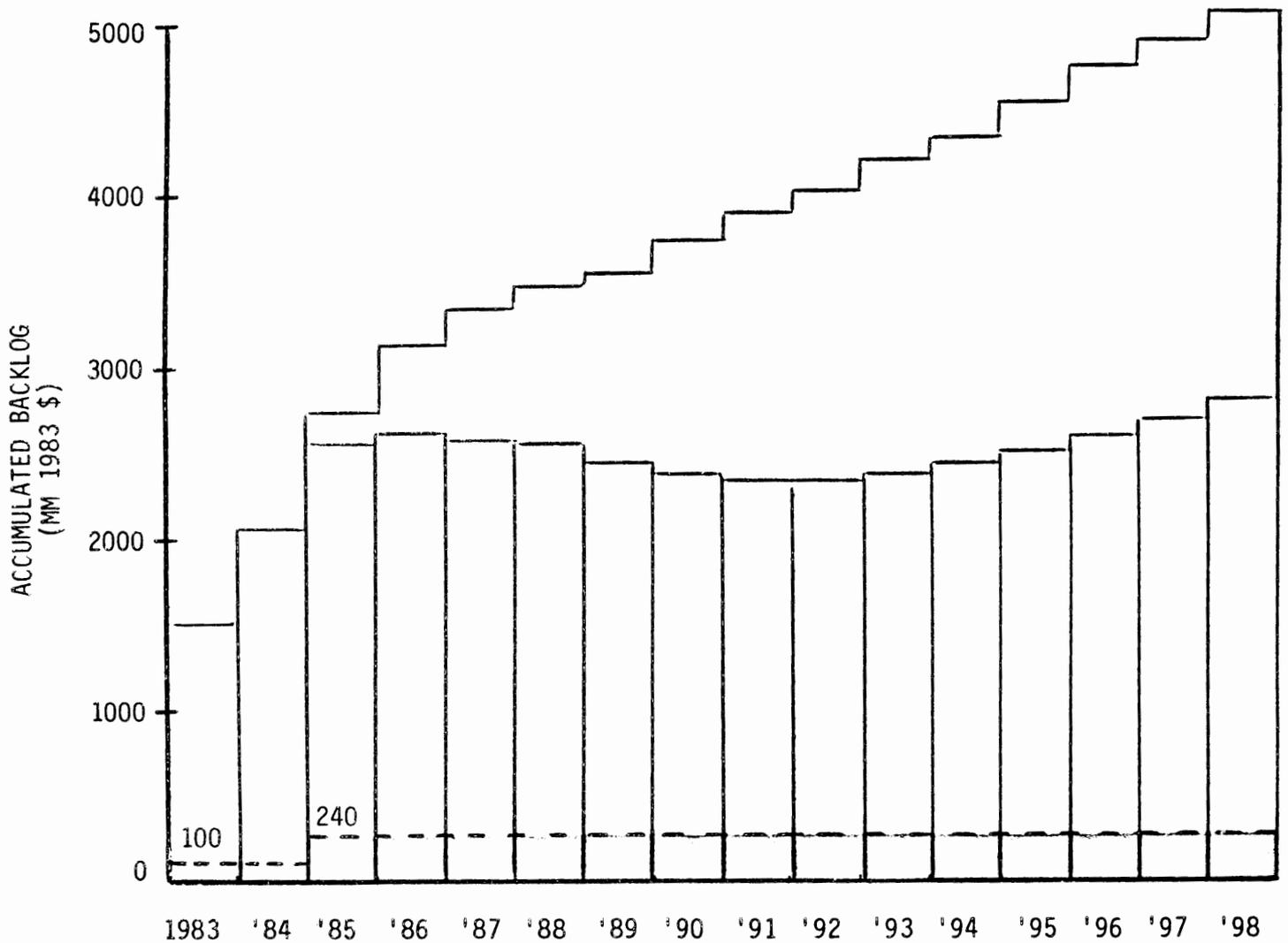
Several alternatives designed to reduce and stabilize the backlog over the 15 year period were examined. Three scenarios were constructed, each of which were variations on some increase in the current motor fuels tax. While this may not be the most expedient near term alternative for increasing funding, the order of magnitude of funding required and the impact of such potential investment are reasonable alternatives for implementation.

Cases IIIA, IIIB, and IIIC are displayed on the next six charts.

NEW JERSEY
 TOTAL BRIDGE & ROADWAY REHABILITATION
 CASE IIIA: REDUCE & STABILIZE BACKLOG

ASSUMPTIONS:

- \$100MM/YR FUNDING CONTINUATION
- \$4¢/GAL MOTOR FUELS TAX INCREASE, 1985



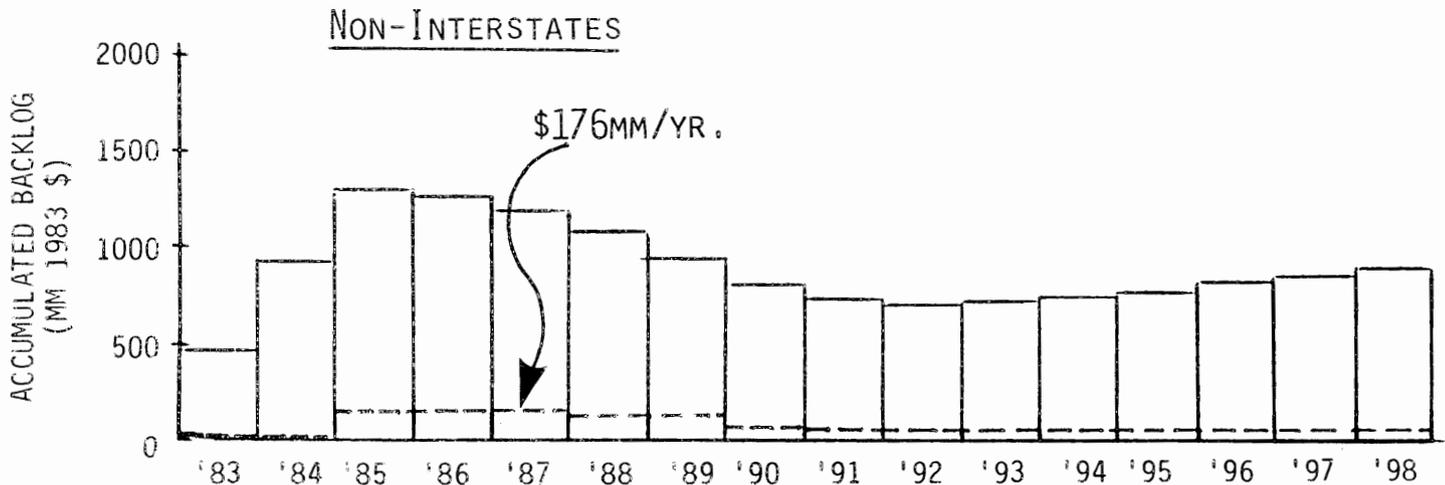
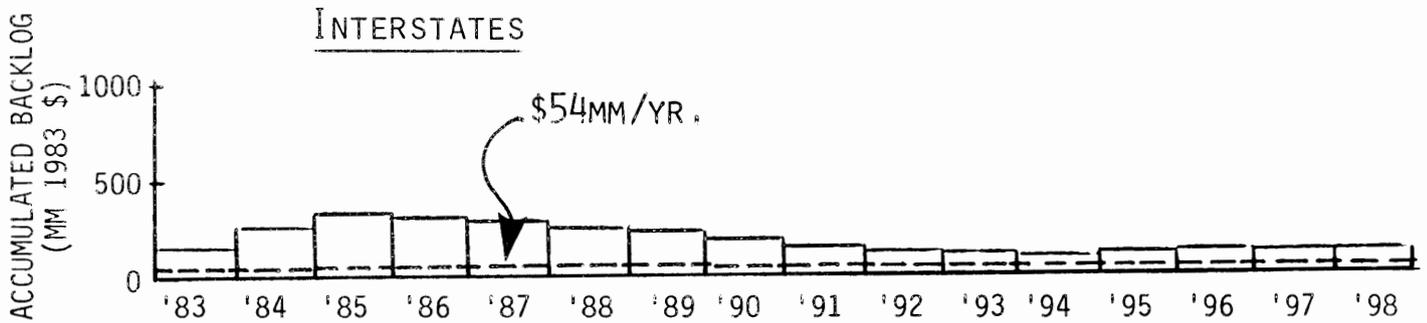
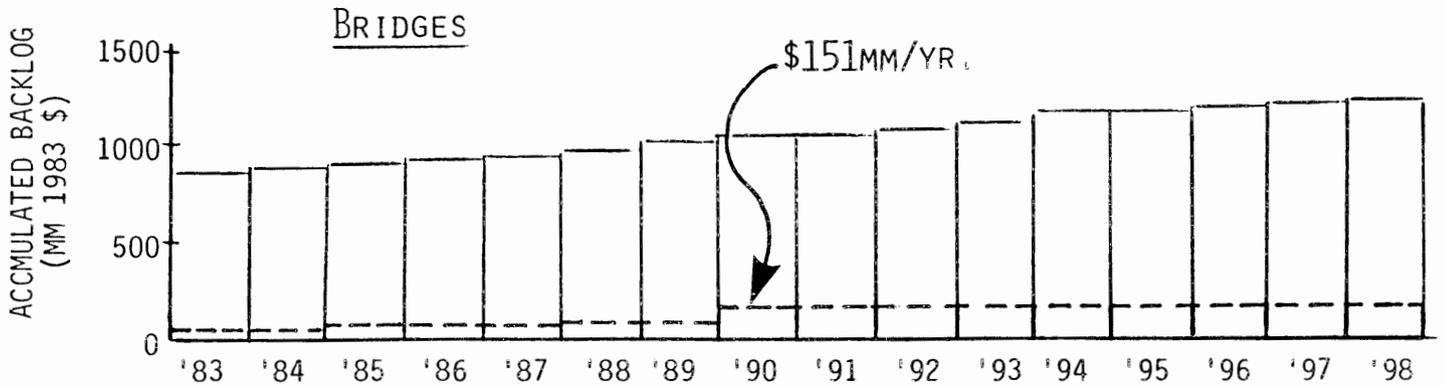
- Backlog Eliminated
- Annual Funding

Case IIIA assumes a continuation of current funding plus the revenue from an additional 4 cents per gallon state motor fuels tax by 1985. (1 cent per gallon equates to approximately \$35 million in annual revenues.)

A major reduction in the downstream backlog is achieved-- \$2.8 billion versus \$5.0 billion under the base case. Also, the growth in backlog is quickly controlled (1987) and even slightly reduced for a short period.

By leveraging 2 cents of a 1985 tax increase with the "Infrastructure Bank" until 1990 and then raising new revenue equivalent to a 2 cents/gallon motor fuels tax increase, the rehabilitation backlog can be further reduced and better controlled. Under this scenario the annual spending level would approximate \$295mm.

NEW JERSEY
BRIDGE & ROADWAY REHABILITATION
CASE IIIB: REDUCE & STABILIZE BACKLOG



□ Funding

Case IIIB assumes not only the continuation of current funding, but a leveraging of the 4 cents per gallon motor fuels tax increase through a mechanism such as the "infrastructure bank" currently being discussed. This increased annual funding through the infrastructure bank mechanism is made possible through the sale of bonds. The proceeds of the bond sale would be available immediately for capital projects, while the debt service would be paid over a ten year period. Half of the assumed 1985 increased tax could be diverted to the infrastructure bank resulting in a \$195 million annual increase rather than \$140 million. Any additional "upfront" funding is desirable (even at the expense of longer term reduced investments).

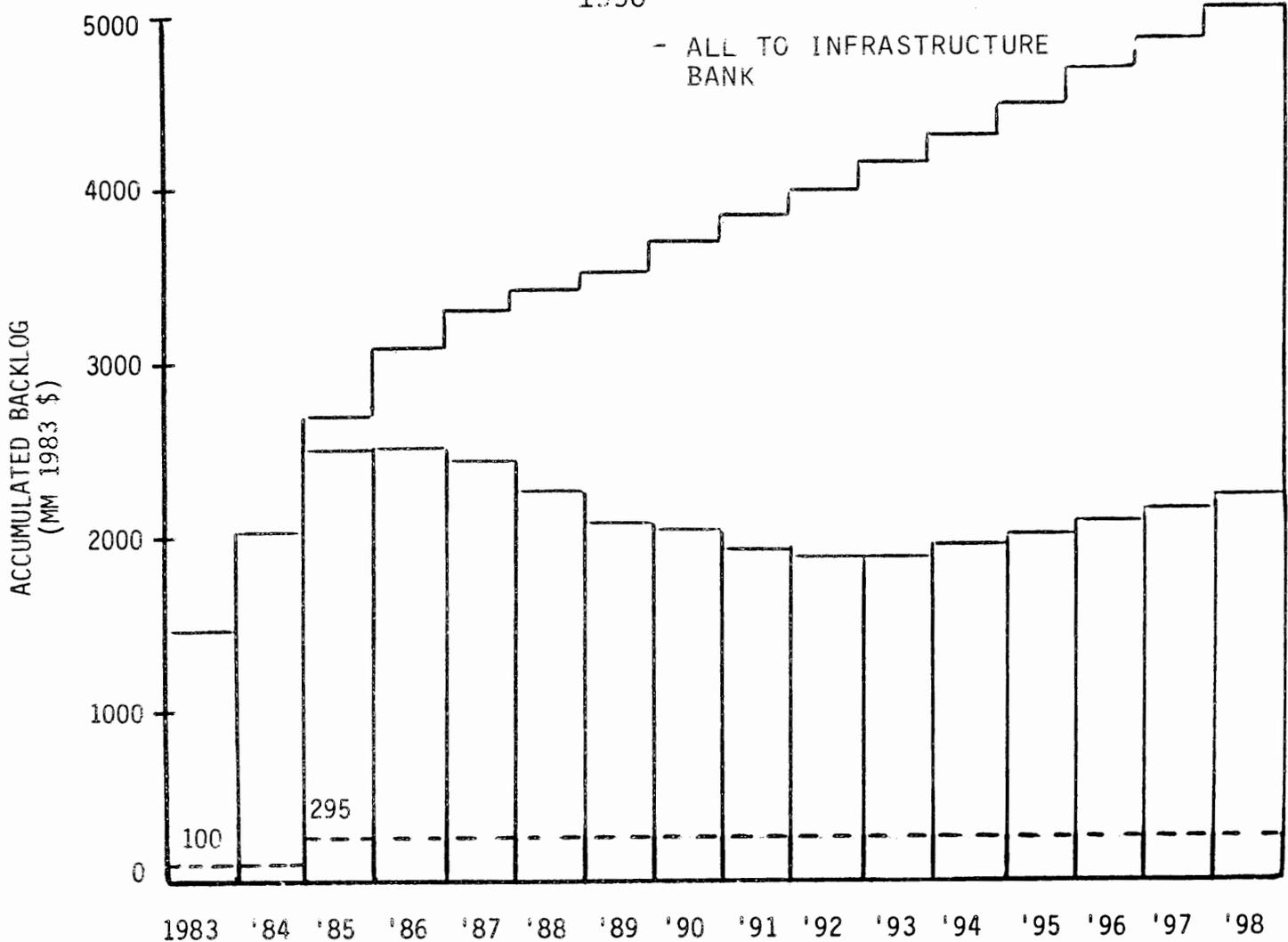
An additional 2 cents per gallon increase was also programmed in for 1990, in order to create a revolving fund and maintain the \$295 million annual funding levels.

The net result is a terminal backlog of \$2.2 billion (versus \$2.8 billion under Case IIIA). Again, down significantly from the status quo case.

NEW JERSEY
 TOTAL BRIDGE & ROADWAY REHABILITATION
 CASE IIIB: REDUCE & STABILIZE BACKLOG

ASSUMPTIONS:

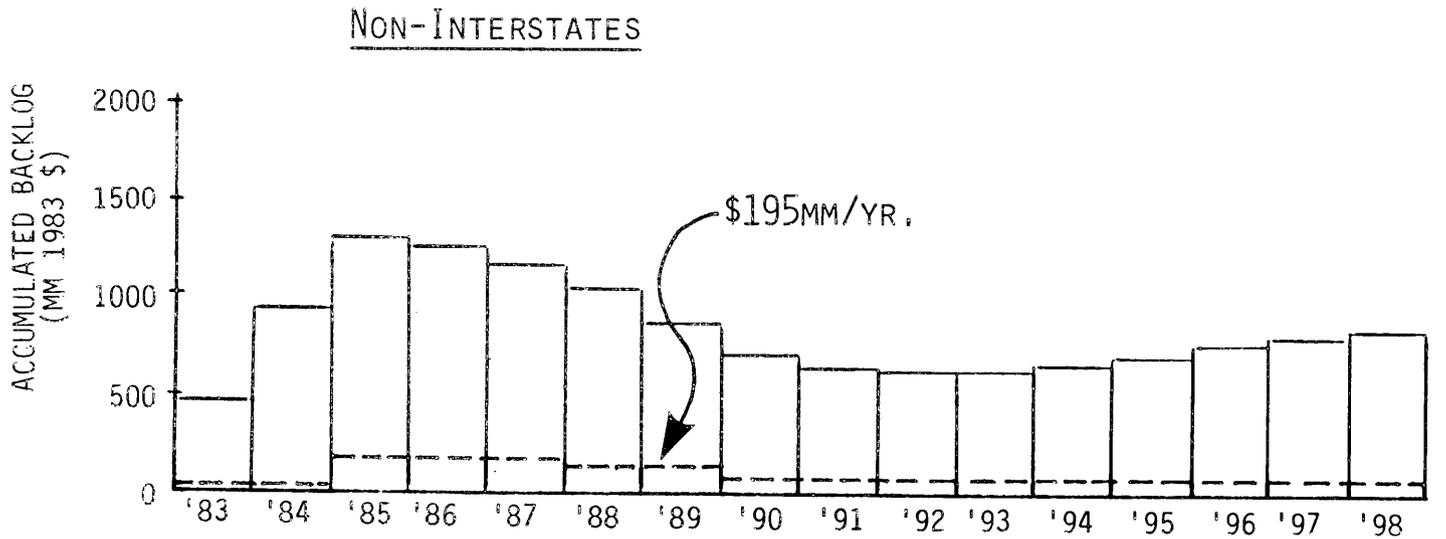
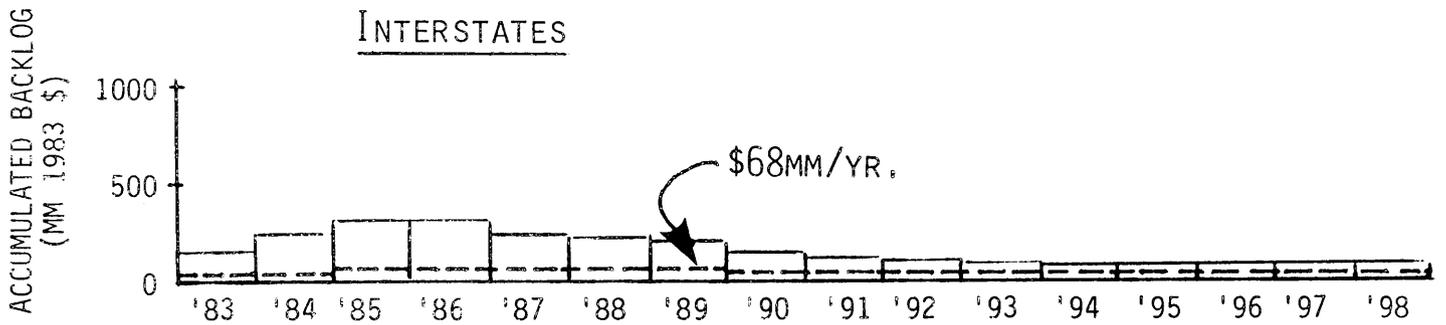
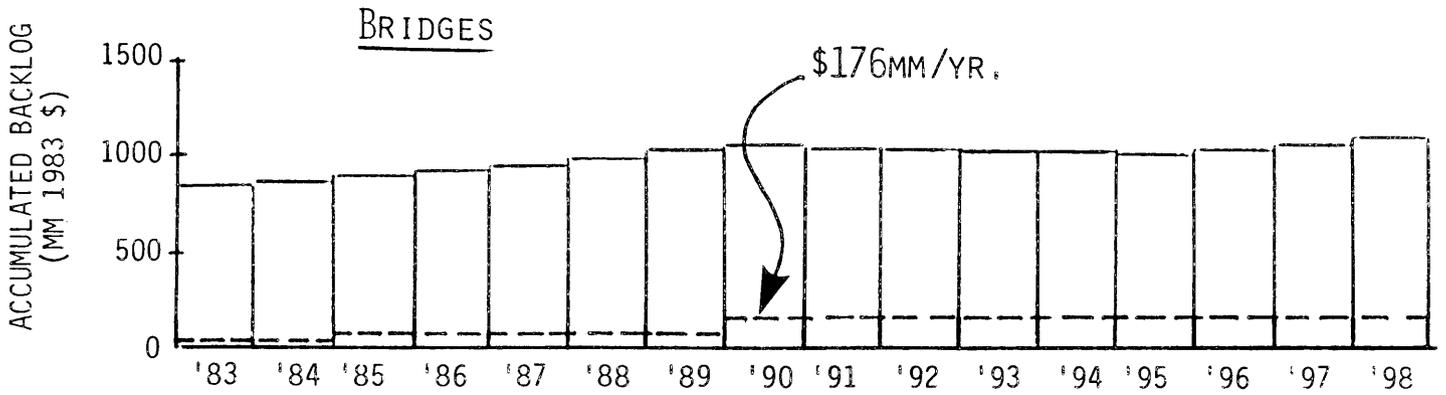
- \$100MM/YR FUNDING CONTINUATION
- \$4¢/GAL MOTOR FUELS TAX INCREASE, 1985
 - 2¢/GAL. TO INFRASTRUCTURE BANK
- ADDITIONAL 2¢/GAL MOTOR FUELS TAX INCREASE, 1990
 - ALL TO INFRASTRUCTURE BANK



- Backlog Eliminated
- Annual Funding

Committing 3 cents of a 4 cents/gallon motor fuels tax increase to something like the Infrastructure Bank would further increase the amount of road and bridge rehabilitation the state could do. A subsequent 3 cents/gallon increase in 1990 (committed to the Infrastructure Bank) would make roughly \$325mm available for Infrastructure renewal. The amount would do a very good job of eventually controlling the backlog, but would not reduce it overall.

NEW JERSEY
BRIDGE & ROADWAY REHABILITATION
CASE IIIC: REDUCE & STABILIZE BACKLOG



□ Funding

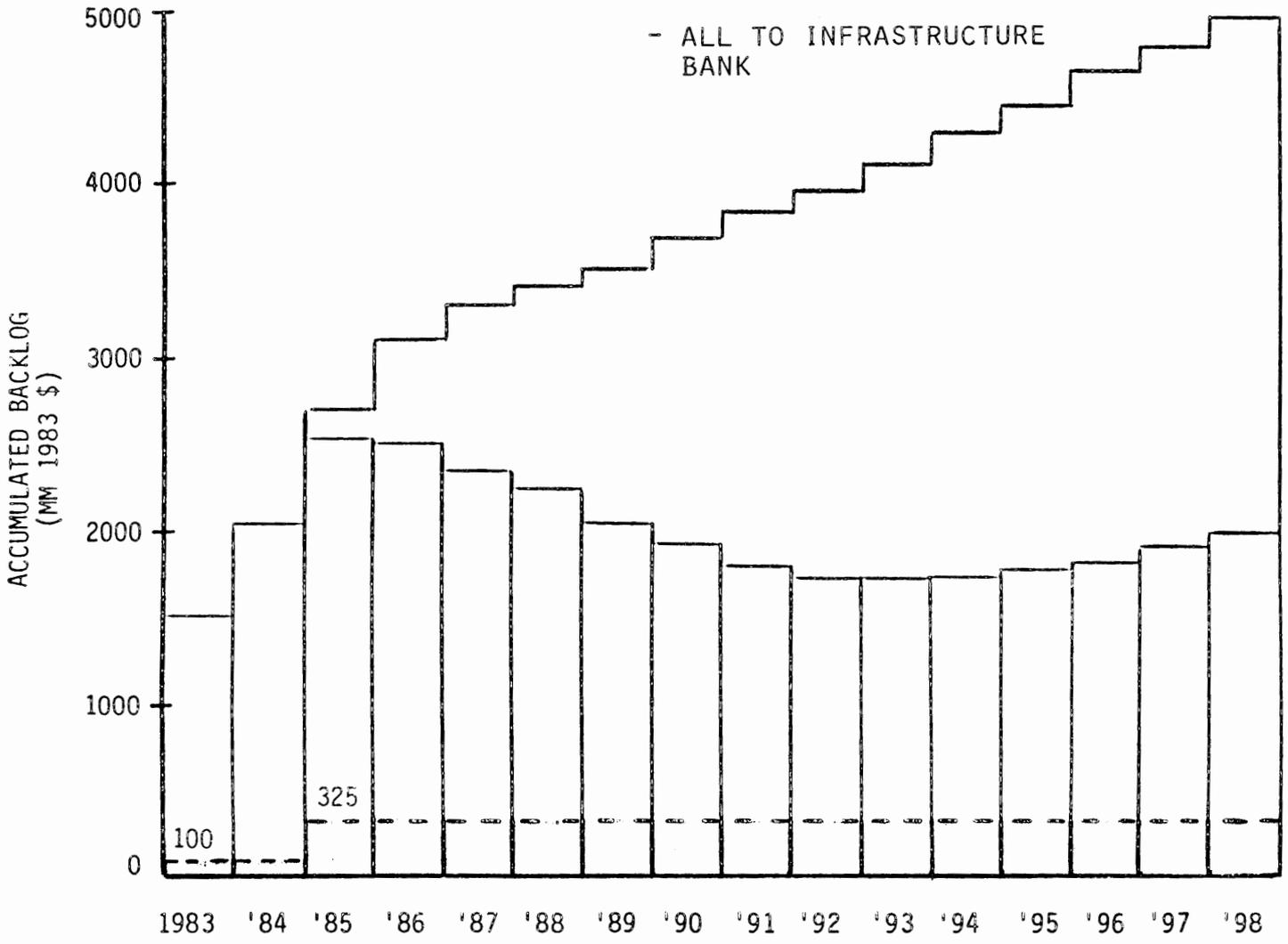
Case IIIC is a modification of the previous case using a 3 cents per gallon diversion to the "infrastructure bank" concept. Here too, the 15 year backlog (roughly \$2.0 billion) is significantly below the \$5.0 billion of Case I.

In none of the Case III alternatives did overall bridge and road conditions match, or exceed, their current condition. However, in all three cases, further deterioration was essentially eliminated within the third year following the institution of the motor fuels tax increase.

NEW JERSEY
 TOTAL BRIDGE & ROADWAY REHABILITATION
 CASE IIIC: REDUCE & STABILIZE BACKLOG

ASSUMPTIONS:

- \$100MM/YR FUNDING CONTINUATION
- 4¢/GAL MOTOR FUELS TAX INCREASE, 1985
 - 3¢ TO INFRASTRUCTURE BANK
- ADDITIONAL 3¢/GAL. MOTOR FUELS TAX INCREASE
 IN 1990



Backlog Eliminated
 Annual Funding

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The sources available to the state in raising funding from existing instruments can be identified and are traced in the following chart.

The most obvious source is transportation-generated revenues of which there are two state sources: Motor vehicle fees and motor fuels taxes. The main federal source is the Surface Transportation Act which provides funds from the Highway Trust Fund. However, most of the existing Highway Trust money is "earmarked" and not discretionary. The table outlines those funds and the uses to which they are currently committed. Of the over \$1 billion, only \$115 million (most of which is federal) is available for road and bridge maintenance and repair. This \$115 million compares with the peak \$475 million in annual requirements previously identified as being needed to eliminate the backlog.

A dedicated state funding policy could produce approximately \$64 million in additional funds. However, these funds which now support other non-transportation programs, would require replacement revenues or other program cuts. Further "squeezing of the fat" out of DOT operations might produce a few more million. In total, though, it is unlikely that an additional \$195 million or so per year could be gleaned from existing transportation-related revenues alone.

It appears that a new source of annual funding must be developed to augment the current \$100 million in order to (1) arrest the continuing annual increase in rehabilitation requirements, and (2) to hold it at a level which is acceptable. The most obvious source of additional funding is either the State's motor fuels tax or its motor vehicle fees.

Since New Jersey's gas tax is roughly one-third less than neighboring states, an increase of four to five cents per gallon was assumed in order to determine the impact on the downstream backlog. Again, while this method of fresh revenue generation may or may not be the most desirable over the near term, it does represent the scale of funding required to solve the problem.

DEPARTMENT OF TRANSPORTATION
 SOURCES AND USES OF FUNDS, FY1984
 (\$ MILLIONS)

SOURCES AND USES	TOTAL	FUNDS USED FOR OTHER THAN BRIDGES & ROADS	FUNDS AVAILABLE FOR BRIDGE & ROAD MAINTENANCE & REPAIR
FEDERAL HIGHWAY TRUST	540		
USES - TRANSIT		210	
- INTERSTATE COMPLETION		240	90
<u>NEW JERSEY FEES & TAXES</u>			
MOTOR VEHICLE FEES \$282 MIL		\	
FUEL TAX \$282 MIL			
OTHER FEES \$7 MIL			
TOTAL	571		
USES - DOT OPERATIONS INCLUDING TRANSIT AND DEBT SERVICE		377	
- NONTRANSPORTATION- RELATED PROGRAMS		64	
- DIV. OF MOTOR VEHICLES		47	
- STATE POLICE		35	
- MATCHING FUNDS* FOR FEDERAL AID RELATED TO INTERSTATE COMPLE- TION & LOCAL AID		23	25**
TOTALS	1111	996	115

*AN ADDITIONAL \$27 MIL FOR 1984 IS AVAILABLE FOR THIS PURPOSE FROM 1979 BOND FUNDS.

**PART OF THIS PROVIDES MATCH FOR FEDERAL FUNDS FOR MAINTENANCE & REPAIR.

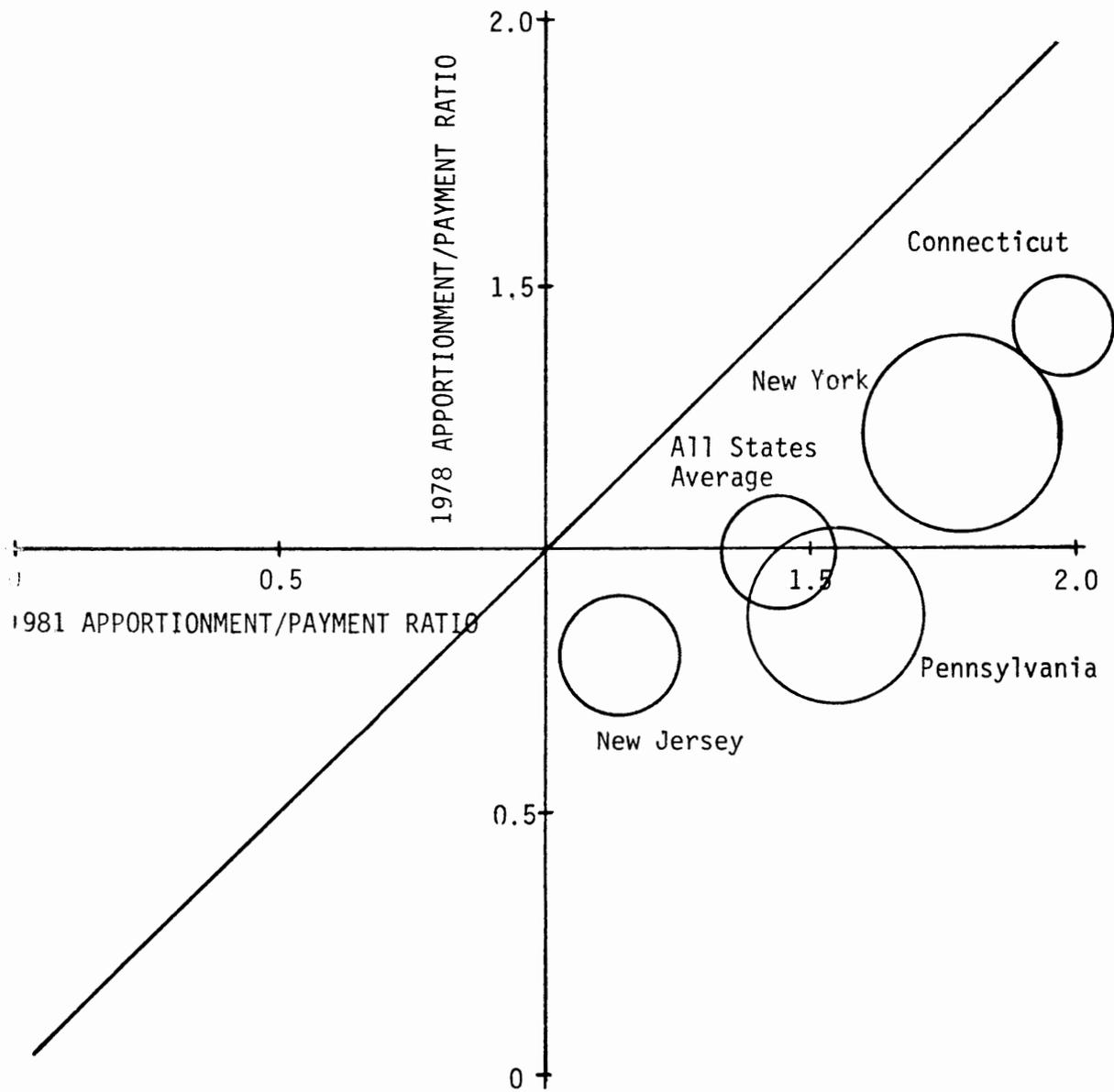
A major source of incremental capital for the state is the annual apportionment from the Highway Trust Fund. The following chart compares New Jersey's ratio of apportionments to payments with nearby states for the years 1978 and 1981. The circle size is proportionate to 1981 apportionments.

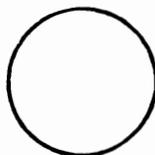
New Jersey received approximately \$0.82 for each \$1.00 paid in in 1978, and was a net contributor. In 1981, the state received approximately \$1.15 for each dollar contributed.

It is interesting to note that New Jersey is nearer the lower end of the spectrum, with "more favored" states receiving upwards of 2 to 3 times their payments in apportionments in 1981. The average 1981 apportionment/payment ratio for all states was 1.44--much greater than New Jersey's ratio of 1.14. Even among the neighboring states (see chart), New Jersey receives less absolute dollars and has a less favorable payout ratio than the others. Although the state received more than it contributed to the fund in 1981, its relative position among the other states did not improve appreciably.

Given a state which carries twice the national average traffic volume, additional federal funding should be sought. The 1982 Surface Transportation Act provides significant improvement in New Jersey's position. The Bridge and Primary Highway Program formulae have been redrafted to the benefit of New Jersey.

FEDERAL HIGHWAY TRUST FUND
 COMPARISON OF STATE PAYMENTS
 AND FEDERAL AID APPORTIONMENTS
 FY1978 vs FY1981



 = \$250mm Apportionments, 1981

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SUMMARY OBSERVATIONS

• MAINTENANCE COSTS AND ADMINISTRATION

- MAINTENANCE BUDGETS HISTORICALLY CONSTRAINED
- UNIT COSTS INCREASING FOR MOST MAJOR MAINTENANCE ACTIVITIES
- UNIT COST INCREASES MAY RELATE TO D.O.T. POLICY AND ADVANCING INFRASTRUCTURE DETERIORATION
- EFFECTIVENESS IN USING OUTSIDE CONTRACTORS TO FURTHER CONTROL COSTS REQUIRES MORE ANALYSIS
- DEPARTMENTAL COSTS FOR CONSTRUCTION ENGINEERING APPEAR HIGH, YET MORE ANALYSIS NECESSARY

• INFRASTRUCTURE COMPLETION

- \$1.6 BILLION IN NEEDS, 1985 THROUGH 1990
- MAJOR FEDERAL FUNDING AVAILABLE, BUT MUST BE MATCHED
- \$113 MILLION/YEAR REQUIRED FROM STATE SOURCES

• INFRASTRUCTURE REHABILITATION

- \$1.5 BILLION BACKLOG IN 1983
- DECAY DYNAMICS VERY VOLATILE
- BACKLOG COULD INCREASE TO \$5.0 BILLION WITHIN 15 YEARS AT PRESENT FUNDING LEVELS
- MAJOR ESCALATION OCCURS PRIOR TO 1988
- NON-INTERSTATE ROADWAYS MAJOR NEAR-TERM PROBLEM
- BRIDGES MAJOR LONGER-TERM PROBLEM

• INVESTMENT REQUIRED

- STATE MAY NEVER COMPLETELY ELIMINATE PROBLEM, BUT SIGNIFICANT RESULTS CAN BE ACHIEVED
- ADJUSTMENTS AND REDIRECTION OF EXISTING STATE SOURCES INADEQUATE TO RESOLVE PROBLEM
- ADDITIONAL \$140 TO \$200 MILLION/YEAR REQUIRED TO ADEQUATELY REDUCE AND STABILIZE BACKLOG

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- SOURCES OF FUNDS

- SUMMARY OBSERVATIONS

- POLICY OPTIONS

While the policy options summarized on the facing page focus on the infrastructure rehabilitation problem, they should be reviewed in the larger context of the balance between completion and rehabilitation projects. If the \$113 million required annually for completion projects were to be funded by a gasoline tax of approximately 3 cents per gallon (as outlined earlier in this report). The total gasoline tax required both to "reduce and stabilize the backlog" and to implement the completion projects would be 7 to 9 cents per gallon. If, as a result of the recent federal gasoline tax increase, the maximum feasible increase for New Jersey is 5 cents or so per gallon, one or both areas could be significantly compromised.

One of the options available to the State would be the depositing of any additional gasoline tax increase or the allocation of a portion of the existing gasoline tax increase into an infrastructure bank. Immediately, substantial results in addressing the rehabilitation backlog and in making improvements to the highway system could occur through the leveraging available from the infrastructure bank mechanism, as has been previously stated (page 20).

POLICY OPTIONS

- "STATUS QUO"
 - CURRENT FUNDING (\$100 MILLION/YEAR) CRITICALLY INSUFFICIENT FOR INFRASTRUCTURE REHABILITATION
 - NON-INTERSTATE HIGHWAYS AND BRIDGES MAJOR PROBLEMS
 - \$4.8 BILLION INFRASTRUCTURE REHABILITATION BACKLOG ESTIMATED BY 1998
 - MAJOR GAPS IN HIGHWAY SYSTEM WILL EXIST UNTIL END OF DECADE OR BEYOND

- ELIMINATE BACKLOG ENTIRELY
 - ANNUAL PEAK REQUIREMENT OF \$475 MILLION FOR INFRASTRUCTURE REHABILITATION NEEDED BY 1988
 - SUSTAINED \$400 MILLION/YEAR FOR 5 TO 6 YEARS THEREAFTER FOR INFRASTRUCTURE REHABILITATION
 - MAGNITUDE OF FUNDING REQUIRED MAY BE BEYOND STATE'S PRACTICAL CAPABILITIES
 - \$113 MILLION/YEAR NEEDED FOR 5 TO 6 YEARS FOR INFRASTRUCTURE COMPLETION

- REDUCE AND STABILIZE BACKLOG--NEW TAXES
 - POSSIBLE TO REDUCE INFRASTRUCTURE REHABILITATION BACKLOG TO \$2.0 TO \$2.8 BILLION
 - ANNUAL REQUIREMENTS OF \$240 TO \$300 MILLION FOR REHABILITATION
 - APPROACHABLE BY 4 TO 6¢ MINIMUM INCREASE IN MOTOR FUELS TAX
 - "INFRASTRUCTURE BANK" MECHANISM WOULD PROVIDE NEEDED NEAR-TERM LEVERAGE

- REDUCE AND STABILIZE BACKLOG--EXISTING TAXES
 - ALLOCATE EXISTING TAX REVENUES IN CONJUNCTION WITH "INFRASTRUCTURE BANK" MECHANISM TO PROVIDE NEAR-TERM FINANCING
 - WOULD REDUCE FUNDS USED FOR OTHER PROGRAMS

**DEPARTMENT OF TRANSPORTATION
MASS TRANSIT**

Strategic Issues and Alternatives



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- Mass Transit in New Jersey

- NJT Operational Profile

- Operating Cost Performance
- Ridership/Route Segmentation
- Farebox Coverage
- Capital Program

- Private Operations

- Comparative Operating Costs
- Niching Strategy
- Industry Size

- Summary Observations

- Policy Options

INTRODUCTION

This report documents the efforts of a joint task force representing state government, the private sector, and outside business consultants to identify and to review the key strategic issues associated with mass transit in New Jersey, particularly New Jersey Transit (NJT). The aim of this group, given limited time and resources, was to provide a context useful for the strategic review of policies in this area at the Governor and Cabinet officer level.

This effort arose from the recognition that NJT represents an area of considerable scale (nearly \$150mm in state funds) that is discretionary in nature (i.e., not driven by formula or other legislation). As such, mass transit placed high on the list of issues which will require careful balancing against other equally critical funding needs facing New Jersey over the next decade.

The objectives of the joint task force were as follows:

- Understand current and future "market trends" for mass transit in New Jersey, and NJT in particular.
- Identify and measure areas of operational and financial concern, including long-term cost performance, ridership trends, farebox coverage and service levels.
- Identify cost-effective points of leverage in reducing annual operating deficits while providing essential service levels.
- Raise issues which may require policy changes in order to increase NJT's cost effectiveness commensurate with service level to the riding public.

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- The Problem

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NJT anticipates running a system-wide operating deficit--or strategic gap--of roughly \$200mm in FY1984. Of this, \$45mm will be covered by federal operating assistance and \$149mm is expected to be appropriated from the General Fund.

NJT's expectation of ongoing and slightly worsening annual deficits is shown in the opposite chart. Expenses are forecasted to continue to rise, and allowing for minimal growth in ridership revenue, this deficit will not close appreciably over the next five years without major policy changes. Assuming that federal assistance remains at the \$45mm level through 1988, NJ Transit estimates that the annual state appropriation required will be:

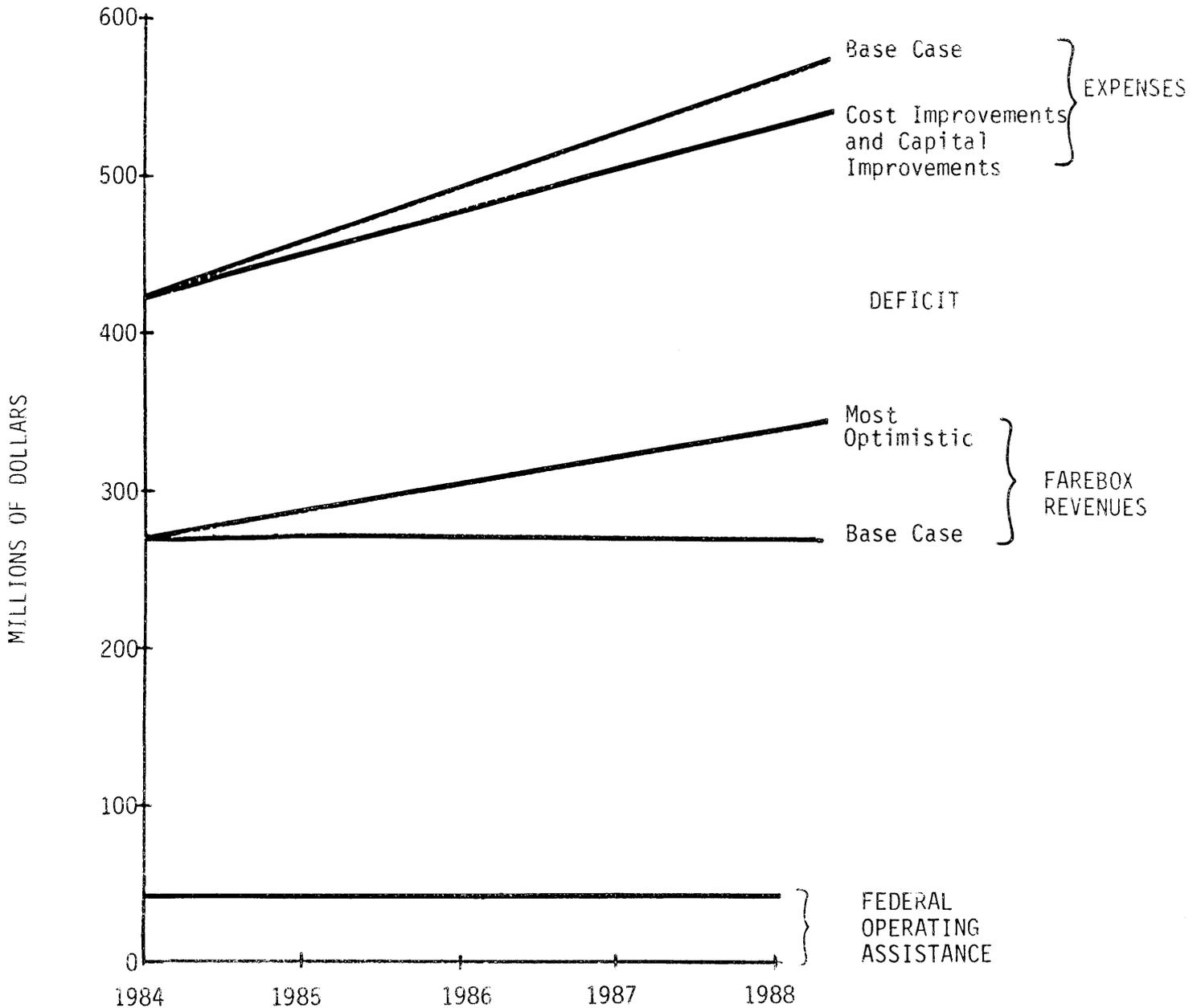
1984 - \$150 million
1985 - \$160 million
1986 - \$160 million
1987 - \$170 million
1988 - \$180 million

These estimates are based on a number of key assumptions: Full implementation of NJT's 3 Point Plan and 8 year Capital Plan, favorable labor settlements, the recent rail settlement, a 6% annual fare increase, a 3% annual growth in rail ridership and a plateauing of bus ridership. The above estimates have been rounded to the nearest "ten".

More aggressive cost and labor management programs have recently been instituted, including the recent labor contract settlement ending the 1983 rail strike. Farebox revenues are expected to increase under optimistic assumptions of increased ridership and fare adjustments. While there is some question as to the exact demand elasticity given specific fare actions, farebox revenues are not anticipated to keep up with increases in operating expenses. Thus, the magnitude of future state subsidies is expected to increase as shown from the \$149mm expected in FY1984, in spite of the significant cost improvements and revenue enhancements either implemented or planned by NJ Transit's management.

One very possible additional change is the controversial reduction, or elimination, of the federal operating subsidy. Obviously this would increase the fiscal burden currently borne by the state and/or further heighten pressure for increases in farebox revenues.

NEW JERSEY TRANSIT
 OPERATING COST/REVENUE FORECAST
 1984-1988



Base Case Revenue: Zero fare increase and industry growth

Base Case Costs: Pre-rail settlement
 No other cost improvement
 No capital improvement

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- Policy Options

Mass transit in New Jersey is provided by a variety of modes, including NJT's rail and bus operations, Amtrak, PATH, PATCO, various county authorities, and private bus companies. Of these NJT is the dominant actor.

New Jersey's commuter population is undergoing some long-term trends in its transportation preferences.

Mass transit accounted for approximately 18% of the state's journey-to-work commuters in 1970, but has fallen to 11% as of 1981. Part of the reason for lost ridership is the overall decline of mass transit in the northeast in particular, and the nation in general. The U.S. Census Bureau reports that three of the top six cities experiencing the largest decline in mass transit ridership nationally over the last decade were New York, Philadelphia and Newark--the major service area for NJT.

The facing chart illustrates the county-by-county decline in New Jersey's public transit ridership over the period 1970 to 1980. Circle sizes are proportional to the number of resident workers using public transportation. The location of the circles relate to the percent changes in both the resident work force and transit ridership over the decade. A circle on the 45° line would signify that ridership changes are occurring in step with work force changes. A circle below the 45° line would signify that ridership is actually increasing. Likewise, a circle above the 45° line would mean that ridership is decreasing beyond any similar changes in the resident workforce.

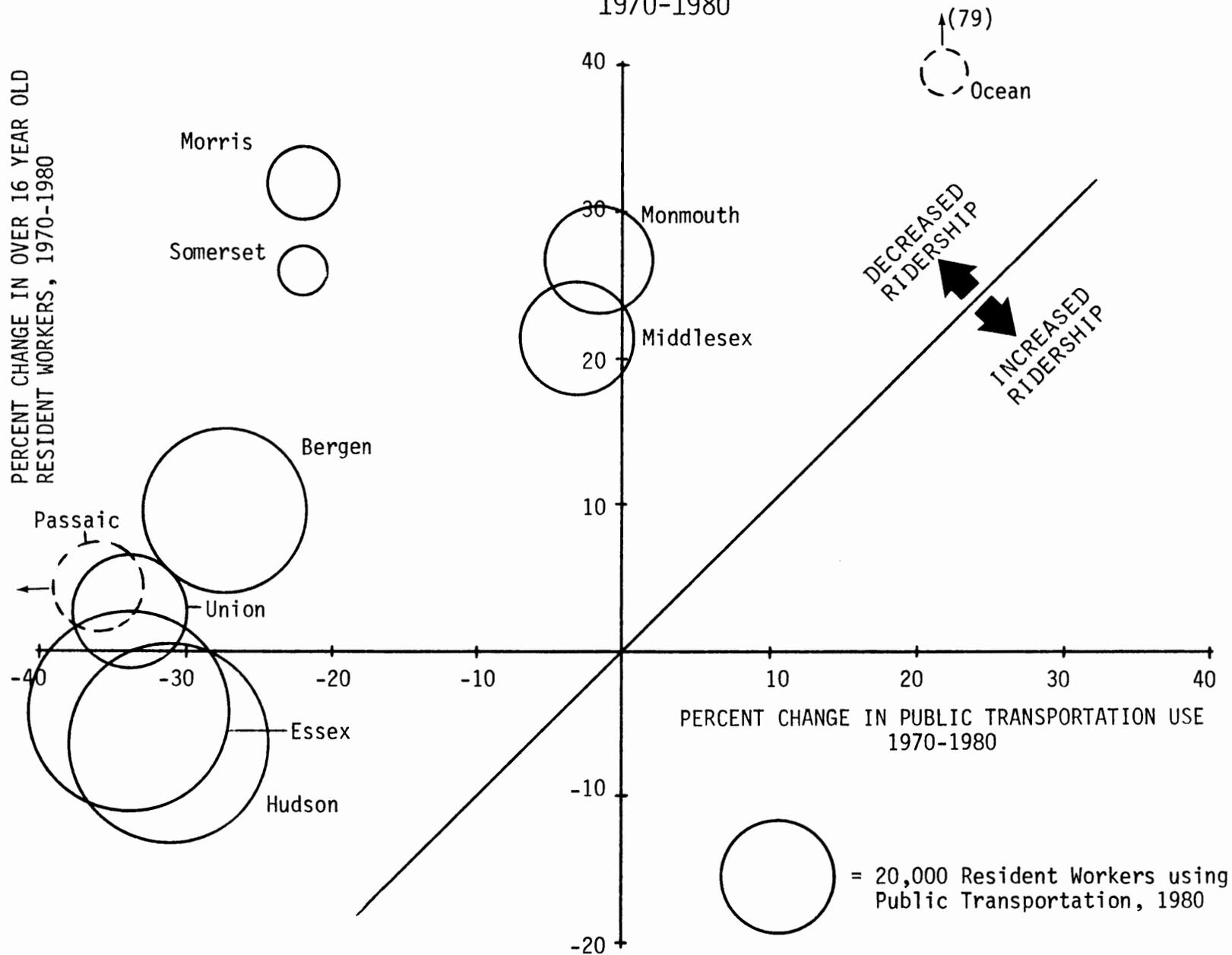
Virtually all of New Jersey's counties suffered a decrease in transit ridership, including those counties such as Morris, Somerset, Monmouth and Middlesex which experienced a net increase in their work force.

The big gainer has been the automobile, both single-occupant users and car poolers. The preference for automobiles relative to mass transit is due to several factors:

- New Jersey's continuing trend towards suburbanization, rather than urbanization;
- Employment patterns which more closely parallel the state's highway infrastructure, and which the current transit network is not optimally configured to serve; and
- Proximity of major highways to established transit corridors.

These trends suggest that, very much like the urban region it serves, NJT operates in a mature and stable market. That the market as a whole is viewed to be mature, however, does not imply that no growth has occurred in selected markets. The countervailing forces of growth and decline offer significant opportunity and threats to differing segments of NJ Transit's operations in the coming decade.

NEW JERSEY TRANSIT RIDERSHIP TRENDS COMPARED WITH POPULATION GROWTH, BY COUNTY 1970-1980



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- The Problem
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- Summary Observations
- Policy Options

An evaluation of operating costs lends useful insights into the longer term management of the system.

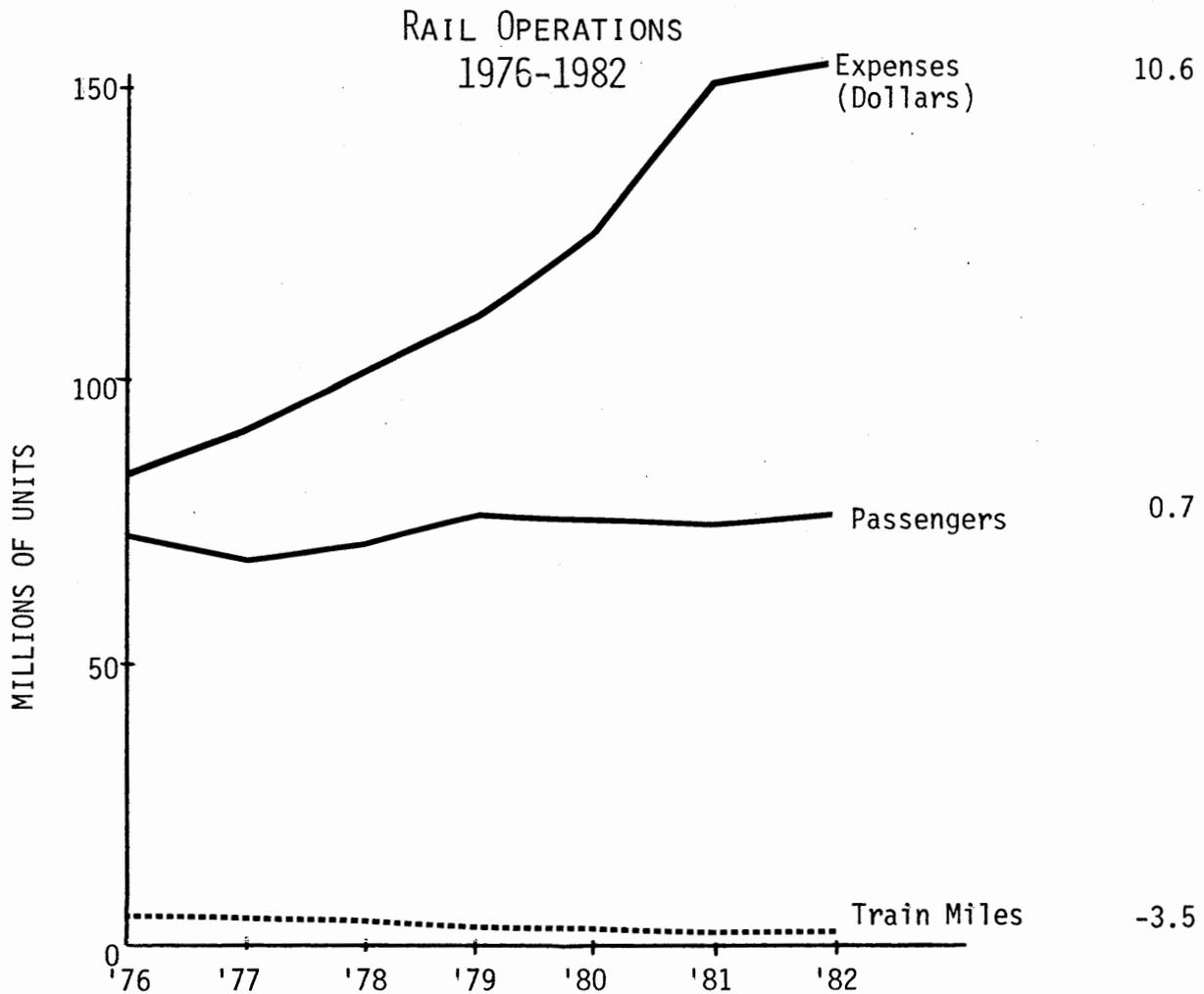
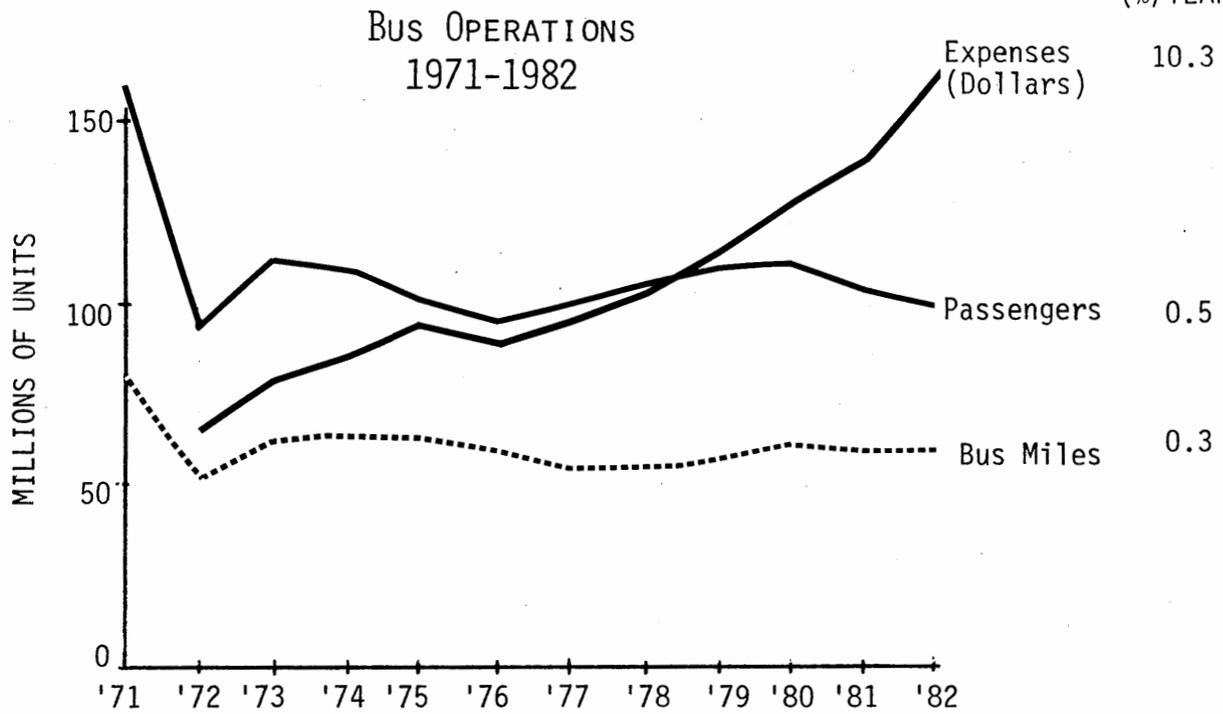
A review of bus operations reveals that total bus expenses have been increasing approximately 11% per year since 1973 (without inflation adjustment). Over the same period, the amount of service provided measured in bus miles has remained relatively stable while the number of passengers has declined slightly.

Total expenses for rail have also increased approximately 11% per year since 1973 (without inflation adjustment). Over the same period, train miles have declined slightly while the number of passengers has increased slightly.

While expenses for both bus and rail have increased at the same annual rates, passenger declines have been limited to bus operations. The decline in bus ridership since 1979 has not been accompanied by a corresponding decrease in bus miles or service capacity.

NEW JERSEY TRANSIT
SELECTED TRENDS IN OPERATIONS

AVG. ANNUAL
GROWTH
76-82
(%/YEAR)



A representative indicator of long-term cost management is a measure of real unit cost performance. To convert annual dollars to constant (inflation-adjusted) dollars for bus operations, a labor deflation derived from NJT's maximum hourly wage was applied to 70% of total expenses. The overall GNP deflation was applied to the remaining 30% to account for materials, supplies, equipment, fuel, and other operating expenses. A similar approach was taken in determining constant dollar costs for rail operations where direct wages are only 50% of total expenses.

For bus and rail operations, two standards were possible: dollars per bus mile (or rail car mile) and cents per passenger mile.

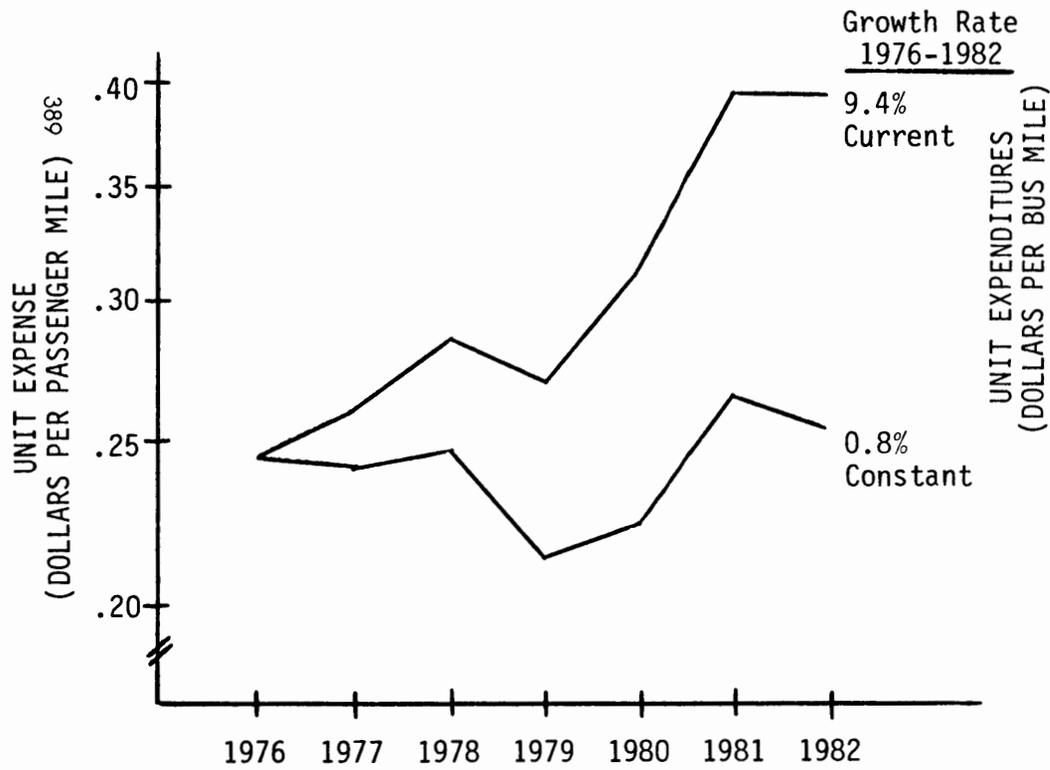
For bus operations, dollars per bus mile are shown for the period 1960 to 1982. In constant dollar terms, bus operations have shown minimal growth in unit costs. A similar trend can be shown on a passenger mile basis. Rail operations costs were available for a shorter period (1976 to date) but have shown the same trend.

This is in contrast to many other service-related situations where constant dollar unit costs decline over time due to the so-called "experience effect." Little empirical evidence exists to suggest that the same should not be expected of NJT.

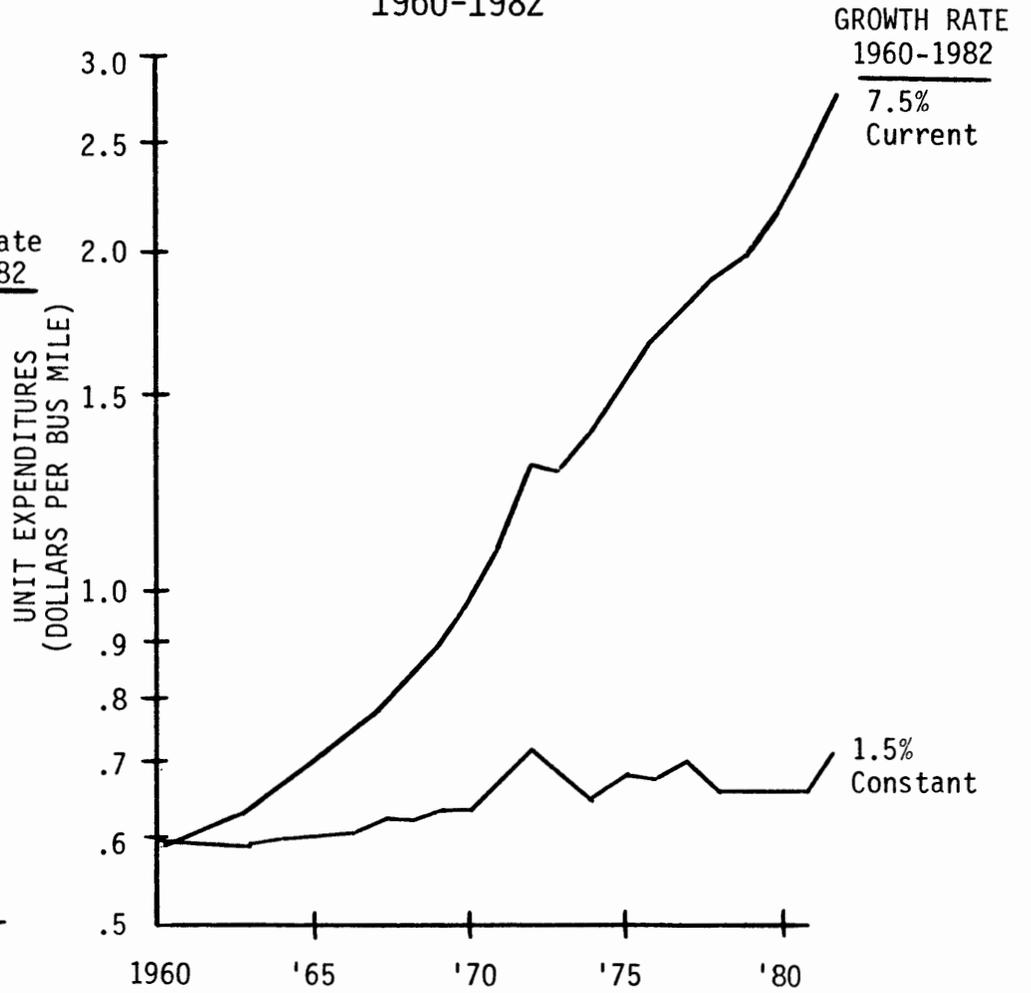
While costs are not rising significantly, which in itself is encouraging, the operating deficit is not likely to erode significantly, if at all, without strong downward pressure on costs.

NEW JERSEY TRANSIT COST TRENDS

RAIL OPERATIONS 1976-1982



BUS OPERATIONS 1960-1982



Similar to product service markets in the private sector, NJT's overall ridership is composed of several, identifiable, segments. NJT currently serves 170 million riders per year, and is dominated by bus operations. However, its costs and deficits are not.

Operating expenses segment into the subsidized bus operations, NJT's bus operations and NJT's rail operations. In 1982, the deficit from these segments was \$18mm, \$61mm, and \$86mm, respectively.

NJT's rail operations carry one-third as many people as its bus operations, although its operating expenditures are roughly equal. Rail's relatively low revenue coverage (46%) results in a deficit approximately equal to that of all bus operations. While rail's operating ratio has been managed upward from the 39% coverage of 1979, it is expected to remain at the 50% level projected for FY1984 through 1988. During the period from 1979 to 1982, however, the bus operating ratio declined from 70% to 67%.

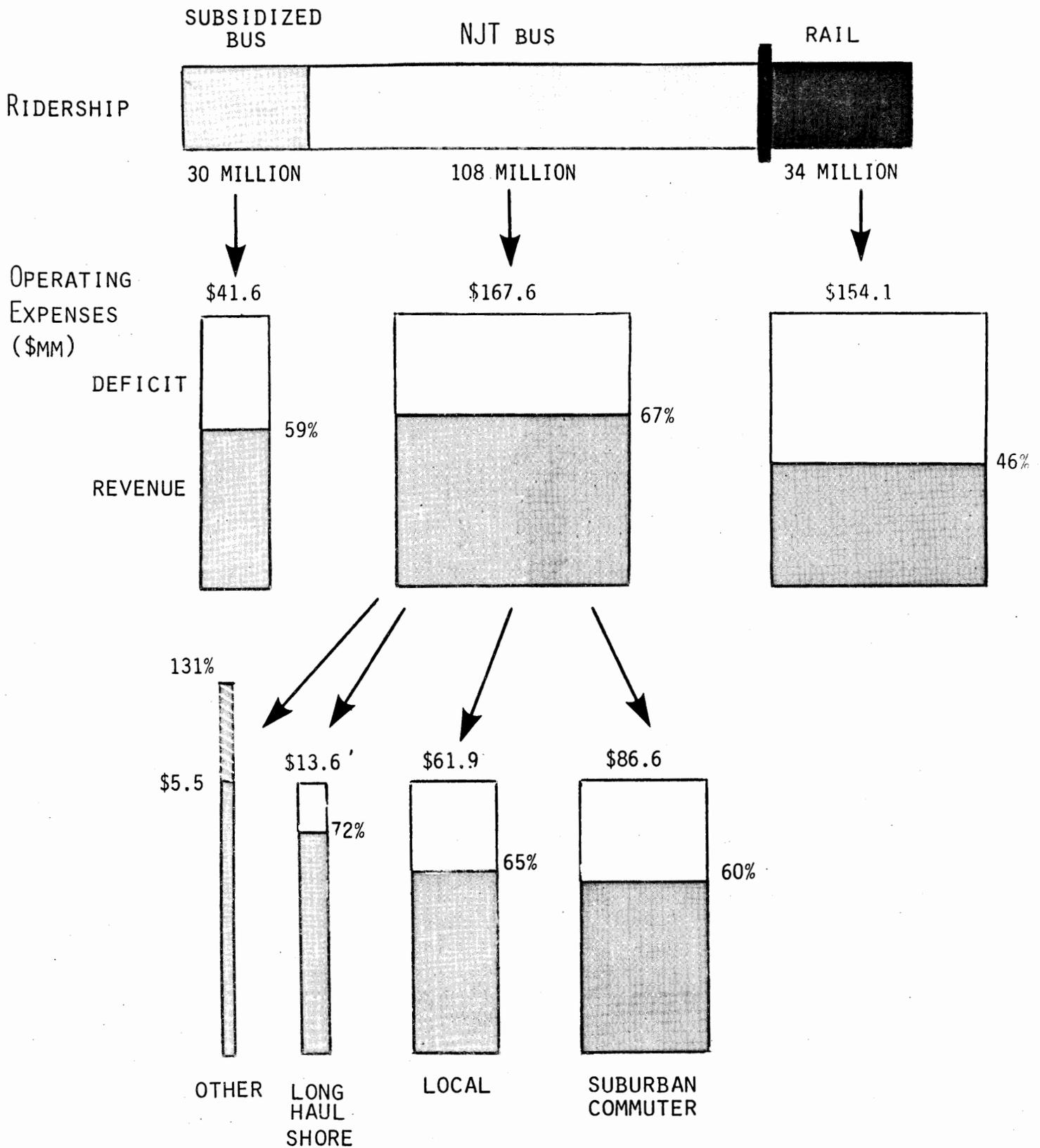
NJT bus ridership and costs can be further segmented by the type of ride received. The two major segments are local, which operates largely within city or county boundaries, and suburban/commuter, which is primarily interstate travel to New York City and Philadelphia. Revenue coverage of local is 65% while suburban commuter is 60%.

A small bus segment involves special buses and runs to and from Atlantic City. These long-haul routes, which show good fare coverage (72%) by NJT, may be typical of the attractive economics seen by private operators in both charter runs to the Shore area and commuter runs to New York. On those routes, slightly higher fares or the same fare in conjunction with lower operating costs would be expected to produce a favorable operating margin for some private operators where none exist for NJT.

Finally, the "other" segment contributes a 31% operating profit. This segment consists of special shuttle routes which are not of the size and market potential required to offset other operating deficits.

NEW JERSEY TRANSIT

RIDERSHIP COST SEGMENTATION - FISCAL YEAR 1983



A further disaggregation of bus operations was made by identifying approximately 15 clusters that served common constituents and/or geographies.

The chart positions revenue and expenses for each segment, with circle size proportional to the deficit incurred. A segment on the line is breaking even, while operations above the line are incurring deficits.

Deficits exist for all NJ Transit route segments except for a special service category ("other") which covers expenses by approximately a 30% margin. No other major ridership segment of the bus system fully covers its total operating costs, although the shorter the trip and the higher the urban density, the better the recovery ratio.

As indicated by the chart, NJ Transit can receive significant benefits from selected, targeted service and cost improvements.

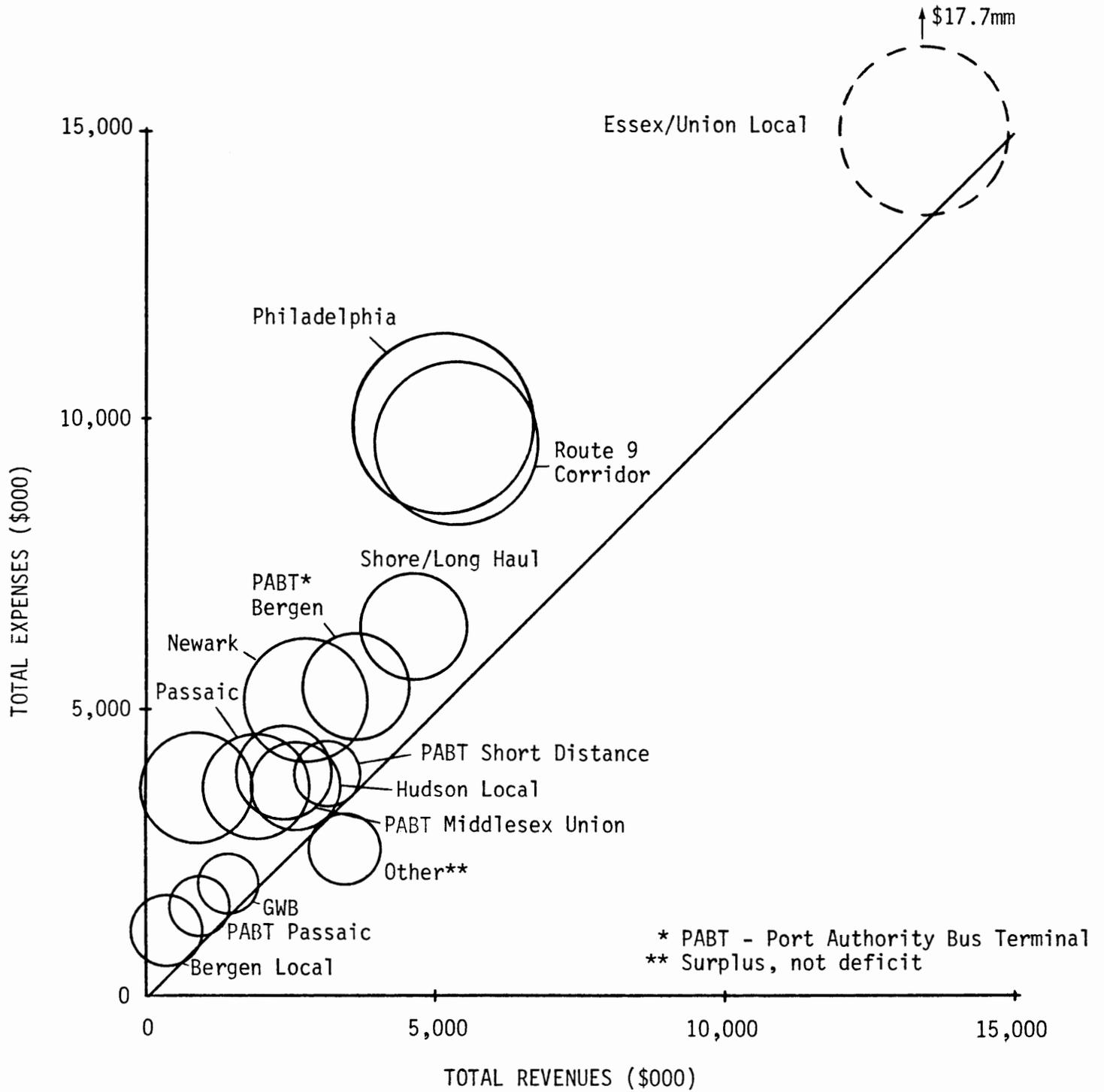
This approach to analysis of NJ Transit's bus system immediately raises basic issues of public policy regarding where transit is provided and the amount of financial support available. Those areas with the poorest revenue/expense and deficit/passenger-mile ratios are also those with policy frequencies in less dense suburban areas without a focus toward Manhattan.

With this in mind, however, logical candidates for deficit trimming would include the following:

<u>Route Segment</u>	<u>Est. Annual Deficit</u>	<u>Farebox Recovery</u>
Philadelphia	9.6mm	52%
Route 9 Corridor	8.3mm	57%
Newark Suburban	5.0mm	53%
Camden	4.2mm	32%
Passaic Local	3.4mm	53%
Bergen Local	1.7mm	29%

The Essex/Union route segment produces an \$8.8 million deficit. While this segment would qualify for the above list on the basis of deficit size, the farebox recovery ratio of 75% makes it the third most efficient route segment within NJ Transit's portfolio.

NEW JERSEY TRANSIT
 NJT BUS REVENUE AND EXPENSES
 JULY THROUGH DECEMBER, 1982



○ = \$2mm Deficit, July through December, 1982

Source: New Jersey Transit

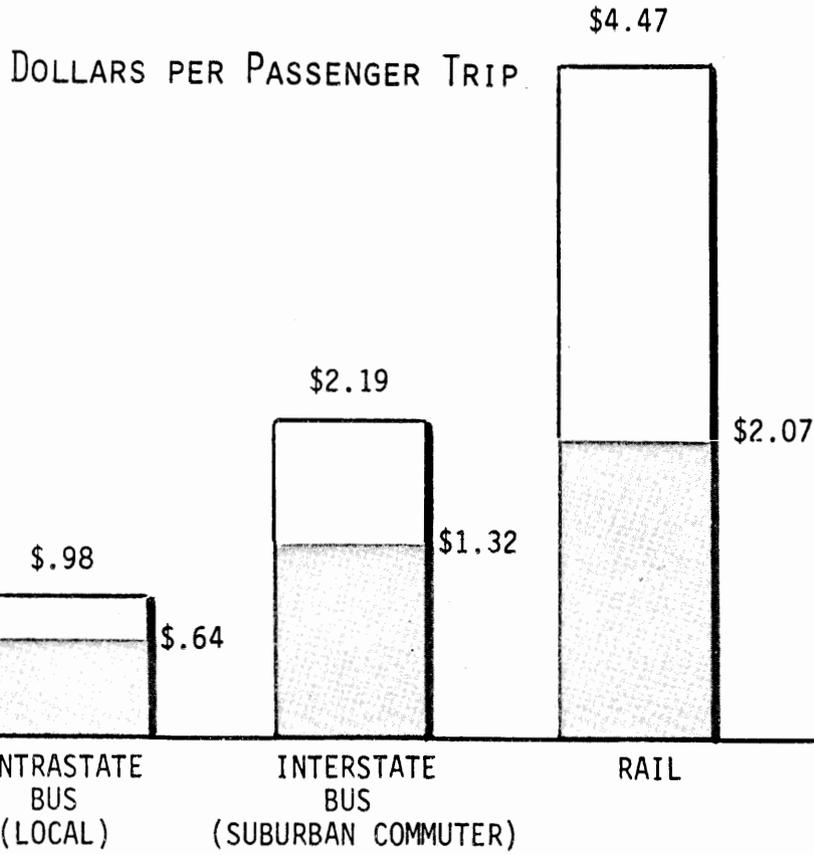
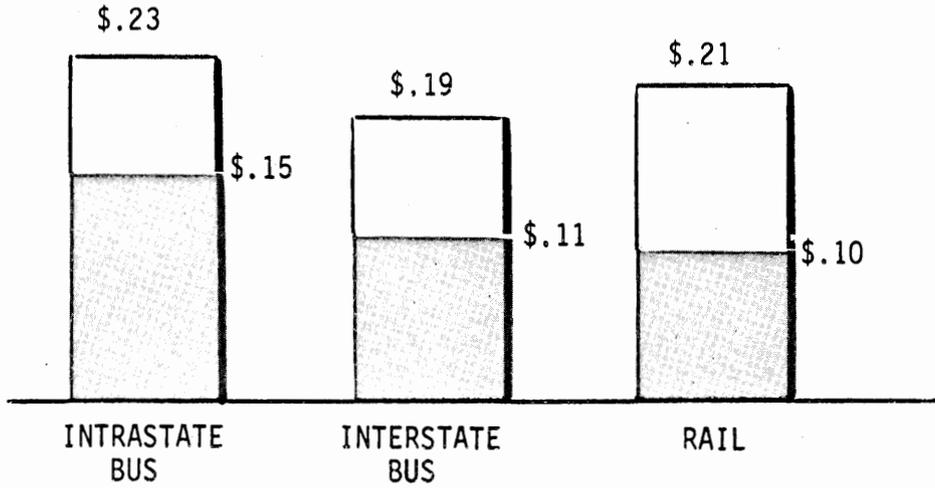
While NJ Transit experiences deficits systemwide, it is useful to compare costs and fares on a segmented basis to more fully understand the transit business. In doing so, the generally accepted industry measure of mass transit performance effectiveness is the passenger mile, which relates the number of passengers carried by the average length of trips.

The revenue, cost, and deficits of the two major bus segments and the rail operation of NJ Transit are compared on the top chart on the basis of passenger miles. The comparison indicates that while interstate bus and rail are roughly equivalent in terms of the revenue derived from delivering a passenger mile of service, the deficit of rail exceeds interstate bus because the cost to provide a passenger mile of rail service exceeds the cost to provide a passenger mile of interstate bus service.

NJ Transit's primary source of operational revenue is derived when a rider purchases a trip. On a per trip basis, the comparison of relative deficits of interstate bus with rail operations provides an entirely different view. The per trip rail deficit is almost 70% higher than the per trip interstate bus deficit because the comparatively small number of passengers carried by rail are transported over a relatively greater distance.

NEW JERSEY TRANSIT COST AND FARE COVERAGE

CENTS PER PASSENGER MILE



Fare Coverage

The interstate bus and rail operations serve distinctly different markets, although private operators offer commuter service which parallels NJ Transit rail corridors. The markets, however, are defined primarily by geography, the destinations of the service and the proximity to the rider's home.

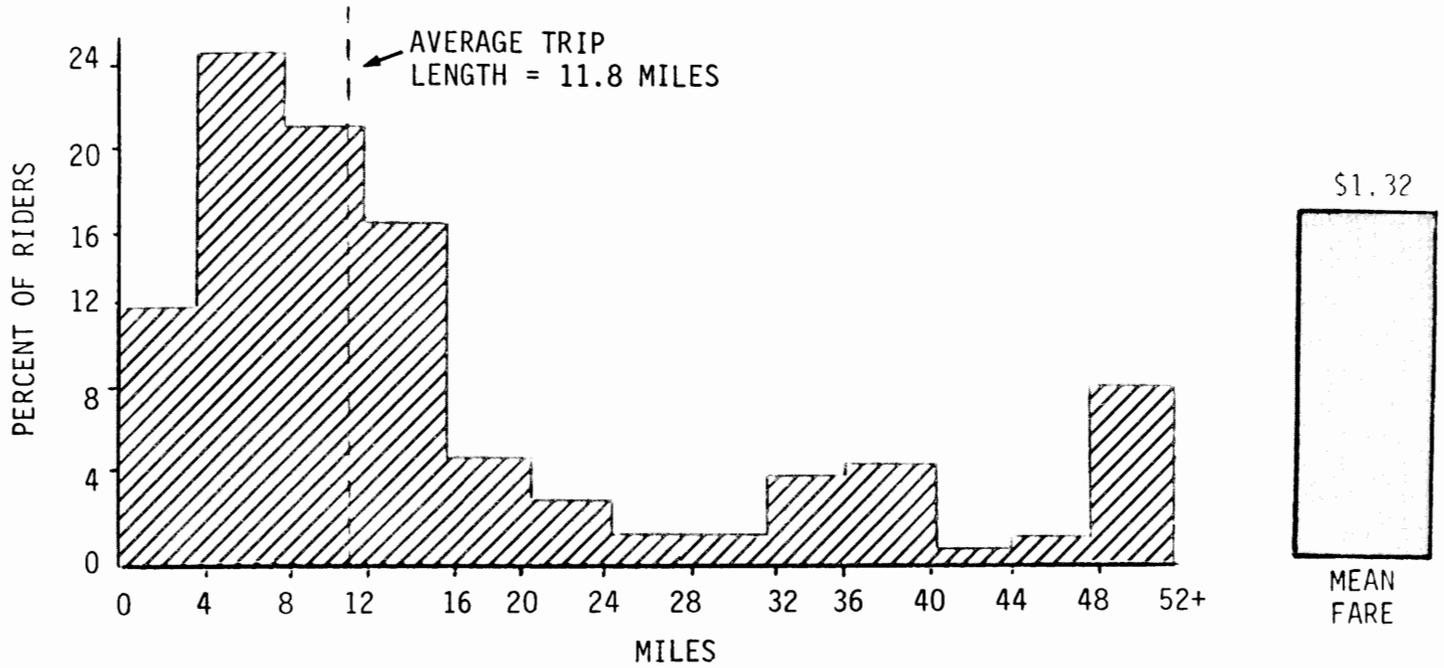
The bus service area for both NJ Transit and private operators is defined by the highway network and its ability to access midtown Manhattan with express service. Those geographical areas served by highways which connect with express bus lines into New York are generally bus markets. The rail system is a fixed, exclusive right-of-way which serves seven distinct geographic corridors. This is significant since the demographics of the users are similar.

The rail ridership profile shows a long average trip length (21 miles) with selected rail lines providing service over 50 miles. Over 25% of all rail trips are over 32 miles in length. The interstate bus market is primarily focused on shorter trips than rail (12 mile average trip length). Less than 15% of all bus trips are over 32 miles in length.

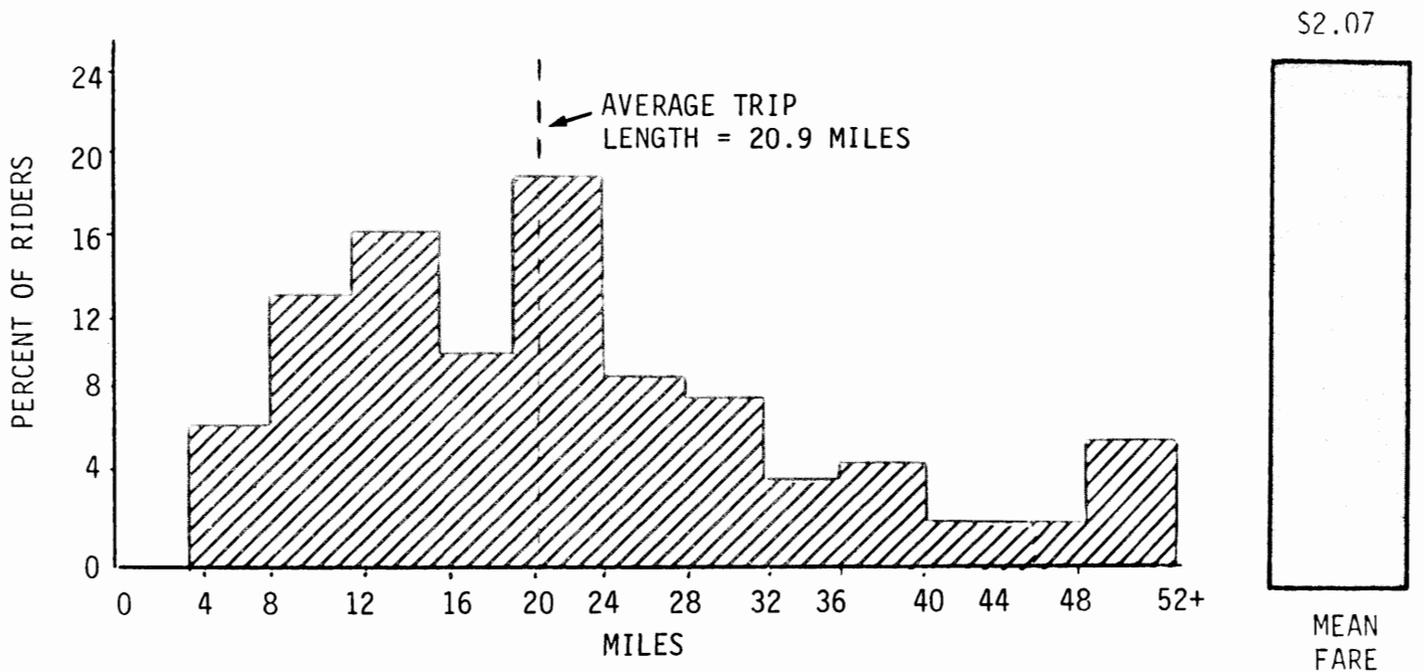
As a result of differences in average trip length and in fare pricing, the average fare for interstate bus is \$1.32 while it is \$2.07 for rail.

NEW JERSEY TRANSIT RIDERSHIP DISTRIBUTION

SUBURBAN BUS RIDER TRIP LENGTH DISTRIBUTION



RAIL RIDER TRIP LENGTH DISTRIBUTION



The projected eight-year capital program calls for a \$610 million investment for bus operations and a \$936 million investment for rail operations.

As shown in the chart, the bus program includes facility and rolling stock purchases primarily for NJ Transit's bus operations, although buses acquired under this program will also be leased to private operators at nominal rates.

The rail program include acquisition of rolling stock, rebuilding of passenger facilities, and expenditures for maintenance of way.

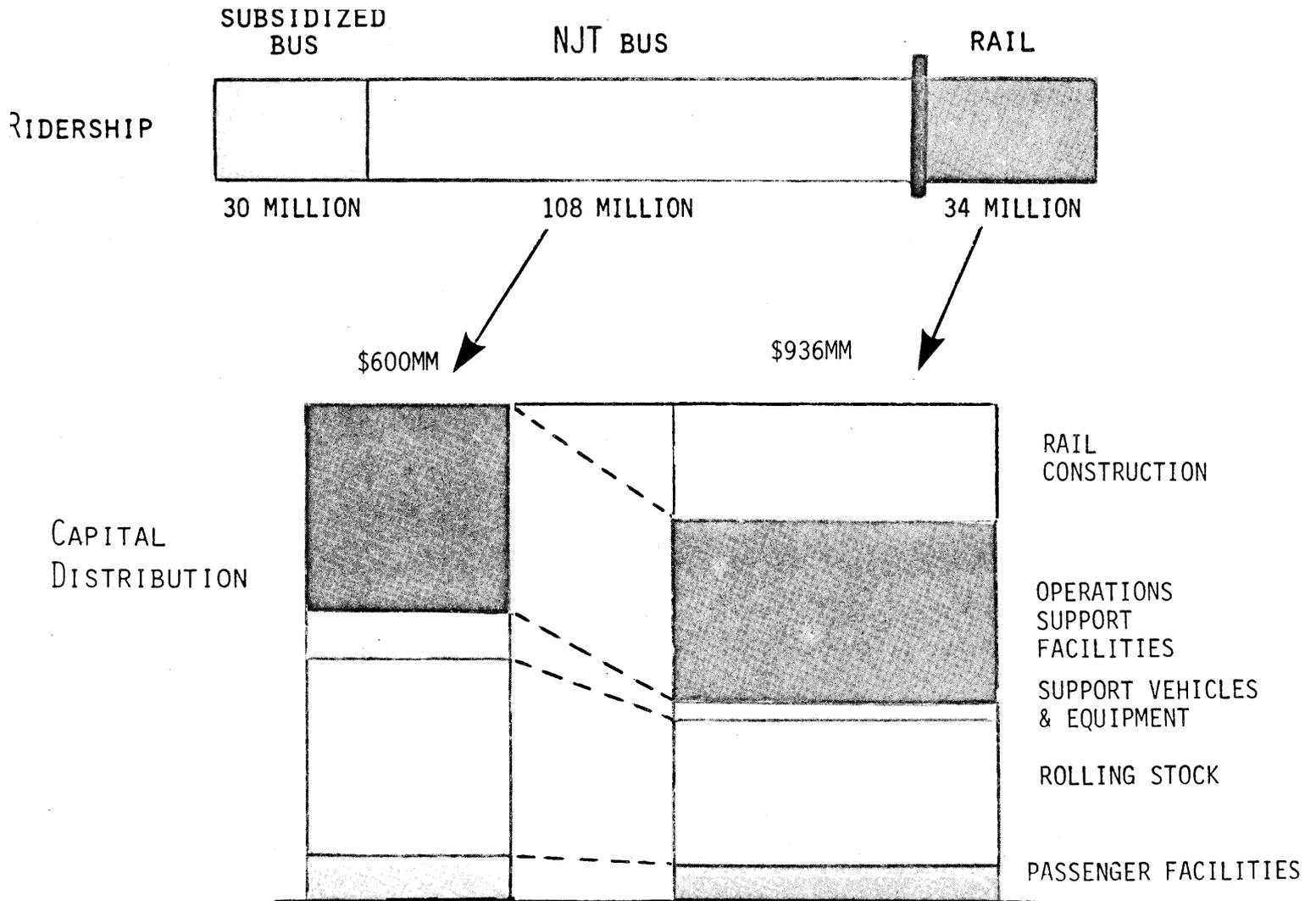
The bus and rail expenditures are compared in the chart on the basis of dollar of capital expended per passenger mile and per passenger carried. Overall, the anticipated rail investment is over two times that budgeted for bus on a passenger mile basis. On a per rider basis, however, the anticipated rail investment is almost five times that budgeted for bus.

The seemingly disproportionate investment in rail is explained in part by the condition of the system inherited from Conrail and by the heavy investment in a category (right-of-way maintenance) not incurred directly by bus operations. In addition, the average life span of a projected rail investment is substantially longer than that for a bus.

Nearly 80% of the capital program for both bus and rail system is funded through federal grants. The 20% local funds required to obtain these grants amounts to approximately \$300 million over the eight-year period, of which \$164 million remains uncommitted from local sources.

The principal sources of these local funds have been state bond funds, state appropriations, and Port Authority grants.

NEW JERSEY TRANSIT COMPARATIVE CAPITAL PROGRAMS 1984-1991

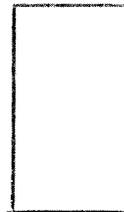


PER PASSENGER
MILE
INVESTMENT

\$0.63 PER PASSENGER
MILE PER YEAR



\$1.30 PER PASSENGER
MILE PER YEAR



PER TRIP
INVESTMENT
(BASED ON
CURRENT
RIDERSHIP)

\$0.80 PER TRIP
PER YEAR



\$3.71 PER TRIP
PER YEAR



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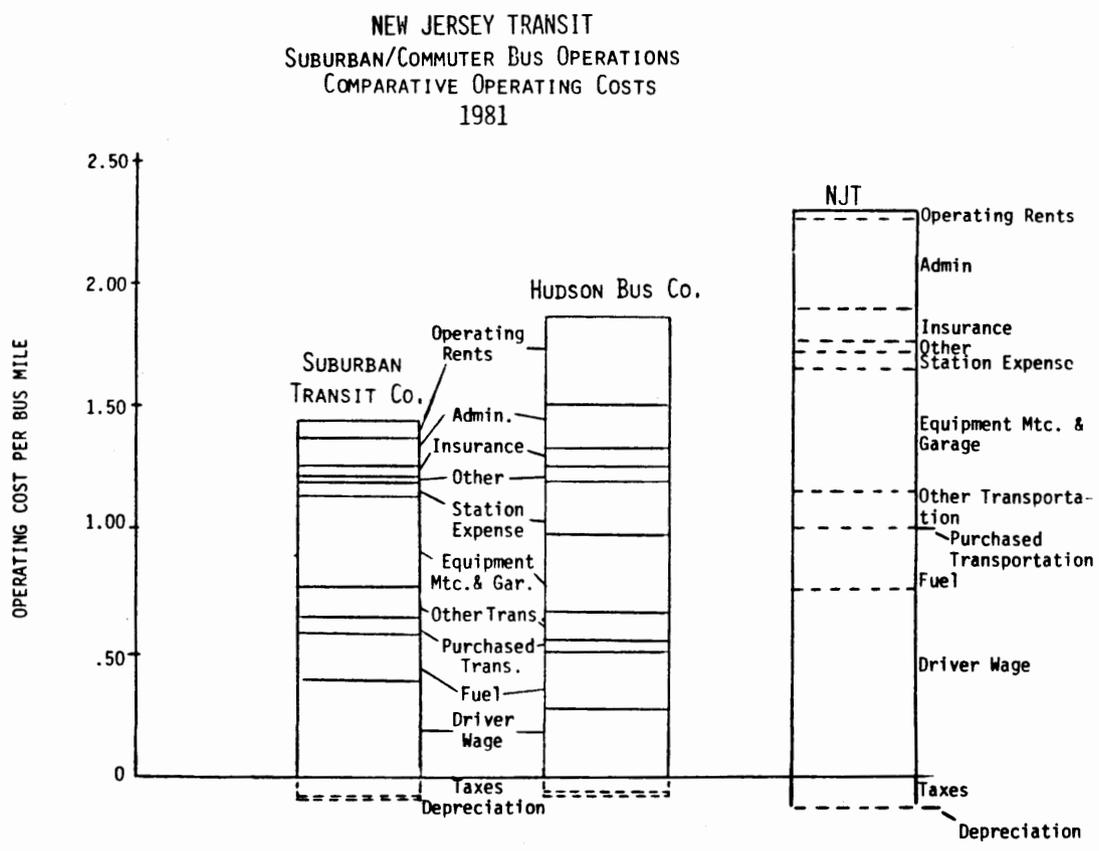
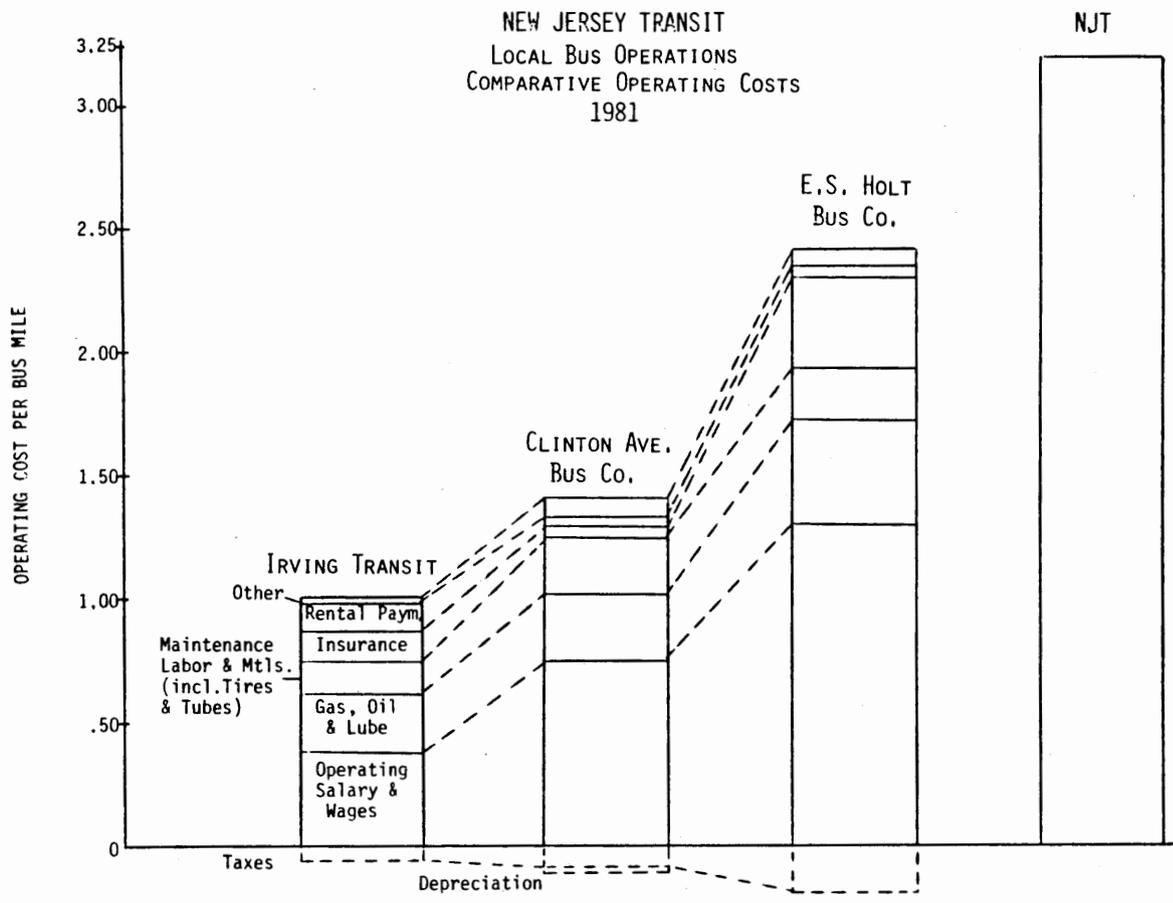
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Despite managing costs relatively well over the past several years, comparative operating costs of selected private operators suggest that NJT is not the low-cost operator for either local or suburban/commuter segments.

DOT's Office of Regulatory Affairs collects operating data from all private regular route and charter bus companies. After identifying selected operations as primarily local or primarily suburban/commuter carriers, the two charts shown here were constructed.

A further breakdown of NJT's operating costs into the local and suburban/commuter segments was not available. The breakdown shown for NJT on the lower graph is for total bus operations and is given for comparative purposes only.

Some private operators have clearly found other means by which to leverage downward operating costs. The comparisons shown in the facing graph indicate that direct labor costs, benefits rates, and the impact of work rules on these two factors are the primary reasons for the cost differential. Admittedly, private carriers and NJT routes are not always comparable; nevertheless, some private operators appear to deliver transportation to selected segments more cost-effectively than does NJT.



Classically, market "niches" are exploited by suppliers (in this case private operators) who are optimally configured to meet the customer needs of that particular segment. Customer needs can be defined as those product/service attributes which influence a purchase decision. In the case of transit, these would include:

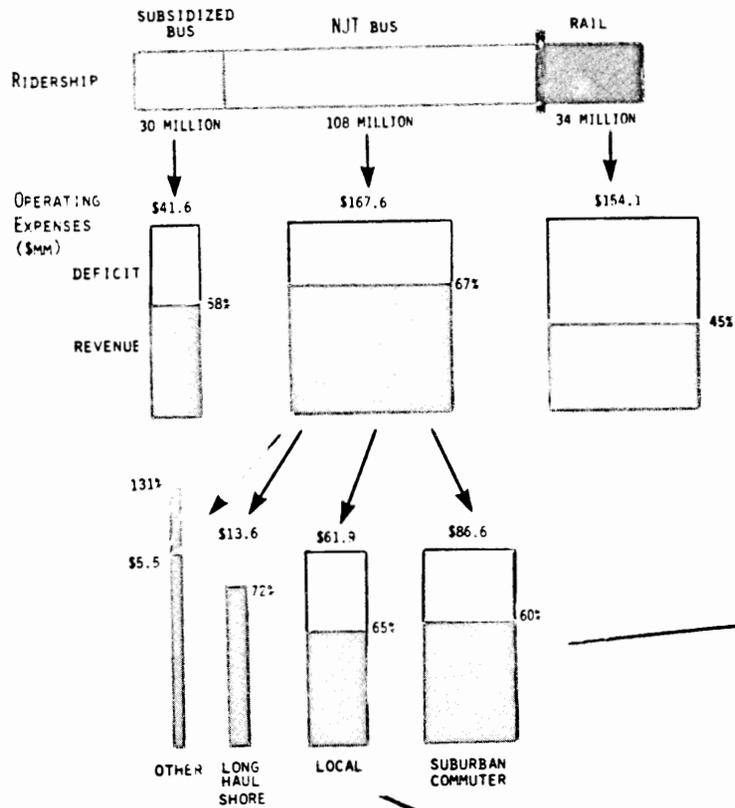
- fare
- service level
- reliability
- equipment
- security

In the chart, the relative customer needs are illustrated by the black dots for each of the three major transit segments. The red line illustrates NJT's configuration, i. e., the ability to match customer expectations in each of the attributes.

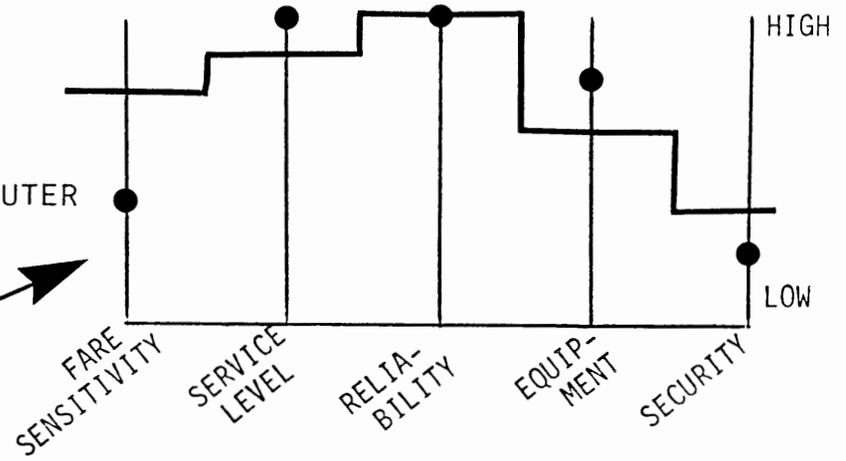
A company's configuration is the sum result of its organization, resources, policies and other management-driven policies. Most organizations are configured to respond to their major market segments, and find it very difficult to be "all things to all people."

Given that the chart is constructed on judgment of but a few key operating managers (as opposed to empirical evidence), the profiles should not be assumed to be definitive. However, there are attributes which NJT "misses" either falls short or exceeds thus becoming susceptible to being "niched" by the private operator.

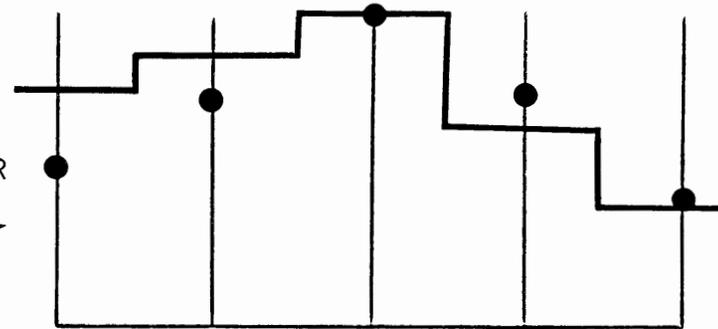
NEW JERSEY TRANSIT CUSTOMER NEEDS



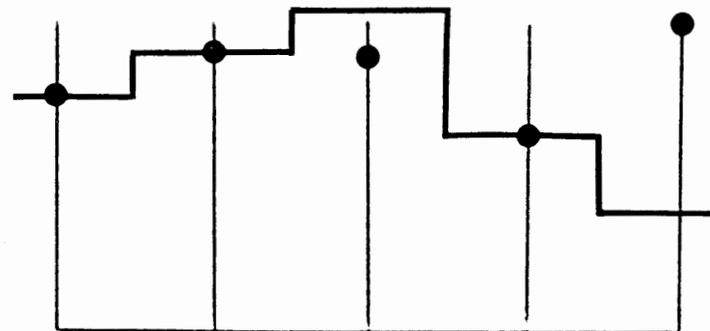
RAIL
COMMUTER



Bus
COMMUTER



URBAN
LOCAL



— NJT Profile
● Customer Needs

NJT has multiple missions ranging from local bus service to long-term bus service to charter service to rail passenger operations. Its roots lie in intrastate/local bus operations, which are highly price- and service-sensitive. It is natural, then, for NJ transit to be structured so as to manage all segments of its multi-modal portfolio under similar operating policies.

The private operators, i.e., focused competitors in this case, have picked appropriate niches and configured themselves to more closely respond to those riders. This is accomplished by making trade-offs among the several service attributes. For example, higher fares may be weighed against better equipment, more responsive service levels, or more favorable termination locations in New York City.

The new door-to-door operator to midtown Manhattan from northern New Jersey, Enterprise Transit, offers an excellent example of a private operator serving a market niche for mass transit.

Private operators of buses in New Jersey have demonstrated a capacity, cost structure, and marketing acumen in successfully generating sufficient earnings from operations to sustain a business serving both the mass transit and charter markets.

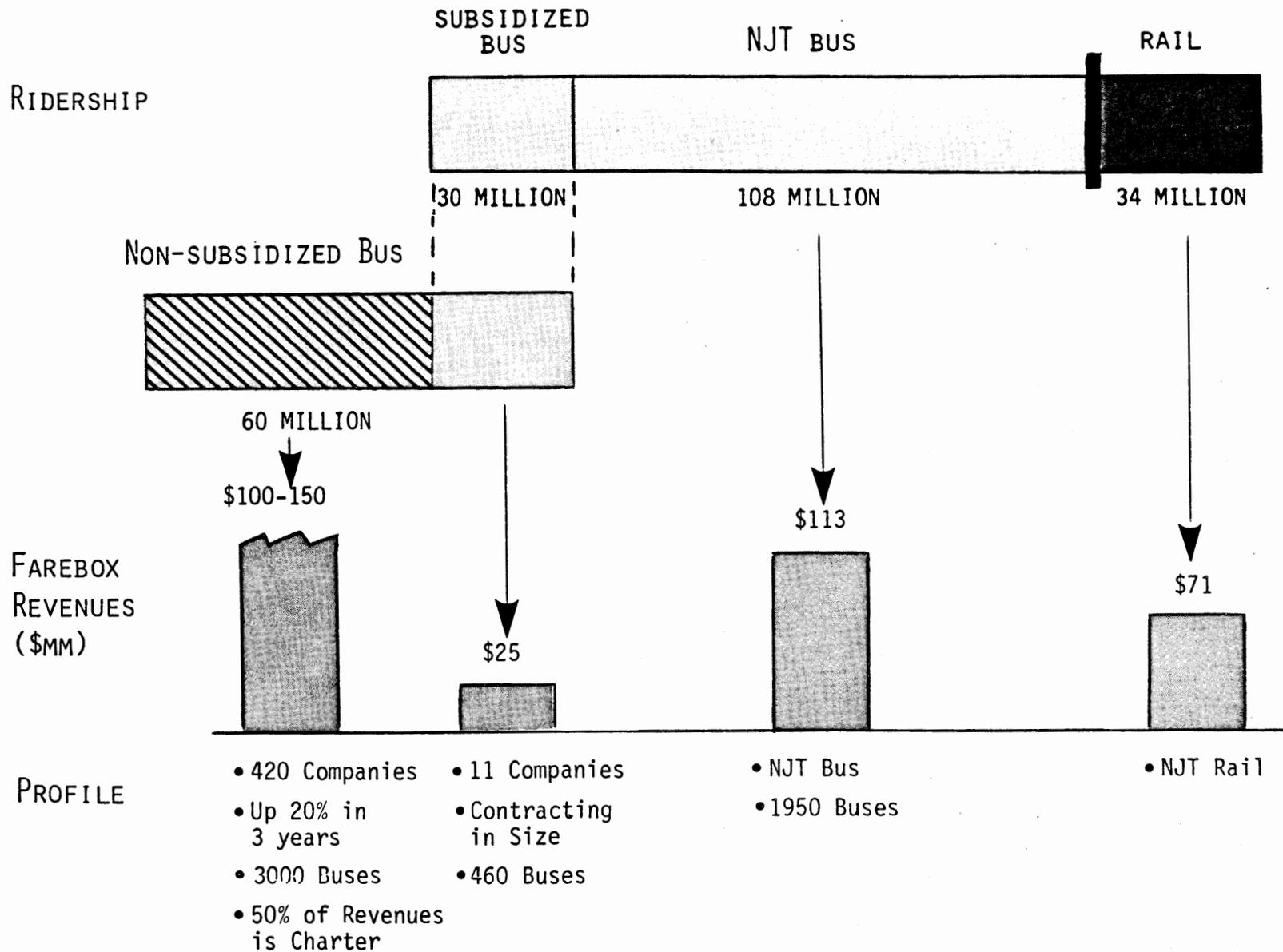
Typically the low-cost operator in deploying a bus, private operators have prospered both in markets where NJ Transit is the price leader and in markets where NJ Transit is not present. In markets where private operators compete directly with NJ Transit the privates tend to price their services slightly under NJ Transit's fare structure. Some selected private operators have also managed to obtain higher fares on comparable routes by offering more direct service or a more comfortable ride.

It is arguable, however, that bus offers a suitable substitute for present rail routes without a massive investment in parking facilities and special express lanes through potential bottlenecks (bridges and tunnels).

It is important to note that private bus operators deploy almost one and one-half times the number of buses operated by NJ Transit. New route applications have been increasing at a rate of 20% over the last three years, at a time when NJ Transit's operations have been contracting.

Exact estimates of the aggregate size of the private bus industry and the relative size of the individual private bus operators are unavailable. Annual revenues are estimated to be on the scale of NJT's captive bus operations. With this in mind, a program designed to extend the role of private operators would require the support of NJT to provide needed management support and expertise, as well as federally funded capital equipment.

NEW JERSEY TRANSIT



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SUMMARY OBSERVATIONS

- MASS TRANSIT
 - HISTORICAL TREND HAS BEEN DECREASING
 - OUTLOOK IS FOR NJT RIDERSHIP TO STABILIZE, AT BEST NOMINAL ANNUAL INCREASES FOR RAIL
 - "INBUILDING" EMPLOYMENT PATTERNS NOT EASILY ACCOMMODATED BY EXISTING TRANSIT NETWORK
- NEW JERSEY TRANSIT
 - NJT IS THE MAJOR ACTOR AMONG MANY TRANSIT ALTERNATIVES
 - \$149 MILLION IN STATE SUPPORTED DEFICIT IN FY1984
 - ANNUAL DEFICITS FORECASTED TO RISE SLIGHTLY OVER 5 YEAR PERIOD
- BUS OPERATING EXPENSES
 - NO GROWTH IN REAL TERMS SINCE ABOUT 1965
 - FARE INCREASES KEEPING PACE WITH OPERATING EXPENSE INCREASES, NOT CLOSING GAP
 - RELATIVELY SIMILAR DEFICITS IN ALL MARKET SEGMENTS, I.E., NO "WINNERS" IN THE PORTFOLIO
 - NJT TYPICALLY NOT LOW COST SUPPLIER
- RAIL OPERATING EXPENSES
 - HIGHEST PER TRIP OR PER PASSENGER MILE SYSTEM COST
 - DISPROPORTIONALLY HIGHER TOTAL DEFICIT ON A PER TRIP BASIS

SUMMARY OBSERVATIONS (CONTINUED)

- FARE STRUCTURE
 - RAIL FARES "UNDERPRICED" RELATIVE TO BUS FARES ON A COST BASIS
 - NJT REMAINS PRICE LEADER ON COMPETITIVE ROUTES
 - PRIVATE BUS OPERATORS VALUE-BASE FARES IN HIGHER GROWTH SEGMENTS
 - FARE POLICY APPEARS TO LACK FLEXIBILITY REQUIRED BY MARKET SEGMENTATION
- CAPITAL PROGRAMS
 - RAIL INVESTMENT SUBSTANTIAL RELATIVE TO RIDERSHIP POTENTIAL
 - ALTHOUGH FEDERALLY SUPPORTED, COULD REQUIRE ADDITIONAL DOWNSTREAM NJT OPERATING OUTLAYS
 - FEDERAL SUPPORT WILL REQUIRE SIGNIFICANT LOCAL CONTRIBUTIONS
- CUSTOMER NEEDS
 - CUSTOMER NEEDS VARY BETWEEN MAJOR SEGMENTS
 - NJT CONFIGURED TO RESPOND TO ALL RIDERSHIP SEGMENTS, BUT MOST RESPONSIVE TO PRICE SENSITIVE SEGMENT
 - NJT SUCCESSFULLY BEING "NICHED" BY PRIVATE OPERATORS
- PRIVATE BUS INDUSTRY
 - PRIVATE OPERATORS HAVE SCALE AND CAPABILITY
 - ALREADY SKIMMING HIGHER GROWTH AND HIGHER MARGIN SEGMENTS

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The policy options for NJ Transit are structured around the "strategic gap," i.e., the shortfall of operating revenues over costs. In addition to an annual federal operating subsidy of \$50 million, NJ Transit has estimated that their best case scenario of cost control and revenue improvement will require an annual state subsidy of \$150mm in 1984 which may increase by \$30mm to \$40mm by 1988.

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

- 1) aggressive cost control;
- 2) selective modification of fare and service to gain ridership;
- 3) vigorous competition with privates niching NJ Transit;
- 4) continued operation of long-distance interstate charter trips; and
- 5) selective pruning of routes where ridership does not warrant the level of service provided.

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

- 1) selective subcontracting of routes to lower-cost private operators;
- 2) increasing fares at rates exceeding the increases in costs to improve operating margins;
- 3) avoiding capital projects where the local match is provided from general state appropriations;
- 4) no acquisition of additional bus operators;
- 5) additional pruning of routes where ridership does not warrant the level of service provided.

The third policy option postulates fundamental changes in NJ Transit's operating, marketing, and capital strategies to reduce the annual state funding requirement from 1983 levels. This option would be considerably more difficult to implement than the first and second options and it would require additional analysis beyond the scope of this effort before implementation. This option includes:

- 1) substitution of private operators on existing NJ Transit routes on a broad scale;
- 2) NJ Transit would provide only those bus services needed to preserve a "safety net" of public transportation;
- 3) increase rail fares to levels which will generate similar operating margins for both bus and rail operations;
- 4) avoid investments in facilities which would tend to reduce NJ Transit's flexibility in contracting with private operators;
- 5) drop the charter, subscription, and tour bus businesses; and
- 6) continue the aggressive capital investments in new rolling stock, but turn over the equipment to private operators as part of the contract for service.

POLICY OPTIONS

I. STATUS QUO (INCREASING DEFICITS)

II. HOLD FUTURE DEFICITS AT CURRENT LEVEL

III. REDUCE FUTURE DEFICITS

**DEPARTMENT OF CORRECTIONS
THE CORRECTIONAL SYSTEM**

Strategic Issues and Alternatives



THE CORRECTIONAL SYSTEM

AGENDA

- OBJECTIVE

- ISSUE: OVERCROWDING
 - BACKGROUND
 - FORECASTS

- PERSPECTIVES
 - ENTRY
 - CUSTODY
 - EXIT

- RECOMMENDATIONS
 - LONG-TERM POLICY
 - COST REDUCTION
 - ORGANIZATIONAL
 - NEAR TERM
 - RELIEVE PRESSURE
 - COST REDUCTION AND EFFICIENCY

THE CORRECTIONAL SYSTEM AGENDA

• OBJECTIVE

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 - RELIEVE PRESSURE
 - COST REDUCTION AND EFFICIENCY

THE CORRECTIONAL SYSTEM
Objective

The group had an objective of identifying within a five-year context:

- Cost effective options that could be implemented near term and that would:
 - Relieve the pressure of overcrowding without building jail space over and above that currently planned, and
 - Reduce the cost of incarceration.
- Options for management and cost effectiveness that could require major policy changes and need, therefore, further study.

Excluded from the scope of this study were any major structural changes to the current criminal code and its attendant criminal philosophy. In addition, the primary focus was on the adult offenders and not juveniles.

Sincere appreciation is extended to the task force members for their contributions that necessitated efforts over and above their normal day-to-day roles. Their enthusiasm and willingness to propose, debate, and resolve alternatives reflect highly on their professionalism.

THE CORRECTIONAL SYSTEM

- OBJECTIVE: WITHOUT MAJOR CHANGES TO THE
CRIMINAL CODE IDENTIFY:
 - COST EFFECTIVE OPTIONS THAT NEAR-
TERM COULD
 - RELIEVE OVERCROWDING PRESSURE
 - REDUCE COST OF INCARCERATION
 - OPTIONS THAT REQUIRE POLICY CHANGES
 - LONGER TERM HORIZON
 - FURTHER STUDY REQUIRED
- TASK FORCE MEMBERS CONSISTED OF EXECUTIVES
FROM NEW JERSEY BUSINESSES, STATE AGENCY
OFFICIALS, GMIP STAFF MEMBERS AND PRIVATE
CONSULTANTS.

THE CORRECTIONAL SYSTEM AGENDA

- OBJECTIVE

- ISSUE: OVERCROWDING
 - BACKGROUND
 - FORECASTS

- PERSPECTIVES
 - ENTRY
 - CUSTODY
 - EXIT

- RECOMMENDATIONS
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 - NEAR TERM
 - RELIEVE PRESSURE
 - COST REDUCTION AND EFFICIENCY

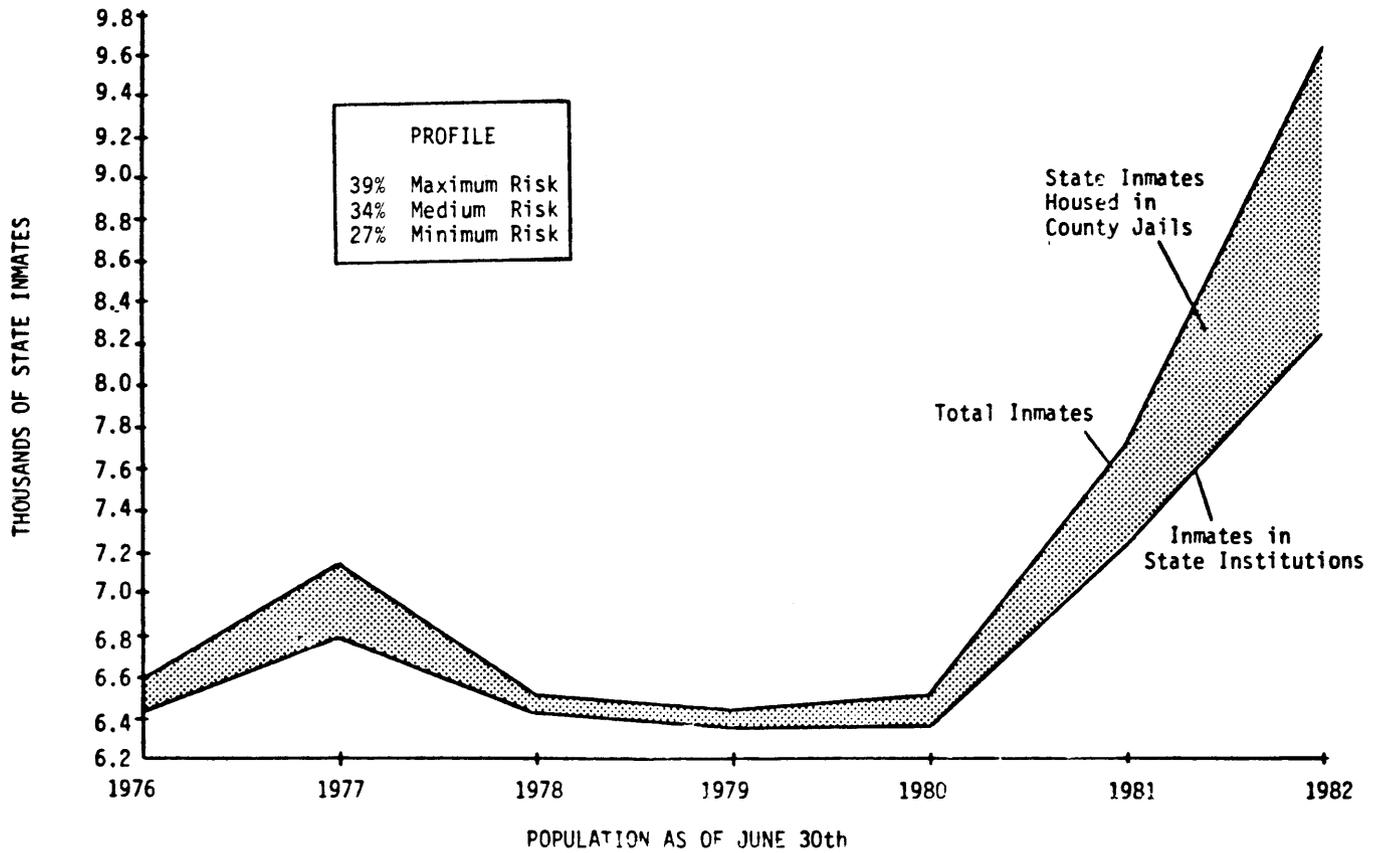
THE PRISON SYSTEM

The charts on the next few pages have been prepared to provide a context for the reader.

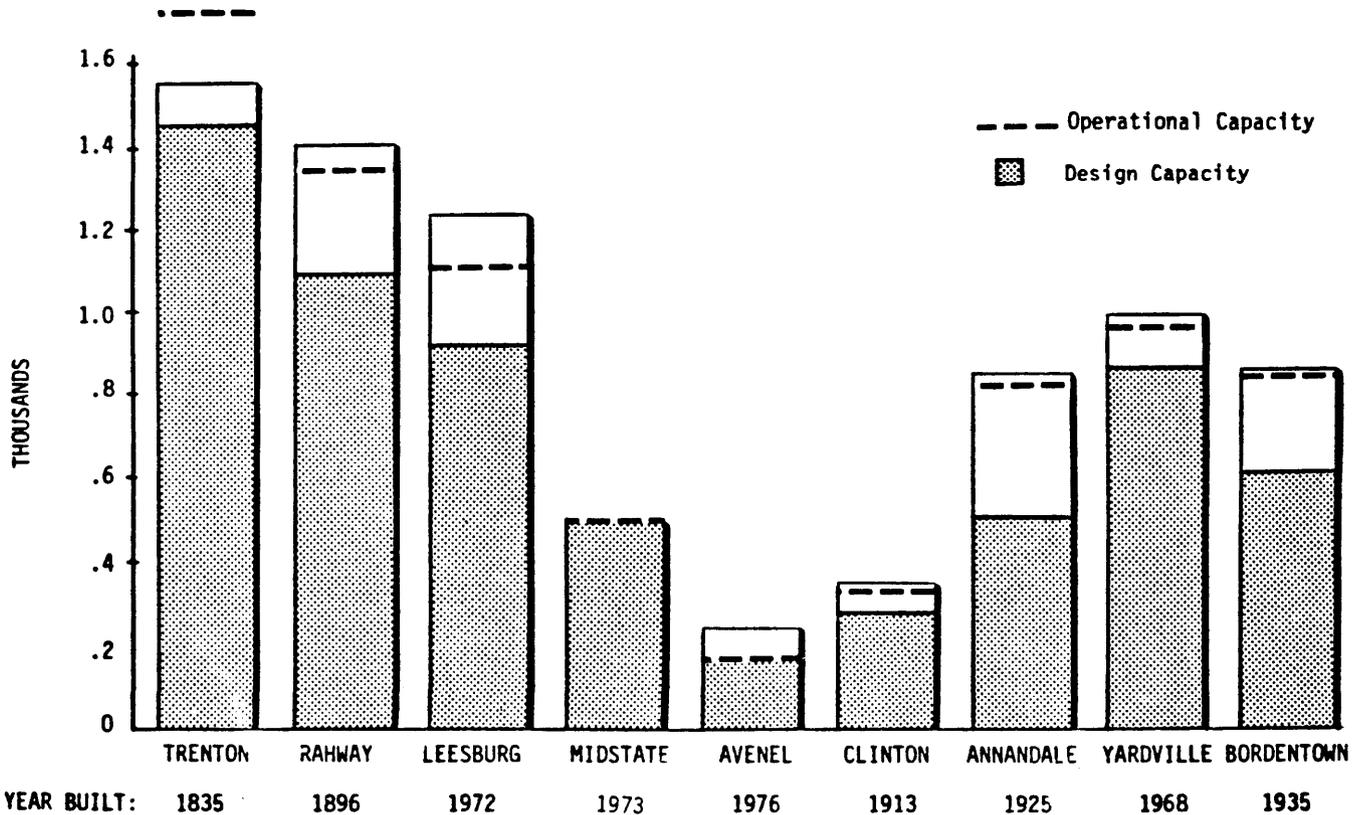
The first chart highlights the growth in the number of inmates currently in the state system. Due to inadequate space in state prisons, the state has had to incarcerate inmates in county jails putting a strain on this separate system. At the end of 1982, 12% of the state inmates were housed in the county jail system. Within the adult prison population, there were approximately 39% maximum, 34% medium and 27% minimum risk offenders.

The state system for adults is composed of 11 facilities which are relatively old. The population as of January 31, 1983 of each prison is illustrated, as well as the operational and the design capacity of each institution (design capacity reflects the number of inmates that the institution was designed or architecturally built to house, while operational capacity reflects the addition of semi-permanent beds such as in prefabricated modules). As can be seen, most of the institutions are currently operating at overcapacity. In addition, the two largest institutions (or part of the facility in the case of Trenton) were built before 1900.

TOTAL INCARCERATION
1976-1982



STATE OF NEW JERSEY
DEPARTMENT OF CORRECTIONS
ADULT PRISON POPULATION
JANUARY 31, 1983



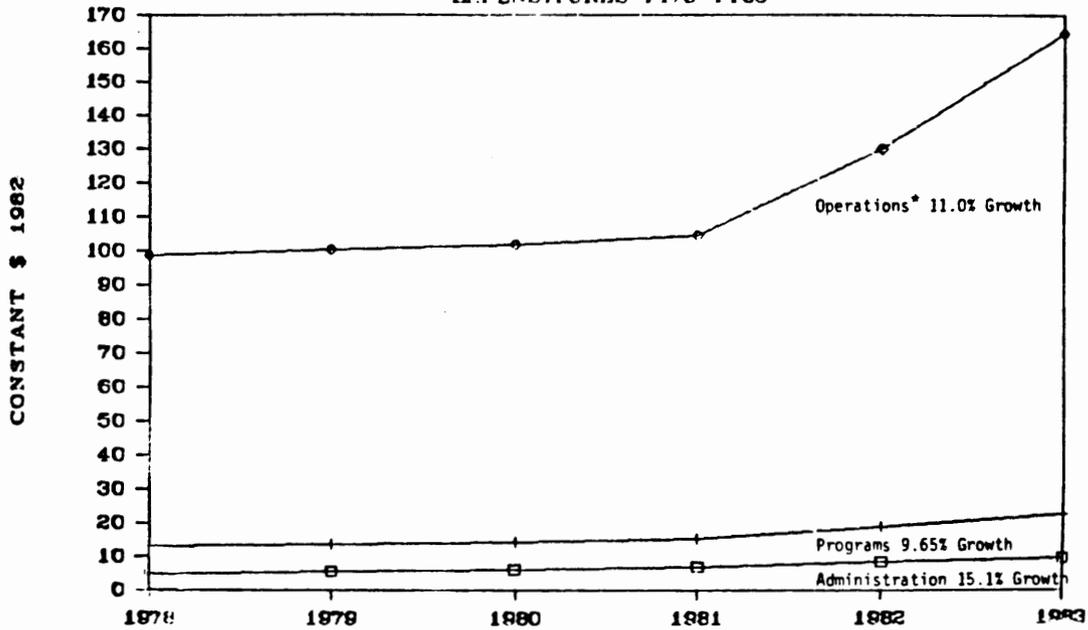
DEPARTMENT OF CORRECTIONS

The current 1983 fiscal year operating budget for the Department of Corrections is expected to be \$172MM. This budget excludes the cost of the Parole Board (about \$2MM) and the support costs of the judicial system but includes \$14.2 million, or 8.5%, for payments to counties for housing inmates. While the number of inmates has grown at an annual rate of 9.6% in end of year counts since 1977, the upper chart highlights that in constant dollars, the operations budget has grown at 11%, program budgets at 9.65% and the administrative budget at 15.1%.

The lower chart examines the operating budget of one of the prisons, Leesburg. As can be readily seen, approximately 70% of the total cost is salary related, of which the major component is for security guards.

DEPARTMENT OF CORRECTIONS

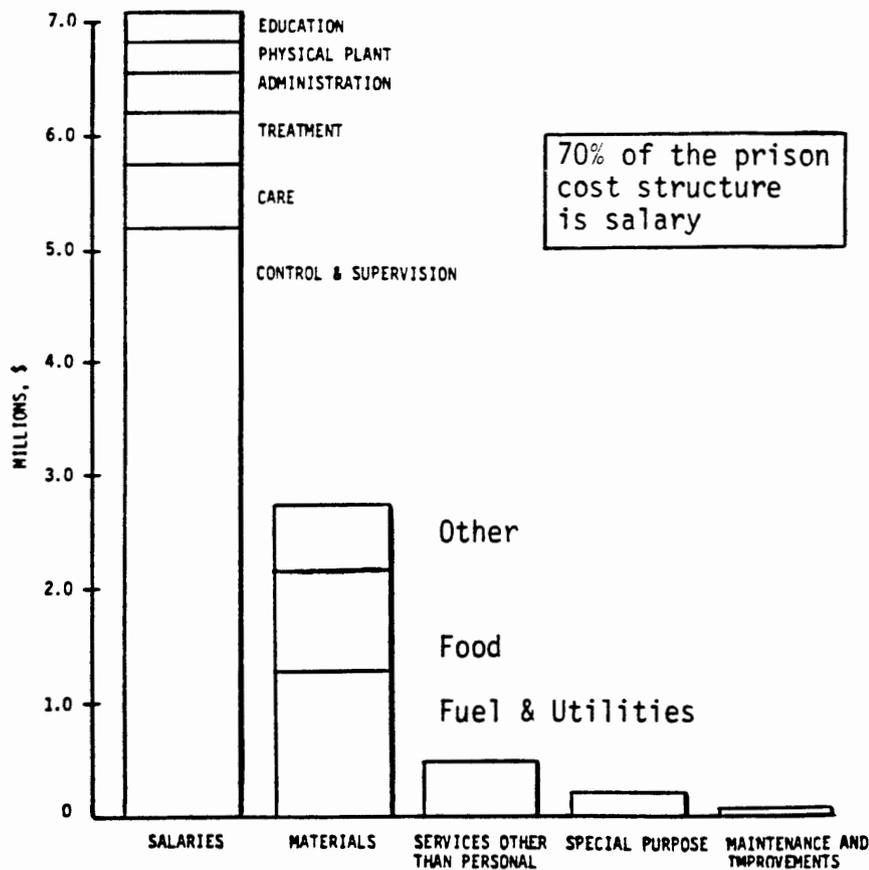
EXPENDITURES FY78-FY83



* Payments to County Jails are included in the Operations area

LEESBURG STATE PRISON 1982 APPROPRIATIONS

TOTAL APPROPRIATION: \$10.5MM



INMATE COSTS

As one means of assessing options, the approximate annual cost per prisoner was developed. As the adjacent slide illustrates, the average operating cost per prisoner varies depending upon the type of institution. This full cost represents total annual operating cost per prison divided by the average daily prisoner population and excludes the costs not associated with the prison such as central administration. A primary reason for the range is in part the different manning levels of guards at each institution.

The marginal, or incremental, cost associated with an additional prisoner was estimated to be \$2,155, which represents principally an annual cost per prisoner for items such as food and medical services. This computation assumes that in the near term all other costs are basically fixed in nature, and as such, represents the annual cost (or savings) associated with adding (or releasing) one inmate.

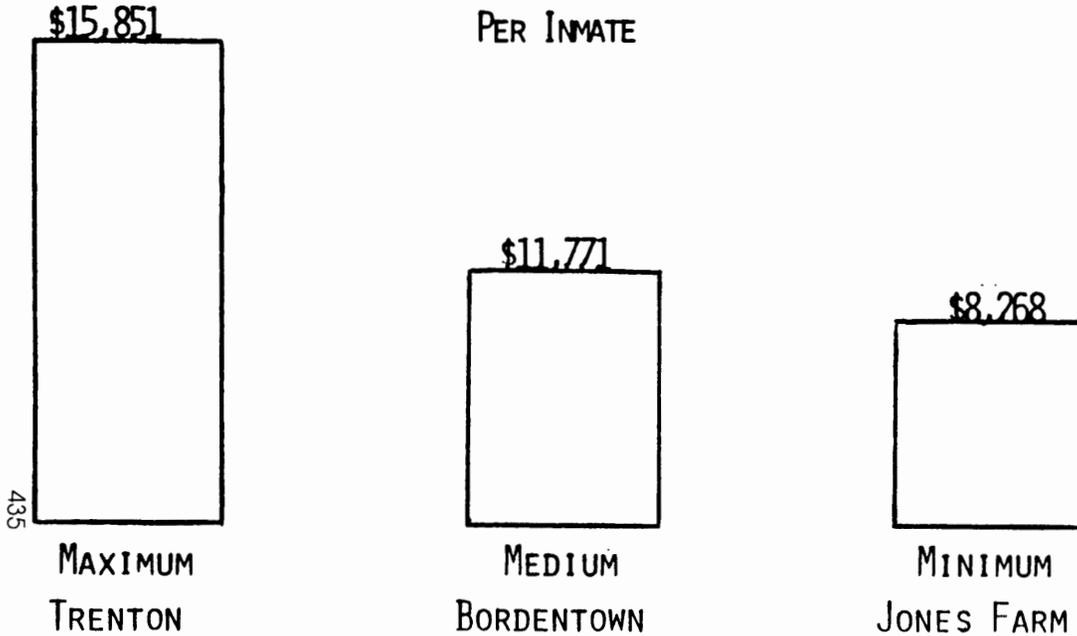
NEW JERSEY

DEPARTMENT OF CORRECTIONS
REPRESENTATIVE INMATE COSTS

1982

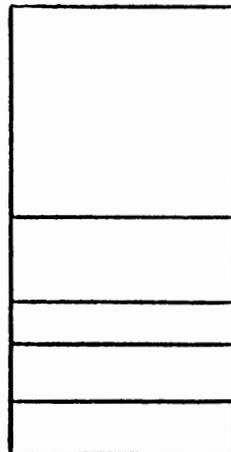
TOTAL OPERATING EXPENDITURES

PER INMATE



MARGINAL COST PER INMATE

\$2155



• INCLUDES ALL OPERATING COSTS ASSOCIATED WITH A PRISON

- EXCLUDES: CENTRAL ADMINISTRATION, PAROLE, JUDICIAL, COMMUNITY BASED PROGRAMS, COUNTY REIMBURSEMENTS

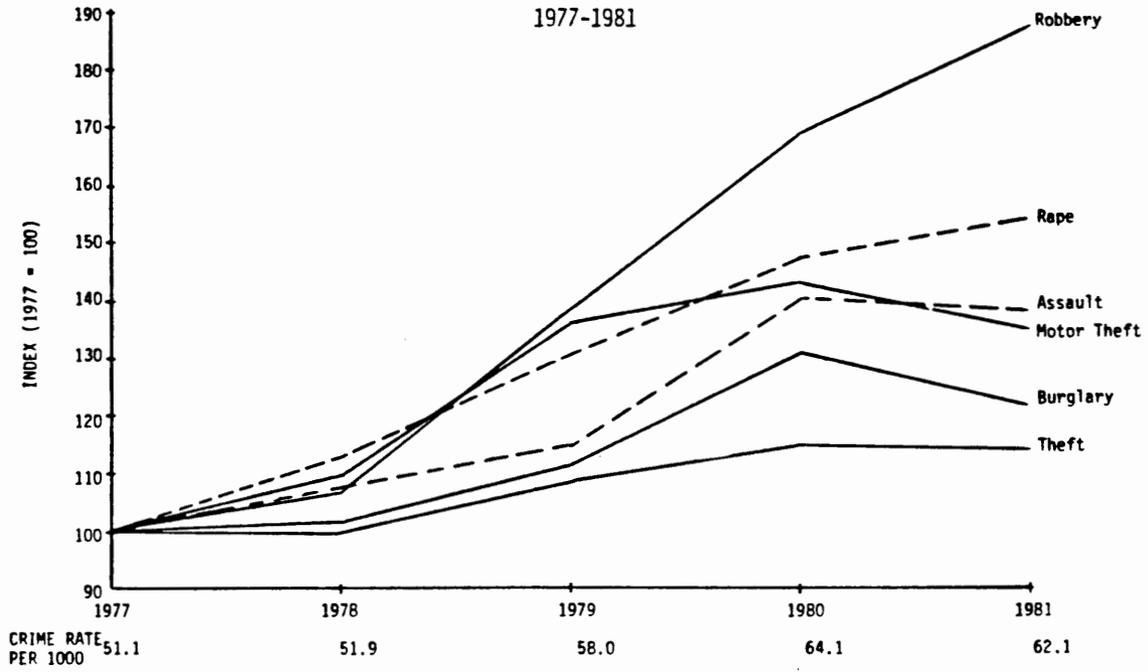
• INCLUDES: FOOD, LAUNDRY, MEDICAL, INMATE WAGES

IMPACTS ON THE PRISON SYSTEM

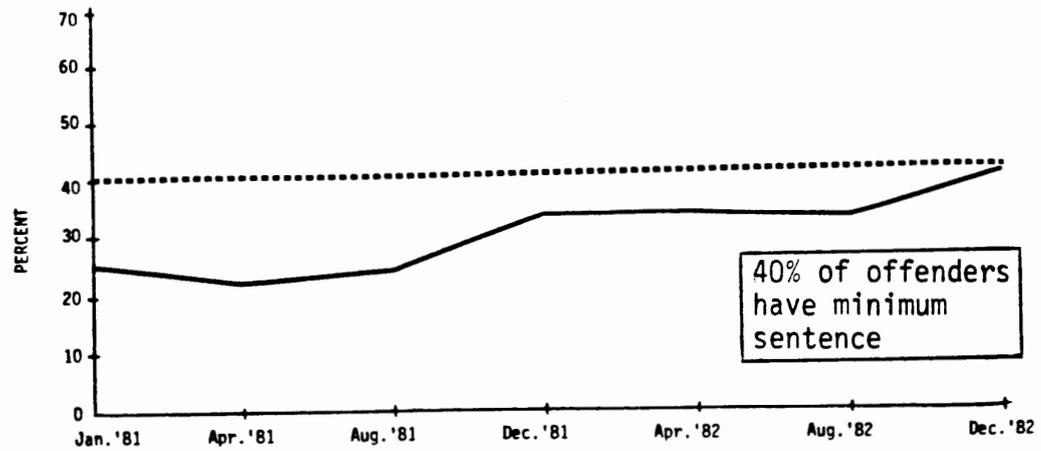
As the charts on the next two pages illustrate, a variety of environmental factors have impacted the prison system in the past few years:

- Crime rates per 1000 population have risen by 22% between 1977 and 1981.
 - Crime rates are expected to decline slightly in 1982.
- The new criminal code enacted in late 1979 required mandatory minimum sentencing for certain crimes. The mandatory minimum sentences have increased the real time served by offenders and, thus, the time retained in the system.
 - Under the old code, an inmate sentenced to three years could be eligible for parole in about eight to nine months. Under the new code the inmate could serve 18-36 months depending upon parole eligibility terms.
 - The number of inmates incarcerated with minimum terms increased from 22% in 1980 to 40% of all offenders sentenced to state prisons in 1982.

STATE OF NEW JERSEY
 DEPARTMENT OF CORRECTIONS
 NEW JERSEY CRIME INDEX
 1977-1981



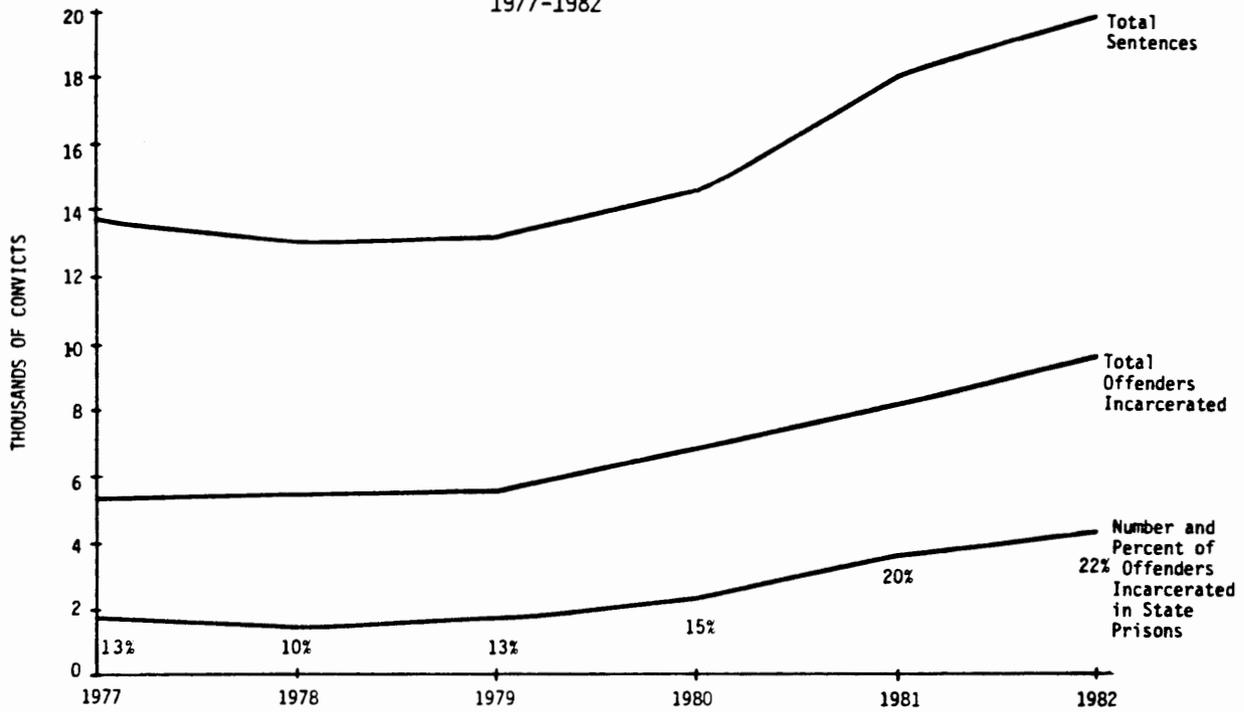
STATE OF NEW JERSEY
 DEPARTMENT OF CORRECTIONS
 % OF PERSONS SENTENCED TO STATE PRISONS
 WHO RECEIVED MINIMUM SENTENCES



IMPACTS ON THE PRISON SYSTEM (CONTINUED)

- Since 1977, the annual number of offenders sentenced has increased from 13,000 to 19,000.
 - The Speedy Trial program had some impact as the courts worked off the backlog. While it is too early to project the long-term impact on future sentencing rates, it appears that the level may not drop below the current 19,000 since the number of new cases added annually to the backlog has not declined recently.
 - As the number of sentences has increased, the percentage of offenders sentenced to state prisons has increased dramatically, from 13% in 1977 to 22% in 1982.
- Annual releases from prison to parole have declined slightly since 1978 while admissions have increased significantly during the time period, thereby increasing the number of people in the system.
 - The decline in releases could be a function of both the new Parole Act, as well as as a 1979 decline in eligibility for parole due to mandatory minimum sentences.

STATE OF NEW JERSEY
 DEPARTMENT OF CORRECTIONS
 SENTENCING TRENDS
 1977-1982



Note: Adult Only

STATE OF NEW JERSEY
 DEPARTMENT OF CORRECTIONS
 ADMISSIONS VS PAROLE TRENDS
 1978-1982



Note: Adult and Youth Counts

ISSUE: PRISON OVERCROWDING

Due principally to the factors identified earlier, New Jersey's prison system is suffering from overcrowding. This has two significant impacts:

- It imposes additional costs, either to house the inmates at county facilities or to build new state facilities.

- County facilities are now overcrowded and cannot serve in the future as an adequate buffer for the overflow from the state system.

- State paid \$11.2 million in 1982 to counties for housing.

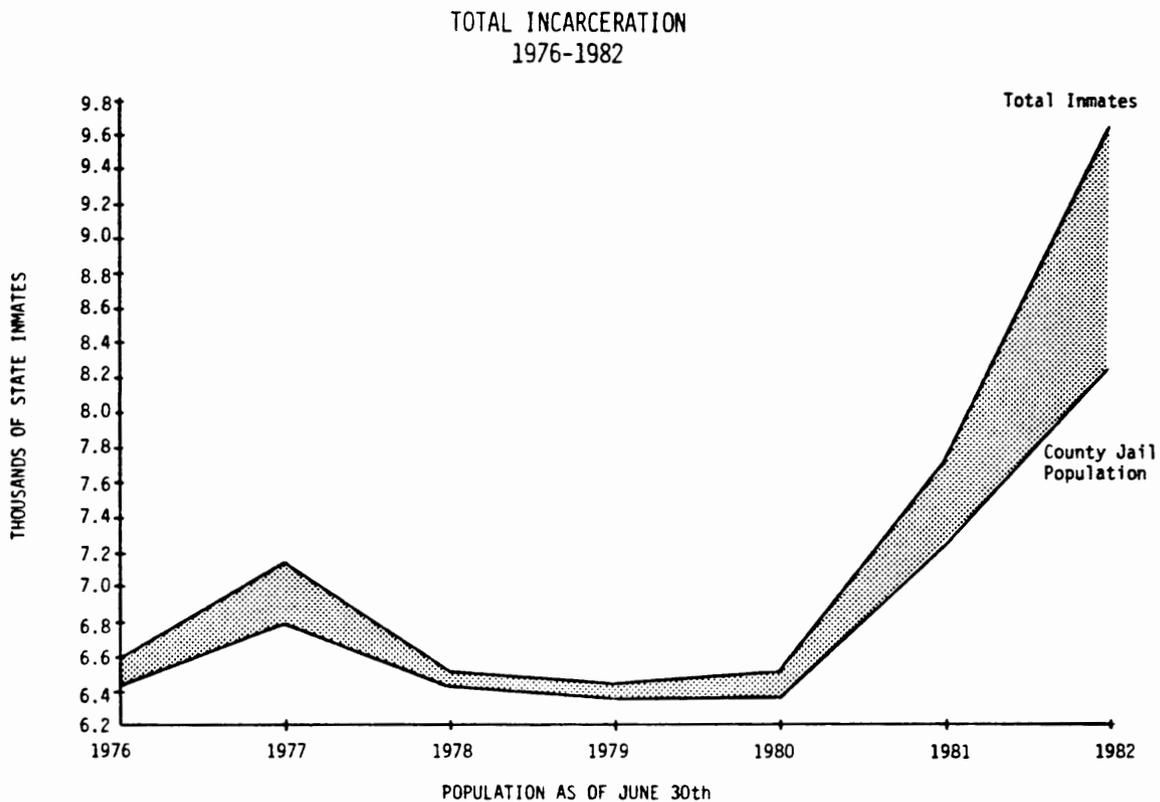
- By having an adverse impact on inmate conditions, it can create custody control problems in the prisons. For example:

- Work, program, and recreation spaces have been appropriated for temporary living quarters to house the surge in population. Consequently there is a lack of facilities to keep prisoners active.

- A lack of work credits (due to lack of facilities) can prolong an inmate's stay (thus occupying bed space) since work credits by law reduce the date that an offender becomes eligible for parole consideration. In addition, a lack of work space reduces the opportunity for inmates to demonstrate to the parole board their involvement with a work or rehabilitation program. Thus the lack of facilities prolongs the time to eligibility and then makes it harder for an inmate to demonstrate he is eligible through program involvement.

- Experts in the field of corrections often cite the lack of adequate work facilities as a cause of prison disorders. Studies of prison disturbances commonly cite overcrowding and inmate idleness as contributing factors

ISSUE: PRISON OVERCROWDING



- NEW JERSEY PRISONS SUFFER FROM OVERCROWDING
 - IMPOSES ADDITIONAL COSTS
 - NEW FACILITIES
 - COUNTY PAYMENTS OF \$11.2MM
 - CAN CAUSE CUSTODY AND MANAGEMENT PROBLEMS DUE TO LACK OF FACILITIES, PROGRAMS AND WORK OPPORTUNITIES

THE CORRECTIONAL SYSTEM AGENDA

- OBJECTIVE

- ISSUE: OVERCROWDING
 - BACKGROUND
 - FORECASTS

- PERSPECTIVES
 - ENTRY
 - CUSTODY
 - EXIT

- RECOMMENDATIONS
 - LONG-TERM POLICY
 - COST REDUCTION
 - ORGANIZATIONAL
 - NEAR TERM
 - RELIEVE PRESSURE
 - COST REDUCTION AND EFFICIENCY

INMATE PROJECTIONS

Two approaches were used to confirm independently the Department's projection of a need to potentially house 14,000 adult inmates in 1988.

- The first model projected the population based upon monthly trends in admissions and releases in the last few years.
- The second approach projected the 1988 population based upon:
 - The expected release dates for inmates in custody as of January 1, 1983, and
 - Annual additions and releases during 1983-1988 due to trends and profiles in sentences.

The analysis indicated that the prison overcrowding situation could continue during the forecast period resulting in a potential shortfall of beds. In addition, while these approaches confirmed that the Department's projection was reasonable, initial sensitivity analysis suggests the population estimates are highly dependent upon the underlying trends. For example, the projection assumed that the number of sentences would remain during the forecast period at 19,000 per year, the 1983 level. If this were to increase by 10 1/2% to 21,000, there could be an increase of 9.9% in the prison population. For each of the three variables highlighted at the bottom of the adjacent chart, the trends since 1977 had equaled or exceeded the sensitivity level tested.

Note: Due to the short time frame of the study these projections were not developed to replace those done earlier by the Department but merely as a confirmation and to provide some basis for testing the sensitivity. The Department should consider the development of an inmate forecasting model that can be updated frequently to respond to changes in the environment and to test the impact of various policy alternatives.

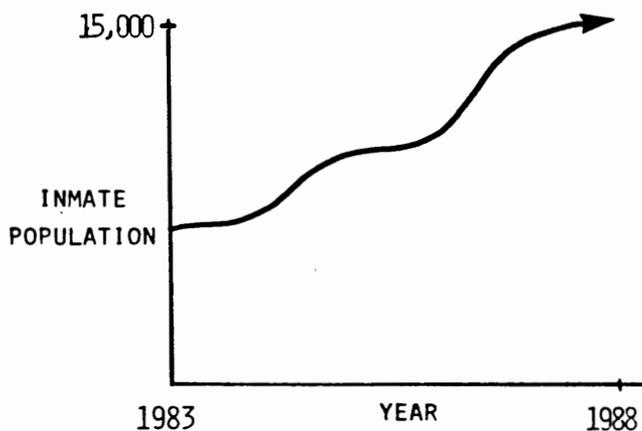
PROJECTIONS

- ADMISSION TRENDS
- RELEASE TRENDS
- CURRENT POPULATION

ADMISSIONS/
RELEASE
MODEL

SENTENCE
PROFILE
MODEL

- CURRENT POPULATION
 - SENTENCE/RELEASE PROFILE
- SENTENCE TRENDS
 - NO. OF CASES
 - NO. INCARCERATED
 - NO. DETERMINATE VS. INDETERMINATE SENTENCES
 - SENTENCE/RELEASE PROFILES



SENSITIVITY ANALYSIS

<u>VARIABLE</u>	<u>BASE CASE IN</u> <u>1988</u>	<u>SENSITIVITY</u>	<u>IMPACT ON ADULT</u> <u>1988 POPULATION</u>
SENTENCE TRENDS	19,000	+10.5%	+9.9%
% MINIMUM SENTENCE	40%	+25% (TO 50%)	+8.3%
% INCARCERATED IN STATE	22%	+14% (TO 25%)	+12.8%

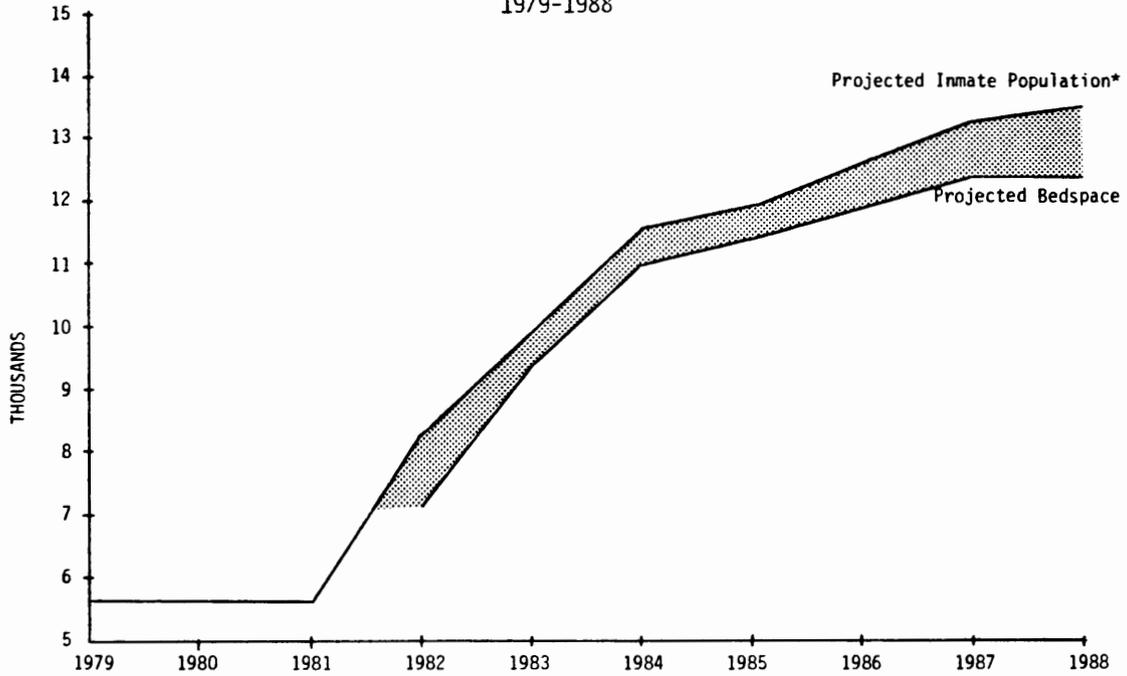
PROJECTIONS

The upper chart highlights the projected bedspace and the projected inmate population. This population takes into consideration the policy options recommended by the Governor that reduced the 1988 population forecast by approximately 1,400 inmates. As the chart illustrates, the current prison overcrowding is not expected to be completely alleviated in the planning period even with an increase of several thousand beds. Thus the state is faced with a situation that is expected to continue to put significant pressure on the prison system. Clearly, this has impact upon the inmates' daily living conditions.

A critical uncertainty in the future is the trend of incarcerations in the late 1980's and early 90's. Since the high crime age group (18-35) is expected to be decreasing in actual number at that time due to demographics, the possibility exists that bed space needs may decrease in the next decade. In addition, if legislation and program changes introduced by Governor Kean are continued and expanded, they would have an impact and could narrow the shortfall. Consequently, the Department has consciously not embarked on a program to build excessive bed space.

The bottom chart represents an initial projection of the Department's operating budget. It is based upon the correlation of historical ratios of the three major expense components (in constant dollars) to the prison population. The forecast is then projected on the Department's prison population forecast using the historical correlations and a 6% inflationary factor. The range estimate is based upon the upper and lower range noted in the historical correlations.

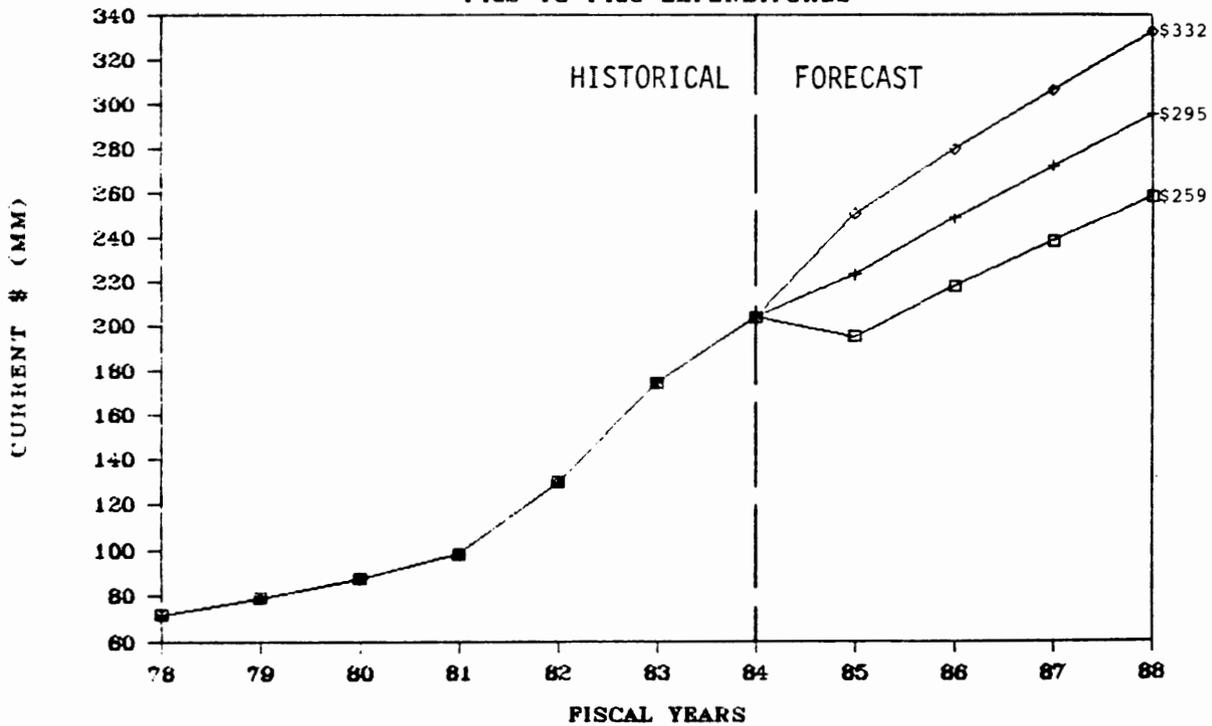
STATE OF NEW JERSEY
 DEPARTMENT OF CORRECTIONS
 PRISON POPULATION FORECAST
 1979-1988



* Inmate projections are based on figures from the Governor's Report on Prison Overcrowding

DEPARTMENT OF CORRECTIONS

FY82 TO FY88 EXPENDITURES



THE CORRECTIONAL SYSTEM AGENDA

- OBJECTIVE

- ISSUE: OVERCROWDING

- BACKGROUND
- FORECASTS

- PERSPECTIVES

- ENTRY
- CUSTODY
- EXIT

- RECOMMENDATIONS

- LONG-TERM POLICY
 - COST REDUCTION
 - ORGANIZATIONAL
- NEAR TERM
 - RELIEVE PRESSURE
 - COST REDUCTION AND EFFICIENCY

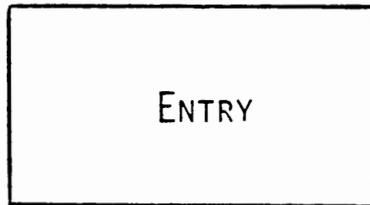
FINDINGS

There exist three distinct phases that offenders experience as they pass through the system. For each phase, there are alternatives which if implemented could relieve the pressure and/or the cost of overcrowding.

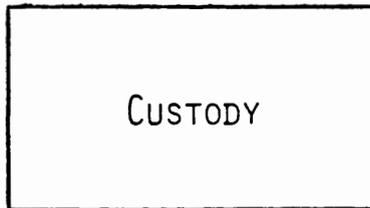
- Entry: What can be done to divert potential inmates from incarceration without significantly changing the current criminal code or philosophy of criminal punishment?
- Custody: What steps can the department take to:
 - reduce operating costs long term, and
 - improve the efficiency of the system?
- Exit: What options are available to facilitate:
 - the parole process, and
 - the integration of the ex-convict and society to minimize repeat offenders?

As background for the task force's recommendations, this section highlights some of the findings for each of the three phases.

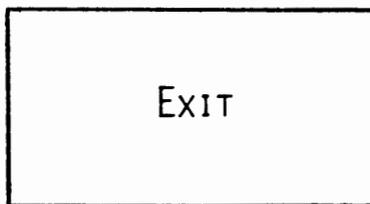
NEW JERSEY
THE PRISON SYSTEM



- CAN WE DIVERT OFFENDERS FROM INCARCERATION?



- CAN WE REDUCE THE COST AND IMPROVE THE EFFICIENCY OF THE SYSTEM?



- CAN WE IMPROVE THE PAROLE PROCESS AND REDUCE THE NUMBER OF REPEAT OFFENDERS?

THE CORRECTIONAL SYSTEM

AGENDA

- OBJECTIVE

- ISSUE: OVERCROWDING
 - BACKGROUND
 - FORECASTS

- PERSPECTIVES
 - ENTRY
 - CUSTODY
 - EXIT

- RECOMMENDATIONS
 - LONG-TERM POLICY
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 - COST REDUCTION AND EFFICIENCY

ENTRY: ALTERNATIVES TO INCARCERATION

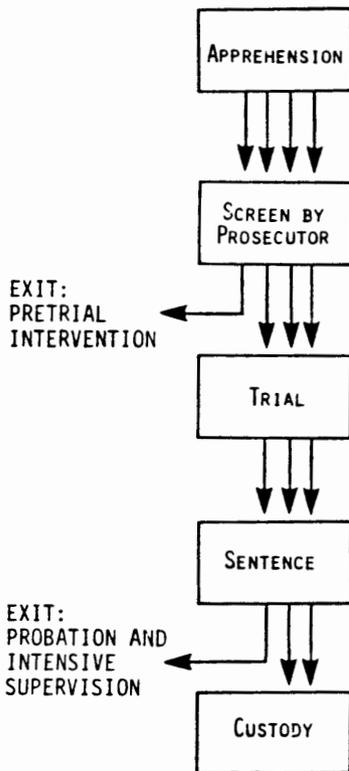
There are a variety of programs in place, or proposed, that are directed at either diverting offenders from incarceration or assisting those that have been diverted. The participants in the programs are primarily minimum risk offenders that can be pulled out of the system at selected points between apprehension and custody. The adjacent slide highlights the programs and contrasts the cost of program participants versus incarceration. In general, it should be noted that:

- Diversion programs will have little impact on maximum and medium security bed spaces, or 73% of the bed spaces, since they divert minimum risk offenders.
- Assistance programs will, near term, have little impact on bed spaces since these are servicing offenders already diverted.
 - Longer term, these programs could have an impact on bed space by reducing the risk of a repeat offender.
- Pretrial Intervention: Diverts an average of 4,000 offenders a year and, while governed by statute, relies on guidelines issued by the Supreme Court for eligibility. The cost of the program per person (\$440) is cost effective when compared to the marginal cost of incarceration. To be expanded, additional funding would be required, as well as broadening of the screen to determine eligibility. For example:
 - Establish automatic guidelines for low risk offenders, e.g.,
 - nonviolent, fourth degree offender with no prior record; or
 - remove automatic exclusion for those who have been previously diverted on minor drug charges.
 - Expansion of program to divert nonviolent disorderly person offenses where the likelihood of incarceration in county jails is significant.
- Probation: The county funded probation service is New Jersey's primary alternative to incarceration. Currently there are 25,600 adult offenders being supervised by the probation departments for a mean case load of 130 per officer.

ENTRY

ALTERNATIVES TO INCARCERATION

PROCESS



PROGRAMS

DIVERSION

PRETRIAL INTERVENTION

- GOVERNED BY STATUTE AND DIVERTS 4000 ANNUALLY
- BROADEN SCREENING ELIGIBILITY TO EXPAND PROGRAM

PROBATION

- CURRENTLY ABOUT 25,600 ON PROBATION
- CASE LOAD ABOUT 130 PER OFFICER

INTENSIVE SUPERVISION

- NEW PROGRAM DIRECTED AT DIVERTING A SMALL NUMBER (500) OF OFFENDERS THAT HAVE BEEN SENTENCED TO INCARCERATION
- HIGH LEVEL OF INTERACTION WITH OFFICERS

ASSISTANCE

TASC

- TREATMENT OF 2000 DRUG OFFENDERS TO REDUCE CHANCE OF REPEAT OFFENDERS
- 50% ARE PRETRIAL DEFENDANTS, 50% PROBATION
- FEDERAL FUNDING TO EXPIRE IN 1983
- ONLY 9% OF ENROLLEES ARE SUBSEQUENTLY ARRESTED ON NEW CHARGES

COMMUNITY WORK PROGRAM

- OBJECTIVE: EMPLOY 200 PEOPLE CURRENTLY ON PROBATION TO MINIMIZE RISK OF REPEAT OFFENSE

COST

COST PER PERSON	
Minimum Risk	
Full Cost	\$8000
Marginal Cost	\$2200
	\$440
	\$650
	\$2800
	\$335
	\$500

ISSUE

FUNDING SOURCE: COUNTY VERSUS STATE

Historically probation departments return between 10% and 14% of all sentenced offenders to court for violations.

From a cost perspective, probation provides one of the highest returns on the investment dollar. Currently it costs approximately \$225 for the initial investigation, which must be carried out for all offenders, plus \$650 per year per defendant for active supervision.

- Intensive Supervision: The Intensive Supervision is an experimental program which is scheduled for implementation during the later part of 1983. ISP will be staffed by 25 case supervisors who will carry case loads of between 15 and 20 offenders each. These offenders will be selected from the state correctional institutions no later than 60 days after date of sentence by a three person screening panel. Offenders selected for the program will be supervised closely and subject to strict conditions including, but not limited to, attendance at drug and/or alcohol programs, regular employment, job or educational training, and daily contact with the case supervisor. The length of offender involvement is projected to be not less than 12 months nor more than five years.

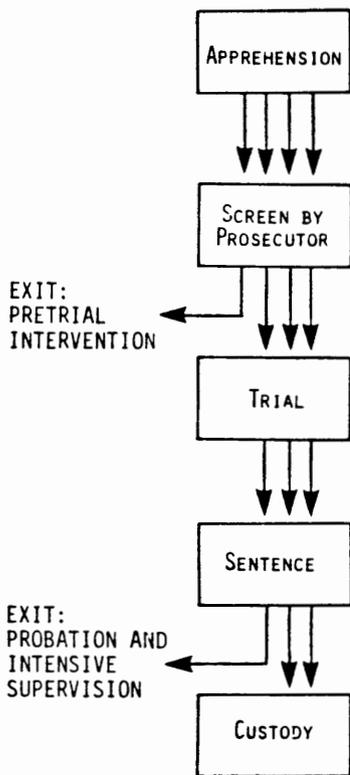
Operation of the Intensive Supervision is expected to cost, exclusive of startup costs, approximately 1.3 to 1.5 million dollars per year which has a per offender cost of between \$2,600 and \$3,000. If expansion of this program is anticipated, the per year cost per offender may be reduced slightly because of economies of scale.

- Treatment Alternatives to Street Crime (TASC): This program is designed to increase the capability of pretrial and probations programs to detect and treat substance abusing offenders. About 50% of the current 2,000 participants are under supervision by PTI and 50% are on probation. To date, only 9% of the enrollees have been subsequently arrested on new charges. The state is expected to pick up the funding when Federal monies cease this year since drug and alcohol abuse is prevalent among the offender population.

ENTRY

ALTERNATIVES TO INCARCERATION

PROCESS



PROGRAMS

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Full Cost	\$8000
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	\$500

ISSUE

FUNDING SOURCE: COUNTY VERSUS STATE

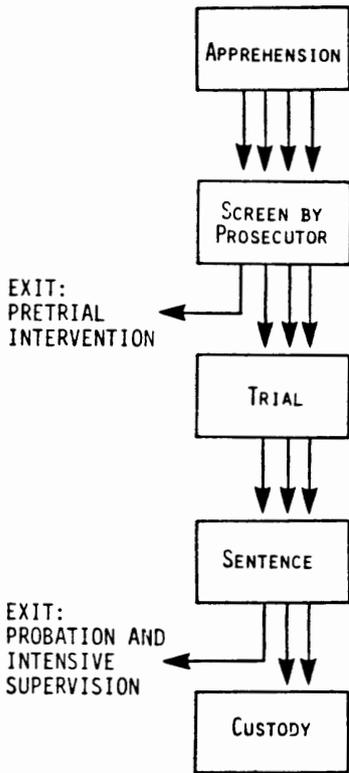
- Community Work Programs: It is estimated that 200 offenders can be placed and supervised in community work programs for about \$100,000 a year, or \$500 each, with an objective of providing work in order to reduce the risk of repeat offense. These work intensive programs provide car-fare and lunch, as well as on-site supervision, to offenders who are generally unemployed. The participants provide manual labor in lieu of incarceration, which includes tasks such as painting public buildings, churches, etc. Although this type of program was experimented with in Essex County last year with good results, it was terminated when funds for it were cut.

Many of the entry programs are cost effective relative to the marginal cost of incarceration, generating savings to the state of between \$1500-\$1800 per participant per year. (When compared to the full cost of incarceration, these programs could potentially generate annual savings in excess of \$7500 per participant. However, an issue that was identified by the task force concerns the funding source for the entry programs. The entire entry phase--except for ISP and TASC (if the state replaces federal funding)--is a county fiscal responsibility. To the extent that county funds are not available to expand entry programs, the state will bear the burden at state institutions in both cost and overcrowding. Since some of the programs are cost effective relative to the marginal cost of incarceration, the state may find it cost effective to provide supplemental funding to the counties for expansion of these programs.

ENTRY

ALTERNATIVES TO INCARCERATION

PROCESS



PROGRAMS

DIVERSION

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Marginal Cost	\$2200
	\$440
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	\$2800
	\$335
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ISSUE

FUNDING SOURCE: COUNTY VERSUS STATE

CUSTODY

The task force prepared a detailed survey to develop comparative data with five other states: New York, Pennsylvania, Ohio, Massachusetts, and Maryland. The task force found that it is extremely difficult, and potentially misleading, to draw conclusive inferences from the data since:

- There is a lack of standardized reporting policies from state-to-state; and
- There are different operating philosophies which in part reflect each state's tradeoff between the "quality" and the cost of incarceration. The quality of incarceration is embedded in the management of the systems and manifests itself in a variety of ways. For example:
 - The square footage per inmate. New Jersey double cells (two people per cell) in only one facility while Ohio employs it as an operating practice.
 - The availability of work programs, recreation, and medical services. The Governor has stated that New Jersey inmates should have opportunities for daily work to the greatest extent possible to minimize idleness.
 - New Jersey restricts inmates from certain jobs which other states staff with inmates.
 - In New York, one of the causes of the Ossining riot was the access that inmates had to controlled, confidential documents due to their jobs in administration.

While the quality of the returned material varied from state-to-state, some of the key data is presented in the following slides. Note: Due to the fact that this was the first time such a survey was prepared, the task force realizes that there may still exist inconsistencies in the manner in which the states responded. Consequently, the responses will need further research.

The first few pages of this section highlight the analysis from the survey that was directed at identifying potential cost reductions. The last few pages highlight other custody issues that came up in the study and that can have impact now, or in the future, on the efficiency of the custody function.

THE CORRECTIONAL SYSTEM AGENDA

- OBJECTIVE

- ISSUE: OVERCROWDING
 - BACKGROUND
 - FORECASTS

- PERSPECTIVES
 - ENTRY
 - CUSTODY
 - EXIT

- RECOMMENDATIONS
 - LONG-TERM POLICY
 - COST REDUCTION
 - ORGANIZATIONAL
 - NEAR TERM
 - RELIEVE PRESSURE
 - COST REDUCTION AND EFFICIENCY

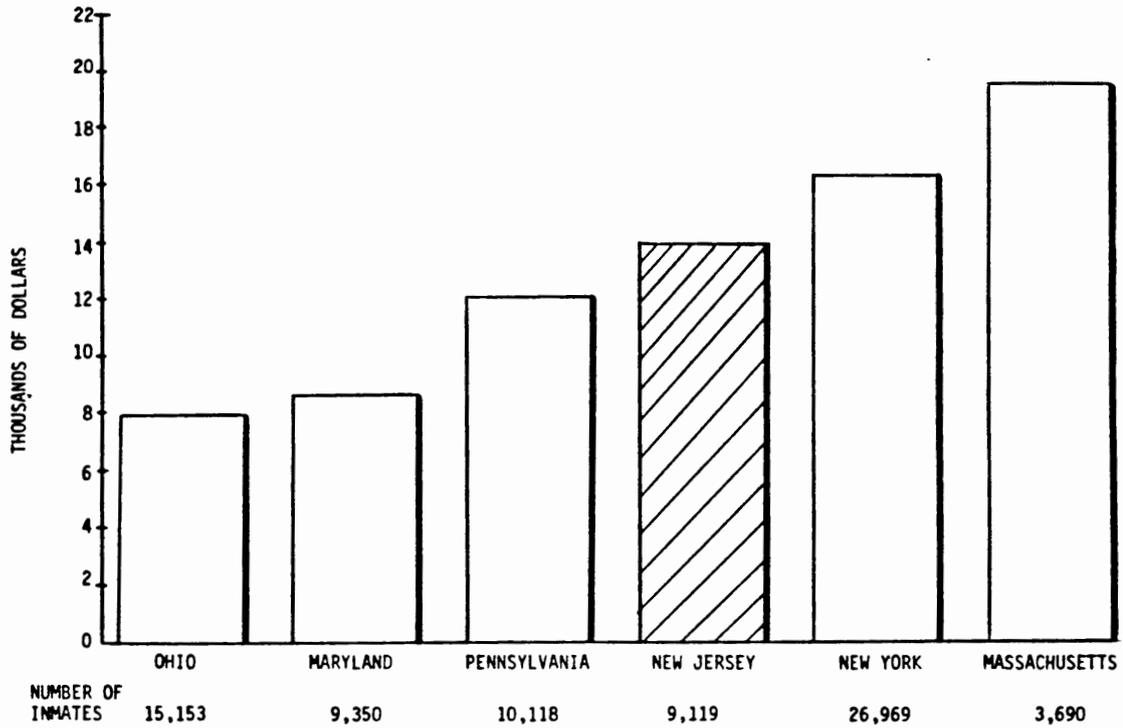
COST DYNAMICS

As the adjacent chart illustrates, New Jersey ranks near the middle of the states surveyed. The total appropriation represents cost of prisons, programs, and administration.

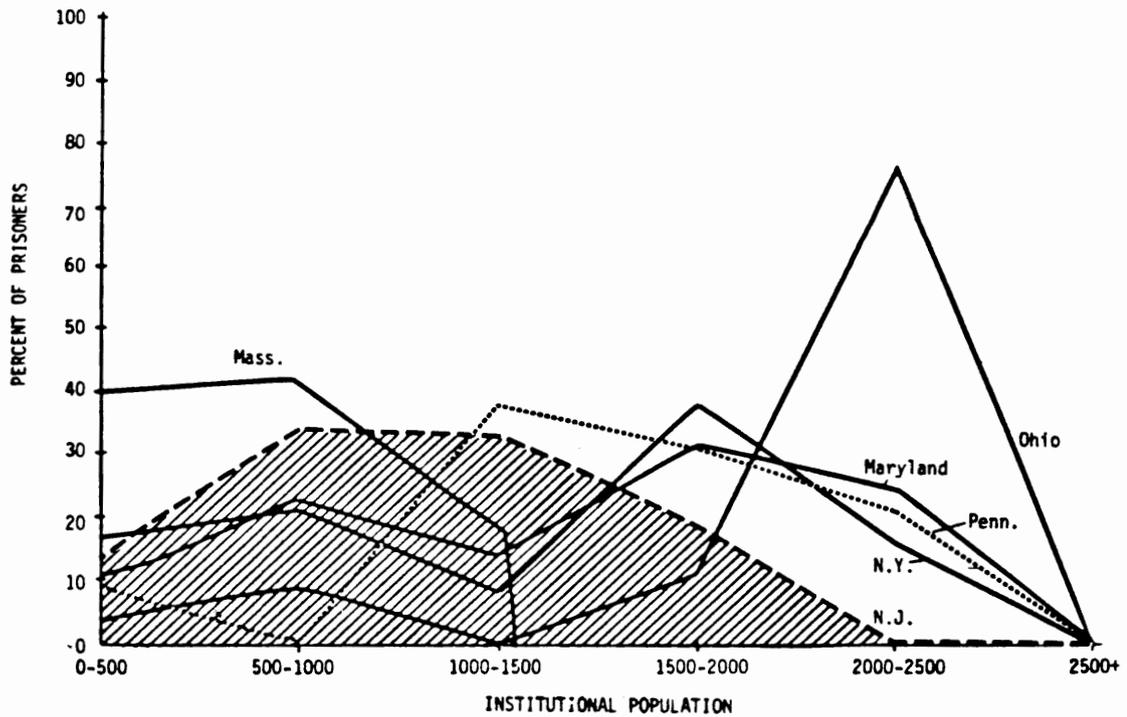
It is difficult to pinpoint any one factor as the cause of the higher inmate cost. However, a large percent (70%) of New Jersey's inmates are housed in institutions that hold less than 1,500 inmates as contrasted with the lowest cost respondent where 70% are in facilities greater than 2,000. The American Corrections Association, a national association, has established guidelines suggesting that 500 bed facilities, or modules in larger facilities, are appropriate to provide the proper inmate control and delivery of program and services. New Jersey has been one of only a handful of states to strive to achieve accreditation under this standard since it may be a requirement for future federal funding. While there exist custody control and inmate issues as the size of the institution increases and which cannot be overlooked, the data does suggest that there are some strong economies of scale to be considered in larger institutions.

Finally, it is important to recognize that these charts compare only costs and not quality. The attitude each correctional system adopts regarding the rehabilitative care and treatment needs of its inmate population is a functional component of the Total Appropriation per Inmate cost figures. Thus, a high per capita cost figure could be directly related to this quality issue.

TOTAL APPROPRIATIONS PER INMATE
FY1982 SURVEY STATES



STATE OF NEW JERSEY
DEPARTMENT OF CORRECTIONS
PRISON POPULATION PROFILE
SELECTED STATES



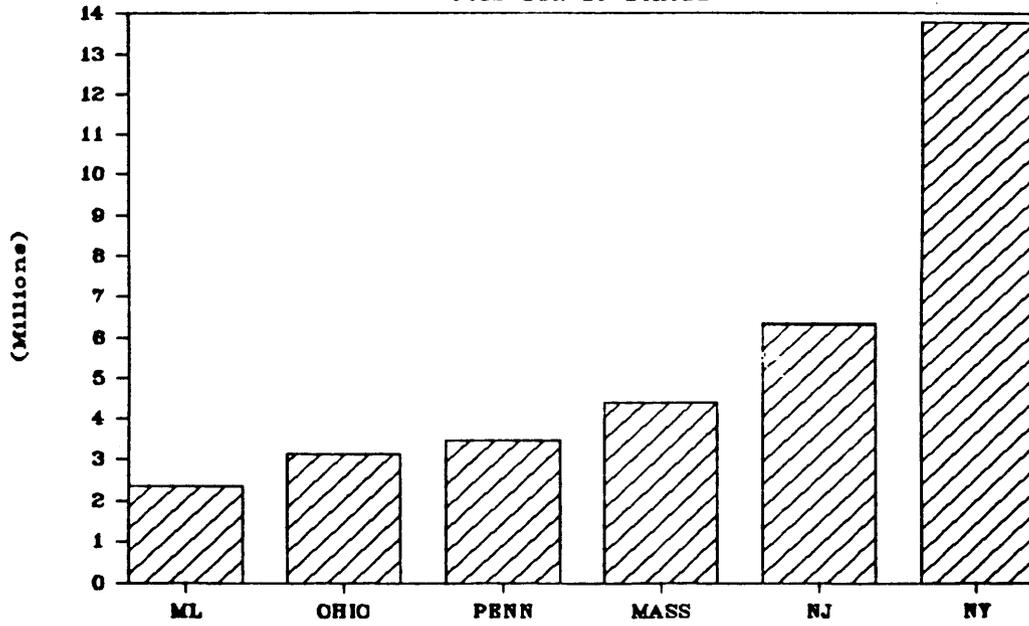
* Capacity figures based on FY1982 population

CENTRAL ADMINISTRATION

The top display illustrates the total dollars for the central administration budget by the various states while the lower chart expresses it on a per inmate basis. New Jersey has had significant growth in this expenditure which represents approximately 5% of the total budget.

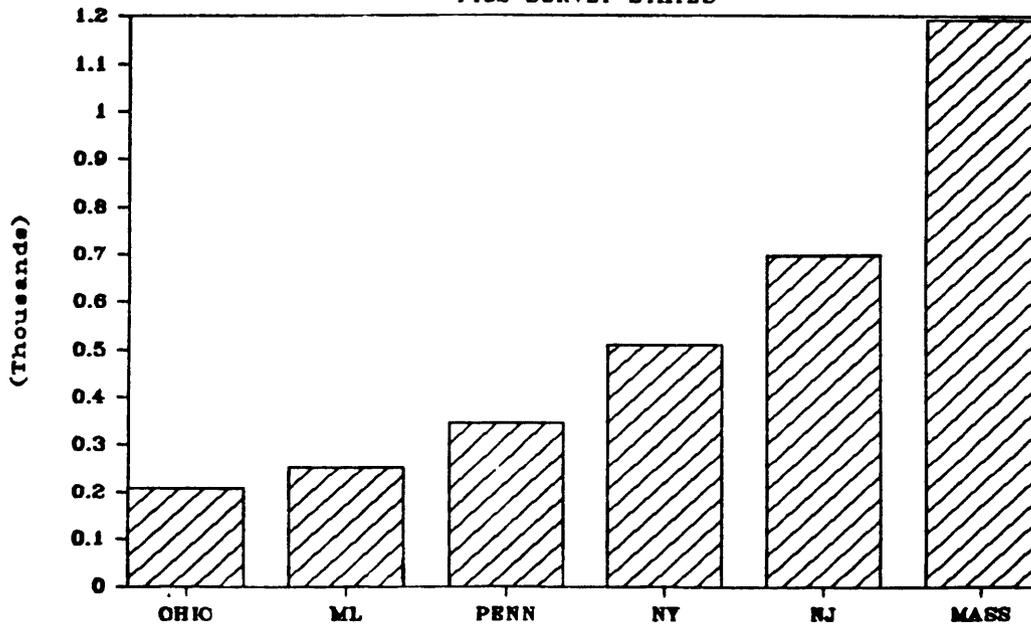
CENTRAL ADMINISTRATION COSTS

FY82 SURVEY STATES



CENTRAL ADMINISTRATION COSTS PER INMATE

FY82 SURVEY STATES



GROWTH 1978-1982 (CURRENT\$)	5.0%	0.7%	.2.5%	13.3%	20.2%	N.A.
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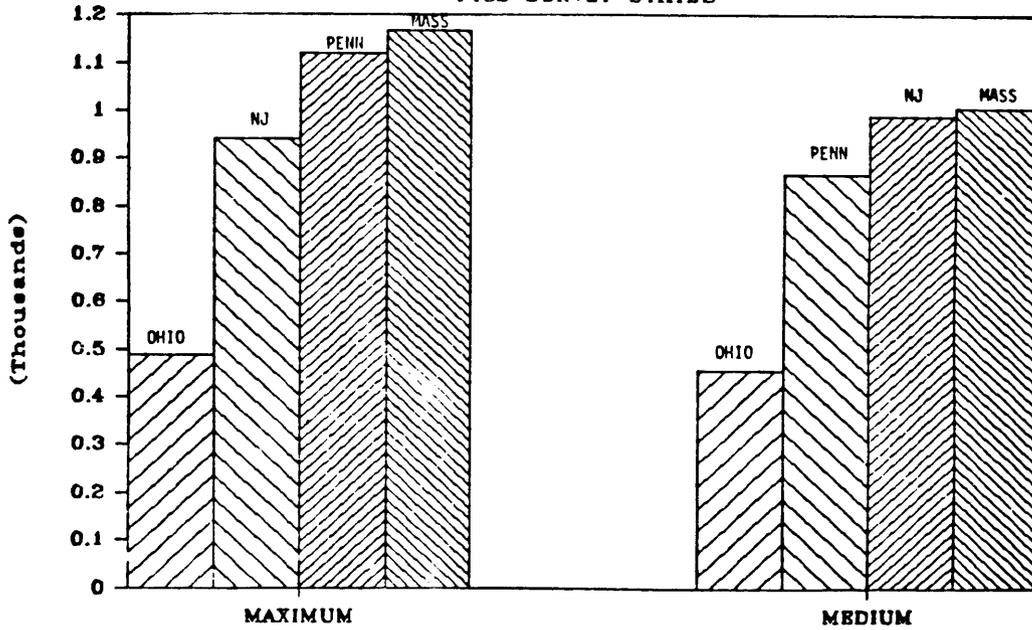
NUMBER OF PEOPLE 1982	75	116	102	581	389	N.A.
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FOOD/FUEL COSTS PER INMATE

One should be careful about drawing conclusions from the adjacent slide since it represents only one institution per state in each category. However, the data suggests that New Jersey may be able to reduce its costs per inmate in these two areas which in total represent about 10% of a prison's operating costs.

FOOD COST PER INMATE

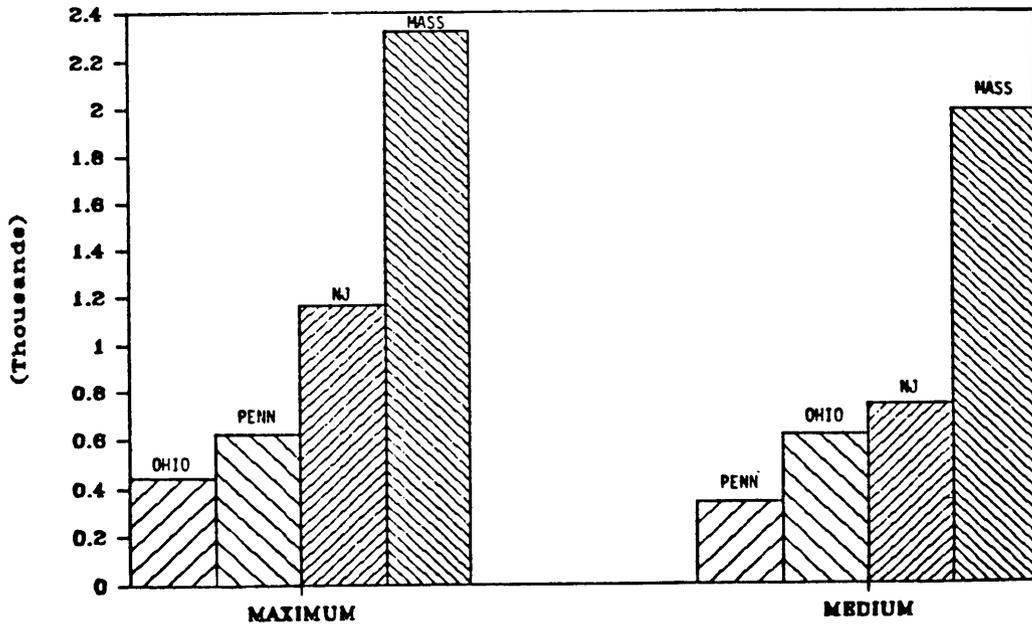
FY82 SURVEY STATES



TYPE OF FACILITY

FUEL COST PER INMATE

FY82 SURVEY STATES



TYPE OF FACILITY

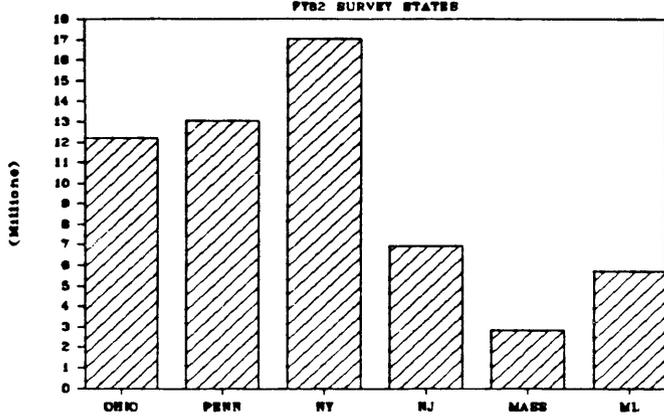
PRISON INDUSTRY REVENUE

Prison Industries revenue represents the sale of products manufactured by the inmates. The Bureau of Prison Industries does not receive any state funding for its operating and administrative costs. The program provides work credits, reduces idleness and, to the extent it is profitable, could be a slight offset to the operational budget if legislation were passed that allowed Corrections to retain earnings (to fund programs for example) and not forward it to the General Fund. New Jersey does not generate a large amount in total but compares favorably on a per inmate basis to the other states in the survey. On a national basis, the state continues to rank above average.

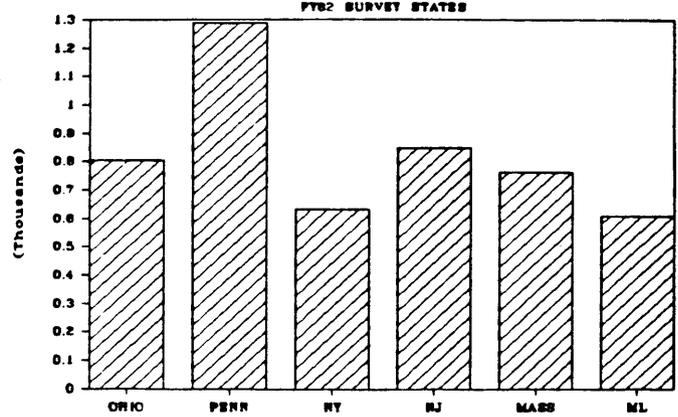
However, a review of the program as highlighted by the lower chart, indicates a disturbing trend. The table displays each market as a percentage of total sales dollars. Although significant increase in sales can be attributed to Corrections, Human Services, and Counties/Municipalities, a marked decrease in other state agencies not only represents a loss of potential revenue, but also a growing trend by state agencies away from this source. If the Bureau could have sustained the FY80 level of sales to other state agencies, an additional \$600,000 in revenue could have been generated over FY81 and FY82.

PRISON INDUSTRIES

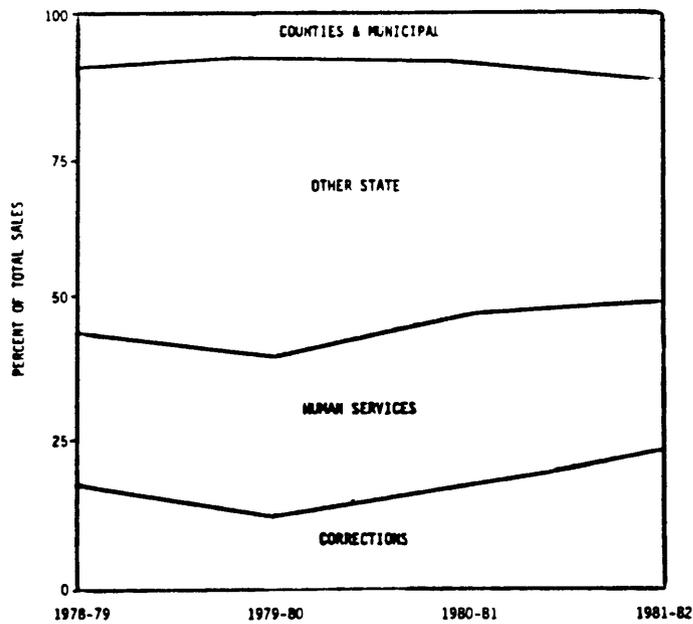
PRISON INDUSTRY REVENUE



PRISON INDUSTRIES REVENUE PER INMATE



DEPARTMENT OF CORRECTIONS
STATE USE INDUSTRIES
PERCENT OF TOTAL SALES
1978-1981



CUSTODY: SURVEY SUMMARY

The cost of incarceration in New Jersey is in the middle of the six states in the survey. A dramatic reduction in this cost is not going to be easy to achieve since much of the cost is dictated by prison architecture. The majority of New Jersey's inmates are housed in institutions smaller than other states in the survey. Many of New Jersey's prisons are more than 25 years old and so have inefficient layouts that penalize the Department in terms of the manpower needed to run the prisons, as well as operating costs such as fuel. To reduce these costs, the state must invest capital realizing that the payback will require several years.

During the short-term phase of the study last fall, a review of the staffing of the prisons suggested that the department did not have much room to cut staff in areas such as security.

CUSTODY: SURVEY SUMMARY

- NEW JERSEY COST PER INMATE, WHILE HIGH, IS LOWER THAN SOME STATES IN THE SURVEY

- THERE ARE NO EASY CUTS TO THE ANNUAL OPERATING COST SINCE COSTS ARE OFTEN DICTATED BY PRISON ARCHITECTURE
 - NEW JERSEY REVEALS A TENDENCY TO HAVE SMALL PRISONS
 - OLDER PRISONS ARE INEFFICIENT
 - MANPOWER
 - FULE UTILITIES
 - CUTTING AT MAJOR PEOPLE INTENSIVE AREAS, SUCH AS SECURITY, WAS NOT DEEMED APPROPRIATE

- SIGNIFICANT REDUCTION IN PRISON OPERATING COSTS IS GOING TO REQUIRE CAPITAL INVESTMENT

CUSTODY: ISSUES IMPACTING EFFICIENCY

During the review, the task force identified a variety of issues relating to efficiency of the system. These have been grouped into two major areas: management and inmate.

Management

- While labor expenses account for 70% of a prison's costs, the responsibility for representing the Department at negotiating sessions with the 10 bargaining units rests with the Governor's Office of Employee Relations. There is some concern within the Department that this arrangement has led to a trading off of work related agreements for dollar settlements, such as shift overlays for the guards. This can place operational restrictions on the Department that the Employee Relations Section may be unaware of due to a lack of familiarity with operations.
 - For example, while Ohio has twice the numer of inmates, its overtime costs were 50% less than in New Jersey.
- The Department is faced with a major ongoing task of training approximately 700-800 new correction officers a year. Currently, due to shortages in classrooms and funds, most of the training is directed at new hires and not current staff. Investing in new programs and facilities directed at current managers may reduce the turnover of custody personel, improve morale, and make the prisons safer.
- The classification of prisoners dictates the type of facility to which the inmate is sentenced. The department should be constantly reviewing procedures such as this one to ensure that prisoners are placed in as minimum security as possible consistent with public safety.

CUSTODY: ISSUES IMPACTING EFFICIENCY

- MANAGEMENT RELATED

- RESPONSIBILITY FOR LABOR NEGOTIATIONS RESTS OUTSIDE THE DEPARTMENT
 - 70% OF THE COSTS
 - TRADE-OFFS OF OPERATING VERSUS SALARY ISSUES
- TRAINING FACILITIES ARE LACKING
 - 700-800 NEW SECURITY OFFICERS A YEAR
 - BETTER TRAINING MAY REDUCE THE TURNOVER RATE
 - 8% IN 1982
- CLASSIFICATION OF INMATES
 - CONSTANT REVIEW OF STANDARDS TO ENSURE LOWEST POSSIBLE COST OF INCARCERATION

- INMATE RELATED

- LONG-TERM OFFENDER
 - ADAPTIVE PROGRAMS
 - HEALTH SERVICES FOR ACUTE CARE FOR AGING INMATES
 - COPING WITH AGING INMATES
- INMATE IDLENESS

Inmate

- Due to the impact of mandatory minimum sentences, the Department is faced with a change in the demographics of the prisoner base. Many of the prisoners face mandatory minimum sentences that will essentially incarcerate them for life without any chance of parole for good behavior. The Department does not have programs that adequately address the future needs of the changing prisoner population. For example:
 - Long-Term Offenders - Programs must be developed that have a philosophy of being focused on "adaptive to prison life" and not "integration to society." These programs must help inmates learn to deal with the fact that they have no chance of release from prison and yet may only be in their early 20's.
 - Health Services - Department studies have indicated that it is cost effective to establish entire wards for acute care at private hospitals, such as the program at Saint Francis. Additional wards will be needed at medical institutions located throughout the state in the upcoming years as the population expands. In addition, as the prison population continues to age, there will be a need to initiate programs that can cope with the problems of the geriatric prisoner.
- The continued overcrowding of the prisons has led to a marked deterioration in work/recreation facilities available for inmates. This has led to an increase in inmate idleness which can be a major cause of prison disorder. The Department needs to explore alternatives that would serve to reduce the inmate idleness.

CUSTODY: ISSUES IMPACTING EFFICIENCY

- MANAGEMENT RELATED

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 - HEALTH SERVICES FOR ACUTE CARE FOR AGING INMATES
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THE CORRECTIONAL SYSTEM
AGENDA

- OBJECTIVE

- ISSUE: OVERCROWDING
 - BACKGROUND
 - FORECASTS

- PERSPECTIVES
 - ENTRY
 - CUSTODY
 - EXIT

- RECOMMENDATIONS
 - LONG-TERM POLICY
 - COST REDUCTION
 - ORGANIZATIONAL
 - NEAR TERM
 - RELIEVE PRESSURE
 - COST REDUCTION AND EFFICIENCY

EXIT: PAROLE FUNCTION

The Parole process is divided between two agencies, the Department of Corrections and the Parole Board. The Parole Board is charged with evaluating inmates to determine eligibility and conditions for parole. Once paroled, the Bureau of Parole (within Corrections) is responsible for supervision.

The Parole Act of 1979 created several changes to the system.

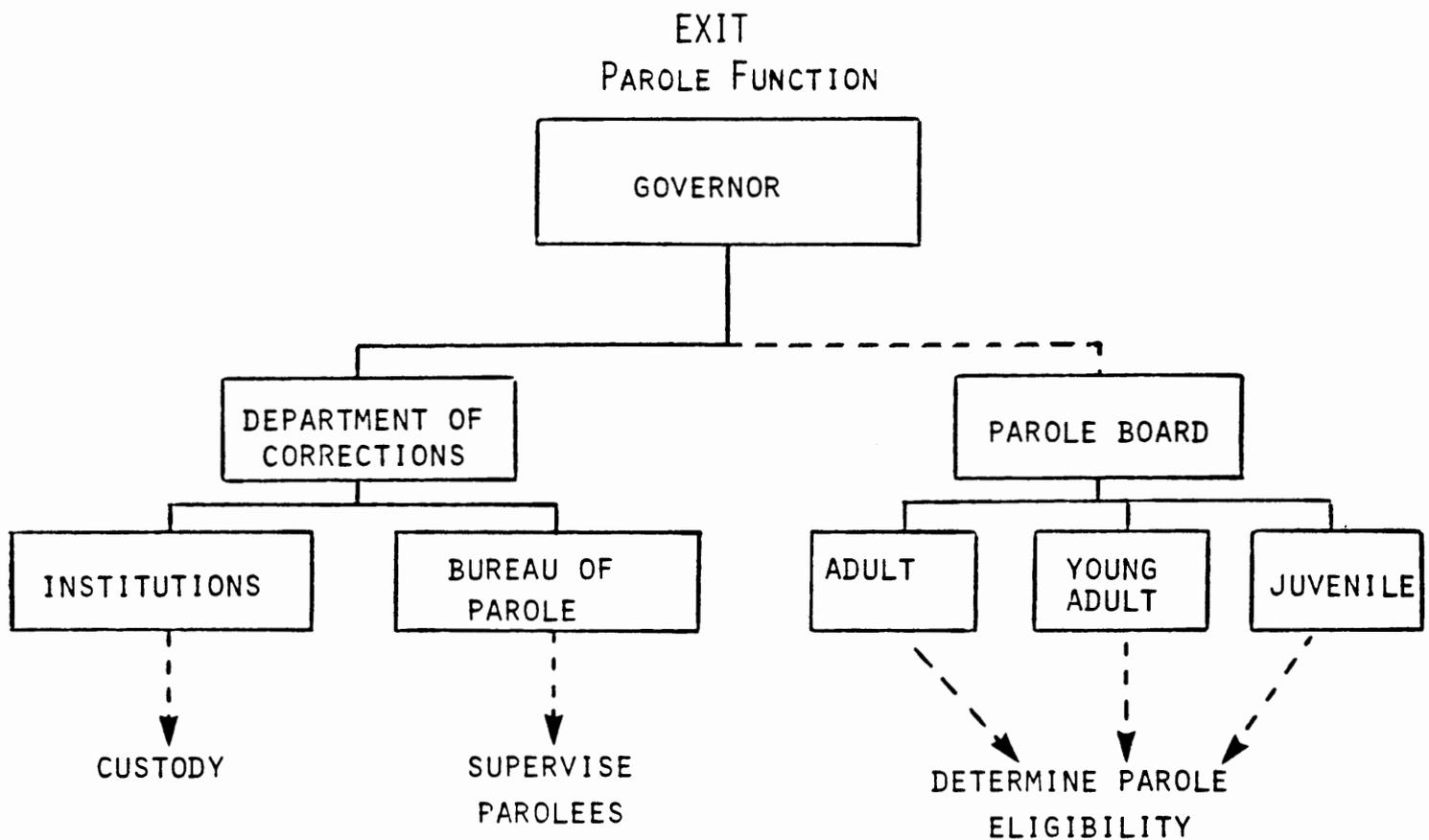
- It consolidated the previous four independent paroling authorities into a full time, seven member commission divided into three panels. Each panel has jurisdiction over a classification of inmate.
- It in essence set a philosophy for parole that presumes an offender is eligible after a specified time unless documentation by the Board dictates otherwise.

By virtue of the same law and a later amendment, The Bureau of Parole was given expanded duties that included:

- supervision of county parolees, and
- parole supervision of the very young formerly supervised by Division of Youth and Parole Services, and
- collection of payments, for example, from offenders for the Violent Crimes Victim Compensation Board, for restitution and collection of fines.

In addition to these factors, the workload was further increased with the advent of several special conditions attendant to most parolees and the use of attorneys and public defenders and probable cause hearings. The changes to the law also had a negative impact on the Bureau's power through the loss of arrest powers and the ability to move against parolees regardless of their admissions of guilt.

The next few pages examine some of the major findings of the task force. These have been divided into two major groups: overcrowding and efficiency.



- PAROLE ACT OF 1979

- CONSOLIDATED FOUR INDEPENDENT AUTHORITIES INTO A SEVEN MEMBER FULL TIME BOARD DIVIDED INTO THREE PANELS

-- ADULT PRISON, YOUNG ADULT, JUVENILE

- PHILOSOPHY: OFFENDER PRESUMED ELIGIBLE ON PAROLE DATE UNLESS BOARD COULD PROVE OTHERWISE

- LATER AMMENDMENT LED TO BUREAU SUPERVISING COUNTY JAIL PAROLEES, VERY YOUNG JUVENILES, COLLECTING PAYMENTS (FOR A VIOLENT CRIMES VICTIM COMPENSATION BOARD)

- INCREASED WORK LOAD

- FINDINGS

- IMPACT OVERCROWDING
- IMPACT EFFICIENCY

PAROLE FUNCTION
Findings: Impact Overcrowding

One of the major results of the new criminal code is the incarceration of inmates with long mandatory minimum sentences. This had several impacts on overcrowding from a parole perspective.

- For inmates with long mandatory minimum sentences, there is a strong disincentive for good behavior, work credits or other means of accelerating the parole eligibility date. Thus the system has reduced the motivation for good behavior for many inmates.
- While the total number of inmates has increased, the number eligible for parole determination may not have kept pace since inmates with mandatory minimum sentences are not eligible until that minimum time is served.

Of the current inmate population, 40% are repeat offenders. This may be due in part to a lack of support systems that can adequately assist the parolee's integration with society. For example, a lack of a job or money to afford proper housing could force a parolee to revert to crime or violate parole conditions and thus be reincarcerated and impact bed space.

The number of inmates released annually to parole since 1976 has increased in total by 13% in 1982 while inmate population grew by nearly 50%. The data does not readily exist to express these releases as a percentage of those eligible or determine why this trend has happened.

Due to funding constraints, the number of parole field officers has decreased since 1976 while their workload has expanded:

- number of active parolees has increased over 25%;
- they have become responsible for the county jail and the very young parolees; and
- collection of fines, restitution, and penalties has been added to their duties.

This clearly has had an impact upon the ability of the field officers to monitor the parolees.

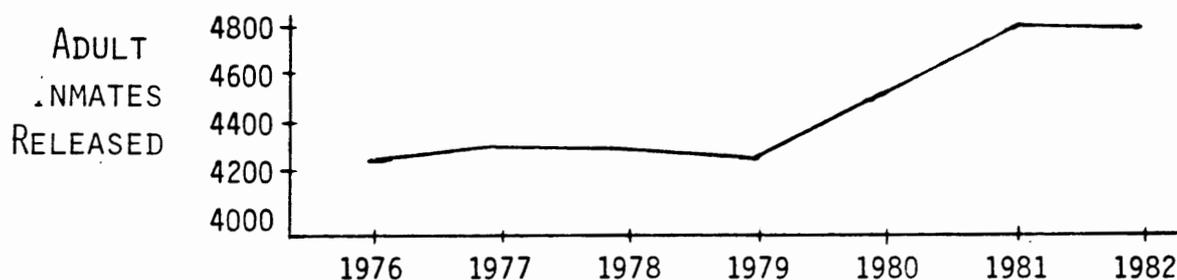
Due to the wording of the Parole Act of 1979, there can be instances where an inmate sentenced to a 14 month sentence in one county is eligible for parole in one-third the time served (five months) while in another county, the same offender would have to serve at least nine months and thus add to the overcrowding condition.

PAROLE FUNCTION FINDINGS: IMPACT OVERCROWDING

- LONG MINIMUM SENTENCES REDUCE POOL OF PAROLE ELIGIBLE INMATES
 - DISINCENTIVE FOR INMATES TO MAINTAIN MODEL BEHAVIOR DUE TO LACK OF FLEXIBILITY IN PAROLE ELIGIBILITY DATE

- OF THE CURRENT INMATES, 40% ARE REPEAT OFFENDERS
 - A PAROLEE HAS VERY FEW SUPPORT SYSTEMS TO ASSIST IN INTEGRATION BACK INTO SOCIETY
 - LACK OF JOB, HOUSING (OR MONEY FOR HOUSING) MAY CAUSE PAROLEE TO REVERT TO CRIME AND BE REINCARCERATED

- NUMBER OF INMATES RELEASED ANNUALLY TO PAROLE SINCE 1976 HAS INCREASED A TOTAL 13% BY 1982 WHILE INMATE POPULATION GREW 50%



Source: Budget of New Jersey

- DUE IN PART TO FUNDING CONSTRAINTS, THE AVERAGE CASELOAD FOR PAROLE SUPERVISION HAS INCREASED 46%, MAKING IT MORE DIFFICULT TO MONITOR PAROLEES

	<u>1976</u>	<u>1980</u>	<u>1983</u>
- NUMBER OF PAROLE FIELD OFFICERS	169	158	148
- NUMBER OF PAROLEES AT START OF YEAR	8200	8150	10400
- CASELOAD (PAROLEES/OFFICER)	1/48	1/52	1/70

- COUNTY JAIL TERMS
 - INEQUITY IN CURRENT LEGISLATION CAN CAUSE OFFENDERS SENTENCED IN ONE COUNTY JAIL TO SERVE LONGER TERMS THAN SAME OFFENDER IN A DIFFERENT COUNTY JAIL

PAROLE FUNCTION
Findings: Efficiency

There are a variety of organizational units within the entire criminal system that have a direct impact on the specific issue of prison overcrowding. However, due to the organizational structure of the system, no one individual can be held accountable which can create a divided effort. Members of the task force observed that there was a lack of planning for the entire system as a whole due to the organizational structure.

- The Criminal Disposition Commission has been created by the Legislature to transcend the various organizational units. While it is an ideal organization for the long range planning function, it does not have the budget, nor the responsibility, to undertake this process.

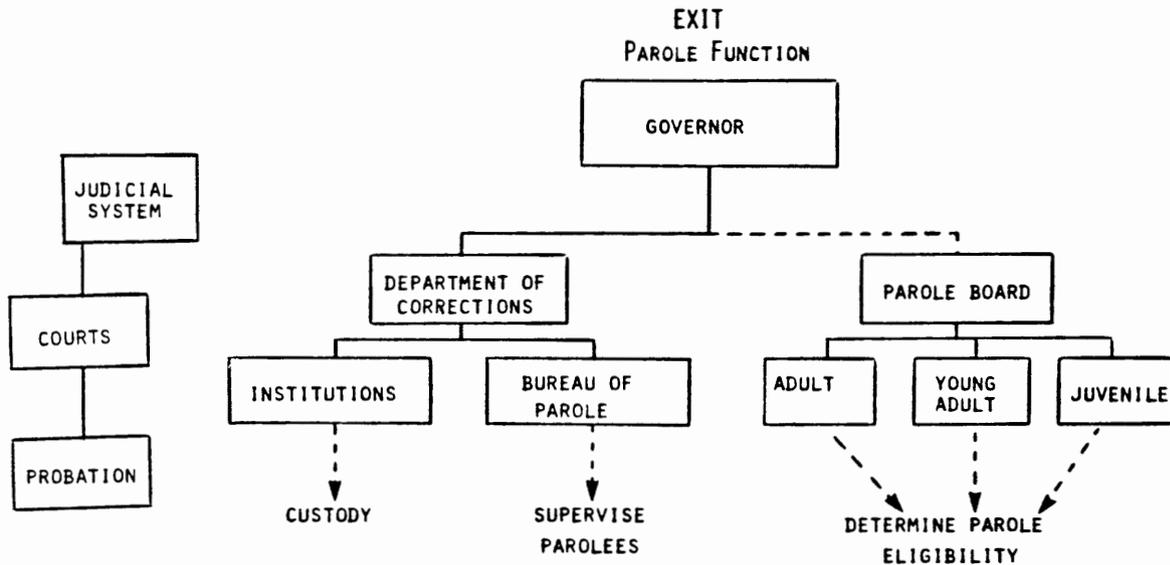
- Due to budgetary constraints, planning throughout the system appears to be underfunded and, consequently, reactive in nature.

During the study, the task force reviewed the organizational structure and reporting relationships of the parole function. Currently, the Parole Board is an independent entity charged with the responsibility of deciding parole eligibility. The Parole Bureau, a component of the Department of Corrections, is responsible for supervising the parolee. While the task force lacked sufficient time and data to fully resolve the reporting relationships, it concluded:

- The interests of the state seem to be best served by maintaining the organizational separation of the Board and Bureau.
- An independent study should be undertaken to answer the question of to whom, if other than the Governor, should the Parole Board report to facilitate the timely resolution of issues that arise in the daily working relationships of the Board and the Department of Corrections.

PAROLE FUNCTION

FINDING: EFFICIENCY



- ORGANIZATIONAL STRUCTURE/RESPONSIBILITY

- CRIMINAL SYSTEM

- PLANNING EFFORT

- ROLE OF CRIMINAL DISPOSITION COMMISSION

- PAROLE FUNCTION

- BOARD AND DEPARTMENT REPORTING RELATIONSHIPS

- BOARD COMPOSITION

- LACK OF FLEXIBILITY CAN CAUSE COST INEFFICIENCIES

- DUTIES OF PAROLE FIELD OFFICERS

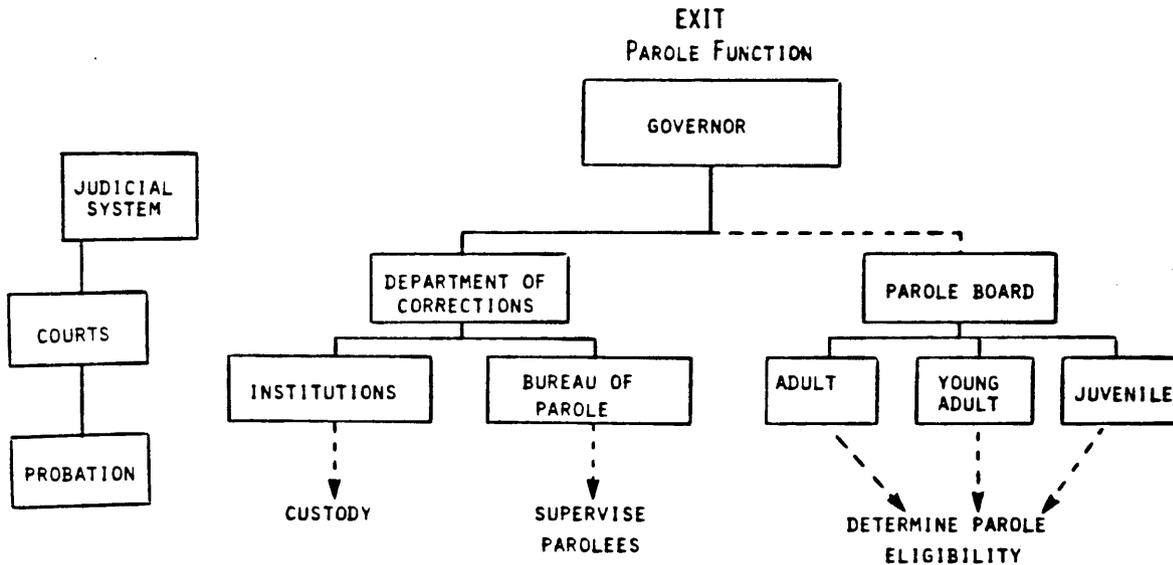
- COST OF COLLECTION EFFORTS MAY EXCEED RECEIPTS

Due to enabling legislation, a specific panel of the Board may review the class of inmates only within its purview, i.e., Adults. Thus, if at a given institution on a given day, both an adult and a juvenile offender are to appear, both boards would need to meet. This causes inefficiencies in time and adds to the cost due to duplicate travel. Modifying the legislation to increase the board size (to permit scheduling flexibility) and establishing the panel to review all cases within an institution could alleviate much of the inefficiency.

The parole field officers have been given increased responsibility at a time when demands for their primary function (monitoring parolees) are not only increasing but are cost effective (about \$700 per year) when compared to the marginal cost of incarceration (\$2,155). This excludes the tax benefits to the state on the estimated \$33 million of wages that parolees earned in 1981. Some of these duties, such as the collection of fines for the Violent Crimes Victims Compensation Board, are not cost effective in that it requires a greater commitment of manpower time (and expense) than is realized or collected.

PAROLE FUNCTION

FINDING: EFFICIENCY



- ORGANIZATIONAL STRUCTURE/RESPONSIBILITY

- CRIMINAL SYSTEM

- - PLANNING EFFORT

- - - ROLE OF CRIMINAL
DISPOSITION COMMISSION

- PAROLE FUNCTION

- - BOARD AND DEPARTMENT REPORTING
RELATIONSHIPS

- BOARD COMPOSITION

- LACK OF FLEXIBILITY CAN CAUSE
COST INEFFICIENCIES

- DUTIES OF PAROLE FIELD OFFICERS

- COST OF COLLECTION EFFORTS MAY EXCEED
RECEIPTS

RECOMMENDATIONS

The Task Force has grouped its recommendations into two broad areas:

- Long Term - Those that have a longer time horizon and require policy decisions and, therefore, further consideration.
- Near Term - Those that can be implemented over the next few years.

The Task Force recognizes that to implement many of the recommendations will require additional funding. Some of the programs are of a nature that they will result in savings in a reasonably short time frame and, as such, are straightforward investment decisions. Other investments are in "softer" programs that presumably will reduce prison overcrowding and be cost effective although they are certainly more difficult to quantify.

THE CORRECTIONAL SYSTEM

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LONG TERM
Cost Reduction

In the mid-1980's, the Department of Corrections is planning the addition of two 500 bed institutions. While institutions of this size generally offer better security and inmate conditions, the state survey suggests that there are some significant cost advantages to be gained with larger facilities. Consequently, the task force recommends a review of this expansion to determine the security, cost, and location tradeoffs of constructing one larger facility versus two smaller ones. This decision must be made in the very near term if the State plans to have the facilities in place by the mid-1980's.

On a broader basis, the 1980's represent an opportunity for the State to assure itself of a lower cost of Corrections Department for the next few decades. New Jersey's second largest facility, Rahway, was constructed in 1896 and is in deplorable condition. This institution, like many others, is in need of capital improvements to not only improve the living conditions (the roof leaks) but also reduce operating costs. Prior to committing significant sums to this renovation program, the Department should assess the alternative of new construction as replacement for many of the old, outdated facilities. By building new, properly designed and sized facilities, the State would be in a position to reduce the annual operating costs per prisoner. Clearly, while this alternative would require capital in the near term, the potential annual cost savings at the end of the decade could be significant.

The current criminal code has not provided for any leeway in the mandatory minimum sentence, i.e., reduced time for excellent behavior/progress. The task force recommends that a study be undertaken, perhaps by the Criminal Disposition Commission, to identify whether the mandatory minimum sentence should have some provision for a highly selective reduction in the offender's term served without endangering the public safety. Clearly, if this could be implemented, it could reduce the operating cost and relieve the overcrowding conditions that are expected to persist to some extent for the next decade.

LONG-TERM POLICY
COST REDUCTION

- THE DEPARTMENT OF CORRECTIONS SHOULD REEXAMINE ITS FACILITY PLANS TO ENSURE APPROPRIATE TRADE-OFFS ARE DEBATED
 - SHOULD THE TWO 500 INMATE FACILITIES PLANNED IN THE MID 1980'S BE A 1,000 INMATE FACILITY?
 - COST BENEFITS VERSUS POTENTIAL CUSTODY CONTROL ISSUES
 - DO THE 1980'S PRESENT AN OPPORTUNITY FOR FACILITY CONSTRUCTION FOR LONGER TERM ECONOMIES? DUE TO THE NEED TO REHABILITATE CURRENT INSTITUTIONS?
 - BUILDING AN ADDITIONAL 2,000 LOW COST, STATE-OF-THE-ART CELLS COULD BE SIGNIFICANTLY CHEAPER IN CAPITAL AND OPERATING COSTS IN THE NEXT DECADE
 - RAHWAY, BUILT IN 1896, FACES A REPLACE OR RE-FURBISH DECISION
- THE LEGISLATION AFFECTING MANDATORY/MINIMUM SENTENCES SHOULD BE REVIEWED TO IDENTIFY WHETHER SELECTED GROUPS SHOULD QUALIFY FOR "MID-TERM SPECIAL CONSIDERATION."
 - MODEL BEHAVIOR COULD QUALIFY FOR EARLY RELEASE THUS REDUCING COST

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LONG TERM Organization

The task force recommends that the various organizations interfacing with the prison system devote greater resources to longer term planning both in manpower and information systems. Clearly this is an area which is subject to cutbacks during the time of budget constraints. However, this can lead to short-term decisions that, for a \$200 million department, can be costly in the long term. Due to the splintered organizational responsibility for the various functions, the task force observed that there is only one entity that transcends most of the organizational units: the Criminal Disposition Commission. Currently, this commission is a "communication facilitator." The task force recommends that the legislature consider modifying the role of this commission (and composition by adding county representatives) and provide it the funding to effectively assist each organization in the development of a cohesive long-term plan.

As noted earlier, an independent study should be undertaken to answer the question of to whom, if other than the Governor, should the Parole Board report to facilitate the timely resolution of issues that arise in the daily working relationships of the Board and the Department of Corrections.

LONG-TERM POLICY ORGANIZATION

- LONG-TERM PLANNING REQUIRES
 - COMMITMENT OF RESOURCES
 - ORGANIZATIONAL RESPONSIBILITY
 - CRIMINAL DISPOSITION
COMMISSION

- REPORTING RELATIONSHIPS OF THE DEPARTMENT OF CORRECTIONS AND THE PAROLE BOARD SHOULD BE ADDRESSED

THE CORRECTIONAL SYSTEM

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NEAR TERM
Relieve Overcrowding

In general, the annual cost of programs that divert low risk offenders from prisons are cost effective when compared to full and marginal cost of institutionalization. In addition to being cost effective, these alternatives to incarceration have a greater probability of ensuring that the offenders "community relations" are not severed. The parole and probation staff who are close to this problem believe that the maintenance of strong community relations can reduce the possibility of an individual becoming a repeat offender. As a means of reducing the overcrowding situation, the task force recommends additional funding of supervisory roles in those programs that could divert offenders (Pretrial Intervention, TASC, Intensive Supervision, Probation) and be cost effective in reducing the risk of a repeat offender. This will necessitate a decision on the manner in which county programs are funded.

The task force observed two major issues within the parole function which could, in all likelihood, be addressed near term to relieve the overcrowding. The first is to review and modify the Parole legislation of 1979 based upon experience to date. Since its enactment, the state has had time to identify areas, which if now modified, could relieve some of the overcrowding, i.e., the issues identified earlier with respect to county jail terms and board composition.

The second issue relates to the staffing levels of parole field officers. In the Spring of 1983, they are operating at a case load of in excess of 80 people per officer. The survey of other states indicated that New Jersey's case load was slightly higher than the average. Unfortunately, it is not possible to determine if the function of the field officer is different. For example, in Maryland, field officers supervise parolees as well as offenders on probation. If New Jersey's caseload was comparably stated, it would be much closer to Maryland's since New Jersey's probation officer caseload is about 130 to 1. The Department should undertake a study to identify an appropriate case load level to guide staffing decisions such that, when coupled with concilliary duties, the parole field officers can effectively pursue their mission.

One reason for the incarceration of repeat offenders is the ex-convict's inability to be self-supporting. Since 40% of the inmates are repeat offenders, funding programs that are successful in assisting the integration process can have significant paybacks. The department should ensure that adequate funding is provided to those programs and facilities that provide job opportunities and skills while in prison and that assist the parolee when released.

NEAR TERM
RELIEVE OVERCROWDING

- FUNDING SUPERVISORY POSITIONS FOR ENTRY PROGRAMS HAVE SIGNIFICANT LEVERAGE:

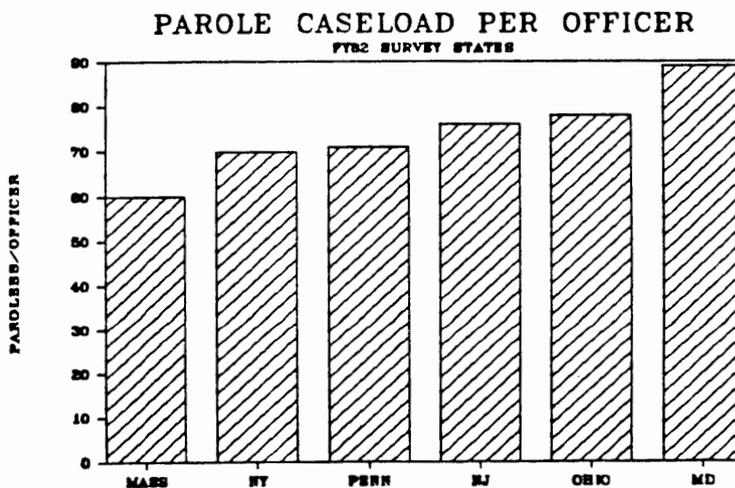
- COST EFFECTIVE
- MINIMIZE DISRUPTION TO OFFENDER'S COMMUNITY RELATIONS

BY EMPHASIZING DIVERSION PROGRAMS, OVERCROWDING COULD BE DECREASED NEAR TERM

- PTI, PROBATION, INTENSIVE SUPERVISION, TASC

- PAROLE FUNCTION

- MODIFY LEGISLATION TO FACILITATE
 - AGGREGATION OF COUNTY JAIL TERMS
 - BOARD COMPOSITION
- ENSURE ADEQUATE LEVEL OF PAROLE SUPERVISORS



- PROGRAMS TO FACILITATE THE INMATE'S INTEGRATION TO SOCIETY COULD REDUCE THE NUMBER OF REPEAT OFFENDERS

- JOB SKILLS
 - INMATE IDLENESS
- COMMUNITY BASED PROGRAMS

THE CORRECTIONAL SYSTEM

AGENDA

- OBJECTIVE

- ISSUE: OVERCROWDING
 - BACKGROUND
 - FORECASTS

- PERSPECTIVES
 - ENTRY
 - CUSTODY
 - EXIT

- RECOMMENDATIONS
 - LONG-TERM POLICY
 - COST REDUCTION
 - ORGANIZATIONAL
 - NEAR TERM
 - RELIEVE PRESSURE
 - COST REDUCTION AND EFFICIENCY

NEAR TERM
Cost Reduction and Efficiency

During the course of the study, the members of the Department of Corrections identified and developed detailed position papers on programs that could lead to cost reduction and efficiencies. The task force supports these projects (described in more detail in Appendix A), which include:

- Labor Negotiations - The collection of appropriate data to ensure that the department's needs are fully represented at negotiations with bargaining units.
- Fuel - Projects with rapid payback due to energy conservation.
- Food - Continued expansion of the regional production facilities (rather than in each institution) and computerization of menu planning for cost control.
- Health Services - Expansion of a proven cost effective approach to deal with the issue of acute care for inmates and the need for a program to plan for coping with the aging prison population.
- Classification - A program to begin the collection of data to review standards of prisoner classification.
- Training - A proposal for improved facilities and programs directed toward reducing the staff turnover.

While it is not possible at this time to make detailed estimates of the savings, many of the projects had paybacks in less than two years.

The facing chart illustrates the annual growth rate of major expense elements in the adult institutions expressed in constant dollars per inmate. Based upon the identified cost reduction projects, the Department has projected a significantly lower future expense growth rate than that experienced in the past (although the projected salary element shows a relatively stable growth rate).

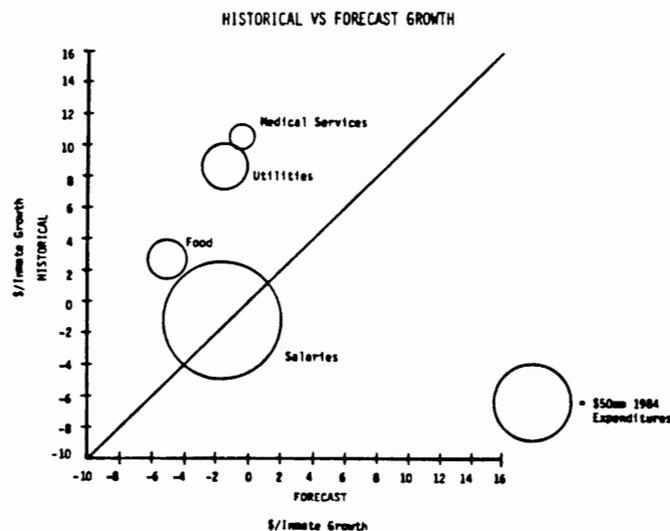
The Bureau of State Use Industries (Prison Industries) should be tasked with developing a plan to significantly increase its program since it can reduce inmate idleness and provide the job training and skills that inmates require to successfully transition to society when released. As an early step, the Bureau should meet with the state's purchasing department to identify those products which could be made internally. In addition, legislation should be considered to enable the Bureau to funnel any profits to inmate programs rather than the General Fund.

Given the nature of the Department's work, they are often dealt with in a negative fashion by the press. Consequently, the image is not a positive one within the public domain. The department should consider the use of greater public relations to ensure that a balanced perspective is communicated.

NEAR TERM COST REDUCTION AND EFFICIENCY

• DEPARTMENT OF CORRECTIONS HAS IDENTIFIED PROGRAMS TO PROVIDE COST REDUCTIONS AND EFFICIENCIES IN THE PRISONS:

- LABOR NEGOTIATIONS: DATA COLLECTION TO EFFECTIVELY IMPROVE NEGOTIATING POSITIONS
- FUEL: ENERGY SAVINGS
- FOOD : CENTRAL PRODUCTION FOR ECONOMIES
- HEALTH SERVICES: COST EFFECTIVE APPROACH TO DEAL WITH AGING PRISONERS
- CLASSIFICATION: REVIEW OF GUIDELINES
- TRAINING: IMPROVED FACILITIES AND PROGRAMS



• PRISON INDUSTRIES SHOULD DEVELOP A PLAN TO EXPAND SCOPE DUE TO BENEFITS TO INMATES (REDUCED IDLENESS, IMPROVED JOB SKILLS) AND THE DEPARTMENT

- MEET WITH STATE PURCHASING TO IDENTIFY NEW PRODUCTS
- CONSIDER LEGISLATION TO DIRECT PROFITS TO INMATE PROGRAMS

• THE DEPARTMENT SHOULD CONSIDER THE USE OF A PUBLIC RELATIONS OFFICE TO ENSURE EFFORTS ARE UNDERSTOOD BY THE PUBLIC

APPENDIX A

The following material provides additional detail describing the Department's near term cost reduction programs outlined on pages 82 & 83. Specific program areas include:

- Energy/Utilities
- Food Services
- Health Services
- Negotiations
- Inmate Work Programs
- Offender Classification
- Planning
- Training
- Special Offender Programs

APPENDIX A
- Continued -

BASE DATA

The following data provide the basis for the Department's cost reduction initiatives described below:

	<u>Population Projections</u>	<u>Operational Bedspace Capacity*</u>	<u>Facilities Planning***</u>
FY 1983	9,982 (As of 3/31/83)	7,967 (122)**	Trenton State Prison - Phase II (310 beds) Rahway State Prison - Minimum Security (40 beds) Yardville - Industrial Building (200 beds) County Contract (62 beds)
FY 1984	11,528 (As of 1/1/84)	8,557 (332)**	Southern State I (448 beds) Southern State II (448 beds) Prefabricated/Renovations (505 beds) County Contract (210 beds)
FY 1985	11,820	9,958 (544)**	Camden (400 beds) County Contract (212 beds)
FY 1986	12,550	10,358 (764)**	Medium Security Prison (500 beds) County Contract (220 beds)
FY 1987	13,100	10,858 (764)**	Medium Security Prison (500 beds)
FY 1988	13,590	11,358 (814)**	County Contract (50 beds)

* Operational bedspace capacity is the number of beds available from dedicated cell space and space converted from gymnasiums, chapels, etc...

** Capacities in parentheses are cumulative and under contract with counties through County Assistance Program. These 814 beds are not included in totals for operational/bedspace capacity.

*** Assumes retention of 500 beds at Fort Dix where current lease expires in May, 1983.

APPENDIX A
- Continued -

PROGRAM AREA: ENERGY/UTILITIES

<u>Fiscal Year</u>	<u>Program</u>	<u>Projected Payback</u>	<u>Projected Benefits</u>	<u>Costs/Remarks</u>
1983	-	-	-	
1984	-	-	-	
1985	Re-roof Yardville Electrical Distribution System-SP-Leesburg Study Electrical Distribution System at TSB-Skillman and Administration Bldg.- YCI-Annandale	↑ 12-18 months following completion of various projects	Total cost avoidance \$1.95mm (approx.) ↓	\$3.3mm
1986	Re-roof Gym-YCI-Bordentown, Medical Unit-SP-Leesburg Roof replacements- TSB-Skillman Replace electrical feeders-YRCC	↓	Total reduction in energy costs \$500,000/year upon completion of all projects ↓	2.9mm
1987	Replace Electrical Distribution System- YCI-Annandale Interconnect water system-SP-Leesburg Renovation & utilities improvements-Highfields	-	-	2.0mm
1988	Phase II water lines replaced-TSB-Jamesburg Replace Water Distribution System central office Replace steam condensate lines-Kitchen-SP-Leesburg	-	-	1.3mm

APPENDIX A
 - Continued -

PROGRAM AREA: FOOD SERVICES

<u>Fiscal Year</u>	<u>Program</u>	<u>Projected Payback</u>	<u>Projected Benefits</u>	<u>Costs/Remarks</u>
1983	Food M.I.S.- northwest region Quick Chill- northwest and northeast region	Food M.I.S. one year from full implementation	Reduction in costs for food and food service operations \$1.9mm/year after full implementation	Food M.I.S.- FY's 1983 and 1984-\$350,000 in appropriations or recommended FY 1985-\$60,000 for complete implementation
1984	Food M.I.S.- northeast, south, central, juvenile services regions	Quick Chill- one year from full implementation		Quick Chill regional kitchens \$900,000 required for total implementation; \$665,000 already expended or budgeted-\$235,000 required to complete implementation FY 1985
1985	Food M.I.S.- southwest region Quick Chill- southwest region	-	-	
1986	-	-	-	
1987	-	-	-	
1988	-	-	-	

APPENDIX A
 - Continued -

PROGRAM AREA: HEALTH SERVICES

<u>Fiscal Year</u>	<u>Program</u>	<u>Projected Payback</u>	<u>Projected Benefits</u>	<u>Costs/Remarks</u>
1983	-	-	-	-
1984	Negotiate and operationalize South Jersey Medical Unit Plan for geriatric facility	FY 1985 reduction in custody costs through South Jersey Medical Unit	Savings in custody over-time through South Jersey Medical Unit	\$160,000 in Renovations for South Jersey Medical Unit
1985	Prepare budget request for Geriatric Unit Assess need and logistics for Therapeutic Unit	-	Reduction in medical litigation Improved quality of Health Care	Custody staff costs for South Jersey Medical Unit
1986	Contract and begin construction for Geriatric Unit Prepare budget request for Therapeutic Unit	-	-	\$10.2mm in Capital Constructio for Geriatric Unit
1987	Continue construction of Geriatric Unit Operationalize pilot Therapeutic Unit	-	-	Pilot therapeuti Unit (existing staff)
1988	Operationalize Geriatric Unit Assess effectiveness of pilot Therapeutic Unit	-	-	\$600,000 to staff Geriatric Unit (operating costs to b determined)

APPENDIX A
 - Continued -

PROGRAM AREA: NEGOTIATIONS

<u>Fiscal Year</u>	<u>Program</u>	<u>Projected Payback</u>	<u>Projected Benefits</u>	<u>Costs/Remarks</u>
1983	-	-	-	
1984	Pilot development of data bank and collect data	-	Potential for increased impact on content of negotiated contracts	FY 1984, '85 and '86-existing staff and resources FY 1987 and '88 to be determined
1985	Assess impact of pilot during negotiations If viable, prepare budget request for FY 1987 expansion	-	Improved administration of negotiated contracts	
1986	Continue pilot	-	-	
1977	Expand programming to all bargaining units Assess impact of expanded program in negotiations	-	-	
1988	Maintain program if viable	-	-	

APPENDIX A
 - Continued -

PROGRAM AREA: INMATE WORK PROGRAMS

<u>Fiscal Year</u>	<u>Program</u>	<u>Program Payback</u>	<u>Projected Benefits</u>	<u>Cost/Remarks</u>
1983	-	-	-	
1984	Assess problem Survey programs in other states Identify options	-	Increased work opportunities Reduction of potential for inmate disturbances	FY 1984, '85 and '86 existing staff and resources FY 1987 and 1988 to be determined
1985	Plan programs for each facility Generate cost data Develop budget recommendations for FY 1987	-	-	
1986	Begin implementation of no cost programs	-	-	
1987	Implement programs requiring additional budget Assess impact of initial implementation	-	-	
1988	Maintain programs modify as required by assessment	-	-	

APPENDIX A
 - Continued -

PROGRAM AREA: OFFENDER CLASSIFICATION

<u>Fiscal Year</u>	<u>Program</u>	<u>Projected Payback</u>	<u>Projected Benefits</u>	<u>Costs/Remarks</u> v
1983	Pilot objective classification system at Leesburg and Southern State	-	More effective utilization of reduced custody bed spaces Improved management of inmate records	FY 1984 existing staff and budget FY '85, '86, '87, and '88 to be determined
1984	Assess pilot and if viable continue at Leesburg and Southern State Review records management of reception/ classification/ ID units Begin planning for county classification and begin implementation	-	Objective and standardized Department wide classification	
1985	Monitor and evaluate pilot Revise as necessary Develop standards and procedures Continue plans for county classification services and begin implementation	-	-	
1986	Replicate at other facilities Operationalize standards and procedures Monitor implementation of county classification services and modify as required	-	-	
1987	Maintain program, records management, county classification	-	-	
1988	Maintain programs	-	-	

APPENDIX A
 - Continued -

PROGRAM AREA: PLANNING

<u>Fiscal Year</u>	<u>Program</u>	<u>Projected Payback</u>	<u>Projected Benefits</u>	<u>Costs/Remarks</u>
1983	Prepare budget request for 1985	-	Ability to provide a proactive model for expansion of facilities and programming	FY 1985, '86, '87 and '88 approximately \$70,000/year from Correctional Facilities Bond Act of 1982
1984	Submit budget request for funds from 1982 Bond Issue	-		
1985	Assign additional staff to planning unit for facility and system planning	-	-	
1986	-	-	-	
1987	-	-	-	
1988		-	-	

APPENDIX A
- Continued -

PROGRAM AREA: TRAINING

<u>Fiscal Year</u>	<u>Program</u>	<u>Projected Payback</u>	<u>Projected Benefits</u>	<u>Costs/Remarks</u>
1983	-	-	-	
1984	Eliminate/reduce backlog of untrained correction officers Prepare budget request for State Police Training Model and Employee Development and Support Section for FY 1986 Assess training needs to be addressed by Employee Development and Support Section Commence renovations and repair two existing training facilities Operationalize county training unit	-	Expanded career opportunities Increased sense of professionalism and improvement in employee turnover Reduction of overtime cost through implementation of State Police Model	\$300,000 total Renovations and repairs to existing training facilities \$500,000/year State Police training mode (However, \$145,000 year in overtime savings is anticipated) \$150,000/year Employee Development and Support Section
1985	Submit FY '86 budget request to operationalize State Police training model and Employee Development and Support Section Continue renovations Complete elimination of backlog of untrained officers	-	-	\$136,000/year County Training Unit (Combination of State funding and County reimbursement to State)
1986	Operationalize State Police training model and Employee Development and Support Section	-	-	
1987	-	-	-	
1988	-	-	-	

PROGRAM AREA: SPECIAL OFFENDER PROGRAMS

APPENDIX A
- Continued -

<u>Fiscal Year</u>	<u>Program</u>	<u>Projected Payback</u>	<u>Projected Benefits</u>	<u>Costs/Remarks</u>
1983	-	-	-	
1984	Conduct needs assessment Develop characteristics trends Develop population projections Survey other state correctional systems Initiate interstate dialogue on protective custody Begin planning required to separate Special Management Inmates from general population at Clinton Develop budget request for Clinton and submit for FY 1986 budget	-	Safe and secure facilities operations Assurance of safety of staff and inmates More effective utilization of maximum bed space More effective programs for highly volatile segments of inmate population Meeting special conditions and procedures for inmates under the death sentence	FY 1984 and '85 existing staff and resources FY 1986, '87 and '88 to be determined in FY 85/86
1985	Analyze needs, population and survey data Identify program models and formulate policy recommendations Generate cost data Develop implementation schedule Develop and prepare FY '87 budget recommendations per schedule	-	-	
1986	Submit FY '88 budget request per implementation schedule Begin implementation for items not requiring additional appropriations Commence activities at Clinton to construct Special Management Unit	-	-	
1987	Implement newly budgeted items Operationalize Clinton Special Management Unit Submit FY'89 budget request per implementation schedule	-	-	
1988	Implement newly budgeted items	-	-	

**DEPARTMENT OF HUMAN SERVICES
DIVISION OF MEDICAL ASSISTANCE
AND HEALTH SERVICES**

Strategic Issues and Alternatives



INTRODUCTION

This report summarizes the efforts of a joint task force representing state government, the private sector and outside consultants to identify and to review the key strategic issues associated with the Division of Medical Assistance and Health Services (DMAHS) within the Department of Human Services (DHS) in New Jersey. The aim of this group, given limited time and resources, was to provide a context useful for the strategic review of this issue at the Governor and Cabinet officer level.

This effort arose from the recognition that DMAHS represents an area of considerable scale over \$1 billion annually (over \$600MM in state funds for FY 1982) and high growth (14 percent annually [1977-1982], versus 10 percent annual increase in state resources). As such, it places high on the list of issues which will require careful balancing against other equally critical funding needs facing the State over the next decade.

The strategic issue analysis identifies the five or six areas of greatest significance for DMAHS--given the national context and the workings of the New Jersey system. These are the issues worthy of Governor and Cabinet officer review.

Based on the strategic issues, alternative policy options for dealing with the issues are developed. This process builds from initiatives already underway within DHS/DMAHS and offers the policy makers a set of choices and consequences from which a course of action can be selected.

BACKGROUND

- JOINT TASK FORCE, REPRESENTING:
 - STATE GOVERNMENT
 - PRIVATE SECTOR
 - OUTSIDE CONSULTANTS

- FOUR MONTH TIME FRAME

OBJECTIVES

- UNDERSTAND CURRENT AND FUTURE TRENDS OF THE PROGRAMS ADMINISTERED BY THE DIVISION OF MEDICAL ASSISTANCE AND HEALTH SERVICES

- IDENTIFY AND MEASURE AREAS WITH RELATIVELY SIGNIFICANT:
 - LEVELS OF EXPENDITURE
 - COST INCREASE POTENTIAL
 - OPERATIONAL IMPACT ON COSTS, CLIENTS, PROVIDERS, AND SERVICE LEVELS

- OFFER MORE COST-EFFECTIVE MEANS OF PROVIDING SERVICES IN THE ABOVE AREAS AND IDENTIFY APPROPRIATE POLICY CHANGES NECESSARY TO IMPLEMENT THEM.

DEPARTMENT OF HUMAN SERVICES
DIVISION OF MEDICAL ASSISTANCE AND HEALTH SERVICES

INTRODUCTION

BACKGROUND

NEW JERSEY PROFILE

STRATEGIC ISSUES & OPTIONS

SUMMARY

NATIONAL MEDICAL CARE CONTEXT

The health care sector of the economy has grown rapidly in recent years and shows few signs of abatement. Medicaid and Medicare in 1980 paid \$61 billion of a total \$218 billion in U.S. health care expenditures, and other government sources paid for an additional \$25 billion. Institutional costs (hospital and nursing homes) now consume well over half of total medical expenditures.

There is also a strong linkage between the Medicare and Medicaid programs. Many persons are covered by both the Medicare (Title XVIII--100% federally funded) and Medicaid (Title XIX) programs and, in fact, the Medicaid program pays the premium for a portion (Part B "Buy In") of the Medicare coverage for eligible individuals. In cases of dual eligibility, the Medicaid program is responsible for reimbursement of the Medicare beneficiary's cost-sharing amounts (for example, deductibles and coinsurance for hospital, skilled nursing care, etc.). Therefore, any action taken by the federal government to modify Medicare coverage of services or the amount of beneficiary cost-sharing required has a direct impact on Medicaid expenditures. In fact, since Medicare costs are growing so fast, the federal government has increased Medicare cost-sharing via measures such as increasing deductibles and coinsurance and limiting benefits. A major result of these actions has been to increase Medicaid cost to the states.

For the purposes of this review it is useful to categorize the factors affecting medical care costs into two groups--those exerting upward pressure on costs and those exerting downward cost pressure. These factors are summarized on the facing page and each is reviewed in more detail on the following pages.

NATIONAL MEDICAL CARE CONTEXT

- MEDICAL CARE COSTS AT THE NATIONAL LEVEL ARE RISING AT A RAPID RATE AND WITH SIGNIFICANT CONSEQUENCES
 - HEALTH CARE COSTS ROSE ALMOST TWICE AS FAST AS THE CONSUMER PRICE INDEX IN 1982 (11.6% VERSUS 6.5%)
 - HEALTH CARE COSTS REPRESENTED 5.3% OF GNP IN 1960, 10.5% IN 1982
 - FROM 1975 TO 1980, MEDICARE EXPENDITURES HAVE RISEN 10% IN REAL TERMS WHILE MEDICAID EXPENDITURES HAVE RISEN ONLY 5.5%, SUGGESTING THAT STATES HAVE HAD MORE SUCCESS THAN THE FEDERAL GOVERNMENT IN CONTROLLING COSTS.

- SOURCES OF UPWARD COST PRESSURE INCLUDE:
 - DEMOGRAPHIC TRENDS
 - TECHNOLOGICAL ADVANCES
 - MORE SKILLED LABOR REQUIREMENTS
 - SOCIOLOGICAL PRESSURES
 - MEDIA COVERAGE
 - LITIGATION
 - LEGISLATIVE INITIATIVES
 - PHYSICIAN CONTROL OF HEALTH SERVICES
 - GOVERNMENT REGULATION

- SOURCES OF DOWNWARD COST PRESSURE INCLUDE:
 - FEDERAL GOVERNMENT
 - STATE GOVERNMENT
 - PRIVATE INSURERS
 - PRIVATE CORPORATIONS
 - INDUSTRY/PROVIDOR VOLUNTARY EFFORTS

SOURCES OF UPWARD COST PRESSURE

As average life expectancy increases and smaller families become the norm, the over-65 sector of the population continues to grow faster than the population at large. This demographic fact of life poses a direct challenge to the American health care system since the over-65 population requires a greater proportion of health care expenditures than any other segment of the population. In fact, the over-65 population currently comprises 11.3 percent of the total population but consumes approximately 30 percent of total health care services.

In addition to demographic pressures, the recent development and use of high technology treatments tends to extend life expectancy and force medical costs upwards. While the accomplishments of modern medical technology are truly amazing, so are its costs.

High technology medicine also tends to drive health labor costs up since more highly skilled workers are needed to operate sophisticated new equipment.

SOURCES OF UPWARD COST PRESSURE

DEMOGRAPHICS

- INCREASED LIFE EXPECTANCY
 - 71 YEARS IN 1970, 72.7 YEARS IN 1980, 74.2 YEARS BY 2000
- AGING POPULATION
 - 20MM OVER 65 IN 1970, 26MM OVER 65 IN 1980, MORE THAN 30MM OVER 65 BY 1990

TECHNOLOGY

- NEW TYPES OF CARE POSSIBLE
 - ORGAN TRANSPLANTS
 - ARTIFICIAL ORGANS
 - NEONATAL CARE
 - ENHANCED DIAGNOSTIC CAPABILITIES
 - LIFE SUSTAINING EQUIPMENT
 - NEW DRUG THERAPIES
- HIGH-TECH TREATMENT BECOMING COMMONPLACE AT GREAT EXPENSE
 - INTENSIVE CARE UNITS COMPRISE 5% OF AN AVERAGE HOSPITAL'S BEDS, BUT 15% OF ITS COSTS
 - CORONARY BYPASS SURGERY; 100,000 PER YEAR X AVERAGE \$15,000 = \$1.5 BILLION EXPENDED
 - HIGH COST OF NEW DRUG DISCOVERY AND DEVELOPMENT

LABOR REQUIREMENTS

- MORE HIGHLY-SKILLED LABOR NEEDED AS MEDICAL PROCEDURES BECOME MORE COMPLEX
 - PAYROLL AND FRINGE BENEFITS NOW ACCOUNT FOR 60% OF A HOSPITAL'S OPERATING BUDGET

SOURCES OF UPWARD COST PRESSURE (CONT'D)

American societal ideas tend to reinforce upward pressures on health care costs. Many Americans view health care as a primary good, like education, which should be available to all. Yet, as health care becomes increasingly technological and expensive, the costs of providing state-of-the-art care to all in need multiply dramatically.

The media have contributed to the ideal of equal access by making the public aware of the newest medical wonders and the most spectacular treatments available. Jamie Fiske, for example, became a household name in late 1982 when her father went on national television to plead for a kidney donation for her. Similarly, every major American newspaper and television station monitored the progress of Dr. Barney Clark, who received the world's first artificial heart in December 1982.

In 1982 Katie Beckett became nationally known, as President Reagan championed her parents' efforts to have her treated at home under Medicaid rather than in the hospital. This case led to the creation of a special board which would for specific situations consider Medicaid funding for lower cost alternatives to institutional care. A current example is the debate in Congress and in the State Legislature on the provision of health insurance benefits for the unemployed. The two bills pending in Congress have the potential for covering as many as 800,000 additional individuals with some Medicaid services costing as much as \$400 million annually (State and Federal funds).

Concern for general medical care quality may also be responsible for the great increase in malpractice suits over recent years. This, too, has tended to drive medical costs up. Since physicians and hospitals are forced to pay for expensive malpractice insurance, they try to reduce the possibility of a suit against them by following conservative diagnostic/testing strategies. Thus, it appears that an unspecifiable amount of questionable or unnecessary medical testing is being conducted as a hedge against malpractice suits.

Traditionally, American government has tried to make the equal access ideal a reality through various subsidy programs. Perhaps the best example of this is the Congressional End-Stage-Renal Dialysis Program, initiated in the 1970's. This program guarantees kidney dialysis to all Americans in need of it, regardless of age and economic status.

SOURCES OF UPWARD COST PRESSURE (CONT'D)

SOCIOLOGICAL PRESSURE

- DEMOCRATIC IDEAL OF EQUAL ACCESS TO ALL TREATMENT
 - "WE OUGHT TO BE PROUD THAT, AS A NATION, WE LOOK AT HEALTH CARE AS A RIGHT AND NOT A PRIVILEGE THAT COULD BE WITHHELD. IT GOES WELL WITH THE NOTION THAT A SOCIETY CAN FAIRLY BE JUDGED BY THE WAY IT TREATS ITS NEEDIEST AND MOST VULNERABLE CITIZENS."
 - IRVING S. SHAPIRO, RETIRED BOARD CHAIRMAN AND CHIEF EXECUTIVE OFFICER OF DU PONT Co.

MEDIA COVERAGE

- MAKES PUBLIC AWARE OF NEWEST MEDICAL OPTIONS AND TECHNOLOGIES
 - BARNEY CLARK AND THE WORLD'S FIRST ARTIFICIAL HEART
 - JAMIE FISKE'S KIDNEY TRANSPLANT
 - KATIE BECKETT'S HOME CARE REIMBURSEMENT

LITIGATION

- INCREASING NUMBER OF MALPRACTICE SUITS; HIGHER AWARDS
 - OVER \$1.5 BILLION AWARDED IN MALPRACTICE SUITS IN 1980
 - PRESSURE FOR DOCTORS/HOSPITALS TO BE CONSERVATIVE IN DIAGNOSIS/TESTING TO AVOID MALPRACTICE SUITS
 - SOME EXPERTS ESTIMATE THAT AS MUCH AS 60 TO 70 PERCENT OF AN AVERAGE HOSPITAL BILL IS ATTRIBUTABLE TO PHYSICIAN-ORDERED TESTS

LEGISLATIVE INITIATIVES

- CONGRESSIONAL END STAGE RENAL DIALYSIS PROGRAM
- PENDING LEGISLATION ON HEALTH CARE FOR THE UNEMPLOYED

SOURCES OF UPWARD COST PRESSURE (cont'd)

Another important factor in the U.S. health care system is that physicians have almost total control over the patient. Americans are not accustomed to questioning a doctor's orders, or comparatively shopping for health care. As a result, the physician is free to order tests, prescribe drugs, etc., entirely at his own discretion. Physicians have more motivation to keep costs down when put in a position of financial risk (i.e., an uninsured patient); however, these situations rarely occur.

One New Jersey Medicaid initiative currently underway to impact physician incentives is a Competition Demonstration called the Medicaid Personal Physician Plan, where the physician effectively agrees to provide or arrange for care on a capitation basis. This voluntary program places the physician at risk if he is not a prudent buyer of health care to keep his patients healthy at minimum cost.

While the cost impact of government regulation is difficult to measure precisely, an industry accepted estimate is \$50 per day of the cost of a hospital visit is due to the cost of compliance with "unnecessary" regulations. At issue is whether patients are properly protected if these "unnecessary" regulations are removed (e.g., safety inspections, patient record keeping). Recently federal deregulation efforts have been hampered by concerns for patient care quality and safety.

SOURCES OF UPWARD COST PRESSURE (CONT'D.)

PHYSICIAN CONTROL

- PATIENT OFTEN IN CRISIS SITUATION
 - LITTLE COMPARISON SHOPPING
- FEW INCENTIVES FOR PHYSICIAN TO KEEP COSTS DOWN
 - PHYSICIAN MAY BE TRYING TO AVOID MALPRACTICE
 - PATIENT GENERALLY HAS INSURANCE
 - PHYSICIAN AT LITTLE FINANCIAL RISK
 - LITTLE TRAINING IN MEDICAL SCHOOL TO EDUCATE PHYSICIANS REGARDING PRICE OF SERVICES PROVIDED

GOVERNMENT REGULATION

- FUELED BY ALL LEVELS OF GOVERNMENT
- OFTEN THE FOCUS OF INDUSTRY/PROVIDOR COMPLAINTS
- DEREGULATION EFFORTS SOMETIMES THWARTED BY PUBLIC/MEDIA CONCERNS FOR SAFETY/QUALITY OF CARE

SOURCES OF DOWNWARD COST PRESSURE

Since the mid-60's, the federal government, in the form of Medicare and Medicaid, has been a major contributor to rising health care expenditures, but is now changing its emphasis. The 1982 Federal Tax Equity and Fiscal Responsibility Act, for example, contained many cost containment measures for institutions. In a similar manner, through the Omnibus Budget Reconciliation Act of 1981, Congress has sought to reduce federal funding of Medicaid by 3.0-4.5 percent per year, while providing incentives to states which keep costs below a specified level of growth.

Several state governments, including New Jersey, have taken initiatives to control costs. Examples include Diagnostic Related Groups (DRG), which sets a reimbursement for a particular in-hospital course of treatment; case management, which attempts to match client need more closely to the service rendered; and various alternative care waivers, which attempt the same, largely through affecting eligibility requirements. Increased administrative controls such as attempts to maximize third-party coverage, a Mandatory Second Surgical Opinion Program, and attempts to restrict Friday/Saturday hospital admissions have also resulted in cost savings for New Jersey. Finally, New Jersey has recently signed its first contract with a Health Maintenance Organization to accept Medicaid patients.

In the private sector, insurers are becoming more active in questioning the necessity of tests and setting maximum reimbursement rates. Industry, on the other hand, has begun designing benefit programs with more flexibility. "Cafeteria" style programs allow an employee to tailor benefits to his needs while the employer is relieved of the burden of paying for unnecessary services. Some companies are beginning to encourage employees to use specific local providers of health care in return for attractive rates.

There have been efforts at cost containment led by various industry/provider groups. These efforts are helpful, but their impact is difficult to measure.

SOURCES OF DOWNWARD COST PRESSURE

- FEDERAL GOVERNMENT
 - CONCERN ABOUT OPEN-ENDED PROGRAMS
 - COST CONTAINMENT INCENTIVES

- STATE GOVERNMENT
 - DRG
 - CASE MANAGEMENT
 - ALTERNATIVE CARE WAIVERS
 - IMPROVED ADMINISTRATIVE CONTROL
 - HMO PARTICIPATION

- PRIVATE INSURERS
 - QUESTION NECESSITY OF TESTS
 - FEE SCHEDULING

- PRIVATE CORPORATIONS
 - "CAFETERIA" BENEFIT PROGRAM
 - PREFERRED PROVIDER PROGRAMS

- INDUSTRY/PROVIDOR VOLUNTARY EFFORTS

SUMMARY

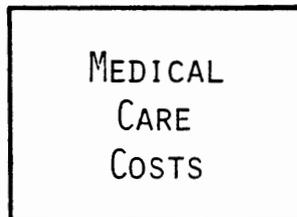
In addition to those forces described above, applying upward and downward pressure on medical care costs, there are two other variables: patients and providers. Because most patients have health insurance they have little incentive to control costs. In fact, since they want the best care possible, they may encourage excessive testing. Providers also have mixed motives in that they are running businesses which need, at least, to remain solvent, if not make a profit. Therefore, they try to keep costs down, but, at the same time keep reimbursement rates up.

DOWNWARD PRESSURE FROM:

- FEDERAL GOVERNMENT
- STATE GOVERNMENT
- PRIVATE INSURERS
- PRIVATE CORPORATIONS
- INDUSTRY/PROVIDOR VOLUNTARY EFFORTS

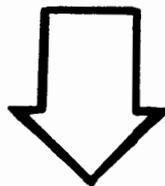


"MIXED MOTIVES"
PARTICIPANTS
- PATIENTS
- PROVIDERS



UPWARD PRESSURE FROM:

- | | |
|--------------------------|--------------------------------|
| - DEMOGRAPHICS | - LITIGATION |
| - TECHNOLOGY | - LEGISLATION |
| - SOCIOLOGICAL
TRENDS | - COST-BASED REIMBURSEMENT |
| - MEDIA | - PHYSICIAN CONTROL OF PATIENT |
| | - GOVERNMENT REGULATION |



DESPITE CURRENT EFFORTS AT MANY LEVELS TO CURB COST INCREASES, INFORMED OBSERVERS SUGGEST THAT MEDICAL CARE WILL CONSUME AN INCREASING SHARE OF NATIONAL RESOURCES, AND THAT THE COST OF THESE SERVICES WILL CONTINUE TO OUTPACE INFLATION - POSSIBLY BY AS MUCH AS TWO OR THREE TIMES.

DEPARTMENT OF HUMAN SERVICES
DIVISION OF MEDICAL ASSISTANCE AND HEALTH SERVICES

INTRODUCTION

BACKGROUND

NEW JERSEY PROFILE

STRATEGIC ISSUES & OPTIONS

SUMMARY

OVERVIEW

STATEWIDE HEALTH CARE POLICY

One of the factors which adds to the difficulty of delivering government funded health care services to the citizens of New Jersey is the large number of participants in the process. All levels of government are involved in such policy matters as setting standards for care and determining client eligibility as well as providing funds. This requires considerable coordination between government levels which sometimes have conflicting objectives--especially in the area of passing costs to one another.

Even within the state government there are at least ten departments which have some responsibility in the delivery of health care. This again requires considerable coordination at the Cabinet level to ensure cost-effective delivery of services. While mechanisms exist to coordinate statewide health care delivery (e.g., the State Health Coordinating Council), there is evidence that additional leadership in this area would be valuable.

OVERVIEW

STATEWIDE HEALTH CARE POLICY

POLICYMAKERS

- STATE GOVERNMENT
 - EXECUTIVE
 - LEGISLATIVE
- FEDERAL GOVERNMENT
- COUNTY GOVERNMENT
- MUNICIPAL GOVERNMENT
- PROVIDERS

STATE GOVERNMENT DEPARTMENT INVOLVEMENT

- HUMAN SERVICES
- HEALTH
- LABOR
- HIGHER EDUCATION
- COMMUNITY AFFAIRS
- PUBLIC ADVOCATE
- CORRECTIONS
- TREASURY
- INSURANCE
- EDUCATION

PROGRAM OVERVIEW

New Jersey Division of Medical Assistance and Health Services (DMAHS) supports three major programs--Medicaid, PAAD, and Lifeline.

Medicaid is a health care program for the poor. By far, the largest number of people Medicaid reaches are those receiving Aid to Families with Dependent Children (AFDC). Most of the costs for this relatively young group are for hospital care. The bulk of Medicaid costs, however, is attributable to aged, blind and disabled (SSI-related) recipients, who are especially heavy users of nursing home care.

Medicaid's relationship with Medicare is also very important to understand. Medicare (Title XVIII) is a federal insurance program for the aged and disabled, while Medicaid is a state/federal program for the poor. Medicare (Part A) covers hospital visits and up to 100 days of skilled nursing home care for most individuals who have paid into the Social Security Trust Fund. Presently, the coverage is for the first 60 days of hospital stay per spell of illness, plus up to an additional lifetime reserve of 150 days of care usable as the patient chooses. It also offers optional (Medicare Part B) physician and ancillary services coverage for \$13.50 per month. Virtually all parts of Medicare require cost sharing by the patient. For those people who qualify for both Medicare and Medicaid, DMAHS pays for the medical insurance (Medicare Part B) and all cost sharing responsibilities of the client up to DMAHS reimbursement limits.

Pharmaceutical Assistance to the Aged and Disabled (PAAD) is designed to pay for prescription drugs and some other pharmacy items for aged and disabled low to mid-income New Jersey residents. Any resident who is 65 years of age or older or who receives Social Security Disability benefits and makes less than \$12,000 per year (\$15,000 joint income if married) is eligible. There is a copayment of \$2.00 for each prescription. PAAD pays the rest.

Roughly, 70% of the program's funds are from the General Fund (elderly under \$9,000/\$12,000 single/couple income) and the rest is paid for by the Casino Revenue Fund (disabled plus elderly between \$9,000-\$12,000/\$12,000-\$15,000 single/couple income). The PAAD appropriation has increased from \$2.5 million in FY 1976 to \$58.6 million in FY 1983 primarily due to legislatively mandated expansions in the program.

Lifeline is a gas and electric utility assistance program available to the same people as PAAD, plus SSI, Medicaid only and Medical Assistance to the Aged recipients. It is designed to give relief of \$175 per person per year in FY1983 from gas and electric bills. Payment may be made to the utility company, the client, or included in the monthly Supplemental Security Income depending on the individual's circumstances.

This program is funded entirely out of the Casino Revenue Fund and has grown dramatically since its inception in 1979. This growth is due not only to the eased eligibility requirements and outreach campaigns described above, but also to increases in the benefit level. It has increased \$25.00 per person per year since inception and is legislated to rise to \$200.00 per person in FY1984.

PROGRAM OVERVIEW

•MEDICAID

- SERVES 450,000 AFDC (WELFARE) CLIENTS, PROVIDING PRIMARILY HOSPITAL CARE--TOTAL COST OF \$268.3MM.
- SERVES 122,000 SSI-RELATED (AGED, BLIND AND DISABLED) CLIENTS, WITH BOTH HOSPITAL CARE AND NURSING HOME CARE--TOTAL COST OF \$431.2MM.
- SERVES OTHERS, INCLUDING DIVISION OF YOUTH AND FAMILY SERVICES CLIENTS, REFUGEES AND MAA CLIENTS --TOTAL COST \$12.6MM.
- MEDICAID SUPPLEMENTS MEDICARE BY:
 - PURCHASING PHYSICIAN (MEDICARE PART B) INSURANCE FOR MEDICAID ELIGIBLE INDIVIDUALS
 - PAYING A FIXED DEDUCTIBLE PLUS HOSPITAL COINSURANCE COST FOR STAYS BEYOND 60 DAYS AND SKILLED NURSING HOME STAYS BEYOND 20 DAYS
 - PAYING OTHER DEDUCTIBLE AND COINSURANCE COMPONENTS OF MEDICARE COVERED TREATMENT FOR MEDICAID RECIPIENTS

•PAAD

- PROVIDES PRESCRIPTION DRUGS AND SUPPLIES TO 310,000* AGED (OVER 65) AND DISABLED STATE RESIDENTS WITH ANNUAL INCOME OF LESS THAN \$12,000 (SINGLE) AND \$15,000 (COUPLE)
- RECIPIENT COPAYMENT OF \$2.00 PER PRESCRIPTION

•LIFELINE

- PROVIDES UTILITY ASSISTANCE TO 298,400* AGED AND DISABLED UTILITY CUSTOMERS, TENANTS, SSI RECIPIENTS, MEDICAID ONLY AND MEDICAL ASSISTANCE TO THE AGED RECIPIENTS IN AN ANNUAL AMOUNT OF \$175. (\$200 IN FY1984).

*AVERAGE MONTHLY RECIPIENTS
FY1983 DATA 541

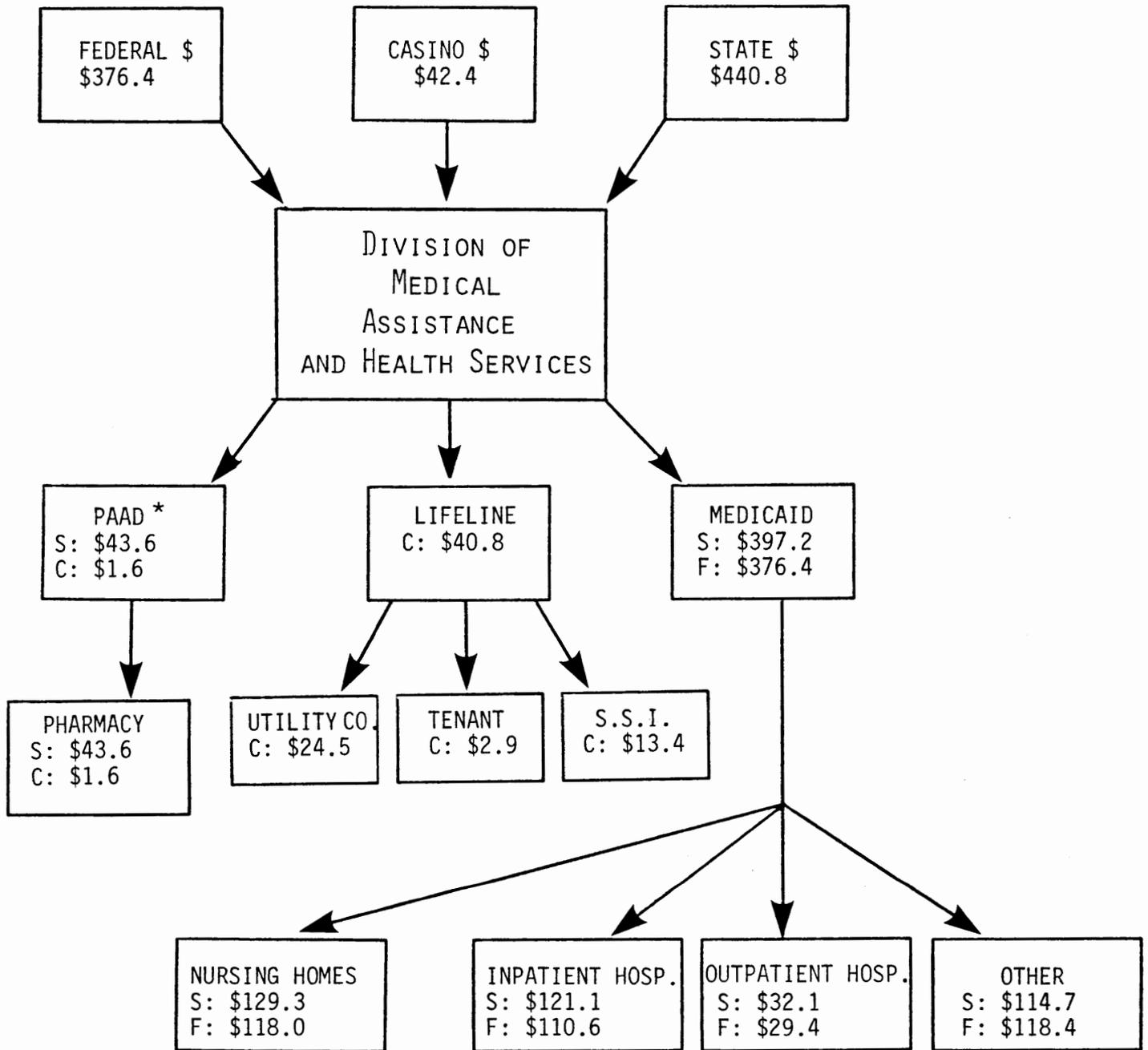
FUNDS FLOW

The facing chart shows sources and uses of the Division's FY1982 funds for Medicaid, Pharmaceutical Assistance to the Aged/Disabled (PAAD), and Lifeline (gas and electric utility assistance) programs.

All these programs have experienced significant growth recently, but it appears that PAAD and Lifeline have grown for different reasons than Medicaid. While PAAD and Lifeline have grown largely due to legislative changes in benefit amounts and eligibility, Medicaid has ridden the wave of rising health care costs. PAAD and Lifeline, while substantial programs, are quite small relative to the Medicaid program.

The Casino Fund pays for the Lifeline program and currently about 30% of PAAD. The remaining 70% of PAAD is paid for by state monies, while Medicaid is roughly a 50/50 split between State and federal funds. Medicaid is significantly larger than either of the other two programs. Within Medicaid, nursing homes and inpatient/outpatient hospital services truly stand out as having considerable size (62 percent of all New Jersey Medicaid expenditures in FY1982).

DEPARTMENT OF HUMAN SERVICES
 DIVISION OF MEDICAL ASSISTANCE AND HEALTH SERVICES
 FUNDS FLOW - FY1982 (\$MM)



F = Federal dollars
 S = State dollars
 C = Casino dollars

* PAAD shows relatively small share of Casino dollars because FY1982 represented the start-up year of this program. FY1983 PAAD expenditures funded from Casino dollars are \$17.3MM and funded by state dollars are \$44.0MM.

PROGRAM COST AND CLIENT OVERVIEW

Although the vast majority of Medicaid eligibles are on the Aid to Families with Dependent Children program (449,174 of 590,082), DMAHS expends \$268,349,186 for their benefits, whereas there are 122,389 Aged, Blind and Disabled (SSI-related) eligibles for whom DMAHS expends \$431,167,608. This is primarily due to the fact that the Aged, Blind and Disabled are heavy utilizers of health care, particularly nursing home care. The AFDC recipients utilize fewer services, but costs are concentrated in the area of acute hospital care. Title XVIII (Medicare) pays for the bulk of the acute hospital care for the SSI-related groups.

The PAAD program is funded with both State and Casino funds. Persons over age 65 with income less than \$9,000 (single) or \$12,000 (couple) are funded from State funds and the Disabled and those over 65 with annual incomes of \$9,000 to \$12,000 (single) and \$12,000 to \$15,000 (couple) are funded with Casino funds. The expenditure for PAAD (enacted in August, 1975) has increased from \$73,966 in FY1976 to \$40,565,543 in FY1982.*

Lifeline (enacted in 1979) is a combination of three separate programs (Utility Credit, Tenants Lifeline Assistance and SSI Special Utility Supplement) and is funded entirely from Casino funds. The expenditure has increased from \$19,913,618 in FY1980 to \$38,350,642 in FY1982.*

*These figures for FY1982 do not reflect the easing of income eligibility requirements effective for FY1983.

DEPARTMENT OF HUMAN SERVICES
 DIVISION OF MEDICAL ASSISTANCE AND HEALTH SERVICES
 NEW JERSEY HEALTH SERVICES PROGRAM
 (FY1982)

MEDICAID
MEDICAID RECIPIENTS AND PAYMENTS

<u>CATEGORY</u>	<u>AVERAGE MONTHLY # ELIGIBLES</u>	<u>AVERAGE MONTHLY # RECIPIENTS</u>	<u>% UTILIZATION</u>	<u>PAYMENTS</u>
<u>AFDC</u>	<u>449,174</u>	<u>203,435</u>	<u>45</u>	<u>\$268,349,786</u>
<u>SSI-Related</u>	<u>122,389</u>	<u>79,016</u>	<u>65</u>	<u>\$431,167,608</u>
Aged	56,086	40,967	73	278,544,718
Disabled	65,138	37,383	57	150,323,377
Blind	1,165	666	57	2,299,513
<u>Other*</u>	<u>18,519</u>	<u>6,602</u>	<u>36</u>	<u>12,563,111</u>
<u>Total</u>	<u>590,082</u>	<u>289,053</u>	<u>49</u>	<u>712,079,905</u>

PAAD
PHARMACEUTICAL ASSISTANCE TO THE AGED AND DISABLED

<u>MONTHLY AVERAGE</u>	<u>AGED ELIGIBLES UNDER FORMER INCOME LIMITS</u>	<u>AGED ELIGIBLES UNDER NEW INCOME LIMITS</u>	<u>DISABLED</u>	<u>TOTAL</u>
Eligibles	236,199	28,109**	19,133***	260,073
PAAD	\$10,288,884	\$548,404	\$598,222	\$40,565,543

LIFELINE****
HOUSEHOLDS RECEIVING LIFELINE AND TENANT LIFELINE

<u>CATEGORY</u>	<u># OF HOUSEHOLDS</u>	<u>TOTAL DOLLARS</u>
PAA	157,871	\$23,608,814
SSA/Disabled	14,208	2,125,760
SSI	88,833	11,550,000
MAA/MAO	2,228	327,225
Other (Lifeline Only)	4,988	738,843
<u>Total</u>	<u>268,128</u>	<u>\$38,350,642</u>

* Includes DYFS, MAA, and Refugees.
 ** Start-up month with only 17.4 thousand. Average for May and June 33.5 thousand.
 *** Start-up month with 13.8 thousand. Average for May and June 21.8 thousand.
 **** This reflects FY1982 Lifeline, prior to eased eligibility standards effective March 1, 1982.

PROJECTED EXPENDITURES

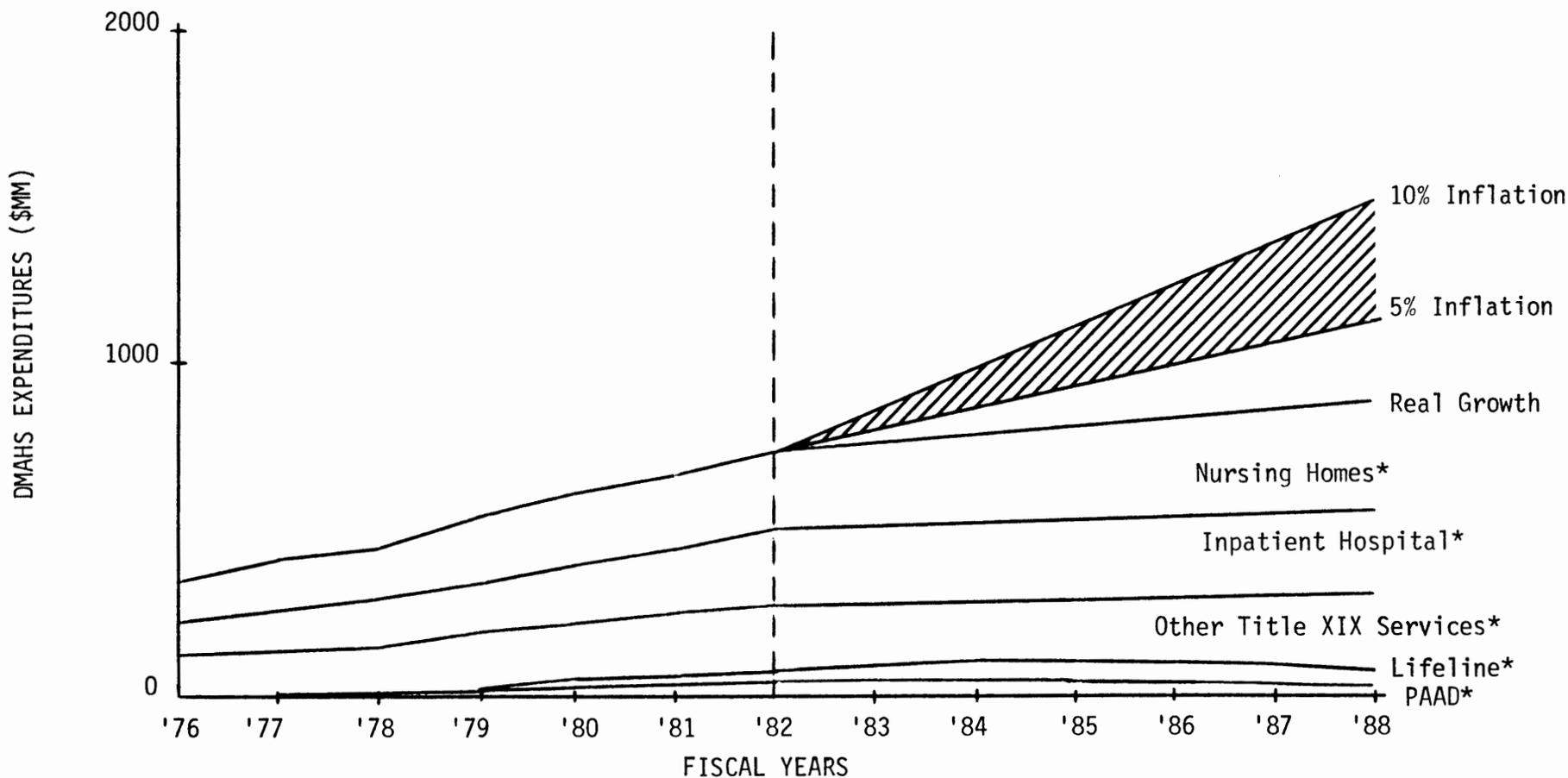
The base data for the facing chart's projections are stated in constant dollars, to give a picture of real growth in the programs. On top of this real growth, inflation is added, ranging between 5 percent and 10 percent. Key points for the chart include:

- The bulk of cost is in two programs:
 - Nursing Homes
 - Inpatient Hospital

- The bulk of the growth in the program costs comes from nursing homes.

- The state could easily face a total program cost exceeding \$1.5 billion by 1988, of which over \$750 million would be the state share--representing an annual growth in cost of roughly \$75MM.

DEPARTMENT OF HUMAN SERVICES
 DIVISION OF MEDICAL ASSISTANCE AND HEALTH SERVICES
 TOTAL EXPENDITURE HISTORY AND FORECAST (FEDERAL AND STATE)
 FY1976-FY1988



* The growth of these programs after 1982 is projected in constant 1982 dollars, using the GNP price deflator. Data for 1976-1982 is in current dollars.

STATE TO STATE COMPARISON OF MEDICAID SERVICES

The facing chart shows Medicaid services offered by each state. Although New Jersey offers most of the optional services, it is important to note that it does not have a Medically Needy Program which 34 States currently have. Medically Needy means that a State may elect to provide Medicaid benefits to individuals who are not eligible under a Categorically Needy program because of income which exceeds the income eligibility standards. A medically needy individual must meet the categorical requirements, aged, blind, disabled, or be a member of a family with dependent children. The resources of this individual must be within stated limits, and the amount of the incurred medical expenses must equal or exceed the amount of excess income before any Medicaid expenditures are made on his behalf.

Medicaid Services By Jurisdiction

FMAP ¹	● CN ¹ + Both CN and MN ¹ BASIC REQUIRED MEDICAID SERVICES SEE ABOVE	Jurisdiction	Practitioners' Services								Drugs and Devices				Outpatient Services					ICFs			SNFs	Personal Services				Services for Age 65 or Older in TB Institutions			Services for Age 65 or Older in Mental Institutions			Total Additional Services	State				
			Podiatrists' Services	Optometrists' Services	Chiropractors Services	Other Practitioners Services	Dental Services	Physical Therapy	Occupational Therapy	Speech, Hearing, and Language Disorder	Rehabilitative Services	Prescribed Drugs	Dentures	Prosthetic Devices	Eyeglasses	Screening Services	Preventive Services	Diagnostic Services	Clinic Services	Emergency Hospital Services	Intermediate Care Facility Services	ICF for Mentally Retarded	Inpatient Psychiatric Service for Under Age 22	SNF for Under Age 21	Personal Care Services	Private Duty Nursing	Christian Science Nurses	Christian Science Sanatoria	A Inpatient Hospital Services	B SNF Services	C ICF Services	A Inpatient Hospital Services	B SNF Services			C ICF Services			
71	●	Alabama	●							●	●	●						●	●	●	●						●										12	AL	
50	●	Alaska	●															●	●	●	●																10	AK	
81	●	Arizona																																				21	AZ
73	+	Arkansas		+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+																30	CA
50	+	California	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+																12	CO
53	●	Colorado	●																																			24	CT
50	+	Connecticut	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+																10	DE
50	●	Delaware	●																																			19	DC
50	+	D.C.	+	+																																	14	FL	
59	●	Florida	●																																		13	GA	
67	●	Georgia	●																																		16	GU	
50	+	Guam	+	+																																	20	HI	
50	+	Hawaii	+	+																																	20	HI	
86	●	Idaho	●																																		12	ID	
50	+	Illinois	+	+																																		29	IL
57	●	Indiana	●																																			24	IN
59	●	Iowa	●																																			21	IA
54	+	Kansas	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+																26	KS
68	+	Kentucky	+	+																																		17	KY
69	+	Louisiana	+	+																																		15	LA
70	+	Maine	+	+	●																																	23	ME
50	+	Maryland	+	+																																		15	MD
52	+	Massachusetts	+	+																																		28	MA
50	+	Michigan	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+																24	MI
56	+	Minnesota	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+																31	MN
78	●	Mississippi	●																																			8	MS
80	●	Missouri	●																																			14	MO
64	+	Montana	+	+																																		26	MT
58	+	Nebraska	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+																23	NB
50	●	Nevada	●																																			20	NV
61	+	New Hampshire	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+																25	NH
50	●	New Jersey	●																																			27	NJ
69	●	New Mexico	●																																			18	NM
50	+	New York	+	+																																		29	NY
68	+	North Carolina	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+																19	NC
51	+	North Dakota	+	+	+																																	22	ND
50	+	N. Mariana Islands	+	+																																		16	NMI
55	●	Ohio	●																																			23	OH
64	+	Oklahoma	+	+																																		10	OK
56	●	Oregon	●																																			22	OR
55	+	Pennsylvania	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+																16	PA
50	+	Puerto Rico	+	+																																		13	PR
58	+	Rhode Island	+	+																																		11	RI
71	●	South Carolina	●																																			11	SC
69	●	South Dakota	●																																			16	SD
69	+	Tennessee	+	+																																		14	TN
58	●	Texas	●																																			13	TX
68	+	Utah	+	+																																		18	UT
68	+	Vermont	+	+																																		10	VT
50	+	Virgin Islands	+	+																																		9	VI
57	+	Virginia	+	+																																		17	VA
50	+	Washington	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+																27	WA
67	+	West Virginia	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+																20	WV
58	+	Wisconsin	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+																27	WI
50	●	Wyoming	●																																		6	WY	
●	20		●	14	14	10	9	11	10	7	7	11	19	11	16	12	3	4	6	12	18	24	23	12	19	4	5	1	7	9	2	2	14	8	11				
+	34		+	25	27	17	20	23	26	18	23	20	33	24	30	26	13	16	17	32	28	26	25	22	27	12	14	5	11	17	9	7	29	17	16				
	54	Total		39	41	27	29	34	36	25	30	31	52	35	46	38	16	20	23	44	46	50	48	34	46	16	19	6	18	26	11	9	43	25	27				

¹ FMAP: Federal Medicaid Assistance Percentage. Rate of Federal financial participation in a State's medical vendor payment expenditures on behalf of individuals and families eligible under Title XIX of the Social Security Act. Percentages effective from October 1, 1979, through September 30, 1981 are rounded.
² Categorically Needy: People receiving federally supported financial assistance.
³ Medically Needy: People who are eligible for medical but not for financial assistance.

MEDICAID SERVICES OVERVIEW

- Title XIX of the Social Security Act requires that a State Medicaid Program provide, as a minimum, seven mandatory services.
- States may also provide a number of optional services. The New Jersey Medicaid Program currently covers 27 of the 32 allowable optional services.
- In comparison to other states, New Jersey provides coverage for more optional services than most other states. Only five states offer a broader package of services than New Jersey.
- Excluding the costs of ICF, ICF/MR, Drugs and Dental services, the cost of providing the optional services in New Jersey is less than \$10 million per year.

MEDICAID SERVICES OVERVIEW, FY 1982

Mandatory Services

	<u>Recipients</u>	<u>Cost</u>
- Inpatient Hospital	100,507	217,122,653
- Outpatient Hospital	286,694	54,054,376
- Home Health	7,812	14,351,504
- Physician	514,563	56,541,865
- Lab and X-Ray	134,601	2,279,132
- Skilled Nursing Care	4,279	18,426,422
- Nurse Midwives		

Also Required

- Early and Periodic Screening, Diagnosis & Treatment (EPSDT)		
- Family Planning		
- Transportation	22,873	5,638,329
- Medicare Part B Premium (Buy-In)		9,656,575

Optional Services¹

	<u>Recipients</u>	<u>Cost</u>
- SNF for under age 21		287,187
- ICF (levels A & B)	17,979*2	138,184,671
- ICF/MR	5,992	
- Inpatient Psychiatric (includes under age 22 and over age 65)	1,347*2	46,058,075
- Podiatric	25,365	991,639
- Optometric	98,240	2,180,011
- Chiropractic	3,039	180,610
- Psychological	8,232	2,435,791
- Rehabilitation Services (includes physical, speech and occupational therapy)		
- Legend Drugs	537,072	49,996,277
- Non-Legend Drugs	87,541	1,474,743
- Dental (including Dentures)	209,469	21,404,823
- Clinic	52,298	
- Medical Day Care		
- Prosthetics and Orthotics	1,975	804,540
- Optical Appliances	87,878	2,649,573
- Medical Supplies		
- Durable Medical Equipment (including hearing aids)	20,272	2,774,482

1 Categories listed are based on reporting capabilities and do not correspond to the preceding chart.

2 Average monthly recipients.

DEPARTMENT OF HUMAN SERVICES
DIVISION OF MEDICAL ASSISTANCE AND HEALTH SERVICES

INTRODUCTION

BACKGROUND

NEW JERSEY PROFILE

STRATEGIC ISSUES & OPTIONS

SUMMARY

STRATEGIC ISSUES AND OPTIONS

There is no one aspect of the Division of Medical Assistance and Health Services Program which is "out of control," in size and growth. In other words, no single, more aggressive, management strategy will bring expenditures to a more affordable level.

Rather, there are two very large programs, Nursing Home Care and Inpatient Hospital Care; two rapidly expanding programs, PAAD and Lifeline; and two particularly important policy options, coordination of statewide health care policy and eligibility. These and other issues will be explored more fully in pages to follow; however, it is clear that a systemic approach, guided by a clear vision of New Jersey's health care system several years hence, is the appropriate strategy.

STRATEGIC ISSUES AND OPTIONS

- NO PROGRAM "OUT OF CONTROL"

- TWO VERY LARGE PROGRAMS
 - NURSING HOME CARE
 - INPATIENT HOSPITAL CARE

- TWO RAPIDLY EXPANDING PROGRAMS
 - PAAD
 - LIFELINE

- IMPORTANT POLICY ISSUES
 - COORDINATION OF STATEWIDE HEALTH CARE POLICY
 - ELIGIBILITY

- APPROPRIATE SYSTEMIC STRATEGY

ISSUE: COORDINATION OF STATEWIDE HEALTH CARE POLICY

Because of the complexities in developing and implementing statewide health care policy resulting from the overlapping roles of the many players outlined earlier, there is value in providing a health care coordinating process. This process has three major functions, as outlined on the facing page. It must have the force of the Governor clearly behind it, as he is the ultimate arbiter among policy options and shared responsibilities at the cabinet level. It must also be broadly based and be heavily loaded with line/operations people if it is to have credibility at the operations level.

The first function of the process is the review of programs--current and proposed--to provide a factual base for policy deliberations.

Next, the process develops policy options and evaluates their consequences across all governmental levels.

Finally, the process provides options and recommendations to the Governor, who balances the options against other claims on scarce state resources.

ISSUE: COORDINATION OF STATEWIDE HEALTH CARE POLICY

- COORDINATING MECHANISM SHOULD BE:
 - BROADLY BASED (DEPARTMENTS AND FEDERAL GOVERNMENT)
 - LINE/OPERATIONS ORIENTED
 - BACKED BY GOVERNOR
 - PROVIDED WITH INDUSTRY/PROVIDOR INPUTS

- REVIEW OF HEALTH CARE POLICIES
 - EXISTING PROGRAMS
 - OPTIONAL/NEW PROGRAMS

- DEVELOPMENT AND EVALUATION OF POLICY OPTIONS
 - EXECUTIVE
 - LEGISLATIVE
 - FEDERAL

- RECOMMENDATIONS FOR GOVERNOR

OPTIONS: COORDINATION OF STATEWIDE HEALTH CARE POLICY

The easiest implementation of this coordination process may well be through a restructuring and refocusing of the current State Health Coordinating Council (SHCC). Because SHCC is already functioning, this initiative could be implemented administratively by the Governor, without legislative delays.

The formation of a new group has the advantage of beginning with a "clean slate," but this process could take considerable time as it passes through the necessary legislative actions.

OPTIONS: COORDINATION OF STATEWIDE HEALTH CARE POLICY

- * • CURRENT STATE HEALTH COORDINATING COUNCIL (SHCC) COULD PROVIDE VEHICLE
- NEW GROUP CAN BE FORMED

*HIGH PRIORITY OPTION

ISSUE: PAAD/LIFELINE

Currently about one-third of PAAD and all of Lifeline benefits are supported by the Casino Fund. There has been continued legislative pressure to expand the benefits of these programs, which has at least two effects on the state budget:

If the casino funds are exhausted by expanded benefits, the next step will likely be to turn to the state general fund for additional money.

As benefits grow, the state is precluded from supporting other current programs for the elderly and disabled with casino funds, and thereby easing the pressure on the general fund.

A comparison with the relatively few other states which have programs similar to Lifeline suggests that New Jersey's program is by far the most generous:

Lifeline-Type Programs

	<u>New Jersey</u>	<u>Connecticut</u>	<u>Indiana</u>	<u>Kentucky</u>
Maximum Eligible Income Level (Twoperson household)	\$15,000	\$10,800	\$5,625	\$3,000
Utility Credit Amount (FY1984)	\$175 (\$200 for 1984)	\$160	\$200	\$40

Legislation has been introduced in the Assembly to preclude the ability of PAAD to collect correctly paid benefits from the estates of deceased PAAD beneficiaries who leave no surviving spouse, child under 21 or blind or disabled child and who have estates in excess of \$3000. Such collections are only pursued under current law if PAAD has expended more than \$500 on the beneficiary.

ISSUE: PAAD/LIFELINE

- PRESSURE TO EXPAND PROGRAMS, BENEFITS, AND ELIGIBILITY AT A FASTER RATE THAN CASINO FUND'S GROWTH
- PROPOSED LEGISLATION TO DISCONTINUE ABILITY TO COLLECT PAAD BENEFITS FROM THE ESTATES OF DECEASED PAAD BENEFICIARIES

OPTIONS: PAAD/LIFELINE

Increasing the PAAD copay of \$2 per prescription will result in a saving of approximately \$5mm for each dollar increase. With the average prescription cost of approximately \$10-11, a \$3 copay means that the patient would still be paying less than 30% of the average prescription cost.

Since 1981 the maximum Lifeline benefit has risen by \$25 per year--from \$100 (FY 1980) to the present \$200 (FY1984). Each \$25 benefit increase costs approximately \$5MM. While this is a popular program with recipients and with the legislature, the generosity of the program when compared with similar programs in other states argues for a halt in Lifeline benefit growth.

Maintenance of the current PAAD beneficiary and state recovery statute and collection policies can yield recoveries of up to \$1 million annually.

OPTIONS: PAAD/LIFELINE

- REDUCE BENEFITS BY:

*

- * - INCREASING PAAD COPAY

- * - HALTING LIFELINE BENEFIT INCREASES

- * • CONTINUE COLLECTION OF CORRECTLY PAID BENEFITS FROM ESTATES OF PAAD BENEFICIARIES

*HIGH PRIORITY OPTIONS

NURSING HOME DYNAMICS

In order to understand nursing homes in the Medicaid context, it is useful to determine client flows and identify those points with the greatest strategic leverage.

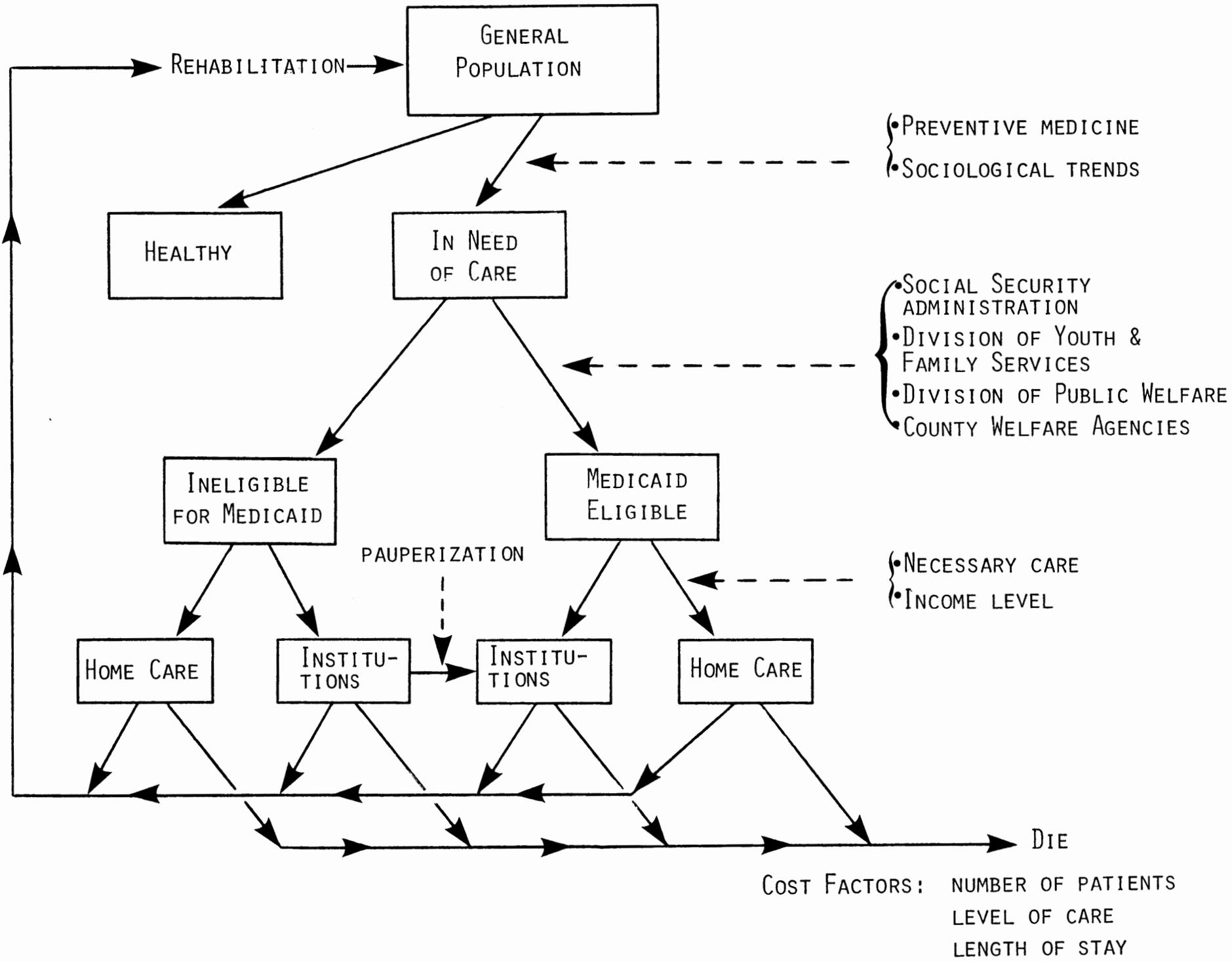
At the macro level, a portion of the population needs long-term care, due to medical needs, functional impairment, or even a need for someplace to live. Those in need of care then separate into the Medicaid eligible and ineligible, as determined by several outside agencies (Division of Public Welfare, County Welfare Agencies, and Social Security Administration).

Individuals ineligible for Medicaid then separate by how they receive the appropriate long-term care. Unless there is a reasonably compelling need for institutionalization, these people are more likely to opt for home care because institutional care is expensive and they have few third-party means of paying for it.

For Medicaid eligibles, the decision as to type of care received is often made first on the basis of income and second on the basis of need. In order to qualify for home care, an individual living alone cannot have income in excess of \$331 per month. In order to qualify for nursing home care, on the other hand, that same individual may have monthly income up to \$852. Therefore, an individual with income of \$300 per month, may opt either for home care or nursing home care. The only Medicaid subsidized option presently available to an individual with monthly income between \$331 and \$852 is the nursing home, irrespective of whether the individual could be cared for less expensively in a community setting.

There is one other way that a person may have his/her nursing home bill paid by Medicaid. That is the "pauperization route." In this instance an individual financially ineligible for Medicaid enters a nursing home, depletes himself/herself of assets, thereby becoming Medicaid eligible, then converts to Medicaid. In many states, including New Jersey, the "pauperization route" is becoming a common way of entering the Medicaid Nursing Home program.

Once a Medicaid client enters the nursing home, there appears to be a bimodal distribution as to when he leaves. Many are in for less than a year to recover from an acute health affliction while the majority are admitted with little or no expectation that they will reenter society. Members of the latter group typically die there or in a hospital after being admitted from a nursing home.



ISSUE: NURSING HOME CARE FOR THE ELDERLY AND DISABLED

Nursing home care cost the New Jersey Medicaid program \$247MM in FY1982 and is projected to reach \$312MM in FY1984. This is largely due to increasing demand, an aging population, cost-based reimbursement, and the unavailability of discharge options.

The number of patients is potentially the easiest cost factor to influence. Some experts* indicate that as many as 35 percent of all intermediate care nursing home patients could be in a less intense situation if the facilities were available in the community, social supports were in place, and the Medicaid eligibility bias were eliminated.

An important demographic factor related to the number of patients is that by 1995 the number of New Jersey citizens over 65 years of age is expected to increase by almost 30%, or about 250,000 people (from 900,000 to 1,155,000). This increase, combined with the environmental pressures toward more and higher cost nursing home care, can have significant dollar impact on New Jersey's nursing home care costs.

Demand for nursing home beds is rising for additional reasons. First, eligibility is biased such that someone who might be cared for at home may fail the income test for home-based care, but still qualify for nursing home care and therefore is institutionalized. Physicians often recommend putting someone in a home because they have been conditioned to do so, are unaware of available options, or adequate alternative facilities are not available. Also, relatives rarely know all the alternatives to nursing home care and are now living in a society where there is little stigma attached to institutionalizing a parent or aged relative. Finally, another inflow of patients are those that start as private patients, pauperize themselves and become Medicaid clients.

Once in the nursing home, options become more limited. Almost by definition a Medicaid patient has few assets, little income, and is separated from most of his support groups in the community. In addition, there is little incentive for the nursing homes to discharge patients due to the increased administrative burdens and empty beds associated with patient turnover.

The patient flow out of nursing homes is relatively constricted. There is some anecdotal evidence that suggests most nursing home patients either die in the home or are discharged to a hospital and die shortly thereafter.

For patients who do get better there are two problems. First, there is a paucity of low-intensity community-based care services. Second, due to the eligibility bias described earlier, the client may become ineligible for Medicaid benefits once he leaves the nursing home.

*Urban Health Institute

ISSUE: NURSING HOME CARE FOR THE ELDERLY AND DISABLED

- PRESENT SITUATION

- NEARLY \$300MM PER YEAR
- HIGH COST GROWTH (12% CURRENT DOLLARS)
- AGING POPULATION
- COST-RELATED REIMBURSEMENT

- PATIENT INFLOW

- ELIGIBILITY BIAS
- PHYSICIAN RECOMMENDATION
- PATIENTS AND RELATIVES UNAWARE OF CARE OPTIONS
- SOCIETAL ATTITUDES

- PROCESS

- PAUPERIZATION
- SEPARATION FROM SUPPORT GROUPS

- PATIENT OUTFLOW

- DISINCENTIVE TO DISCHARGE
- MANY DIE
- LACK OF COMMUNITY-BASED CARE
- ELIGIBILITY BIAS

OPTIONS: NURSING HOME CARE FOR THE ELDERLY AND DISABLED

Initiatives in Progress

As previous discussion indicates, strategic leverage in this area lies in steering potential clients away from nursing homes in the first place. The Division currently has several initiatives in progress which address this goal.

One current initiative is the Community Care Waiver which allows individuals who qualify for nursing home care to receive less costly community-based care. The initiative will be phased in over the next three years and will provide a limited, tailored package of services for approximately 1,800 clients which will cost no more than 70 percent of nursing home costs.

As proposed, Personal Care would accommodate long-term chronic or maintenance health care by a qualified individual under the supervision of a professional nurse and physician.

Prior authorization is necessary for nursing home services even after a medical practitioner has stated the need for service. This gives the Division an opportunity to cut costs by denying service if it sees fit or by carefully matching the client's need to the most appropriate available service.

The Division has emphasized home health care as a less expensive alternative service. Unfortunately, the division's efforts have been hampered by federal eligibility standards and physician/family bias toward nursing home care.

Medical Day Care is supervised by health care professionals for clients who, due to their physical and/or mental impairment, need health maintenance and restorative services to support community living.

The AFDC Homemaker/Home Health Aid Demonstration is a national research and demonstration program which trains clients, thereby reducing the number of people dependent on welfare while simultaneously providing home-based services to individuals who might otherwise have to be institutionalized.

Through a joint effort of the long-term-care industry, the Department of Human Services, and the Department of Health, steps have been taken to initiate a deregulatory process aimed at decreasing facility and program costs without adversely affecting the quality of care.

As of July 1, 1983 the New Jersey Medicaid Program initiated a bulk purchasing program on behalf of a group of long-term facilities. This program is expected to lower facility costs and therefore lower the Medicaid per diem rates.

One final noteworthy initiative in progress is outside the control of DMAHS. This concerns the operation of residential health care facilities for citizens not in need of the more skilled care provided by nursing homes. While benefits are paid through DMAHS and other agencies on an individual basis to residents of these facilities, these benefits are based on individual recipient needs and are not related to that cost of operating the facility. The operation of the facilities is coordinated by other state departments--especially Health and Community Affairs. The availability of the residential care alternative, however, is an important element in the process of matching care level with client needs to provide the most cost-effective care.

OPTIONS: NURSING HOME CARE FOR THE ELDERLY AND DISABLED

• INITIATIVES IN PROGRESS

- COMMUNITY CARE WAIVER
- PERSONAL CARE
- PRIOR AUTHORIZATION
- EMPHASIS ON HOME HEALTH CARE
- MEDICAL DAY CARE
- AFDC HOMEMAKER PROGRAM
- DEREGULATION
- BULK PURCHASING

• OTHER OPTIONS

- * - PRE-SCREENING
- * - EDUCATIONAL/PUBLIC RELATIONS PROGRAM TO RAISE AWARENESS OF ALTERNATIVES
 - FIXED-RATE REIMBURSEMENT RATHER THAN COST-BASED
- * - TAX INCENTIVES
 - ADULT DAY CARE
 - ADULT FOSTER HOME
 - RESPITE CARE
 - "LEGALLY RESPONSIBLE RELATIVE" LEGISLATION
 - USE OF VACANT SCHOOLS FOR SENIOR CITIZENS
 - "SENIOR MATCHING"

*HIGH PRIORITY OPTIONS

OPTIONS: NURSING HOME CARE FOR THE ELDERLY AND DISABLED

Other Options

In addition to the initiatives already in place, or soon to be operating, there are several other options available to ease some of the burdens of nursing home care.

One program in place in Virginia and other states prescreens everyone entering a nursing home. If it is discovered that an individual is (1) not Medicaid eligible, and (2) not truly in need of intensive nursing home care, then the nursing home operator is at risk if he admits the person. Should the patient then drain himself of resources, he is not allowed to convert to Medicaid and the operator must maintain him. A variety of community-based options need to be available to initiate such a process, but Virginia's success with prescreening makes it an attractive option.

A pervasive problem is the fact that neither physicians nor the general populace are fully aware of existing long-term care options other than nursing homes. An intensive educational/public relations program to combat this can be enacted statewide without legislative approval.

As mentioned previously, one reason that nursing home costs are rising so fast relative to the rest of the Medicaid service portfolio, is that reimbursement is cost-related. A federal legislative change to fixed rate reimbursement would eliminate this structural growth factor.

Other programs which would clearly cost the state money in the short term, but may result in improved service levels and/or reduced demand for Medicaid nursing home beds are increased tax incentives for families maintaining elderly and disabled people, adult day care, and adult foster homes to ease the burden of a family taking care of an aged relative.

Respite care is a temporary service offered on an intermittent, as needed basis to persons being cared for at home. Its purpose is to relieve the informal caregivers, allowing for a leave of absence in order to reduce stress or to meet a sudden family crisis or emergency.

There has been recent pressure from the federal level to pursue reimbursement for nursing home care from patient's legally responsible relatives (e.g., children, brothers, sisters). While this remains a cost recovery policy option, New Jersey and many other states have chosen not to pursue this in light of likely implementation difficulties.

Consideration could be given to utilization of excess public school facilities for various ambulatory services for the aging population for social/medical day care centers, sheltered workshops and activity centers. Perhaps they could be combined with children's day care centers to the mutual benefit of the children and the elderly.

The "senior matching" concept would attempt to match individuals with complementary needs and resources, i.e., one person has a two-bedroom residence but is somewhat incapacitated and cannot shop, cook, clean, etc., while another is in good health but cannot afford to maintain his/her own apartment. These two persons could complement each other, be companions, and not overburden the taxpayers.

OPTIONS: NURSING HOME CARE FOR THE ELDERLY AND DISABLED

• INITIATIVES IN PROGRESS

- COMMUNITY CARE WAIVER
- PERSONAL CARE
- PRIOR AUTHORIZATION
- EMPHASIS ON HOME HEALTH CARE
- MEDICAL DAY CARE
- AFDC HOMEMAKER PROGRAM
- DEREGULATION
- BULK PURCHASING

• OTHER OPTIONS

- * - PRE-SCREENING
- * - EDUCATIONAL/PUBLIC RELATIONS PROGRAM TO RAISE AWARENESS OF ALTERNATIVES
- FIXED-RATE REIMBURSEMENT RATHER THAN COST-BASED
- * - TAX INCENTIVES
- ADULT DAY CARE
- ADULT FOSTER HOME
- RESPITE CARE
- "LEGALLY RESPONSIBLE RELATIVE" LEGISLATION
- USE OF VACANT SCHOOLS FOR SENIOR CITIZENS
- "SENIOR MATCHING"

*HIGH PRIORITY OPTIONS

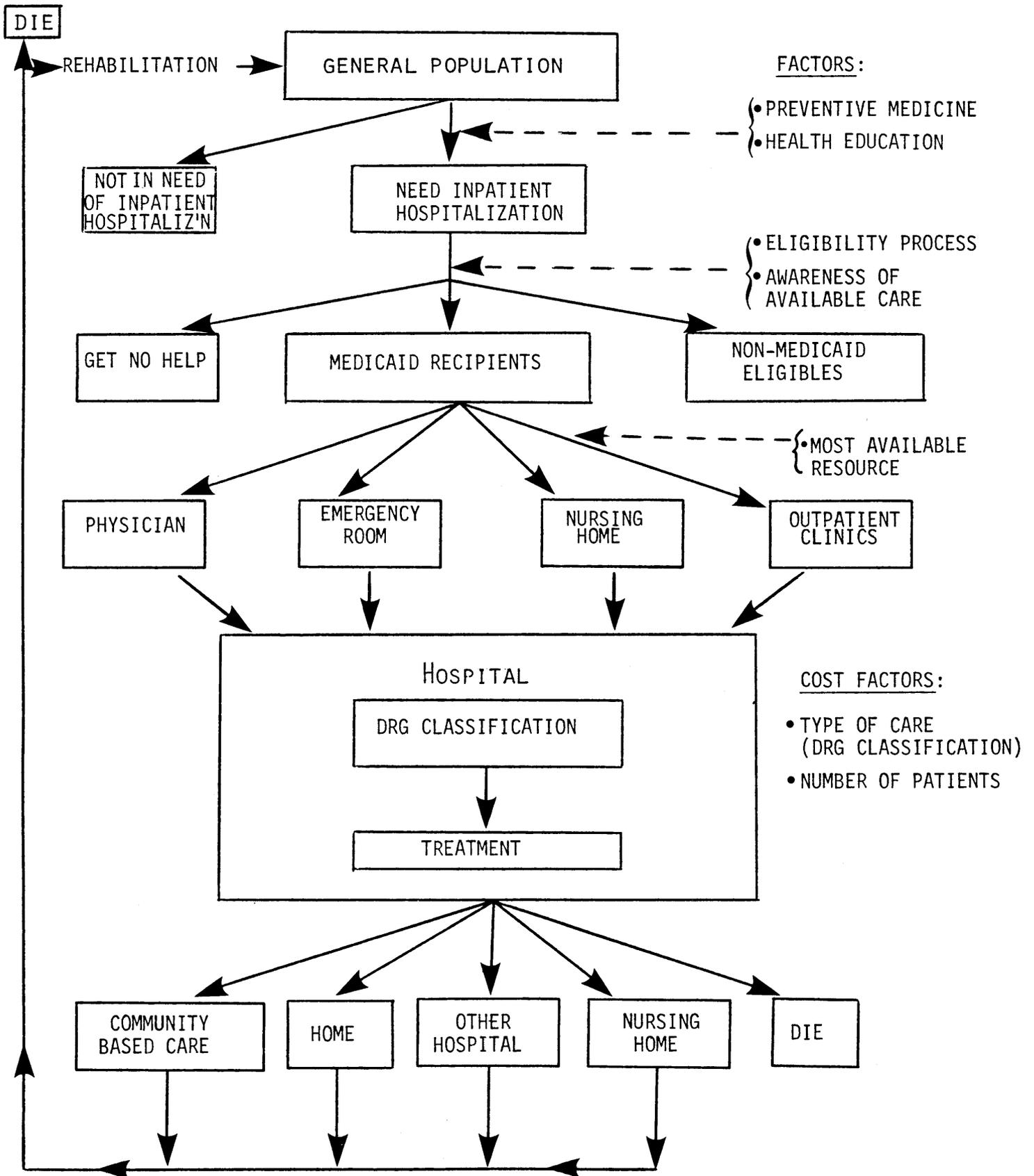
INPATIENT HOSPITAL DYNAMICS

As with nursing homes, tracing the activities and decisions of a Medicaid hospital inpatient indicates the points of strategic leverage within the system.

To identify these people requires two levels of segmentation. First, within the New Jersey population there is a group of people who require inpatient hospital care. The people needing care then can be segmented by who pays for the care. Second, there are some who do not receive help either because they are unaware of the options or feel they cannot afford it; there are those people covered by some other form of insurance, and those for whom Medicaid will pay.

Medicaid recipients can enter the hospital through various means, but almost without exception on a physician's order. Most are admitted at the request of a physician, a nursing home staff or emergency room staff. Once admitted they are diagnosed and classified into a Diagnostic Related Group (DRG), treated, and discharged.

INPATIENT HOSPITAL DYNAMICS



ISSUE: INPATIENT HOSPITAL CARE

Inpatient hospital care now accounts for over \$240MM of the Medicaid budget, and it has been growing at a real rate of 3.5% since 1976. The reasons for this growth must lie with one or more of the components of the process:

- number of patients
- duration of hospital visits
- number and type of services provided
- cost of services
- third party reimbursement

DMAHS data show that neither the number of patients nor the duration of hospital visits has grown appreciably since 1976, so the primary drivers of increased cost appear to be the latter items.

The decision regarding the number and type of services provided to a patient rests largely with the physician. Programs aimed at controlling this source of cost--such as incentives to reduce unnecessary testing--must therefore be aimed primarily at physicians.

The reasons for the increase in the basic cost of services are complex, but they seem to relate to the economic incentives built into the current cost reimbursement system. As things now stand, there is little incentive to reduce cost on the part of the major players:

- patients, who have treatment covered by insurance and who want the best possible care;
- physicians, who have no direct connection to hospital cost;
- hospitals, who are "made whole" by the cost based (DRG) reimbursement system (including bad debts);
- third party nongovernmental insurers, who have at least limited opportunity to recoup increased costs through rate increases.

Only the state and federal governments are left to bear the primary brunt of rising costs, although other insurers feel some of this effect. A solution to this problem requires a number of elements, including a refocusing of incentives to make hospitals compete more with one another for all third party payments and to make physicians bear some financial risk of excess cost. The goal of this effort is to redirect the current competitive scenario of "health care industry versus the government" (as the industry tries to maximize reimbursements) to the more normal competition between providers of medical services.

The current DRG system attempts to control costs through the limitation of reimbursement for specific courses of treatment. However, it does not address the underlying causes of cost increase and it may even add fuel to the undesirable competitive scenario outlined above.

Third party reimbursement provides a mechanism for passing costs from state/federal dollars to private dollars. While this yields lower state costs and should be pursued as aggressively as possible, this does not address the underlying forces driving the cost increases.

ISSUE: INPATIENT HOSPITAL CARE

- NUMBER AND TYPE OF SERVICE PROVIDED
- COST OF SERVICES
- THIRD-PARTY REIMBURSEMENT

OPTIONS: INPATIENT HOSPITAL CARE

Initiatives in Progress

One successful initiative currently underway is matching Medicaid recipient files with Blue Cross. This effort not only provides some short-term cash recovery, but more important it avoids Medicaid payment for future Blue Cross covered claims.

An area for continued emphasis is limitation of Friday and Saturday admissions. With this restriction in place, clients are not admitted and subsequently charged for several days in the hospital before tests are conducted the following Monday morning.

The Diagnostic Related Groups concept, something unique to New Jersey, is designed to capitate costs for most inpatient hospital procedures in such a way that the institution earns a fair return and the state is able to manage its costs.

Many procedures have been identified which are often done unnecessarily. Before a Medicaid client can have one these procedures paid for by Medicaid, he must be examined by a second Medicaid-provider physician.

The Medicaid Personal Physician Plan (MP Plan) centers around the concept of the primary care physician as a "case manager" for medical services. Most Medicaid services (eventually including inpatient hospital services), must be approved by the physician case-manager. Reimbursement on an at-risk, prepaid per capita basis provides incentives for the primary care physician to approve only those services which are medically necessary.

The Katie Beckett case is an example of children being cared for at home rather than in a hospital due to lower cost and more secure environment through a waiver of eligibility requirements.

DMAHS has recently signed its first contract with a Health Maintenance Organization to provide a full array of Medicaid services on a prepaid capitation basis to Medicaid eligibles. HMO's are another method of providing quality care at less cost through preventive health and by placing the provider at risk. DMAHS is attempting to attract other HMO's to the Medicaid program.

In 1982, DMAHS contracted directly with Professional Standards Review Organizations (PSRO's) to review admissions and length of stay in acute care hospitals and to deny unnecessary admissions and hospital days. This is called nondelegated review in that the review organization is an agent of the payor and not the hospital that it is monitoring.

Ambulatory surgery involves certain procedures where surgery is performed either in existing operating facilities or in separately identifiable free-standing units with no overnight stay required. Under this approach, the patient is ensured the presence of needed medical resources should any untoward events occur at a lower relative cost. Continuing improvements in medical technology and surgical management will allow more procedures to be performed in the future on a same-day basis.

DMAHS is in the planning stages for modifying its Medicaid eligibility verification system to allow providers to utilize telephone inquiries or direct computer connection similar to the credit card industry. This innovative approach will eliminate the need for monthly ID cards and can supply up-to-the-minute eligibility, third party insurance and lock-in information to providers, eliminating rejected claims and eligibility disputes.

New Jersey has implemented a common hospital claim form for all payers which promotes uniformity of claims processing and increased hospital efficiency.

The New Jersey Medicaid Program has mandated that non-emergency admissions to out-of-state hospitals must have prior authorization. Because reimbursement will not be made for claims without this prior authorization, this policy encourages the utilization of existing New Jersey resources.

OPTIONS: INPATIENT HOSPITAL CARE

• INITIATIVES IN PROGRESS

- FILE MATCHING WITH BLUE CROSS
- RESTRICTIONS ON FRIDAY AND SATURDAY ADMISSIONS
- DIAGNOSTIC RELATED GROUPS (DRG)
- MANDATORY SECOND OPINION PROGRAM
- COMPETITION DEMONSTRATION PROGRAM
- DISCHARGE OF CHILDREN WHO ARE LOWER COST PATIENTS AT HOME (KATIE BECKETT CASE)
- HEALTH MAINTENANCE ORGANIZATION
- NON-DELEGATED REVIEW (PSRO)
- AMBULATORY SURGERY
- "CREDIT CARD" ELIGIBILITY SYSTEM
- COMMON HOSPITAL CLAIM FORM
- PRIOR AUTHORIZATION FOR OUT-OF-STATE CARE

• OTHER OPTIONS

- EMPHASIS ON PREVENTIVE MEDICINE, HEALTH EDUCATION, AND LIFESTYLE ALTERATION
- REGIONALIZE SERVICES
- CLOSER SUPERVISION OF HOSPITAL CAPACITY
- CONTRACTS WITH INDIVIDUAL HOSPITALS
- EXTENSION OF FILE MATCHING WITH PRIVATE INSURERS
- WAGE REPORTING LEGISLATION
- * - STIMULATE COMPETITION BETWEEN HOSPITALS TO LOWER THE COST OF QUALITY CARE

*- HIGH PRIORITY OPTION

OPTIONS: INPATIENT HOSPITAL CARE

Other Options

Other options which impact potential clients, hospital operations, and relationships with outside interests could also result in savings.

By encouraging people to lead more health-oriented lives and attempting to make them fully aware of hospital care's financial implications, it may be possible to reduce the number of Medicaid clients actually receiving inpatient hospital care.

One available lever to manage the overall hospital system through regionalized services and closer supervision of hospital capacity is the Certificate of Need process. Currently, hospitals are given permission to expand services and add high technology equipment on a case-by-case basis. While consideration is given to the capability and capacity of other institutions in the facility's primary service area, greater emphasis should be placed on the regional impact and overall cost effectiveness of permitting duplication where demand is marginal.

Medi-Cal (the California Medicaid Program) is in the process of contracting with individual hospitals on a per diem bid basis. This program began in early 1983, so no conclusive financial data are available yet. However, based on forecasts from early experience with the program, savings in excess of \$200 million annually are expected.

Extending file matching beyond Blue Cross to other major New Jersey insurers can result in reduced Medicaid expenditures. There is currently a technical barrier to the implementation of this option. This barrier would be overcome by an amendment to the state wage reporting system to include insurance coverage information.

A high leverage option is to create cost competition between hospitals. This could take the form of directing patients to lower cost providers or providing financial incentives for lower cost providers.

OPTIONS: INPATIENT HOSPITAL CARE

•INITIATIVES IN PROGRESS

- FILE MATCHING WITH BLUE CROSS
- RESTRICTIONS ON FRIDAY AND SATURDAY ADMISSIONS
- DIAGNOSTIC RELATED GROUPS (DRG)
- MANDATORY SECOND OPINION PROGRAM
- COMPETITION DEMONSTRATION PROGRAM
- DISCHARGE OF CHILDREN WHO ARE LOWER COST PATIENTS AT HOME (KATIE BECKETT CASE)
- HEALTH MAINTENANCE ORGANIZATION
- NON-DELEGATED REVIEW (PSRO)
- AMBULATORY SURGERY
- "CREDIT CARD" ELIGIBILITY SYSTEM
- COMMON HOSPITAL CLAIM FORM
- PRIOR AUTHORIZATION FOR OUT-OF-STATE CARE

•OTHER OPTIONS

- EMPHASIS ON PREVENTIVE MEDICINE, HEALTH EDUCATION, AND LIFESTYLE ALTERATION
- REGIONALIZE SERVICES
- CLOSER SUPERVISION OF HOSPITAL CAPACITY
- CONTRACTS WITH INDIVIDUAL HOSPITALS
- EXTENSION OF FILE MATCHING WITH PRIVATE INSURERS
- WAGE REPORTING LEGISLATION
- * - STIMULATE COMPETITION BETWEEN HOSPITALS TO LOWER THE COST OF QUALITY CARE

*- HIGH PRIORITY OPTION

ISSUE: HOSPITAL AMBULATORY CARE

Currently, the New Jersey Medicaid program payments for services provided in the hospital outpatient department are over \$63 million a year. Although these expenditures involve only 7% of the total program costs, the trend toward increasing utilization and the associated costs is of more significance than suggested by viewing the numbers in isolation.

Much of the increase in hospital outpatient utilization is the result of the hospitals filling a void caused by an unmet demand for service and lack of alternative sources of primary care. Many Medicaid clients reside in inner-city areas where few physicians are currently located or desire to establish a practice and lack access to the better served suburban areas. This situation is compounded by the unwillingness on the part of physicians to continue to accept the generally low Medicaid fee schedule for nonhospital based care. The end result is inefficient and episodic use of the hospital emergency room for nonemergency care by the otherwise underserved Medicaid population.

In addition, improvements in medical technology allow services to be shifted to the outpatient setting. Insurers have encouraged this shift because of the low costs when compared to the formerly required inpatient stay. Hospitals have the incentive to develop outpatient services because the reimbursement is cost-based and less affected by the controls imposed by the DRG system. Such development also allows hospitals to compete with office-based physicians and establish an assured referral base for the inpatient services. However, once the service is developed, the hospital naturally seeks ways to increase utilization and the expenditures in this setting are much higher in relation to the cost of providing comparable services in a non-hospital based setting.

Any solution for controlling this cycle will have to involve steering recipients to more cost-efficient providers or modifying the reimbursement of hospital outpatient providers. Projects such as the Division's Medicaid Personal Physician Plan (discussed on page 58) are aimed at developing sources of primary care. Other mechanisms such as the imposition of recipient cost sharing are being attempted by certain states. Section 2142 of the Omnibus Reconciliation Act of 1981 requires the Department of Health and Human Services to establish, through regulation, reasonable limitations in relation to the charges for similar services provided in physician offices on costs and charges of nonemergency hospital outpatient services for Medicare purposes. However, to date, these regulations have not been issued.

Overall, the effects of these proposals are generally untested and will have to be combined with other methods if a mechanism for system wide control is to be developed.

ISSUE: HOSPITAL AMBULATORY CARE

- PRESENT SITUATION
 - OVER \$63MM ANNUALLY (FY1983)
 - COST-RELATED REIMBURSEMENT
 - STRUCTURAL REASONS FOR INCREASING COSTS
 - USE OF EMERGENCY ROOM FOR NONEMERGENCY CARE

- TRENDS TOWARD HOSPITAL OUTPATIENT CARE
 - LACK OF OTHER EPISODIC CARE PROVIDERS
 - LESS COST CONTROL THROUGH DRG
 - MEDICAL TECHNOLOGY
 - OTHER 3RD PARTY PAYORS

- ALTERNATIVE TO AMBULATORY CARE
 - REIMBURSEMENT
 - INNER CITY LOCATIONS

OPTIONS: HOSPITAL AMBULATORY CARE

As noted previously, options for dealing with the issue of hospital ambulatory care revolve around the recipient, alternative providers of service and the hospital. Any effective strategy must attack the problem on all three fronts.

The first option involves steering recipients to more cost-efficient providers of service. Future development of programs such as the Medicaid Personal Physician Plan may meet this goal by utilizing the "case-manager" concept, at-risk reimbursement and development of a primary physician-patient relationship in order to control inappropriate utilization. Recipient incentives such as guaranteed eligibility may also be helpful in encouraging use of lower-cost, primary care providers. Finally, comprehensive recipient education programs (regarding care alternatives, cost of services, and preventative medicine) may offer less dramatic short-term results but provide the long-term modifications to recipient behavior necessary to break the current cycle.

The second option is to encourage development of nonhospital based, alternative sources of care. An effective method would be to continue to encourage the development and Medicaid participation of alternative care-givers such as HMO's, nurse-midwives and free-standing ambulatory surgical centers. Restructuring of the physician fee schedule along with the use of reimbursement incentives to encourage community-based practice especially in inner-city areas may be a viable alternative. Continued education of providers by the formal medical education system, government and private sector may also serve to make physicians more conscious of the cost of care.

The third option is to modify the reimbursement methodology for outpatient hospital services. The imposition of harsh cost limitations, while useful as an interim measure, is not adequate for encouraging long-term changes in the system and may penalize hospitals for having provided necessary services. Alternatives that move away from the inflationary cost-based reimbursement to methodologies which offer incentives for cost-efficient, quality services must continue to be developed and tested. The use of competition to meet this goal must also be explored. New Jersey has begun the process of reimbursing hospitals for outpatient dental treatment on a fee-for-services basis, rather than the previous cost based system (as for other hospital services).

OPTIONS: HOSPITAL AMBULATORY CARE

- RECIPIENTS
 - * - USE OF CASE-MANAGER CONCEPT
 - INCENTIVES SUCH AS GUARANTEED ELIGIBILITY
 - * - EDUCATION

- ALTERNATIVE PROVIDERS
 - DEVELOPMENT OF COST EFFICIENT PROVIDERS
 - RESTRUCTURE REIMBURSEMENT
 - * - INCENTIVES FOR INNER-CITY PRACTICES
 - RAISE COST CONSCIOUSNESS

- HOSPITALS
 - COST CONTROL
 - * - INCENTIVES FOR COST-EFFICIENCIES (COMPETITION)
 - REIMBURSEMENT FOR OUTPATIENT DENTAL TREATMENT ON A FEE BASIS

*HIGH PRIORITY OPTIONS

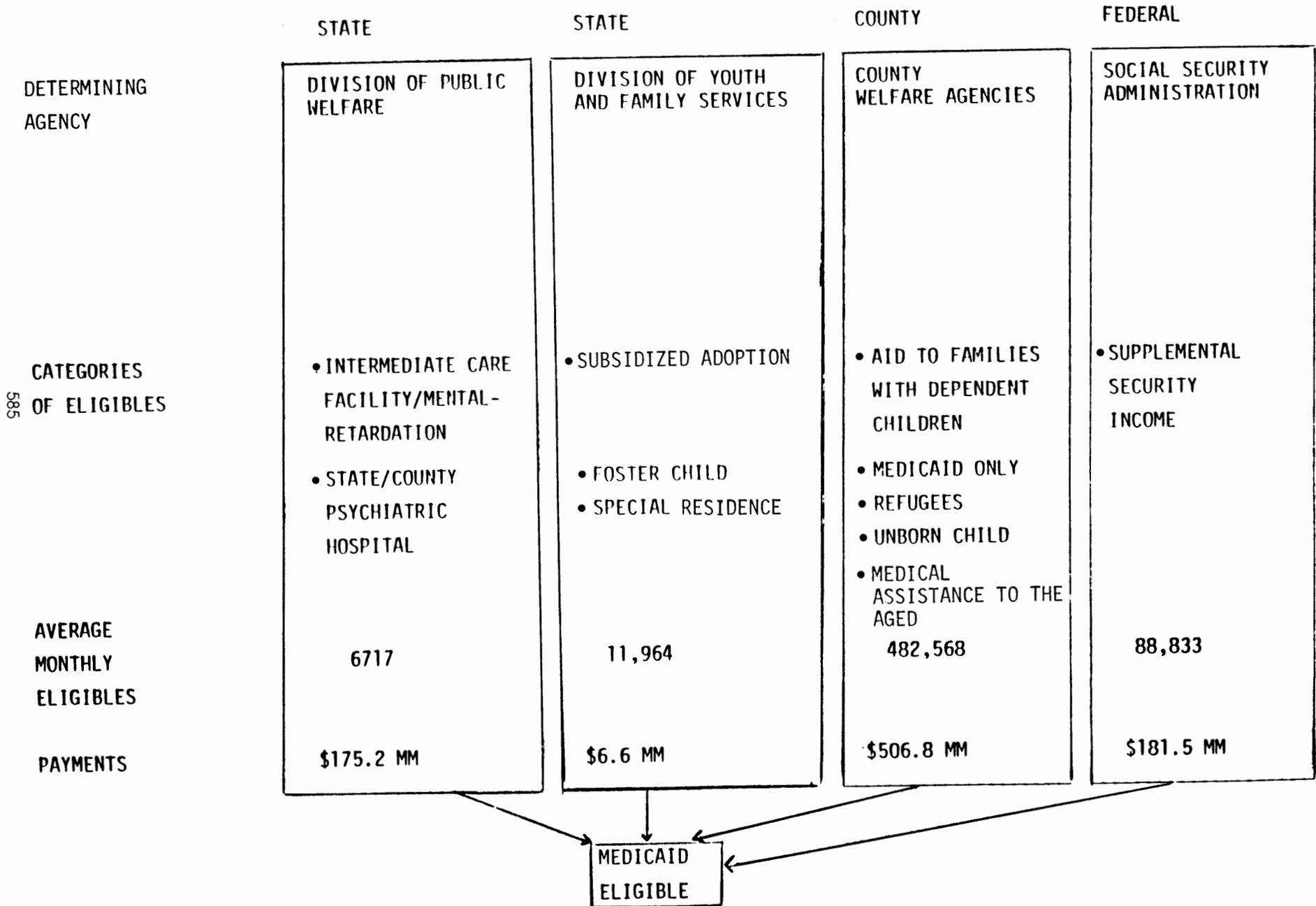
MEDICAID ELIGIBILITY OVERVIEW

The determination of Medicaid eligibility is extremely complex and highly decentralized because it follows the laws and regulations of various categorical assistance programs. In New Jersey, three separate levels of government, but not the DMAHS, determine Medicaid eligibility. The State Divisions of Public Welfare and Youth and Family Services determine eligibility for a relatively small number of people; County Welfare Agencies make determinations for the bulk of eligibles, primarily in the form of the Aid to Families with Dependent Children category and Medicaid Only; and the Federal Social Security Administration (SSA) makes a determination for a large number of aged, blind, and disabled people through the Supplemental Security Income program.

Once determined eligible by one of these agencies, the client is eligible for all Medicaid services--rather than becoming eligible for the specific service he or she needs. Thus, Medicaid, both in New Jersey and nationally, has no specific policy which relates to the medical needs of the clients. Rather, eligibility is a spin-off of categorical cash assistance programs. As Congress makes changes to cash programs to "fine tune" them, or make them more responsive to the needs of the populace, there are often confusing and unanticipated impacts on Medicaid.

In its present form, the Division of Medical Assistance and Health Services has little or no strategic leverage in the Medicaid eligibility process.

MEDICAID OVERVIEW



MEDICAID'S RELATIONSHIP WITH THE SOCIAL SECURITY ADMINISTRATION

Under the Social Security Act, states have several options concerning how the Medicaid eligibility determination for the aged, blind and disabled individuals is to be done.

By signing an agreement under Section "1634" of the Act, the state agrees to use the same eligibility criteria and standards for Medicaid coverage of all aged, blind, and disabled individuals as are used by SSA in determining SSI eligibility. As Federal SSI policies and regulations change, the state is automatically affected in its Medicaid program. The SSI application is the application for Medicaid. States utilizing this process must also utilize SSI policy to determine eligibility for its "Medicaid Only" (nursing home populations).

In a state which follows Section 209B of said Act, the state does not provide Medicaid coverage to all SSI recipients but uses more restrictive criteria on such things as income, resources, definition of blindness, definition of disability, etc. The state does its own Medicaid administration and a separate written application must be filed with the designated state agency. Several years ago, New York converted from a "1634" agreement to a "209B" agreement, but experienced considerable problems and has subsequently returned to its former "1634" status.

A third option, often called the Title XVI option, is for the state to determine and administer eligibility for both SSI and Medicaid benefits using SSI criteria.

MEDICAID RELATIONSHIP WITH SOCIAL SECURITY ADMINISTRATION

- NEW JERSEY IS A "1634" STATE
 - WE "PIGGYBACK" SSI ELIGIBILITY BY ALLOWING ANYONE ELIGIBLE FOR SSI TO BE ELIGIBLE FOR MEDICAID
 - DETERMINATION AND REPORT GENERATION AT FEDERAL LEVEL

- SOME STATES ARE "209B" STATES
 - USE THEIR OWN, STRICTER, ELIGIBILITY GUIDELINES
 - MUST DO ALL DETERMINATION AND ADMINISTRATION

- A FEW STATES ARE "TITLE XVI" STATES
 - STATE USES SSI CRITERIA TO DETERMINE AND ADMINISTER MEDICAID AND SSI ELIGIBILITY

ISSUE: ELIGIBILITY DETERMINATION AND ADMINISTRATION

When Medicaid was enacted in 1966, Congress did not anticipate its growth and determined that it would not have its own eligibility regulations and policies, rather it would be tacked onto the existing categorical assistance programs for the poor. At that time, the various cash assistance programs far exceeded Medicaid in expenditures and it did not seem prudent to establish a separate eligibility process. The cash assistance programs have been modified by Congress numerous times since 1966 and most changes have significant, although often overlooked, impacts upon Medicaid and the growth of the program and administrative complexities. Medicaid expenditures often exceed the costs of the cash assistance programs, yet there is no clear, concise, national policy on Medicaid eligibility, making it very difficult to explain to applicants or the public what the ground rules are and who is eligible.

Several key changes to AFDC policy and SSI policy exemplify these points:

As mandated by the Omnibus Budget Reconciliation Act of 1981, the AFDC and SSI programs were mandated to go to retrospective budgeting. This means the recipient must report earnings for the past several months in order to justify their assistance payments. Often this occurs after cash assistance and Medicaid benefits have been provided. It is fairly easy to remedy the cash assistance benefit if the recipient has been overpaid; they can reduce future payments. Medicaid, on the other hand, has already paid for services for a person who is now reported to be ineligible, and it is not easy to go after either the provider or the recipient. The situation is further complicated by the fact that the federal government will not provide matching funds for ineligibles.

Congress recently enacted, as part of the Social Security reform package, an increase of \$20 (single) and \$30 (couple) in the SSI program to "catch up" for past inequities. Under this act, the states had to pass along at least one half of the amount, which raises the Medicaid eligibility by \$10 and \$15 respectively. Therefore, more people are eligible for Medicaid, which means increased State expenditures. New Jersey has decided to pass along the entire \$20 and \$30 increases, which means additional, unanticipated Medicaid expenditures of about \$2.8MM in state funds in Fiscal Year 1984.

ISSUE: ELIGIBILITY DETERMINATION AND ADMINISTRATION

- HIGHLY DECENTRALIZED ELIGIBILITY DETERMINATION
 - FEDERAL
 - OTHER STATE AGENCIES
 - COUNTY

- ADMINISTRATIVE COORDINATION WITH SOCIAL SECURITY ADMINISTRATION
 - DIRECTIVES CONFUSING AND UNTIMELY

- CHANGES IN CASH ASSISTANCE PROGRAM OFTEN HAVE UNEXPECTED EFFECTS ON MEDICAID ELIGIBILITY
 - RETROSPECTIVE BUDGETING
 - RECENT SSI INCREASE
 - SECTION 503 PASS ALONG
 - DEEMING
 - INSTITUTIONAL BIAS
 - MEDICAID AND THE DISABLED

ISSUE: ELIGIBILITY DETERMINATION AND ADMINISTRATION (CONT'D)

Section 503 of the Social Security Act had to be introduced to correct another SSA issue that impacted on Medicaid eligibility. The problem was that as the Cost of Living Adjustments (COLA) were granted under the Social Security program, it would have the effect of pushing certain persons above the SSI income threshold causing them to lose Medicaid eligibility. In some cases, a \$1.00 or \$2.00 increase in Social Security would cause an individual to lose Medicaid which may have been worth hundreds or thousands of dollars to the individual. Section 503 allows a person who was receiving SSI in the month of the COLA increase and who loses SSI eligibility due to COLA to convert to a Medicaid Only case on a one-time basis. This means each year these individuals have to be referred to the County Welfare Agency for a Medicaid Only eligibility determination. If, for any reason, they ever exceed the ceiling, they lose their Medicaid eligibility under the Section 503 provision.

A prominent situation based upon SSI criteria is the "Katie Beckett" situation, where the individual was eligible in an institution because the eligibility level is higher, but is not Medicaid eligible at home. Medical care may be much less expensive at home; however, due to the concept of deeming (i.e., the parent's income is deemed to be available to the child) she was over the community limit. As a result of national publicity, a "waiver" process was established to handle this situation on a case-by-case basis. There are numerous other twists and technicalities in the SSI regulations that cause the same irrational effects on Medicaid.

Another perplexing situation involves the disabled. If one is poor and permanently disabled, they can qualify for SSI and get Medicaid benefits. After 24 months, they may also qualify for Title II Social Security Disability benefits which may, depending upon their living arrangement, be sufficient to push them above the SSI eligibility limit. This would cause them to lose Medicaid eligibility, which may be extremely important to a disabled person. Ironically, the individual cannot refuse to accept the Title II benefit to remain eligible for SSI/Medicaid.

These and other situations help exemplify the problems caused by the fact that Medicaid does not have its own discrete eligibility procedure.

ISSUE: ELIGIBILITY DETERMINATION AND ADMINISTRATION

- HIGHLY DECENTRALIZED ELIGIBILITY DETERMINATION
 - FEDERAL
 - OTHER STATE AGENCIES
 - COUNTY

- ADMINISTRATIVE COORDINATION WITH SOCIAL SECURITY ADMINISTRATION
 - DIRECTIVES CONFUSING AND UNTIMELY

- CHANGES IN CASH ASSISTANCE PROGRAM OFTEN HAVE UNEXPECTED EFFECTS ON MEDICAID ELIGIBILITY
 - RETROSPECTIVE BUDGETING
 - RECENT SSI INCREASE
 - SECTION 503 PASS ALONG
 - DEEMING
 - INSTITUTIONAL BIAS
 - MEDICAID AND THE DISABLED

OPTIONS: ELIGIBILITY DETERMINATION AND ADMINISTRATION

Eligibility determination and administration is highly decentralized, relatively inconsistent, and occasionally biased towards expensive forms of care.

Initiatives in Progress

It is not at all simple to impact the first two, but DMAHS has made strides to soften the effect of the eligibility bias. This has been attempted primarily through the Community Care Waiver and "Katie Beckett" Waiver as described earlier.

Assignment of Rights - The Department has a legal authority to require all Medicaid applicants to assign rights to third party benefit insurance benefits to the Department as a condition of eligibility and does so.

SSA Match with IRS for SSI population - In an effort to reduce the number of ineligibles in the SSI program, an agreement has been reached at the federal level to match the SSI eligibility file with IRS. Such a match will reduce the number of Medicaid eligibles by eliminating those who are ineligible due to faulty eligibility determination by SSA or who have unreported income.

New Jersey's Wage Report Law requires all employers in the State to report all wages paid on a quarterly basis to the Division of Taxation. The AFDC file is matched with the Wage Report File to identify clients who should receive reduced cash assistance or no cash assistance. Those terminated are also terminated from Medicaid eligibility. The Department of Human Services is attempting to amend this law to require the reporting of health insurance benefits and allow DMAHS to match the file with the Medicaid File. This will increase the knowledge of third party insurance benefits for Medicaid eligibles (Medicaid is last dollar payor) which allows DMAHS to recover prior payments and avoid future payments.

DMAHS is currently expanding the numbers of Medicaid recipients who are restricted to a single pharmacy (of their choice) as a remedy to detected patterns of over-utilization and/or abuse. This program, known as Lock-In, will utilize a restricted Medicaid eligibility ID Card which must be coordinated with all the various eligibility agencies.

DMAHS is currently developing the capability for an on-line "credit card" type eligibility verification system in which the provider, through the telephone or a small computer, confirms Medicaid eligibility each time a service is rendered. This system can ensure the recipient is who he portends to be and can facilitate use of third party insurance and Lock-in.

OPTIONS: ELIGIBILITY DETERMINATION AND ADMINISTRATION

- INITIATIVES IN PROGRESS

- COMMUNITY CARE WAIVER FOR ELDERLY
- KATIE BECKETT CASE
- ASSIGNMENT OF RIGHTS
- SSA MATCH WITH IRS FOR SSI POPULATION
- WAGE REPORT LAW
- RECIPIENT LOCK-IN
- ON-LINE ELIGIBILITY SYSTEM

- OTHER OPTIONS

- CONVERSION TO 209B PROCESS OR TITLE XVI FOR SSI-RELATED POPULATION
- INCREASED LOBBYING FOR UNIFORMITY AND RATIONALIZATION OF ELIGIBILITY CODES
- LIENS
- * - ASSUME MEDICAID ELIGIBILITY PROCESS FOR MEDICAID ONLY POPULATION FROM DIVISION OF PUBLIC WELFARE AND THE COUNTY WELFARE AGENCIES
- * - BANK MATCH

*HIGH PRIORITY OPTIONS

OPTIONS: ELIGIBILITY ADMINISTRATION AND DETERMINATION
(Cont'd.)

Other Options

Options to try to better couple responsibility and accountability would most likely involve conversion to a 209B or Title XVI state. This would at least vest administrative control for SSI-related eligibles in DMAHS, but may be more costly due to the added administrative systems and staff. New York's unsatisfactory experience with 209B suggests that conversion is not the best choice for New Jersey.

Consistency across states and agencies is almost universally accepted as desirable, but will require extensive lobbying at all levels of government. The State could press the Congressional delegation and the Department of Health and Human Services to re-examine the issue of Medicaid eligibility policy and resurrect the Urban Institute study on the subject, which was issued in 1976 and made numerous recommendations.

Under recent federal law, DMAHS could file liens against the property of certain Medicaid recipients in nursing homes under very stringent conditions. The Department is evaluating this option, but feels that broader lien power would facilitate increased recoveries.

DMAHS could assume the Medicaid eligibility process for the "Medicaid Only" population from the Division of Public Welfare and the County Welfare Agencies.

The Department of Human Services is pursuing a bank match law, which will enable matching the Medicaid Eligibility File with banks in the State to identify unknown assets of AFDC, SSI and Medicaid Only clients. This should be a factor in assuring eligibility. This law would be very helpful in the AFDC program in identifying potential ineligibles.

OPTIONS: ELIGIBILITY DETERMINATION AND ADMINISTRATION

- INITIATIVES IN PROGRESS

- COMMUNITY CARE WAIVER FOR ELDERLY
- KATIE BECKETT CASE
- ASSIGNMENT OF RIGHTS
- SSA MATCH WITH IRS FOR SSI POPULATION
- WAGE REPORT LAW
- RECIPIENT LOCK-IN
- ON-LINE ELIGIBILITY SYSTEM

- OTHER OPTIONS

- CONVERSION TO 209B PROCESS OR TITLE XVI FOR SSI-RELATED POPULATION
- INCREASED LOBBYING FOR UNIFORMITY AND RATIONALIZATION OF ELIGIBILITY CODES
- LIENS
- * - ASSUME MEDICAID ELIGIBILITY PROCESS FOR MEDICAID ONLY POPULATION FROM DIVISION OF PUBLIC WELFARE AND THE COUNTY WELFARE AGENCIES
- * - BANK MATCH

*HIGH PRIORITY OPTIONS

ISSUE: IMPACT OF THE PHYSICIAN ON THE HEALTH DELIVERY SYSTEM

Physicians exert considerable control over the health care delivery system. Not only do they serve as direct providers of service, but also they control the provision of other health care services. Under Medicaid regulations, a physician must determine the need for and prescribe most health services including inpatient hospital care, pharmaceuticals and other ancillary services.

Currently, there are few incentives to encourage physicians to control costs. Since health services are paid for in full by the Medicaid program, there is no pressure on the physician by the recipient to limit the number or cost of services. With the advent of increasing malpractice concerns, physicians are less likely to rely solely on physical examinations as a diagnostic tool.

Patients, like physicians, share minimally, if at all, in the cost of care. In fact, they seem largely unaware of cost as they attempt to get the best possible care. Compounding this situation is the fact that the recipient often lacks the knowledge and/or confidence to question the physician's judgement as to the need for services. This usually results in the recipient either blindly following the recommended regimen or simply looking for another doctor. This transiency contributes to the lack of a patient-primary care physician relationship and can result in a duplicating services because the physician is unfamiliar with the patient's history.

ISSUE: IMPACT OF THE PHYSICIAN ON THE HEALTH DELIVERY SYSTEM

- PHYSICIAN CONTROL OVER HEALTH SERVICES
- LACK OF INCENTIVES TO CONTROL COSTS
 - NO OUT-OF POCKET EXPENSE FOR RECIPIENTS
 - MALPRACTICE CONCERNS
 - INCREASE IN PHYSICIAN SUPPLY
 - LACK OF PRIMARY CARE PHYSICIAN-PATIENT RELATIONSHIP ENCOURAGES DUPLICATION OF SERVICES

OPTIONS: IMPACT OF THE PHYSICIAN ON THE HEALTH DELIVERY SYSTEM

Initiatives in Progress:

The Medical Personnel Physician Plan (MP Plan) - establishes a primary care physician as the case-manager. He is responsible for the patient's health and is placed at financial risk.

Cumberland Health Maintenance Organization - is reimbursed on a pre-paid, capitation basis to provide a predetermined package of services to Medicaid recipients. Due to the risk-based reimbursement, the HMO provider has the incentive to control inappropriate utilization. Recipients are encouraged to utilize the HMO concept in order to obtain a six-month eligibility guarantee.

The Medicaid Program contracts with Professional Standards Review Organizations (PSRO's), making the PSROs responsible for review of all inpatient admissions to determine the appropriateness of the admission and the length of the hospital stay.

If a physician's practices are questioned, then he may go through Peer Review and Counselling. A group of other physician's are responsible for determining the appropriateness of the care rendered by a physician and counselling the physician as necessary.

The Division has encouraged utilization of less costly nurse midwives as an alternative provider for routine prenatal, delivery, and postpartum services.

A common physician claim form has been developed for use by physicians to bill both the Medicaid and the Medicare Programs. Use of the form is easier for the provider and it increases the efficiency of the claims processing system.

The Tooth Allocation MAP Inquiry dental system is a computerized record of each client's dental history. All dental claims are processed through this system and matched against the dental history, thereby eliminating the possibility of payments for services previously performed by another practitioner and aiding the identification of possible card loaning among recipients.

Other Options:

Educational Campaigns to educate the physician and client to assure that appropriate care is provided.

Financial Incentives such as risk-based reimbursement, tax credits, or educational loans to encourage providers to locate in underserved areas.

Use of Paraprofessionals such as nurse practitioners and physician assistants who can provide routine services of comparable quality at a lesser cost.

OPTIONS: IMPACT OF THE PHYSICIAN ON THE HEALTH CARE DELIVERY SYSTEM

• INITIATIVES IN PROGRESS

- MP PLAN
- CUMBERLAND HEALTH MAINTENANCE ORGANIZATION
- PROFESSIONAL STANDARDS REVIEW PROCESS
- PEER REVIEW AND COUNSELLING
- NURSE MIDWIVES
- COMMON PHYSICIAN CLAIM FORM
- COMPUTERIZED DENTAL DATA BASE

• OTHER OPTIONS

- * - EDUCATIONAL CAMPAIGNS
- * - FINANCIAL INCENTIVES
- * - USE OF PARAPROFESSIONALS

*HIGH PRIORITY OPTIONS

ISSUE: INCENTIVES

The Health Care Delivery System lacks the incentives needed to assure provision of appropriate care in a cost-effective manner.

The need to maintain high occupancy rates encourages increases in overall inpatient hospital utilization despite DRG. Also, since under NJSA 26:2H et al.,* all hospitals are guaranteed to be "made whole," there is little incentive to actively pursue bad debts.

Since nursing homes are reimbursed on a cost-related basis, they also do not have incentives to become more cost-effective. Like hospitals, nursing homes, also attempt to maintain high occupancy rates.

Patients rarely question the cost of their care, since third party payors such as Medicaid, Medicare, or private insurance companies usually pay for the care. The demand for the "best" available care, coupled with lack of financial responsibility, may encourage inappropriate care.

*This statute is commonly referred to as S446, or the "DRG statute."

ISSUES: INCENTIVES

- PHYSICIANS

- LITTLE PRESSURE TO MINIMIZE COST OF PRESCRIBED CARE

- HOSPITALS

- ATTEMPT TO MAXIMIZE OCCUPANCY AND EQUIPMENT UTILIZATION RATES
- COST-BASED REIMBURSEMENT
- GUARANTEED TO BE MADE WHOLE ON BAD DEBT AND UNCOLLECTIBLE ACCOUNTS

- NURSING HOMES

- COST-BASED REIMBURSEMENT
- LITTLE INCENTIVE TO DISCHARGE
- WAITING LIST FOR ENTRY

- PATIENT

- LITTLE SHARING IN COST OF SERVICE
- UNAWARE OF COST OF SERVICE
- NO ENCOURAGEMENT TO "SHOP AROUND"
- WANTS BEST CARE POSSIBLE

OPTIONS: INCENTIVES

Initiatives in Progress

The prior authorization process requires review by medical staff member to assure the service is medically necessary. The mandatory Second Opinion Program severely limits the number of unnecessary operations reimbursed by Medicaid.

The Lock-In Program restricts known over-utilizers to one provider, thereby assuring the individual a continuum of care. The Blue Cross Match assures that Medicaid is the last payor of bills.

When durable medical equipment is no longer required by the client, it must be returned to the Division of Medical Assistance and Health Services. The equipment is then refurbished and becomes available for use by another needy client.

OPTIONS: INCENTIVES

- INITIATIVES IN PROGRESS
 - MANDATORY SECOND OPINION PROGRAM
 - LOCK-IN PROGRAM
 - BLUE CROSS MATCH
 - RECYCLING MEDICAL EQUIPMENT

- OTHER OPTIONS
 - * - EDUCATIONAL/P.R. CAMPAIGN
 - * - COPAYMENTS
 - * - COMPETITIVE BIDDING FOR SERVICES AND SUPPLIES
 - LABORATORY
 - MEDICAL SUPPLIES/EQUIPMENT
 - DRUGS
 - TRANSPORTATION
 - HOSPITAL CARE
 - OPTICAL APPLIANCES
 - LEGALLY RESPONSIBLE RELATIVE REQUIREMENTS
 - TAX LAW CHANGE
 - WAGE REPORTING ACT
 - BANK MATCH

*HIGH PRIORITY OPTIONS

OPTIONS: INCENTIVES
(Cont'd)

Other Options

The Medicaid Physician Plan and the contract with Cumberland HMO places the responsibility for cost-effectiveness on the physician.

Under the DRG reimbursement system, hospitals have an incentive to reduce the length of an individual's hospital stay.

A public relations campaign could be mounted to educate the public about the costs and options in the health care system.

An equally important campaign could be mounted to lower the need for health care services by promoting good health practices. One approach is to first make an array of health promotion programs (such as smoking cessation, nutrition, weight control, exercises, stress management, and blood pressure control) available to state employees and their families. The second phase would be encouraging the private sector to provide similar good health opportunities to their employees and families.

Since copayments must be nominal, they should not be viewed as a means of raising revenue. However, they may reduce utilization by requiring the client to share in the cost of care.

Currently, federal law allows competitive bidding of certain Medicaid services. Competition among providers may result in reduced costs to the program.

The State could require children to share in the cost of their parents' nursing home care. Another approach would be to amend tax laws to provide federal and/or state income tax credit or deduction to persons who care for an elderly or disabled person at home.

Amendment of the Wage Reporting Act to include health insurance would increase the ability of the Division of Medical Assistance and Health Services to charge liability to other third party payors.

Finally, the Division could match its eligibility file with "1999" income tax records received by the State's Division of Taxation. This would provide further assurance that Medicaid dollars cover only those persons who meet the financial eligibility standards.

OPTIONS: INCENTIVES

- INITIATIVES IN PROGRESS

- MANDATORY SECOND OPINION PROGRAM
- LOCK-IN PROGRAM
- BLUE CROSS MATCH
- RECYCLING MEDICAL EQUIPMENT

- OTHER OPTIONS

- * - EDUCATIONAL/P.R. CAMPAIGN
- * - COPAYMENTS
- * - COMPETITIVE BIDDING FOR SERVICES AND SUPPLIES
 - LABORATORY
 - MEDICAL SUPPLIES/EQUIPMENT
 - DRUGS
 - TRANSPORTATION
 - HOSPITAL CARE
 - OPTICAL APPLIANCES
- LEGALLY RESPONSIBLE RELATIVE REQUIREMENTS
- TAX LAW CHANGE
- WAGE REPORTING ACT
- BANK MATCH

*HIGH PRIORITY OPTIONS

DEPARTMENT OF HUMAN SERVICES
DIVISION OF MEDICAL ASSISTANCE AND HEALTH SERVICES

INTRODUCTION

BACKGROUND

NEW JERSEY PROFILE

STRATEGIC ISSUES & OPTIONS

SUMMARY

SUMMARY

Based on the preceding analysis and the highlighted "high priority" policy options from each section of this report, the points on the following pages summarize the most important action areas and steps necessary to deal cost-effectively with New Jersey's expected health care needs. Several points of context should be kept in mind as the action alternatives are reviewed:

- Most of the action alternatives depend on appropriate support from the Legislature and/or the Governor.
- Because of the strong role of federal and local governments in diffusing and multiplying the causes of rising health care costs, there is no single practical policy option which will control costs. Therefore, a successful cost containment strategy must involve coordinated action on a number of fronts.
- The cost impacts estimated for the various options generally represent the impact of full implementation of the options-- which in many cases may be after several years of phased-in implementation.
- The cost impact figures are "first-cut" estimates, intended to provide an idea of the order of magnitude of likely cost changes. A more refined analysis of the cost impact of any specific option, possibly followed by a pilot program, is appropriate before proceeding with implementation.
- Because most of the policy options focus on cost control rather than expansion of services, there are likely to be individuals or groups which will be opposed to certain options. The more notable of these instances are outlined with the specific options. While the general viewpoints of these groups were considered as this report was prepared, they or their representatives have not participated directly in the process. Their involvement and support will be a key ingredient in successful implementation of many of the options.
- Because of the need for a broadly based strategy and the basic interrelationship between many of the policy options, a useful next step might be to group them into "implementation units" which could be developed as packages (e.g., the grouping of several of the education programs might be appropriate).

ACTION ALTERNATIVES

The following section presents a ranking of the previously mentioned "high priority" policy options to allow the selection of the most critical alternatives.

Highest Impact

- Coordination of Statewide Health Care Policy
- Nursing Home Care
- Hospital Care

High Impact

- Educational Campaign

Significant Impact

- PAAD/Lifeline
- Eligibility
- Physicians
- Incentives

1. COORDINATION OF STATEWIDE HEALTH CARE POLICY

As previously mentioned, the cost of producing health care is affected by at least ten departments within the State. The total annual state health care budget is in excess of the \$1+ billion which flows through DMAHS alone. Clearly there is a need to develop a coordinated statewide health planning process.

1.1 Make the Current State Health Coordinating Council the Vehicle for Development and Coordination of State Health Care Policy.

IMPACT: The additional cost of this option is negligible. However, properly implemented, an integrated statewide health care program could reduce costs, improve provider relations and result in improved quality of care for New Jersey Citizens.

ACTION REQUIRED: Governor's Executive Order.

CONSIDERATIONS: This could be controversial in that members of the existing SHCC who would no longer serve may oppose the change. The logistics of how the revamped Council would function, how many representatives from each Department would serve, who would serve as chairperson, etc., all have to be carefully planned before such a change is made.

The potential savings would not necessarily be reflected in the DMAHS programs.

ACTION ALTERNATIVES (CONTINUED)

2. NURSING HOME CARE FOR THE ELDERLY AND DISABLED

The cost of providing nursing home care to Medicaid clients will exceed \$300 million (\$163 million State dollars) during FY1984. As the population ages, the demand for this service will continue to increase.

2.1 Prescreen Patients to Assure Services Needed Match Those Provided

IMPACT: Frequently, due to lack of knowledge and/or community alternatives, clients enter nursing homes when they could be more appropriately cared for in the community. In 1977, Virginia implemented a nursing home prescreening program. Under this program, all individuals entering a nursing home from the community were screened to determine the need for this service. An analysis done by the State showed that 20% of the clients screened were denied.

A better match of services to clients would assure the availability of nursing home beds for those clients truly in need of the services.

ACTION REQUIRED: Legislation/Administrative for implementation.

CONSIDERATIONS: The Nursing Home industry and perhaps private paying patients would object to this legislation because it would introduce the Medicaid process and staff to the private sector. At the present time, no one looks at the appropriateness of private patients in nursing homes.

Additionally, the Division would require extra staff to implement such legislation and there would have to be more community resources available for persons determined not to require care in a Skilled Nursing or Intermediate Care Facility.

2.2 Provide State (and perhaps Federal) Tax Incentives to Encourage Home-Based Long-Term Care.

IMPACT: This would provide additional State income tax exemptions to individuals who care for elderly or disabled relatives. This alternative may also slow the anticipated increase in nursing home costs from the present value of approximately \$12,000 per patient per year. (The Illinois State Legislature is considering a package of tax incentive bills to encourage home-based long-term care.)

ACTION REQUIRED: Legislation

ACTION ALTERNATIVES (CONTINUED)

CONSIDERATIONS: An administrative monitoring mechanism would have to be established to ensure that persons receiving a tax incentive were actually maintaining an elderly person at home and keeping them out of an institution. It is not certain that State income tax incentives could be sufficient to encourage families to maintain an elderly person at home. Additionally, the community alternatives must be in place to maintain persons at home.

3. HOSPITAL CARE

Hospital care program cost for FY1984 will exceed \$350 million (of which \$187 million are State funds)--representing approximately 38% of the Division's appropriation.

3.1 Develop Programs to Stimulate Price Competition Between Hospitals.

IMPACT: Currently, hospitals attract staff and clients by attempting to offer the highest level of technological skills available.

In addition, hospitals could be encouraged to compete between themselves on the basis of their particular cost-effectiveness. Incentives to provide a more cost-effective delivery of service could improve the quality of care provided to the patients as well as slow the hospital cost increases that are currently being experienced.

ACTION REQUIRED: Third party payor support, federal and state administrative approvals.

CONSIDERATIONS: This would be a significant change in the way third party payors conduct their business with hospitals and may be complicated by New Jersey's DRG program. There would probably be major objections by the Hospital Association to this concept. Additionally, it would require a close working consortium of Medicaid, Medicare, Blue Cross, and other major payors. The U.S. Health Care Financing Administration would have to approve of the concept. A careful plan of action would have to be developed. The concept would have a greater chance for success in those geographic areas where there are several hospitals than in areas where there is limited access to hospitals.

ACTION ALTERNATIVES (CONTINUED)

3.2 Support "Case Manager" Approach to Better Match Services to Need.

IMPACT: Implementation of this option will reduce the frequency of ineffective or inappropriate care sometimes experienced due to a client's reliance on outpatient hospital facilities. In most instances, hospital emergency rooms are structured to provide emergency episodic care, and are unable to track the client's history. Development of the "case manager" approach will improve the quality of care by providing a continuum of care. Due to the fiscal scale of the program, a minor change in this area could produce significant cost savings.

ACTION REQUIRED: Continuation of current administrative direction.

CONSIDERATIONS: Although there has been some negative reaction to the MP Plan, which began in July 1983, the concept, which is unique and part of a four-year demonstration project, should be allowed to continue to determine if competition can work in the health care marketplace under a physician case manager.

4. EDUCATION PROGRAMS

Because of the large total dollar investment in health care, any small change in behavior of the key discretionary participants, such as patients and physicians, can have significant leverage. The cost of education programs can be relatively modest (a minimum of \$100,000 or so) yet these alternatives could have a significant long-term impact if they are effective in changing the current health care delivery system.

4.1 Conduct Educational Programs to Make the Public Aware of Long-Term Care Alternatives

IMPACT: Encouraging the use of the community-based long-term care alternatives could lower the demand for nursing home beds and allow the provision of the most cost-effective care for the client.

ACTION REQUIRED: Legislation/Private Sector for funding, Executive/Administrative for implementation.

ACTION ALTERNATIVES (CONTINUED)

CONSIDERATIONS: Before any such campaign can realistically begin, there must be increased alternative care networks available to the population to utilize if they opt not to go to a long-term care facility. This will require a funding commitment and time to establish adequate alternative providers. Support must be obtained from the Medical Society, Nursing Home Associations, Home Health and Homemaker groups, Hospital Discharge Planners, Community Agencies, etc. Savings are contingent upon successfully changing public attitudes over the years. This is not a short-term savings option.

4.2 Educate Patients Regarding Care Alternatives

IMPACT: This alternative would educate the client concerning various health care alternatives, thereby improving the quality of care provided.

ACTION REQUIRED: Legislation/Private Sector for funding, Executive/Administrative for implementation.

CONSIDERATIONS: This concept will require time and the full cooperation of the provider community, the availability of lower cost quality care alternatives and a long-term professional advertising campaign. It will be very difficult to change established health care delivery patterns of the Medicaid population due to the lack of personal physicians and continued use of hospital emergency rooms and outpatient departments for private care.

4.3 Develop Educational Programs for Physicians, Emphasizing Cost-Effective Care Alternatives

IMPACT: Most of the care provided to a client is prescribed by the attending physician. Encouraging the physician to prescribe the most cost-effective care available could have significant impact.

ACTION REQUIRED: Legislation/Private sector for funding, Executive/Administrative for implementation.

CONSIDERATIONS: It is essential to obtain the agreement and support of the medical community and the medical schools if this alternative is to be successful. Changing prescribing patterns is a major long-term initiative that may be very difficult to accomplish. Opponents could be those providers who stand to lose patients if physicians become more prudent buyers in their prescribing patterns.

This alternative would be more readily attainable if accompanied by appropriate financial incentives and risks.

ACTION ALTERNATIVES (CONTINUED)

4.4 Develop Educational Campaigns to Encourage Citizens to Stay Healthy

IMPACT: Because preventative care is recognized as the most cost-effective method of care and because good health habits, once developed, are likely to be continued over a long period of time, this option offers the potential of an improved quality of life and reduced cost.

ACTION REQUIRED: Legislation/Private sector for funding, Executive/Administrative for implementation.

CONSIDERATIONS: Changing public attitudes through publicity campaigns are highly speculative in terms of their impact. A massive campaign for preventative care, if successful, would likely generate additional short-term costs as people get medical, dental, eye, etc., examinations, but can generate long-term savings if people do not develop serious illnesses which lead to costly institutional care.

5. PAAD/LIFELINE

The PAAD/Lifeline programs cost the State \$120 million in annual benefits for over 385,000 citizens.

5.1 Increase PAAD Co-pay (from the current \$2 per Prescription)

IMPACT: Approximately \$5 million annual savings per \$1.00 increase in the co-pay.

ACTION REQUIRED: Legislation

CONSIDERATIONS: This is a very popular program with the Senior Citizens, the Disabled, and the Legislature. Therefore, increasing the co-payment would evoke considerable public reaction.

5.2 Halt the \$25 per year Lifeline Benefit Increase Trend

IMPACT: Approximately \$5 million annual cost per \$25 benefit increase.

ACTION REQUIRED: Legislation/Governor Veto of Expansion

CONSIDERATIONS: The Lifeline benefit has increased by \$25.00 per year since its inception in 1979. This, too, is a very popular program with Senior Citizens, the Disabled and the Legislature. Therefore, halting the \$25.00 per year increase would evoke considerable public reaction. Since these benefits are completely supported by Casino funds, this reaction may be somewhat mitigated by establishment/expansion of other Casino funded programs.

ACTION ALTERNATIVES (CONTINUED)

5.3 Effect Recoveries of Correctly Paid PAAD Benefits from Estates of Deceased Recipients, as allowed by Current Law.

IMPACT: Net recoveries of up to \$1 million annually.

ACTION REQUIRED: Legislature/Executive support.

CONSIDERATIONS: This has been a highly publicized issue each time the State has begun the collection process. Three separate bills have been introduced in the Legislature in the past several months, which would preclude PAAD from making correct payment recoveries. One Bill, A-3583, has been passed by the Assembly and is currently in the Senate Institutions Health and Welfare Committee. Senior Citizen groups are opposed to recoveries of correctly paid benefits from estates.

6. ELIGIBILITY DETERMINATION AND ADMINISTRATION

For the roughly 550,000 individuals eligible for DMAHS programs the eligibility process is a key event in determining their long-term cost to the State. A segmentation of the eligible population to focus attention on the portion of the population that accounts for the majority of the cost suggests that the 29,000 Medicaid-Only segment offers an attractive starting point.

6.1 Reassign Medicaid Eligibility Determination to DMAHS (from DPW and County Welfare) for High Cost Medicaid Only Population.

IMPACT: For every 1/4% reduction in the eligibility error rate for this population (from the current 1.7% Medicaid Quality Control rate), there is a cost savings of approximately \$1 million.

ACTION REQUIRED: Executive/Administrative support.

CONSIDERATIONS: An indepth study of the costs to the State for transfer of the County Welfare Agency "Medicaid Only" eligibility function to DMAHS is necessary to determine its cost effectiveness. DMAHS obtains this service currently at minimal cost, but would have to add a number of employees currently employed by the Counties. The savings projection considers reducing the quality control error rate by 1/4%, but does not consider the administrative costs of the change. Additionally, there would probably be County opposition.

7. IMPACT OF PHYSICIAN ON THE HEALTH CARE DELIVERY SYSTEM

Because physicians prescribe over 80% of the care funded by DMAHS, their behavior has high impact on the health care delivery system. Changing physician attitudes has a long lead time before results are seen, but it has a long effective life once attitudes are changed.

ACTION ALTERNATIVES (CONTINUED)

7.1 Develop Financial Incentives for Physicians to Prescribe Cost-Effective Care

IMPACT: Any leverage which affects over 80% of total cost can provide significant impact.

ACTION REQUIRED: Legislative for funding, Executive/Administrative for implementation, provider support.

CONSIDERATIONS: This alternative requires funding for the incentives, development of a plan for administration of the incentive funds, and the full support of the medical community. Opposition could come from the various provider groups who feel they will lose patients if physicians become more prudent prescribers.

7.2 Encourage Greater Use of Paraprofessionals for Care Delivery

IMPACT: This alternative would encourage the use of paraprofessionals for some routine medical care such as injections, routine deliveries, etc. This would enable the physician to concentrate on the more complex technical medical functions which require more extensive medical expertise.

ACTION REQUIRED: Legislation for selected areas, provider support, Administrative for implementation.

CONSIDERATIONS: In addition to enactment of legislation which would allow physician assistants to practice in New Jersey, which may be very difficult to obtain, this alternative is controversial and will probably draw much opposition from organized medicine. There would probably be expressed concern about Medicaid patients obtaining lower quality care if DMAHS encouraged use of paraprofessionals.

If the concept were fully supported, it would take a number of years before these new providers would be in place and could impact the marketplace to generate the projected savings.

8. INCENTIVES

Due to the high cost of the Division's programs, any small change in the behavior of the clients and/or the providers can have important dollar consequences. If all participants have incentive to behave in cost-effective ways, the system can more easily provide the needed scope and quality of care.

8.1 Use of Co-Payment to Encourage Efficient use of Medical Services

IMPACT: Potential annual net savings of \$8 million from maximum co-payment revenues plus deferred care savings.

ACTION ALTERNATIVES (CONTINUED)

ACTION REQUIRED: Legislation

CONSIDERATIONS: Co-payments have been extremely controversial in New Jersey for years--both in the Legislature and in several Administrations. Clients have minimal income and providers will receive reduced payments if patients do not have funds to pay co-payments. There is very little support in government or from client groups for co-payments.

8.2 Develop Competitive Bidding Process for Services

IMPACT: A small percentage savings from the current inpatient hospital costs of \$280 million and the current pharmacy costs of \$71 million could be significant.

ACTION REQUIRED: Federal approval, Executive order.

CONSIDERATIONS: Competitive bidding for medical services is controversial and will evoke strong opposition from all affected provider groups. The large dollar savings would be possible only if hospital services and pharmaceutical services were both competitively bid. Such bidding would require waiver approvals from the U.S. Health Care Financing Administration and a massive undertaking by the State and will generate intense opposition by the industries. New Jersey has been watching the California Medi-Cal "hospital czar" project with interest to determine its success or failure and its applicability to the New Jersey Hospital industry.

This alternative requires a great deal of study before any competitive bidding is undertaken.

8.3 Increase Incentives for Inner City Care Providers

IMPACT: Due to lack of physician providers in many inner city areas, clients are forced to utilize hospital emergency rooms for primary care. Since the hospitals are not structured to provide continuity of care, the client receives costly, inefficient care.

Encouraging physician providers to relocate in inner city areas will reduce costs and improve the quality of services provided to the clients.

ACTION REQUIRED: Federal administrative approval, provider cooperation.

CONSIDERATIONS: Because Medicaid is a statewide program, approval would have to be granted from the U.S. Health Care Financing Administration to provide higher fees for inner city physicians. Funds would have to be appropriated to increase the fees and there is no guarantee that a sufficient number of physicians would return to inner city practice. Inner city hospitals which have filled the void due to a lack of Medicaid participating physicians would be concerned about loss of their patient load. 617

NONTAX REVENUES

Strategic Issues and Alternatives



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INTRODUCTION

As part of Governor Kean's initiative to improve the efficiency of New Jersey's government, a task force was assigned to examine the issue of the State's nontax revenues. The nontax revenue issue is an important one because of its scale and the potential for raising additional revenue through updating fees to cover the cost of services provided, where appropriate. The issue is also worthy of review at the highest level of government because of the need for coordination of nontax revenue policy between Departments, the Governor's Office and the Legislature--one or more of whom are involved in setting a given fee.

This study has been conducted to evaluate:

- what nontax revenues are,
- the current profile of nontax revenues in New Jersey, and
- the various policy alternatives for changes in New Jersey's approach to nontax revenues.

This evaluation is focused on the State's General Fund revenue sources labeled "Miscellaneous Taxes, Fees, and Revenues," plus the General Fund revenue sources labeled "Appropriated Revenues"--these two groups later described as "unappropriated" and "appropriated" revenues, respectively. This focus excludes all elements in the so-called "major taxes group," (e.g., Sales Tax and Motor Vehicle Fees), as well as Federal Funds, Revolving Funds and Interfund Transfers.

DEFINITION OF NONTAX REVENUES

Based on a review of New Jersey policy, federal policy, and other states' policies, the general definition on the next page was developed for the group's working definition of nontax revenues. The key elements of this definition include:

- Identifiability of the recipients or beneficiaries of a state-provided service;
- Payment, or potential for payment, of a fee or an increase in a fee for the service rendered; and
- Degree of choice on the part of the recipient or user to use or purchase the service.

The specific application of the group's nontax revenue definition within the context of the New Jersey budget is further detailed on pages 8-9 and supplemented by Appendix A.

Miscellaneous fees, charges, and similar types of nontax revenues differ from many taxes in two major ways: 1. The individual can choose whether or not to incur nontax liabilities; and 2. In return for payment he/she receives a definite, identifiable good or service. Some revenue sources represent fairly clear examples of the group's definition of "nontax" revenue (e.g., sale of surplus government property, or state park user fees). Other examples, however, are not as clear. Motor vehicle license fees, for instance, were excluded from consideration in this study because these revenues are classified by the state as a "major tax."

DEFINITION

NONTAX REVENUES

MISCELLANEOUS FEES AND CHARGES FOR A SPECIFIC SERVICE PROVIDED BY THE STATE OR ITS AGENCIES TO A SPECIFIC, IDENTIFI-
ABLE GROUP OF RECIPIENTS WHO MAY HAVE A
CONSIDERABLE DEGREE OF CHOICE IN PUR-
CHASING THE SERVICE OR NOT.

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NEW JERSEY EXPENDITURE/REVENUE OVERVIEW

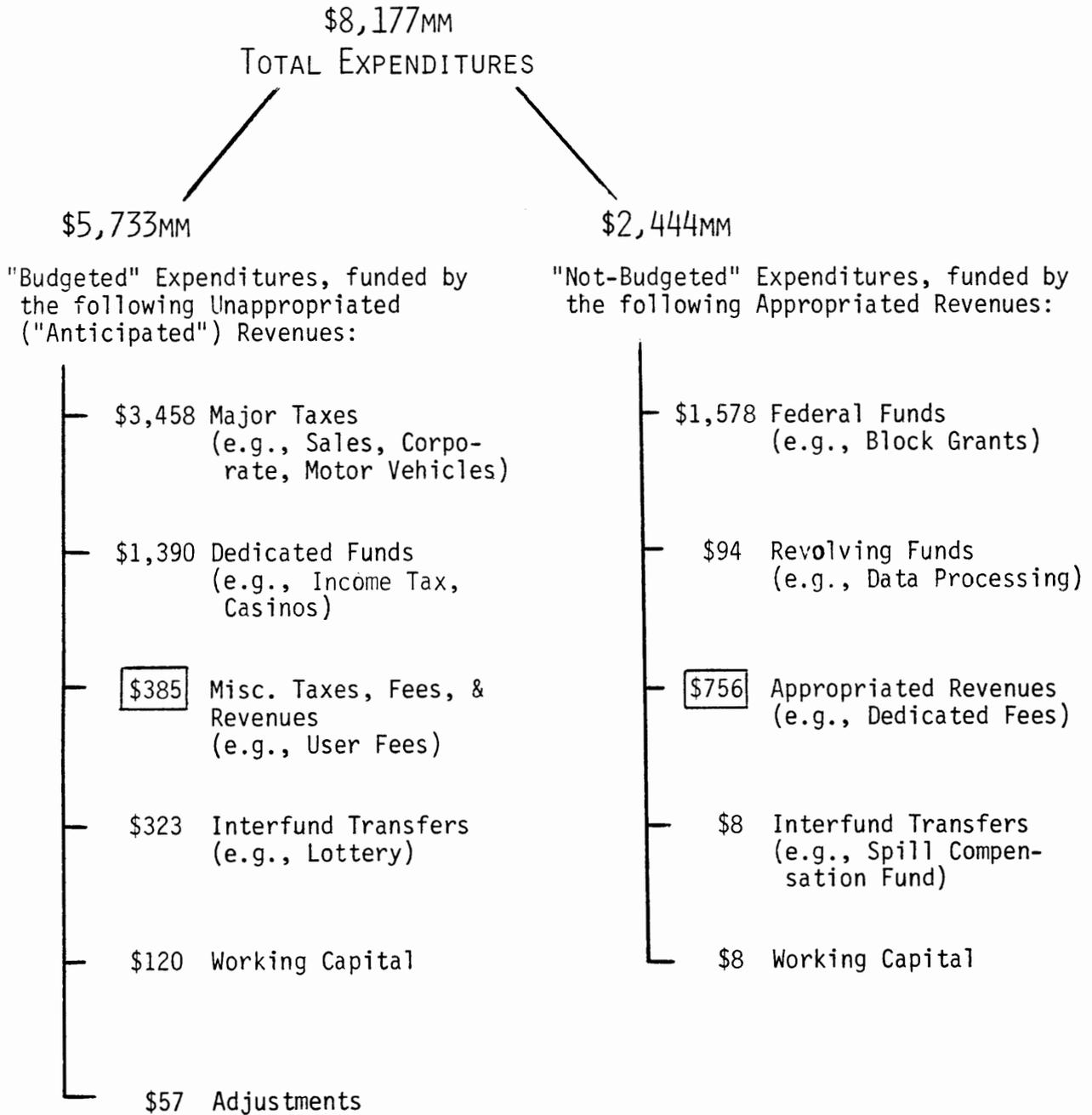
The facing chart illustrates the composition of 1982 New Jersey expenditures and revenues from all sources (\$8,177 million)--highlighting the nontax revenue areas on which this report concentrates.

There are two major categories of nontax revenue differentiated essentially as follows: 1) "Unappropriated" revenue which is identified in budget documents as "Anticipated" and is available for General Fund expenditures and 2) "Appropriated" revenue which does not appear in budget operations and which must legally be dedicated to specific programs. The facing chart breaks down the State's principal revenues and expenditures for FY1982, the latest year for which actual data--and comparable data from other states--is available. As shown in Appendix A, state budget documents use very specific language to identify the "nontax" revenues studied. Within the General Fund, \$385 million is identified as "Miscellaneous Taxes, Fees, and Revenues." These so-called "unappropriated" revenues are collected by the various state departments but are included in the General Fund.

The other major nontax revenue category is the so-called "appropriated" funds. These miscellaneous revenues totalled \$756 million in FY1982. These revenues are authorized only for expenditure on specific programs and purposes identified by statute. For example, certain fees collected by the Department of Environmental Protection must, by law, be spent on environmental programs.

The chart on the facing page shows the total FY1982 nontax revenue line items contained in the budget document. Although opportunities from both sources--"appropriated" and "unappropriated"--were considered, the practical opportunities lie in the latter category (\$385 million) since these funds can be flexibly utilized to meet the requirements of the General Fund. It is important to note that these amounts--totalling over \$1 billion--are figures appearing in budget documents. Additional nontax revenue sources--such as Higher Education college and university tuition--do exist, but not all are included in state budget documents. These special cases will be discussed later in the specific department reviews.

NEW JERSEY EXPENDITURES/REVENUES
FISCAL YEAR 1982



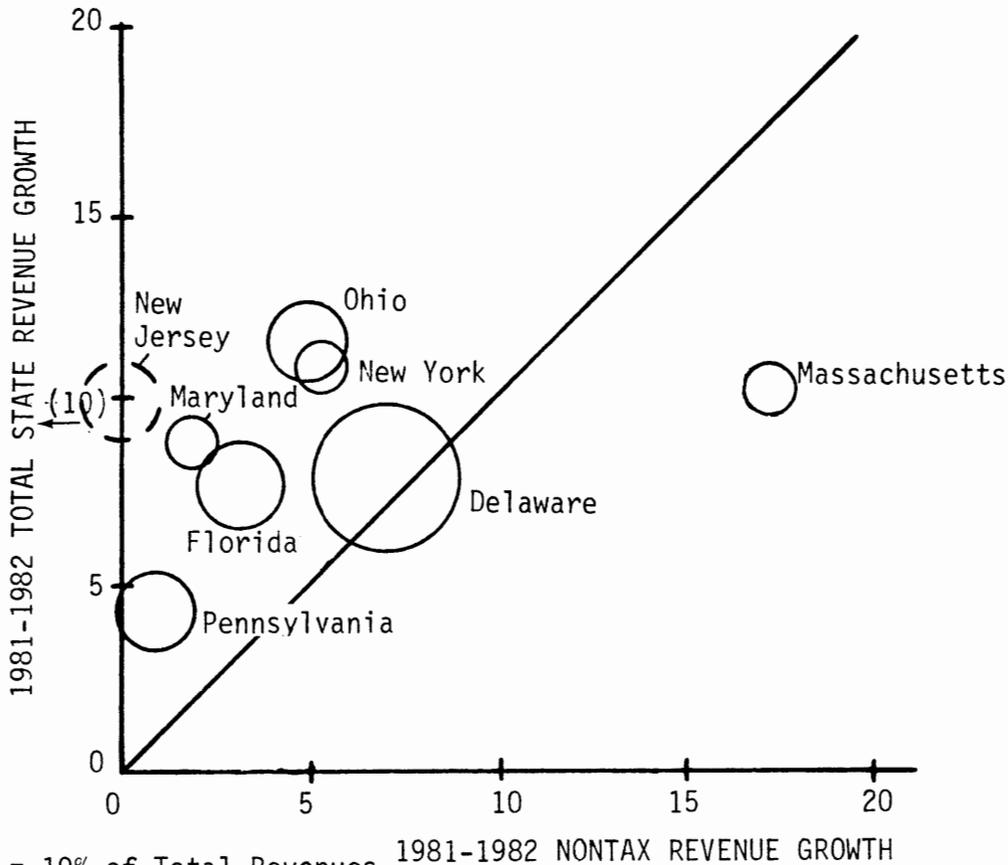
NONTAX REVENUE
State Comparisons

Before examining New Jersey's nontax revenue opportunities, a comparison with other states provides a useful context. The chart on the facing page compares growth in nontax revenue vs. total revenue for a number of states. The comparison is based on the U.S. Commerce Department's classification of nontax revenue, which does not match New Jersey's definition (especially in its inclusion of motor vehicle fees and certain corporate license fees classified by New Jersey as "Major Taxes"). However, the common basis for comparison allows us to make some initial observations regarding potential nontax revenue opportunities for New Jersey. These opportunities will be investigated in greater detail later in this report.

The vertical axis on the facing graph indicates the percentage growth of total state revenue from 1981 to 1982, while the horizontal axis shows growth in nontax revenue over the same time period. Circle size is proportional to the percent of total revenues derived from nontax sources in 1982. Circles to the left of the 45 degree diagonal indicate that total revenues grew faster than nontax revenues from 1981 to 1982, and the opposite is true when the circle is to the right of the diagonal. For example, Pennsylvania's circle size and location indicate that its 1982 nontax revenue accounted for about 10% of total revenue, but that total revenue grew at 4% vs. about 1% for nontax revenue. Thus Pennsylvania's nontax revenue declined in relative importance over the period examined.

Overall for all states in 1982, nontax revenues as a percentage of total revenues ranged from 2.1% to 28.1%, with an average of 6.2%. New Jersey was higher than average--at 8.9%, but its growth in nontax revenues was substantially less than its growth in total revenues--minus 10% vs. 10% total revenue growth (as indicated by the dotted circle pointed off the chart). Part of this absolute decline was due to changes in accounting practices, but the significance of this decline is noteworthy. Compared to its neighbors over the 1981-82 period, New Jersey let its nontax revenue picture deteriorate. This suggests that further opportunities for nontax revenue increases exist.

NONTAX REVENUES
STATE COMPARISONS
1981-1982



○ = 10% of Total Revenues
Derived from Nontax
Revenues

1981-1982 NONTAX REVENUE GROWTH

○ U.S. AVERAGE

○ = 6.2% of Total Revenues
Derived from Nontax
Revenues

Source: "State Government Tax Collections
in 1982", U.S. Dept. of Commerce

- IN 1982, NEW JERSEY NONTAX REVENUES (8.9%) ARE ABOVE THE U.S. AVERAGE (6.2%) AS A PERCENTAGE OF TOTAL REVENUES,
- FROM 1981 TO 1982, NEW JERSEY NONTAX REVENUES GREW MUCH MORE SLOWLY THAN OVERALL STATE REVENUES, CAUSING NEW JERSEY TO COMPARE UNFAVORABLY WITH NEARBY STATES.

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DEPARTMENTAL ANALYSIS

Assessment of opportunities to enhance the state's nontax revenue flows was undertaken by department via two broad approaches. First, the departments with major current total expenditures and nontax revenue amounts were identified. Each of these five departments--Human Services, Education, Treasury, Higher Education, and Transportation--was analyzed individually to assess the degree to which the full cost of providing its particular service(s) is "balanced" by revenues from recipients or other related parties. Instances in which costs greatly exceeded revenue would provide initial targets for deeper opportunity analysis. Each of the remaining 15 departments was analyzed by means of a direct questionnaire prepared to assess recent nontax revenue actions and to quantify additional new potential sources.

The table on the next page summarizes the FY1982 total expenditures, operating expenditures (essentially direct service expenditures) and nontax revenue levels for each of the five largest departments. Together these five departments account for almost 90% of both the state's total expenditures and total nontax revenue. Two of these departments--Education and Treasury--seem to have substantial "imbalances" between revenues and costs. Education's expenditures, however, consist almost entirely of state aid funds passed along to local districts. When its \$36 million operating expenditure is examined alone, it appears to offer fairly limited opportunity to further develop significant nontax revenues. Similarly the Treasury Department operates with large total expenditures. However, closer examination of this figure reveals a large amount of "flow-through" funds, the primary component of which is the public-utility gross receipts tax (\$567mm). Given the nature of expenditures and "nontax revenues" in these two departments, they were not analyzed further for revenue opportunities.

The findings for the remaining Departments--Human Services, Higher Education, and Transportation are discussed on the following several pages.

MAJOR DEPARTMENT
REVENUE-EXPENDITURE SUMMARY
(\$ MILLION)

<u>(\$ MILLION)</u>	<u>1982 TOTAL EXPENDITURES *</u>	<u>1982 OPERATING EXPENDITURES **</u>	<u>1982 NONTAX REVENUES</u>
HUMAN SERVICES	\$2229	\$514	\$133
EDUCATION	2071	36	22
TREASURY	1367	100***	72***
HIGHER EDUCATION	895	758	195
TRANSPORTATION	290	109	8

*INCLUDES STATE AID, DEBT SERVICE, CAPITAL CONSTRUCTION AND FEDERAL FUNDS

**EXCLUDES STATE AID, DEBT SERVICE, CAPITAL CONSTRUCTION AND FEDERAL FUNDS

***ALSO EXCLUDES TREASURY "FLOW-THROUGH" ITEMS SUCH AS PUBLIC UTILITY TAX (\$567MM), REVOLVING FUNDS (\$58MM) AND OTHER SIMILAR SMALLER ITEMS

DEPARTMENT OF HUMAN SERVICES

With total expenditures of \$2,229mm, \$1,190mm of which is state funds, the Department of Human Services collects \$133mm in nontax revenues. Fees (paid by patients and their families) for the care of patients in state psychiatric and mental retardation institutions account for \$100mm of this \$133mm--roughly 75% of the total. The Department thus exhibits a significant imbalance between the cost of services and revenues from recipients--an imbalance in excess of \$1 billion in state funds and over \$2 billion in total funds.

Unfortunately for the sake of generating additional nontax revenues, there are several reasons why this imbalance is not likely to be significantly reduced. First, one of the main reasons for an individual to be served by the Department is the lack of resources to offset the cost of their benefits. Second, the Department is quite limited by federal regulations in its ability to collect fees from beneficiaries of federally funded programs, especially medical assistance and welfare. Third, there is little likelihood that many of the Department's clients will be able to reimburse the state in the future for benefits received, because most clients are not moving upward in their earnings cycle. Finally, the Department is already pursuing opportunities to improve collections and reduce fraud. While more vigorous efforts in these directions would undoubtedly produce additional revenues, their magnitude is likely to be in the \$10mm range rather than the \$50-100+mm range.

One area (beyond the Department initiatives mentioned above) worthy of continuing attention is that of court ordered support payments on behalf of the Department's beneficiaries (e.g., payments by a family for the care of a child living in a state mental retardation institution). Often, these payments are not systematically reevaluated to adjust for increased earning power or resources of the payers, or for increased cost of care. If a payer's earnings decrease, the courts are often petitioned by payers to reduce support levels. The additional revenue opportunity here is likely to reach approximately \$5mm annually.

NEW JERSEY NONTAX REVENUES
DEPARTMENT OF HUMAN SERVICES
(\$ MILLION)

<u>DIVISION</u>	<u>1982 NONTAX REVENUES</u>	<u>1982 COST OF SERVICE RENDERED</u>
DIVISION OF MEDICAL ASSISTANCE	2	889
DIVISION OF PUBLIC WELFARE	10	705
INSTITUTIONS (DIVISION OF MENTAL HEALTH, DIVISION OF MENTAL RETARDA- TION)	100	408
OTHER DIVISIONS	21	227
	<hr/>	<hr/>
TOTAL	133	2,229

DEPARTMENT OF HIGHER EDUCATION

While the state budget summary shows that the Department of Higher Education expended \$581mm of state funds in 1982, the actual cost of operating the higher education system was the \$895mm shown in the facing chart. This difference results from some of the system's units (e.g., Rutgers) being treated on a "net" basis in the budget. That is, tuition and other revenues are not counted in the budget process--an amount net of these revenues is appropriated by the legislature.

The key figures thus become the \$895mm in total cost versus the \$195mm in tuition revenues, representing a \$700mm "imbalance" between cost and revenue. This raises the question of opportunity for reducing the gap via increased tuition charges.

One comparison from the next chart shows that independent colleges (such as Princeton and Seton Hall) cover 48% of their costs with tuition, versus the 22% figure for the public system.

A comparison against a public system in a similar state-- Pennsylvania--confirms the existence of the opportunity to increase tuition revenues. Tuition at Penn State is \$2,118 (versus \$1,366 for Rutgers) and it covers between 30% and 40% of educational costs (versus the 22% coverage at Rutgers). Overall, Pennsylvania tuition revenue covers in excess of 30% of higher education costs versus the 22% average recovery for New Jersey. Note that a 10% across-the-board tuition increase in New Jersey yields approximately \$20mm in additional revenue. If Rutgers tuition were raised to the Penn State level (an increase of about 55%), an additional \$32mm would be generated. Furthermore, if all tuitions were raised by this same percentage (to bring average New Jersey tuition recoveries of 22% into line with the Pennsylvania average of 30+%) an additional \$75mm would be produced. This makes the total opportunity from this source in excess of \$100mm. Tuition levels at a comparative group of state universities are illustrated below:

New Jersey	\$1,366
Pennsylvania	\$2,118
New York	\$1,350
Massachusetts	\$1,129
Michigan	\$2,144
Ohio	\$1,458

The opportunity for increased cost recovery from tuition is supported by the ability of the students to pay, as they move upward on their earnings cycle when they enter the work force.

NEW JERSEY NONTAX REVENUES
DEPARTMENT OF HIGHER EDUCATION
(\$ MILLION)

<u>SECTOR</u>	<u>1982 TOTAL EXPENDITURES*</u>	<u>1982 TUITION AND FEES</u>	<u>TUITION & FEES/ EXPENDITURES</u>
RUTGERS	\$268	\$ 59	22%
NJIT	31	8	26%
UMDNJ	198	10	5%
STATE COLLEGES	200	60	30%
COUNTY COLLEGES	198	58	29%
	<hr/>	<hr/>	<hr/>
TOTAL	\$895	\$195	22%
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
INDEPENDENT COLLEGES	462	222	48%

*INCLUDES RESTRICTED AND UNRESTRICTED SOURCES OF REVENUES,
EXCLUDES AUXILLIARY SERVICES BUT INCLUDES FEDERAL DOLLARS.

TRANSPORTATION AND RELATED SERVICES

The Department of Transportation was shown earlier (page 15) in the traditional budget context (\$290mm costs and \$8mm nontax revenues). For the purposes of this analysis, a broader view including a group of "transportation related" services such as New Jersey Transit and portions of Law and Public Safety (the State Police) is useful. This broader perspective is presented in the next chart. The New Jersey Transit cost figure includes operation of the entire New Jersey Transit system, while the \$226mm is farebox revenues. The Law and Public Safety figures represent highway related revenues and costs, primarily for state police and motorist insurance activities.

The result of this comparison suggests a \$500mm "imbalance" between costs and revenues--a significant figure of the same scale as higher education. However, the task force believes that this imbalance should be considered in light of two additional transportation related revenue sources--motor vehicle fees (\$266mm) and motor fuel taxes (\$290mm)--not considered in this review because of their classification as "major taxes" used to support the entire state budget. Counting these revenues as "transportation-related" reverses the imbalance (\$804mm revenues versus \$771mm costs). However, any changes in these should be considered in the context of an overall state revenue use policy.

A related point concerns the opportunity to enhance New Jersey Transit farebox revenues. These revenues now cover roughly 60% of New Jersey Transit operating costs--a figure among the highest in the U.S. Other major transit systems recover an average in the range of 40%-50% from fares, to as low as 19% (in Boston). In addition, recent New Jersey Transit price elasticity experience suggests that additional fare increases are likely to decrease revenues as ridership drops.

In summary for this area, any opportunities for additional nontax revenues (especially opportunities of significant scale) appear to be related to a revision of motor vehicle fees and motor fuel taxes--both areas beyond the scope of this analysis.

NEW JERSEY NONTAX REVENUES
 TRANSPORTATION AND RELATED SERVICES
 (\$ MILLION)

<u>DEPARTMENT/DIVISION</u>	<u>1982 NONTAX REVENUES</u>	<u>1982 COST OF SERVICE RENDERED</u>
NEW JERSEY TRANSIT	\$226	\$375
DEPARTMENT OF LAW AND PUBLIC SAFETY	14	106
DEPARTMENT OF TRANSPORTATION	<u>8</u>	<u>290</u>
TOTAL	\$248	\$771

OTHER DEPARTMENTS

The next chart shows expenditures and nontax revenues (the sum of appropriated and unappropriated revenues) for the 15 smaller departments and the Judiciary.

Of the \$154mm total nontax revenues, \$80mm represents appropriated revenues dedicated to specific programs, while the remaining \$74mm is from unappropriated sources available to the general fund. The primary mechanism for the task force review of nontax revenues in these departments was a questionnaire designed to provide a summary of current revenue status and to identify opportunities for generating additional revenues.

Specific questionnaire topics include:

- listing of current permit, fee, license, etc., areas;
- summary of current volumes/\$ in each area;
- date of most recent fee change;
- summary of fee changes being considered;
- cost (including all fringes) of each program versus fee income;
- available comparative fee data from other states;
- opportunities for increased fees or new fees; and
- other suggestions for improvement in the nontax revenue process.

OTHER DEPARTMENTS

(\$ MILLION)	1982 TOTAL EXPENDITURES*	1982 OPERATING EXPENDITURES**	1982 NONTAX REVENUES
AGRICULTURE	\$17	\$16	\$11
BANKING	4	4	4
CIVIL SERVICE	13	12	--
COMMERCE	5	4	--
COMMUNITY AFFAIRS	156	21	6
CORRECTIONS	155	144	--
DEFENSE	12	8	--
ENERGY	21	16	13
ENVIRONMENTAL PROTECTION	148	62	26
HEALTH	98	34	4
INSURANCE	6	6	5
LABOR	170	50	24
LAW & PUBLIC SAFETY	203	183	34
PUBLIC ADVOCATE	27	26	--
STATE	6	6	7
THE JUDICIARY	52	37	15
OTHER	--	--	5
TOTAL	1093	634	154

* Includes State Aid, Debt Service, Capital Construction, and Federal Funds

** Excludes State Aid, Debt Service, Capital Construction, and Federal Funds

OTHER DEPARTMENTS

Questionnaire Summary

The following page summarizes the data from the questionnaires returned by eight of the 16 groups. Key points from this summary include:

- in excess of \$10mm has been identified as the opportunity for additional nontax revenues, beyond the additional revenues planned for in the FY1984 budget; and
- the bulk of the opportunity is in the waste handler fees in the Department of Environmental Protection.

In addition, the questionnaire process produced a number of suggestions from some of the departments, including:

- the importance of considering all costs (including fringe benefits, rental costs, and overhead) when establishing fees;
- the value of an automatic and systematic fee updating process--every two or three years or so--to reset fees appropriately for changes in costs; and
- the benefit of an incentive system, allowing departments to use some portion of additional nontax revenues generated for the purpose of carrying out their mandated programs (rather than having all of any new fees revert to the general fund).

SUMMARY OF NONTAX REVENUE QUESTIONNAIRE RESPONSES

DEPARTMENT	Total Number Fee Areas	Revision Requires		Fee Revision History				Number Current Proposed Revisions	Expected \$ Change	Remarks
		Legis	Admin	12 Mon	1-2 Yrs	3-5 Yrs	Over 5Yr			
AGRICULTURE	14	7	7(3*)	4	3	3	4	2	\$497,000 \$900,000	Milk Control Act Dedicated NJ Sire Stakes
BANKING	6	3	(3*)	2			3	2	\$143,000	50% Increase Consumer Credit and Foreign Bank Licenses
COMMUNITY AFFAIRS	8	8		8				All	\$2,600,000**	
ENERGY	5	5		1	3			2	\$2,300,000**	Increased Utility Assessment
ENVIRONMENTAL PROTECTION	26	14	12	5	11	4	6	6	-\$1,800,000** \$470,000** \$71,000** \$7.5 -11 Mil. 325,000**	Air Pollution Inspection & Permit Radiation Protection Clamming License Increase Solid & Hazardous Waste Hauler Fees Marina Operation
HEALTH	16	12	4	5	2	3	6	5	\$1,798,000**	
INSURANCE chap 17								NJSA 17:1-8.1 R 1976 & 267 TNJR 469(a) 8 NJR 423(a)	\$76,000** \$6,275,000** \$1,750,000**	Actuarial Size Licensing Fees Real Estate
JUDICIAL								NJSA 22A:2-1 NJSA 22A:2-5 NJSA 22A:2-20	Analysis in Process	Bar Exams, Trial Attorney Certifications, Superior Court Fees and Commissions, Superior Court Trust Funds

* Federal Program Guidelines
 ** Some portion (or all) of
 this amount already included
 in the FY 1984 budget

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OVERVIEW

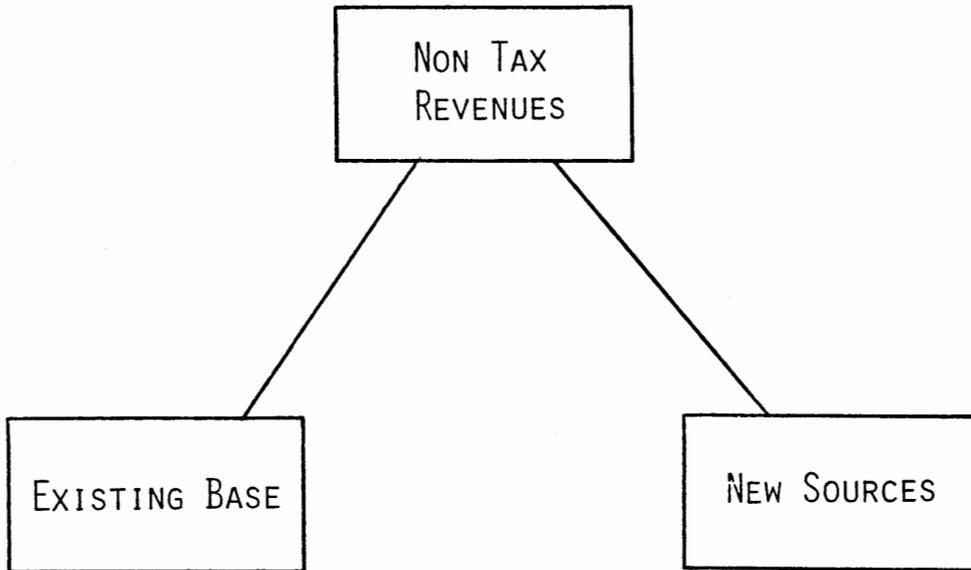
The strategic alternatives for increased or new sources of nontax revenues generally fall within two categories:

- generating additional dollars from the existing base of fee areas; and
- tapping new sources of fee income.

The group's analysis suggests that the current base provides the most attractive source of additional revenues. Such policies as periodic fee review for full cost recovery, adjustment for inflation and identification of value pricing opportunities (i.e., pricing a service in relation to its value to the purchaser rather than to the cost of providing the service) must be balanced against the ability of users to pay the fees and the state's ability to collect fees in excess of collection costs. Of course all of these pricing decisions must be made within the context of the state's social policy regarding the appropriate degree of cost/revenue "balance" for specific programs--i.e., how much of a program's cost should the state pay?

New revenue sources may arise as new programs are initiated (as did the hazardous waste cleanup programs a few years ago) in response to external factors, but any such programs are obviously a relatively unpredictable revenue source. One ongoing legislative concern which arises as any new programs are considered is the evaluation of a program's ability to pay some or all of its own cost. This characteristic may be increasingly important as demands on state resources continue to grow faster than the resource base.

OVERVIEW



- FULL COST
- INFLATION
- VALUE PRICING
- ABILITY OF USERS TO PAY
- COST-EFFECTIVE COLLECTION

- EXTERNAL FACTORS
- LEGISLATIVE PHILOSOPHY TOWARD PROVIDING NEW STATE "SERVICES"

STRATEGIC ALTERNATIVES

The major strategic alternatives associated with generating additional nontax revenues are summarized on the facing page, and reviewed in more detail below.

Updating of Current System

This involves a review of the current fee areas and recommendations for changes to ensure that current actual full costs (including fringe benefits, rents, and all other allocable costs) are fully recovered for areas where full recovery is the objective or policy. This review was in large part completed by this task force via the questionnaire sent to most major fee generators. Updating the system would be likely to generate up to \$10 million in additional revenues.

Systematic Review/Update Process

A systematic, periodic review (not more than every three years) of fees to adjust at least for inflation, if not also for structural changes in the cost of providing services is a reasonable idea. However, the areas where this is currently not done represent a relatively small dollar amount in comparison to the total State budget. Thus, the subsequent annual opportunity for increased revenue is probably less than \$5 million.

Value Pricing

While there are a number of opportunities for value pricing (e.g., charging professionals a fee closer to the value of the license allowing them to practice in the State rather than the cost of processing the license), the current laws governing such fees typically prohibit this. The likely income from this source could be as much as \$10-20 million. On a conceptual basis, this approach appears to be more of a tax than a user fee. For these reasons, plus the inevitable implementation difficulties, this avenue was not explored further.

Incentives

This may involve the inclusion, through the budgetary process, of an allowance for departments to utilize either a portion of or all fee increases to execute effectively the mandated responsibilities of programs. Under the current system most fees are available for general state purposes. The departments' ability to gain the support of groups serviced by the programs will be enhanced if the target population sees a constructive result, such as quicker response time and/or more frequent inspections, etc., from the payment of increased fees. This idea received strong support from the departments surveyed by the group's questionnaire.

STRATEGIC ALTERNATIVES

- UPDATING OF CURRENT SYSTEM
- SYSTEMATIC REVIEW/UPDATE PROCESS
- VALUE PRICING
- INCENTIVES
- REVIEW OF SIGNIFICANT COST/REVENUE
IMBALANCES

STRATEGIC ALTERNATIVES
(Continued)

Review of Significant Cost/Revenue Imbalances

The areas where significant dollar imbalances occur between cost of services and revenues, and where user fees are consistent with the task force working definition of user fees include:

- | | | |
|--------------------|---|-----------------------------|
| - Human Services | } | - Costs greatly exceed fees |
| - Higher Education | | |

Opportunities exist for some additional revenues to be collected from Human Services clients or their families, and efforts are now underway in the Department of Human Services to accelerate these collections. Unfortunately, these people are often among the least able to pay and much of the collected amount must often be shared with federal and county governments. This effort is likely to represent an opportunity for the State--possibly on the order of \$15 million, and perhaps much less without a significant investment of time and resources.

Higher Education offers the largest single opportunity:

- there is an excess of cost over nontax revenues exceeding \$500 million;
- the relative ability of the users to pay, at least on a deferred basis if not currently (students have rising income horizons);
- the existence of a system in place to collect fees (tuition collection); and
- there is evidence that New Jersey recovers a smaller portion of higher education costs than does a comparable state such as Pennsylvania.

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

STRATEGIC ALTERNATIVES

-CONTINUED-

- UPDATING OF CURRENT SYSTEM
- SYSTEMATIC REVIEW/UPDATE PROCESS
- VALUE PRICING
- INCENTIVES
- REVIEW OF SIGNIFICANT COST/REVENUE
IMBALANCES

SUMMARY OF ADDITIONAL
Nontax Revenue Opportunities

The facing page summarizes the opportunities for additional nontax revenues identified by the group. The figures suggest that primary focus should be given to Higher Education, Human Services, and Environmental Protection, which represent over 95% of the total opportunity.

SUMMARY OF ADDITIONAL
NONTAX REVENUE OPPORTUNITIES

LARGEST DEPARTMENTS

	OPPORTUNITY
HIGHER EDUCATION	\$100 + MM
HUMAN SERVICES	\$15MM
	\$115+MM
SUB TOTAL	\$115+MM

OTHER DEPARTMENTS

AGRICULTURE	\$.5MM
BANKING	\$.1MM
COMMUNITY AFFAIRS	\$1.3MM
ENVIRONMENTAL PROTECTION	\$7.5MM
HEALTH	\$.8MM
	\$10.2MM
SUB TOTAL	\$10.2MM

TOTAL ADDITIONAL OPPORTUNITY	\$125+MM
------------------------------	----------

APPENDIX A

This appendix is provided to support the earlier discussion of appropriated and unappropriated nontax revenues within the context of the state budget system. It illustrates the funds flow within the state budgetary process, and thereby sets additional context for the working definition of nontax revenues adopted for this report.

NEW JERSEY BUDGET OVERVIEW

Nontax revenues are not identified as a separate category of revenues in the New Jersey State Budget.

The State Budget identifies two major categories of revenues that are classified as follows:

- Unappropriated Revenues--Anticipated*--(General Fund--including certain dedicated funds)
 1. "Major Taxes," e.g., Sales Tax
 2. "Miscellaneous Taxes, Fees, and "Revenues," e.g., regular college tuition
 3. "Interfund Transfers," e.g., New Jersey Spill Compensation Fund
 4. "Dedicated Funds," e.g., Property Tax Relief Fund

- Appropriated Revenues (General Fund--including certain dedicated funds)
 5. "General," e.g., college parking fees
 6. "Federal Fund," e.g., Food Distribution
 7. "Revolving Fund," e.g., Data Processing
 8. "Interfund Transfers," e.g., NJ Spill Compensation Fund

Revenue Definitions

Unappropriated revenues are collected by the State's agencies and/or departments and remitted to the State Treasury for the support of most State Government activities.

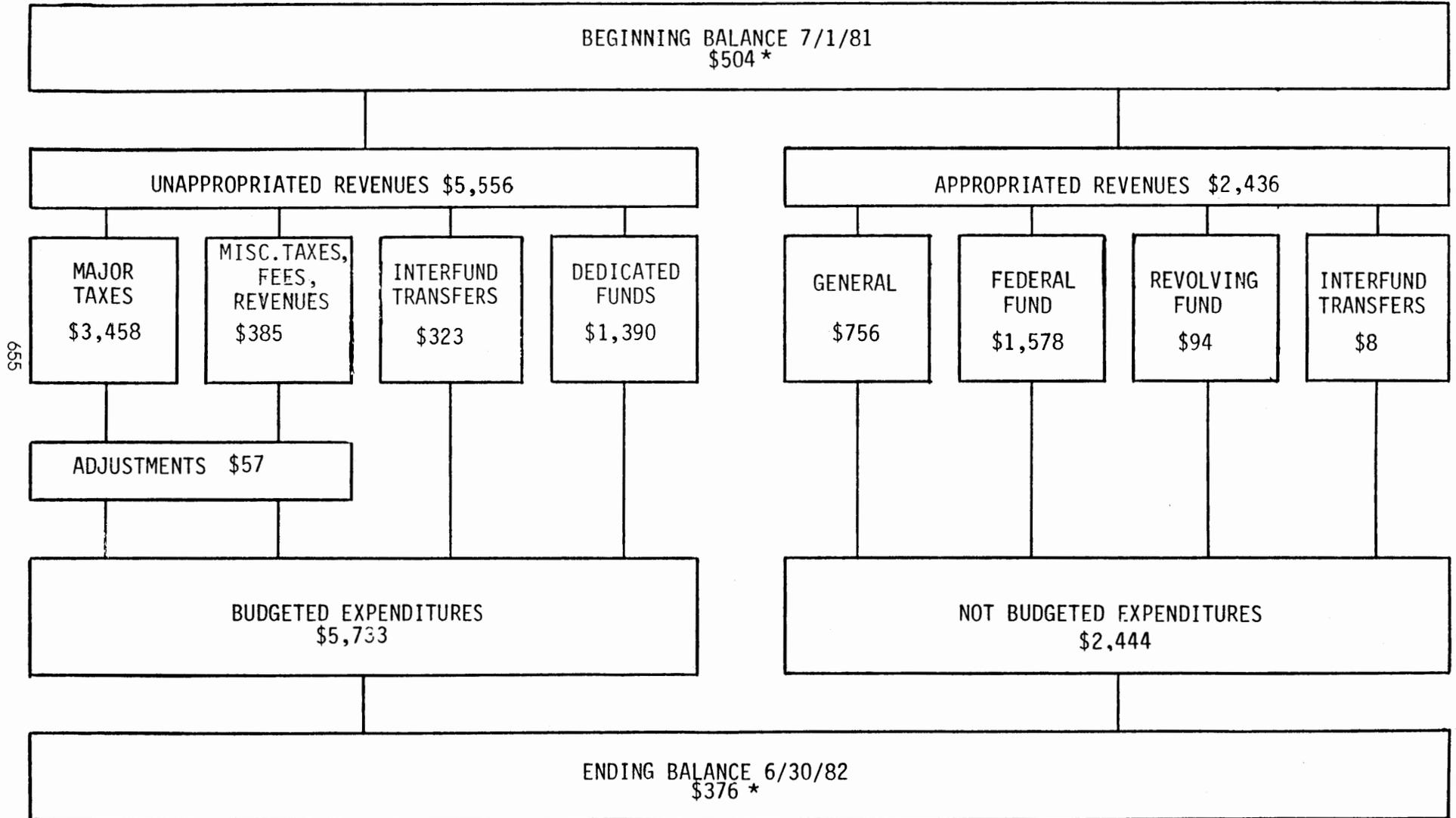
Appropriated revenues are collected by the State's agencies and/or departments and remitted to the State Treasury but are available to be directly utilized by the agency or department for a specific purpose authorized by statute. Federal funds are shown on the facing page to give a broader understanding of the situation.

Nontax revenues can address revenue sources in all eight classifications depending upon which definition is used.

On occasion revenues in excess of budgeted unappropriated or appropriated amounts may be appropriated, e.g., Health Department laboratory licensing fees in excess of those budgeted may be appropriated for specific purposes.

*Hereafter referred to as Unappropriated

NEW JERSEY BUDGET OVERVIEW
 FISCAL YEAR 1982
 (MILLIONS OF DOLLARS)



* Includes Designated and Undesignated Funds

NEW JERSEY NONTAX REVENUE OVERVIEW

Based upon the working definition of nontax revenues, the State's budget profile can be reorganized around the distinction between tax and nontax revenues.

The facing chart shows:

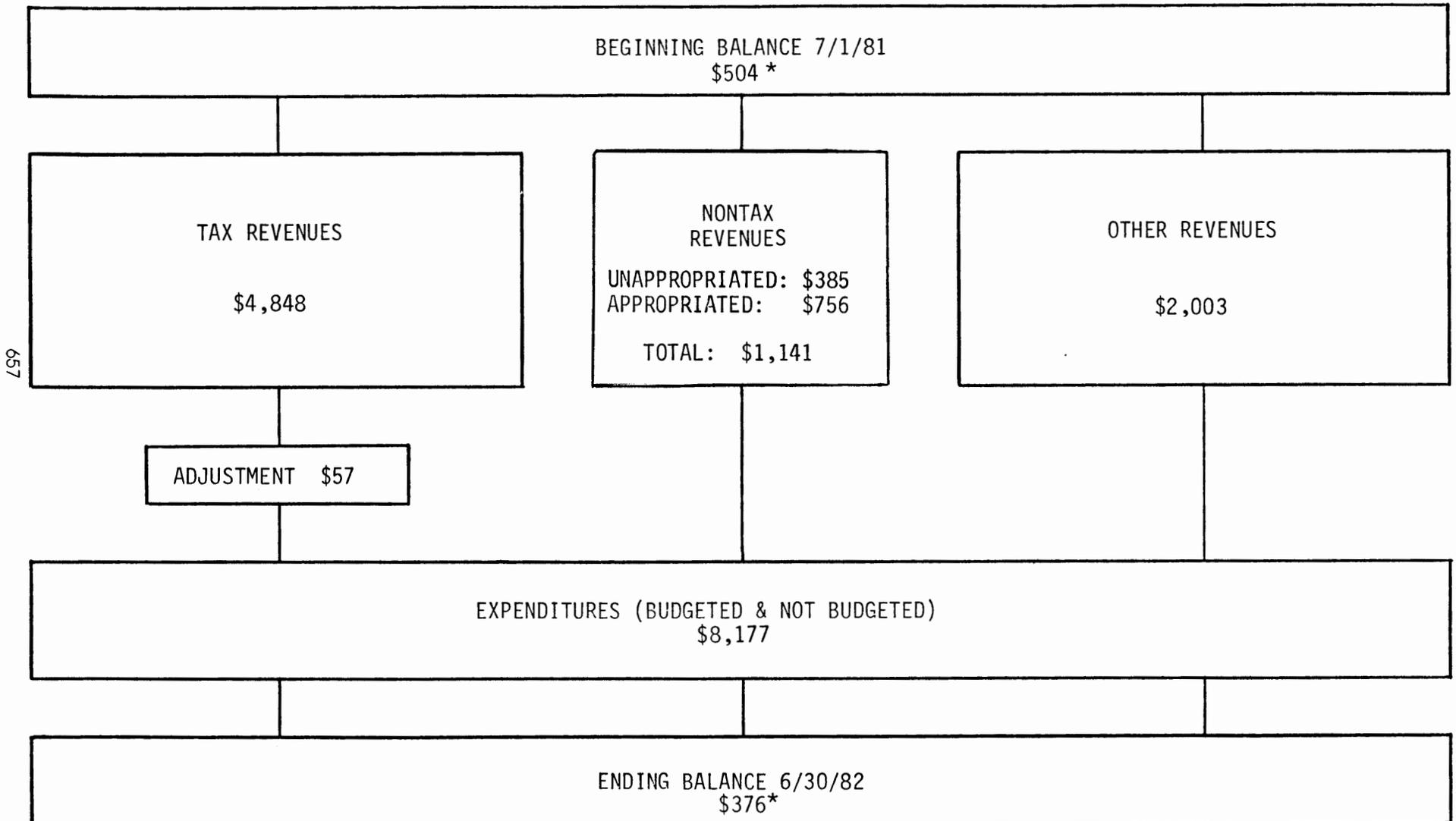
Total nontax revenues of \$1,141 million account for 14% of total State revenues.

Unappropriated nontax revenues of \$385 million account for 6.9% of total Unappropriated State revenues.

Appropriated nontax State revenues of \$756 million account for 31% of total Appropriated State revenues.

Of the \$1,141 million in total nontax revenues, 34% is in Unappropriated revenues (\$385 million).

NEW JERSEY NONTAX REVENUES OVERVIEW
 FISCAL YEAR 1982
 (MILLIONS OF DOLLARS)



657

* Includes Designated and Undesignated Funds ** Excludes Motor Vehicle Fees

*** Includes Federal Dollars (\$1,578mm), Interfund Transfers (\$331mm) and Revolving Funds (\$94mm)

DEPARTMENT OF HUMAN SERVICES

In 1982, the Department of Human Services collected \$111 million in Unappropriated nontax revenues and \$22 million in Appropriated nontax revenues.

With total budgeted expenditures of \$1,190 million in 1982, the Department of Human Services exhibits a major imbalance: Unappropriated nontax revenues (user fees) covered only 9% of total budgeted expenditures.

Psychiatric and mental retardation institutions accounted for 90% of the total amount of Unappropriated nontax revenues received by the Department.

With total budgeted and not budgeted expenditures of \$408 million in 1982, the combined Divisions of Mental Health (DMH) and Mental Retardation (DMR) recovered 25% of the costs of the services rendered with nontax revenues.

The Department of Human Services does not collect fees from Medical Assistance or Welfare recipients because of limitations related to the receipt of federal funds.

Improvement of a substantial magnitude may not be possible in this area since most of the clients are not moving upward in their earnings cycle, and are usually not able to pay for the services in the first place. Additionally, few have responsible relatives who are able to pay.

Nevertheless, especially for DMH, DMR, and Youth and Family Services, there is a need for a continuing annual review of the fees and court determined support payments. These latter payments are usually set at a given level which is not reevaluated when the earning power of the recipients or their relatives increases.

NEW JERSEY NONTAX REVENUES
DEPARTMENT OF HUMAN SERVICES
(MILLIONS OF DOLLARS)

<u>DIVISION</u>	<u>1982 NONTAX STATE REVENUES (UNAPPROPRIATED)</u>	<u>1982 COST OF SERVICES PROVIDED (BUDGETED EXPENDITURES)</u>
DIVISION OF MEDICAL ASSISTANCE	--	\$489
DIVISION OF PUBLIC WELFARE	--	265
INSTITUTIONS (DIVISION OF MENTAL HEALTH, DIVISION OF MENTAL RETARDATION)	100	326
OTHER DIVISIONS	11	110
TOTAL	<u>\$111</u>	<u>\$1,190</u>

<u>DIVISION</u>	<u>1982 NONTAX STATE REVENUES (APPROPRIATED)</u>	<u>1982 NOT BUDGETED EXPENDITURES</u>	
		<u>FED</u>	<u>STATE</u>
DIVISION OF MEDICAL ASSISTANCE	2	400	-
DIVISION OF PUBLIC WELFARE	10	440	-
INSTITUTIONS (DMH AND DMR)	-	68	14
OTHER DIVISIONS	10	85	32
TOTAL	<u>\$22</u>	<u>\$1,039</u>	
GRAND TOTAL	<u>\$133</u>	<u>\$2,229</u>	

DEPARTMENT OF HIGHER EDUCATION

In 1982, the Department of Higher Education collected \$195 million in tuition and fees. With total budgeted and nonbudgeted expenditures of \$895 million, tuition and fees for State institutions covered 22% of related costs. However, overall tuition and fees covered 48% of costs for independent colleges.

The facing chart shows that the rate of cost recoveries from tuition and fees varies greatly between institutions. For example, Rutgers recovered 22 percent of costs from tuition and fees, NJIT, 26 percent; UMDNJ, 5 percent; State colleges, 30 percent; and county colleges, 29 percent.

NEW JERSEY NONTAX REVENUES
DEPARTMENT OF HIGHER EDUCATION REVENUES & EXPENDITURES* BY SECTOR

(1982 \$ MILLION)	DISTRIBUTION OF TOTAL REVENUES							
	TOTAL EXPENDITURES*	TOTAL REVENUES*	TUITION & FEES	% TUITION & FEES/EXPENDITURES**	STATE APPRT'N	% STATE APPRT'N/EXPENDITURES**	OTHER INCOME*	% OTHER INCOME/EXPENDITURES**
RUTGERS	268	278	59	22%	163	61%	56	21%
NJIT	31	31	8	26%	20	65%	3	10%
UMDNJ	198	198	10	5%	103	52%	85	43%
STATE COLLEGES	200	201	60	30%	124	62%	17	9%
COUNTY COLLEGES	198	204	58	29%	56	28%	90	45%
TOTAL	895	912	195	22%	466	52%	251	28%
INDEPENDENT COLLEGES	462	495	222	48%	8	2%	265	57%

* Includes restricted and unrestricted sources of revenues, excludes auxilliary enterprises and services but includes federal dollars.

** Percent of total expenditures - total may not add up to 100%

TRANSPORTATION & RELATED SERVICES

While we showed transportation on the previous chart on a strictly Departmental basis (DOT only), a broader, nontraditional (relative to the State's budget process) view of Transportation-related services could include such elements as New Jersey Transit and selected transportation-related portions of Law and Public Safety.

Although there appears to be an "imbalance" between transportation-related costs and revenues, there is not a significant opportunity here for additional nontax revenue. This is because of the role of two transportation-related revenue sources (Motor Vehicle Fee = \$266 million, Motor Fuel Tax = \$280 million). Historically, these have been categorized as major taxes used to support the entire State budget. Any changes in these should be considered in the context of an overall major State revenue use policy.

NEW JERSEY NONTAX REVENUES
TRANSPORTATION AND RELATED SERVICES
(MILLIONS OF DOLLARS)

<u>DEPARTMENT/DIVISION</u>	<u>1982 NONTAX STATE REVENUES (UNAPPROPRIATED)</u>	<u>1982 COST OF SERVICES PROVIDED (BUDGETED EXPENDITURES)</u>
NEW JERSEY TRANSIT	-	\$105
DEPARTMENT OF LAW AND PUBLIC SAFETY	\$3	80
DEPARTMENT OF TRANSPORTATION	1	198
	<u>—</u>	<u>—</u>
TOTAL	<u>\$4</u>	<u>\$383</u>

<u>DEPARTMENT/DIVISION</u>	<u>1982 NONTAX STATE REVENUES (APPROPRIATED)</u>	<u>1982 NOT BUDGETED EXPENDITURES</u>	
		FED	STATE
NEW JERSEY TRANSIT	\$226	\$1	\$269
DEPARTMENT OF LAW AND PUBLIC SAFETY	11	14	12
DEPARTMENT OF TRANSPORTATION	7	<u>85</u>	<u>7</u>
	<u>—</u>	<u>100</u>	<u>288</u>
TOTAL	<u>\$244</u>	<u>\$388</u>	
GRAND TOTAL	<u>\$248</u>	<u>\$771</u>	

DEPARTMENT OF EDUCATION
STATE AID TO ELEMENTARY AND
SECONDARY EDUCATION

Strategic Issues and Alternatives



STATE AID TO ELEMENTARY AND SECONDARY EDUCATION

- INTRODUCTION

- EDUCATION PROCESS

- BACKGROUND/OVERVIEW

- FUNDING

- RESOURCE ALLOCATION

- PRODUCT QUALITY

- SUMMARY

- ALTERNATIVES

INTRODUCTION

This booklet documents the efforts of a joint task force representing state government, the private sector and outside consultants to identify and review the key strategic issues associated with elementary and secondary education in New Jersey. The aim of this group, given limited time and resources, is to develop a context useful for the strategic review of this issue at the Governor and Cabinet Officer level. With this role as a catalyst, the booklet is designed to provide an objective view of the key issues from different perspectives, raise issues, and outline alternative strategies, rather than propose an "optimum" education policy. The state's final policy choice must, of course, be made as a result of the interactions between the Governor, the Cabinet, and the Legislature.

The issue of elementary and secondary education was selected as one of the key state-wide strategic issues because of its scale (a budget of roughly one-third of the total state budget), its growth characteristics (real annual growth of expenditures per student in the three to four percent range as enrollments decline at three percent annually) and its importance to the citizens of New Jersey. As such, it places high on the list of issues which will require careful balancing against other equally critical funding needs facing the state over the next decade.

BACKGROUND

- JOINT TASK FORCE, REPRESENTING:
 - STATE GOVERNMENT
 - PRIVATE SECTOR
 - OUTSIDE CONSULTANTS
- FOUR-MONTH TIME FRAME

OBJECTIVES

- DEVELOP A FRAMEWORK FOR A STRATEGIC REVIEW OF THE NEW JERSEY PROCESS FOR FUNDING ELEMENTARY AND SECONDARY EDUCATION
- IDENTIFY AREAS OF STRATEGIC LEVERAGE
- DEVELOP STRATEGIC POLICY ALTERNATIVES

STATE AID TO ELEMENTARY AND SECONDARY EDUCATION

- INTRODUCTION

- EDUCATION PROCESS

- BACKGROUND/OVERVIEW

- FUNDING

- RESOURCE ALLOCATION

- PRODUCT QUALITY

- SUMMARY

- ALTERNATIVES

BACKGROUND

Several things appear clear as we review the background of New Jersey's role in education:

- declining student enrollment is a long-term phenomenon,
- the state and local districts have not managed costs aggressively to decline with enrollment,
- the state is responsible for the operation of a thorough and efficient education system, and
- there is evidence that this responsibility has not been fulfilled.

We will attempt to understand this situation and its possible solutions through the use of a proven strategic planning process composed of the following elements:

- What is happening?
- Why it is happening?
- How structural are the causal factors?
- What are our strategic alternatives?

As a first step, the background summary on the facing page provides the context for the "What is happening?" question.

BACKGROUND

- 1981-1982 enrollments have declined to 85% of the 1974-1975 figure in urban districts and 68% of the 1974-1975 figure in suburban districts.
- As enrollment has declined by 17% since 1977, the real per student cost of operating the elementary and secondary education system has increased by 23% (which represents a 91% increase in per student cost in current dollars over the same time period).
- By many quality measures the overall student quality is unacceptably low.
- By a number of measures (school tax rates, expenditures per pupil and average equalized property value per pupil) the gap between high-wealth and low-wealth districts has not decreased over the past seven years, as wealthy districts are more able to spend for education and low-wealth districts feel pressure to use state aid to lower local taxes.
- Constitutional requirement for a "thorough and efficient system of free public schools...for all children."
- Robinson vs. Cahill decision by the New Jersey Supreme Court (1973) set the requirement of equality of resources between property-rich and property-poor districts and placed responsibility for the end product clearly with the state-- implemented by the Public School Education Act (the "T&E Law," Chapter 212 Laws of 1975).
- The equity of the current funding mechanism is now being challenged in court (Abbott vs. Burke).

EDUCATION PROCESS OVERVIEW

Conceptually, the education process can be segmented into three major parts:

Funding

This addresses such questions as:

- Where do the funds come from?
- What are the historical/future trends?
- How are funds distributed?

Resource Allocation

This addresses such questions as:

- How are the resources spent?
- How effectively/efficiently are they spent?
- How can costs be managed in the face of declining enrollments?

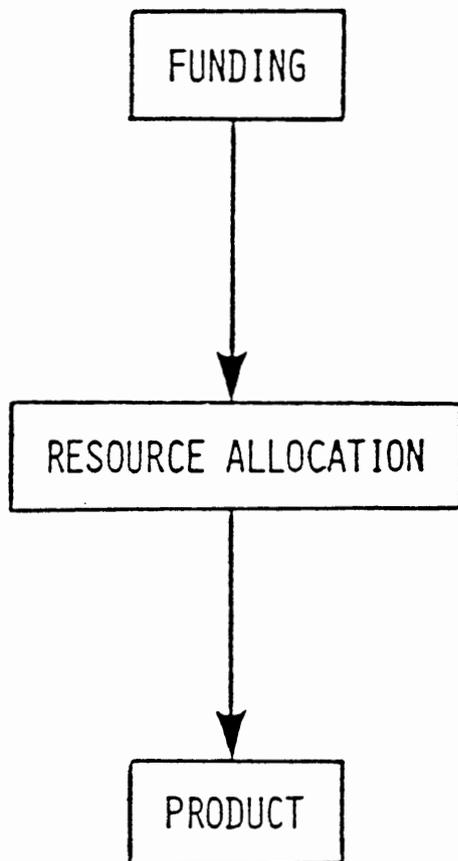
Product

This addresses such issues as:

- How is product quality measured?
- What is happening to product quality?
- What can be done to improve product quality?

Each of these areas will be reviewed, in turn, from a variety of perspectives--including New Jersey historical data, national averages and trends and comparisons with neighboring states. Through this process the major strategic issues related to elementary and secondary education will be identified.

EDUCATION PROCESS/ISSUES



- SOURCES
- TYPES
- DISTRIBUTION MECHANISM

- ALLOCATION POLICY
- EXPENSE EFFECTIVENESS/EFFICIENCY
- OPPORTUNITIES FOR IMPROVEMENT

- QUALITY LEVELS/TRENDS
- QUALITY DETERMINANTS

STATE AID TO ELEMENTARY AND SECONDARY EDUCATION

- INTRODUCTION

- EDUCATION PROCESS
 - BACKGROUND/OVERVIEW
 - FUNDING
 - RESOURCE ALLOCATION
 - PRODUCT QUALITY
 - SUMMARY

- ALTERNATIVES

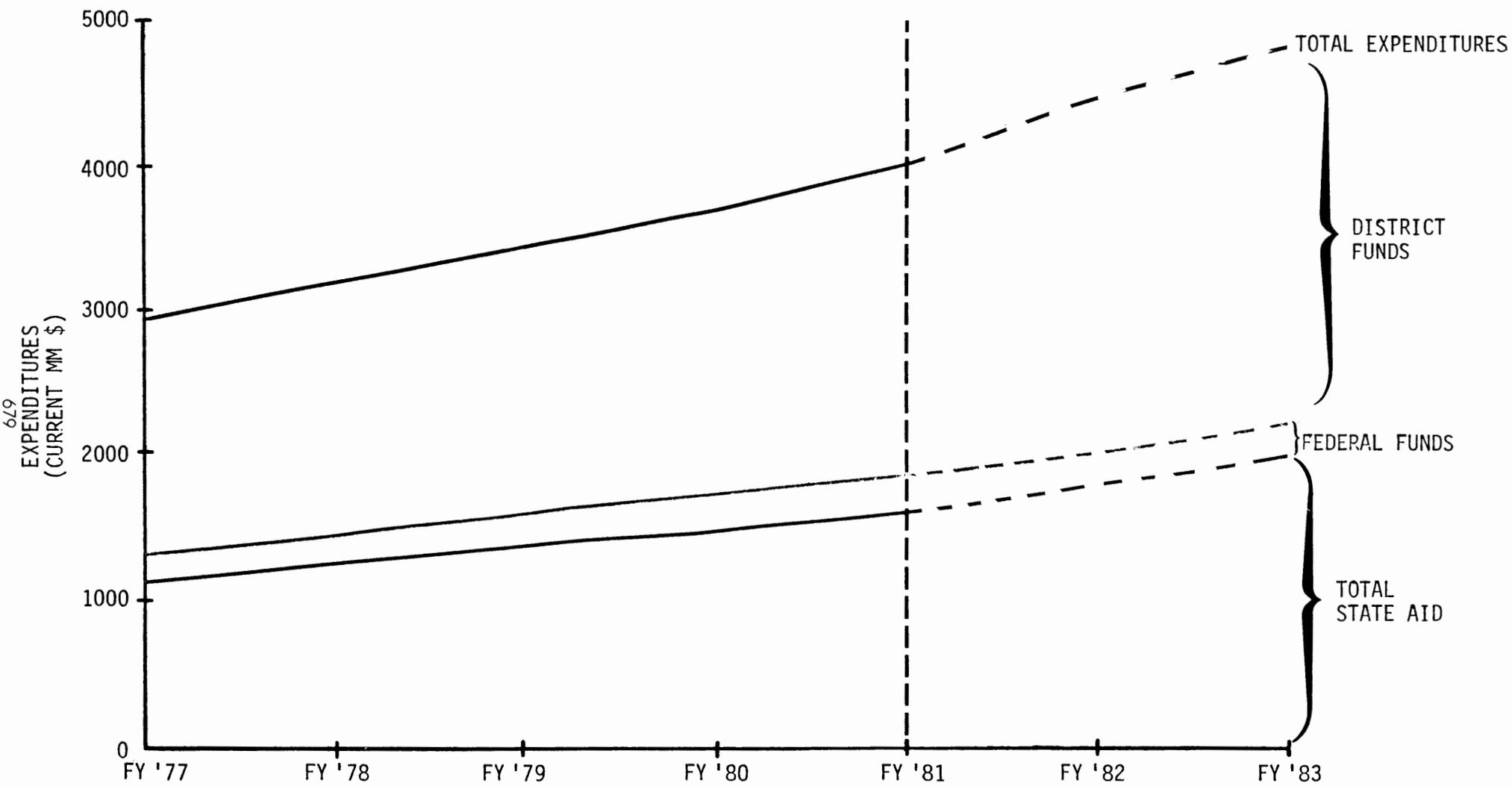
EDUCATION EXPENDITURES
(FY1977-1983)

The direct public expenditures for education in New Jersey are shown on the facing chart. Of some interest is the increase in the 1980-1981 year (the latest for which audited expenditure data are available), and beyond. This increase appears to be a catch-up for deferred expenditures in prior years: districts recently were permitted to spend at higher levels by the caps and they in fact spent closer to their cap ceilings.

In real terms, costs have risen by a total of almost 4% over the past three years (FY1981-83), while student enrollment has dropped by a total of about 6%. If costs had been managed to match the enrollment decline, the total cost of operating the system would now be over \$400mm lower.

Over the entire six year period, enrollment has dropped by 17% and real costs per student have risen by a total of 23% (or a current dollar increase totalling 91% in cost per student over the six years).

EDUCATION EXPENDITURES FY1977-1983



SOURCES: • Annual Report of the Commissioner of Education, Financial Statistics of School Districts, School Year 1976-77, 1977-78, 1978-79, 1979-80, 1980-81.

• "Cost of Education-Print Totals" Budgeted Data from School Boards, 1981-82 & 1982-83

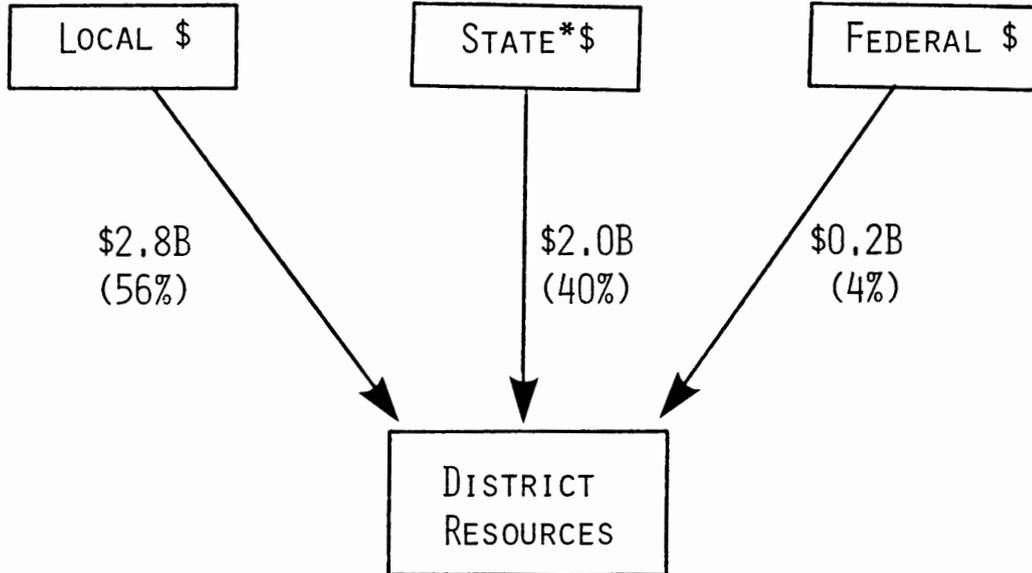
• State of New Jersey Annual Budgets

EDUCATION FUNDS FLOW
(FY1983)

The facing chart illustrates the major categories of the resources available to the local school districts. The state contribution of \$2.0 Billion includes a number of specific components, which will be detailed later in this section of the report.

A noteworthy point from the chart is the significant state contribution to the district resource pool, with the \$2.0 billion representing 40% of education expenditures. With this large financial involvement and the legal obligation to provide students with a thorough and efficient education, an important issue becomes the state's ability to influence how district resources are used.

EDUCATION FUNDS FLOW
FY1983



* INCLUDES THE EMPLOYER'S SHARE OF TEACHERS' PENSIONS

STATE REVENUES VS. STATE AID TO EDUCATION

A major question confronting the state budget is its ability to pay for state aid to education as well as for its other commitments. As the table on the opposite page demonstrates, the growth in revenues has not always kept pace with the increases in state aid entitlements.

Since the passage of the gross income tax in 1976, state revenues have been increased at an average annual rate of 9.2 percent. This overall rate of growth is less than the growth of full funding for state aid to education, which has been an average of 10.6 percent per year.

The revenue growth also reflects several significant changes in the tax composition and in the methods or timing of collecting taxes. In other words, the state's revenues have not increased at a constant rate but have required constant adjustments. Some of these changes have been:

- 1978 Shifted previously "unbudgeted" business personal property tax replacement revenues into "budgeted" revenues.
- 1979 Increased motor vehicles fees; settled Penn Central railroad tax litigation; retained public utility gross receipts and franchise tax prepayments.
- 1981 Increased corporation net income tax rate and accelerated payment schedule for corporate taxes.
- 1982 Retained a portion of public utility gross receipts and franchise taxes; accelerated payment schedules for corporate and insurance franchise taxes.
- 1983 Increased tax on cigarettes; decoupled state corporate tax from federal depreciation base; increased income tax rate on income over \$50,000; retained a portion of public utility gross receipts and franchise taxes; increased sales tax by 1% (but excluded additional categories); began phase-out of corporate net worth tax.

With these revenue increases, changes were still made to the state aid laws (transportation aid was reduced from 100% to 90%, and minimum aid was changed from a flat 10% of the state support limit to a sliding scale), and the state has found it necessary to reduce the formula's entitlements by underfunding school aid.

FY 1977 to FY 1983
(\$ in Millions)

	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983(est.)</u>	<u>Average Annual Increase 1977-1983</u>
School Aid:								
Actual	\$1,125.2	\$1,258.5	\$1,380.1	\$1,490.1	\$1,611.8	\$1,802.1	\$1,994.1	
Increase		11.8%	9.7%	8.0%	8.2%	11.8%	10.6%	9.8%
If Fully Funded	1,125.2	1,258.5	1,397.1	1,493.9	1,634.6	1,829.6	2,058.8	
Increase		11.8%	11.0%	6.9%	9.4%	11.9	12.5%	10.6%
Revenues:								
Sales Tax	905.1	1,003.0	1,097.7	1,179.9	1,263.5	1,379.8	1,479.0	
Increase	-	10.8%	9.4%	7.5%	7.1%	9.2%	7.2%	8.5%
Income Tax	656.1	748.9	838.5	968.8	1,106.2	1,259.0	1,403.0	
Increase	-	14.1%	12.0%	15.5%	14.2%	14.4%	11.4%	13.5%
Corporation Tax	421.7	515.3	556.3	644.8	775.7	837.8	842.0	
Increase	-	22.2%	8.0%	15.9%	20.3%	8.0%	0.5%	12.2%
Other Major ¹ Taxes	1,015.3	1,529.8	1,139.1	1,150.9	1,180.8	1,240.3	1,283.4	
Increase	-	8.8%	3.1%	1.0%	2.6%	5.0%	3.5%	4.0%
Miscellaneous ² Revenues and Interfund Transfers	435.0	529.8	556.7	650.5	631.9	702.6	817.2	
Increase	-	21.8%	5.1%	16.8%	-2.9%	11.2%	16.3%	11.1%
Total General Fund and Income Taxes	\$3,433.2	\$3,901.7	\$4,288.6	\$4,594.9	\$4,958.1	\$5,419.6	\$5,824.6	
Increase	-	13.6%	9.9%	7.1%	7.9%	9.3%	7.5%	9.2%

¹This includes all other major taxes, such as the motor fuels tax, cigarette tax, and motor vehicle fees.

²Includes Departmental fees, miscellaneous revenues, and interfund transfers such as the State lottery.

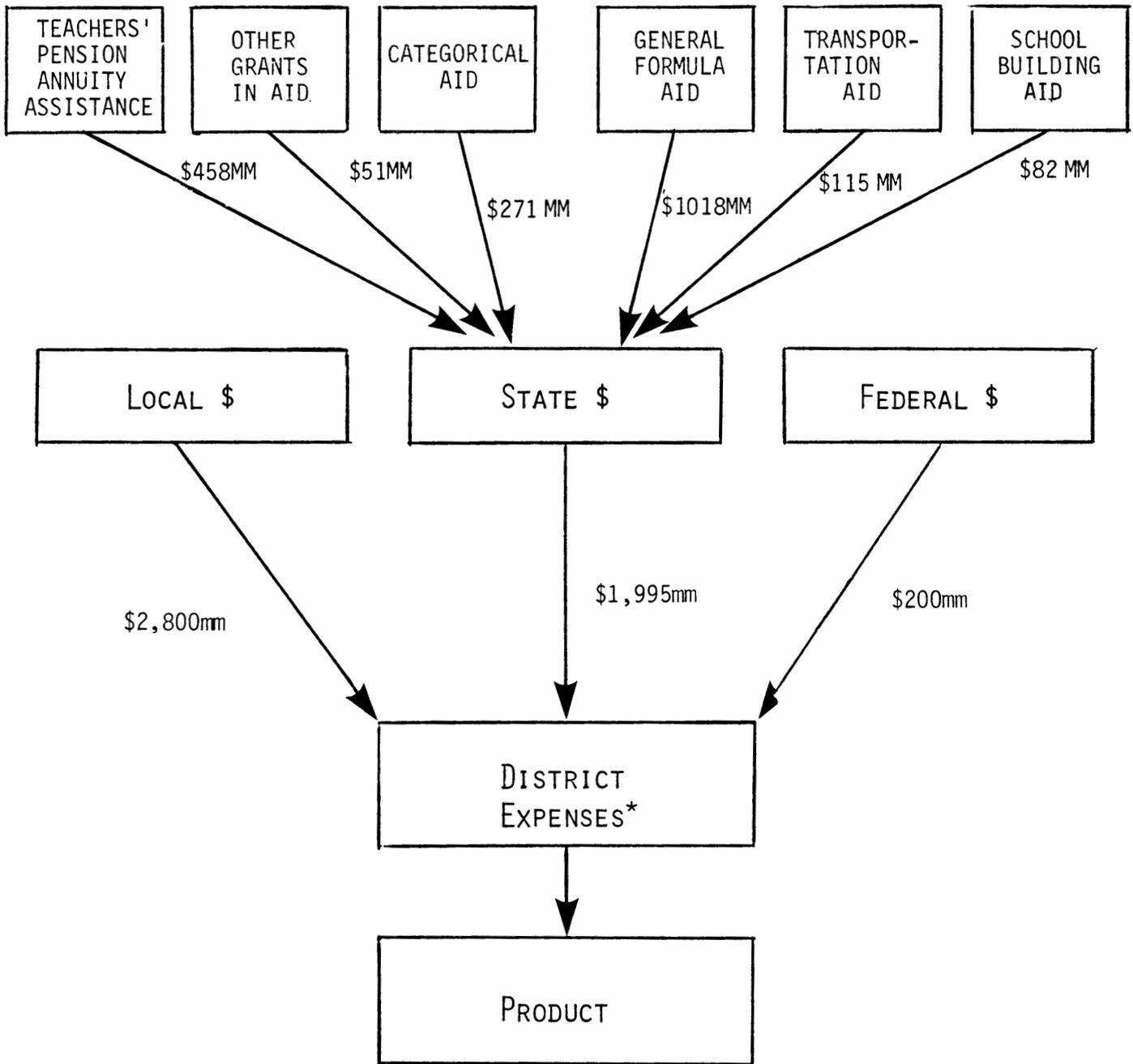
SOURCE: School aid figures supplied by the Department of Education. Revenue figures are from the Governor's Budget, Appropriations Act, and current Treasury Department estimates.

FUNDING FOR EDUCATION
(FY1983)

The facing chart highlights the components of the state funds for education. The task force has concentrated on areas of significant scale or growth. These are:

- General formula aid (\$1,018 million)
- Categorical aid (\$271 million)
- Teachers' pensions (\$458 million)

FUNDING FOR EDUCATION PROCESS
 FY1983



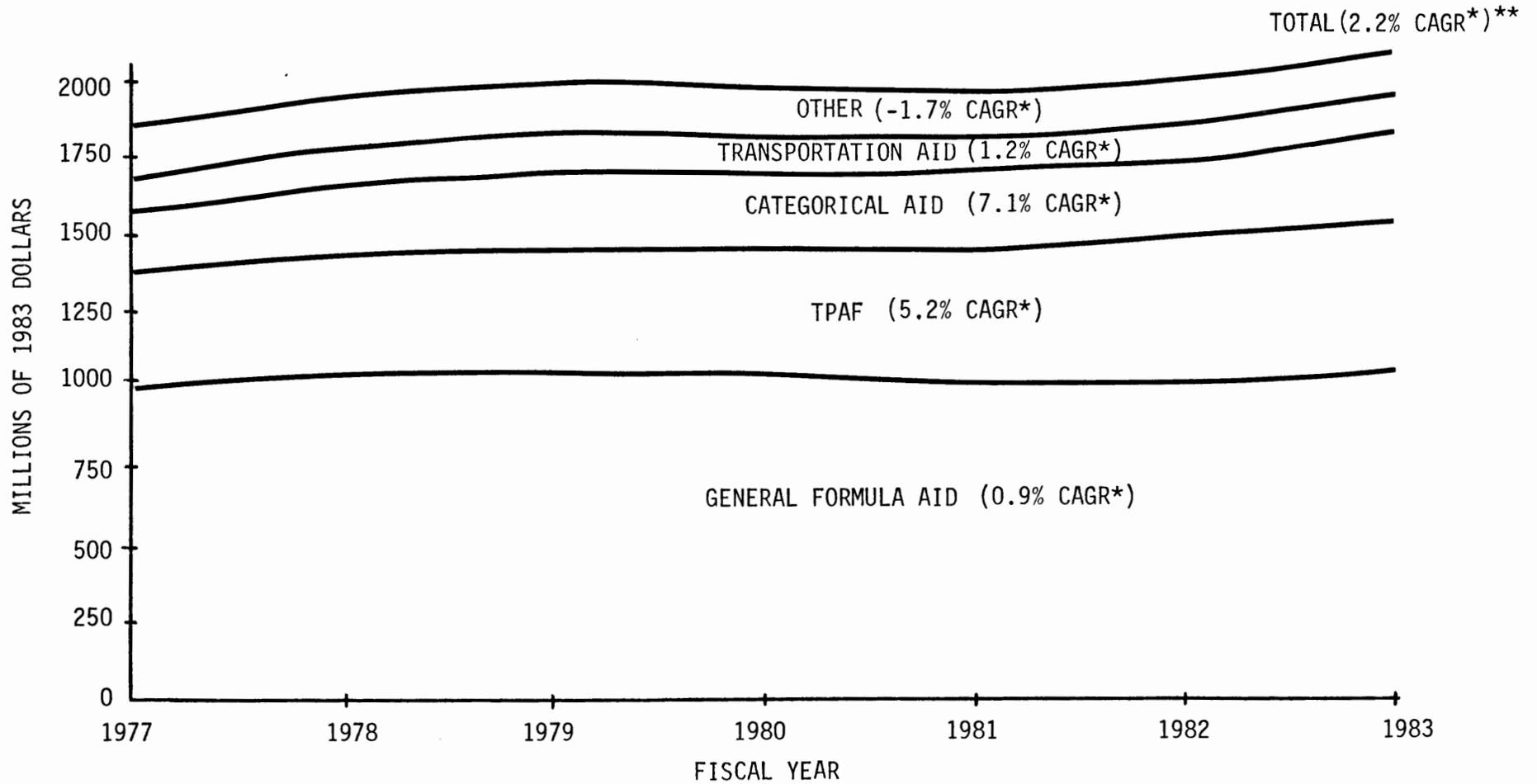
* Includes Teachers' Pensions

Source: New Jersey Department of Education

STATE AID TO EDUCATION

The facing chart shows the growth of the various components of education aid over the FY1977-1983 time period. In real terms the bulk of the 2.2% compounded annual growth comes from categorical aid (7.1% growth) and pension expense (5.2% growth). General formula aid has grown at a 0.9% real compounded annual rate. This information suggests the need for special focus on cost control in the higher growth areas.

STATE AID TO EDUCATION
 STATE AID COMPONENTS
 (CONSTANT 1983 \$)



* CAGR = Compound Annual Growth Rate

** Nominal, or current dollar growth rate of total state aid over this period is 10.0%

GENERAL FORMULA AID

The purpose of the current state aid formula is to equalize the resources available to school districts. Aid is provided to the district in inverse proportion to its wealth as measured by its equalized property value per pupil. The district is guaranteed that, given a level of expenditure, its tax rate will be equal to other districts making the same expenditure--up to the guaranteed valuation.

Lower-wealth districts are also encouraged to increase their on-going educational expenditures--or net current expense budget (NCEB)--by receiving increased aid. The formula sets a state support limit to this increase in aid by specifying that a district may not receive aid for expenses higher than the 65th percentile NCEB per pupil.

General formula aid is thus generated by four key factors, as shown on the facing chart. The four factors are:

- A district's equalized property value;
- A district's prior year enrollment;
- A district's prior year net current expense budget (NCEB); and
- Statutory parameters (the multipliers used to determine the guaranteed valuation per pupil-- 1.344 times the state average valuation per pupil for current expense equalization aid and 11.5 for minimum aid--and the state support limit, which varies according to the number of grades supported by a district's budget).

The Public School Education Act also sets limits to the growth of a district's NCEB. Because one of the key factors is this variable, it is important to understand this cap formula and its impact, as shown on the following exhibits.

CALCULATION OF GENERAL FORMULA AID

TWO FORMULAS ARE USED TO CALCULATE GENERAL FORMULA AID: THE CURRENT EXPENSE EQUALIZATION AID FORMULA FOR DISTRICTS WITH AN EQUALIZED VALUATION (EV) PER PUPIL LESS THAN THE GUARANTEED VALUATION PER PUPIL, AND THE MINIMUM AID FORMULA FOR DISTRICTS WITH AN EQUALIZED VALUATION GREATER THAN THE GUARANTEED VALUATION PER PUPIL. A DISTRICT RECEIVES AID BASED UPON THE FORMULA WHICH YIELDS IT THE GREATER AID.

CURRENT EXPENSE EQUALIZATION AID DISTRICTS
--

MINIMUM AID DISTRICTS

STEP 1: CALCULATE STATE SUPPORT RATIO:

$$1 - \frac{\text{DISTRICT EV/PUPIL}}{\text{STATE GUARANTEED VALUATION/PUPIL}}$$

$$1 - \frac{\text{DISTRICT EV/PUPIL}}{\text{MINIMUM AID GUARANTEED VALUATION/PUPIL}}$$

X
10% EXPRESSED AS
A DECIMAL

STEP 2: CALCULATE AID RECEIVED BY THE DISTRICT:

DISTRICT RECEIVES THE
LESSER OF THE FOLLOWING:

- | | |
|----|---|
| A. | STATE SUPPORT RATIO
X
NCEB FOR PRE-BUDGET YEAR
OR |
| B. | STATE SUPPORT RATIO
X
RESIDENT ENROLLMENT
X
STATE SUPPORT LIMIT |

DISTRICT RECEIVES:

- | |
|---|
| MINIMUM AID SUPPORT RATIO
X
RESIDENT ENROLLMENT
X
STATE SUPPORT LIMIT |
|---|

DISTRICT EXPENSE CAPS

The amount which a district's net current expense budget can grow from one year to the next is limited by a statutory formula. This formula, or "cap," was included in the Public School Education Act for four reasons:

- To limit future state aid.
- To assure that some of the state aid was used to provide property tax relief.
- To hold down the growth of expenditures in high-wealth districts while enabling poorer districts to "catch up."
- To prevent inefficient use of funds through an extraordinary increase of expenditures in any single year.

The basis of the cap calculation is the growth in the state-wide equalized property values. As the opposite chart shows, districts which spend below the state average NCEB per pupil are permitted a higher rate of growth than are districts which spend above the state average. A cap waiver process allows districts to grow faster in exceptional circumstances, but waivers were granted in less than 5% of the districts in 1982-1983.

Because of the timing of the cap calculations and the availability of information, the caps are determined by the behavior of the real estate market two years before the cap has an effect on a district's budget. Thus the caps for the 1982-1983 and 1983-1984 school years reflected the rapid increase in real estate values of the early 1980's, while caps in the following year (1984-1985) will reflect the stagnant market of the past two years.

DISTRICT EXPENSE CAP CALCULATIONS

CAP IS THE PRODUCT OF THE FOLLOWING FOUR VARIABLES:

- A GROWTH FACTOR, WHICH IS THE LARGER OF:

$\frac{3}{4}$ X LATEST PERCENTAGE GROWTH IN STATEWIDE
EQUALIZED VALUATION

- OR -

$\frac{3}{4}$ X AVERAGE OF THE LAST 3 YEARS' ANNUAL
PERCENTAGE CHANGES IN STATE-
WIDE EQUALIZED VALUATION

- AN EQUALIZATION FACTOR:

$\frac{\text{STATE AVG NCEB/PUPIL}}{\text{DISTRICT NCEB/PUPIL}}$

- PER PUPIL EXPENDITURES FOR THE PRIOR YEAR:

- FOR DISTRICTS SPENDING BELOW THE STATEWIDE
AVERAGE NCEB PER PUPIL, THE STATE AVERAGE
NCEB PER PUPIL.

- FOR DISTRICTS SPENDING ABOVE THE STATEWIDE
AVERAGE NCEB PER PUPIL, THE DISTRICT'S NCEB
PER PUPIL.

- THE DISTRICT'S PRIOR YEAR ENROLLMENT.

IMPACT OF THE BUDGET CAPS

The budget caps have achieved three of their intended effects: They have assured that a measure of property tax relief was provided; they have prevented extraordinary expenditures by local districts; and they have limited state aid to education.

There is extensive evidence that the caps have failed to limit the growth in per pupil expenditures by high-wealth districts, partly because the percentage increases permitted them, though smaller than for low-wealth districts, are based upon a higher base and partly because these districts have increased their expenditures close to the permissible amounts while experiencing greater than average declines in enrollment.

The effects of this increasing disparity are felt by the state aid formula in at least two ways:

- The state average NCEB per pupil is affected by the behavior of high-spending districts. Increases in the state average NCEB per pupil in turn affect the cost of categorical aid programs and future cap ceilings.
- The 65th percentile state support limit is also determined by district ranking and is thus increased more rapidly by the behavior of high-spending districts. These increases raise the cost of minimum aid, thus benefiting the districts which caused the increase.

IMPACT OF THE BUDGET CAPS

BUDGET CAPS HAVE:

- PROVIDED SOME PROPERTY TAX RELIEF.
- PREVENTED EXTRAORDINARY INCREASES IN LOCAL DISTRICT SPENDING.
- LIMITED THE GROWTH OF STATE AID.

BUDGET CAPS HAVE NOT:

- NARROWED THE EXPENDITURE GAP IN NCEB PER PUPIL BETWEEN HIGH-WEALTH AND LOW-WEALTH DISTRICTS.

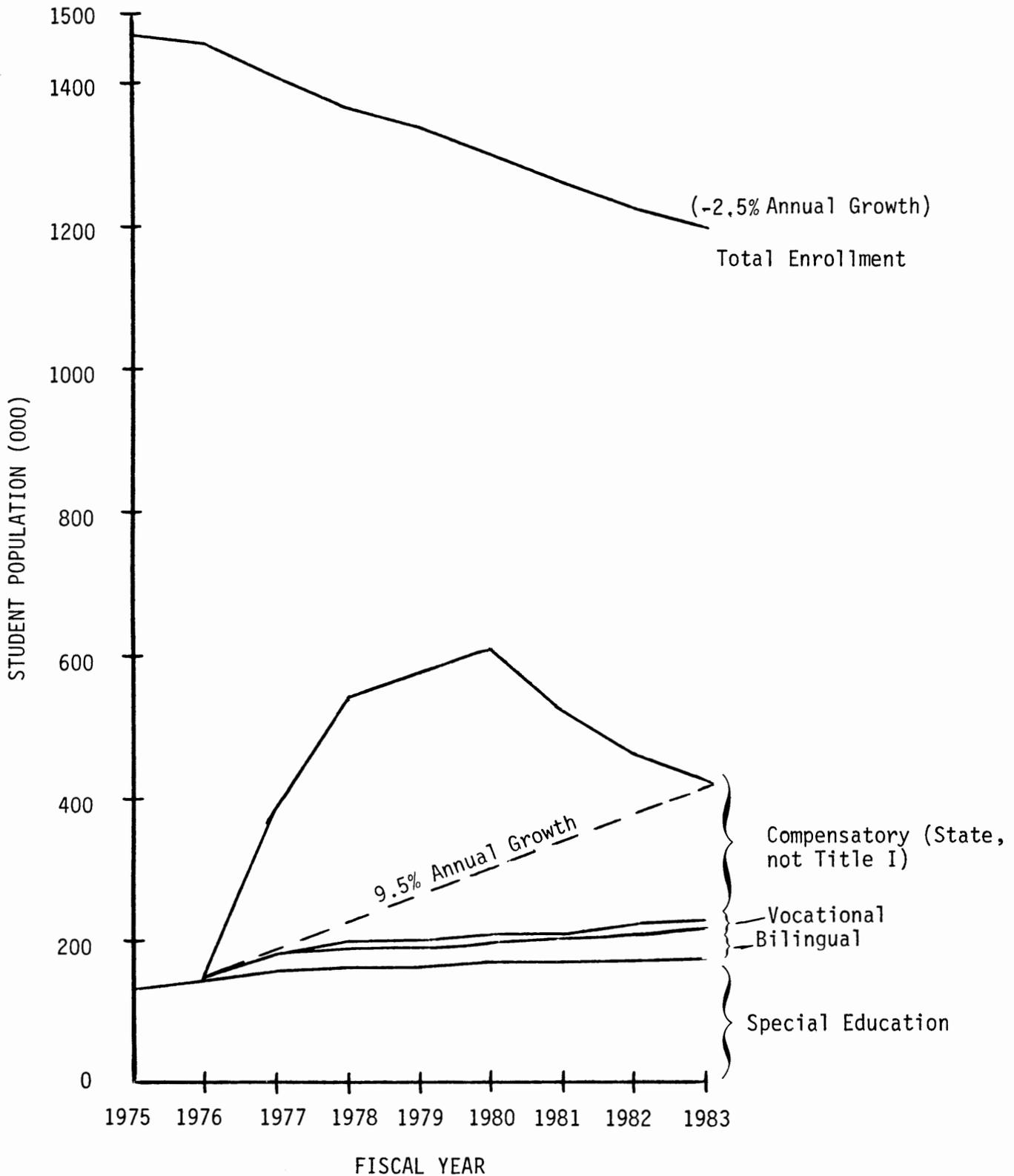
CATEGORICAL AID PROGRAMS

The state provides nonequalized categorical aid for all of the excess costs (on an average basis) incurred by local districts for children who have special needs or who are enrolled in special programs. Categorical aid consists of:

- Special Education, for children who are handicapped or in state institutions;
- Compensatory Education, for children who are enrolled in remedial programs;
- Bilingual Education, for children whose native language is not English; and
- Vocational Education, for children who are enrolled in approved local area vocational schools.

The facing chart shows the proportions of classified and unclassified students (in all categories) over a nine-year time span, with classified students growing at 9.5% annually while total enrollment dropped at an annual rate of 2.5%. The Public School Education Act added the compensatory, bilingual, and vocational categories beginning in the 1976/1977 school year, causing a significant rise in classified students. In the most recent years, the proportion of classified students has decreased due to a decline in compensatory education enrollments. This decline in compensatory enrollment reflects the system's success in teaching students to pass the Minimum Basic Skills Test, which was used to identify students in need of remedial work. With the introduction of a new test this year, plus the significant increase in the compensatory education cost factors this year, there is potential for a significant increase in the cost of this program for the 83/84 school year.

STATE OF NEW JERSEY
 CATEGORICAL AID CLASSIFICATIONS VS TOTAL ENROLLMENT
 FY1975-1983



SOURCE: •Governor's Budget Messages,
 •Background Paper 3 "Categorical Aid to Education,"
 Budget Bureau

FUNDING FOR CATEGORICAL PROGRAMS

State aid for categorical programs (the highest growth area of state aid to education) is based upon the cost of the program per pupil beyond the state-wide average instructional costs per pupil. These "additional" costs are expressed as categorical aid cost factors, which are then multiplied by the state-wide average net current expense budget per pupil to yield the categorical aid which the district receives. Note that this aid is not equalized--i.e., both high-wealth and low-wealth districts receive aid for 100% of their additional costs for these students.

The excess costs are related to the particular program. For special education, compensatory education, and bilingual education, the excess costs are determined primarily by class size. Children who have special needs are normally enrolled in smaller classes than those who do not have these needs, and the State's Administrative Code sets maximum class size limits for the different Special Education classes. Excess costs in vocational education, however, are driven both by the costs of equipment and supplies and by class size.

The facing chart shows the trends in funding for categorical aid since the passage of the Public School Education act of 1975. The major expenditure area in terms of dollars is special education--representing over twice the cost of the next largest area (compensatory education) and by itself consuming 61% of the FY1983 categorical education appropriation.

The growth in categorical aid comes from two major sources--price changes and volume changes--as outlined below:

- | | | |
|----------------------------|---|----------------|
| •More students, from | } | volume factors |
| - increased enrollments | | |
| - new categories | | |
| •Higher cost factors | } | price factors |
| •Higher state average NCEB | | |

The growth in NCEB drives all categorical aid costs upward. Higher cost factors have affected compensatory education costs in the most recent year, with cost factors relatively unchanged across the other categories. Student volume has had substantial impact on compensatory aid (as enrollments have declined) and in the other three categories as enrollments have risen.

CATEGORICAL AID COSTS--1977 TO 1983
(MILLIONS \$)

<u>FISCAL YEAR</u>	<u>BILINGUAL EDUCATION</u>	<u>COMPENSATORY EDUCATION</u>	<u>LOCAL VOCATIONAL</u>	<u>SPECIAL EDUCATION</u>	<u>TOTAL APPROPRIATION</u>	<u>PERCENT CHANGE</u>
1977	\$4.5	\$33.0	\$4.1	\$74.0	\$115.6	
1978	6.1	57.0	5.0	73.0	141.1	22.0%
1979	6.9	67.9	6.0	87.2	168.0	19.1%
1980	6.7	68.5	7.3	93.5	176.0	4.7%
1981	9.2	68.5	8.5	116.9	203.1	15.5%
1982	11.0	60.0	8.5	137.9	217.4	7.0%
1983 Appropriation	13.4	80.1	11.3	165.8	270.6	24.0%
6-year Annual % Growth	19.9%	15.9%	18.4%	14.4%	15.2%	-

SOURCE: State of New Jersey Annual Budget, 1977 to 1983

TEACHERS' PENSION ASSISTANCE

The teacher's pension component of state aid to education is one of strategic significance on four counts:

- It represents one of the highest growth areas of any state aid component (13.2 percent per year nominal growth over FY1977-1983).
- It currently accounts for approximately one-quarter of all state aid to education (\$458 million in FY1983).
- There is little direct control over the costs.
- This category is funded 100% by state dollars-- i.e., there is no "sharing" of this cost by the local districts.

Currently, the state pays the entire employer's portion of the contributions to the Teachers' Pension and Annuity Fund (TPAF) and the Social Security system for members of TPAF. The state also pays for cost-of-living adjustments for retirees under the Pension Adjustment Act.

The state has little direct control over teachers' pension costs. Social security payments are set by federal legislation and by salaries negotiated by local districts with their teachers. Contributions to TPAF are actuarially determined, and changes in the state's share of the contribution would require legislation. Similarly, the Pension Adjustment Act is a legislative initiative, and the adjustments respond to changes in the Consumer Price Index, which is outside the control of the state.

The incentives built into operation of the teacher pension system seem to reward districts with higher teacher salaries and lower student/teacher ratios, by providing them with more pension assistance than other districts. This may work against efforts to manage teaching costs aggressively.

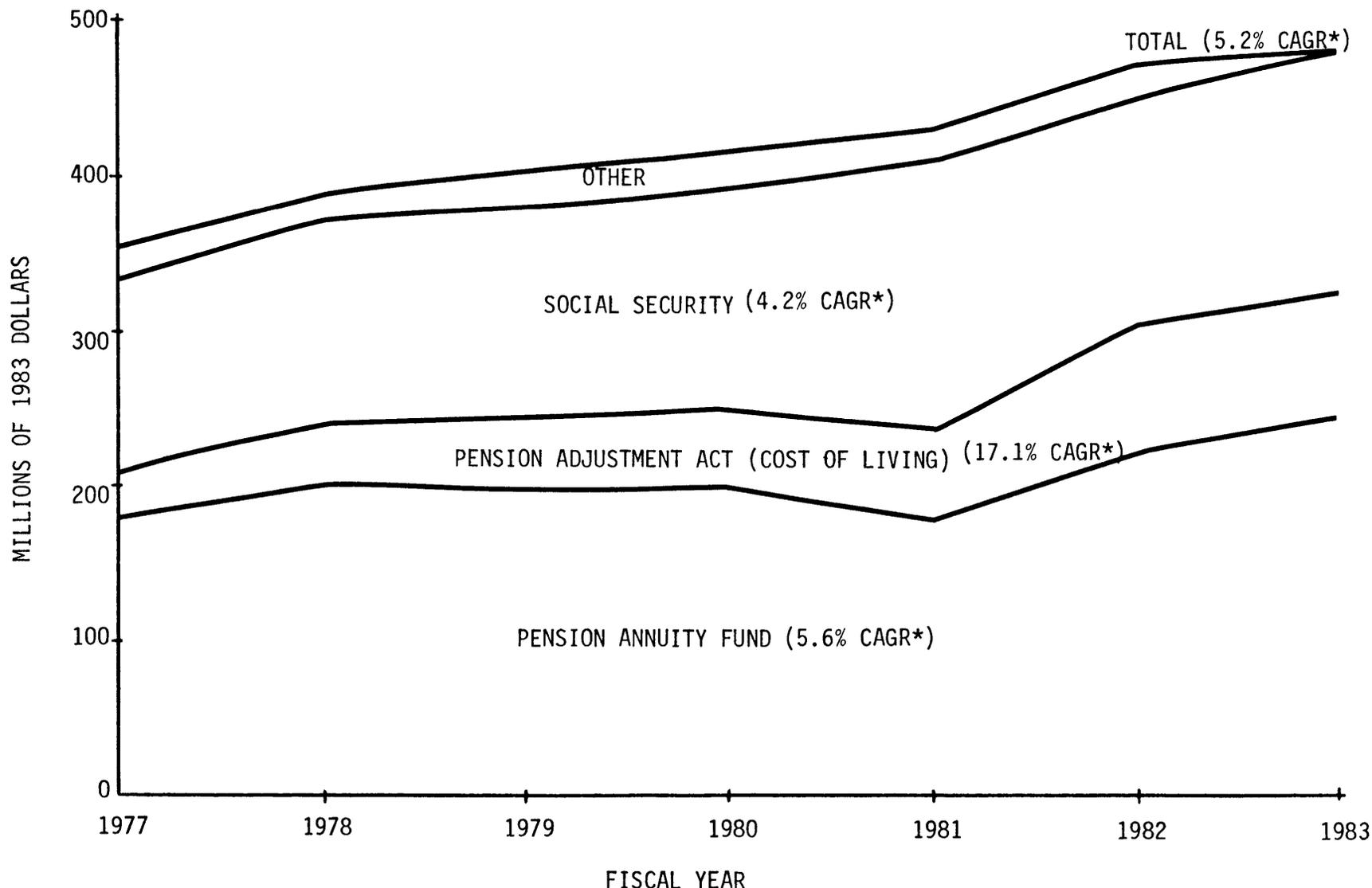
TEACHERS' PENSION ASSISTANCE

- ONE OF THE FASTEST GROWING STATE AID COMPONENTS
- ALMOST ONE-QUARTER OF STATE AID TO EDUCATION
- LITTLE DIRECT CONTROL OVER COSTS
- STATE PAYS ENTIRE EMPLOYER'S CONTRIBUTION FOR PENSIONS AND SOCIAL SECURITY

TEACHER PENSION ASSISTANCE

The facing chart shows the major components of the teacher pension expense. The primary contributor to growth in total expense is the pension adjustment--i.e., cost of living adjustment--growing at a compound real annual rate of 17.1% over FY1977-1983. This area is obviously a primary one for cost reduction focus.

STATE AID TO EDUCATION
 TEACHER PENSION ASSISTANCE
 (CONSTANT 1983 \$)



*CAGR = Compound Annual Growth Rate

TEACHERS' PENSIONS AND ANNUITY ASSISTANCE
AS A PERCENTAGE OF STATE AID

From 1977 to 1982 the appropriation for teachers' pension and annuity assistance grew from 19.3% to 23.5% of all state aid to education. In 1983 and 1984 revisions in the actuarial estimates have flattened the trend, so that the 1984 appropriated budget for teachers' pensions is 23.0% of all state aid, still greater than any year except 1982 and 1983. In fact, teachers' pension and annuity assistance is returning to the percentage of all state aid which it consumed prior to 1977, when the Public School Education Act increased direct aid to education.

The increasing share of state aid consumed by teachers' pensions is also significant because in practice it has reduced the operating aid actually distributed to local districts as a result of inadequate revenues.

One significant component of teacher pension cost is the 2% social security adjustment, dating back to the time of the separation of the state teacher pension system from social security. This represents a "double payment" by the state, currently costing approximately \$30mm per year. There appears to be little justification for this practice, based on either other states' policies or the intent of the original pension system design.

TEACHERS' PENSION AND ANNUITY ASSISTANCE
AS A PERCENTAGE OF STATE AID

<u>FISCAL YEAR</u>	<u>TOTAL STATE AID TO EDUCATION</u>	<u>TEACHERS' PENSION AND ANNUITY ASSISTANCE</u>	<u>TPAA AS A % OF STATE AID</u>
1976	\$808,812,818	\$196,388,340	24.3%
1977	1,125,160,149	217,157,007	19.3%
1978	1,258,485,911	250,358,574	19.9%
1979	1,380,067,629	279,028,115	20.2%
1980	1,490,113,292	311,396,852	20.9%
1981	1,611,784,410	352,703,334	21.9%
1982	1,802,126,061	423,000,000	23.5%
1983	1,994,130,401	457,900,000	23.0%
1984(APP)	2,170,802,340	499,395,878	23.0%

SOURCE: STATE OF NEW JERSEY ANNUAL BUDGET,
1976 TO 1984

FUNDING SUMMARY

While the state contributes a significant number of dollars to local education budgets, the formulas used to generate state aid are driven by conditions which are not easily controlled by the state. This lack of control represents a fundamental fiscal problem if the state is constitutionally responsible for delivering a thorough and efficient system of education.

This brief summary of the problem leads to the identification of the strategic issues listed on the opposite page.

STRATEGIC ISSUES: FUNDING

INFLUENCE AND CONSTRAINTS OF THE LEGAL SYSTEM:

- COURT REVIEW OF THE SYSTEM.
- LEGISLATIVE MANDATES AND CHANGES IN THE FORMULAS.

STATE AID ENTITLEMENTS ARE DRIVEN BY CONDITIONS NOT EASILY CONTROLLED BY THE STATE:

- STATE AID ENTITLEMENTS HAVE GROWN FASTER THAN STATE REVENUES.
- NO CONNECTION BETWEEN THE MAJOR COMPONENT OF STATE AID (GENERAL FORMULA AID) AND DESIRED OUTCOMES, SUCH AS IMPROVED QUALITY OR COST MANAGEMENT.
- HIGH-SPENDING DISTRICTS AFFECT FORMULA ENTITLEMENTS FROM WHICH THEY IN TURN BENEFIT.
- NEITHER REVENUES NOR EXPENDITURES HAVE RESPONDED QUICKLY TO CHANGES IN INFLATION, IN PART BECAUSE OF THE LAG BUILT INTO THE CAP CALCULATION AND IN PART BECAUSE OF THE USE OF PRIOR YEAR BUDGET AND ENROLLMENT DATA.
- THE COSTS OF PENSIONS HAVE INCREASED MORE RAPIDLY THAN MOST OTHER AID CATEGORIES AND CONSUME A GROWING SHARE OF STATE AID, PARTLY AS A RESULT OF SALARY DECISIONS AT THE LOCAL LEVEL, PARTLY AS A RESULT OF LEGISLATION AT THE STATE AND FEDERAL LEVELS.
- THE NUMBER OF CHILDREN CLASSIFIED THROUGH LOCAL BOARD ACTIONS FOR SPECIAL EDUCATION IS INCREASING WHILE THE TOTAL ENROLLMENT IS DECREASING.

CAP FORMULAS HAVE FAILED TO REDUCE DISPARITIES IN NCEB PER PUPIL EXPENDITURES, LEADING TO CONSTITUTIONAL CHALLENGES.

STATE AID TO ELEMENTARY AND SECONDARY EDUCATION

- INTRODUCTION

- EDUCATION PROCESS

- BACKGROUND/OVERVIEW

- FUNDING

- RESOURCE ALLOCATION

- PRODUCT QUALITY

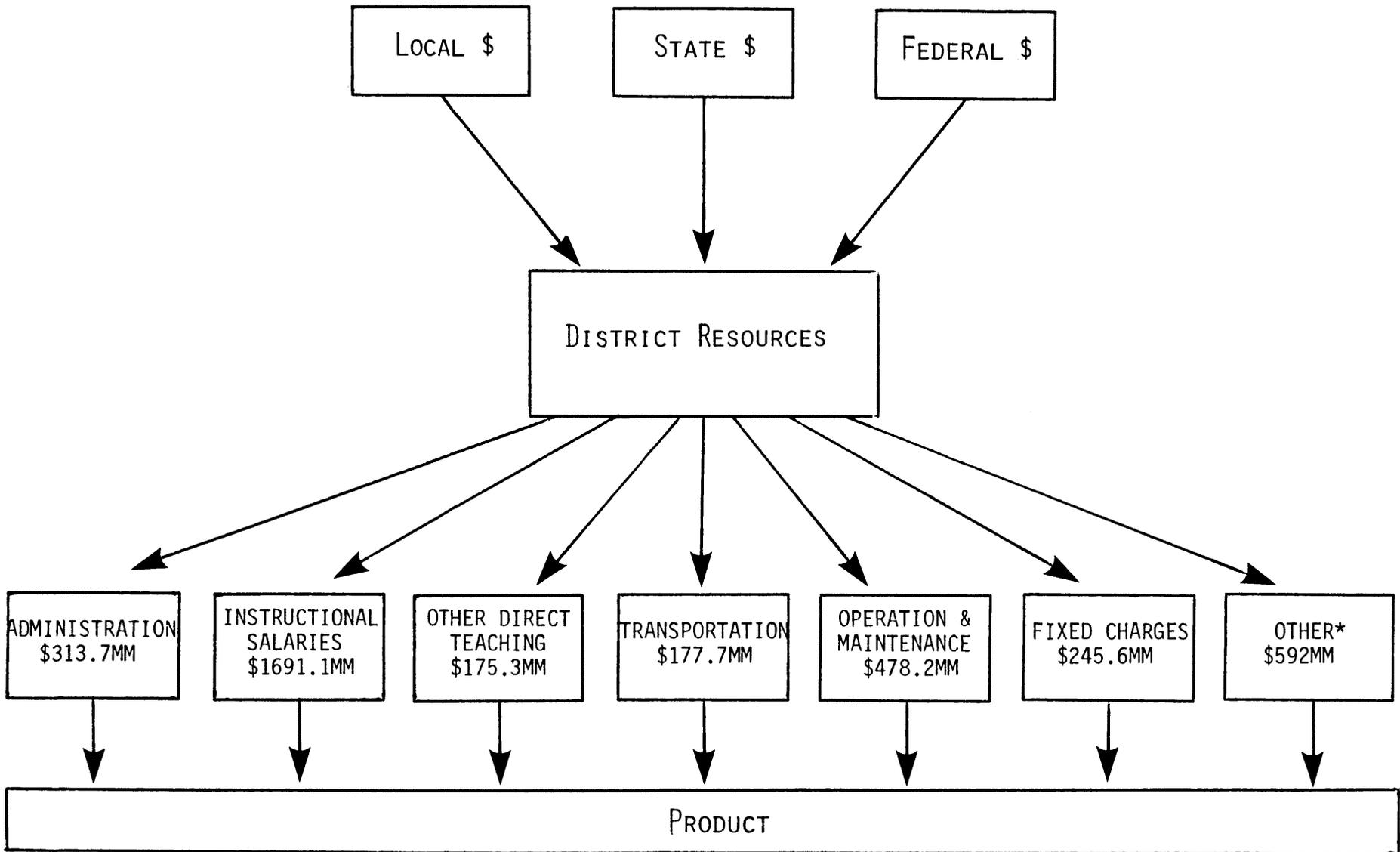
- SUMMARY

- ALTERNATIVES

RESOURCE ALLOCATION

The facing chart shows how district resources are allocated among the major expenditure areas. While instructional salaries represent the single largest expenditure category, a review of this and other areas suggests that no single factor is causing the growth in district spending. Rather, the growth appears to be the result of increases across a number of categories.

SECONDARY EDUCATION PROCESS
1980-1981 SCHOOL YEAR



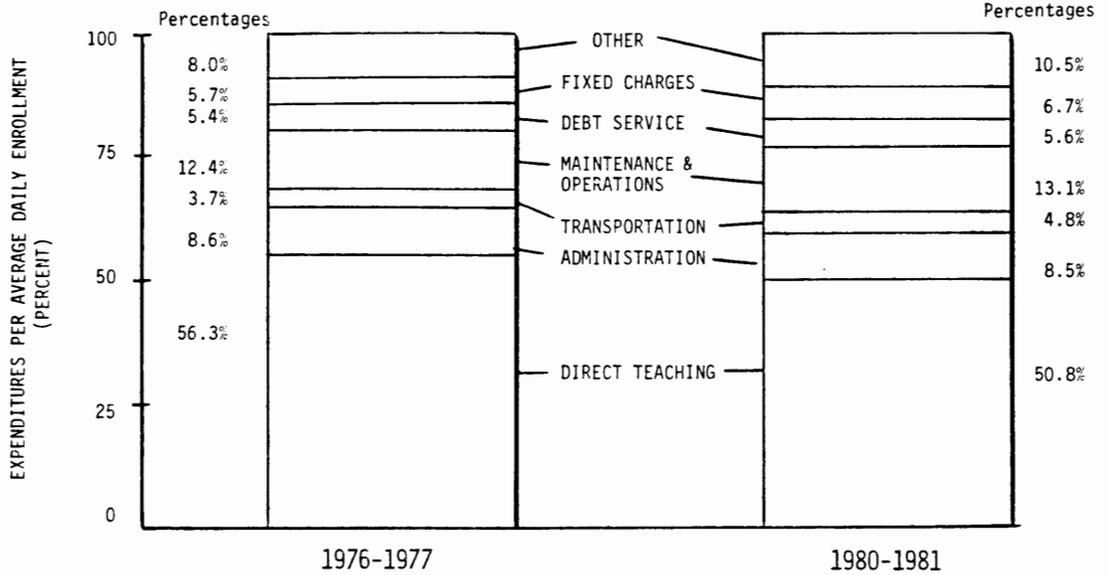
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* Includes Debt Service, Capital Outlay, Special Projects, Federal Project Expenditures, etc.

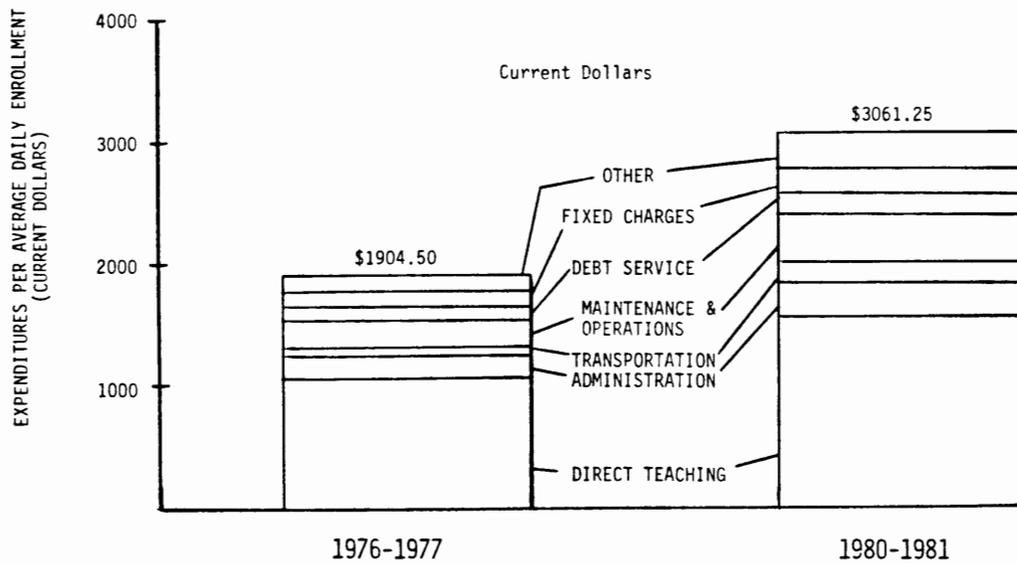
PER PUPIL EXPENDITURES

The facing charts show New Jersey's per pupil expenditures in percentage terms (top) and in current dollars (bottom). While this breakdown did not change dramatically over the four years shown, it is interesting to note that "Direct Teaching" has declined and that "Maintenance and Operations" gained most. This latter finding is in line with expected cost tendencies for a mature (declining) business, which often has pockets of underutilized, older capacity resulting in increased unit cost of maintenance. In this case, likely causes of increased maintenance cost include higher fuel and insurance expenses related to an aging plant.

STATE OF NEW JERSEY
 PER PUPIL EXPENDITURE COMPONENT
 1976-1977/1980-1981



STATE OF NEW JERSEY
 PER PUPIL EXPENDITURES
 1976-1977/1980-1981

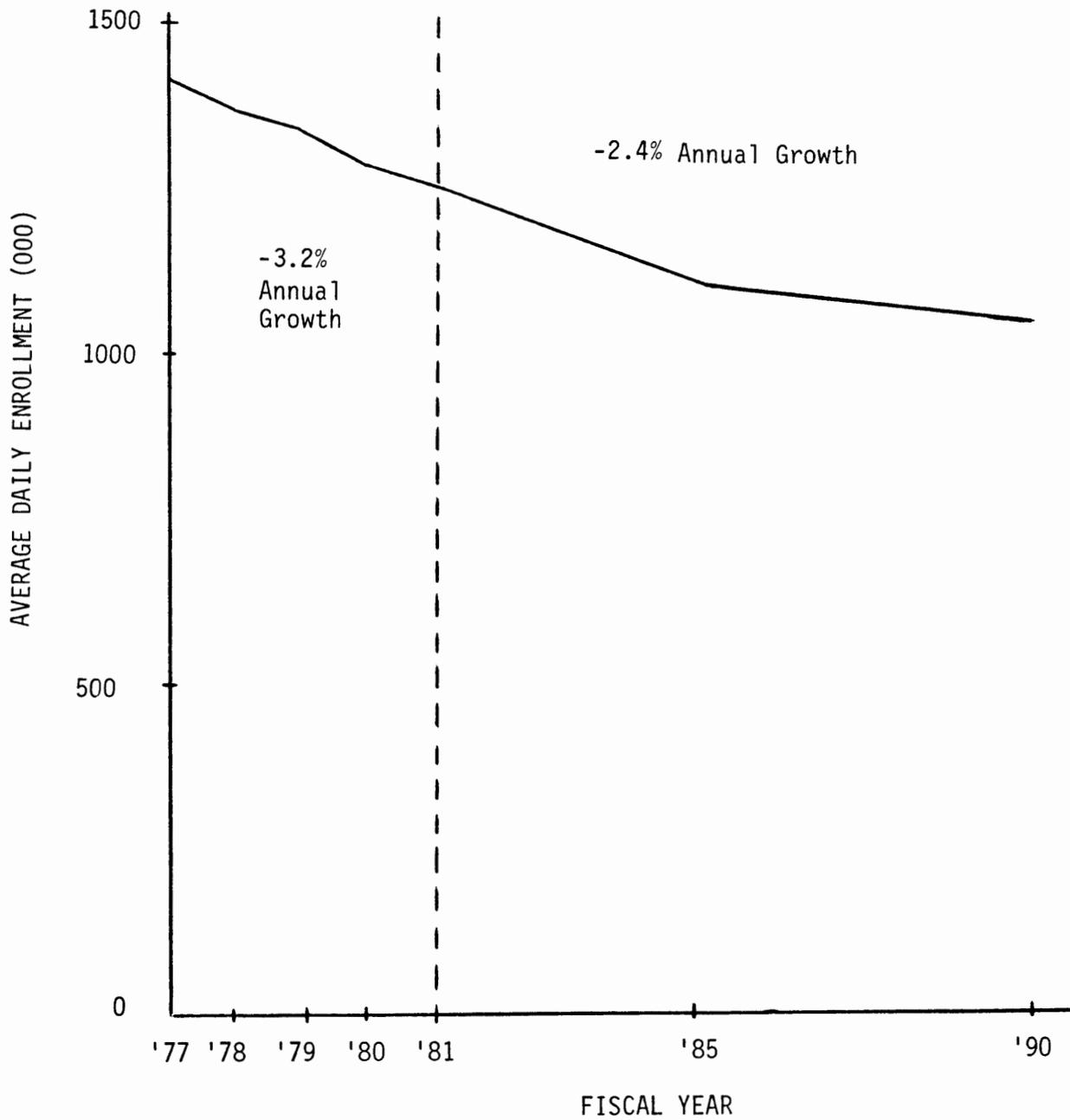


SOURCE: Annual Report of the Commissioner of Education, Financial Statistics of School Districts 1976-1977, 1980-1981

AVERAGE DAILY ENROLLMENT

The five-year trend in average daily enrollment (ADE), plus the projections for 1982 through 1990 (based on Education Department estimates for 1982 and 1983 and on Labor Department demographic data for subsequent years), suggest that declining enrollment is a long-term phenomenon to which we must adjust rather than a short-term anomaly. This fact is especially important in light of the increasing cost of the education system--in constant dollars on a total basis. These data suggest the need for a stronger management focus on cost control. A reasonable cost management goal might be tied to the rate of enrollment decline--e.g., if real total costs could be decreased annually at the 2.4% enrollment decline rate through 1990, (versus the 0.2% real annual growth in total cost over the past six years), the impact on total education cost is in excess of \$500mm by 1990 (in 1983 dollars).

NEW JERSEY
PUBLIC EDUCATION
AVERAGE DAILY ENROLLMENT
FY1977-1990

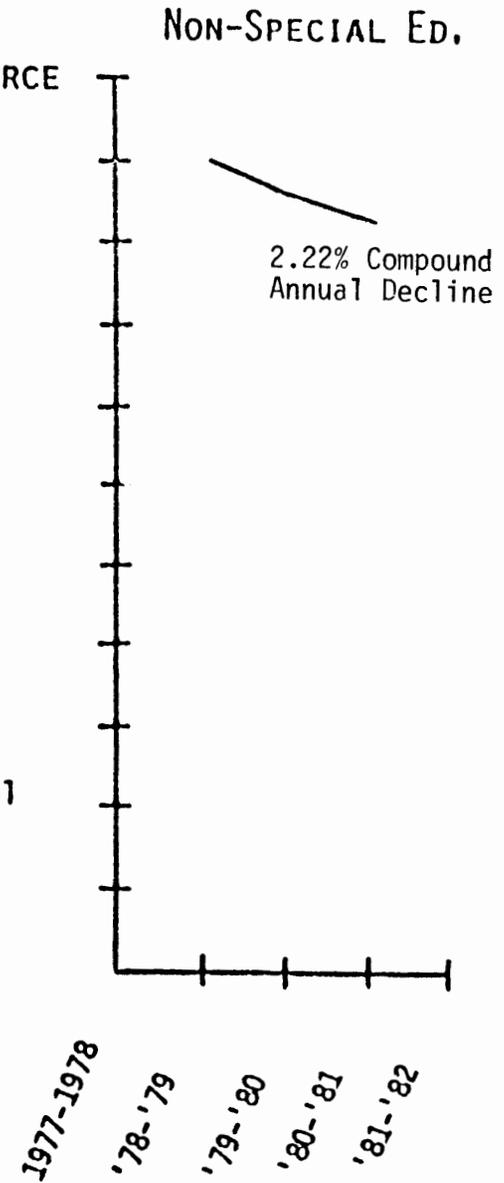
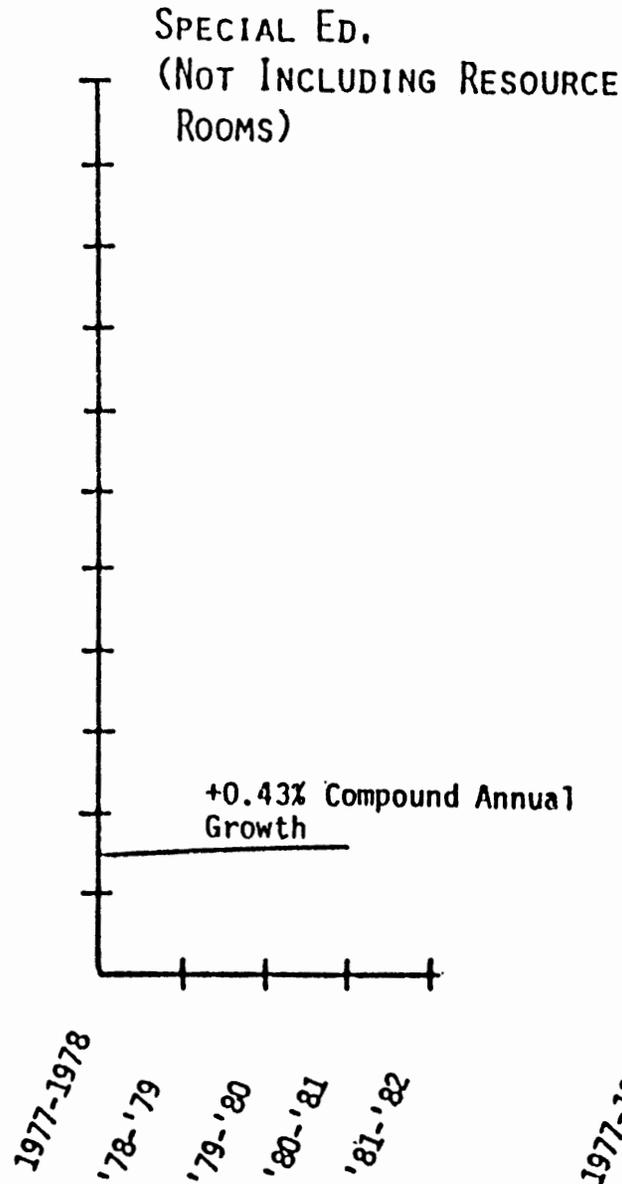
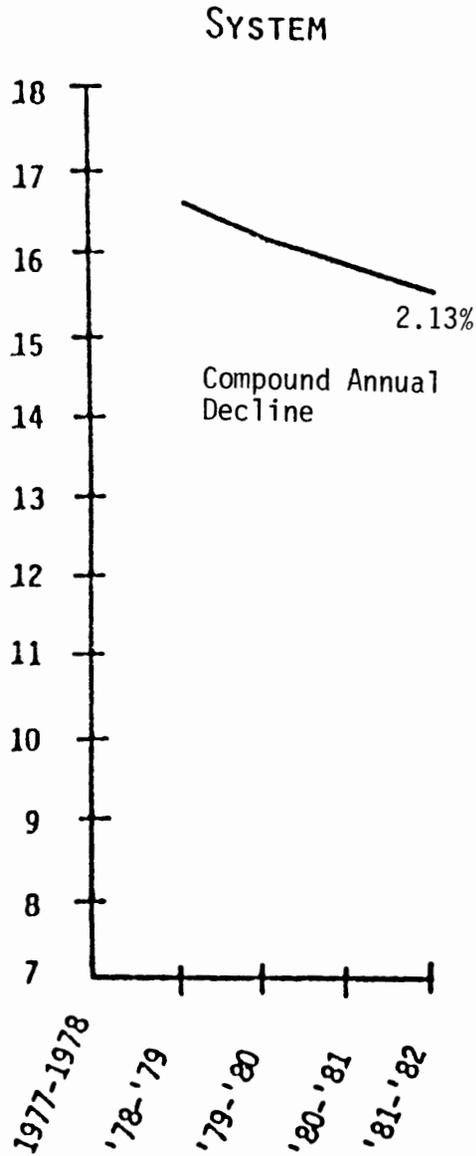


STUDENT/TEACHER RATIOS

One factor affecting teacher cost is the student/teacher ratio. In an environment of declining enrollments, the natural tendency is to let class sizes shrink gradually because it is difficult (for a variety of reasons) to lay teachers off. Also, as class sizes shrink slowly, small pockets of excess capacity are created (e.g., a school may need 1/8 less of a first grade teacher or 1/4 less of a third grade teacher). None of this excess capacity by itself may be enough to warrant consolidation of two classes into one, but its impact over a period of years on a system composed of very small operating units can be quite significant. For example, the 2.13% system-wide decline in the student/teacher ratio illustrated to the right translates into an 11 percent increase in teacher/pupil ratio over a five-year time span, with proportionate increases in costs.

STUDENT/TEACHER RATIOS 1977-78/1981-82

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COST MANAGEMENT IN A
MATURE (DECLINING) BUSINESS

Successful management of costs in a mature business requires a considerably different attitude than that required during the growth phase of the business. The private sector has produced many examples of business failures due to lack of recognition of this fact, and there may well be a lesson here for the management of New Jersey's elementary and secondary education system. For the New Jersey education system there is also the compounding problem of the large number of relatively independently managed districts--which makes the task of consolidation or retrenchment even more difficult.

COST MANAGEMENT IN A MATURE (DECLINING) BUSINESS

- A MATURE (DECLINING) BUSINESS IS CHARACTERIZED BY:
 - CONTINUING, STRUCTURAL REDUCTION IN DEMAND--I.E., LONG-TERM TREND, NOT SHORT-TERM OR CYCLICAL FLUCTUATIONS.

- MANAGING A BUSINESS IN ITS MATURE (DECLINING) PHASE REQUIRES A DRAMATICALLY DIFFERENT SET OF MANAGERIAL RESPONSES THAN THOSE APPROPRIATE TO A GROWING BUSINESS, PARTICULARLY REGARDING CAPACITY AND COSTS, E.G.,...

	<u>GROWTH PHASE</u>	<u>DECLINING PHASE</u>
<u>CAPACITY</u>	BUILD EXCESS CAPACITY; DEMAND EXPANDS RAPIDLY TO FILL	REDUCE CAPACITY; EXCESS REMAINS UNFILLED, DRIVING UP (UNIT) COSTS
<u>COSTS</u>	(UNIT) COSTS DECLINE RAPIDLY AS DEMAND INCREASES AND PRODUCTIV- ITY IMPROVES DUE TO LEARNING CURVE EFFECTS	(UNIT) COSTS RISE AS CAPACITY SHRINKS; PRO- DUCTIVITY BENEFITS ARE SLOW TO REALIZE AS LEARNING CURVE EFFECTS MODERATE

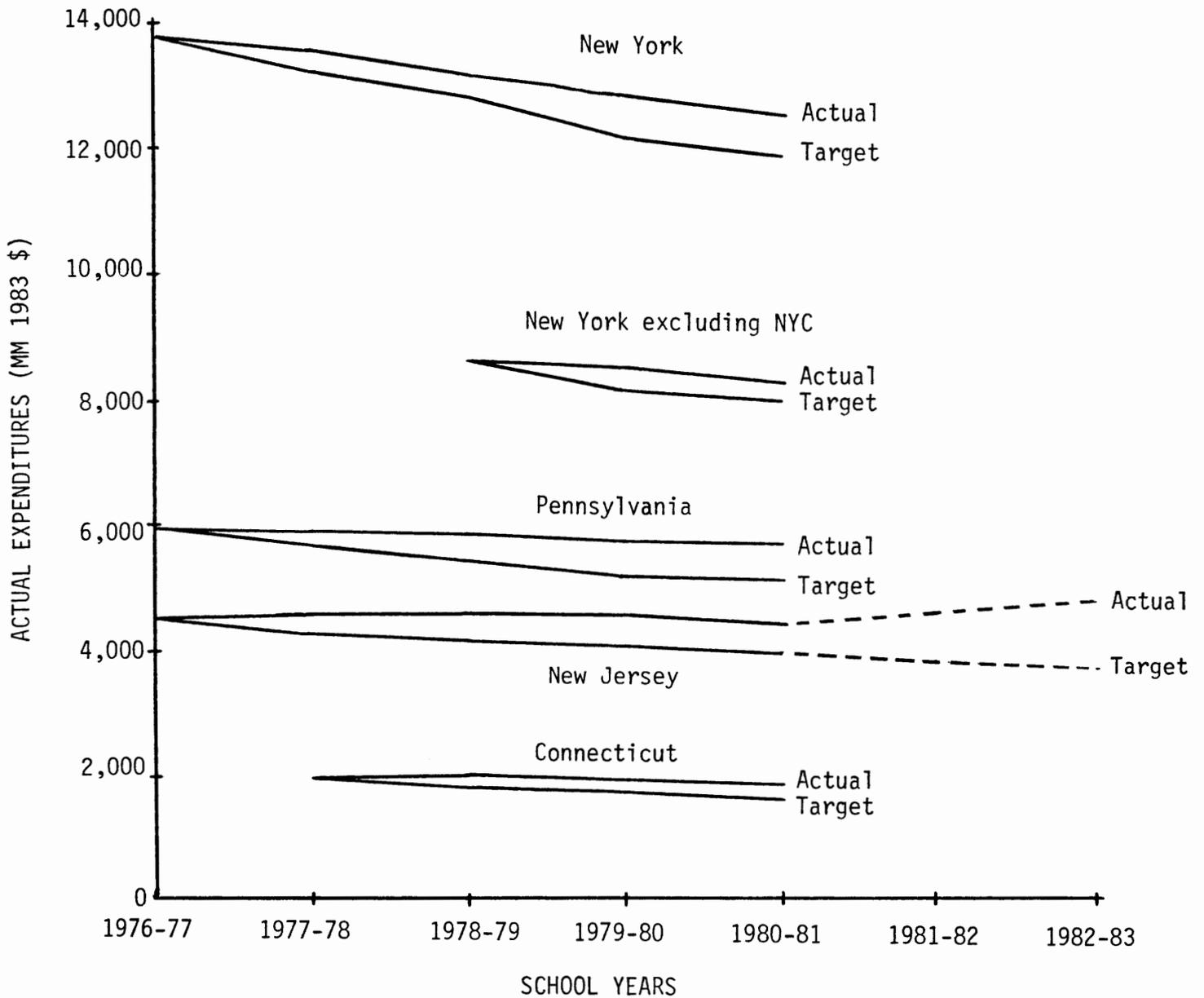
SELECTED STATE COMPARISONS

The facing chart describes the experience of four states (Connecticut, New Jersey, New York, and Pennsylvania) in managing a school system in an environment of declining enrollments. While none of the states has been able to hold level constant dollar expense per pupil, New York, Pennsylvania, and Connecticut have brought costs down since 1976-77 while New Jersey's cost has risen--especially over the most recent time period. This does not suggest a specific course of action for New Jersey, but it does illustrate that it is possible to contain cost better than the New Jersey experience indicates, and it suggests concern for the recent New Jersey trend.

One interesting perspective from this chart is related to the dollar gap between New Jersey's target and actual points for the 1982/83 school year. If New Jersey had been able to manage costs downward at the same rate as the enrollment decline, this gap measures the savings to the state and local governments. In current (1983) dollars it represents a theoretical savings of over \$950mm--roughly 60% local money and 40% state money. Of course, closing the entire gap is probably not a reasonable goal, but if aggressive cost management could close only one-half or one-third of the gap, the potential saving is enormous.

- NOTES: (1) The "target" line on the facing chart represents the level of expenditure which would have been achieved if the state had kept a constant expenditure level per pupil over the base period. This target is falling because enrollment is falling in all of the states illustrated.
- (2) The New Jersey lines have been extended to show experience through the 1982-83 school year. Information later than 1980-81 for the other states is not yet available.

PRIMARY AND SECONDARY EDUCATION
 SELECTED STATE COMPARISONS
 COST MANAGEMENT
 1976-1977/1982-1983



--- Budgeted Data

Source: See Technical Appendix (Page A-6)

NEW JERSEY

EXPENDITURES BY CATEGORY (FY1977-1983)

The facing chart shows that for New Jersey expenditures in all areas have accelerated in growth over the most recent time period (FY1982-1983). This suggests that something different is happening recently, and that this should be studied more closely. Interestingly, expenditures are increasing in all major areas, so expense growth is not limited to a single area.

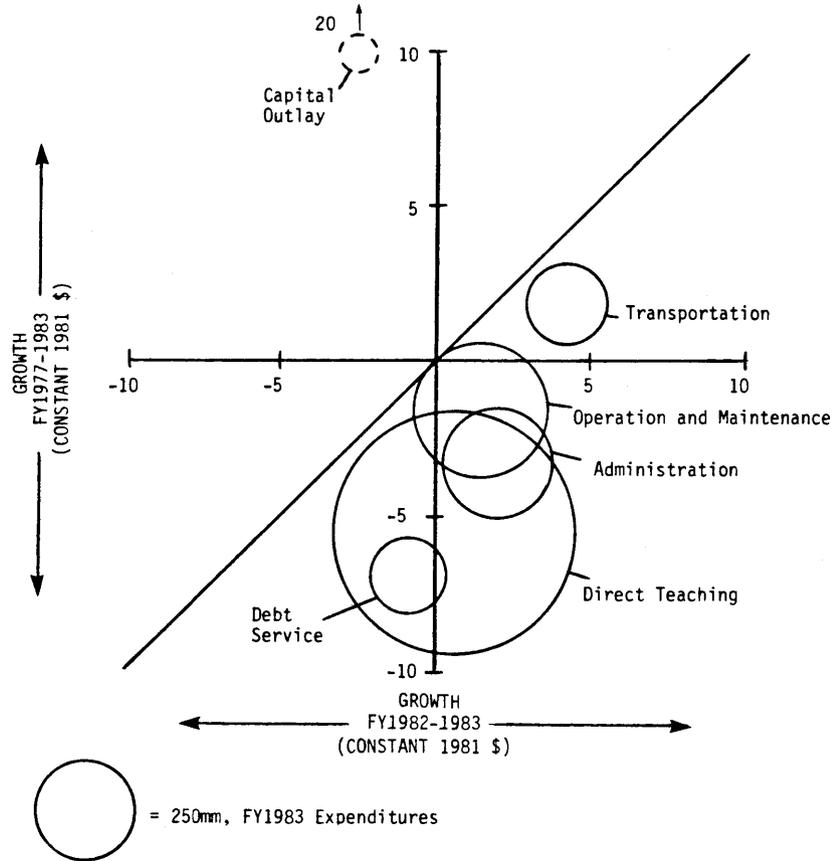
PENNSYLVANIA

The expenditure momentum chart compares recent growth in real expenditures (horizontal axis) against historical real expenditure growth (vertical axis) for the state of Pennsylvania. This chart shows that while expenditure growth is roughly the same in each category for the two time periods--e.g., a relatively stable spending pattern over FY1977-1981--the momentum is toward a slowing of expense growth. This is contrasted with New Jersey's increasing expense momentum.

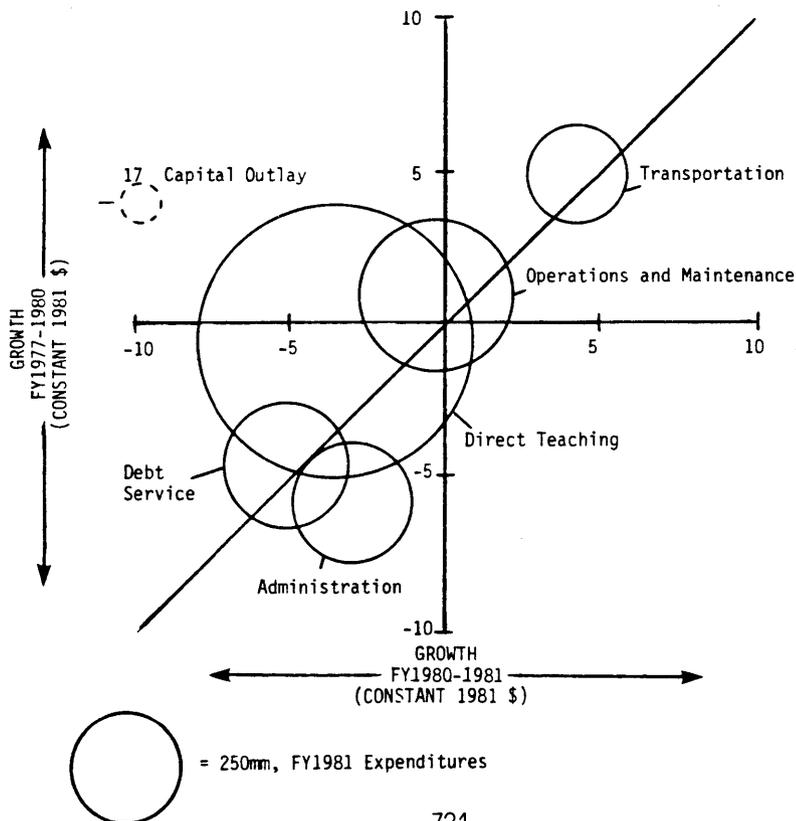
How to read the Momentum Chart

- Horizontal Axis - Constant dollar growth over the most recent time period.
- Vertical Axis - Constant dollar growth over a historical time period.
- Circle Size - Proportional to most recent year expenditures.
- Diagonal Line - Circles with centers to the right of the diagonal line are growing faster during the more recent time period; circles to the left of the line are areas with slowing growth.
- Dotted Circle - Category with a growth rate off the scale of the chart (in the direction shown by the arrow).

NEW JERSEY
 EDUCATIONAL EXPENDITURES BY CATEGORY
 FY1977-1983



PENNSYLVANIA
 EDUCATIONAL EXPENDITURES BY CATEGORY
 FY1977-1981



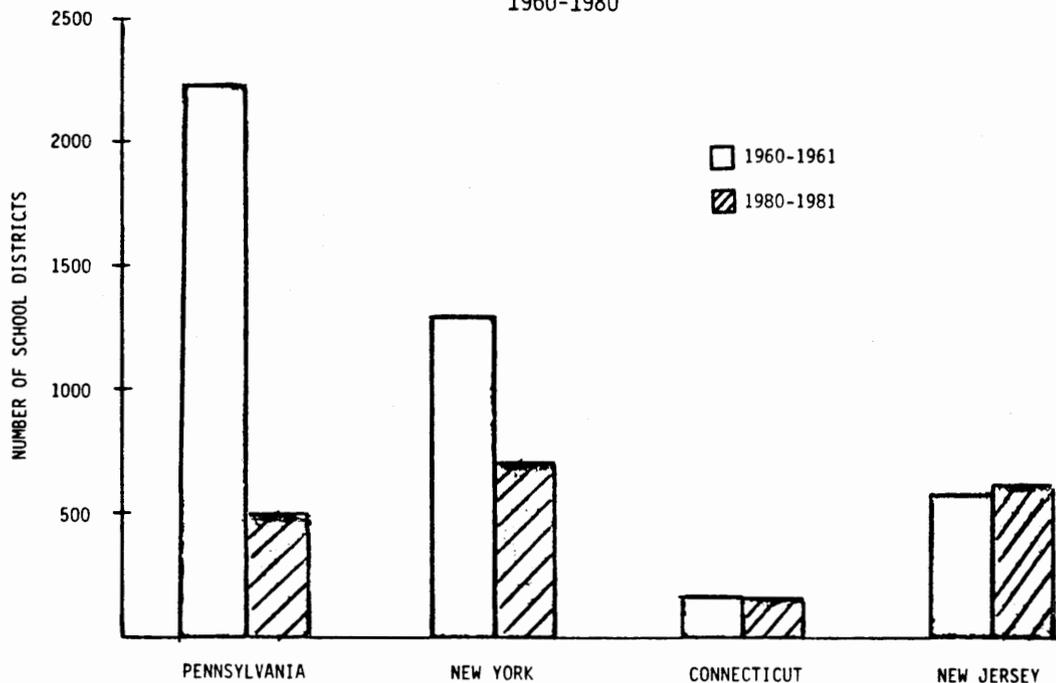
OPERATING SCHOOL DISTRICTS
AND
PUPILS PER OPERATING DISTRICT

The top facing chart illustrates the change in the number of school districts in New Jersey relative to the same change in several neighboring states over a twenty year period. While the others have reduced, or at least maintained, their number of districts, New Jersey has actually increased its number of operating school districts. This is especially difficult to rationalize in light of the fact that New Jersey's enrollment has been declining and that New Jersey is the most densely populated state in the nation.

Other states have been successful in district consolidation. Through legislative mandate, Pennsylvania went from 2244 districts in 1960 to 501 districts in 1982. By using various financial incentives (e.g., a 15% state education aid bonus for five years, phased out over another five years), New York went from 2000 districts in 1955 to 736 districts in 1982.

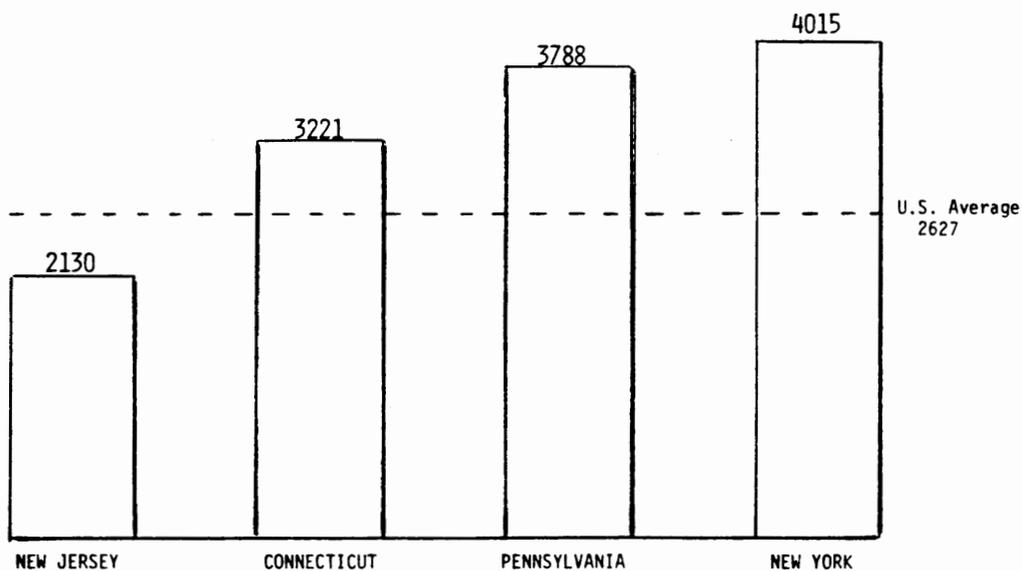
The bottom facing chart shows that New Jersey has significantly fewer pupils per district than neighboring states. This result is consistent with earlier points developed regarding pockets of "excess capacity" and rising cost tendencies. In fact, in 1982 approximately 30% of New Jersey's districts had fewer than 500 students. While the impact of the New Jersey district structure on operating costs is difficult to measure precisely, New Jersey's larger number of smaller districts is presumably one of the contributors to the \$950 million cost gap described earlier. A consolidation of districts would result in increased managerial flexibility to match resources with declining enrollments.

STATE OF NEW JERSEY
 SELECTED STATE COMPARISONS
 NUMBER OF SCHOOL DISTRICTS
 1960-1980



SOURCES: 1960: Various State Departments of Education
 1980: U.S. Department of Education, National Center for Education Statistics

PUPILS PER OPERATING DISTRICT
 FALL 1980



SOURCE: U.S. Department of Education, National Center for Education Statistics

RESOURCE ALLOCATION SUMMARY

The review of the resource allocation patterns suggests several key observations.

- First, managers of the educational system in New Jersey need to recognize that the five-year trend of declining enrollment is a long-term structural phenomenon, requiring significant changes in management style and aggressive management of educational resources in all areas.
- Second, New York, Pennsylvania, and Connecticut have managed their education costs more aggressively than has New Jersey, for whatever reasons.
- Third, the growth in New Jersey's educational cost per student is not the result of a single area which is growing much more rapidly than average. Rather, it is the result of growth in all areas, suggesting a lack of attention to efficient resource management at the local level.
- Fourth, while a district may be managing its costs efficiently, the state's overall educational system may be inefficient because of possible duplication of services, facilities, and staff.
- Fifth, the gradual decline in the pupil/teacher ratio also suggests excess capacity, even though the share of overall expenditures spent on direct instruction has declined.

STRATEGIC ISSUES: RESOURCE ALLOCATION

- DEFINING AN APPROPRIATE MANAGEMENT STYLE FOR A DECLINING ENROLLMENT.
- EXAMINING THE STRUCTURAL CONSIDERATIONS AFFECTING RESOURCE ALLOCATION (E.G., THE NUMBER AND SIZE OF LOCAL SCHOOL DISTRICTS).
- CREATING INCENTIVES FOR IMPROVED RESOURCE ALLOCATION AND COST CONTROL WITHIN AND BETWEEN SCHOOL DISTRICTS (E.G., SERVICE REGIONALIZATION).
- DEVELOPING STAFFING AND COMPENSATION POLICIES WHICH ARE APPROPRIATE FOR A DECLINING BUSINESS.

STATE AID TO ELEMENTARY AND SECONDARY EDUCATION

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STATE AID TO EDUCATION: A FOCUS ON PERFORMANCE

A crucial question remains to be answered: "What is the \$2.0 billion state expenditure producing in terms of student performance; specifically, what is the educational performance of students who graduate from the New Jersey Public School System?" Not to ask this question would imply that state aid is an end in itself rather than a means to an end, namely, the education of New Jersey students.

This concern about educational quality is more than a state issue; rather, as the statements on the facing page indicate, it is a national concern.

"THE GENERATION GRADUATING FROM HIGH SCHOOL TODAY IS THE FIRST GENERATION IN AMERICAN HISTORY TO GRADUATE LESS SKILLED THAN ITS PARENTS." 1

"BECAUSE OF DEFICITS IN OUR PUBLIC SCHOOL SYSTEM, ABOUT ONE-THIRD OF OUR YOUTH ARE ILL-EDUCATED, ILL-EMPLOYED, AND ILL-EQUIPPED TO MAKE THEIR WAY IN AMERICAN SOCIETY." 2

"ESTIMATES OF THE NUMBER OF FUNCTIONAL ILLITERATES IN THE UNITED STATES RANGE FROM 18 MILLION TO 64 MILLION." 3

"IT WOULD APPEAR THAT A STANDARD OF LITERACY WHICH WAS PERFECTLY ACCEPTABLE 10 TO 15 YEARS AGO IS RAPIDLY BECOMING OBSOLETE. TO THE EXTENT THAT ANALYTIC, INTERPRETIVE AND EVALUATIVE LITERACY SKILLS ARE INCREASINGLY DEMANDED BY AN "INFORMATION SOCIETY," THE NATIONAL ASSESSMENT OF EDUCATIONAL PROGRESS FINDINGS SUGGEST THAT THERE IS A GROWING ILLITERACY." 4

1 Naisbitt, J., "Megatrends: Ten Directions Transforming Our Lives." Warner Books, N.Y. 1982.

2 Carnegie Council Study, as reported in the Washington Post, November 28, 1979.

3 Ford Foundation Report, "Adult Illiteracy in the United States," the Washington Post, September 9, 1979.

4 Brown R., "National Assessment Findings and Educational Policy Questions." Education Commission of the States, Denver, Colorado.

NEW JERSEY RESULTS - MINIMUM BASIC SKILLS

While the statements about the national situation are upsetting, perhaps New Jersey's status is different. One source of data is the results of the Minimum Basic Skills (MBS) Testing Program. This program demonstrated that there were problems in student mastery of minimum basic skills and that improvements could be made in student performance by focusing instruction on the problem areas. In the last four years, the state-wide percentage of students meeting or exceeding the 9th grade MBS standard improved 12 percent (from 76% to 85%) in reading and 17 percent in math (from 75% to 88%). Over the same period, the urban rate of improvement has been 33 percent in reading and 71 percent in math. To summarize, both urban and nonurban educators have improved student performance in the level of student skill competence measured by the MBS Test.

Current Department initiatives (e.g., the new testing program) have already broadened the educational focus beyond the traditional minimum skills teaching and testing to include a wider set of basic skills. However, there remains a real need to continue this broadening of scope to provide emphasis on the development of higher-order skills such as inference, analysis, interpretation, and problem solving.

9TH GRADE MINIMUM BASIC SKILLS TEST RESULTS

1977/1978 AND 1981/1982

	PERCENT OF PUPILS MEETING OR EXCEEDING STANDARD		PERCENT IMPROVEMENT
	1977-78	1981-82	1978-1982
STATEWIDE RESULTS			
READING	76	85	12
MATH	75	88	17
URBAN DISTRICTS*			
READING	43	57	33
MATH	38	65	71

* Scores were averaged for pupils in the following 18 districts: Atlantic City, Camden, East Orange, Irvington, Newark, Orange, Bayonne, Hoboken, Jersey City, Trenton, New Brunswick, Perth Amboy, Asbury Park, Long Branch, Passaic, Paterson, Elizabeth, and Plainfield. These are the communities identified by the Department of Community Affairs as eligible for urban aid in 1976, the year when the Public School Education Act took effect.

COLLEGE BASIC SKILLS PLACEMENT TEST RESULTS

The most recent report of the New Jersey Basic Skills Council (December 1982) indicates that large numbers of students continue to enter our public colleges with deficiencies in basic skills, as measured by the results for freshmen on the New Jersey College Basic Skills Placement Test (NJCBSPT). The report also showed that the test results for recent high school graduates (63% of those tested) are only slightly better than for the population as a whole. Unfortunately, there is no evidence of any meaningful improvement over the past five years in the performance of either the overall group or the recent high school graduates.

The mathematics results are even more disturbing when one looks at the results for students who had completed the traditional college preparatory program of Algebra I, Geometry, and Algebra II (subjects beyond the definition of "basic skills" evaluated by the MBS). Of these students, fewer than 14% appeared to be proficient in elementary algebra, and 50% could not correctly answer half of the 30 elementary algebra problems. Over a third (36%) could not answer at least 20 out of 30 sixth grade arithmetic problems.

One must be careful in interpreting this data. There are significant differences in the scores of students who are attending community colleges and those who are attending Rutgers or the New Jersey Institute of Technology, and high school graduates who attend private colleges do not take the test. It is also not clear whether all high school graduates should have the skills measured by the test, a question which will be addressed during the development of the new state-wide testing program. Nevertheless, the results are disturbing, particularly those regarding higher-level skills such as problem-solving in either reading or mathematics.

COLLEGE BASIC SKILLS PLACEMENT TEST RESULTS
RECENT HIGH SCHOOL GRADUATES

RELATIVELY SMALL PERCENTAGES DEMONSTRATED PROFICIENCY
IN BASIC SKILLS*:

- ONLY 29% APPEARED TO BE PROFICIENT IN VERBAL SKILLS.
- ONLY 38% APPEARED TO BE PROFICIENT IN COMPUTATION.
- ONLY 14% APPEARED TO BE PROFICIENT IN ELEMENTARY ALGEBRA.

THERE HAS BEEN NO MEANINGFUL CHANGE IN THESE PERCENTAGES
SINCE THE TESTING PROGRAM BEGAN IN 1978.

* The percentages are for students who graduated from high school in the spring of 1982. Proficiency is defined in terms of test scores; to be judged proficient in computation requires answering at least 25 of 30 questions correctly. For example, sample questions are: " $2/5 + 1/2 = ?$ " and " $35.2 - 8.07 = ?$ ".

NEW JERSEY RESULTS - SCHOLASTIC APTITUDE TEST

The general trend in scores on the Scholastic Aptitude Test (SAT) over the last ten years has been a definite and significant decline, both nationally and in New Jersey. Over the last five years, verbal scores in New Jersey and in the nation have declined at the same rate, while New Jersey has made relative gains on the nation in mathematics scores over the same period. Moreover, while the percentage of students scoring between 600 and 800 is the same for New Jersey as the national average--approximately 3 percent--the average score of these top students has also been declining. These trends are important despite the slight increases, both nationally and in New Jersey, in the results for students who were seniors during 1981-1982.

An initial comparison of average scores indicates that New Jersey lags behind the nation, Pennsylvania, and New York. However, a larger proportion of New Jersey's high school seniors take the test than is true in either of those states (64% in New Jersey as opposed to 50% in Pennsylvania and 59% in New York; the national average is estimated to be 33%) or nationally, and it is reasonable to assume that this includes a larger group of less able students. But Connecticut presents a different comparison: there is an even greater percentage (69%) of all graduating seniors take the SATs, and their average verbal and math scores were several points higher than New Jersey's average scores, according to the most recent data available (1980).

FOUR-STATE COMPARISON OF SAT SCORES

VERBAL SCORES (STATE AVERAGE)

<u>YEAR</u>	<u>NJ</u>	<u>PA</u>	<u>NY</u>	<u>CONN</u>	<u>NATION</u>
1968	--	--	--	---	466
1978	419	427	431	438	429
1979	419	426	426	435	427
1980	415	423	424	431	424
1981	414	421	427	430	424
1982	416	424	429	432	426

MATHEMATICS SCORES (STATE AVERAGE)

<u>YEAR</u>	<u>NJ</u>	<u>PA</u>	<u>NY</u>	<u>CONN</u>	<u>NATION</u>
1968	--	--	--	---	492
1978	451	467	471	469	468
1979	452	464	469	465	467
1980	452	463	465	466	466
1981	450	459	471	463	466
1982	453	461	467	464	467

PERCENT OF TOTAL GRADUATING SENIORS TESTED IN 1980

<u>NJ</u>	<u>PA</u>	<u>NY</u>	<u>CONN</u>
64%	50%	59%	69%

QUALITY SUMMARY

The product quality of New Jersey's schools is mixed. On the one hand, the state's minimum basic skills (MBS) program has produced results. An increasing percentage of pupils are passing the MBS tests at each grade level (3, 6, 9, and 11), suggesting both that more pupils are acquiring these minimum skills and that concentrated, goal-oriented behavior can succeed. In addition, New Jersey's best students do about as well as the best students nationally, as measured by their SAT scores.

On the other hand, similar successes are not visible across the population in the mastery of higher-level skills such as problem solving. The low performance of students on either the state's College Basic Skills Placement Test or the national Scholastic Aptitude Test has not shown any meaningful improvement in the past five years. State-by-state comparisons of SAT scores are not particularly meaningful because different percentages of students take the test in each state, but New Jersey's average scores are below those of Connecticut, where an even higher percentage of pupils take the test.

When we look at the performance of urban districts, the picture is less optimistic. Non-urban districts consistently out-perform urban districts on all the measures of quality we have examined. Moreover, in many urban districts significant numbers of 9th graders are still failing the MBS test, which is the basic test for high school graduation.

STRATEGIC ISSUES: QUALITY

- EXCEPT FOR GAINS IN MINIMUM BASIC SKILLS, THE CURRENT PRODUCT QUALITY IS GENERALLY UNACCEPTABLE, ALTHOUGH THIS SITUATION IS NOT UNIQUE TO NEW JERSEY.
- CLEAR GOALS FOR THE IMPROVEMENT OF QUALITY NEED TO BE ESTABLISHED. THESE GOALS WILL NEED TO BE ACCOMPANIED BY STANDARDS OF ACCOUNTABILITY.

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SUMMARY

State aid for elementary and secondary public education comprises almost one-third of the total state budget. Entitlements have exceeded the state revenues available for education, causing under-funding of the statutory formulas. Despite declining enrollments, state aid exhibits a real growth (in excess of inflation) of over two percent each year since FY1977.

The current enrollment decline is a long-term phenomenon, rather than a short-term anomaly, and educational managers will have to adjust to this.

The number of pupils per school district suggest that the analogy with declining businesses, particularly regarding excess capacity, is appropriate. As enrollment has declined at an annual rate of 3.2% over the past six years, New Jersey's real costs per pupil have risen at an annual rate of 3.5%, suggesting the need for management attention on cost control.

Pennsylvania, New York, and Connecticut appear to have managed costs better than New Jersey, where costs are rising throughout the system. No single cost element is responsible for rising unit costs, however.

The 1973 New Jersey Supreme Court decision, Robinson vs. Cahill, set a requirement of equality of resources between property-rich and property-poor school districts in order to comply with the New Jersey Constitution's requirements of a "thorough and efficient" system of public education.

As a result of the 1973 decision, the New Jersey Legislature enacted the Public School Education Act, Chapter 212 of the Laws of 1974, creating a new school aid system and extensive monitoring of school performances, including Minimum Basic Skills tests in reading and computation.

The funding system is again experiencing challenge in the courts. Abbott vs. Burke asserts that Chapter 212 is unconstitutional and seeks to overturn the current funding mechanism.

The disparity between high-wealth and low-wealth school districts in spending levels and tax rates, which at first declined after the enactment of Chapter 212, appears to be moving toward pre-1975 levels. In addition, enrollment is declining more quickly in high-wealth districts than it is in low-wealth districts.

SUMMARY
(CONTINUED)

While New Jersey's students have shown improvement in basic skills (as measured by scores in the Minimum Basic Skills test), many urban districts are not performing at acceptable levels. Comparison of SAT scores or college Basic Skills Placement test results, where results have been static, demonstrate that students are not performing at acceptable levels in higher level skills.

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STRATEGIC ALTERNATIVES

In a standard strategic planning process, activities within all planning units--in this case both state and local education agencies--must be coordinated with an aim to support overall policy objectives. State aid to education should thus be supportive of the strategic vision of the state, rather than be budget or process driven. And because the problems facing the state and local districts are pervasive, management of a single component, or even a few components, is not sufficient. A sequential and focused approach to the planning and management process is necessary.

In the prior material, the education process has been considered in three segments--funding, resource allocation, and product quality--in that order to follow the dollar flow through the system. From a strategic standpoint, however, the analysis should first consider product quality. Based on the activities necessary to deliver a quality product, resource allocation and funding strategies can then be developed. In the following material, the ordering of the issues has been changed to put quality first, reflecting its strategic importance.

From the task force's perspective, the facing page provides a structure for and a summary of strategic alternatives. The task force sees three choices in each of the areas which it reviewed:

- First, the state can maintain the status quo and react to issues as they surface;
- Second, the state can begin a limited initiative, modifying current practices to achieve desired objectives; or
- Third, major initiatives can be undertaken, leading to a more direct state role in setting educational policy.

While the choices can be made separately for each area, policy makers must remember that an initiative begun in one area will have an impact on the other areas.

Interestingly, in the area of greatest state-level administrative leverage--Quality--the Commissioner and the State Board of Education have already begun significant initiatives with such programs as revised skills testing and updating teacher certification standards. There also appears to be support from the Governor to revise the funding and cost elements of the system to support the quality initiatives, although there is currently no agreement on how this should be accomplished.

STRATEGIC ALTERNATIVES

	STATUS Quo	LIMITED INITIATIVE	MAJOR INITIATIVE
QUALITY	<ul style="list-style-type: none"> • PROCEDURAL EMPHASIS • EMPHASIZE <u>MINIMUM</u> BASIC SKILLS 	<ul style="list-style-type: none"> • TAKE MORE AGGRESSIVE ROLE IN MEASURING/ IMPROVING QUALITY • UPGRADE/BROADEN <u>BASIC</u> SKILLS 	<ul style="list-style-type: none"> • REVIEW QUALITY DETERMINANTS AND DEVELOP STRONG STATE ROLE IN ENHANCING QUALITY, CONSISTENT WITH STATE GOALS, OBJECTIVES, AND STANDARDS.
FUNDING	<ul style="list-style-type: none"> • ADJUST FORMULA ANNUALLY TO MEET AVAILABLE FUNDS • WAIT FOR COURT DECISIONS 	<ul style="list-style-type: none"> • MODIFY FORMULA PARAMETERS/STRUCTURE 	<ul style="list-style-type: none"> • DEVELOP NEW FUNDING MECHANISM CONSISTENT WITH STATE GOALS.
COST	<ul style="list-style-type: none"> • LEAVE COST MANAGEMENT DECISIONS AT LOCAL LEVEL 	<p style="text-align: center;">"CARROT"</p> <ul style="list-style-type: none"> • STATE PROVIDES <ul style="list-style-type: none"> - INCENTIVES - GUIDANCE - ASSISTANCE 	<p style="text-align: center;">"STICK"</p> <ul style="list-style-type: none"> • STATE MANDATES

ACTION ALTERNATIVES

In a mature, declining enterprise, strong leadership at all levels--state and local--is essential to improve quality while managing resources efficiently. The next pages outline a broadly-based series of specific policy options related to the three major issue areas--quality, funding, and resource allocation. These options are presented with initial estimates of their associated cost impacts to provide examples of ways in which state and local educators can manage toward the goals of improved product quality at lower cost per student.

Note that the cost impact quoted for each option is intended to serve as a "first-order" estimate. Further refinement of these estimates is appropriate before any of the specific policies are adopted.

Quality

Few of the quality options involve significant additional cost. Several options have the added attraction of involving a discretionary cost level depending on the specific program's scope.

ACTION ALTERNATIVES

Quality

1. Support the initiatives already started by Commissioner Cooperman and the State Board of Education to improve student learning. Specific initiatives include those which:

- Install a high school graduation examination based upon higher order learning skills rather than the Minimum Basic Skills test in reading, writing, and computational skills.
- Implement a local district planning model based upon specific objectives and plans of action for the continual improvement of student learning.
- Provide a curriculum delivery process from the Department of Education that will supply quality products and services to districts; especially in the areas of academic learning.
- Provide a new local district monitoring process developed to ensure a quality education in the local school district.
- Target the limited department resources towards major needs areas, e.g., disruptive youth, computer literacy, and writing skills.

COST IMPACT: No additional cost (already included in current budgets).

2. Consider the following initiatives to upgrade the quality of learning:

- Implementation of a merit salary program for exemplary classroom teachers in a few pilot school districts. To avoid the mistakes that others have made, this program should include: teacher involvement in the design and implementation of the program; teacher consent in the process to be used; evaluation focused upon student learning; merit salaries added to an improved salary schedule and not used to reduce salaries of others.

COST IMPACT: Discretionary, depending on the scope of the pilot program.

ACTION ALTERNATIVES (CONTINUED)

- Programs that will assist school districts in implementing the research regarding exemplary schools in the urban areas.

COST IMPACT: Discretionary, but significant 3-year program can be provided for approximately \$1-3mm per year.

- Programs to increase the quality of new teachers entering the profession.

COST IMPACT: For improving the quality of teacher preparatory education, no additional cost. For increasing new teacher compensation, \$5-10mm minimum additional annual cost.

- Programs to ensure that the time devoted to major academic subjects is better utilized.

COST IMPACT: No additional cost.

- Programs that will increase the amount of time available in major academic subjects.

COST IMPACT: No additional cost if school day or school year is unchanged. Extension of school day and school year could cost up to approximately \$350mm additional annually.

- Programs that will ensure a classroom environment conducive to good learning.

COST IMPACT: No additional cost.

- Programs that will have meaningful and proper involvement of parents in the learning of their children.

COST IMPACT: No additional cost.

- The publicizing of exemplary academic programs in the state.

COST IMPACT: Less than \$50,000 per year.

- Programs that will encourage cooperative activity between industry and schools.

COST IMPACT: No additional cost.

ACTION ALTERNATIVES (CONTINUED)

- Programs for financial incentives for the development of educational activities.

COST IMPACT: Approximately \$300,000-\$400,000 per year for initial program.

3. Develop programs which will improve the competency of teachers and administrators who currently work in our schools.

COST IMPACT: Estimated minimum cost of planning, staffing and conducting initial training programs for:

- Administrators: \$400,000 spread over two years for a group of 100 administrators.
- Teachers: \$1mm per year for a ten-day program for all teachers.

ACTION ALTERNATIVES

Funding/Resource Allocation

The Funding and Resource Allocation options are listed together because they tend to be interrelated--i.e., the state can use its control of the funding mechanism to influence district resource allocation decisions. The notable point about these options is their magnitude, with potential cost savings in the hundreds of millions of dollars. Of course, implementation of any of these options requires considerable skill in producing the appropriate mix of support from all affected parties.

ACTION ALTERNATIVES (CONTINUED)

Funding/Resource Allocation

1. Use the state funding mechanism to focus district management attention on cost reduction, via options such as the following:
 - set state objectives for such cost management indicators as pupil/teacher ratios and other staffing ratios, as a basis for the state reducing its funding for districts which operate more expensive systems than represented by the standard
COST IMPACT: Depends on standards; a standard of the current state average student/teacher ratio of 15.6 would save approximately \$50-60mm of state funds annually
 - redefine the state's responsibility to include a "foundation" program--removing from the NCEB such corollary programs as athletics and driver education
COST IMPACT: Modest long-term savings
 - use the funding mechanism to reduce state funding for districts which exhibit NCEB cost growth greater than some cutoff level (say 20% above state average growth)--excluding low wealth districts in order to remain in compliance with court mandates
COST IMPACT: Approximately \$50-100mm savings annually
 - review cost factors for categorical aid programs, to insure that they correspond to actual additional costs
COST IMPACT: Difficult to measure, probably modest long-term savings
 - replace the 100% state funding of categorical aid programs with funding via the equalization aid process
COST IMPACT: Cost savings of approximately \$180mm annually after a phased-in implementation
 - authorize districts to pay early retirement bonuses to teachers to encourage early retirements
COST IMPACT: Difficult to measure; initial additional cost, at least modest savings long term

2. Bring the teacher pension system more in line with other states, via such options as:

- replacing the 100% state support of teacher pensions with state funding of teacher pensions via the state equalization aid process. This could be phased in over several years.

COST IMPACT: Approximately \$250-300mm annual savings, after a phased-in implementation

- elimination of 2% social security adjustment

COST IMPACT: Approximately \$30mm annual savings

3. Encourage districts to regionalize services, facilities, and personnel. Options supporting this alternative include:

- cut the state share of transportation aid from the current 90% of transportation cost, providing more regionalization incentive for districts as their "share" of transportation savings increases

COST IMPACT: Approximately \$50mm annual savings if state aid is cut to 50% of transportation cost

- consider the feasibility of establishing the K-12 system as the state "standard" system, using financial incentives to encourage districts to restructure in this direction

COST IMPACT: Difficult to measure, probably modest savings long term

TECHNICAL APPENDIX

The following tables represent the base data for the momentum charts on Page 55 and the target/actual chart in on page 53. Constant dollars were arrived at by using the Gross National Product deflator as reported in the Economic Report of the President, February 1983. All growth rates shown use constant dollars only and are point-to-point compound annual growth rates. Only those cost categories with comparable definitions were compared.

PENNSYLVANIA EDUCATIONAL EXPENDITURES
BY CATEGORY (IN MILLIONS)

School Year Beginning:	<u>1976</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>
<u>Administration</u>					
Administration	122.5	129.9	138.8	150.5	161.8
Principals	94.3	100.9	105.2	113.4	119.7
Secretary and Clerical	116.8	110.2	72.8	79.8	83.1
	<u>333.6</u>	<u>341.0</u>	<u>316.8</u>	<u>343.7</u>	<u>364.6</u>
<u>Instructional Salaries*</u>					
Supervisors	36.3	40.8	44.6	48.1	48.2
Teachers	1483.9	1593.0	1662.3	1775.9	1872.5
Other Instructional Staff	4.3	7.0	67.4	68.9	77.9
Other Salaries - Instructional	32.5	34.8	35.9	47.4	40.6
	<u>1557.0</u>	<u>1675.6</u>	<u>1810.2</u>	<u>1940.3</u>	<u>2039.2</u>
<u>Other Direct Teaching*</u>					
Health Services	39.4	41.8	41.2	44.1	46.2
Textbooks	20.0	19.7	21.5	22.6	23.3
Library Books and Supplies	11.2	10.6	10.4	11.0	11.3
Teaching Supplies	62.8	66.7	67.0	73.6	77.8
Other	78.8	71.3	44.1	50.5	58.5
	<u>212.3</u>	<u>210.1</u>	<u>184.2</u>	<u>201.8</u>	<u>216.1</u>
<u>Transportation</u>	159.6	174.2	192.2	226.9	258.6
<u>Operation and Maintenance</u>	443.0	458.9	498.1	561.0	612.3
<u>Capital Outlay</u>	37.3	47.8	48.0	50.8	46.3
<u>Debt Service</u>	380.6	388.5	398.0	408.4	423.8

*Instructional Salaries and Other Direct Teaching = Direct Teaching

NEW JERSEY EDUCATIONAL EXPENDITURES
BY CATEGORY (IN MILLIONS)

School Year Beginning:	<u>1976</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>
<u>Administration</u>					
Administration	93.7	103.6	118.1	137.3	150.3
Principal Salaries	85.1	93.6	92.2	91.2	100.4
Secretary and Clerical	50.3	51.7	55.7	58.5	63.0
	<u>229.1</u>	<u>248.9</u>	<u>266.0</u>	<u>287.0</u>	<u>313.7</u>
<u>Instructional Salaries*</u>					
Supervisor of Instruction	25.7	29.6	32.8	35.5	38.2
Teachers	1198.6	1257.9	1316.8	1376.1	1463.2
Other Instructional Staff	117.9	127.3	136.8	145.3	161.6
Other Salaries - Instructional	17.8	20.1	24.7	26.1	28.1
	<u>1360.0</u>	<u>1434.9</u>	<u>1511.1</u>	<u>1583.0</u>	<u>1691.1</u>
<u>Other Direct Teaching*</u>					
Salaries - Attendance	5.4	5.7	5.3	5.6	5.8
Other Exp. - Attendance	.3	.3	.3	.3	.3
Salaries - Health	33.2	35.5	36.9	39.1	41.5
Other Exp. - Health	2.5	2.6	2.9	3.2	3.6
Textbooks	17.5	19.3	19.8	19.6	21.2
School Library & A-V	15.1	14.6	15.3	14.4	14.7
Teaching Supplies	46.3	49.3	51.8	53.7	58.1
Other Expenses	20.6	21.2	22.8	24.2	30.1
	<u>140.9</u>	<u>148.5</u>	<u>155.1</u>	<u>160.1</u>	<u>175.3</u>
<u>Transportation</u>	99.1	111.1	129.8	153.1	177.7
<u>Operation</u>	232.2	249.7	266.5	311.8	357.7
<u>Maintenance</u>	97.4	102.5	111.5	112.5	120.5
	<u>329.6</u>	<u>352.2</u>	<u>378.0</u>	<u>424.3</u>	<u>478.2</u>
<u>Capital Outlay</u>	12.0			30.8	40.9
<u>Debt Service</u>	143.5			204.8	207.2

*Instructional Salaries and Other Direct Teaching = Direct Teaching

SOURCE: NJDOE, Annual Report of the Commissioner of Education

NEW JERSEY BUDGETED EDUCATIONAL EXPENDITURES
BY CATEGORY (IN MILLIONS)

School Year Beginning:	<u>1981</u>	<u>1982</u>
<u>Administration</u>		
Administration	122.2	132.9
Principal Salaries	98.3	105.8
Secretary and Clerical	65.9	70.9
	<u>286.4</u>	<u>309.6</u>
<u>Instructional Salaries*</u>		
Supervisors of Instruction	41.4	42.7
Teachers	1379.3	1465.1
Other Instructional Staff	48.9	57.4
Other Salaries - Instructional	28.8	33.3
	<u>1498.4</u>	<u>1598.5</u>
<u>Other Direct Teaching*</u>		
Total Instructional	1879.9	2001.6
Health Services	42.2	44.8
Less: Principal Salaries	(98.3)	(105.8)
Secretary and Clerical	(65.9)	(70.9)
Instructional Salaries	(1498.4)	(1598.5)
	<u>259.5</u>	<u>271.2</u>
<u>Transportation</u>	159.5	176.0
<u>Operation</u>	341.9	365.9
<u>Maintenance</u>	111.3	121.8
	<u>453.2</u>	<u>487.7</u>
<u>Capital Outlay</u>	43.9	45.4
<u>Debt Service</u>	148.1	155.6

*Instructional Salaries and Other Direct Teaching = Direct Teaching

Source: "Cost of Educational-Print Totals," 1981-82 and 1982-83, School Boards

Note: While the data on pages A-4 and A-5 are discontinuous (A-4 coming from one source and A-5 from another), they represent the latest available New Jersey figures. The points made from the charts on Page 55 (based on these data) remain valid under a variety of alternative display methods. 757

The following expenditure and enrollment figures (in millions) and the Gross National Product deflator were used to develop the state comparisons on Page 53.

	<u>1976-77</u>	<u>1977-78</u>	<u>1978-79</u>	<u>1979-80</u>	<u>1980-81</u>	<u>1981-82</u>	<u>1982-83</u>
<u>New Jersey</u>							
Expenditures	2932.3	3203.5	3445.1	3699.4	4026.1	4377.5	4705.6
Constant \$	4555.8	4634.1	4587.7	4506.0	4480.8	4596.4	4705.6
Enrollment	1.41	1.37	1.33	1.28	1.24	1.20	1.17
<u>New York</u>							
Expenditures	8882.1	9412.0	9883.5	10571.5	11287.4		
Constant \$	13799.8	13615.0	13159.8	12876.5	12562.3		
Enrollment	3.31	3.19	3.08	2.94	2.84		
<u>New York (Exclud. NYC)</u>							
Expenditures	-	-	6509.9	7012.6	7508.0		
Constant \$	-	-	8667.8	8541.6	8356.0		
Enrollment	-	-	2.06	1.98	1.90		
<u>Pennsylvania</u>							
Expenditures	3854.1	4083.0	4360.6	4689.7	5064.9		
Constant \$	5988.0	5906.4	5806.1	5712.2	5637.0		
Enrollment	2.18	2.11	2.00	1.92	1.86		
<u>Connecticut</u>							
Expenditures	-	1329.2	1467.7	1557.5	1655.4		
Constant \$	-	1922.8	1954.2	1897.1	1842.4		
Enrollment	-	.61	.59	.57	.55		

Expenditures include all current expenses, capital accounts, and retirement/Social Security.

	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>
Deflator	1.55367	1.44656	1.33149	1.21804	1.11295	1.05	1.0

Sources:

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Connecticut

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- Dr. Peter Prowda, Coordinator, Research and Information Systems Unit.

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